

# General electric change management



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The process by which organizations move from their present state to some desired future state to increase their effectiveness. The Goal is to find improved ways of using resources and capabilities in order to increase an organization's ability to create value. The change process includes improving organizational effectiveness at the four levels shown in the figure below.

### Major Types of Organizational Change

Typically, the phrase “ organizational change” is about a significant change in the organization, such as reorganization or adding a major new product or service. It can compass the following :

#### Organization-wide Versus Subsystem Change

Examples of organization-wide change might be a major restructuring, collaboration or “ rightsizing.” Usually, organizations must undertake organization-wide change to evolve to a different level in their life cycle, for example, going from a highly reactive, entrepreneurial organization to one that has a more stable and planned development. Experts assert that successful organizational change requires a change in culture – cultural change is another example of organization-wide change.

Examples of a change in a subsystem might include addition or removal of a product or service, reorganization of a certain department, or implementation of a new process to deliver products or services

#### Transformational Versus Incremental Change

An example of transformational (or radical, fundamental) change might be changing an organization's structure and culture from the traditional top-down, hierarchical structure to a large amount of self-directing teams.

Another example might be Business Process Re-engineering, which tries to take apart (at least on paper, at first) the major parts and processes of the organization and then put them back together in a more optimal fashion.

Transformational change is sometimes referred to as quantum change.

Examples of incremental change might include continuous improvement as a quality management process or implementation of new computer system to increase efficiencies. Many times, organizations experience incremental change and its leaders do not recognize the change as such.

#### Remedial Versus Developmental Change

Change can be intended to remedy current situations, for example, to improve the poor performance of a product or the entire organization, reduce burnout in the workplace, help the organization to become much more proactive and less reactive, or address large budget deficits. Remedial projects often seem more focused and urgent because they are addressing a current, major problem. It is often easier to determine the success of these projects because the problem is solved or not.

Change can also be developmental – to make a successful situation even more successful, for example, expand the amount of customers served, or duplicate successful products or services.

#### Unplanned Versus Planned Change

Unplanned change usually occurs because of a major, sudden surprise to the organization, which causes its members to respond in a highly reactive and disorganized fashion. Unplanned change might occur when the Chief Executive Officer suddenly leaves the organization, significant public relations problems occur, poor product performance quickly results in loss of customers, or other disruptive situations arise.

Planned change occurs when leaders in the organization recognize the need for a major change and proactively organize a plan to accomplish the change. Planned change occurs with successful implementation of a Strategic Plan, plan for reorganization, or other implementation of a change of this magnitude.

### **Drivers of Organizational Change :**

The most common vehicles for this sustainable change, in ascending order of magnitude of change, are Data Analysis, Process analysis, System Assessment and Customer Feedback.

Data Analysis focuses on specific outcomes; product quality and process measurements. The data is analyzed using trend charts, histograms, scatter diagrams, Pareto analysis, etc.

Process Analysis examines the whole process. Starting with high level flow diagram, detailed process steps are documented and analyzed. Some organizations analyze these detailed process steps further using task and wait times or cost of quality data.

System Assessment audits the whole organization using a recognized award model (Malcolm-Baldrige, Canada Award for Excellence), an international standard ( ISO 9000 ), a business specific model ( CMM model for software development ) or an internal award criteria ( corporation's President Award ).

Customer feedback scrutinizes the organization from standpoint of its most important constituent, the Customer. Customer feedback may be voluntary ( complaints ), solicited ( satisfaction surveys ) or based on analysis of customer behaviour.

### **Organization Change Management Process:**

Change management is a structured approach to shifting or transitioning individuals, teams, and organizations from a current state to a desired future state. It is an organizational process aimed at empowering employees to accept and embrace changes in their current business environment. The elements that comprise an organization are shown in the four quadrants: structure, work processes, people and tools. These are four key interdependent components.

Structure is the traditional view of an organization. It is the “ faces and spaces” diagram that is shown as an organization chart. It defines the boundaries of authority and decision-making and identifies the key personnel responsible for the business.

