

Jack Welch's Leadership Style

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Needless to introduce a person of the stature of Jack Welch, but certainly, there is a need to share the contributions of his leadership and versatility to the organization, General Electric Corp. Jack Welch transformed a \$13 bn company into a \$280 bn multinational conglomerate by the dint of his unique leadership traits. This case discusses the leadership qualities of Jack Welch that made him the world's most admired CEO, who made General Electric the most admired corporate.

Introduction

Dr. John H Welch, better known as Jack Welch, was the Chairman of the General Electric Corp. from 1981 to 2000. Jack was adjudged as the most admired CEO in US by the *Fortune*. In an Industry Week survey, his peers rated him the most admired CEO three times in four years. In two decades of his Chairmanship, Jack elevated the market value of GE from US\$13 bn in 1981 to a US\$280 bn in 2001 by the dint of his leadership qualities (Exhibit 1) and innovative strategies. Under his leadership, GE delivered more wealth to shareholders than any other company. *Value Based Management* said "Whatever his tactics, the fact that Welch is one of the most successful business leaders of all-time is indisputable. He has swelled the market value of the company to a degree unmatched by any other CEO, an accomplishment not even Bill Gates, Michael D Eisner or Warren Buffett could lay claim to". GE was the only company in which Jack Welch worked for his entire life. Jack started his career at GE in the year 1960 as an engineer. During his tenure at GE, Jack Welch evolved into an icon of efficient management and successful leadership of a company through his unique and exceptional strategies. He proved to be a transformational leader¹ by transforming General Electric Corp. from an industry and manufacturing oriented firm to a service organization with its operations spread across the world. This transformation put GE on right footing for the 21st century.

Jack worked as the CEO of General Electric. Wall Street² analysts described Jack as 'the most influential business leader of the 21st century'. Jack was known for establishing new and better practices in business by way of implementing various innovative management strategies and production processes. Jack Welch's leadership

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¹ Transformational leadership is the style of leadership that focuses on idealized influence, inspirational motivation, intellectual stimulation and individualized consideration.

² Wall Street is a place in New York, where New York Stock Exchange is situated.

Exhibit 1: Six Rules for Successful Leadership From Jack Welch

- Control your destiny or someone else will.
- Face reality as it is, not as it was or as you wish it to be.
- Be candid with everyone.
- Don't manage, lead.
- Change before you have to.
- If you don't have a competitive advantage, don't compete.

style proved to be a phenomenal success in establishing a new culture at the work place, which ensured maximum employee involvement and production output and minimum wastage of resources.

Jack Welch – The Born Leader

Jack Welch was born in Salem, Massachusetts, in 1935. His mother, Grace Welch, according to him, was his first and greatest teacher of leadership. His mother taught him how to take defeat in his stride, and see things as they are. Jack said "If I have any leadership style, a way of getting the best out of people, I owe it to her (his Mother)." Her style of motivating Jack was in lines with McClelland's motivation theory of leadership (Exhibit 2). She taught him the *need to excel*. This helped Jack, in developing self-confidence, courage, and competitiveness. He considered building self-confidence in others as a great trait of a leader, which his mother used to do for him. Jack had a problem of stuttering during his childhood. His mother pacified, "It is because you are so smart, no one's tongue could keep up with brain like yours". This made him believe that his mind worked faster than his mouth. It boosted Jack's morale and self-confidence. He did his schooling at Salem³. He continued his spirit of competitiveness at school level. Jack actively participated in all the games at his school. He played football, basketball, hockey, and fastball, but Caddy⁴ was the game in which he claimed his expertise. Jack pursued his degree in chemical engineering at the University of Massachusetts. When he got disqualified in naval ROTC⁵ scholarship program, though he was a bit depressed, he saw a better opportunity to excel at the University of Massachusetts, amidst relatively lower competitiveness. Jack completed his Masters in chemical engineering and Doctoral program on condensation in Steam Supply systems at the University of Massachusetts. After completion of his Doctoral program, Jack had two options of job. One from Exxon, to work in a developmental laboratory in Texas City⁶ and another one from General Electrics (GE) to work in a new chemical development operation in Pittsfield,⁷ Massachusetts. Jack chose the latter and joined General Electrics plastics division in the year 1960.

