From the corporate icon who created the world's most valuable corporation

JACK WELCH

A summary of the book by Robert Heller

Corporate pathfinder

Jack Welch took over General Electric (GE) in 1981 and the stock market value was $13,9 billion. When he retired in 1999, the value had increased over 30 times to $410 billion. This was driven by many of Welch's principles – such as streamlining cost structures, concentrating on core business with leadership positions and forcing responsibility down to subordinates.

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Biography

Jack was born in 1936 and joined GE in the plastics division in 1960, from where he won accolades for turning the 300 staff division around, and steadily moving up the ranks, being seen as a "cage rattler" and a bit of a maverick. He became a billionaire and is an avid golfer.

He employed a *Blitzkrieg* principle. The businesses had to be first or second in their market, or they would be radically reformed, sold – or closed down. He reduced the GE workforce by 100,000 staff (including 400 corporate planners) He was a hands on, confrontational, face-to-face manager who believes that "the idea flow from the human spirit is absolutely unlimited", spending endless hours talking to those around him.

He drove those around to achieve not only short term exceptional profit growth but also simultaneously investing aggressively for future growth.

Making Managers Lead

Making managers into leaders requires the 7 point programme for management:

- Develop a vision for the business
- Change the culture to achieve the vision
- Flatten the organisation
- Eliminate bureaucracy
- Empower individuals
- Raise quality
- Eliminate boundaries

Leaders job is to define direction and allocate resources, the results hereof will be under the "management" of the officers.

Controlling bureaucracy: Layers slow decision-making; blur responsibility and create undoable jobs. Cut layers and double the span of control. In theory SBU's makes the unwieldy manageable yet the vices are often fatal: businesses do not cooperate; focus becomes short term and bureaucracy and control often reign. **Sharing information:** Meetings are to be used to discuss and share – to become the smartest guys in town – not to enforce bureaucracy. Leaders roles are to rock the boat, to discuss and to confront. **Pursuing best practice:** Meetings are used to highlight achievements and to point to successes that are held up as best practice. **Delegating responsibility:** Combine hand-on leadership with hands-off management. However, monitor against explicit and exacting performance targets, occasionally unpredictably diving into detail keeps those around on their toes. **Winning hearts and minds:** empowering middle management is key to productivity gains and has 4 steps:

(1) free managers to manage – and to rise
(2) defeat bureaucracy and rigidity
(3) generate and use new ideas
(4) empower workers to flourish and grow;
and rewards are always accompanied by frank, face-to-face evaluation. Rewards vary significantly, the business has created 1,200 millionaires, it is like working for a hard-nosed, demanding, yet generous entrepreneur.

I cannot stand undifferentiated stuff.

Knowing the people: half his time is spent on people issues, know them and energise them – "E to the fourth power" - **E**nergy ; **E**nergise others ; competitive **E**dge and **E**xecution.
Toughing it: toughness is an essential part of leadership and is applied without fear, if you do not want to do what is expected of you, I guarantee somebody else will – be demanding. **Looking to the future:** test your future leaders by moving them around and see how they react under pressure. Look for incredible energy; ability to excite others; ability to define a vision; finding change fun and not paralysing; feeling comfortable in Delhi or Denver and the ability to talk to all kinds of people.

In summary: Develop a vision for the business, and change the culture to achieve the vision. Insist that managers share their ideas, information and experiences with their colleagues. Let people manage their delegated business as they see fit. "Ginger up" management by making unexpected visits and engaging in confrontational argument. Fix goals for all important measures, and treat them as solid commitments that management must keep. Brief yourself fully on everybody who works for you and make sure you recognise them. Be tough, but do not be hard, with everyone with whom you have dealings.

"Incremental change doesn't work very well in the type of transformation GE has gone through. If your change isn't big enough, the bureaucracy can beat you". Ensure you:

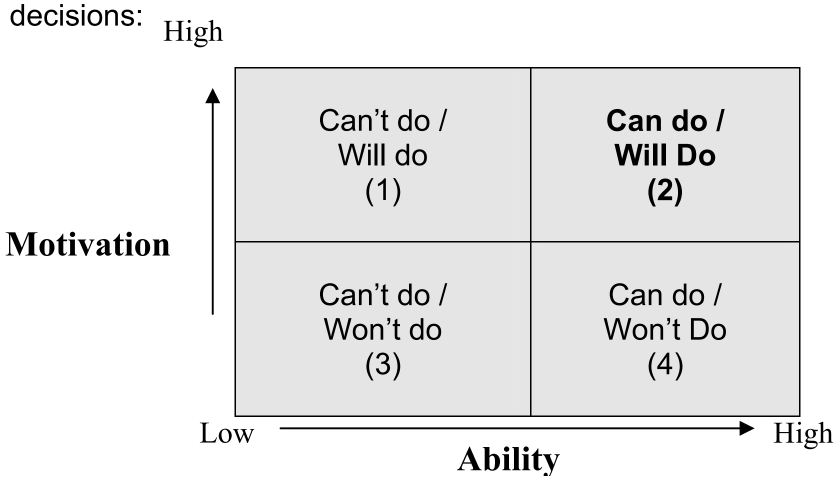
- face reality as it is, not as you wish it were
- be candid with everyone
- don't manage, lead
- change before you have to
- if you don't have a competitive advantage, don't compete
- control your own destiny, or someone else will

On leading a team, the 6 basics are:

- pick the right people
- have a clear purpose
- put it in writing
- work to a strict timetable
- plan action
- act on the plan

Reinforce and demand positive behaviour by: Living the values; being an entrepreneur; hitting high targets; starting decisively; embracing change; doing what you say; concentrating focus; managing on the facts; forgiving honest error and organising yourself.