Work processes describe how work gets done in an organization. They range from a few high-level cross-functional integrated core processes that drive the business down to detailed departmental processes and procedures.

People identifies the skill sets needed for the company and the numbers of people with various skills. The essence of this category is about getting the right people doing the right job in the right place.

Tools represents physical facilities and capital equipment – hardware and software systems, management and reporting systems, written documents such as policies, procedures and manuals, and compensation tools.

An organization undergoing major change should examine all of these quadrants and assess their alignment to its vision, its customers and each other. This will enable senior management to identify the leverage points that will create sustainable breakthrough change.

## **COMPANY ANALYSIS – GENERAL ELECTRIC**

The General Electric Company, commonly abbreviated simply to GE, is a major technology conglomerate based in the United States. Thomas Edison, the inventor of the light bulb, founded General Electric in Menlo Park, New Jersey, in 1878. It has gone on to become one of the most powerful and dynamic corporations in the world, and as of 2008 was the tenth-largest company on Earth in terms of market capitalization. It is viewed by many as being the single most successful conglomerate, and was a conglomerate long before the practice became commonplace in the 1960s.

In 1890, Edison started a company to bring together his various businesses all under one roof, and called it the Edison General Electric Company. Two years later Edison merged with his primary competitor, the Thomas-Houston Company, and they called the new company the General Electric Company. The move was largely a bid to combine their various patents, to allow for <https://assignbuster.com/general-electric-change-management/>

more profitability on both of their parts, as it allowed them to freely use the many smaller inventions each inventor had created in their larger projects.

Over the years, General Electric continued to grow and produce different products for a wide range of applications. Many of Edison's early inventions formed the backbone of various General Electric lines through the 19th century, the 20th century, and down to the present day. Electric lighting, power transmission, medical equipment, and transportation were all areas in which Edison held patents and had formed small companies, and are all areas in which General Electric today has large holdings.

Over the course of its 110-plus years of innovation, General Electric has amassed more than 67, 500 patents, and the firm's scientists have been awarded two Nobel Prizes and numerous other honours. Also during the same time, the organization has had transformational changes which can be characterized into three different era's namely :

#### Late 19th Century: The Edison Era

In 1878, Edison established, with the help of his friend Grosvenor Lowry, the Edison Electric Light Company with a capitalization of \$300, 000. Edison received half of the new company's shares on the agreement that he work on developing an incandescent lighting system. The major problem Edison and his team of specialists faced was developing an electrical lighting system for a whole community. The organization was flexible and as part of the evolutionary stage was in the growth due to creativity stage. The core focus areas were the power generation, household appliances, and lighting.

## Early 20th Century:

By the turn of the century General Electric was manufacturing everything involved in the electrification of the United States: generators to produce electricity, transmission equipment to carry power, industrial electric motors, electric light bulbs, and electric locomotives. It is important to any understanding of the evolution of GE to realize that though it was diverse from the beginning, all of its enterprises centered on the electrification program. It is also worth noting that it operated in the virtual absence of competition.

During the early decades of the 20th century General Electric made further progress in its established fields and also made its first major diversification. In 1903 General Electric bought the Stanley Electric Manufacturing Company of Pittsfield, Massachusetts, a manufacturer of transformers. During this time it was a highly centralized corporate firm.

## Postwar Growth and Difficulties

During the post war era GE focussed on diversification both related and unrelated and ventured into new sectors such as nuclear energy. During the 1960s and 1970s GE grew in all fields. In 1961 it opened a research centre for aerospace projects, and by the end of the decade had more than 6, 000 employees involved in 37 projects related to the moon landing. In the 1950s General Electric entered the computer business. This venture, however, proved to be such a drain on the company's profits that GE sold its computer business to Honeywell in 1971.



By the late 1960s, GE's management began to feel that the company had become too large for its existing structures to accommodate. Accordingly, the company instituted a massive organizational restructuring. Under this restructuring program, the number of distinct operating units within the company was cut from more than 200 to 43. Each new section operated in a particular market and was headed by a manager who reported to management just beneath the corporate policy board. The sections were classified into one of three categories—growth, stability, or no-growth—to facilitate divestment of unprofitable units.

