

GE's Global Growth Experiment

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Like many global organizations, GE under Jeff Immelt had to figure out how to balance local needs with worldwide scale. Such companies commonly adopt a matrix structure—and then find it frustratingly difficult to manage. Bringing the local voice into a global business is a daunting challenge.

The difficulty arises in part from the way CEOs think about the problem. Many see the global-local dichotomy as a continuum on which firms must choose the optimal point. They resign themselves to a journey of endless reorganizations as they struggle to find that point. The result is often widespread infighting and inertia.

But Immelt understood that it doesn't have to be a zero-sum game; a company can be both global and local. That is especially true now, thanks to technological advances. Software has made customizing global products easier and much less expensive than before. And new manufacturing technologies—including 3-D printing, robots, analytics, and sensor-laden internet-connected equipment—are reducing the minimum scale necessary to produce cost-effectively, making it possible to build factories that serve markets locally. Instead of constantly searching for the optimal point on the continuum, the goal should be turning underserved high-potential regions into important markets for the global businesses, eliminating the need to create a formal P&L structure in a country. It's not an easy shift—nothing about managing global companies is easy—but it's possible.

Since the launch of GE's Global Growth Organization (GGO), in January 2011, the revenues generated outside the United States by GE's existing industrial businesses have grown to \$67 billion, or 59% of their worldwide total, from \$46 billion, or 54% of their total. Even more telling is their order backlog outside the United States. During that same time frame, it has grown to \$232 billion, or 72% of their total, from \$112 billion, or 64% of their total—a sign that the contribution of businesses outside the United States will grow enormously in coming years. Despite these huge strides, GE's leaders would be the first to admit that the globalization effort is still a work in

progress. Nonetheless, other multinationals can glean several important lessons from GE's experience.

Give the local organizations clout.

One of the biggest challenges is finding ways to give local operations a voice. This is especially true at companies such as GE, whose global businesses have historically called the shots and used regional operations primarily as sales organizations. In such firms, smaller sales regions that lack influence are often unable to persuade their global operations to fund growth initiatives.

An extreme way to give local operations a voice is to award local managers P&L responsibility for all the company's businesses in their country or region and to have all the businesses' personnel answer to both the country and the business leaders. GE took this approach to jump-start growth in select regions, such as India. But recognizing that one size doesn't fit all, it didn't do so in other markets, including China.

And Immelt did something even more radical: He appointed one of GE's most respected senior leaders—John Rice, a vice chairman who had run several GE businesses—to lead the GGO. Immelt made the GGO jointly responsible with the global businesses for increasing their sales outside the United States, but its priority was high-potential markets. What's more, he gave Rice carte blanche to recruit strong leaders from anywhere in the company. Rice tapped seasoned senior managers from the global businesses and functions—people with solid experience and strong networks. Many had track records in aggressively pursuing growth, and all were people who could command the respect of GE's global business and function heads. These qualities helped them understand and defuse the businesses' concerns when dealing with contentious issues. They could get things done by influence rather than confrontation.

Understanding that roles at the local organizations are dead-end jobs in many multinationals, Immelt and Rice advertised that the opposite would be true at GE. Many managers in emerging markets went on to important positions in the company. The most noteworthy is John Flannery: After leading GE's business in India, he oversaw corporate acquisitions and divestitures, headed GE's health care business, and ultimately succeeded Immelt as CEO.

Immelt personally reviewed the plans for areas deemed growth markets. Although he encouraged constructive conflict, he intervened in battles that threatened to impede progress and removed resisters in the global businesses. "He made sure everybody understood that this mission was a one-way street," Rice says.

Embrace creative abrasion.

It is no secret that matrix organizations generate conflicts that can immobilize operations and suck up managers' time. Immelt and his team recognized that the creation of the GGO would generate heat and were ready to accept it in the hope of channeling it to positive ends.

Moving an organization in this direction—toward what Harvard Business School's Dorothy Leonard calls "creative abrasion"—is no easy undertaking. It helps to find leaders who have walked in the other side's shoes and can see the other's argument in an empathetic light.

