

# Cultural Revolution - Just What Multinational Companies Need: A Case of GE


Adebowale Onatolu, Ashford University, USA

## ABSTRACT

*This paper discusses the role that Cultural Revolution can play in the success of most multinational companies using General Electric as a case study. GE commits vast resources each year to the grooming and preparation of potential leaders through what many consider a fiercely competitive program of training as a means to weed out those who may not possess the skills necessary to lead (Kesler, 2002). The executives are comprised of the next generation of GE leaders. For more than 30 years, GE has been extending its global reach through the use of emerging technologies in developing markets. The message is clear - in order to be successful in a global environment, those in leadership positions must have the tools and support to make firm decisions. A continuous internal management succession plan allowed the company to transfer leadership from the former CEO, Jack Welch, to the current CEO, Jeffery Immelt*

**Keywords:** Organizational Behavior; Leadership; Cultural Revolution; Succession Plan

## INTRODUCTION

 Our society has undergone a vast number of changes due to fundamental transitions. Agriculture and family that used to be our culture-based rural settings, is replaced by industrial, technological urban settings (Bowditch & Buono, 2005). In many ways that seem unique, the institutions and their employees are challenged by our revolutionized society (Schermerhorn, Hunt, and Osborn, 2003). In our new era of work - globalization and diversity - Organizational Behavior (OB) is an increasingly important phenomenon that continues to affect management education in work places. OB focuses on the behavior of individuals and groups in organizations (Schermerhorn, Hunt, & Osborn, 2003).

This case study provides the need for cultural change for multinational companies by examining General Electric (GE). The result of the case study should reinforce the position of GE as a leader in its field, both at home and on a global level. It will amplify GE's continual policy of successfully choosing its leadership from the ranks of those employees with long-term visions for the company.

## BACKGROUND

General Electric (GE) was created in 1892 after the merger of the Edison General Electric Company and the Thompson-Houston Electric Company. GE is a conglomerate that has divisions in quite unrelated businesses and industries. According to Hoovers, a D&B Company, GE engages in the development, manufacturing, and marketing of aircraft engines, locomotives and other transportation equipment, kitchen and laundry appliances, lighting, electric distribution and control equipment, generators and turbines, and medical imaging equipment. GE is also one of the US's pre-eminent financial services providers: GE Capital, comprising commercial finance, commercial aircraft leasing, real estate, and energy financial services, is its largest segment. GE's other segments are Energy, Aviation, Healthcare, Home & Business Solutions, and Transportation. ("[www.hoovers.com](http://www.hoovers.com)," 2012, para.1)

GE operates in more than 150 countries. Many companies downsized in the 1980s, which resulted in GE reducing its workforce by 25 percent. Jack Welch, former legendary CEO of GE, faced the task of reorganizing GE by developing a better understanding of the relationship between leadership, work, and organization. It takes a great deal of effort to create an organization of the caliber of General Electric. Along the way, leaders with long-term vision, coupled with effective transformational leadership, are necessary to mold the organization's culture and guide it through the ever-changing and challenging business world landscape.

## **LEADERSHIP SUCCESSION PLAN**

Leadership succession planning has the strategic capability that will implement new processes to be adapted in turbulent situations. Increased competition in both the U.S. and abroad have placed a great of pressure on industry leaders, such as GE, to aggressively search for new leaders who will be more adaptive to the changing global business environment.

Carlini (2005) found that most organizations fail to develop a standard leadership succession program, and solely the board of directors chooses the CEO's successor. According to Lorsch and Kurana, "a change in CEO is one of the most crucial events in the life of a company (1999, p. 99). Moreover, "For all its obvious importance, the way CEOs are chosen remains little discussed and little understood" (1999, p.97). This was not the case with GE former CEO Jack Welch who developed a unique approach in creating a successor program for GE. Welch (2005) established unique prerequisite patterns for a CEO successor that prepared candidates for this significant leadership role.

To ensure long-term survival of the company, it is necessary to have in place an organizational structure with a unique form of leadership succession plan that will be cognizant of organizational culture of GE. Through empowerment, GE employees created a culture of dedicated employees who can achieve their potentials ("GE.com", 2005).

When Jack Welch set about the task of renovating GE in the 1980's through a series of layoffs and restructuring, his goal was not to save the company. By all recognized standards, the firm did not need saving. Rather, the intention was to prepare the company for a future in a business world that would infinitely be more competitive and globally oriented (Surowiecki, 1998). The ability to successfully plan for the future is a skill highly regarded at GE. When Welch succeeded Reg Jones in 1980, the search was an extensive process that even required each candidate to nominate one of his competitors for the position. The message in this exercise was clear. The new chief executive officer would need the ability to recognize leadership in others. This is the cornerstone to GE's unique form of leadership succession planning, the capacity to recognize and nurture leadership skills. With some competitors, the natural tendency might be to choose a successor who leads in the same manner as his predecessor. At GE, when there is a vacancy, a search is conducted across the other divisions within the organizational structure to locate or recruit for a successor (Kesler, 2002).

