JACK: STRAIGHT FROM THE GUT

The Autobiography

JACK WELCH with JOHN BYRNE

JACK WELCH joined General Electric in 1960 after graduating from the University of Massachusetts at Amherst and the University of Illinois at Champaign. From 1981 to 2001, he served as chairman of the company and CEO. He retired in the fall of 2001.

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The Early Years

Jack Welch was born on November 19, 1935 in Peabody, Massachusetts. Both his parents were second-generation Americans of Irish descent. His father worked all his life as a railroad conductor on the Boston & Maine commuter line between Boston and Newburyport, leaving his mother to carry the balance of the upbringing of Jack, their only child.

After graduating from the Salem High School, Jack applied to go to the nearest state university, the University of Massachusetts at Amherst, because “tuition was only fifty bucks a semester. That meant I could get a degree for less than $1,000, including room and board”. He began college in the fall of 1953 and by the time he graduated in 1957 with a degree in chemical engineering, Jack was one of the university’s two best engineering students. He decided to enroll in the Ph.D. program at the University of Illinois at Champaign because they offered him a fellowship. By the time he left Illinois in 1960, not only did he have a Ph.D. but he had also met and married his first wife, Carolyn Osburn.

As a 24-year old graduate, Jack Welch had several offers of work, but one that particularly interested him was an offer from Dr. Dan Fox who was setting up a development group to work on new plastics for General Electric in Pittsfield, Massachusetts. They were working on a new thermoplastic called PPO (polyphenylene oxide) which looked very promising. Jack was hired to oversee the process of getting the new plastic out of the lab and into production. So, Jack started at GE on October 17, 1960 as an engineer making $10,500 per year.

Within a year, Jack had become frustrated by the bureaucracy at GE and decided to quit. He even handed in his notice and had accepted another position when a young GE executive met with him and persuaded Jack to stay at the company. He offered more money, an increase in responsibility and cover from some of the more obscure bureaucratic demands. Jack decided to stay on and see how it worked out.

By the time GE decided to commit $10 million to building a pilot plant for the manufacture of PPO in 1964, Jack Welch lobbied to be appointed general manager of the plant to replace a more experienced manager who was promoted to a strategic planning position at corporate headquarters. Before Jack had a chance to celebrate, however, a minor problem arose – it was found blending polystyrene and rubber into the PPO improved its performance characteristics. (PPO would later become a winning product which is now marketed as Noryl. Today, Noryl generates over $1 billion per year in sales for GE).

With the success of the PPO project behind him, Jack Welch was promoted in June 1968 to become general manager of GE’s $23 million plastics business.

“This was a big deal, making me at 32, the company’s youngest general manager. The move put me into the big leagues with all the trimmings — an annual invitation to the company’s top management meeting every January in Florida and my first stock options. I was on my way.”

— Jack Welch

Naturally, the 32-year old Jack Welch had a number of rough edges. As well as being proud and unwilling to acknowledge the solid work of predecessors, Jack had little tolerance for protocol. He encouraged open and vigorous debate, earning him a reputation as a corporate maverick.

“I was blunt and candid and, some thought, rude. My language could be coarse and impolitic. I didn’t like sitting and listening to canned presentations or reading reports, preferring one-on-one conversations where I expected managers to know their business and have the answers. I loved ‘constructive conflict’ and thought open and honest debate about business issues brought out the best decisions. If an idea couldn’t survive a no-holds-barred discussion, the marketplace would kill it. Larry Bossidy, a good friend and former GE vice chairman, would later liken our staff meetings to Miller Lite commercials. They were loud, raucous and animated.”

— Jack Welch

Jack was also openly ambitious, writing in his 1973 performance review that his long-term career objective was to become the CEO of General Electric. Fortunately, this did not seem to hurt his career, and in June 1973 Jack Welch was appointed group executive for GE’s chemical and metallurgical division, a $2 billion in annual sales unit with 46,000 employees and 44 factories in 8 countries. Suddenly, this brash 36-year old was on everyone’s radar screen at GE.

With the promotion, Jack was expected to move to GE’s corporate headquarters in Fairfield, New York. That idea did not appeal, however, and he was able to convince the vice chairman of the company to allow him to work with a 5-person staff from a suite of offices in the Berkshire Hotel in Pittsfield instead. Jack made loads of mistakes running the group, but gradually started developing a feel for how the GE system worked.

With his next promotion to sector executive in 1977, Jack was forced to move to corporate headquarters. This suited him, however, because it was now widely known Reg Jones, the CEO of GE, was preparing to retire. All five sector executives and the company’s CFO and senior vice president for corporate planning were considered as candidates for the CEO position. Jack was placed in charge of consumer products and services – something he knew nothing about. It was a test of his ability to run businesses he knew nothing about.