³ Salem is a city in United States situated in the state of Massachusetts.

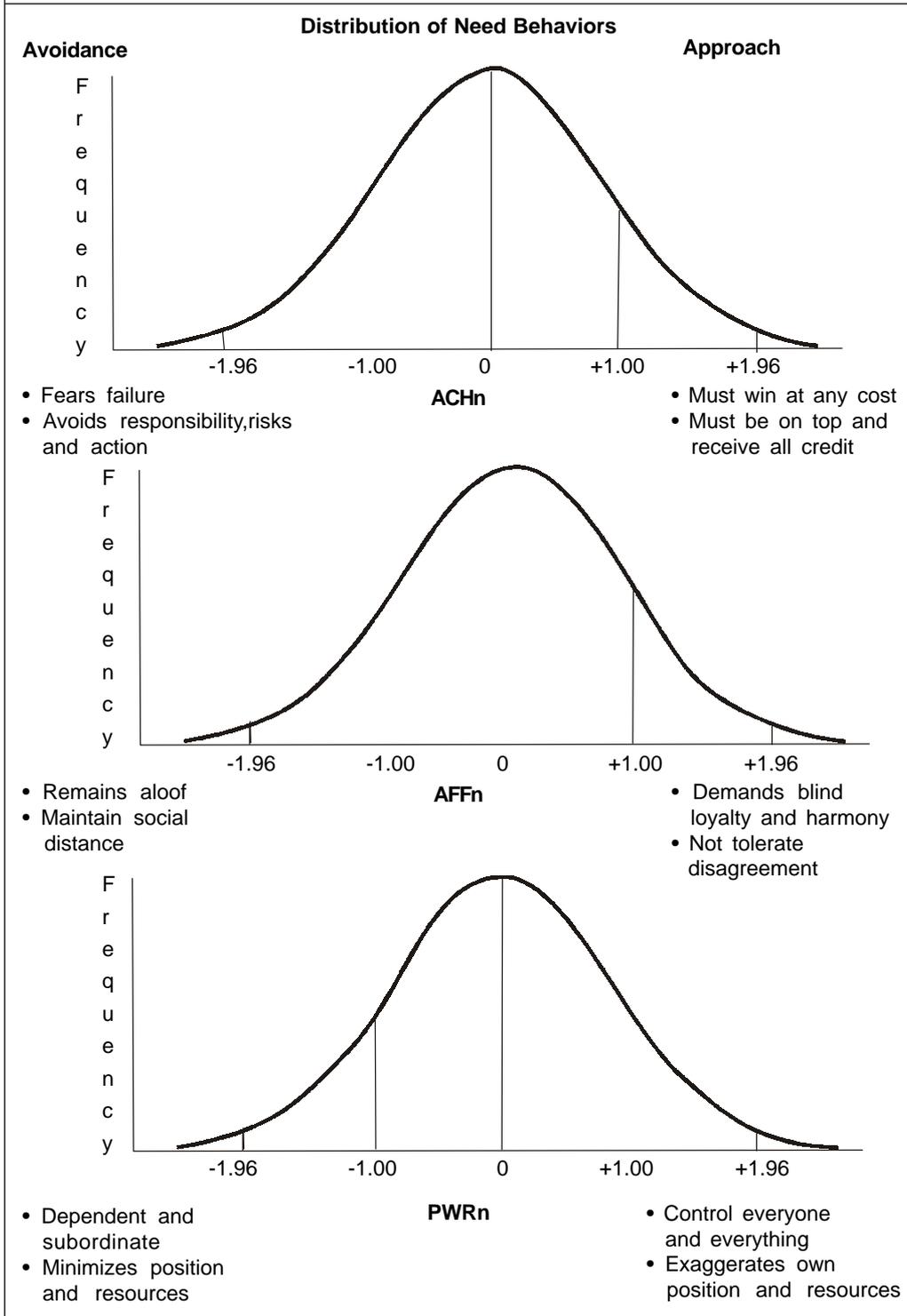
⁴ Caddy is a golfer's learning aid and a natural tool for use.

