The Personal Journey of Jack Welch

JACK: STRAIGHT FROM THE GUT

THE SUMMARY IN BRIEF

The career of former General Electric CEO Jack Welch leaves us with many lessons in management, business and leadership. From his beginnings as a stuttering, competitive kid from working-class Salem, Mass., to his early days as a GE engineer, to his ascension to CEO in 1980 and subsequent 20-plus year reign at the top, Welch stressed the importance of people, originality and creativity, and common sense. The result is a leadership style that's often imitated, but never equaled.

In Jack: Straight from the Gut, Welch is both storyteller and coach, using his exceptional career as the backdrop to share his thoughts on what it takes to be a great leader. Part management text, part page-turner, Jack shows how the man widely regarded as the finest corporate executive of his generation built his business and his reputation.

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What You’ll Learn In This Summary

✓ It's best to be small, no matter how big you are. By slashing unneeded bureaucracy and insisting that GE’s businesses be in the top two positions in their respective fields, Welch instilled an entrepreneurial spirit and a quick-thinking, quick-moving approach to competition and constant improvement. It was a small-company approach to running an enormous, multi-billion-dollar organization, and it worked marvelously.

✓ It's all about people. Jack Welch’s passion was making people GE’s core competency, and he saw to it that the company found and developed great people.

✓ Companies must be boundaryless to unlock their potential. Insular thinking results in stale ideas and, consequently, stale organizations. By breaking down the walls and borders that separated various departmental and functional areas at GE, Welch was able to unlock the full creativity of his people, propelling the company forward with fresh, creative approaches to problems.

✓ Quality is nothing without efficiency. GE’s Six Sigma initiatives replaced sloganeering quality strategies with ones that brought about measurable results in increased efficiency, reduced defects and satisfied customers.
The Vision Thing

Jack Welch’s first time in front of Wall Street as CEO — a talk before financial community representatives in 1981 — was, by his own admission, a bomb. In a 20-minute speech, he gave his audience a primer on what he felt it would take for a company to be viable in the long term. Winning companies, he said, would be the ones that “search out and participate in real growth industries and insist upon being Number One or Number Two in every business they are in — the Number One or Number Two leanest, lowest-cost, worldwide producers of quality goods and services.” It was a strategy to which he would commit his company with the fullest effort imaginable — a strategy that would change the face of GE forever.

Wall Street yawned. They were looking for hard numbers, things they could plug into their financial models and crank out estimates of earnings. They wanted a quantitative discussion; Welch had given them a qualitative talk, because he did not yet have a conceptual tool to communicate, much less implement, his vision.

Strategy on a Cocktail Napkin

Then, one evening, while trying to explain the concept to his wife, Welch sketched out the strategy on a cocktail napkin. The sketch showed three circles, labeled “services,” “high technology” and “core.” A number of GE business units were listed inside and outside the circles.

Over the next few weeks, Welch would refine, expand and share his model with everyone who would listen. Businesses inside the circles were core manufacturing, technology, or service entities — the bedrock of GE. Any businesses outside the circles would have to be fixed, sold or closed — they were marginal performers, or were in low-growth markets, or simply had a poor strategic fit. These were business that were, in other words, going to have a hard time achieving the Number One or Number Two status in their fields.

Implementing the Strategy

In the first two years of the strategy, GE sold 71 businesses and product lines, receiving a little over $500 million for them — a relatively small amount of action, but action that had purpose. When GE sold a struggling business and realized an accounting gain as well as cash, it gave the company the flexibility to reinvest in or fix up another, potentially stronger, business. This gen-

Superficial Congeniality

In 1980, GE was, like much of American industry, a formal and massive bureaucracy, ruled by more than 25,000 managers who each averaged seven direct reports in a hierarchy with as many as a dozen levels between the factory floor and the CEO’s office. Having been in the field, Welch had a strong prejudice against most of the bureaucratic culture and its “superficial congeniality” — pleasant on the surface, with distrust and savagery roiling beneath it.

Welch also hated the sense of elitism exhibited by GE managers, as exemplified by the Elfun Society — an internal management club that served as a networking group and a “rite of passage” into management. Welch told members of the Elfun Society that the club was an institution pursuing an old agenda, one without any value to the newer, faster, forward-looking GE he was trying to build.