“From day one, the succession process was thick with politics. You could feel the tension in the building every day. The five sector heads were all located in the west building. Each of us had a corner office, a conference room, and space for several support staff. Whenever we were in town, we’d usually end up in an uncomfortable situation in the corporate dining room for lunch. We’d munch on sandwiches, always being careful about what we said. It was awful. Fortunately, to do the job right, I needed to spend as little time in Fairfield as possible. The field became my refuge from the politics.”

— Jack Welch

In contrast to his predecessors, Jack Welch trimmed back GE’s forward plans for the long-term growth of the appliance market size. He also took notice of GE Credit Corp. which was a small $67 million business with 7,000 employees in 1977. Jack Welch moved quickly to grow this business, which was met with impressive rates of growth. (By 2000, GE Capital would have $5.2 billion in earnings and 89,000 employees). Jack also tried other initiatives with mixed results. He championed the acquisition of the Cox Communications cable and broadcasting...
operations for 14-months until GE decided to walk away from the deal without completing it. This irritated Jack Welch since he wanted to make a big impression, but he knew it was the right thing to do.

By late-1979, the succession race for the CEO position had come down to three people – Jack Welch aged 44, John Burlingame aged 58 and Ed Hood aged 50. All three were appointed as vice-chairmen of the company, and were asked to write a detailed memo assessing their own performance and their ideas on where GE should head in the future. Finally, on November 15, 1980, Reg Jones met with Jack Welch and told him he would take over as CEO of General Electric on April 1, 1981.

Building a Philosophy

"On April 1, 1981, I was like the dog who caught the bus. I finally had the job. Despite all the experiences that had gotten me this far, I wasn’t nearly as sure of myself as I pretended to be. Outwardly, I had a pretty good dose of self-confidence, and those who knew me would have described me as self-assured, cocky, decisive, quick and tough. Inwardly, I still had plenty of insecurities. Whenever I had to get up in front of people, I struggled with my speech impediment. I fussed with a comb-over to disguise my receding hairline. And when someone asked me how tall I was, I had myself believing I was at least an inch and a half taller than the five foot eight I really was."

– Jack Welch

The GE that Jack Welch inherited in 1981 was a 404,000 employee $25 billion corporation generating $1.5 billion a year in profits from selling toasters right through to nuclear power plants. Many people described the company as a “supertanker” – strong and steady in its direction. Jack quickly decided he wanted the company to be more like a “speedboat” – fast, agile and able to turn on a dime. He also wanted to cut the bureaucracy, noting that there were as many as a dozen layers of management between the factory floor and the CEO’s office.

To begin moving away from a command-and-control structure, Jack started attacking what he termed “superficial congeniality” – where managers and headquarters staff were pleasant on the surface but scathing in private. Jack stopped requiring all expenditures to be approved by him, and gave business leaders full authority to spend whatever capital resources had been allocated to them without requiring headquarters oversight. Jack Welch also attacked many other GE traditions and rituals which had become less relevant over time – like the annual meetings where the board of directors would review mock-ups of new appliances. Jack moved quickly to eliminate these and many other passive reviews which took time and energy without delivering any added value.

“In those days, I was throwing hand grenades, trying to blow up traditions and rituals that I felt held us back. Too many managers considered their positions as rewards for service to the company, a career capstone rather than a fresh opportunity. There was an attitude that customers were ‘fortunate’ to place orders for their ‘wonderful’ machines. Power represented much of what had to change, not the technology and products, but the attitudes. I’ve never seen a business ruined because it reduced its costs too much, too fast.”

– Jack Welch

At Jack Welch’s first briefing meeting as CEO with Wall Street analysts on December 8, 1981, he introduced his vision that GE’s operating divisions would either be number 1 or number 2 in their field or sold off. Soon, he was illustrating his vision:

"The clarity of number 1 or number 2 came from a pair of very tough questions Peter Drucker posed: 'If you weren’t already in the business, would you enter it today?' And if the answer is no, ‘What are you going to do about it?’ Simple questions – but like much that is simple, they were also profound. Those were especially good questions to ask at GE."

– Jack Welch

In his first two years as CEO, Jack Welch and his team completed 189 deals including divestments, acquisitions, joint ventures and minority investments. GE’s payroll went from 411,000 people in the early 1980s to 299,000 by 1985. That earned Jack the title of “Neutron Jack” – named after the atomic neutron bomb which would kill people but leave the buildings standing.

“I took another solid hit in early August 1984 when Fortune magazine put me at the top of its list of ‘The Ten Toughest Bosses in America’. This was a case where being number 1 or number 2 wasn’t something you were looking for. Fortunately, the article had some good things to say as well. One former employee told the magazine that he had never met someone ‘with so many creative business ideas’. Another actually credited me ‘with bringing to GE the passion and dedication that characterize the best Silicon Valley start-ups’. I liked all that, but the positive reactions were overshadowed by comments from ‘anonymous’ former employees who said I was very abrasive and didn’t tolerate ‘I think’ answers.”

