Final Case Analysis (General Electric)

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In 1878, Thomas Edison started a company that would be his way into being able to manufacture, sell, and distribute one of his most brilliant inventions, the electric light bulb. Edison originally named his company after himself, but after some time had passed and a few companies were consolidated, General Electric was formed (Forbes). Since its establishment, the company has moved on from being a company that is only involved in the lamp manufacturing and energy industries. Today, General Electric (GE) is a publicly traded company that is also involved in the various industries of finance, healthcare, locomotives, software, and others.

Thomas Alva Edison was born on February 11, 1847, in Milan, Ohio. As a child, he was stricken with scarlet fever and ear infections, which left him hearing problems that would lead to him almost being deaf as an adult. He attended organized school for a total of 12 weeks as a child and was subsequently homeschooled by his mother because he was so hyperactive. While he was homeschooled, he developed a large appetite for reading and learned much of what he knew through this medium. After a time of being a telegrapher, Edison decided to become an inventor after he developed an improved stock ticker that synchronized the transactions of different tickers and then sold the rights to the design for $40,000. Edison then set up his original laboratory in Newark, New Jersey, later moving to a larger facility in Menlo Park, New Jersey, because of the continued success that he was having inventing new devices and selling the designs to the highest bidders (Thomas).

Once he invented the electric light bulb, Edison founded what would eventually become General Electric and transitioned from being an inventor to being a businessman. This was necessitated by General Electric becoming much too large for Edison to oversee by himself. Despite his disdain for corporate environments, he needed to expand the business to many different locations because of prevalence of electric lights. By the end of his life in 1931, Edison had 1093 patents to his name, helped build the American economy into what it is today, and had a direct hand in making the automobile industry successful with Henry Ford (Thomas).

Reginald H. Jones was born in 1917 in Britain and raised in the United States, graduating from the Wharton School of Business in 1939 with a degree in economics. After his graduation, he immediately began working for General Electric as an auditor in their management training program. After this initial position, Jones began moving up through the company first as an operations manager in various divisions of the company, then as a vice president, and then as its chief financial officer. In 1973 Jones began his tenure as the chief executive officer and chairman of the company. During his time as the CEO, GE's yearly revenue more than doubled from $10 billion to $22 billion. Despite the stock price declining about 21%, the compound annual rate increased 12.2% per year while he was the head of GE. Jones also brought the company into the previously untapped foreign markets and in 1980, was named as the most influential man in business by US News and World Report. Under his command, the way the company was run and conducted business was transformed, allowing decisions to be made much more quickly and helping boost profits. Jones retired from GE in 1981 after serving on White House labor-management and international monetary reform committees during the terms of Nixon, Ford, Carter, and Reagan. This gave way to his protégé John Welch, who became the next CEO of General Electric (Saxon).

John "Jack" Welch was born in Massachusetts in 1935 and graduated from the University of Massachusetts in 1957 with an undergraduate degree in chemical engineering. He then went on to the University of Illinois where he received his Master's and Ph.D. degrees in chemical engineering in 1960. In the same year, Welch began working for GE as a chemical engineer in the Plastics division. He became the company's youngest vice president in 1972 and then became vice chairman in 1979. After the retirement of Reg Jones, Jack Welch became the 8th CEO of GE in 1981.

During his time as the CEO, Welch drastically changed the managerial structure of the company, eliminating many levels of management so that decisions could be made more quickly and communicated throughout the company. This reorganization that he performed also made is so that all pertinent information would flow to him instead of being passed off to one of his subordinates at some point. By streamlining the structure of the company, Welch transformed GE so that it became as adaptable as a much smaller company, allowing the company to evolve with the economy, the market, and do things more efficiently. This streamlining also allowed the company to grow dramatically, uninhibited by unnecessary red tape (John).

Welch also expanded the value of GE dramatically while he was CEO. When he started in 1981, GE was worth about $14 billion. At the time of his retirement in 2001, GE's market value had skyrocketed to more than $410 billion, becoming the largest and most valuable company in the world. Company revenues also rose more than 400% to $130 billion before he retired from $26.8 billion when he started. To say that Jack Welch made an impact in GE and the world economy would be an understatement (John).

Although he was so successful in running GE, Welch still faced criticism during his tenure as CEO. Some said that he was putting too much pressure on his employees, which made them cut corners in their work so that they could meet expectations. Others contended that Welch did not care about the middle or working classes because of how aggressive he was with closing plants and factories because they did not meet productivity standards. Lastly, some criticized Welch for how much money he was making as a CEO because they believed that it was excessive or too large compared to the salaries of average GE employees.

Before he retired, Welch faced one more challenge that would not have existed at the beginning of his tenure. He had to plan ahead and find away to choose the person that would succeed him as CEO of GE on the day that he inevitably decides to step down. It will be almost impossible to find someone that will be able to have the same kind of effect on the company as he did during his tenure. He was so dynamic while working for GE, improving the company in incredible ways like increasing the market value of the company more than twentyfold and revenues by more than 400%. It would have been very unfair to expect Welch's successor to match his success in the future, as this kind of production is unheard of elsewhere.

These same things were said about Reg Jones when he was CEO, as he also was a great leader and took the company to new heights. When it came time for him to retire, nobody expected Jack Welch to be able to out do Jones the way he did in terms of company growth. A great CEO that no one believed could ever be replaced was in fact replaced by a man who was even better than he was. This was no small task, however, because at the time, Jones was believed to be the greatest CEO of all time (Wozny). But his successor, Welch, was even better. The Brett Favre of GE had just stepped down to let his Aaron Rodgers get to work and make his company even better and dominate the world market.