#### 1981-2001: The Jack Welch Era

GE's economic problems were mirrored by its managerial reshuffling. When John F. (Jack) Welch, Jr., became chairman and CEO in 1981, General Electric entered a period of radical change. Over the next several years, GE bought 338 businesses and product lines for \$11.1 billion and sold 232 for \$5.9 billion. But Welch's first order of business was to return much of the control of the company to the periphery. Although he decentralized management, he retained the system of classifying divisions according to their performance. His goal was to make GE number one or two in every field of operation.

### **GE's Restructuring**

American economy was in a recession during the early 1980s when GE appointed Jack Welch, the new CEO of the company. Economy was plagued with high interest rate and strong dollar which resulted in highest level of unemployment rates since Depression. To leverage the performance of

diverse portfolio of GE, the new CEO sent in new resolution to be “ better than the best” and set in place a series of radical changes to restructure the company over the coming 5 years.

The changes in GE came in three phases, commonly known as the first, second and third waves.

The first wave

Welch after taking charge, set the standard to be competent enough to stay at #1 or #2 position in the industry or disengage. According to Welch, this general “#1 or #2” objective is a “ three circle concept” of his vision for GE. Businesses were categorized as:

Core (with the priority of “ reinvesting in productivity and quality”)

High-technology (challenged to “ stay on the leading edge” by investing in R&D)

Services (required to “ add outstanding people and make contiguous acquisitions”)

In a span of 10 years, he wanted GE to be perceived as a unique, high-spirited, entrepreneurial enterprise, the most profitable, highly diversified company on earth, with world quality leadership in every one of its product lines.

Managers at GE struggled to build #1 or #2 positions given the pain of the recessionary economy and level playing field provided by globalization.

Welch’s admonition to “ fix, sell, or close” uncompetitive business most of

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the times led to the latter options. Between 1981 and 1990, GE generated \$11 billion of capital by selling off more than 200 businesses and investing that money to make about 370 acquisitions in diverse fields.

Inside the organization, Welch insisted GE to become more “lean and agile”. It resulted in cutting number of employees working in the organization at all the headquarters group, in the name of removing non-value add, non-effective and non-competitive work force.

Welch eliminated the sector level, previously the powerhouse for the strategic control. By reducing the number of hierarchy from presently 9 to 4, took control of activities at the helm and all the business directly reported to him. The chain of command followed prior to this decision was CEO to sectors to groups to businesses. Now it is direct CEO to business.

By undergoing delayering, destaffing and downsizing, GE eliminated thousands of workers. Though there was marginal increase in the revenues but the profits surged by two folds from \$1.6 billion to \$2.4 billion.

For carrying out this drastic restructuring, Welch got a nickname of “Neutron Jack”, most prominently used by managers during the time when the CEO replaced 12 of his 14 business heads. Welch kept pushing for more changes, more he got into restructuring the more convinced he became for a bolder action.

The second wave

The second phase of change in GE came in three forms :

| Cultural change | Globalization | Leadership development |

Cultural change :

The initial phase of change at GE was focused on organisational structure – downsizing, restructuring and removing bureaucracy. However, it was the opinion of Jack Welch that sustainable high productivity requires the corresponding cultural change.

Jack Welch desired a management style that was based on openness, candor and facing reality. The culture he wanted to create was characterized by speed, simplicity and self confidence.

These were done using two mechanisms :

WORK OUT

BEST PRACTICES

### **Work out:**

“ Work out” was a result of a discussion between Jack Welch and a group of managers at the company’s Management Development Institute. In an effort to recreate the forum of honest, energetic interaction, Jack Welch initiated Work out – a forum in which superiors and subordinates could openly discuss ideas, proposals and get immediate feedback on the same.

