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Management: Anticipating Welch on Welch in His New Book

By ANDREA GABOR

For most of his two decades at the helm of the **General Electric** Company, John F. Welch Jr. has thought of himself as a teacher. One of his first acts as chief executive was to rebuild Crotonville, G.E.'s management training center at Croton-on-Hudson, N.Y., into the West Point of his strategic and managerial revolution.

In the intervening years, Mr. Welch became a fixture at Crotonville, interacting with hundreds of G.E. managers each year. Now, for his final lesson before making way for his newly named successor, Jeffrey R. Immelt, 44, the head of GE Medical Systems, Mr. Welch is writing a book that promises to be a must-read for all students of management.

"Teacher" might seem an odd appellation for the decidedly unprofessorial Mr. Welch. This, after all, is a man whose mass layoffs earned him the nickname Neutron Jack and whose rapid-fire speech aggravates a stutter and rarely ends in a complete sentence.

Although he is a self-described news fanatic who devours magazines, he acknowledges he does not read "a lot of big heavy books" unless they happen to be written by Peter F. Drucker, the management guru who inspired two of the so-called big ideas that have been part of



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John F. Welch Jr. hammers home his ideas and expectations as he challenges his General Electric managers at twice-monthly sessions.

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so called big ideas that have been part of Mr. Welch's G.E. tenure. Instead, Mr. Welch cultivates an informal network of advisers that include the world's leading corporate chieftains, academics and consultants.

Still, it is a measure of his reputation as a teacher that his book, which is scheduled for publication next year, is already being hailed as the most important management text since Alfred P. Sloan's 1964 classic, "My Years With General Motors."

"Most of the books written by business people are narrowly focused on the wonders that they've created" in a specific industry, says Walter B. Wriston, the former Citibank president who served on G.E.'s board for almost three decades. "G.E. is the closest thing to a broad spectrum company you can find, and Jack Welch is blessed with an extraordinarily inquiring mind."

Much of the buzz about the book, of course, has been driven by the record \$7.1 million advance that Time Warner Trade Publishing is paying Mr. Welch. **Time Warner** will have to sell an estimated 1.6 million hardcover copies just to break even. The highly personal autobiography of Lee A. Iacocca, the former chairman of Chrysler, is the only book by a chief executive that has sold more.

Mr. Welch's book, by contrast, is expected to be all business, and what new ground it will break is anybody's guess. A cottage industry of books about G.E., many written with Mr. Welch's cooperation, has flourished in recent years, including "Jack Welch and the G.E. Way," (McGraw-Hill, 1998), one of three books on Mr. Welch by Robert Slater, and "Control Your Destiny or Someone Else Will," by Noel M. Tichy and Stratford Sherman (Doubleday, 1993.)

But in a recent interview, Mr. Welch discussed both his accomplishments and some of the lessons he had learned while transforming G.E., which in 1981 had \$27.9 billion in sales, mostly in industrial products, into the \$170 billion conglomerate it is today, with interests ranging from aerospace to network television to finance. When it completes its deal to acquire Honeywell International for \$44.5 billion, G.E. will have a market capitalization of \$521 billion, the largest in the world. And Wall Street loves the more than 100 quarters of uninterrupted growth in net income that have occurred under Mr. Welch.

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John F. Welch Jr., right, in 1998 at an Ohio aircraft engine plant, one of G.E.'s many units.

How to explain this success? Mr. Welch's book will almost certainly hammer home three points that have become his mantra. Managers should:

- Create leaders. "In the end, the plate looks prettier than the making of it," he said. "My job is selecting people, evaluating people, giving them self-confidence and spreading ideas."
- Focus on a few simple big ideas and dedicate the resources needed to drive them home.
- Master and inspire continuous change. "The most difficult thing in an organization is to get people to act on change," he said.

Consider one of his early dictums: Cutting out any business that was not No. 1 or No. 2 in its market, including the small appliances that put the G.E. logo in nearly every American home. When that strategy became "a little tired," he said, he modified it. "The bureaucracy had learned to be No. 1 and No. 2 by shrinking their defined markets. We shrank our visions."

So in the early 1990's, he insisted that every business expand that definition to show that it was serving only 10 percent of the market, with room to grow. That strategy became the vehicle for expanding into services and becoming more global. "Welch has an enormous dissatisfaction with how good he's been," said David O. Ulrich, a professor of business administration at the University of Michigan and a former G.E. consultant. "He is consumed with, 'What's next?'"

Mr. Welch does not dwell on his mistakes. Readers of his book, however, will want to know, among other things, how he handles dissent in a company he often rules like an autocrat. They will also want to hear his view of ethical lapses and outright fraud at businesses like Kidder Peabody, which G.E. sold after a scandal and huge losses. G.E. is still embroiled in controversy over the dumping of toxic PCB's in the Hudson River years ago, and some critics say that the company has been slow to promote women and minorities.