⁵ The ROTC (Reserve Officers Training Corps) Program is designed to identify, instruct, and commission young men and women for service as officers in the United States Army Reserve.

⁶ Texas City is located along the Upper Texas Gulf Coast in Galveston County in United States.

⁷ Pittsfield is a city in the state of Massachusetts, United States.

Exhibit 2: Leading Change Through GE: The Jack Welch's Way



Early Years at GE

Just before Jack entered GE, it had a breakthrough in the business with the discovery of Lexan⁸. Lexan was a big success for GE, which acted as a potential replacement for glass and metal. GE (plastics) was heading towards its next project on a new thermoplastic called PPO (Polyphenylene Oxide). GE was targeting to become a champion for the PPO. Jack was the first employee to take charge of the production of the PPO products at GE.

Jack's beginning at the GE was not very smooth. He had a few problems in the initial years at GE. He found that the organization was filled with bureaucracy⁹. Jack was also not happy with his first performance appraisal. He was given the same increment in salary as everyone else, though his performance was better. He felt thoroughly demotivated and decided to quit. However, destiny had something else in store for him, his superior's superior, Ruben Gutoff, stopped him offering a higher pay. Gutoff shared his agony over the bureaucracy and assured Jack of better prospects in the organization. This differentiation was one of the most important management lessons that Jack learnt early. In life, he believed that winning teams come from differentiating and rewarding the best performers and weeding out the worst performers.

As Jack proceeded with his project on PPO, he also took charge of managing the product in the market by convincing Gutoff, who had initially assigned the job to Bob Finholt. Jack gave a wonderful performance on PPO, despite coming across a few technical defaults, which he handled with knack and diligence. The PPO plastic was named Noryl¹⁰ and was released in 1964. The product eventually became a winning product that today does more than \$1 bn in world sales. With the success of this project, Jack believed that, he with his team, could do almost anything that he dreamt of. In his memo, for Jack's promotion for Vice-Presidency of the chemical and metallurgical division, Roy Johnson, the head of GE's Human Resources Department, mentioned "On the plus side he (Jack) has a driving motivation to grow a business, natural entrepreneurial instincts, creativeness and aggressiveness, he is a natural leader and organizer, and has a high degree of technical competence". "On the other hand" he said " he is somewhat arrogant, reacts (or overreacts) emotionally,—Particularly to criticism—gets too personally involved in the details of his business, tends to over rely on his quick mind and intuition rather than on solid homework and staff assistance in getting into and out of complex situations, and has something of an 'anti-establishment' attitude toward General Electric activities outside his own sphere". This blended feedback entitled Jack to the post of Vice-President of Chemical and metallurgical division of GE. In the year 1971, Jack became the head of chemical and metallurgical division of GE. The 1973 gave another breakthrough to Jack, when he was promoted as the group executive for the entire GE's group of businesses. This was soon followed by yet another promotion to Jack, as Vice President to GE. In 1974, at the age of 36, he became the youngest Vice-President GE ever had. When he assumed the office of the Vice-President, the company

⁸ Lexan is a form of plastic material, which is a potential replacement for glass and metal.

⁹ Bureaucracy is an administrative structure staffed by a professional body of officials, and involves a carefully defined division of duties rules and procedures.

¹⁰ Noryl is a form of plastic launched by GE, whose chemical component is Polyphenylene Chloride.

was a diverse portfolio with over \$2 bn in annual sales. The group employed 46000 people and had 44 factories in the United States. In addition, the company had operations in Belgium, Ireland, Italy, Japan, the Netherlands, Singapore and Turkey.