GE did this in a number of ways. In addition to transferring senior managers to the GGO from the businesses and the functions, after a time it transferred regional leaders to the businesses. Separately, Rice and his leadership team sought to clarify roles in the regional and global organizations, establishing frameworks and thresholds for decision making in areas such as pricing, financing, hiring, and performance reviews. They also took pains to ensure that the regional staff supported, rather than hindered, people from the global businesses in interfacing with customers.

Build strong functions.

A chronic problem plaguing the operations of multinationals in underserved regions is a lack of strong local talent—individual global businesses often feel they can't afford to invest in it. GE was no exception, and Rice and his team recognized early on the importance of tackling that deficiency. For example, they saw that without a robust HR function in the regions, they wouldn't be able to recruit, develop, and retain local talent. Consequently, an early priority was putting together a strong functional leadership team in growth regions outside the United States to build capabilities in HR, finance, IT, sales and marketing, communications, and legal.

In some cases the GGO's leaders persuaded the global businesses to foot the bill to augment local teams; in others the GGO hired people on its own. The GGO also created "centers of excellence" that could provide functional expertise to local businesses that might not be big enough to afford it or to attract the best people.

Eliminate strategic blind spots.

The metrics typically used to assess the success of mature businesses (annual sales increases, profit margins, cost reductions) often blind companies to a new market's long-term potential. In addition, individual global businesses' focus on their own results can blind them to the collective opportunity in a market: A small opportunity for any single business might become a big opportunity for the company as a whole.

To avoid these pitfalls, Immelt gave the GGO a budget not only to hire people but to take on projects on its own, and he encouraged it to act as a catalyst for cross-business collaboration. For example, the GGO funded a highly flexible “multimodal” factory in Pune, India, which could make a variety of products for different businesses, and the development of such products as a wind turbine for the German market and an affordable magnetic resonance imaging (MRI) machine for China. Over time it persuaded businesses to cofund efforts, and as successes mounted, the businesses became more willing to join in.

In addition, Rice had each regional leader size up the potential of his or her market, create a three-year growth plan, and install metrics (for example, growth in orders) to track the region’s progress in exploiting its opportunities. Regional managers’ incentives were tied to their success in hitting the growth targets. Initially, the global businesses’ and the regions’ conflicting metrics generated friction. This led to healthy debate between business and GGO teams about growth and profit trade-offs and sparked collaboration to find the optimal balance. The GGO never pursued deals that the global business leaders did not support or ones that did not meet minimum margin targets. Immelt and Rice saw the friction as a positive: It forced both sides to understand the other’s point of view and, over time, brought everyone together on a “OneGE” team with a shared purpose: growing the company’s overall position in the market and achieving profitability.

CONCLUSION

It’s increasingly common for individual managers in the regions to wear two hats: one for the business and one for the region. For instance, Rachel Duan runs GE China and the health care business in China. New structures—such as regional councils in which leaders of the businesses and the functions meet periodically to share goals for local markets and figure out how they can collaborate to achieve them—have taken root. More measurements are shared, and the global organizations and the GGO now all work seamlessly together on big deals. “Our global organizations have become more horizontal and over time will become even more so,” Immelt says. India, which was the pilot for the GGO, is now a major market for GE, and collaboration among GE businesses there is the norm. Heartened by this success, Immelt and Rice decided that as of January 2017, the Indian operations had matured and no longer needed to function as an independent P&L. “The added complexity of a P&L structure now outweighs its benefits,” says Banmali Agrawala, the country’s current GGO leader. “We feel we have the right talent and systems in place to function effectively without the P&L structure.”

For his part, Rice sees the GGO remaining a lean organization but not disappearing anytime soon. “We continually ask ourselves if we have the right resources in the right places, at the right time and focused on the right things. We need to figure out the best business model for each region and ensure that we balance empowerment with sufficient guardrails. We need to figure out what we are missing, where we should go faster. We need to look for the next tipping point.”

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