Implementation :

The implementation team consisted of a small in-house team along with 24 outside consultants. Each consultant was in charge of a series of off site

meeting based on the open forum. Groups ranging from 40-100 employees were incited to discuss their business and ways of improving it. The sessions lasted for three days. It began with a talk by the unit boss who left immediately after. The employees were then free to discuss their issues, guided by a facilitator. On the final day, the boss returned and was required to make instant decisions on the proposals and give approval to at least 80% of them.

By 1992, over 200, 000 (two-thirds) of the employees had participated in ‘work force’, but the sessions were never documented in order to maintain its informality.

However, the company clocked in annual growth rate of 4% in ‘88-’92. (up from 2%)

### **Best Practices:**

The objective of ‘best practices’ was to learn from organizations that were having higher productivity than GE.

Implementation :

Nine firms were selected (including Ford, HP, Xerox and Toshiba) with different ‘best practices’. In addition to company specific tools and practices, the implementation team also identified common characteristics among the companies; a focus on effective process development rather than individual activities, customer satisfaction, treating suppliers as partners and the emphasis on high quality.

These practices were thoroughly studied and training was given to all managers by integrating it into the ‘work out’ teams.

## Globalisation

The first phase of the strategic change in GE focused on building domestic capabilities. The second phase had a thrust on globalization.

However, the impetus for globalization was given to the business head and there was no corporate globalization strategy that was imposed on them.

However, Jack Welch ensured that the top management remained involved in the globalization plans.

In 1987, the performance evaluation metric was modified to consider world market position. In 1989, the position of Head – International operations was created in the corporate office. Along with a team of four, he was responsible for identifying and initiating new globalization plans in emerging markets.

GE’s globalization pattern was unique in the sense that all acquisitions and investments were made in regions immediately post a major economic downturn. GE followed an aggressive policy of inorganic growth in Europe, Mexico and East Asia

By 1998, international revenues were at \$42.8 billion dollars – a 100% growth in five years. Global revenues were growing at three times domestic revenues and GE was forecasted to do 50% of its business outside the USA by 2000.

leadership development

The third part of transformation focused on identifying and grooming future leaders of the organization.

Identification :

From April to May each year, Welch and three senior executives visited each business to review the progress of the company's top 3000 executives.

Among these were an elite club – the ' upper 500' who had been appointed with the personal approval of Welch. Welch asked business heads to identify all star performers and operated with the mindset that the executives were ' his resources' and that the business heads merely ' rented' them.

Implementation :

Welch radically transformed the compensation package for executives. The new package had stock options as a primary component in management compensation and the number of option recipients was increased from 300 to 30000.

All professional level employees were given feedback about future positions they could hold and the specific skill required for that post. These were used in training and development of staff.

GE's management development facility was given a shot in the arm with \$45 million in funds and the hiring of top-class academics. The goal was to convert it into a holistic training centre from the current situation where it was considered a consolation prize for those who missed a promotion. Welch himself travelled to the facility twice a month to interact and teach GE employees.

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However, the most controversial of Welch's actions were those regarding a type of managers that he considered 'Type 4s'. These are managers who consistently met performance targets, but were not aligned with the values of the organization. Typically, they were the autocratic bosses who forced performance rather than inspired it. Although they met their required targets, Welch removed these people for having the wrong values.

A few years later, GE began evaluating their managers on a 360 degree feedback system for identifying training requirements, opportunities for coaching and career planning.

Into the 1990s: the third wave

Even at the times of slowdown towards the start of the decade in the industrial sector, Jack was committed to the task of building the company.

Various initiatives he took:

Boundaryless Behaviour

Take a step further from initiatives aimed at strengthening GE's individual businesses, Welch created a focus on "integrated diversity". He articulated his dream for GE in the 1990s as a "boundaryless" company, one standing for an "open, anti-parochial environment, friendly toward the seeking and sharing of new ideas, regardless of their origins". Welch envisioned a boundaryless company to remove all barriers among engineering, manufacturing, marketing, sales, and customer services; no distinction between foreign and domestic operations. A boundaryless organization to ignore or erase group labels such as "salaried", "management" or "



hourly”, which poses a problem for people working together in an organization.