– Jack Welch

In the middle of all this rejigging of GE’s businesses, Jack Welch was also busy negotiating one of the largest deals in GE history – the $6.3 billion acquisition of RCA, the corporate parent of the NBC broadcasting network. Jack liked the network business because it generated a good cash flow, was protected from foreign competition by law and it generated a lot of pizzazz. RCA also owned a lot of other less glamorous assets as well, which would come in handy in the future. Over the next few years, many of these assets bundled in with the RCA deal were sold off, generating tens of billions of dollars in cash for GE while still leaving GE ownership of a broadcasting network, a global medical business and a global satellite company.
In addition to positioning GE to be only in growth businesses, Jack Welch also introduced a broad range of HR changes to GE. The essence of the GE system was to differentiate people as being A-, B-, or C-players. The distinctions were:

A. These are people who are passionate about what they do and who are filled with “the four Es of GE leadership” –
   1. Energy – High levels of personal energy.
   2. Energize – The ability to motivate others to perform.
   3. Edge – The capacity to make the tough decisions.
   4. Execute – Ability to consistently deliver what’s promised.

B. These people are the heart of the company. They perform competently whatever is required for GE to achieve its goals. The Bs are separated from the As only by the fact they are not as passionate about what they do.

C. These are the people who procrastinate – usually because they can’t get the job done.

Jack Welch had all of his managers go through their organizations ranking their people on the 20-70-10 grid. Most of the company’s As are in the top 20%, and these people were provided opportunities to earn salary increases, stock options and promotions. Similarly, the Bs who make up the bulk of the vital 70% were also provided stock grants and opportunities to earn raises. And the Cs, who reside in the bottom 10%, were encouraged to seek employment opportunities elsewhere.

“Top 20 The Vital 70 Bottom 10

Jack Welch also turned his attention to Crotonville, GE’s management development center in Ossining, New York. He found the funding needed to turn this into a world-class facility where GE’s future leaders could be trained and motivated. By 1988, more than 5,000 GE employees were going to Crotonville for various courses each year.

“When all is said and done, teaching is what I do for a living. Truth is, I’ve always liked teaching. It was easy for me to get hooked on Crotonville. I spent an extraordinary amount of my time there. Over the course of 21 years, I had the chance to connect directly with nearly 18,000 GE leaders. Going there always rejuvenated me. It was one of the favorite parts of my job.”

– Jack Welch

Another innovation that was introduced to GE around this time was a concept called “Work-Outs”. In essence, these were 2- or 3-day sessions at which 40 - 100 employees at a time would gather to discuss how the GE bureaucracy (approvals, reports, meetings and measurements) was getting in the way of doing some real work. These sessions were run by facilitators and then at the end, the bosses would be brought in and were required to make on-the-spot decisions about all proposals which had been agreed upon by the group.

“No one could bury the proposals. As people saw their ideas being instantly implemented, it became a true bureaucracy buster. Work-Out confirmed what we already knew, that the people closest to the work know it best. Almost every good thing that has happened in the company can be traced to the liberation of some business, some team or an individual. Work-Out liberated many of them and helped us create a culture where everyone began playing a part, where everyone’s ideas began to count, and where leaders led rather than controlled. They coached – rather than preached – and they got better results.”

– Jack Welch

The success of Work-Out meant new ideas were now flowing throughout GE. What was needed next was some method by which the best ideas could be harnessed productively. To do that, Jack Welch developed the concept of a “Boundaryless Organization” – where all the barriers and distinctions between various departments within the company would be eliminated. To capture the essence of a boundaryless corporation, each person was encouraged to “Find a Better Way Every Day”.

A values statement was developed which encapsulated what being a boundaryless organization entailed:

**At GE, all of us...always with unyielding integrity...**

- Are passionately focused on driving customer success.
- Live Six Sigma quality ... ensuring customers are beneficiaries.
- Insist on excellence and are intolerant of bureaucracy.
- Act boundaryless – searching for the best ideas.
- Prize global intellectual capital and the people that provide it.
- Build diverse teams to maximize intellectual capital.
- See change for the growth opportunities it brings.
- Create a clear, simple, customer-centered vision.
- Constantly refresh and renew the execution of our vision.
- Create an environment of “stretch”, excitement and trust.
- Reward improvements and celebrate results.
- Demonstrate with infectious enthusiasm the 4-Es:
  - The personal energy to welcome and deal with change.
  - The ability to create an atmosphere that energizes others.
  - The edge to make difficult decisions.
  - The ability to consistently execute.
"Over the next five years, we doubled our top-line growth rate at GE with the same yet newly energized portfolio of businesses. We went from $70 billion in revenue in 1995 to $130 billion in 2000. A lot of things made this happen, but this new mind-set played a big role. This was boundaryless behavior at its best. Our people really were finding a 'better way', and it was making all the difference between GE and the rest of the business world. You could measure it by the results. Our operating margins went from 11.5-percent in 1992 to a record 18.9-percent in 2000. In our industrial businesses, our working capital turns jumped form 4.4 to a record 24 in 2000. Our revenues hit $130 billion, with nearly $13 billion of net income. Boundaryless was helping a lot of us ordinary people do some extraordinary things."