When challenged to change, the members of Elfun rose to the occasion. Today, the once-exclusive management club is an army of GE community volunteers, with membership determined solely by the willingness of its 42,000 members (from factory workers to senior executives) to give back.
erated the kind of consistent earnings growth that was expected of Welch when he was named CEO. It was also the outgrowth of Welch’s central vision of running GE — that he and GE leadership managed businesses, not earnings. Accounting doesn’t generate cash; managing businesses does.

The Neutron Years

In 1980, the U.S. economy was in a recession, with rampant inflation and soaring energy prices. In the midst of this downturn, GE looked as solid a company as there could be, with over $1.5 billion in net income and $25 billion in sales. Yet, Jack Welch could see trouble on the horizon. The Japanese, benefiting from a weak yen and good technology, were increasing their exports into many of the U.S.’s mainstream businesses, from cars to consumer electronics. Welch recognized that GE would have to be faster and more entrepreneurial in strategy and in action.

Welch’s “Number One or Number Two” vision helped shave 118,000 people from GE’s payroll in a five-year period, earning him the name “Neutron Jack” (the guy who removed the people but left the buildings standing) and the distinction of being named Fortune magazine’s “Toughest Boss in America” in 1984. All the while Welch invested millions of dollars in supposedly “unproductive” pursuits, such as renovation of the company’s headquarters and a major upgrade of its Crotonville management development center.

The Paradoxes of Business

Welch answered his critics by noting that business is, in fact, a series of paradoxes:

- Spending millions on buildings that made nothing, while closing down uncompetitive factories that produced goods. Both were consistent with being a world-class competitor. GE could not hire and retain the best people, while becoming the lowest-cost provider of goods and services, without doing both.
- Paying the highest wages, while having the lowest wage costs. GE had to get the best people in the world and, consequently, had to pay them that way; at the same time, the company could not carry along people it didn’t need and still be effective.
- Managing long-term, while “eating” short-term. Some companies squeeze out costs at the expense of the future, while others dream about the future, but deliver nothing in the short term. Welch recognized that the true test of a leader was balancing the two.

- Needing to be “hard” in order to be “soft.” Making tough-minded decisions about people and plants is a prerequisite to earning the right to discuss “soft” values, like excellence and the learning organization. These things only have meaning in a performance-based culture.

These paradoxes helped Welch change the face of GE, rendering the “Neutron” and “Tough Boss” titles marks of greatness, not the criticisms they were intended to be.

The People Factory

GE is all about finding and building great people, in direct accordance with Jack Welch’s passion for making people GE’s core competency. The secret to GE’s success in this regard is the system it employs to select and develop great people. In a company with over 300,000 employees and 4,000 senior managers, GE needed a structure and a logic, so that every employee knew and understood the rules of the game. The heart of this process is the human resources cycle — full-day Session C human resources reviews at every major business location (held in April), two-hour videoconference Session C follow-ups (held in July), and Session C-II’s, held in November, which confirm and finalize the actions committed to in April.

And that is only the formal structure. At GE, there is an informal, unspoken personnel review — in the lunch-

“Everyone You Meet Is Another Interview”

From his earliest days at GE, Jack Welch was famous for the uncommon ways in which he interviewed and hired employees. Once, when he was head of GE Plastics in the 1960s, his car’s engine blew on the New Jersey Turnpike. He got towed to a local garage, where he met Horst Oburst, a German mechanic. Over the course of the next two days, as Oburst scrambled to get parts, the pair struck up a relationship. Impressed with the German’s gutsy determination, Welch offered him a job.

A week later, Oburst was on the payroll at GE Plastics, where he worked for 35 years, getting several promotions along the way. Such a story illustrates Jack Welch’s assertion that finding great people happens in many different ways, and that, in his words, “Everyone you meet is another interview.”
room, the hallways and in every business meeting. That intense people focus — testing everyone in a variety of environments — defines managing at GE.

**Differentiating People**

All these people-centric endeavors, both formal and informal, are done in an effort to differentiate GE’s best employees and managers from the rest of the pack. Differentiation isn’t easy; over the years, the company used many kinds of bell curves and block charts to differentiate talent, in an effort to rank performance and potential (high, medium and low). Eventually, Welch found a ranking tool he liked — the “Vitality Curve.”

