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Jack Welch and General Electric: How Clear and Open Communication Through a Coherent Communication Strategy in an Environment of Value and Action Creates a Satisfied Workforce and Competitive Advantage

Case Objective

This business case of Jack Welch as CEO of GE will demonstrate that when leaders clearly communicate company mission and goals with employees and involve employees in developing and implementing ideas in a systematic and regular way, the company will see success in its workforce and business.

Executive Summary

When Jack Welch became Chairman & CEO of General Electric Company (GE) in 1981, GE was known as an “old-line American industrial giant” and a “complex organization” (Byrne). Welch “reshaped the company through more than 600 acquisitions and a forceful push abroad into newly emerging markets” (Byrne). Welch demonstrated the importance of having an effective communication strategy. Argenti proposed that a company could reinvent how it handles communications through building a coherent communication strategy (41). “Whether an organization is trying to enhance its reputation through corporate advertising, to communicate effectively with employees about the rising cost of health care, to convince shareholders that the company is still worth investing in, or simply to get customers to buy more of its products, using coherent communication strategy is critical” (Argenti 28). A good communication strategy takes into consideration the messages, constituencies, constituency responses, and the corporation (Argenti 40). Welch took a direct approach in delivering his message (the firm’s mission and

objectives), took into consideration the constituencies (employees) at all levels of the organization, and how the constituents would respond to the message (productivity, process improvement, and self-confidence), all to serve the Corporation's needs (to be the best and retain only those markets it could be the best in).

Welch believed in communicating desires and the mission clearly. He also believed in candid communication; that building trust through honesty was imperative to content and productive employees. Welch knew that you cannot “simply communicate with a few hundred people at the top and expect change to occur. So he doggedly repeats the key messages over and over again, reinforcing them at every opportunity” (Byrne). Welch did not accomplish all he did by ruling from the top down, or by communicating *his* ideas; he did it by soliciting *employees'* ideas, from all levels of the organization. He did this by implementing employee-involvement through three core management techniques: *Work-out*, *Best Practices*, and *Process Mapping*. He additionally instituted the *Six Sigma* quality program later in the 1990s, which was important in bringing measurement and improvement to GE.

Background

General Electric (GE) is a U.S.-based company that was first incorporated in 1892. From the start, GE has been a collection of several businesses. GE's founder, Thomas Edison merged his Edison Electric Light Company with Thomson-Houston Electric Company under the name “Edison General Electric Company.” Many of his original business offerings are part of GE today, including lighting, transportation, industrial products, power transmission, and medical equipment (GE website). The company website states that “GE's leaders through the years have built a diverse portfolio of leading businesses; a stream of powerful company-wide initiatives that drives growth and reduces cost; financial strength and Controllershship that allow it to capitalize on opportunities through numerous; and a set of common values that allows it to face

any environment with confidence.” GE is known for many things: light bulbs, appliances, broadcasting and television, financing, medical imaging, and other businesses. Its ability to move forward and sustain has built its reputation in technology, innovation, acquisition, and research. GE currently serves more than 100 countries and employs more than 327,000 people worldwide (GE website). GE is a successful company, reporting double-digit earnings and revenue growth, and over the past four years, has averaged earnings growth at a rate of 14 percent per year (GE website).

Jack Welch was a chemical engineer when he began his career with GE in 1960. After earning his B.S., M.S., and Ph.D. in chemical engineering, he started with GE in their Plastics division. Welch thought that “chemical engineering was one of the best backgrounds for a business career, because both the classwork and required thesis teach you one very important lesson: There are no finite answers to many questions. What really counted was your thought process. The same is true for most business problems” (Welch 18). He rose through the ranks at GE, becoming the company's youngest Vice President in 1972, and Vice Chairman in 1979. Welch became CEO in 1981 and served for 20 years in that position. “In 1980, GE recorded revenues of roughly \$26.8 billion; in 2000, the year before he left, GE was at almost \$130 billion in revenues. He ran GE like a small dynamic business able to change as opportunities arose or when a business became unprofitable” (GE website).