– Jack Welch

The Ups and Downs of Business

For all of GE's great successes, Jack Welch is ready, anxious even, to admit to some huge mistakes of judgement as well. One was the acquisition of Kidder, Peabody, one of Wall Street's oldest investment banking firms, in April 1986. The idea was to make huge investment banking fees. The reality turned out to be much messier, with the Marty Siegel scandal (trading insider stock tips to Ivan Boesky) and the Joseph Jett fiasco ($350 million in fictitious bond trades) generating a huge amount of negative publicity for GE. It was clear the culture between GE and Kidder, Peabody was simply too different, and in October 1994, Kidder Peabody was onsold by GE.

"The Kidder experience never left me. Culture does count, big time. During the dot.com craze of the late 1990s, several people in the GE Capital equity group were enjoying success – not unlike day traders in their living rooms. These folks decided they would stay with GE only if they got a piece of the equity in the deals they were investing GE money in. I told them to take a hike. A few did, and the media gave us some heat, claiming we were 'not with it'. We didn't get the New Economy. 'Absolutely!' It gave me another chance to make that point that at GE there is only one currency: GE Stock. There are different amounts of it for different levels of performance, but everyone's life raft is tied to the same boat. One culture, one set of values, one currency, doesn't mean, however, one style – every GE business has its own personality. For the same reason – a big culture gap – I've passed up opportunities to acquire high-tech companies in Silicon Valley that appeared to be a good strategic fit. I didn't want to pollute GE with the cultures that were developing there in the late 1990s. Culture and values count too much. There's only a razor's edge between self-confidence and hubris."

– Jack Welch

For every Kidder Peabody deal, however, there was also a gem like GE Capital. Throughout the 1990s, GE Capital was an incredible growth story as it completed more than 400 deals involving more than $200 billion in assets. The numbers were breathtaking and impressive. Specifically:

- In 1978, GE Capital earned $67 million on $5 billion in assets.
- In 1980, GE Capital had 10 businesses earning $67 million, $11 billion in assets and was based solely in North America.
- In 1990, GE Capital had 21 business and $70 billion in assets, located in 3 countries.
- In 2000, GE Capital had $370 billion in assets located in 24 countries, earning $5.2 billion, 41-percent of GE's total income for that year.

"I fell in love with the idea of melding the discipline and the cash flows from manufacturing with financial ingenuity to build a great business. Of course, we needed the right people to make this happen. Dennis Dammerman would always remind me of Ben Franklin's old adage, 'You don't earn interest unless you collect the principal'. Fortunately, GE Capital already had a culture that insisted the people making the deals stayed with them from womb to tomb. If you pitched a deal, you'd better make damn sure it was going to work. Or else you'd better be able to take over the asset and make it work yourself. I was sure the opportunity was enormous. All we had to do was take the business from the back of the boat to the front. Better people and a greater financial commitment could lead to huge profits."

– Jack Welch

Another high profile GE acquisition was the NBC broadcasting company, which was part of the 1985 RCA acquisition. When GE took over the reins, NBC was a $3 billion business with 8,000 employees showing nine of the 20 most-watched shows on television. For the first time in its history, NBC was on the verge of breaking through to the number 1 spot. The only problem was that the two people who made NBC work, the president and entertainment division head, wanted out to pursue other interests.

Jack Welch put on his selling hat and managed to convince Brandon Tartikoff, the head of the entertainment division, to stay on for another four years. He also controversially appointed Bob Wright, the CEO of GE Capital, as the new CEO of NBC. Everyone forecasted a "light bulb maker" like Wright would be all at sea running a network business, but Wright went to work with a passion, instilling strict financial controls. Again, this was highly controversial but ultimately effective as NBC struggled to meet the competitive challenge of cable and satellite TV.

"People would always say to me, 'How can you own NBC? You don't know anything about dramas or comedies?' That's true, but I can't build a jet engine or a turbine either. My job at GE was to deal with resources – people and dollars. I offered as much (or as little) help to our aircraft engine design engineers as I offered to the people picking shows in Hollywood."