Every year, the company asked each of its businesses to rank all of their top executives, in an effort to force these business leaders to differentiate their leadership. They had to identify the people in their organizations that they considered in the top 20 percent, the vital middle 70, and, finally, the bottom 10 — by name, position and compensation.

Those who did not perform to expectations generally had to go. While making these judgments is not easy, doing so is how great organizations are built, Welch felt. Year after year, differentiation raises the bar higher and higher, increasing the overall caliber of the organization in a dynamic process that makes everyone accountable for his or her performance. People (particularly those in the top echelon) must constantly demonstrate that they deserve to be there.

**Being Boundaryless**

One of Jack Welch’s passions as CEO of GE was to create a corporate culture devoid of the kinds of territorial walls that can sink even the best operations. This type of “boundaryless” culture (introduced at the company’s 1990 annual meeting) would remove the barriers among all the various functions at the company — engineering, manufacturing, marketing and the rest. It would recognize no distinctions between “domestic” and “foreign” operations. It would knock down external walls, making suppliers and customers part of a single process. It would eliminate the less visible walls of race and gender. It would put the team ahead of the individual ego.

**Rewarding Ideas**

Boundaryless would also reward people who recognized and developed a good idea, not just those who came up with one, encouraging leaders to share credit for ideas with their team, rather than take full credit themselves. The concept also opened GE to the best ideas and practices from other companies, like Wal-Mart’s process to gather and use market intelligence quickly (see box above). It would make each employee and leader at GE wake up with the goal of “Finding a Better Way Every Day” — a phrase that became a slogan at GE plants and offices the world over.

**Manager Types**

In 1992, Jack Welch discussed with GE’s leaders how to differentiate GE’s managers, based on their ability to deliver numbers, while maintaining GE’s values, including being boundaryless. He described four types of managers:

- **Type 1**: The manager who delivers on commitments — financial or otherwise — and shares the values. His or her future is an easy call.
- **Type 2**: The manager who doesn’t meet commit-
GE’s Globalization Drive

Jack Welch, by his own admission, did not put much focus on the global direction of GE in the first half of the 1980s, apart from eliminating the company’s separate international sector and putting the CEOs of individual GE businesses in charge of their own global activities. In Welch’s mind, there was no such thing as a global company—companies are not global; businesses are.

The Global Push

In the early 1990s, GE pushed its global growth by acquisitions and alliances, and by moving its best people into global assignments. Indeed, by moving two of its most talented executives to worldwide leadership positions in 1991, GE proved it meant business, that globalization was now a priority.

Welch also led GE into taking a largely contrarian view of globalization, focusing on areas of the world that were either in transition or out of favor—for example, Europe in the early 1990s, Mexico in the mid-1990s, and Japan in the late part of the decade. He felt correctly—that the best risk-reward activities were in those areas.

Global Intellectual Talent

Over time, GE’s globalization goals moved from simply sourcing products and components, to tapping the intellectual capital of countries.

For example, the scientific and technical talent in India—used by GE to develop software and perform design work and basic research—is incredible. The company opened a $30 million R&D center in India in 2000, moved GE Capital’s customer service centers to that country, and, one by one, transitioned all GE industrial businesses from “back rooms” in the United States to “front rooms” in India.

GE has also taken a greater interest in moving local nationals into leadership roles within its global endeavors, calling U.S. expatriates back home as excellent local leaders take the reins.
Six Sigma and Beyond

For years, Jack Welch had been no fan of the so-called “quality movement,” feeling that early quality programs were too heavy on slogans and light on results. The subject of quality had, however, become a concern of many GE employees by 1995, a concern backed up by industry figures.

Most companies at that time carried a defect rate of 35,000 defects per million operations — a little over three percent of the sum total of a process or of units produced. Quality like this, translated across industries, meant 5,000 incorrect surgeries performed per week; 20,000 articles of mail lost per hour; hundreds of thousands of wrong drug prescriptions filled per year. In other words, what was typically regarded as an acceptable rate of defect actually yielded quite unacceptable results.

