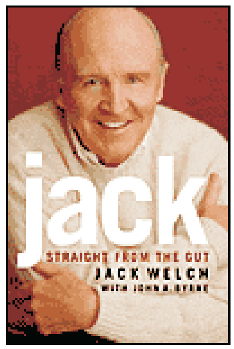
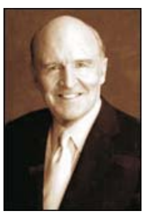
Jack

Straight from the Gut



Author: Jack Welch
Publisher: Warner Books, Inc.
Date of Publication: 2001
ISBN: 0446528382
Number of Pages: 451 pages

About the Author



Jack Welch

Mr. Welch, a native of Salem, Massachusetts, received his B.S. degree in chemical engineering from the University of Massachusetts in 1957 and his M.S. and Ph.D. degrees in chemical engineering from the University of Illinois.

He joined GE in 1960 and was elected Vice President in 1972 and Vice Chairman in 1979. In 1981, he became the eighth Chairman and CEO in the Company's 121-year history. He retired in the fall of 2001.

Mr. Welch is a former chairman and a member of both The Business Council and the National Academy of Engineering and is a member of the Business Roundtable.

Visit the website at http://www.straightfromthegut.com.

The Big Idea

Former General Electric CEO Jack Welch leaves us with many lessons in management and leadership. From his humble beginnings as a competitive kid from working-class Salem, to his rise to becoming CEO in 1980, and the twenty-plus years reign at the top. In this book, Jack Welch recalls how hard the climb to the top was; even if people from the outside thought it was easy.

The Early Years

Grace Welch was the most influential figure in her son's life. She taught him the value of competition, by taking pleasure in winning and to take defeat in stride. Jack Welch's leadership style was also patterned after her, tough and aggressive, warm and generous. Many of his basic management beliefs - like competing hard to win, motivating people by alternately hugging and kicking them, stretching goals and *relentlessly* following up on people to get things done - all these lessons came from his mom.

“Big Jack” was a diligent worker who would put in long hours and never missed a day of work. He would always look forward to climbing back on the train which he always thought of as his own. He loved greeting the public and meeting interesting people. Since the age of six, Jack Welch got his daily dose of current events and sports from the leftover newspapers of other passengers, which his dad brought home. Reading newspapers every night became a lifelong addiction.

He went to U-Mass not knowing what he wanted. He was the first in the family to go to college. He had no role models to follow, but he had an uncle who worked as an engineer at the power station so becoming an engineer looked good to him. He also decided to go to U-Mass because the caliber of competition there made it easier for him to shine rather than if he went to Dartmouth or Columbia.

Jack Welch started at GE on October 17th, 1960. He soon became frustrated with the bureaucracy, so much that it almost drove him out of the company a year later. In 1961, he got a $1,000 raise. It was fine until he found out later that he got exactly what the others received. Jack felt strongly that he deserved more than the "standard" increase. He started looking for another job, and he felt trapped in the pile at the bottom of a big organization.

A lot of people think that differential treatment erodes the very idea of teamwork. But according to Jack Welch, you build strong teams by treating individuals differently. Winning teams come from differentiation, rewarding the best and removing the weakest, always fighting to raise the bar.

In 1963, on his third year with the company, Jack blew up a factory. He was then 28 years old and he was the boss, so he took responsibility. It was also the first time he met Charlie Reed who took a Socratic approach in dealing with the accident.

When people make mistakes, the last thing they need is to get disciplined. Their self-confidence needs to be restored. "Piling on" during a weak moment pushes good leaders into panic mode. They start losing their confidence and they spiral downwards into a deep black hole of self-doubt.

In 1964, after getting an early promotion and a $3,000 bonus, Jack threw a party for the employees at his new house on Cambridge Avenue. That very next Monday, he bought his first convertible and was on top of the world. He also went to get a new suit and he enjoyed being called "Dr. Welch", he was quite full of himself.

One spring day, he decided to put the top down for the first time but then the hydraulic hose sprung a leak and dark, grungy oil shot up on his suit and ruined the paint job on his new car. It was a smack in the face, bringing him back to reality.

In 1969, Dr. Jack Welch was promoted to general manager and he was ready to act as a businessman, not an engineer. When a writer came to interview him for *Monogram*, a company magazine, and referred to him as "Dr. Welch" he shot back with a quote - "I don't make house calls, so call me Jack!"

With complete disregard on how past leaders might feel, he boasted that his team would break all sales and profit records, and that the plastics business would grow more in his first year than in the previous ten years.

It was during this time that the plastics industry was hot stuff. A lot of forecasters believed that plastics would become the fastest-growing industry over the next decade - even faster than computers and electronics.

The marketing and promotional campaign for plastics was something new to everyone. It was being promoted like Tide detergent. They hired St. Louis Cardinal pitcher Bob Gibson to star in their commercial. They even had commentators plug their plastics in Detroit during prime time. Dennis McLain, at that time a thirty-game winner, hurled fastballs at Jack Welch in a parking lot holding a Lexan plastic sheet covered by the press

All of this promotion got great attention because it was a different marketing strategy for an industrial plastic. By 1970, the boastful predictions were doubled but it came with a price, he was starting to ruffle some feathers at corporate headquarters.