– Jack Welch

Ultimately, the NBC management team did exceptionally well under GE ownership. NBC acquired the Financial News Network and launched CNBC and MSNBC (in partnership with Microsoft). The company lost the broadcast rights for the NFL but did acquire the rights to televise the Olympic Games right through until 2008. And while Jerry Seinfeld might have decided to retire, there were plenty of other programming successes.

"Over the years, NBC has proved an enormous benefit to GE. We've profited from its financial results and from the glitter that makes most employees proud to wear a T-shirt with the NBC logo. Bob Wright's vision to see NBC as more than just a network was a winner. The network audience has continued to erode, making his bets on cable television look even better. CNBC is the leader in financial news, and MSNBC is the top-rated cable news network on a 24-hour basis among 25- to 54-year-old viewers. Even though NBC has fallen to third place in household ratings as I'm writing, it's still the leading network among people 18 to 49, the most important demographic for advertisers. Through it all, Bob Wright has become one of the longest serving network heads in TV history. He has proved that a 'light bulb maker' can make it big in the TV business."

– Jack Welch
GE’s four major growth initiatives of the 1990s have been:
1. Globalization
2. Services
3. Six Sigma
4. E-Business

1. Globalization

GE has always been globally aware and oriented. In fact, when the company was founded, Thomas Edison did business in London and Japan. However, not much focus was put on exploiting international business opportunities until the mid-1980s, with the plastics and medical systems businesses being the only ones that generated any significant amount of revenue outside North America.

All that changed, however, when a senior vice president of international business was appointed in 1986. He started encouraging GE’s business leaders to do more deals outside North America. That led to a number of joint ventures, strategic alliances and acquisitions in western Europe, eastern Europe, India and Japan in the late 1980s and throughout the 1990s.

To stress the importance of worldwide sales, many of the best GE managers have been moved into global assignments. That effectively moves the center of gravity outside North America, and sends the signal to the rest of the organization that globalization is for real.

GE also takes something of a contrarian approach to globalization by focusing attention on investment opportunities in areas of the world that are in transition or out of favor. By doing that, GE is attempting to achieve the optimum feasible risk-reward ratio. And the return has been impressive – in 1987, GE’s global sales were $9 billion or 19-percent of total revenues. In 2000, GE’s global sales were $53 billion or 40-percent of the company’s total revenues.

“I always believed there was no such thing as a global company: Companies aren’t global – businesses are. I’ve given that speech a thousand times or more to make clear that the CEOs of each business were responsible for globalizing their businesses. Like our other initiatives, the seed bloomed into a garden. We moved from thinking of globalization in terms of markets to thinking of it in terms of sourcing products and components – and finally tapping the intellectual capital of countries. In recent years, our globalization initiative has increasingly put a global face on the company as more local leaders take on leadership roles.”

– Jack Welch

2. Services

Since engineers had traditionally led GE, there was always an inbuilt bias towards spending time on the newest, fastest and most powerful new technologies. Services were generally relegated to the “after market” which was less glamorous than working on the latest and greatest new stuff.

This focus changed, however, when two events occurred:

• The Three Mile Island event caused everyone to stop building new nuclear power plants. Therefore, to survive, GE’s nuclear business was forced to change its emphasis from building new reactors to providing services. They did so, achieving impressive double-digit growth in a static market.

• Buyers of medical equipment, like CT scanners, were unwilling to throw away their million dollar machines to upgrade to new ones. GE therefore had to generated revenues through long-term service contracts, not upgrades.
With the success of these two businesses illuminating the way ahead, Jack Welch started talking services in 1995 as a way to redefine and grow GE’s markets. A company wide council was launched the next year, bringing together all of GE’s service leaders. Promising executives were placed in charge of service businesses and challenged to grow them. GE also made a number of acquisitions, with 88 service companies being acquired from 1997 to 2000 and a number of joint ventures and strategic alliances were also established.

“As always, the litmus test of how an initiative works is in the numbers. Our product services business grew from $8 billion in 1995 to $19 billion in 2001 and should grow to $80 billion by 2010. Our long-term service backlog has grown tenfold, from $6 billion in 1995 to $62 billion in 2001. In January 1996, I made the point that we had been a ‘new socket company to a fault’. Today, we’re spending as much time insuring our installed ‘sockets’ are increasingly productive as we are on finding new ‘sockets’.”

– Jack Welch

3. Six Sigma

For most manufacturing or service companies, quality is a key concern. The generally accepted average is about 35,000 defects per million operations – which means things go right 97 times out of 100. In statistical terms, this is between Three and Four Sigma. To get to a Six Sigma level of quality, the defect rate has to be reduced to fewer than 3.4 defects per million operations – or 99.99966-percent. And for a company the size of GE, going from Three to Four Sigma to Six Sigma would save about 10-15-percent – between $7 and $10 billion annually.