Demand high standards and use this evaluation method in guiding staff decisions:



(1) train; (2) reward highly; (3) fire and (4) try to motivate or fire

Mobilising the workforce

Often one first needs to cut out the corporate fat (restructure or close), starting at corporate office. Competitive strength, not numbers, is all that counts. Improve employee value – reject the squeezed lemon analogy. In a vision of a lean, hyper-competitive performer the alternative is not a benevolent employer; it is failure. Richly reward the top 20%, look after and energise the key 70% and fire the bottom 10% - each year this gets more and more difficult but is a hugely effective tool (from his autobiography).

First take out the fat in a big way. Banish traditional bosses. Move to three ideals: speed, simplicity and self-confidence. Only changed managers can lead a changed workforce; and they must act boldly outside traditional boxes and lines of authority. Executives must live the values, if they achieve by forcing results ("tyrant, autocratic") their stay is short lived despite making targets – a lean organisation needs values even more. Executives must involve employees in decision making; transfer ideas fast between different areas and simplify production and other processes.

Company efficiency was driven through three initiatives:

- Work outs. Workshops to generate ideas and proposals for radical improvement and driving out non-value activities. If done properly, it can "blow out the building"
- Best practices – a crusade of identifying both internal and external practices to learn and benchmark against, create evangelists and give programmes a name and direction (GE used the Six Sigma, driving benchmarked quality and defect levels to imitate Japanese quality levels)
- Process mapping

Motivating the workforce to succeed has nothing to do with whips and chains. It is a never-ending process that's based on empowerment. It's what happens when you get people excited about finding solutions to their problems.

Ideas into action:

- go for the three ideals of: speed; simplicity and self-confidence
- outlaw autocracy and tyranny to help people to be open, to speak up, and to share
- insist that managers (including yourself) make their decisions clearly and quickly
- start off improvement teams on quick fixes, including elimination of "adminisitrivia"
- adopt total quality methods to save costs, raise productivity, and delight customers
- never relent in the insistent pursuit of better personal and company performance
- use quality programmes as the key means of management development

We want to make our quality so special, so valuable to our customer, so important to their success, that our products become their only real value choice.

Winning competitive advantage

Only compete where you can win, "be Number One or Number Two in your market, or else". Do not compare in a market segment the returns versus competitors, compare with the required return on capital. Often trouble comes from investing a lot of capital. Compete in the right sectors and then compete only where you have a competitive advantage – "don't play with businesses that cannot win". This No 1 or No 2 rule is a global view. "There will only be one standard for corporate success: international market share".

- Move into global markets fast and powerfully
- Build a solid, domestic base before launching an attack
- Use acquisitions to create or enlarge a beachhead
- Strengthen under-performing businesses by acquisitions or pooling of assets
- Concentrate on major businesses where you can win
- Develop local management and bring expatriates home as soon as possible

Firstly go after markets you know (expand your horizons), then globalise your thinking (eg sourcing components globally) and finally globalise your intellect.

Cut costs! In the end, you could have performance, you can have quality, but you'd better have cost. After taking out the fat, focus on the power of productivity and systems. The measurement hereof must focus on the operational drivers and "how" things are done. Manage it like you would a grocery store.

Act informally, this is a big thought. Achieve this by breaking hierarchies and the chain of command; communicating freely up and down; pay entrepreneurially for performance; achieve wide personal contact; make surprise visits and send reams of handwritten notes. Hone the competitive edge through *persistence* (never give up on getting better and better); attention to *detail* (although leader sets broad strategy, use detail to intervene); use *customer responsiveness* and not internal management as arbiter of delivery; focus on *culture* by being a role model to drive the above. Soft values, hard results.

Ideas in to action. Make the return on capital employed as high as you can. Do not play with businesses that cannot win the competitive wars. Differentiate your business from competitors to make it easier to beat them. Commit management to the relentless pursuit of unattainable perfection. Seek to optimise the totality of the business rather than the profits of its components. Focus on how people are producing, not only on how much they produce. Establish and share values and practical ideas that will boost competitiveness.

