Chapter 14

GOVERNANCE CHANNELS AND ORGANIZATIONAL DESIGN AT GENERAL ELECTRIC: 1950-2001

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Abstract: This study advances an attention-based view of corporate strategy and explores its implications for organizational design. We examine the governance of resource allocation in a multi-business organization through the firm's network of decision-making and communication channels. Using both primary and secondary sources, we analyze the changes in the decision-making channels at General Electric (GE) over a 51-year period across four CEO regimes: Ralph J. Cordiner, Fred J. Borch, Reginald H. Jones and John F. Welch. We identify four distinct channel functions: reporting, staff, control and agenda management. Through our analysis, we find that strategy does not emerge from any unitary, bounded process but from the pattern that emerges from a network of tightly and loosely coupled channels operating simultaneously.

Key words: General Electric, strategy process, organizational design, governance, attention, resource allocation, decision making.

1. INTRODUCTION

This study advances an attention-based view of corporate strategy and organizations (Simon, 1947; Ocasio, 1997; Ocasio and Joseph, 2005) to examine the design of governance structures and processes in multi-business firms. We define governance as the formal mechanisms and processes for directing, regulating, and controlling the allocation and distribution of resources within the firm. We examine the system of formal decision-making and communication channels that guide governance in multi-business firms. We develop a case study of General Electric from 1950-2001

to compare and contrast four regimes of governance of this diversified multi-business organization and to explore key design characteristics of the governance structure and process. Our primary thesis is that the function of key governance channels, as well as their structure, are key design features consequential for the direction, control, and regulation of both human and financial resources within the firm.

In multi-business firms, formal structures and processes substitute for the market as the primary mechanisms for allocating and distributing human and financial resources among the multiple business activities of the firm (Chandler, 1977). In diversified multi-business organizations, the multidivisional structure or M-Form organization has been heralded as the most efficient governance structure for resource allocation (Williamson, 1975, 1985). Multidivisional firms are characterized by a decentralized system of semiautonomous operating units, organized as profit centers, and a general office of both staff and line executives that monitor operating unit performance, allocate resources among divisions, and formulate business policies and strategic plans (Chandler, 1962, Williamson, 1985). The virtues of the modern corporate hierarchy, however, are offset by the problems of controlling, coordinating and incentivizing activities within and between the corporate headquarters and its business units. To deal with these bureaucratic costs, organizations develop information processing mechanisms to govern the division of problems, simplify choice and direct information and alternatives (Scott, 2003: 158). These mechanisms – the governance channels of the firm – guide internal communication and strategic decision making in the face of complex business environments and competing organizational demands for attention (Simon, 1979). A focus on governance channels provides a better understanding of the role of corporate-level administration and agendas in the coordination of resources among multiple business units.

Analyzing data over a 51-year period from both historical documents from the General Electric (GE) corporate archives and secondary sources, we seek to understand the function, structure, and processes within GE's decision making channels and their impact on directing, guiding and controlling resource allocation among the organization's business units. In particular, we explore the changes in these channels across four CEO regimes: Ralph J. Cordiner, Fred J. Borch, Reginald H. Jones and John F. Welch.

Through our analysis of governance channels at GE, we find that strategy does not emerge from any unitary, bounded process within the corporate office, as suggested by Chandler (1962, 1977) and Williamson (1985), but from a network of tightly *and* loosely coupled reporting, support, control and agenda management channels operating simultaneously. Resource allocation