So, in June 1995, the decision was made to pursue Six Sigma aggressively. A permanent head of Sig Sigma was appointed and a training academy was established. And CEOs were instructed to take their best people off their existing assignments and give them 2-year project assignments that would make them “Black Belts” in Six Sigma terminology.

“The big myth is that Six Sigma is about quality control and statistics. It is that – but it’s a helluva lot more. 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. I called Six Sigma the most ambitious undertaking the company had ever taken on. I said, ‘Quality can truly change GE from one of the great companies to absolutely the greatest company in world business. Once again, I was going over the top.’”

– Jack Welch

As well as training the Black Belts, thousands of GE people underwent training as Six Sigma “Green Belts”. Jack Welch also changed the GE rewards system to align with the Six Sigma initiative. And before anyone can be considered for a promotion within GE, their Six Sigma competency is carefully evaluated.

By 1996, GE had 3,000 Six Sigma projects underway, with that number increasing to 6,000 projects the following year generating $320 million in productivity gains. By 1999, those productivity gains rose to $1.5 billion. At the same time, GE’s operating margins increased from 14.8-percent in 1996 to 18.9-percent in 2000, largely as a result of Six Sigma.

“We were three years into Six Sigma before we ‘got’ it. By aligning what we measure internally with our customers’ needs, Six Sigma has given us better customer intimacy and trust. We found out Six Sigma isn’t only for engineers. A common misperception made in quality programs is thinking that it’s only for technical minds. It’s for the best and brightest in any function. Overall, Six Sigma is changing the fundamental culture of the company and the way we develop people – especially our ‘high potentials.’”

– Jack Welch

4. E-Business

“In the dot.com atmosphere of the late 1990s, everyone was quick to write off the big, old companies. Everything was focused on anyone starting a new Internet business. One thing I never fell for was the popular line, ‘old versus new economy’. People were only buying and selling goods over the Internet – just as they did a hundred years ago from a wagon. The only difference was the technology. Yes, this new buying and selling was faster and more global, and it had profound ramifications on business. The big insight for us came when we realized creating business sites on the Internet was not Nobel prize work. Once we knew digitizing was easy, it became obvious that big companies that got the message had little to be afraid of, and, in fact, had nothing but upside.”

– Jack Welch

Once Jack saw the Internet as an opportunity to grow, he split it up into three pieces:

1. The “buy” – GE purchases $50 billion of goods and services each year. Transferring even just 5- to 10-percent of this to online suppliers could generate substantial cost savings.

2. The “make” – GE generates huge amounts of paperwork in its backroom operations. By digitizing that and other tedious work, great savings may be made. (GE now projects that in 2001, this area alone will generate $1 billion in savings, even after meeting the $600 million implementation costs).

3. The “sell” – GE could harness the Internet to give customers better levels of service. (By 2001, GE will generate $14 - $15 billion in online sales).

To mobilize the company, GE created teams called “destroyyourbusiness.com” to define the new business models of the digital era. (These teams ultimately decided there were loads of potential benefits available, and they transformed into becoming “growyourbusiness.com” teams). All of the GE executives were also encouraged to take on Internet mentors – people under 30 who were familiar with the Internet and who could help the executives get up to speed. And GE launched some innovative e-businesses of its own – including Polymerland.com (for the plastics business) and GECapital.com.

“E-Business became part of the DNA of the company because we eventually came to see it as a way to reinvent and transform GE. The skeptics, thinking that we couldn’t find any more efficiency at GE, used to ask me if there was any juice left in the lemon. The Net gave us a whole new lemon, a grapefruit and perhaps even a watermelon – all on a platter. E-Business allowed us to expand our markets and find new customers. GE’s supplier base became more global. Our size leveraged technology investments so being big actually helped. For me, the bottom line of the Internet world was: The productivity gains in the ‘old economy’ companies dwarfed the growth opportunities of the ‘new economy’ models.”

– Jack Welch

“I came to the e-party late, but when it hit me – it hit me hard.”

– Jack Welch
The one question everyone always asks Jack Welch is, “What does it take to be a good CEO?”

“There’s no pat formula to this CEO thing. Everyone does it differently, and there’s no right or wrong way to go about it. I certainly don’t have a magic formula, but since I was presumptuous enough to write a book, I’ll take a shot at sharing some of the ideas that worked for me. I hope some might be helpful. Pick and choose among them, or just toss them all.”

— Jack Welch

A good CEO:

- **Has integrity** – and delivers information in a straight and honest manner free of any hidden agendas. As Jack Welch states: “People may not have agreed with me on every issue – and I may not have been right all the time – but they always knew they were getting it from me straight and honest”.

