

Organization Design Case Study

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A Look Inside General Electric

[General Electric \(GE\)](#) has a glorious heritage. Founded by Thomas Edison in 1878 to generate and distribute electric power, [GE](#) became a world leader as a diversified industrial company.

For decades, [GE](#) had a reputation for excellent and innovative management practices that other companies copied. As a model industrial company, General Electric's stock had been part of the Dow Jones Industrial Average since 1907.



Since the late 1800s, [GE](#) moved in and out of multiple businesses as a key part of its strategy and success. In 2019, [GE](#) was still a diversified worldwide [conglomerate](#). Its industrial businesses included the power segment (gas and steam power systems), renewable energy (wind turbines), oil and gas (drilling systems), aviation (jet engines), healthcare (MRI machines), transportation (locomotives), and capital (loans to buy equipment).

However, by 2019 GE's value had fallen precipitously from its earlier prosperity, hitting a low of about 10 percent of its former value.

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How could a company that rose to fame as the best managed company in the world fall on such hard times?

The answer to GE's ups and downs lies partly with how its leaders used [organization design](#)[↗]. Reginald Jones was CEO from 1972 to 1981 and helped build GE's sophisticated strategic planning system.

The [GE conglomerate](#) was composed of 43 autonomous businesses, within which it had 10 groups, 46 divisions, and 190 departments that participated in strategic planning.

To help manage the massive amounts of paperwork and information required from 43 strategic plans, [GE](#) added a management layer to its structure to oversee sectors or groupings of businesses and reduce the load on top management.

[GE](#) was a respected and highly successful company, and paperwork and bureaucracy seemed to increase along with organization size and complexity.

The Jack Welch Era 1981–2001

When he was hired as an engineer at [GE](#) in the early 1960s, Jack Welch hated the company's [bureaucracy](#)[↗] so much that he submitted his resignation after only six months on the job.



Fortunately for [GE](#), Welch's boss convinced him to stay and make a difference. After rising to CEO, Welch was quick to begin busting the ever-growing GE bureaucracy.

Near the end of his two-decade run as CEO, in 2001, [Fortune magazine named Welch "Manager of the Century"](#)^[7] to recognize his astonishing record at GE and also named GE the ["Most Admired Company in the United States"](#)^[8].

What changes did Welch and GE managers make to achieve these accolades?



1. Strategy Changes

[GE](#) had begun using the advertising slogan "We bring good things to life" in the late 1970s and it continued in the Welch era, with Welch maintaining the strategy of being a conglomerate of divers businesses.



But Welch added a new key objective: each business must become the No. 1 or No. 2 competitor in its industry or risk being cut. GE's new strategy was to be a leader in each of its industries.

2. Changes in Structure

Welch attacked the bureaucratic layers within GE by first eliminating the sector level of management hierarchy that Reginald Jones created.





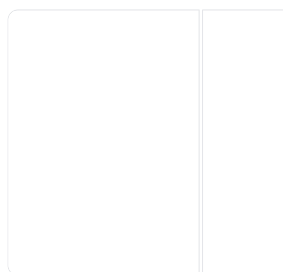
He continued to fight the over-managed hierarchy until the number of levels was reduced from nine to as few as four. In many cases, department managers, sub-sector managers, unit managers, and sometimes supervisors were eliminated along with the sector managers.

Now the CEO and top managers could deal directly with each business without going through multiple layers of hierarchy. Moreover, Welch stretched senior managers' span of control to 15 or more direct reports to force more delegation and autonomy downward.



3. Downsizing

Welch's assault on the bureaucracy also involved cutting down the number of employees. GE eliminated tens of thousands of managers and employees through delayering and de-staffing and even more through divestitures.



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The number of GE employees declined from about 404,000 in 1982 to 292,000 by 1989. Welch was given the nickname "Neutron Jack" because a neutron bomb killed people and left buildings intact.

The nickname was reinforced by the CEO's replacement of 12 of his 14 business heads. During this period, Welch was named "toughest boss in America."

4. A New Culture

Welch wanted a corporate culture based on direct conversations of openness and candor, eyeball to eyeball, between managers and direct reports rather than via formal meetings and bureaucratic paperwork.

A practice called [Work-Out](#) was one answer. Groups of up to 100 employees from a business unit would gather in a town meeting-style atmosphere. The business unit boss presented a challenge and left the room.

Employees divided into teams and attacked problems and bureaucratic inefficiencies in their business unit with new, often dramatic, solutions.