The Race to the Helm

Jack proved himself to be a charismatic leader when he was adjudged as the chairman of GE in the year 1980. Unlike those times of his earlier promotions, Jack was not the only choice for the Chairmanship of GE. The race was among five executives at GE. The race consisted of Al Way; GE's chief financial officer, Bob Frederick; Senior Vice-President—corporate planning, John Burlingame; Physicist—GE International business Ed Hood—Nuclear Engineer, Stan Gault; Appliance business, Tom Vanderslice; Power systems (Exhibit 3). In this race for the top position, Jack was not a favorite of many. The Vice-Chairman, Dave Dance himself was in favor of another candidate (Stan Gault). The other vice chairman; Jack Parker, also had his favorites in the race. He favored Burlingame and Ed Hood. The succession process was dominated by politics within the organization. Jack also had the disadvantage of being the youngest of all the candidates in the race. But Jack was confident of his credibility and charisma in the organization. Once, when Reg Jones¹¹ asked Jack, as to who was his best successor, Jack's unhesitating reply was "I'm the guy". When Reg sought the board's perspective, there was a divide in the opinions. A couple of directors had been suggesting that Reg should name Burlingame the next Chairman for a short period of time. *The Wall Street Journal* reported "GE decided to replace "a legend with a live wire". The Board welcomed Jack as the new CEO, but a few silly politics remained. Soon after Jack took over as CEO, Paulo Fresco, Vice-President—GE, came to him and offered his resignation, as he was supporting John Burlingame for the post of CEO. However, Jack did not accept it and said, "I was not thinking about who did or didn't support me".

Exhibit 3: Race for CEO

- Redesigning the role of the leader in the new economy: creating followers through communicating a vision, and establishing open caring with every employee.
- Creating an open collaborative workplace where everyone's opinion is welcome.
- Empowering senior executives to run far flung businesses in entrepreneurial fashion.
- Liberating the workforce; making everybody a participant through vertical communication and employee empowerment.

Jack Welch – A Tough Boss

The August issue of 1984 of the *Fortune* magazine covered the "Ten toughest bosses in America" which was topped by Jack. The aggressive leadership style of Jack had to face critics often. Jack was known as a rude, impatient, blunt, candid, impolitic manager. Jack's passion of standing as No.1 or No. 2 in the market led to the closure of many businesses of GE, consequently leading to massive layoffs. In all 118,000 people had to quit GE. In

¹¹ Reg Jones was Jack Welch's predecessor at GE as the Chairman.

addition to this, being a reason for the critics, Jack was also criticized for spending the money that GE saved by way of sell-offs and lay-offs in non-productive things, like building guesthouses, conference centers, gymnasiums etc. that cost \$75 mn for GE. Jack was accused by many that he was too harsh, too wild and too growth focused. Due to such behavior, he was also popular as Neutron Jack among the corporates. But Jack was stubborn in his stance. He said “I wanted to create a new contract (with employees) making GE jobs the best in the world for people willing to compete with the best training and development and environment that provided plenty of opportunities for personal and professional growth”. An article in *BusinessWeek* (November 23, 1998) quoted Jack as the ‘corporate villain’. Jack was known for his stringent measures like 10% layoff policy or a wage freeze.

Jack: A Thought Leader

Value Based Management quoted Jack as a thought leader and said “Jack Welch’s success as CEO is in a large part due to his tremendous leadership skills”. According to Jack, the three principal qualities of a great leader were, being passionate about what you are doing, caring about employees who work for you and being able to energize employees to reach beyond even what they believe they can achieve. Jack Welch identified four qualities of leadership, all starting with the letter E and hence named it E4 (Exhibit 4).

Exhibit 4: Key GE Leadership Ingredients, E4	
Energy :	Enormous personal energy—Strong Bias for action.
Energizer:	Ability to motivate and energize others, infectious enthusiasm to maximize organizational potential.
Edge:	Competitive spirit... Instinctive drive for speed/Impact...strong Convictions and courageous advocacy.
Execution:	Deliver Results.

Jack knew how to effectively communicate key ideas to the rest of the staff, not only by delivering messages, but persistently repeating them over and over, and ultimately driving the messages home. His concept of change was also aggressive, by clearly outlining what needed to change.