- **Assures the financial success of the company**– so it will have the financial resources and capacity to do the right thing and fill an essential role in society. When a company is strong, it:
  - Pays taxes that provide important services.
  - Builds world-class working facilities.
  - Provides good and secure jobs.
  - Reinvests in people and facilities.

Jack Welch: “Everybody has a view about a corporation’s role in society. I do, too. I believe social responsibility begins with a strong, competitive company. Only a healthy enterprise can improve and enrich the lives of people and their communities. That’s why a CEO’s primary social responsibility is to assure the financial success of the company Only a healthy, winning enterprise has the resources and the capability to do the right thing.”

- **Sets the tone for the business** – since everyone in the organization will always take their cue from the person who is at the top. Jack Welch: “I always told our business leaders their personal intensity determined their organization’s intensity. How hard they worked and how many people they touched would be emulated thousands of times over. The CEO sets the tone. Every day, I tried to get into the skin of every person in the place. I wanted them to feel my presence.”

- **Maximizes the organization’s intellect** – by getting every employee mentally engaged. In essence, good CEOs have the ability to get everyone’s ideas and share them with others. They do that primarily by being:
  - Open to great new ideas.
  - Able to transfer learning around the organization effectively.
  - Connecting everything together to generate momentum.

Jack Welch: “Getting every employee’s mind into the game is a huge part of what the CEO job is all about. Searching for a better way and eagerly sharing new knowledge has today become second nature at GE.”

- **Puts people first and strategy second** – and works hard to get the right people in the right jobs all of the time. Jack Welch: “I sat in rooms for years, looking at promising strategies that never delivered results. We had great plans for ultrasound, but we could never make them happen until we found the perfect person with ultrasound in his veins. We learned the hard way that we could have the greatest strategies in the world. Without the right leaders developing and owning them, we’d get good looking presentations and so-so results.”

- **Creates an informal atmosphere** – since bureaucracy flourishes in formal business climates. Jack Welch states: “Informality isn’t about first names, unassigned parking spaces or casual clothing. It’s so much deeper. It’s 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.”

- **Walks the fine line between arrogance and self-confidence** – a self-confident leader welcomes change and new ideas regardless of where they originate. Self-confident leaders like having their views challenged, because that enriches them and brings potential problems to the surface. Jack Welch: “Arrogance is a killer, and wearing ambition on one’s sleeve can have the same effect. Legitimate self-confidence 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.”

- **Is passionate about the work** – and engenders that same feeling of passion and commitment in everyone else as well. Jack Welch: “For me, intensity covers a lot of sins. If there’s one characteristic all winners share, it’s that they care more than anyone else. No detail is too small to sweat or too large to dream.”

- **Sets stretch targets and goals** – rather than agreeing to targets that are easily achieved. Jack Welch: “Stretch is reaching for more than what you thought possible. In a stretch environment, the field team is asked to come in with ‘operating plans’ that reflect their dreams – the highest numbers they think they have a shot at: their ‘stretch’. The discussion revolves around new directions and growth, energizing stuff. An operating plan is put together reflecting an understanding of what the business will do and what they’ll try to do. The field team knows they’re going to be measured against the prior year and relative performance against competitors – not against a highly negotiated internal number. Their stretch target keeps them reaching. We’ve never yet made a ‘stretch operating plan’. Yet we’ve always done a helluva lot better than we ever thought we’d do – and more than Wall Street expected.”

- **Knows when to celebrate achievements** – in such a way that it energizes the entire organization.

- **Works hard to align rewards with measurements** – because what gets measured and rewarded is precisely what every person in the organization will think about all of the time.

- **Tackles the difficult task of differentiating people’s performances** – and creates opportunities for the top people to do more while encouraging the weak performers to seek other opportunities better suited to their capabilities. Jack Welch: “No one likes to play God and rank people, especially the bottom 10-percent. Differentiation is as tough an issue as any manager faces.”

- **Develops the people around him or her** – and helps them earn great rewards while advancing their careers. Jack Welch: “We always told our business leaders, ‘You own the business. You’re renting the people’. Our business CEOs knew they would be rewarded for teeing up high potentials. Our boundaryless culture changed the game from hoarding your best people to sharing your best. We looked after our top managers’ development, rewards and advancement. We ran the people factory to build great leaders.”
A good CEO:

- **Appraises people all the time** – so everyone knows exactly where they stand, what’s required in order to move forward and what specific actions need to be taken.
- **Acts as guardian of the culture of the organization** – and avoids any situations where ambiguities can arise.
- **Harnesses business strategy that is dynamic and responsive** – rather than static and out-of-touch with changing market realities. Jack Welch: “Five simple questions brought strategic thinking to life for me: 1. What’s the position of your business and your competitors? 2. What have competitors done to change the landscape? 3. What have you done to change the landscape? 4. What are you afraid competitors will do in the future? 5. What will you do to leapfrog your competitor’s moves?”
- **Never underestimates the competition** – and always expects them to respond aggressively when you attempt to increase your own share of the market.
- **Spends more time in the field seeing what’s happening than at the corporate headquarters guessing what’s happening.** Jack Welch: “I always reminded myself: headquarters doesn’t make anything or sell anything. Banging around the field was my best shot at getting some idea about what was really going on.”
- **Understands how to change mind-sets by posing the right questions.** For example, when people say the market is mature, a good CEO will challenge the business leader to redefine its market in such a way that current market share is no more than 10-percent. That way, what appeared to be mature markets can be viewed for what they really are – growth opportunities.
- **Keeps the organization focused** – by differentiating between short-term quick fixes and long-term business initiatives.
- **Communicates well.** Jack Welch: “Whenever I had an idea or message I wanted to drive into the organization, I could never say it enough. I repeated it over and over and over, at every meeting and review, for years, until I could almost gag on the words. I always felt I had to be ‘over the top’ to get hundreds of thousands of people behind an idea.”
- **Welcomes employee feedback** – and generates a variety of ways for that feedback to be given. Jack Welch: “We didn’t run the company by polling, but the candor of our employees in anonymous on-line surveys really helped us put the right emphasis on the right initiatives. Knowing – and confronting – what was on the minds of our employees was a key part of our success.”
- **Gets into the trenches to head up a function** – if the existing leadership aren’t as strong as they should be. Jack Welch: “In the mid-1980s, when our purchasing costs weren’t coming down fast enough, it was clear we needed to change things. I set up a council that brought the businesses’ sourcing leaders to meet with me in Fairfield every quarter. We did the same thing with service leaders, Six Sigma leaders and e-business advocates – anything that really mattered. Putting the councils together and bringing leaders to Fairfield to meet with me or a vice-chairman helped surface the best and brightest from within our organization. Once we had highly energized leaders in place, ideas flowed like water downhill to the rest of the company.”
- **Manage’s the company’s image** – and personally vets every advertisement the company runs.
- **Knows when to meddle and when to let go** – based on instincts and gut reactions.
- **Uses charts** – to clarify thinking about problems and to simplify complex issues facing the organization.
- **Makes whoever is in charge of investor relations on a fast track to the top rather than a dead end position.**
- **Is prepared to ‘wallow’ when needed** – which means getting people together and spontaneously working through difficult issues. Jack Welch: “The idea is to get fresh thinking without paper or memos, then sit on the conclusions for a night, wallowing some more. From wallowing came some of our best decisions. It’s all about breaking down the concept of hierarchy. Everyone knows they are equal partners at the table, where their ideas can be thrown out with informality and candor.”
- **Understands where the organization adds real value** – and puts the best people and resources behind that while contracting out everything else. Jack Welch: “Don’t own a cafeteria: Let a food company do it. Don’t run a print shop: Let a printing company do that. Back rooms, by definition, will never be able to attract your best. We converted ours into someone else’s front room and insisted on getting their best. That worked for us so many times. This is what outsourcing is all about. It’s also what many of our layoffs were about in the early 1980s as these jobs migrated elsewhere.”
- **Makes decisions at speed.** Jack Welch: “I learned in a hundred ways that I rarely regretted acting but often regretted not acting fast enough. When I asked myself, ‘How many times should I have held off a decision?’ versus ‘How many times do I wish I’d made that move faster?’, I inevitably found that the latter won almost every time.”
- **Ensures the small details never get lost in the rush.** Jack Welch: “We’ve had many great successes by breaking projects out and focusing on them as separate, smaller businesses in larger entities. The smaller ventures got high visibility and created heroes, celebrating both those who won and those who missed and driving home the value of taking risks. The worst thing a company can do with size is to focus on ‘managing’ it. Size either liberates or paralyzes. We tried every day to remember that the benefit of size was that it allowed us to take more swings.”

“Being a CEO is the nuts! A whole jumble of thoughts come to mind: Over the top. Wild. Fun. Outrageous. Crazy. Passion. Perpetual motion. The give-and-take. Meetings into the night. Incredible friendships. Fine wine. Celebrations. Great golf courses. Big decisions in the real game. Crises and pressure. Lots of swings. A few home runs. The thrill of winning. The pain of losing. It’s as good as it gets. You get paid a lot, but the real payoff is in the fun. Like any job, it has its pluses and minuses – but the good sure overwhelms the bad. The schedule is packed, but the good sure overwhelms the bad. The schedule is packed, yet every day manages to bring new crises that butcher your calendar. The days are crazy long, yet the hours rush by because you’re always fighting for more time. The job never leaves you no matter what you’re doing – what’s on your mind is always so absorbing.”

– Jack Welch