To focus on Welch's leadership style and competitiveness, however, Welch might argue that we should look no further than his mother, Grace Welch. In his biography, *Jack: Straight from the Gut*, he tells the tale of ending his high school hockey team's seventh straight loss by tossing his hockey stick across the ice in anger. His mother followed him into the locker room, marched right up to him, and said “You punk! If you don't know how to lose, you'll never know

how to win. If you don't know this, you shouldn't be playing" (Welch 4). Despite his mortification of being yelled at by his mother in the boys' locker room during the fragile adolescent years, he states that what she said never left him. Welch states, "If I have any leadership style, a way of getting the best out of people, I owe it to her. Tough and aggressive, warm and generous, she was a great judge of character. And many of my basic management beliefs -- things like competing hard to win, facing reality, motivating people by alternately hugging and kicking them, setting stretch goals, and relentlessly following up on people to make sure things get done -- can be traced to her as well. She always insisted on facing the facts of a situation" (Welch 4). Welch grew up with a speech impediment and stammer, but still managed to have an abundant level of self-confidence, which he attributes to his mother. He grew up in a working class Irish neighborhood in Salem, Massachusetts. His father was a railroad conductor on the Boston & Maine commuter line, and he attributes his value of hard work to his father. His father never missed a day of work, and if he got a report that bad weather could threaten his ability to get to work on the railroad, he would go to the station the night before and sleep there (Welch 7).

Welch got off to a rocky start at GE, when, after receiving the standard issue \$1000 bonus that everyone in the group got, he quit in 1961 when he felt "stifled by the company's bureaucracy, underappreciated by his boss, and offended at the civil-service style raise" (Byrne). However, Welch was wooed back to GE with a promise from an executive above him in the ranks who promised to "create for him a small-company environment with big-company resources. These were themes that would later dominate Welch's own thinking as CEO" (Byrne). Welch also admired how Charlie Reed, corporate group executive, handled the fact that Welch was responsible for blowing up a Plastics plant in 1963. Welch firmly took responsibility and

had a plan to fix the problems that caused the accident. Instead of “piling on” to Welch when he was down, Reed responded that it was better that they find out these mistakes now instead of when it was in a large-scale operation. Reed expressed he was just thankful no one was hurt in the accident. Welch stated that Reed’s reaction made a huge impression on him (Welch 29).

Welch felt that “When people make mistakes, the last thing they need is discipline. It’s time for encouragement and confidence building” (Welch 29). Welch, it seems picked up on principles of leadership throughout his early years and through some of the people in his career to help shape what he thought made good leadership, and good employees. His direct style of communication and importance in always striving to improve influenced his leadership and communication style at GE that built him the reputation as a legendary leader.

“Early on, Welch sent the trumpet call throughout GE: Be No. 1 or No. 2 in every market you are in. The alternative, he ruled, was, "close it, sell it, or fix it," and GE has got out of several traditional markets, including household appliances, where it had long been a renowned brand name. Welch defused in-house opposition by demanding: ‘In the 21st century would you rather be in toasters or CT scanners?’ There is no denying, though, that Welch has a dynamic personal impact on GE’s managers, whom he assesses primarily on their ability to implement the company's values and develop their teams."

As Argenti states in *Corporate Communication*, “More and more, companies are making sure their employees understand the new marketing initiatives they are communicating externally and are uniting the workforce behind common goals and corporate strategies” (60). Jack Welch, as CEO and chairman, wanted to turn GE into a more successful, cohesive company. In 1981, GE had annual sales of \$25 billion and earnings of \$1.5 billion with a \$12-billion market share, and was tenth best among U.S. public companies. In 2001 (Welch stepped down in 9/2001),

GE's revenues grew to \$125.9 billion and earnings rose to \$14.1 billion (Hamilton). Welch knew at the onset that the company was in trouble if it could not break through the bureaucracy and improve its business. In addition to managing the business products and services of GE, Welch believed that only by turning around employees and management could the company have true change.