For now, the Honeywell acquisition, announced last month, is absorbing much of Mr. Welch's time. G.E. is struggling as well to superimpose its values, including Mr. Welch's commitment to steep pay differentials, on foreign subsidiaries that have vastly different cultures.

But given that Mr. Welch is a management icon, he is expected to focus most on his leadership agenda. And the key to that — and, in all likelihood, the road map for his book — can be found at Crotonville. Even as he was laying off people and shuttering factories in the early 1980's, he was pouring millions of dollars into turning the center into a laboratory for the half dozen "big ideas" that have reshaped G.E.

The heart of Crotonville is the Pit — the circular, tiered lecture hall where Mr. Welch conducts free-wheeling discussions with his managers. The Pit is modeled after a gravel-filled field where he played ball as a boy in Salem, Mass.

To understand Mr. Welch, one has to understand the culture of the Salem pit, says Samuel E. Zoll, a childhood friend who is now a Massachusetts judge. "The neighborhood and local park were the center of our universe," Mr. Zoll said. It was a place where the local boys organized their own games because their parents were struggling to make ends meet right after World War II. That required cooperation, he said. The children created their own teams, scheduled their own tournaments and even swept the gravel in the spring and shoveled the snow in winter.

But the pit was also a place of intense competition where the bigger kids called the shots. To play, the younger boys "had to finagle" their way onto the field, Mr. Zoll said.

"There was a fight almost every day," said Larry McIntire, Salem's parks superintendent and another denizen of the pit. And Mr. Welch was not one to back down, Mr. Zoll said. "I can still picture him jawing with a guy one and a half times his size. Welch stands square in front of the guy yelling, 'It's our turn. Losers out.'" To the surprise of his teammates, he said, the big guys eventually left.

In his twice-monthly Crotonville sessions, Mr. Welch hammers home his ideas and expectations and challenges his audience — both senior executives and middle managers — to identify problems and unmet opportunities. "Mr. Welch has learned that the role of the C.E.O. is like that of the actor in an old Greek play," Professor Ulrich said. "You've got to overact to get the people's attention at the back."

Mr. Welch favors folksy metaphors and always packages his ideas in simple sound bites: "No. 1 and No. 2," "fix, sell or close," "Work Out," "Six Sigma." The ideas can come from almost anywhere. One of Mr. Welch's recent favorites — having twenty-something Internet mavens mentor old fogeys like himself — comes from a subsidiary in Britain. The program is vintage Welch: it gives young people access to the boss's office and senior managers a pipeline to what he calls "hallway gossip."

Yet, carrying out the core ideas can be difficult, as Mr. Welch's book is likely to show. Take "Work Out," a grass-roots approach to rooting out bureaucracy. The idea was inspired by a particularly acrimonious Crotonville session after G.E.'s first major downsizing. Despite a 25 percent cut in the work force, the old inefficiencies remained. So in the fall of 1988, Mr. Welch hired 40 experts from the top business schools to create a system for rooting out bureaucratic waste.

During Work Out sessions, managers have to make on-the-spot decisions to accept or reject suggestions made by subordinates, though in some cases they can request more information. "It took five to seven years and thousands of meetings," Mr. Welch said, "but now people think that's just how the company works."

Not all of Mr. Welch's ideas emerge with a flash of blinding light. The journey to Six Sigma, a statistical quality measure for bringing defects to near zero, was fraught with years of misunderstanding and opposition. Powerful subordinates began pushing for a quality program just as their boss was starting Work Out, and he was not pleased. In particular, Brian Rowe, then the head of G.E.'s aircraft engine division, had embraced the quality philosophy of W. Edwards Deming.

Such an open challenge was like being the only guy with an "A.C.L.U. membership at a Jesse Helms fund-raiser," said Todd Wilkinson, a former G.E. engineer. "The scuttlebutt was that Welch hated Deming's philosophy."

He certainly disliked it. "I was never much of a believer," Mr. Welch said. "I didn't quite understand it. I didn't think it had companywide application." He was finally swayed to adopt quality control, but not the Deming method, by a fellow chief executive, Lawrence A. Bossidy, who became a Six Sigma devotee when he joined Allied Signal.

Soon, "G.E. became the standard for Six Sigma," said Subir Chowdhury, a leading quality expert in Detroit. For Mr. Welch, who once bested Greg Norman at golf, a decisive moment arrived in the fall of 1995 when he canceled an executive golf outing in favor of a Six Sigma briefing. The ideal symbol to usher in the next big idea.