Welch was fond of telling stories of how best practices could be leveraged by boundaryless behaviour. The ones where managers from Canadian GE identified a small New Zealand appliance maker, Fisher & Paykel, generating products very efficiently in its small, low-volume plant. Welch was very clear of the culture he wants to bring to the organization. In his words, “ We take people who aren’t boundaryless out of job. If you’re turf-oriented, self-centred, don’t share with people and aren’t searching for ideas, you don’t belong here.” To enforce this, bonuses and options awards were linked to idea-seeking and sharing, not only limited to idea generation.

One of the most remarkable examples the way expertise and ideas spread throughout GE was the company’s “ integration model”, which was developed after learning from post-acquisition review. The model guided the actions of managers in any part of the company responsible for integrating a newly acquired operation: starting from control of the operations to realigning the organization, and from identifying and removing “ blockers” to implementing GE tools and programs.

#### Stretch: Achieving the Impossible

Welch reinforced his managerial expectation by making change to the GE’s cultural norms. By introducing the notional behaviour of “ stretch” to set performance targets, it vaguely defined the business targets, with no idea how to pursuit those. The objective behind this change was to change the way targets were set and performance was measured by creating an

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environment where everyone is searching for answers, and it is here one can prove his mettle.

Though stretch targets brought in change but the traditional forecasting and objective-setting processes were not replaced. Managers still tried basic targets, adjusted to current situation in the industry differentiating it from the rigid plan implemented last year. The main catch was setting higher “stretch” goals for their businesses during the budget cycle. Those who are not able to achieve these higher goals are not punished but the ones who achieved were rewarded heavily with bonuses and stock options.

Within a year of introducing this concept of stretch, Welch acknowledged progress. Prior to it, the goals were very miserly set like increase in the inventory turnover ratio from 4.73 to 4.91 or like maintaining the operating margin from 8.53% to 8.91%. Now it's a different story altogether, where one aim at 10 inventory turns or an operating margin at 15%.

Welch acknowledged that GE did not meet its two of its four-year corporate stretch targets: to increase operating margins from their 1991 level of 10% to 15% by 1995 and inventory turns from 5 to 10 times. However, after decades of single-digit operating margins and inventory turns of 4 or 5, GE did achieve an operating , margin of 14.4% and inventory turns of almost 7 in 1995. He said “ we learned things faster than we would have going after ‘ doable’ goals, and we have enough confidence now to set new stretch targets of at least 16% operating margin and more than 10 turns by 1998.”

Service Businesses

In 1994, Welch introduced a new strategic initiative to reinforce his one of the earliest goals of reducing GE's dependence on its traditional industrial products. Towards early 1980s he started moving towards services businesses through the acquisition of financial service companies such as Employers Reinsurance and Kidder, Peabody. As an estimate in year 1995, near about 60% revenue was generated by services division which Welch to grow to 80% later.

In pursuit of this goal, he took second step by focusing on product services. In his annual strategic meeting he pushed his managers to participate more in food chain business. It was well informed decision in terms of customers always need of new high-quality hardware products but in future the slow demand of GE's product should be offset by supplementing it with added-value services. By 1996, GE had built an \$8 billion equipment services business, which grew faster than the underlying product business. It was also the change of the view, changing the internal mindsets from selling products to serving the customers the best possible way.

With this mindset company made 20 acquisitions and joint ventures in the service area which includes a \$1.5 billion acquisition of a jet engine service business and the \$600 million purchase of a global power generation equipment service company.

### **Evaluation of GE's Strategy over two decades:**

GE has undergone over two decades of strategic change from profitless growth to an organization to reckon with. Strategy is always incomplete without its evaluation. The process followed at GE included both strategic

leadership and entrepreneurship, that lead to host of changes at GE. Most of these changes centered on initiatives by Jack Welch. These initiatives involved Internal Corporate Behavior (bottom up approach) and Induced Strategic behavior (top down approach) for entrepreneurship.