Jack gifted GE and many other organizations and the academic corners with various management and operation concepts, which promised an assured and significant improvement in the productivity of the organization. Those concepts are as follow:

Workouts

Jack was irritated with the bureaucracy at GE from the day he joined. He got the opportunity to uproot the bureaucracy when he became the Chairman. He was in search of a deeply ingrained, internalized process for addressing and solving the problems. He wanted the problems to be solved quickly and simply and with the involvement of the people who would ultimately carry out the decisions. Thus, Jack coined the term

Workout (Exhibit 5). Workout was a simple and a straightforward methodology for cutting out bureaucracy and solving organizational problems—fast. Large groups of employees, and managers from different functions and levels of organizations come together and address themselves to the issues that they identify or those that senior management has raised as concerns.

Exhibit 5
<p>Workouts help an organization grow along five key dimensions</p> <ul style="list-style-type: none"> • Focus of “stretch”—making participants feel an urgency to change. • Development of “systems thinking”— helping people see the whole picture of current situation. • Encouragement of lateral thinking—brainstorming ways of achieving the goal, selecting the best ideas, and developing them into recommendations for change. • Creation of true empowerment and accountability—creating a culture where ideas translated into actions and results. • Injection of rapid-cycle change and fast decision-making—the constant drive, the catalyst, that means decisions are made quickly and action occurs, and that engages people because they see progress.
<p><i>Source: “The GE Workout” by Dave Ulrich, Steve Kerr, Ron Ashkenas, 2002</i></p>

The whole process of workout is in three phases, viz. leadership, facilitation and participation. Leadership phase involved driving for improved results by introducing *workout* to the organization. The role of star leadership is of the sponsor, sometimes supported by a champion. Usually, the sponsor is the top leader of the business or the business unit. Facilitation is the role in the next phase. People who are usually enlisted to provide this support, might include an external or an internal consultant. Acting as designer plus facilitators, experts, analysts and administrators. The recommenders, owners and team members drive follow-up in participation stage.

Jack enumerated the four key goals of GE’s workout meetings as follow:

- Encourage employees to share their views in a collaborative culture.
- Vest greater responsibility, power and accountability with front-line employees.
- Eliminate wasteful, irrational and repetitive steps in the work process.
- Dismantle the boundaries that prevent the cross pollination of ideas and efforts.

The workout concept also helped GE in reducing the bureaucratic impediments in the company. Earlier, when Jack was in his initial stages of the hierarchy, GE had a huge bureaucratic setup with as many as 29 levels, which were brought down by Jack to 6 layers between the shop floor and CEO. “Workout was not only about solving problems or reducing bureaucracy, it would still be powerful methodology, that organizations could incorporate into their repertoire of business schools.”— GE Workout. The Workout concept has also been successfully adopted and implemented by companies like General Motors, World Bank, Zurich Financial Services etc.

Boundaryless

One of the most efficient results of his thought leadership at GE was the concept of *Boundaryless*. The striking of the word 'Boundaryless' was serendipity for Jack. The word struck him, while he was talking about the boundaries that the concept of *workout* was breaking down. Boundaryless for Jack was a concept, which would remove all the barriers within the functions—Engineering, manufacturing, marketing, and the rest. It recognized no distinctions between domestic and foreign operations. Suppliers and customers were a part of a single process in a Boundaryless organization. Boundaryless was the concept with an idea of “finding a better way everyday”. Jack called it a part of the social architecture of the company. Boundaryless linked the meetings to create an operating system that was built on continuous idea flow. One of the best examples to prove the success of the Boundaryless behavior at GE employees was successful implementation of Kanban¹² technology. To assist the sharing of best ideas, Jack Welch initiated the corporate initiative group. This is the only corporate staff that Jack allowed to grow. He hired Gary Reiner from Boston Consulting Group in 1991 as the head of business development. Under Jack's leadership, the group's focus was changed from acquisitions to driving ideas in support of initiatives across the company. (Source;—Jack; Straight from the Gut)

Six Sigma

Six sigma was, perhaps, the most talked about, the most appreciated and the most implemented concept executed by Jack at GE. Six sigma meant, that a company has fewer than 3.4 defects per million products in a manufacturing or service process. That is 99.99966% of perfection. This concept was introduced at GE, when the industry's tendency to allow deficiencies was about 35000 in every million. Jack said, “Ultimately it drives leadership to be better by providing tools to think through issues. At Six sigma's core is an idea that can turn a company inside out, focusing the organization outward the customer.” Tapping Sony's demand was an illustrious example of the Six sigma's success at GE. Lexan polycarbonate of GE had very high quality standards, but it did not meet Sony's requirements for its new high density.