Key to successful is transformation of the company culture. Firstly establish values (write a values statement and enforce when review performance). Next create energy around “programmes” (eg tackle as projects specific issues. GE launched the Six Sigma programme whose objectives were to satisfy the customer; reduce costs; improved quality of purchased materials; lift internal performance and lastly to enable better performance by better design). Next is remove bureaucracy. This is often evident in centralised decision making; company bibles and key staff with no line responsibility. Eliminate this by focusing on quarterly rather than monthly financial reporting; make key staff responsible for their own strategies; reduce radically staff roles; scrap status symbols and company bibles and clearly identify and eradicate nonsense. Lastly is then to have a plan to become the best. Use best practice and rate each area and drive performance on operational indicators.

Pursuing shareholder value

Growth in shareholder value is the final deliverable. Clearly name and communicate target levels.

Let each business area set their own targets. Ensure these are “stretch” targets. The view of sustained wealth creation comes from four tenets:

- Lead the market only from a number 1 or number 2 position’
- Returns to exceed inflation
- Create a unique selling proposition by giving value to your customers that your competitors cannot
- Build on what the company does best

Underpin a portfolio using dependable businesses to give staying power. Anybody can invest unprofitably, be wise. Stick only with underperforming businesses you <u>know</u> are going to be great businesses, avoid those whose employees have consciously become underdogs. The key to picking future winners lie in the people in that business, the “software”. The other focus in creation of shareholder value is a concept of “integrated diversity” ie businesses are run independently yet pool ideas, people, experiences and best practices. This is a long term emphasise. Anybody can manage short term, anybody can manage long term- balancing these two things is what management is about. Around this balancing, one must manage perceptions of investors as perceptions of both short and long-term earnings are reality in stock market valuations.

The company used the principles (and not in its pure form) of EVA (economic value added) to get managers to think like owners ie the company must earn more on the capital employed than it costs. Reduce capital hungry projects or capital divisions require while increasing productivity. In a question as to which is more important, families of former employees or shareholder value his reply was: In a global economy, you cannot manage a company in a paternalistic way. If you do not sort out things in good time they will eventually explode in your face, then you have to become brutal and cruel.

GE won for three straight years America's most admired company. The attributes assessed were admirable performance; innovativeness; employee talent; financial soundness; use of corporate assets; long-term investment value; social responsibility and quality of products and services.

Ideas into action. Make managers set their own stretch targets and ensure that these are met. Balance fast growth higher risk businesses with dependable and steady ones. Concentrate on the present as well as on the future. Educate managers to think like owners and give them sound incentives to think so. Make sure you like both your businesses and how they are managed. Reduce total capital employed while raising its productivity. See that employees are enriched along with outside investors.

Exploiting the forces of change

Face the competition. Make the managers understand they are accountable and they "own" the businesses. Challenge managers into change – watch for big order books and historical performance that creates comfort. Change is key and is always easier to propose than to achieve. Distinguish between evolutionary change and revolutionary change in the face of competitive threat. The direction of trend is clearly based on trends demonstrating themselves in the market, amplified by the new age of information. In 1999 each business had an ecommerce venture, under the operation destroyyourbusiness.com. But this was not done to reward a few on the side but the team came first on the basis of "integrated diversity".

First, change is not predictable. Second, it cannot be controlled. It is impossible to forecast with any precision. Hence there is no all powerful central strategy. Rather, there will be a central idea – a simple core concept that will guide the business and govern its diverse plans (eg the number 1 or 2 tenet).

He often used Peter Druckers "tough question" of: If you weren't already in the business, would you enter it today? If the answer is No!, what are you going to do about it.

The concept of a central guiding idea evolved from Helmuth von Moltke (military adviser to the Ottoman Empire) who wrote that strategy is not a lengthy action plan, but rather the evolution of a central idea through continually changing circumstances. In addition to the central idea, Jack focused on surrounding these with values and dominant themes.

These themes included reality (getting managers to see the way the market is and not as they wish it would be); quality excellence theme and a human element theme (only constraints to your advancement is you) and the "soft" theme importance of culture.

A big risk is pursuing too many initiatives in too short a time. On must manage change and educate the organisation. Create themes, communicate and create small snowballs that grow to critical mass.

Another theme was one of boundarylessness – a big, big idea. Not only between industries but between role players eg trade unions, suppliers etc Hard to describe and harder still to put into action. Three major areas of barriers need to be examined (1) internal vertical ie between layers of management (2) internal horizontal ie between divisions and SBU's and (3) external ie between customers, suppliers etc.

Companies need overarching themes to create change. If it is just somebody pushing a gimmick or a programme, without an overarching theme, you can't get through the wall.

Another two dominant themes in GE were that of a Thinking Company (not blind obedience) and the Fast Response to everything that was done.

Ideas into action. Make business managers lead by taking total responsibility for their units. To change people's mindset, first seek to change their results. See the internet challenge through the eyes of a hungry competitor. Ask, "If I was not in the business already, would I enter it today" if not, then leave. Introduce the "soft values" that you want and make them become second nature in the organisation. Never fall into the trap of having constantly changing fads overtake a central theme or idea. Press for faster speed of response as the key to competitive advantage.