Mobilization

Jack Welch wanted GE to get to Six Sigma quality level — fewer than 3.4 defects per million operations in a manufacturing or service process, or 99.99966 percent of perfection. But Six Sigma is more than simple quality control and statistics. Ultimately, it drives leadership to be better by providing tools to think through tough issues. At Six Sigma’s core is an idea that can turn a company inside out, focusing the organization outward on the customer.

Immediately, Welch mobilized GE’s executives toward the goal of making Six Sigma an enormous success. He told them to make their best people Six Sigma leaders, which meant taking those people off existing jobs for up to two years, to train them to become “Black Belts” in Six Sigma strategies and practices. The company also trained thousands of “Green Belts,” to enable them to solve problems in their everyday work environment, using Six Sigma concepts and tools (unlike Black Belt leaders, these employees were not pulled from their jobs).

As with every initiative, GE backed up Six Sigma with its rewards system, altering its compensation plan for the entire company so that 60 percent of one’s bonus was based on financials and 40 percent on Six Sigma results. Stock option grants were focused on employees who were in Black Belt training, both to reward GE’s best employees for their involvement in Six Sigma, but also to smoke out the weakest links in the company. As of 1998, no GE employee can be considered for a management job without at least passing Green Belt training.

The results of GE’s Six Sigma push were almost immediate — $150 million in savings in the first year alone, and $1.5 billion by 1999.

E-Business: GE Goes Digital

Although Jack Welch admits he was slow to recognize the power of and opportunity inherent to the Internet, when he got into it, he got into it full-force, and brought his company into the Digital Age with him.

On a vacation in Mexico in 1999, Welch’s wife, Jane, was absorbed by her laptop. One afternoon, she told Welch that people online were talking about the possibility of a GE stock split and his succession plan. She showed him the GE message boards on Yahoo!, and he was taken in by what people were saying about the company. Soon, he, too, was hooked, and knew immediately he was engaging with a technology that would have a big effect on GE — although, at the time, he was not entirely certain of how.

Big, Old . . . But Getting It

In the dot-com atmosphere of the late 1990s, many people were quick to write off big, old companies, in favor of anyone starting a new Internet business. Jack Welch recognized the fact that people were simply buying and selling goods over the Internet, just as they did a hundred years before from a wagon — the only difference was the technology. The buying and selling was faster and more global, and it had profound ramifications on business, but the actual creation of a virtual
storefront or auction site was not Nobel Prize work; it could be done inexpensively and easily.

Welch drew a chart that illustrated the Internet’s implications for GE for the present and future. At the time, the business world was going crazy over anything that had a “.com” next to it. But in the dot-com model, expenses increase rapidly to cover the costs of Internet development, branding and fulfillment. Losses increase in direct proportion to those expenses; the breakeven point is uncertain and is almost always revenue-dependent.

In the “big-old-gets-it” category, the only extra expense is for Internet development. The big company already has strong brands and the systems to fulfill orders. Once the cost savings from Internet productivity kick in, there is a shorter time to reach the breakeven point and a bigger, more certain payback. In contrast to the dot-com model, benefits are generally independent of revenue.

Welch’s drawing captured GE’s advantages over the dot-coms. They didn’t have to increase advertising; they didn’t have to establish a new brand; they didn’t have to create fulfillment organizations or build warehouses to ship goods. Welch recognized that GE could use the Internet and its tools to focus on the technology’s main benefit — taking out the low-value-added work in the guts of the company. With Six Sigma in place, the company was becoming faster and more efficient than ever before; by fully using Internet technology, they could be faster and more efficient still.

Three-Way Opportunity

GE saw the Internet opportunity in three pieces: the buy, the make and the sell.

- The “buy”—what GE as a company purchased—was $50 billion of goods and services every year. Transferring some of this activity to online auctions gave GE access to more suppliers and lower costs. Although the savings figures the company had initially projected (10 to 20 percent) were inflated by half, there were still enormous savings to be gained on the buy side.

- The “make” improvements from digitization were the hidden jewel in the dot-com boom. Digitization eliminated much of the organization’s massive backroom operations and tedious paperwork, improving job quality for many employees. In 2000, GE had $150 million of “make” benefits; in 2001, Welch projected $1 billion in benefits.