CD ROMs and music CDs. A black belt team¹³ solved the problem by designing a change in the production process that gave us the color and static qualities that Sony demanded. GE went from 3.8 sigma to 5.7 sigma and earned Sony's business. This way Jack made a successful attempt to bring about a change in GE.

20/70/10 Philosophy

GE, during Jack's tenure as CEO, introduced an annual appraisal system in which every manager was ranked in the top 20%, the 'vital' middle in the 70% and the bottom 10% among their peers. The bottom 10% was fired. Although this system drew criticism, Jack

¹² A Japanese term for one of the primary tools of a just-in-time system. It maintains an orderly and efficient flow of materials throughout the entire manufacturing process. It is usually a printed card that contains specific information such as part name, description and quantity.

¹³ In-depth quality training that includes implementation of high-level statistical tools, basic quality control tools, and Change Acceleration Process and Flow technology tools.

said “The cruelest thing you can do to your employees is not to give them candid feedback early in their careers.” By 1991, the annual reviews of the employees at GE used to be based on the Boundaryless behavior of the employees. Every manager in the company was rated high, medium, or low based on the peer’s evaluation and later on the views of their supervisors. On the basis of the Boundaryless concept, Jack classified the managers into four types viz. Type 1, Type 2, Type 3, Type 4. According to him, Type 1 manager delivers on commitments—financial or otherwise—and shares the values. Type 2 managers are those who don’t meet commitments and don’t share our values. Type 3 miss commitments but share values and Type 4 are the most difficult ones, who deliver on all commitments but don’t share values i.e., the autocrat and the tyrant. And he said that the type 4 managers are the ones who are the most difficult for an organization top to handle.

If an employee is not in the right job, he then has to do something about it.