Welch, in an interview for *Harvard Business Review* stated "Good business leaders create a vision, articulate a vision, passionately own the vision, and relentlessly drive it to completion. Above all else, though, good leaders are open."

Welch asserted leadership principles that enforced a team-based approach to improvement, motivating employees through energetic action-oriented leadership, recognizing employees' achievements, and clearly stating the company's mission. Employees mattered to Welch - he saw them as a source of winning ideas and a reflection of the company and its mission. He felt that the organization has to "get everybody in the organization involved. If you do that right, the best ideas will rise to the top." To do this, he instituted three core management techniques: *Work-out*, *Best Practices*, and *Process Mapping* (Stewart).

Work-out

Work-out was first named as Welch talked about "working out the nonsense of GE and dealing with problems that needed to be worked out" (Express Computer). It is "a forum where three things can happen: Participants can get a mental workout; they can take unnecessary work out of their jobs; they can work out problems together" (Stewart). These Work-out sessions involve people from different ranks of the organization in groups of 40-100 employees and a facilitator. The boss was present at the beginning of the session and would commit to two things: to give an on-the-spot "yes" or "no" to 75 percent of the recommendations from the session and resolve the remaining 25 percent within 30 days. The boss would leave the session and return at

the end (Welchway). This fit in with Welch's underlying principle that "every person in the world wants voice and dignity and every person deserves them" (Welchway).

GE first conducted several successful Work-out sessions and then used them as examples of the program's potential, which was then widely publicized.

Six Sigma

Welch knew that GE's products and processes had not yet attained world-class quality and if he could improve the speed of employee's work, improve their productivity, and raise their level of involvement in company decision-making, it would result in the production of high-quality work. Unfortunately, he was wrong. (Hamilton). To make further improvements, Welch instituted the Six Sigma initiative in 1996. "Six Sigma is a measurement that enables a company to know how effective it is in getting rid of defects and variations from its business processes, products, and services" (Hamilton). This program helped GE rise to the top in many of its global markets. Implementing the Six Sigma program involved heavy investment in employee training, but it transformed GE and it saw massive productivity gains (Byrne).

"The fundamental objective of the Six Sigma methodology is the implementation of a measurement-based strategy that focuses on process improvement and variation reduction through the application of Six Sigma improvement projects" (Six Sigma). Implementing the Six Sigma program is very expensive because it involves company-wide training, but the program boasts that a company can see significant overall savings of between 1.2-4.5% as a result of implementing the program. GE implemented the Six Sigma program and saw the benefits of about \$10 billion during the first five years of implementation (Six Sigma). The difference between Six Sigma and other quality management programs is that "Six Sigma actually uses data and statistical analysis to measure and improve a company's operational performance by

eliminating defects in manufacturing and service-related processes and is defined by metric, methodology, and philosophy” (Six Sigma).

The implementation of Six Sigma includes the Six Sigma Architecture, in which specific roles and responsibilities are assigned to people. Rewards and Recognitions come to each level of the Six Sigma architecture as well. Six Sigma Architecture includes employees at all levels of the organization:

Quality Leader/Manager (QL/QM) - The quality leader's responsibility is to represent the needs of the customer and to improve the operational effectiveness of the organization.

Master Black Belt (MBB) - Master Black Belts work with the owners of the process to ensure that quality objectives and targets are set, plans are determined, progress is tracked, and education is provided.

Process Owner (PO) - Process owners are exactly as the name sounds – they are the responsible individuals for a specific process.

Black Belt (BB) - Their main purpose is to lead quality projects and work full time until they are complete.

Green Belt (GB) - Green Belts are employees trained in Six Sigma who spend a portion of their time completing projects, but maintain their regular work role and responsibilities.

Six Sigma helped address process improvement and a means of analyzing and measuring where improvements needed to be made. The Six Sigma succeeded in helping Welch communicate strategically with management and employees and harnessed employee motivation and ideas to make GE even more successful.