- GE’s “sell”-side benefits were realized in the serv-

ice improvements Internet technology enabled it to make. Fulfillment was faster; new and existing customers could get input on shipments without multiple phone calls; customers would never have to hear “The order is on the way” as a false promise again.

New Ways of Doing Business

GE’s e-business initiatives led to many other new ways of doing business:

- Plastics put electronic sensors in some of its major customers’ storage silos, enabling GE warehouses to be notified automatically when material levels drop, triggering a new order via the Internet to replenish the product.

- GE Capital uses the Internet to monitor the daily flow of cash in and out of a loan customer’s income statement, reducing the potential for losses if the customer might be short.

- Most GE business leaders have digital cockpits on their computer screens that update, in real time, the data required to manage their businesses.

- Everyone at GE thinks digitally. Today, it’s not uncommon for GE business leaders to ban paper from their offices in an effort to use digitization to drive productivity. It is a great mind-set shift for the entire company.
What This CEO Thing Is All About

There is no pat formula for being a CEO. Everyone does it differently, and there’s no right or wrong way to go about it, no magic formula that is the right thing to do in all cases. Jack Welch has, however, found a number of things that have helped him lead GE over the years, among them the following:

- **Maintain your integrity.** Establish your integrity and never waver from it. People might not have agreed with Welch on every issue, but they always knew they were getting it straight and honest. He never had two agendas; there was only one way — the straight way.

- **Set the tone for your company.** The organization takes its cue from the person on top. Welch always told GE’s business leaders their personal intensity determined their organization’s intensity — how hard they worked and how many people they touched would be emulated a thousand times over.

- **Maximize your organization’s intellect.** Getting every employee’s mind into the game is a huge part of what being a CEO is all about; taking their best ideas and transferring them to others is the secret. Be open to the best of what everyone, everywhere, has to offer, then transfer that learning across the organization.

- **Put people first, strategy second.** Getting the right people in the right jobs is a lot more important than developing a strategy — this truth applies to all kinds of businesses. Without the right leaders in place, the best, most forward-thinking strategies in the world will amount to little.

- **Stress informality.** Bureaucracy strangles; informality liberates. Creating an informal atmosphere is a competitive advantage. It isn’t about first names, unassigned parking spaces, or casual clothing; it is about making sure everybody counts, and everybody knows they count. Passion, chemistry and idea flow from any level at any place are what matter. Everybody’s welcome and expected to go at it.

- **Be self-confident.** Arrogance is a killer, and wearing ambition on one’s sleeve can have the same effect; legitimate self-confidence, however, is a winner. The true test of self-confidence is the courage to be open — to welcome change and new ideas, regardless of their source. Self-confident people also are not afraid to have their views challenged; they relish the intellectual combat that enriches ideas.

- **Appraise all the time.** Whether you are handing out a stock option, giving a raise, or simply bumping into someone in the hallway, always let your people know where they stand.

- **Mind your culture.** If your company joins forces with another through merger or acquisition, establish the new entity’s culture on day one, to minimize confusion and root out resistance to your goals.

- **Recognize the benefits of speed.** By acting decisively on people, plants and investments, Jack Welch was able to get out of the pile very early in his career at GE. Yet, upon his retirement 40 years later, one of his greatest regrets was that he hadn’t acted fast enough on a number of occasions. He never regretted taking quick action.

- **Forget the Zeros.** The entrepreneurial benefits of being small — agility, speed and ease of communication — are often lost in a big company. Welch’s experience in plastics enabled him to come to the job of CEO knowing that isolating small projects and keeping them out of the mainstream was a smart thing to do. By focusing on such projects as separate, smaller businesses, the people involved were more energized, adventurous and backed by the right resources.

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**Five Strategy-Focused Questions**

A colleague gave Jack Welch an article about the Prussian general Helmut von Moltke, whose beliefs brought to Welch a series of questions that were much more useful to him over the years than all the data crunching in strategic plans. Five simple questions brought strategic thinking to life:

- What is the detailed global position of your business and that of your competitors — including market shares, strength by product line, and by region today?
- What actions have your competitors taken in the past two years that have changed the competitive landscape?
- What have you done in the last two years to alter that landscape?
- What are you most afraid your competitors might do in the next two years to change that landscape?
- What are you going to do in the next two years to leapfrog any of their moves?