Jack Welch used his unique personality, leadership strategy, and breakthrough changes in organizational habits to transform GE into one of the most multifaceted organizations in the world. The firm's market value increased by more than \$400 million dollars under his leadership (Welch, 2005).

After 20 years at the helm, Welch selected Jeffery Immelt as his successor. Immelt was charged with leading the company through turbulent, economic, social, and political times. Unprecedented events, such as the September 11 terrorist attacks, widespread accounting scandals, and global economic uncertainty, marked Immelt's reign at GE. Through all this, Immelt's ultimate task was to maintain, and even exceed, the multinational growth rate in addition to the reorganization of the firm.

## **CULTURAL BEHAVIOR**

At the time Welch became GE's CEO in April 1981, the business world considered GE to be a fundamentally successful corporation with a solid position as one of the top worldwide industrial leaders. However, Welch had a different perspective. He viewed GE as a company not necessarily about to fail, but too large to make

changes that would allow further growth, which he deemed necessary for the firm's survival. Welch's 20-year endeavor at GE not only implemented a series of groundbreaking programs, but also changed the culture of the mammoth corporation to ensure the successful implementation and complete assimilation of his business strategies. GE's transformation during Welch's term was intense, complex, and emotionally filled with many lives impacted by layoffs and overall organization restructuring. GE commits vast resources each year to the grooming and preparation of potential leaders through what many consider a fiercely competitive program of training as a means to weed out those who may not possess the skills necessary to lead (Kesler, 2002).

Jeffrey Immelt, the head of President Obama's 'President's Council on Jobs and Competitiveness', took over from Jack Welch as chief executive and chairman of GE on September 7, 2001, after 19 years with GE. Immelt worked under Welch for several years and his vision of what would be required for the future survival of GE was very different from that of his predecessor. By the end of Welch's tenure, GE's culture was driven by bottom-line results, and anyone not meeting those expectations was to leave. Immelt soon realized that the leaders he needed in order to bring GE into the future would not dare to take the risks necessary to revolutionize the company under the existing culture.

### **CULTURAL REVOLUTION**

Immelt embarked upon an organizational cultural revolution to transform the process-oriented and hard-driven company into an organization that is culturally determined to grow (Brady, 2005). Strong cultures marked many of the greatest organizations. Members of the organization ultimately either identify with the culture or leave the organization (Scott, 2003). A strong, positive corporate culture that encourages employees and plans for leadership development, though important and certainly enviable, does not, in itself, guarantee positive results. The other alternative is to hire new leaders, who, according to Charan, ". . . import new teams and management styles. Continuity and momentum collapse, the energy to execute dwindles, and morale plummets . . . bad external appointments are also expensive, since even poor performance is rewarded with rich severance packages" (2005, p. 74). At GE, leadership encompasses more than the content learned in the classrooms. GE management encourages employees to embrace change by developing employees' "skills to change things for better. . ." ("GE.com", 2007, para. 5)

The CEO plays a critical role in the success of the organization; hence, viable organizations should be ". . . ready with a clear view of current and future needs and with carefully tended pools of candidates" (Charan, 2005, p.72). The National Association of Corporate Directors and the Corporate Leadership Council found that 50 percent, respectively of the responding companies, were not satisfied with the top management succession process (2005). A poor performance by a company is often the result of a poor succession plan (Charan, 2005). To buttress the necessity for a good succession, Kidger (2002) notes that as multinational firms begin to establish themselves in emerging markets, the transfer and assimilation of knowledge is fundamental to success.

### **SUMMARY**

GE's current status as a globally-oriented, innovative, leading company is the result of a series of transformational leaders whose long-term vision and business acumen shaped the organization and steered it towards success. The case study explored the progressive development program that aids in the selection of the corporation's emerging leaders, concentrating on the company's unique form of leadership succession planning. The leadership selection process is an integral part of GE's continuing strategy, which identifies potential leaders with a global, innovative outlook. They must understand and have the ability to leverage the power of creating and sustaining effective organizational culture in order to maintain its leadership role in a global economy. Jack Welch established a unique way of creating a successor program for GE by continuing the company's CEO tradition of having a twenty-year tour of duty for the company by the successful candidates. Jeffrey Immelt, the current Chairman of the Board and Chief Executive Officer of General Electric Company, continues to excel in his duties as the leader of one of the most successful multinational companies in the world.

## AUTHOR INFORMATION

**Adebowale Onatolu** is a Full-Time professor and the Chair of the Academic Marketing Department & Strategic Management of College of Business & Professional Studies at Ashford University San Diego .His academic background includes a BA. degree in Business and Management from Northeastern Illinois University, MS degree in Marketing Communications from Roosevelt University in Chicago, and a Doctorate in Business Administration (DBA) from University of Phoenix. His professional experience includes corporate positions and small business ownership. He participates in various conferences and workshops to enhance his knowledge in his Business contents areas. E-mail: [adebowale.onatolu@ashford.edu](mailto:adebowale.onatolu@ashford.edu)

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