Best Practices

Best practices describes the way that GE compares itself to firms that are the best at performing a particular function. GE then tries to emulate those firms to improve its own

performance levels. Significant improvements have been reported throughout GE's businesses (Higgins).

As a multi-business corporation, GE often acquired other businesses. This raised the issues of how to assimilate disparate business processes, manage communication, and change among the organizations' constituents. When GE acquires a business, it not only has to communicate processes, it needs to communicate across a different culture and help new employees understand the GE values and best practices. In the article, *Growing global by acquisitions: The role of measurement as GE met Italy*, the author, Cristiano Busco, recalls how the "GE Way" helped make GE's acquisition of Nuovo Pignone (NP) a success "by changing its management approach in the late 90s" (37). NP was an Italian company that was the leader in gas compression and turbo generation. "When companies merge or face acquisition, business processes are restructured according to different operational and corporate philosophies. The acquisition of NP allowed GE to enter new key market segments in the oil and gas sector. However, the success of the deal relied on major process of integration of cultural change....and NP had all the characteristics of a bureaucratic giant: multiple layers of management, poor communication among functions, and the total absence of both a measurement culture and an adequate system of accountability" (Busco 37-38). "The GE global vision, its strategy for growth, the communication of GE values and metrics across subsidiaries and an undisputable requirement to deliver shareholder value all constitute important milestones for the GE way" (Busco 40). In the usual GE way, NP employees received training to support the new culture. Employees were "carefully steered toward understanding the reasons for change" (Busco 41). When Welch discussed NP's concerns about budgets, he claimed that budgets were "the worst invention ever created," as he felt that they were a waste of time. Welch insisted, "Forget about

the budget.....Look at last year’s results, look at your competitors, seek the best practices, benchmark....Who cares about budgets?!” (Busco 41). Welch stressed the importance of understanding best practices as it influenced their growth engine model (see Figure 1 below). Best practices were built on learning from experiences. In the GE-NP process, they “relied on a series of practices and metrics, which it was able to institutionalize in its employees’ actions, driven by the principles, vision, and strategy proposed by the leaders” (Busco 42).

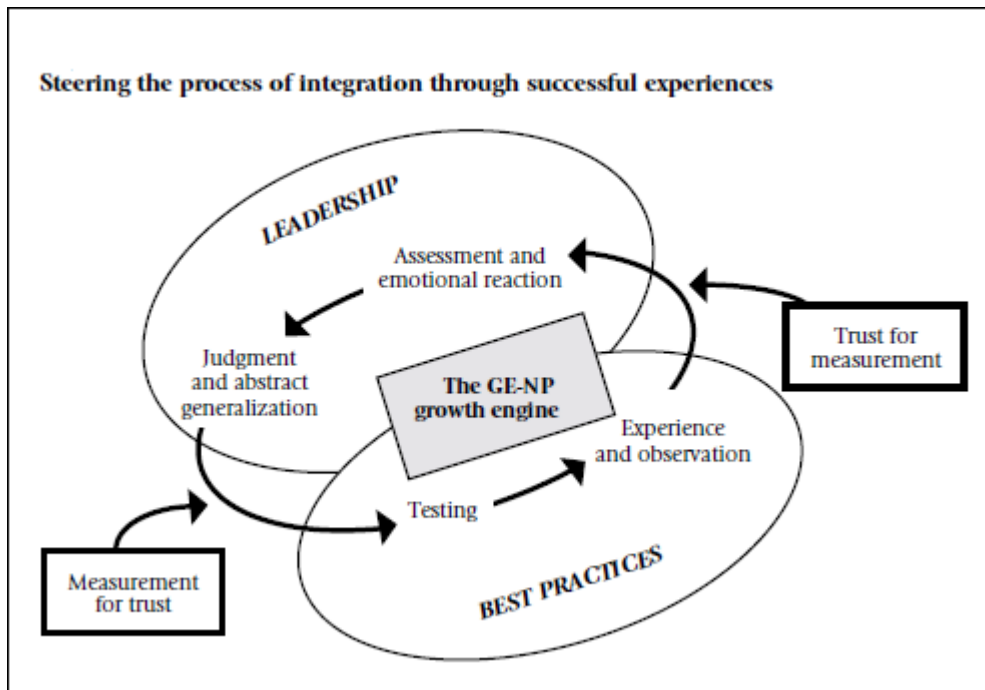


Figure 1: Best Practices as it impacts the growth engine (Busco 42)

