Want to Win? Here's Some Practical Advice from Jack Welch

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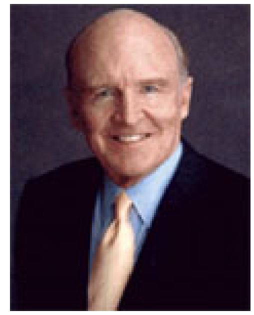

Jack Welch, former chairman and chief executive of General Electric, loves to be heard. After retiring from GE four years ago and publishing an autobiography, he has now written a book on his management philosophy , titled *Winning*, which he is promoting through frequent speeches and media interviews. But, unlike most prodigious talkers, Welch is hardly boring. He advocates candor and practices it, strenuously.

Last month Welch visited Wharton to speak to students about his book, co-authored with his wife Suzy. In a packed auditorium, he participated in a fireside chat with Knowledge@Wharton, followed by questions from the students. Here are a few samples of the 'Welchisms' heard during the session:

· Distinctions between leadership and managing are "academic hogwash."

· "Don't take a job because your mother wants you to. Don't be a victim. *You* own your decision."

· "In the end, winning companies are the only thing that sustains societies like ours. Governments create nothing."

Welch has long been both celebrated, mainly on Wall Street, and scorned, mainly by unions and employees whom he axed. He has been called the standard by which CEOs should be judged because of the way he jumpstarted GE and increased its market value during his 20-year tenure. Under Welch, GE became the world's most valuable company, with its market capitalization increasing by $400 billion. In the book *Lasting Leadership*, co-authored last year by Knowledge@Wharton and Nightly Business Report, Welch was named one of the Top 25 most influential business leaders of the past 25 years.

"Rank and Yank"

Asked about the challenges he faced in driving that kind of performance at GE, Welch noted that the early 1980s represented a stormy time for the company, in part because GE was buffeted by competition from Japanese companies. "Remember, this was back when the Japanese were supposed to take over every job in America," he noted. In addition, the American economy was sputtering, with high unemployment and high inflation. When Welch, who had started his career in GE Plastics and Medical, took over the company in 1981, it had "174 people in strategic planning and three businesses that had been losing money for 20 years." So Welch began hacking away, cutting tens of thousands of positions but leaving the remaining employees with more secure jobs. Those actions earned him the moniker "Neutron Jack," as is well known, but it also helped streamline GE and prepare it for future growth.

Too many managers avoid making hard choices and hurt not only their companies but, in the long run, the employees whom they are trying to protect, he argued. Welch spoke especially passionately about the value of candor -- an issue he discusses at length in *Winning*. "I would call lack of candor the biggest dirty little secret in business," Welch writes. It "basically blocks smart ideas, fast action, and good people contributing all the stuff they've got. It's a killer."

Lack of candor is especially heinous when it stops supervisors from providing accurate feedback to their subordinates in a misguided effort to be "nice" to them. "A recession comes. People get laid off and ask, 'Why me?' They find out their boss wasn't happy with them, and they say, "I have been here 20 years. Why haven't you told me that before?'" Welch said during the discussion. At GE, Welch insisted that his managers adhere to his "rank-and-yank" philosophy -- that is, they had to rank all their employees annually and fire the bottom 10%. That sounds harsh, but Welch pointed out that everybody gets ranked in school. A few people even flunk or drop out. "Why do we only give grades to kids and not adults?" he asked, adding that for such a system to be fair, it must be built on candor. Employees must receive frank, comprehensive and regular reviews.

Straight talk and, surprisingly, casualness were important parts of the corporate culture that Welch built at GE. He insisted that people call him "Jack" because he believed that would make them comfortable enough to be honest with him.

Building a strong corporate culture and developing leaders are the key duties of any CEO, he said. Welch divided managers into four groups. Some show that they have the right values and meet the profit goals for their divisions. They get promoted. Some do neither and get fired. Some have the right values but miss their numbers -- "You give them another chance." And some make their goals but don't share the company's values. Maybe, for example, they are the loudmouths in a place that prizes collegiality. "Those are the ones who kill companies." Although it's tough, bosses need to remove them because failing to do so can corrode a company's culture. In the long run, that's worse than seeing the results of one division drop.

Mismatched cultures often undermine acquisitions, too, Welch said. He pointed to GE's purchase of the Kidder Peabody brokerage. In 1994, GE had to turn around and sell Kidder after it was engulfed in scandal over its bond-trading practices. "The people at Kidder Peabody had one motivation: their bonus," he said. "They wanted it to be bigger all the time. We had a cooperative culture at GE, and there was no cooperation at Kidder. It was, 'Eat what you kill.' After Kidder blew up, I was in the men's room, and a guy wanted to know how the situation was going to affect his bonus. He didn't care that the company had gotten whacked."

The lessons of the Kidder debacle prevented Welch from buying any California tech companies in the late 1990s. "You had engineers getting BMWs as hiring bonuses," he recalled. "It was crazy. We would have had to explain to our engineers designing jet engines why they were making half of what we were paying people in San Jose." Winning companies are meritocracies, and meritocracies demand both rewards and punishments, he argued. But they also require that people who do comparable work be treated similarly. Meritocracies can be tough, but not arbitrary. In this context, Welch underscored his famed competitiveness and his obsession with winning. "Losing stinks," he said. "Losing companies do nothing. People are frightened because they don't have job security. Winning companies give people a future."

They also make their communities better places, Welch noted. After the recent tsunami in Southeast Asia, for example, GE employees contributed $2.6 million to relief efforts. "Losers don't give back. Do you think the people at the IRS gave $2.6 million?"

Welch added that he defines winning more broadly these days than he did during much of his corporate career. "Today, I see winning as people defining their objectives and fulfilling them, not being a victim. You define where you want to go, and then you go for it." That said, even Welch admits that he hasn't prevailed in every situation. "You can't win all of the time," he said. "In your career, you'll sometimes go from a prince to a pig."

For example, Welch told how he "blew up a plant" in his first year with GE (actually, an explosion in a tank at a pilot plastics factory under his supervision tore a hole in the roof). His manager sent him to see their mutual boss who, to Welch's surprise, didn't fire him. He listened to Welch's explanation and told him not to let it happen again. Years later, Welch felt like a swine when the *Wall Street Journal* wrote a spate of front-page stories on the Kidder Peabody scandal. Amid the bad publicity, he and others at GE were called "crooks and jokes." "Your career isn't always linear," he said. "But what matters is how well you get back on the horse."