### Strategic Leadership

It is the ability to anticipate, envision, maintain flexibility, and empower others to create strategic changes as necessary. Multifunctional in nature, strategic leadership involves managing through others, maintaining an entire enterprise rather than a functional subunit; and coping with change that continues to increase in global economy. Because of global economy's complexity, strategic leaders must learn how to effectively influence human behavior, often in uncertain environment. Strategic leaders must be considerate of entire enterprise, rather than just a sub unit and this should be enforced with a managerial perspective.

The changes that followed immediately after instating of Jack Welch followed this Strategic Leadership and Strategic Change Management Process. Jack Welch had a vision for GE to number 1 or 2 in every domain that it operates. He wanted GE to operate leaner. He initiated people development process by work-outs along with inculcation of best practices across industries. He believed in increasing productivity through restructuring, removing bureaucracy and downsizing.

The figure below details the steps that are required in maintaining effective strategic leadership.

## **Effective Strategic Leadership**

### **Vision**

### **Mission**

### **Successful Strategic Actions**

### **Implementation of Strategies**

### **Formulation of Strategies**

## **Strategic Competitive Advantage & Above-average Returns**

He corroborated his vision with successful strategic actions of formulation and implementation of strategies successfully. These strategic actions included Total Quality management, implementation of Best practices across industry, downsizing, work outs. He initiated the process of GE's going global. It opened GE to discover profitable uncharted territories across the globe. This helped him leverage on strategic competitiveness and resulting in above average returns. This can be assessed by the successful mergers and acquisitions that GE undertook under his leadership. It led to a strategic change in business portfolio of GE. Jack Welch not only undertook acquisitions, but it was coupled with divestitures.

These successful implementation of strategies resulted in sustained competitive advantage for GE in accordance with the vision that Jack Welch had developed for GE.

Strategic Vision

## **TECHNOLOGY**

**Industrial Electronics, Medical Systems, Materials, Aerospace, Aircraft Engines**

## **SERVICES**

**GECC Information, Construction and Engineering, Nuclear Services**

**The Three-Circle Vision for GE, 1982**

## **CORE**

**Lighting, Major Appliances, Motor, Transportation, Turbines, Construction Equipment**

Strategic Action:

Jack Welch believed in being the leaders in the segment GE operate. This resulted in a radical change in business portfolio of GE. Following table depicts most of the acquisitions and divestitures of GE across two decades. This was done in line with Jack Welch's vision of making GE the best organisation across the globe.

**Major Acquisitions – \$21 billion**

**Major Divestitures – \$11 billion**

Calma CAD/CAM Equipments

Central Air Conditioning

Intersil (semiconductors)

Pathfinder mines

Employer's Reinsurance group

Broadcasting properties

Decimus (computer leasing)

Utah International

Kidder Peabody (IB)

Housewares (small appliances)

Polaris (aircraft leasing)

Family financial services

Genstar

RCA Records

Thomson/CGR

Nacolah Life Insurance

Borg Warner Chemical

Consumer Electronics

Credit Cards

Carboloy

Roper

NBC Radio

Truck Leasing

Lawn Equipment

Financial Guarantee Insurance

GE Solid State

Financial News Network

Ladd Petro Chemicals

Thorn Lightning

RCA Columbia Home Video

Itel Containers

Chase Manhattan Leasing

House of Fraser Credit Cards

Source: The Business Engine



## **General Electric Financial Performance in the three Era :**

**Borch**

**Jones**

**Welch**

**1961**

**1970**

**1971**

**1980**

**1981**

**1990**

**Sales**

4666

8726

9557

24950

27240

52619

**Operating profit**

432

549

737

2243

2447

6616

### **Net Earnings**

238

328

510

1514

1652

4303

### **RoS**

5.1%

3.8%

5.3%

6.1%

6.1%

8.2%

## **RoE**

14. %  
  
12. 6%  
  
17. 2%  
  
19. 5%  
  
18. 1%  
  
19. 8%

## **Stock MarketCap**

6283  
  
7026  
  
10870  
  
12173  
  
13073  
  
50344

## **S&P Index**

65. 7  
  
83  
  
<