GE itself had to develop best practices, and it did so through its experiences. It manages acquisitions through “business process reengineering (BPR) to not only to improve cost and performance, but also to meld organizational cultures and impose parental controls on the acquired business. Mergers offer a tremendous opportunity to improve efficiency and reduce operating costs through consolidation of activities, streamlining of operations, and integration of business process.” “Effective BPR involves understanding existing process defects, identifying

sources of inefficiency, and redefining processes to increase efficiency or decrease errors. Using a ground-up approach incorporating best practices and leveraging new technologies allows for maximum flexibility in process redesign”(Goel & Chen). GE used its established communication and training processes to engineer best practices not only within its current divisions, but to manage acquisitions. Using experience and evaluating competition to institute best practices was an important part of the “GE way” as it was a way to continually identify areas of improvement and integrate solutions among different GE businesses.

Welch felt that the sharing of best practices among managers was extremely important. He invited top performing managers to talk at executive gatherings about the successes they achieved after going through the Six Sigma program. This “Show and Tell” routine allowed managers to exchange lessons learned with their counterparts (Byrne). Courses were delivered to build on best practices and encourage this communication exchange among executives and employees.

Process Mapping

In GE process mapping, employees could flowchart a process and show how all the component tasks are interrelated. The employees then try to see how much time they can cut from the process. In the case of GE jet engines, it was able to cut the manufacturing time in half (Higgins). Process mapping demonstrates the importance of Welch’s communication and management approach of involving employees at all levels in organization in the corporations process changes. By involving the very people who do the work, innovation can be had. Some organizations take the approach of having only upper management have discussions on change and process improvement, which is then often dictated down the ranks. Welch recognized that involving employees and having their opinions heard to be part of the process keeps them motivated, self-confident and invested. It fits with his philosophy of always striving to be better.

Problem Statement

When an organization's leadership, such as the case of Jack Welch of GE, can clearly communicate its philosophy to employees, can involve employees in producing winning ideas that lead to action, and recognizes achievement, the organization is likely to be competitive and successful. Having a clear mission for the company and its employees must lead to a coherent communication strategy to be able to manage effectively across the organization.

Key Issues

Making employees feel valued and employees become an integral part of the business through structured idea gathering and implementation

Jack Welch, himself, almost permanently left a solid job at GE years ago because he felt underappreciated and treated like a "civil servant." He wanted to develop a trust among employees and felt that developing a work environment where employees could speak frankly without retribution "would allow the company to benefit from the employees' knowledge and ideas" (Express Computer).

Through Work-out sessions in which every employee at all levels of the organization was invited to participate, he created a "boundaryless" company that engendered honesty, participation, and openness (Huffmire). Employees were able to identify problems in their units or the business, and present ideas and recommendations. Welch broke through the "top-down" approach to management and recognized that some of the best ideas come from those closest to the work itself.

Additionally, through process mapping, employees understood the importance of their opinion and the importance of improving processes as a corporate objective. Employees got to be a part of process improvement, which builds teams and confidence.

Jack Welch believed in the motto "Employee engagement first." and that "no company, small or large, can win over the long run without energized employees who believe in the

mission and understand how to achieve it” (Welchway). As GE was going through restructuring and layoffs, Welch knew that employees felt working at GE contained a level of uncertainty. He wanted to motivate his employees to work harder, and thought, “The secret was giving workers a feeling that they were ‘owners’ of the business, not simply forgotten cogs in a faceless machine” (Hartman).

Communicating the corporate goals and culture with existing employees and newly acquired businesses.