There are massive repercussions if the search for a good successor is not performed correctly. It takes a very hard working and qualified person to run such a large company and very talented person to make it succeed and grow. If such a person is found, GE will continue to thrive and be the worldwide powerhouse that it is today. However, if the search for a successor decides on the wrong candidate, it could be detrimental to the company. Decisions might never be made in time because of a lack of decisiveness or vision. A problem that is causing millions of dollars in waste might never be solved because the new CEO is not willing to make the tough decisions needed to fix it. The company could even go into a tailspin that it will never be able to escape and eventually bankrupt.

A poor choice in CEO could also cause the company to enter a pattern of mediocrity. A high standard of excellence might not be enforced after Welch leaves in favor of just completing some tasks at the minimum requirements to keep the company running. Mediocrity could also come in the form of no longer wanting to be innovators in the industries that GE is involved in, which would lead to losing the reputation of being an industry leader and instead becoming an industry follower. GE would no longer be the company that leads the industry and challenges other companies to do what they are doing. Instead, they would be constantly following after another company and try to match their recipe for success.

There are a few ways that GE can go about looking for Welch's successor. One option that they have is that they can promote someone within the company that is already an executive. This option would be the easiest to implement, as there is a limited number of executives at GE and therefore a limited number of candidates that the succession planning committee would have to consider. There would also be an abundance of information about each candidate since GE already employs them. Outside information would not be completely necessary because all pertinent information would already be in company records. Each candidate would also already know about GE's corporate culture and the things that have made it successful, therefore they would be well equipped to continue the success and growth that GE has experienced in the past.

A downside of simply promoting an existing executive to the position of CEO is that it may cause an explosion of office politics before, during, and after the hiring process because presumably every executive at GE wants to be the CEO and will begin trying to put themselves into more favorable positions than their peers. Trust between candidates can be ruined if someone is thrown under the bus because someone else is trying to make themselves look better. This method could essentially promote rivalries between previously amicable coworkers and ruin the company from the top down if things go wrong. This method also greatly limits the number of candidates that can be considered for the job, as it could be decided that none of the current executives of GE are fit to be the next CEO. If the succession planning committee must hire someone that is already an executive, they may be forced to choose someone that is under qualified or just not the right person to run GE.

Another option that they have is to look for candidates outside of the company and after an interview process to determine if they would be a good fit for the company and what the company stands for, hire them to be the new CEO. This choice would offer the company fresh perspectives on how things could be conducted because this new candidate would not be already familiar with the perspectives of the current executives of GE. Combined with these fresh perspectives, this external candidate would also presumably bring a new energy to the company, allowing it to continue to grow and reach new heights beyond being the top company in many of the industries that it is involved in. It may prove to be difficult to find a candidate that would meet the requisite qualifications and also be a good fit for the culture of GE.

Some problems that may be encountered when hiring someone that is already an executive may also arise when trying to hire someone externally. Office politics would most likely escalate once current executives are notified that their new boss will be someone that does not currently work for the company. This could be taken by some as a message from the company that says there is no chance of further advancement, causing them to decide to look for work elsewhere where they have a chance at being the CEO, leaving huge gaps in leadership at the executive level. Another problem that could arise is that because at external candidate would almost certainly change how GE conducts business at some level, the success that GE has had in the past may be erased because this new plan turns out to not be good for the company.

The third option would be to conduct succession planning like Reg Jones did in the past that led to the promotion of Welch. This would entail finding a group of high potential candidates that are not executives, but may be managers at relatively lower levels, to mentor and groom them so that they will be ready to become the CEO. Conducting this kind of succession plan would in a sense combine the previous two options because the person that will be chosen will already be working for GE, but will also be somewhat of an outsider because they will not be an existing executive. This option also ensure that the future CEO would be fully prepared for their new job and be knowledgeable about the intricacies of the company. While enacting this succession plan would be very time consuming, it may produce the best long-term results.

One of the main limiting factors of this succession plan is time. Welch is already advanced in age and there is not much time before he decides to retire. Ideally this plan would take at least a few years to carry out, as the mentorship stage would take a very long time. Identifying whom the best candidate out of a large group can take a long time and the process of really getting to know each of them and understanding who they are would be very time consuming. This plan also has the potential to offend existing executives that may have had their minds set on becoming the next CEO of GE. Unfortunately this is the cost of finding the best person possible to succeed Welch, and this plan has worked in the past.

Even though it is challenged by time constraints, the third option for Welch’s succession plan that was discussed is the best solution. It is a method that has been tried in the past by Jones and has spawned the leader that is Welch. Jones was able to handpick his successor so he would be able to train and mentor him through his time at GE, giving him the necessary tools and attitude needed to run such a large company. This method also brings stability to the company because the candidates that it selects are for the most part younger, allowing whoever is eventually chosen to be the CEO for a longer period of time before they have to retire. Instead of having a new CEO every few years like some companies, GE will not have to find a new CEO for at least the next 15-20 years if this method is used.

In summary, it is advised that Welch immediately begins his search for the next CEO of GE by asking his managers who their best and brightest are so that he can choose a group of them and begin mentoring them. Welch will also have to stay at GE for at least the next 3-4 years so that he will be able to pick the best candidate out of the pool that will be formed. This would be the amount of time needed to decide on the top few candidates and then eventually choose one to be his successor at CEO. If performed correctly, Welch can retire in a few years knowing that he has left General Electric in the best hands he could find and left the new CEO in a position to succeed. He can also look back at the way Reg Jones found him and groomed him to be the next CEO and see that he has just done the same thing. GE might not grow the way that it did when he was in charge, but it will continue to succeed and be one of the greatest companies in the world.

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