

# Systems Need Refreshing: Welch

The School year kicked off on a high note when 900 Rotman students and guests crammed into the Fleck Atrium and adjacent classrooms to listen to **Jack Welch**, legendary former chairman and CEO of **General Electric Co.**, in conversation with Dean **Roger Martin** in the ongoing *Rotman Integrative Thinking Seminar Series* on September 12.

Welch told the crowd that when he became GE's eighth chairman and CEO in 1981, "it was time to change gears, because the Japanese were eating our lunch." In the beginning, he only had about a third of the company supporting him, he said. "Less than that," shouted one of his GE colleagues from the audience.

Welch implemented systems that were vastly different from industry standards of the time. "The annual budget review process is the worst thing that happens in the modern organization," he says. "It's nothing but an internal negotiation – it has nothing to do with competitiveness." Under Welch, each GE business had to measure itself against just two things: the previous year's results, and performance against its competitors. "Our meetings went from ten-hour negotiating sessions to 'dreaming sessions', where innovative ideas could be exchanged."

Bonuses were also approached differently. "In 1996, our plastics business had a booming year; they were up 24 per cent – less than their competitors, but still a good



Photo: Ken McGuffin

Roger Martin and Jack Welch

year." Meanwhile, the appliance business had a flat year, "but performed better than its competition, and held its own against the previous year. We gave out bigger bonuses to our appliance people, and we announced this at our annual executive conference in

Boca Raton. Once you set an example like that, it's very clear what's important."

Early on, Welch divested any GE business that wasn't number one or two in its industry. "In the beginning, it was helpful to give people a roadmap," he says. "We were carrying some businesses that had been losing money for 20 years, and the message was clear: fix it, or it's gone." GE was soon transformed from 350 companies into an agile giant with only 12 core businesses. But like many good ideas, it was carried too far, he says.

"Bureaucracy beats every system. If you tell people, 'you've got to be number one or two' long enough, here's what happens: the market for that business just

keeps getting narrower. Soon everybody had a 40 per cent share – of nothing, basically. In the end, we had people saying they were number one or two 'in the market for brown chairs with curved arms that were this big'." Welch shifted gears drastically, making 15 per cent the maximum share any business could have. "All these businesses had to redefine their markets; and suddenly, they saw opportunities everywhere." Constantly refreshing like this is key, says Welch, because "systems get tired."

During his 20-year reign – during which GE's market capitalization increased by an astounding \$400 billion – Welch's core competence was developing people, not products, he says, adding that the idea

of a CEO single-handedly running a company is "a joke."

"Many MBAs think they have all the answers," he says, "but the truth is, it's not about you: it's about the team you build once you get promoted in two or three years." Build a great team, and you will succeed, he says. As for career advice, Welch told the crowd that consulting is "a great place to go to see the world, learn about a variety of businesses and leverage that into a damn good position with one of your clients. I'd never say, 'don't go into consulting': just don't stay there." Biotech is the field to get into, he says. "If I were a young person, I would get as close to it as possible."

*by Karen Christensen*