

JACK: straight from the gut.

The personal journey of Jack Welch

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The Vision Thing.

When Jack Welch gave his first speech as CEO in front of Wall Street he clearly gave his audience a primer on what he felt it would take for a company to be viable in the long term.

'Winning companies' 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 Two leanest, lowest-cost, worldwide producers of quality goods and services. To this strategy he would fully commit his company with the fullest effort imaginable.

But people yawned as they wanted quantitative discussion and not the qualitative talk. Jack Welch did not have yet a conceptual tool to communicate: his vision.

But one night he sketched out his strategy on a cocktail napkin. The sketch showed three circles: 'Services', 'High Technology' and 'Core'. Some GE businesses were listed inside, some outside the circles. The businesses inside were core manufacturing, technology and service entities considered the bedrock of GE. The businesses outside the circles were

marginal performers, in low-growth markets or had a poor strategic fit and would have to be fixed, closed or sold.

In his first two years as CEO, Welch sold 71 businesses and product lines. The selling of struggling businesses provided cash and gave the company the flexibility to reinvest or to fix up another stronger business.

An outgrowth of his vision: GE leadership manages businesses not earnings.

The Neutrons Years.

In the 1980's recession, GE looked as solid a company could be but Jack Welch saw trouble at the horizon. The Japanese competition was forcing GE to be faster and more entrepreneurial in strategy and in action.

Welch 'Number One or Two' vision shaved 118,000 people from GE's payroll and got him the name "Neutron Jack" (the guy who removed the people but left the buildings standing).

Due to Welch, business is a series of paradoxes:

- o Spending millions on buildings that made nothing, while closing down uncompetitive factories that produced goods.
- o Paying the highest wages, while having the lowest wage costs.
- o Managing long-term, while 'eating' short-term.
- o Needing to be 'hard' in order to be 'soft'.

The people factory.

GE was all about finding and building great people. The secret was the system to select and develop great people. This brought a structure and logic so that every employee knew and understood the rules of the game.

Outside the formal structure (HR reviews at every major business location, two-hour videoconference follow-ups and sessions to confirm and finalize actions) there was an unformal unspoken personnel review. That intense focus on people defined managing at GE.

All these efforts were done to differentiate GE's best employees and managers from the rest of the pack. Welch found a ranking tool called 'Vitality Curve'.

Each year businesses were asked to rank all of their top executives: who was within the top 20%, the vital middle 70% and the bottom 10%.

When employees were not meeting expectations they had to go. So, year after year, the bar raised higher and this increased the caliber of the organization in a dynamic process, making everyone accountable for his or her own performance.

Being boundaryless.

Territorial walls can sink even the best operations. Jack introduced a 'boundaryless' culture that would remove the barriers among all the various

functions. There was no more distinction between 'domestic' and 'foreign' and suppliers and customers became a part of a single process.

Boundaryless was also about rewarding people who recognized and developed a good idea and encouraging leaders to share credit for ideas with their team. They all had to wake up with the goal of 'Finding a Better Way Every Day'.

Jack Welch described four types of managers :

- o Type 1 : delivers on commitment and shares the values.
- o Type 2 : doesn't meet commitment and doesn't share organizational values.
- o Type 3 : misses commitment but shares organizational values. Will be given second or third chance.
- o Type 4 : delivers on all commitments but doesn't share the values. Not allowed by GE.

'Finding a Better Way Every Day' wasn't just a slogan, it was the essence and the base of a values statement considered that important that it was put out on laminated cards for all employees

GE's globalization drive

CEO's were put in charge of their own global activities and Jack didn't push in the begin of the 1980's much focus on the global direction of GE. In his mind, there was no such thing as a global company – companies are not global, businesses are.

But in the early 1990's GE pushed its growth by acquisitions, alliances and by moving its best people into global assignments.

His view on globalization was contrarian as he moved GE in areas of the world that were either in transition or out of favor.

His goals moved from simply sourcing products and components to tapping intellectual capital of countries. Corporate officers who did not share the value of boundaryless behavior were asked to leave the company.

Six Sigma and beyond.

In 1995 the subject of quality - Jack has never been a fan of the so-called 'quality movement' – became a concern of many GE employees. They had at that time 35.000 defects per million operations which was regarded as an acceptable rate but which was yielding to quite unacceptable results.

Jack Welch wanted GE to move to Six Sigma quality level (less than 3.4 defects per million operations). Six Sigma was more than simple quality control and statistics by driving leadership to be better by providing tools to think through tough issues.

Six Sigma's core is an idea that can turn a company inside out, focusing the organization outward on the customer.

The best people became Six Sigma leaders. They were taken off their jobs for up to two years to become 'Black Belts' in Six Sigma strategies and practices. Thousands of 'Green Belts', able to solve problems in their everyday work environment, were also trained.

Six Sigma was backed up with its reward system (60% based on financials and 40% on Six Sigma's results). Since 1991 No GE employee can be considered for a management job without at least passing Green Belt training.

E-Business: GE goes digital.

Jack Welch admits he was slow to recognize the power and opportunity of the

Internet, but when he got into it, he got into it full-force.

He recognized that buying and selling became faster, more global, shorter time to reach breakeven point and a more certain payback and he draw a chart that illustrated the Internet's implications for GE for the present and the future.

His drawing captured GE's advantages over the dot-coms. GE did not have to increase advertising, did not to establish new brands or to build warehouses to ship goods.

Internet was going to take out the low-value-added work in the guts of the company.

GE saw the Internet opportunity in three pieces:

- o The 'BUY' : what GE as a company purchased. Online auctions gave GE access to more suppliers and lower costs.
- o The 'MAKE' : eliminating massive backroom operations and tedious paperwork and improving job quality for many employees.
- o The 'SELL' : new and existing customers could get input on shipments without multiple phone calls.

This led to many other new ways of doing business:

- o Putting electronic sensors in major customer's silos, notifying GE automatically when material level drop and triggering a new order.
- o Monitoring daily cash flow of cash in and out of a loan customer's incoming statement, reducing the potential for losses.
- o Digital cockpits that update computer in real time all data.

What this CEO thing is all about.

Jack Welch found a number of things that have helped him lead GE over the years:

- o Maintain your integrity: have only one agenda.
- o Set the tone for your company. Personal intensity determines the organization's intensity.
- o Maximize your organization's intellect. Take the best ideas and transfer them to others. Be open to what everyone has to offer.
- o People first, strategy second. Get the right people in the right jobs.
- o Stress informality. Everybody counts and everybody knows they count. Passion, chemistry and idea flow from any level at any place are what matter.
- o Be self-confident. Have the courage to be open, to welcome change and new ideas. Don't be afraid to have your views challenged.
- o Appraise all the time. Always let your people know where they stand.
- o Mind your culture. Establish a new culture on day one when merging.
- o Recognize the benefits of speed.
- o Forget the Zeros. Isolate small projects in smaller businesses so that people are energized, adventurous and backed by the right resources.