Welch built a business philosophy that had to be communicated. He would often visit GE office around the world rather than send videotaped presentations. He spent time crafting letters to shareholders that GE personnel read about his concepts of “Number 1, Number 2,” “boundarylessness,” “speed, simplicity, and self-confidence,” and “unleashing the brains and energy of employees” (Hartman).

Maintaining GE’s values was important to Welch and he expected all employees to adhere to them. To communicate these objectives, Welch documented his business philosophy on a laminated card and expected all employees to carry it at all times. These values, he felt, would make GE the most competitive company on earth, and included:

- Create a clear, simple, reality-based, customer-focused vision and be able to communicate it straightforwardly to all constituencies.
- Understand accountability and commitment and be decisive...set and meet aggressive targets...always with unyielding integrity.
- Have a passion for excellence...hate bureaucracy and all the nonsense that comes with it.
- Have the self-confidence to empower others and behave in a boundaryless fashion...believe in and be committed to Work Out as a means of empowerment...be open to ideas from anywhere.
- Have, or have the capacity to develop, global brains and global sensitivity and be comfortable building diverse global teams.
- Stimulate and relish change...do not be frightened or paralyzed by it. See change as opportunity, not just a threat.

- Have enormous energy and the ability to energize and invigorate others. Understand speed as a competitive advantage and see the total organizational benefits that can be derived from a focus on speed (Hamilton).

Developing process improvement and innovation to continue to thrive

In the example of GE's acquisition of Nuovo Pignone (NP), careful steps were taken to train and communicate strategically with NP's employees. These important constituents were coming from a business culture that was the antithesis of GE; poor communication, bad management, and no measurements in place. By using strategic communication and best practices with NP to enforce the "GE way" but it also was a way to continue to improve on its processes to remain strong and competitive.

GE was always looking for ways to be better and improve its processes and process mapping and best practices encouraged this. Unlike some companies that only took the opinions of the higher ranking executives, GE took the approach of involving its employees to develop ways to improve processes and cut down on manufacturing time. Employees helped make the company, and their own teams, more efficient. This strategy, when communicated effectively, and implemented efficiently can make individuals succeed in their own right and for the company.

Potential Resolution

Welch carried his core values and principles to the forefront in his leadership at GE. He did not beat around the bush with his expectations and targets. He was focused on performance and when he was handing out rewards, it came with a discussion of his expectations. "Above all, however, Welch skillfully uses rewards to drive behavior." Many executives had quite a bit of freedom at GE, "But the leash gets pulled very tightly when a unit is underperforming" (Byrne). His message "What counts is what you deliver" is one that he has repeated in words and actions throughout his tenure at GE (Byrne).

Welch understood that building a coherent communications strategy throughout the organization, along with setting clear and specific expectations was of the utmost importance. He did this by being direct, repeating again and again what was important, and he communicated to employees that *they were GE*. To accomplish this communication, Welch implemented programs across the entire organization that included involvement from all levels of the business. These programs, the Work-out, Best Practices, and Process Mapping, were communicated through training and clear communication of expectations. Employees were in charge of making things better and improving processes. They were valued for the expertise they learned from doing their jobs. By clearly communicating expectations and expecting employees to be involved helped boost their self-confidence and the business' bottom line.

Welch's philosophy shaped the culture of GE. Employees were empowered to be involved in the business at all levels. The organization's focus on achievement, reward, and process helped make it a success. Although results were what mattered, results were achieved through process examination and improvement. As Welch had predicted, this innovative approach helped GE become the most competitive company on earth.

Questions for Discussion

1. Can an approach like this be implemented if the CEO does not personally adapt these principles?
2. How do employees react to such pressure-filled expectations to continually outperform the last achievement?
3. What methods of communication strategy prove the most effective in communicating methods and expectations to employees?
4. How does a coherent communication strategy among employees translate to communication with the public?
5. How can managers communicate with employees who do not thrive in an environment with this high level of performance expectation? Is there a place for them?

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