As he kept on moving up he was being regarded as a rebel of sorts. Roy Johnson, the head of GE's human resource department looked at Jack as someone who deserved the promotion, but his appointment carried more than the usual degree of risk.

In 1971, Jack Welch got a job as the head of the chemical and metallurgical division. This brought new challenges. His first job was to get a close look at his team. He is the first to admit that he was somewhat impulsive in removing people in those early days. It is the toughest and most difficult thing to do, it's never easy and it doesn't ever become easier.

On December 15, 1980, Jack Welch was finally named CEO. It was a long and tough road getting there. Former CEO Reg Jones had a different way of evaluating people. It all happened because Reg had enough courage to pick someone who was the antithesis of what was then deemed the model executive.

▪ Building a Philosophy

In 1980, GE was, like much of American industry - a formal and massive bureaucracy. The company was 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.” The atmosphere was characteristically pleasant on the surface, with distrust and savagery boiling 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. During one of their meetings, 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 to give back to society.

Jack Welch's first time in front of Wall Street as CEO 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. He insisted upon being Number One or Number Two in every business they are in. 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.

Jack Welch had a knack of sketching his ideas into paper, any paper, anytime, any place. During one dinner with his wife Carol, he began drawing on the napkin that was under his glass.

The sketched 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.

Businesses outside the circles would have to be fixed, sold or closed. These businesses were marginal performers, or were in low-growth markets, or simply were a poor strategic fit.

The central idea of this concept came from Peter Drucker, the genuine management sage according to Jack Welch. Drucker proposes using a very simple question when looking into your business: "If you weren't already in the business, would you enter it today? And if the answer is no, then what are you going to do about it?"

In the first two years of the strategy, GE sold 71 businesses and product lines, receiving a little over $500 million for them. Although this might be considered a relatively small amount of action, it was 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 generated the kind of consistent 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.

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.

Welch's “Number One or Number Two” vision shaved 118,000 people from GE's payroll in a five-year period. This move earned him the name "Neutron Jack" - the guy who removed the people but left the buildings standing.

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.

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 becoming 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, but the company could not carry along people it didn't need. GE needed to have better people if they were to get more productivity from fewer of them.

Managing long-term, while "eating" short-term. Squeezing out costs at the expense of the future could deliver a quarter, a year, maybe two years and it wasn't hard to do. To dream about the future and not deliver in the present is the easiest of all. Welch recognized that the true test of a leader was balancing both company vision and the company's present performance.

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.

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 logic, so that every employee knew and understood the rules of the game. The heart of this process is the human resources cycle. This included full-day Session C human resources reviews at every major business, two-hour videoconference Session C follow-ups, and Session C-II, which confirm and finalize the actions committed to.

And that is only the formal structure. At GE, there is an informal, unspoken personnel review in the lunch- room, the hallways and in every business meeting.

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.

However, 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.

Eventually, Welch found a ranking tool he liked - the “Vitality Curve”.

Each 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 meet expectations generally had to go. While this was not easy, it was necessary. Differentiation raises the bar higher and higher, increasing the overall caliber of the organization in a dynamic process that made everyone accountable for his or her performance.

Jack Welch coined the term *Boundaryless*, to tear down invisible walls of bureaucracy. The idea was to reward people who recognized and developed a good idea, not just those who came up with one. It encouraged leaders to share credit for ideas with their team, rather than take all the credit for themselves.

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.

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:

1. **Type A:** The manager who delivers on commitments - financial or otherwise - and shares the values.

2. **Type B:** The manager who doesn't meet commitments and doesn't share the organization's values.

3. **Type B:** The manager who misses commitments but shares all the organization's values. This type might be given a second or third chance, just in a different environment.

4. **Type D:** The manager who delivers on all commitments, makes numbers, but doesn't share the values. This type usually forces performance out of people, rather than inspiring it. GE could not afford to keep Type D managers.

Game Changers

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. 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. Globalization was now GE's priority.

For years, Jack Welch was not a 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.

Jack Welch wanted GE to get to Six Sigma quality level. This meant 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 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.

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.

Although Jack Welch admits he was slow to recognize the power 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.

One afternoon, his wife Jane was absorbed by her laptop and told Jack 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.

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

Looking Back, Looking Forward

There is no formula for being a CEO. Everyone does it differently, and there's no right or wrong way to go about it. There is no magic formula to figure out what 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:

1. **Maintain your integrity.** Establish your integrity and never waver from it through good and bad times. People might not have agreed with Welch on every issue, but they always knew they were getting it straight and honest. There were never two agendas. There was only one way - the straight way.

2. **Set the tone for your company.** The organization takes its cue from the person on top - how hard they work and how many people they touch.

3. **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 everyone's best ideas and transferring them to others is the secret, there is nothing more important.

4. **Put people first, strategy second.** Getting the right people in the right jobs is a lot more important than developing a strategy. Without the right leaders developing and owning the strategies means good looking presentations with so-so results.

5. **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.

6. **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. True self-confidence is the courage to be open, to welcome change and new ideas, regardless of the source.

7. **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 people know where they stand.

8. **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.

9. **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. He never regretted taking quick action.

10. **Forget the Zeros.** The entrepreneurial benefits of being small - agility, speed and ease of communication - are often lost in a big company. Isolating small projects and keeping them out of the mainstream was a smart thing to do because by focusing on such projects as separate, smaller businesses, the people involved were more energized, adventurous and backed by the right resources.