

## Welch: Straight from the Gut

*Jack Welch, with John A. Byrne (Warner Books, New York; Hardcover, 2001; ISBN 0-446-52838-2) \$29.95; (Unabridged Audio, 2001; ISBN 1-586-21174-9) \$39.95; (Abridged Audio, 2001; ISBN 1-586-21172-2) \$25.95; (Paperback, 2003, ISBN 0-446-69068-6) \$16.95*

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Jack Welch retired a few years ago as Chairman of General Electric Company. During his 20 years as CEO, GE's market value grew from \$13 billion to \$500 billion, and GE's innovations in management made its top executives highly sought after. Many books have been written about Welch and GE, but this is by Welch himself. It is a candid, engaging account of his rise to the top (he was at GE for 20 years before becoming CEO), his tenure there, and the perspectives and lessons he learned along the way. I can't summarize the wonderful stories here, or the story of his life. But I can share some of the big management ideas and practices that contributed to GE's success under Jack Welch's leadership.

### ***Business Is 75% About People***

Welch's great passion was hiring and developing great people to make great

businesses. In the book, his first comment about management is that "business is 75% about people and 25% about other stuff." That's an incredible statement from the head of a company in 20 mostly unrelated businesses (42 strategic business units)—appliances, power plants, credit services, broadcasting, plastics, aircraft engines, and more—with 300,000 employees worldwide, likely the largest business anywhere, and an extremely complex enterprise. Despite that complexity, "business is 75% about people" was not just a slogan, as it is for many executives. There's compelling evidence in the book that Welch believed that and put his primary money, time, and effort right there.

For starters, he put people first and strategy second. He learned the hard way that GE could have the greatest strategies in the world but without the right leaders developing and owning them, they'd get just average results. Great people, not great strategy, are what made it all work.

In a company with 300,000 employees worldwide, identifying the great people was no easy task. In what was called differentiation, GE ranked both the performance and potential of its top executives each year in one of three categories: the top 20% (the As), the vital middle 70% (the Bs), or the bottom 10% (the Cs).

The As were people filled with passion, committed to making things happen, open to ideas from anywhere, and blessed with lots of potential. They made business both productive and fun. They had GE's four Es of leadership: very high *energy*, the ability to *energize others* around common goals, the *edge* to make tough decisions, and the ability to consistently *execute* and deliver on their promises. They also cared more than anyone else. "No detail was too small to sweat or too large to dream." Welch thinks that passion, probably more than anything else, separated the As from the Bs.

Nonetheless, the Bs were the heart of the company—it's they who made day-to-day operations work. GE put lots of energy into turning Bs into As. Their manager's job was to help them get there. The Cs were people who couldn't get the job done. GE wasted no time or money on them, except to redeploy them elsewhere if possible. Otherwise, they had to go.

This so-called vitality curve was supported by rewards—salary increases, stock options, and promotions. The As got raises two to three times larger than the Bs. Bs got solid increases to recognize their contributions. Cs got no rewards.

Losing an A was a sin. The injunction was, "Love 'em, don't lose 'em!" GE conducted postmortems on every A it

lost, and held managers accountable for those losses.

This is tough. In fact, GE's philosophy was that anyone who found this differentiation too easy or too hard didn't belong in the organization. While some thought it was cruel or brutal to systematically remove the bottom 10%, Welch thought just the opposite. Brutal, he says, is keeping people around who aren't going to grow and prosper, or waiting to tell people late in their careers they don't belong when their job options and earning potential are increasingly limited.

GE's vitality curve worked when introduced because GE first spent a decade building a performance culture with candid feedback at every level. At the heart was a system of three formal reviews each year, so everyone knew what was expected, and an informal, unspoken personnel review every day, in every meeting and memo, a continuous testing of everyone in a myriad of environments.

GE spent extraordinary time and money recruiting, training, developing, and rewarding the best people. Welch said "he could talk his face blue about facing reality, or being No. 1 or No. 2 in every business, or creating an organization that thrived on change, but until they got the right people in the right jobs, they didn't get the traction they needed to truly change the company. He says that defined managing at GE: build great people, and they will build and deliver great products and services." GE created and ran a people factory to build great leaders and may well have built the world's greatest people factory ever.

### **Work-Out**

Work-out is another practice that helped make GE great. Patterned after the traditional New England town meeting, it simply meant getting together and taking unnecessary work out of the system. Groups of 40 to 100

employees met for two or three days to share their views on the business, and the bureaucracy that got in their way—particularly approvals, reports, meetings, and measurements. Work-out meetings started with a presentation by the group-manager, who would issue a challenge or outline a broad agenda and then leave. With the boss absent and with a neutral outside facilitator to grease the discussions, employees were asked to list problems, debate solutions, and be prepared to sell their ideas when the boss returned. The boss then had to make on-the-spot, yes-or-no decisions on at least three-fourths of the proposals. If a decision couldn't be made on the spot, a date was set to do so. No one could bury the proposals. As people saw their ideas getting implemented right away, this process became a true bureaucracy buster.

Every GE business was expected to hold hundreds of Work-out sessions. By 1992, more than 200,000 GE employees had participated. Listen to a middle-aged appliance worker: "For 25 years you've paid for my hands when you could have had my brain as well—for nothing." This was the rationale for the process and confirmed that the people closest to the work know it best.