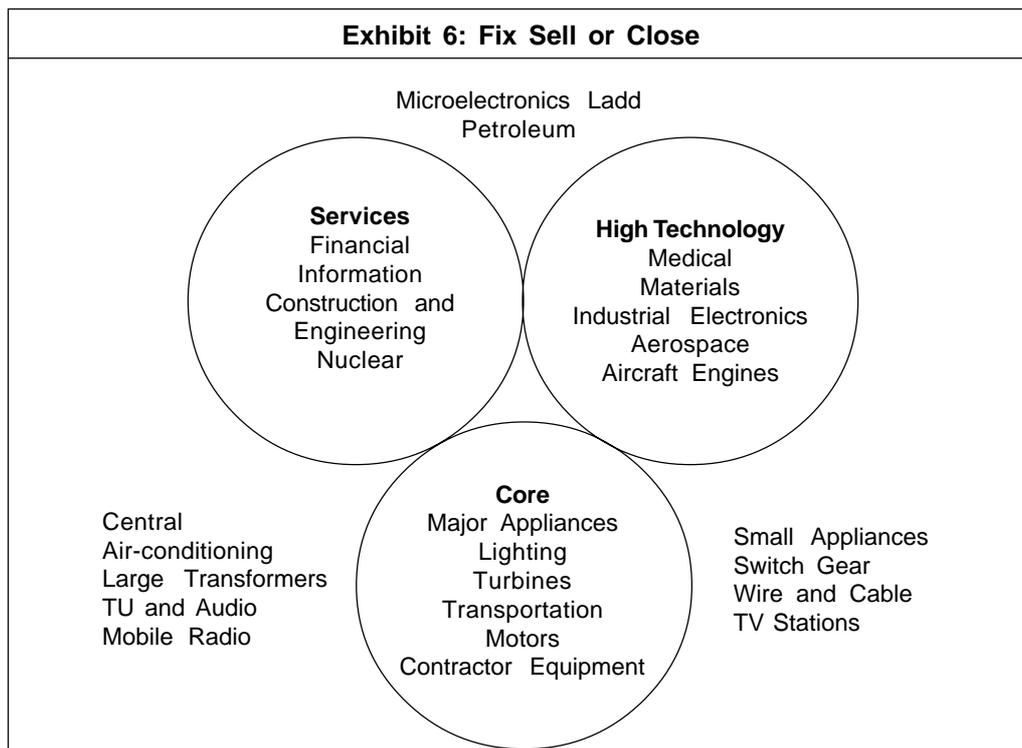
Training Facility at GE

General Electric has long been known for developing some of the best leaders in business. Most CEOs in GE’s century long history were drawn from within the organization. Jack also emphasized the training needs of the managers at GE. One of his first acts as chief executive was to rebuild Crotonville, GE’s management-training center at Croton-on-Hudson, New York, for his strategic and managerial revolution. At this management training center, Jack himself delivered the vision to managers, to make their business focus on No.1 or No.2 in the industry, to break through the hierarchy and bureaucracy spreading all over the organization. He tried to connect with managers deep in the organization. For Jack, the training center was the perfect place to spread ideas in an open give-and-take environment. Here, Jack developed and put into practice his candid management programs such as “Six Sigma” and “Workout”. The training school also offered state-of-the-art classes to GE employees and customers in business management, leadership development, finance, sales and marketing. Jack said, “Ultimately, Crotonville became a boiling pot for learning, our most important factory, our human factory.” As a mark of respect to Jack, GE’s 45-year-old corporate training facility in Crotonville, NY, was renamed the John F Welch Leadership Development Center in a ceremony at the center on September 6, 2001.

Transformation at GE: The Jack Way

Jack was known for the massive transformation that he brought about at GE during his 20-year tenure as Chairman. GE witnessed a series of spin-offs and takeovers during Jack’s tenure (Exhibit 6). GE made almost 1000 acquisitions and more than 400 divestments in his leadership. He insisted that the GE should be in the businesses where it is either No.1 or No. 2. Jack developed this vision of No.1 and No.2 from Peter Drucker’s¹⁴ questions:

¹⁴ Peter F Drucker is the Professor at Drucker Graduate School of Management and is an acclaimed management guru.



“If you were not already in the business, would you enter it today? And if the answer is no, “What are you going to do about?” (Jack; Straight From the Gut)

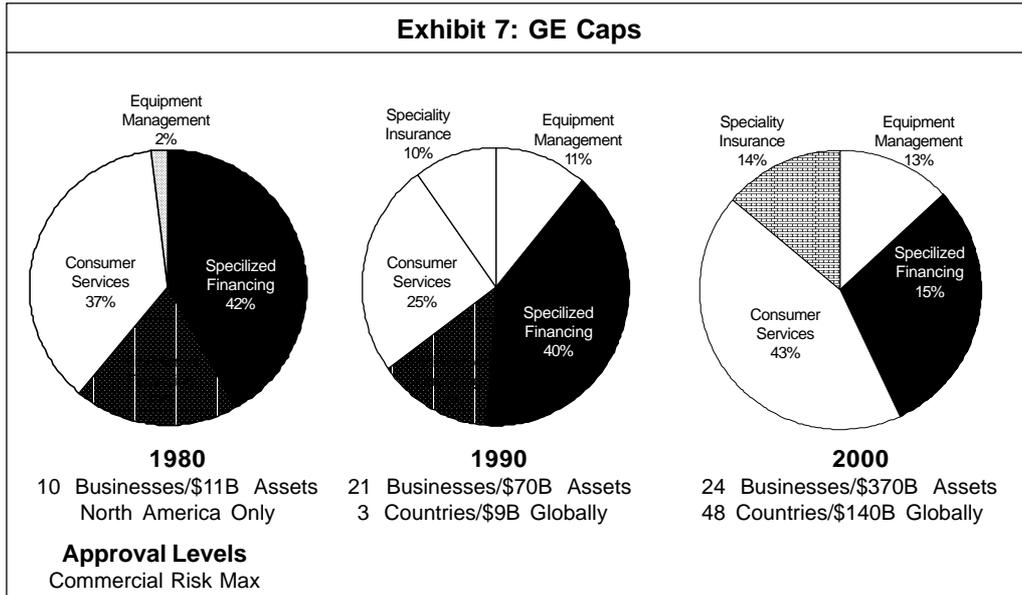
In acquiring new businesses, Jack stressed the importance of not driving the hardest bargain possible and leaving something on the negotiating table, as a way to develop a successful long-term relationship with the new subsidiary. Though he had a tough time convincing many people about his vision, he succeeded in selling off many GE’s businesses like micro electronics, Ladd Petroleum, small appliances, switch gears, TV Stations, Central Air-conditioning, Large Transformers, TV and Audio, Mobile Radio etc.