On the third day, bosses returned and listened to the teams' presentations. Bosses had about one minute to decide whether to accept or reject each proposal. One boss from an aircraft engine factory accepted 100 of 108 proposals, enabling a transformation in factory operations. Bosses often lost their jobs if they were unable to accept the dramatic change proposals from

subordinates. Over 10 years, about 200,000 GE members participated in Work-Out.

5. Going Global

Welch also focused GE on global expansion. The U.S. market was not big enough. Welch encouraged international expansion by increasing the standard for business unit performance from being the “No.1 or No.2” business in your industry to being the No. 1 or No. 2 business in *the world!*

To support each company's global effort, he hired a senior manager of International Operations to facilitate each business's overseas expansion. GE managers had to learn to think and act globally.

6. Performance Management, Stretch Goals, and Control

Welch and his most senior executives were responsible for the progress of GE's top 3,000 executives. They visited each company to review progress toward stated targets, often including

“stretch” goals, another concept Welch introduced. Stretch goals used managers’ “dreams” as targets that might be impossible to reach but would motivate exceptional accomplishment.

In another move, Welch installed a manager evaluation system on a “vitality curve”. This annual review process became known as “rank and yank,” because the top 20 percent received generous rewards, the vital 70 percent were largely left alone, and the bottom 10 percent were encouraged to leave the company.

7. E-Business

About two years from retirement, Welch saw the potential of the Internet as “the biggest change I have ever seen.” He thought a big, traditional company like GE might be afraid of the new technology, so he required each business unit to establish a full-time team charged with including strategic opportunities for the Internet. Digitizing the company was Welch’s final major initiative.

To summarize, the Jack Welch era at GE was the most phenomenal in company history. Welch and GE earned prestigious awards, such as *Financial Times* naming GE the “Most Admired Company in the World.”

Moreover, Jack Welch became an icon for brilliant management and his name became known in popular culture. GE's market value increased an astonishing 27 times from \$18 billion to \$500 billion under Welch's guidance. In the year 2000, GE was the most valuable company in the world.

The Jeff Immelt Era 2001–2017

Welch personally chose Jeff Immelt to become GE's new CEO, Immelt had broad experience at GE, changing jobs often across GE Appliance, GE Plastics, and GE Healthcare, eventually running the healthcare unit.

1. The External Environment

Immelt and GE faced major environmental challenges almost from Day 1—starting with the September 11, 2001 terrorist attacks that stunned the world.

GE also endured the 2002 stock market crash, an oil price collapse, and the 2008 collapse of Wall Street and the long global recession that followed.

2. Strategy Changes

Immelt shifted GE toward an industrial business focus consistent with GE's industrial roots while simultaneously learning to thrive in the Internet age. He added software capability to GE and predicated GE would become a major software company. Immelt also placed special emphasis on globalization and on more innovations via greater investments in research and development.

3. Innovation

Under Immelt's watch, GE developed a new concept called "reverse innovation." GE's innovation strategy for decades had been to develop high-end products in the United States and then sell the products internationally with modest adaptations to fit local conditions.

Reverse innovation means to develop low-end products in poor countries and then sell those products in wealthy, well-developed countries.

One example was the development of a cheap, portable ultrasound machine in China that was also sold successfully in the United States and Europe.

4. Sustainability

At GE, sustainability means aligning business strategy to meet societal needs, while minimizing environmental impact and advancing social development. Immelt pushed GE to embed sustainability at every level.

Organization Design in Action

Welcome to the real world of organization design. The shifting fortunes of GE illustrate organization design in action. GE managers were deeply involved in organization design each day of their working lives—but many never realized it. Company managers didn't fully understand [how the organization related to the environment](#) or how it should function internally.

[Organization design](#) gives us the tools to evaluate and understand how and why some organizations grow and succeed while others do not. It helps us explain what happened in the past, as well as what might happen in the future, so that we can manage organizations more effectively.

Organization design concepts can help [Larry Culp](#) and other GE managers analyze and diagnose what is happening and the changes that will help GE keep pace with a fast-changing world. Organization design gives people the tools to explain the decline of GE and recognize the steps managers might take to keep the company competitive.

Similar problems have challenged numerous organizations. [Toyota Motor Corporation](#), for example, had the best manufacturing system in the world and was the unchallenged auto quality leader for decades. But when top managers started implementing high-pressure goals for extensive global growth, the famous quality system was strained to a breaking point.

These are the issues with which organization theory and design is concerned. Organization design concepts apply to all types of organizations in all industries.