Work-outs enabled GE to create a culture where everyone began playing a part, and everyone's ideas began to count; a culture where leaders led rather than controlled and coached rather than preached. Here again, GE built better people who then built better products and services.

### **The Boundaryless Organization**

Work-out was a huge success. It hit bureaucracy hard, and ideas flowed faster all over GE. Welch wanted a way to describe this, something that might capture the imagination of the whole organization and take idea-sharing to the next level. As he talked about all the boundaries that Work-out was break-

ing down, he came to *boundaryless* as a word to shorthand many of his dreams for GE. The boundaryless company, he said, would remove the barriers among engineering, manufacturing, marketing, and the other functions in the company. Domestic and foreign operations would be treated the same. External walls would come down, and suppliers and customers would become part of a single process. The less visible walls of race and gender would fall. The boundaryless organization would make heroes of people who recognized and developed a good idea, not just those who came up with one. It would open GE to the best ideas and practices from other companies. It would make everyone at GE focus on "Finding a Better Way Every Day"—an inspiration that went all around GE's world. The idea of a boundaryless organization gave new momentum to the learning culture that Work-out had developed. Searching for better ways and eagerly sharing new knowledge became second nature at GE, and one of its greatest competitive strengths. Here again, GE built better people who then built better products and services.

### **Six Sigma**

Most managers seem content if things go right 97 times out of 100, but that's still 30,000 defects per million operations. Six Sigma is a program to get things right better than 99.99% of the time, less than 3.4 defects per million operations. Historically, GE had excellent functional training programs. But, because Six Sigma worked as well in a customer service center as in a manufacturing plant, it gave GE a tool for generic management training.

Welch told the CEOs to make their best people Six Sigma leaders. They took those people off their existing jobs and gave them two-year assignments to qualify them for Black Belt competence. The first four months were class-

room training and applications. Every assigned project thereafter had to tie to business objectives and the bottom line, and had to produce measurable results.

GE also trained thousands of Six Sigma Green Belts. Green Belts had ten days of formal training. They didn't leave their current jobs, but rather learned methods to improve performance in their everyday work. No one was considered for a management job without at least Green Belt training.

An early Six Sigma success was at GE Capital. At the time, that business took about 300,000 calls a year from mortgage customers, and about 72,000 of those had to call back because GE employees were unavailable. After analyzing and reconfiguring the system, process flows, equipment, physical layout, and staffing, customers almost always got a GE person on the first call. Only 300 a year had to call back.

GE used Six Sigma not only to cut costs, improve productivity, and fix broken processes, but also to fix and design new products. For example, a third of the gas turbine power plants GE installed in 1995 had to be repaired. By 1996, after putting Six Sigma into effect, with more than five times as many installations, not one was malfunctioning. In medical systems, a new CT scanner cut the scan time from three minutes to 17 seconds; and that million-dollar machine could be unpacked, plugged in, and put to work immediately.

GE ultimately used Six Sigma to turn itself inside out to focus outward on the customer. GE understood what most didn't: Six Sigma is not just about quality control and statistics; it's about equipping managers with better tools to think through tough issues. Here again, GE built better people who then built better products and services.

### *Some Other Great Ideas*

There's space to do no more than mention some other great practices and ideas for which Welch and his team are famous.

■ “The No. 1 or No. 2, fix, sell, or close strategy.” GE would be first or second in every business it was in—the top-ranking leanest, lowest-cost, worldwide producers of quality goods and services. Make it happen, sell it, or close it.

■ Work is just a job for too many people. Make sure the people you're working with are having fun while simultaneously being highly productive.

■ Get a 23-year-old who really loves the Internet and knows everything about it to spend three to four hours a week teaching you how to use it. Hire a mentor; become the “mentee.”

■ Headquarters doesn't make or sell anything. Get out in the field to learn from the people who really make things happen. Welch aimed for a third of the time.

■ Get employee feedback all the time, with any process that works, and force everyone to deal with employees in a straightforward and realistic way. And don't ask about the quality of cafeteria food or the benefit plans. Ask questions that get at fundamental issues.

■ Do everything you can to get people to see things as they are, to deal with the way it is, not the way they wish it were. This was GE's Reality Theme.

■ Break projects out, and focus on them as separate, small businesses. This provides the benefits of agility, speed, and ease of communication. And there's nothing like feeling like you own it to energize the effort.

■ Welch said, “I rarely regretted acting but often regretted not acting fast enough.”

■ Measure results against the prior year and against competitors, not against some arbitrary number set by upper management, staff analysts, or management consultants.

■ Make operating plans reflect the dreams of the people who are responsible for making them work—the highest numbers they think they have a shot at. This is their stretch goal. “We've never . . . made a stretch operating plan. Yet we've always done a helluva lot better than we ever thought we'd do.”

■ The organization takes its cue from the people at the top. Their personal intensity determines the organization's intensity. How hard they work and how many people they touch will be copied thousands of times over.

When all is said and done, Welch says that teaching is what he did for a living. Love the wide-open exchanges. Learn as much from others as you teach them. Become a facilitator, helping everyone learn from one another. Bring ideas to every meeting, and expect the exchanges to enrich them. Get everyone to push back and challenge.

Go thee and do likewise.

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