Jack’s vision drove him to globalize GE and leave a footprint across the globe. GE bought RCA in 1985 for \$6.3 bn. His vision drove him to globalize GE on a large scale. In 1980s, GE acquired companies like Tungsram. (Hungary), partnered with Wipro in India (medical equipment), acquired CGR (France), Nuovo Pignone (Italy), Celma (Brazil) etc. From 1997 through 2000, medical systems acquired 40 service companies, bought 31 power systems, and 17 aircraft engines. The products business of GE, which was \$8 bn in 1995, grew to \$19 bn by 2001 and Jack had a compelling vision of growing the business to \$80 bn by 2010. The service sector of GE also grew with a proportional pace, to \$62 bn in 2001 from \$6 bn in 1995. Jack foresaw the future of the services industry around the world and brought about a major shift in the operations at GE. GE, which was thought to be a industrial manufacturing oriented company saw a major shift in its portfolio of business. After such a shift, in the year 2000, GE claimed 40% of its total revenues from its service divisions. Jack envisaged GE capital as a cash cow. He first

observed the business in 1978 as the sector executive. Then GE capital earned \$67mn on \$5 bn assets. In his own words “What I saw in 1978 was the opportunity—not just the benefit you get on balance sheet, but the additional leverage you get by putting together two raw materials: money and brains.” Jack described GE Capital’s phenomenal growth in four distinct phases viz, 1977-1985, 1985-1990, 1990-2000 and 2000 onwards. The phases involved

- Acquiring the best people into GE capital like Larry Bossidy, Gary Wendt, Dennis Dammerman, Norm Blake, Bob-Right, and Dennis Nayden.
- Aggressively grow business by making GE an acquisition machine. Under this strategy, GE acquired companies like Employers Reinsurance Corp., Patrick Media, Montgomery Ward, Pet Protect, Bank Aulina (Switzerland), Burton Group (Credit Cards division), Minebea (consumer finance company), Toho mutual Life Insurance Company, consumer loan business of Lake (Japan’s fifth largest consumer finance company) etc.
- Creation of a global financial services business by leading a decade of unprecedented deal-making.
- Expanding the global franchise and bringing to financial services the rigor of Six Sigma and digitization.

By 2001, GE Capital services had 24 businesses and \$370 bn in assets in 48 countries. (Exhibit 7)



Jack’s tremendous leadership skills, effective communication and dynamic concepts at the workplace have been widely accepted, across the globe, as an exemplary style of running an organization. His innovative, breakthrough leadership strategies as CEO

have transformed GE into a highly productive, labor-efficient powerhouse. Under Jack's leadership, managers had wide latitude in building their GE units in an entrepreneurial fashion. Determined to harness the collective power of GE employees, Jack Welch redefined also relationships between the boss and the subordinates. Having respect for the individual as a pivotal force in an organization, Welch created a model of exceptional performance every corporate leader could learn from. Jack Welch tenure as the CEO and Chairman of GE would be remembered as one of the most glorious periods in the history of GE. When Welch took over the reigns of GE, many were skeptical about his ability to deliver returns, but he proved them wrong. By the end of his career, even his harshest critics had to admit that he set a whole new benchmark of performance. □

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