

**Jack Welch**  
**Former Chairman and CEO, General Electric**  
**CEO Speaker Series**  
**September 18, 2002**

PD: For Analysis for General Managers part of the Tuck Leadership Forum, before I turn this over to Professor's Argenti and Finklestein, I wanted to say a few words about this course, about your professors in this course to date, and to introduce our distinguished speaker, Mr. Jack Welch.

All of you have had a taste of the Leadership Forum already through the Analysis for General Managers, but I wanted to say a bit more about this innovation. We introduced the Forum about 2 years ago as part of our overall curriculum reform and that was embedded in our total strategy review. A big recommendation was look at the curriculum and see if it is the curriculum for the future. This forum is part of what you are experiencing as the new Tuck curriculum.

I think Mr. Welch will find it interesting to discuss this a bit to put it in context and see how we are achieving our academic goals here at Tuck. The Tuck Leadership Forum is year long, cross-disciplinary experience that helps you to develop general management skills through courses like AGM, Entrepreneurship, and Management Communication. To speakers like Mr. Welch and other CEO's that we will have throughout the year and through the team projects you will be working on later.

We believe that the forum with its emphasis on general management, on leadership, on teams, and its intense focus on people is the key or a major key to our entire curriculum. It gives our students the kind of edge that we saw reflected in our number one ranking in the *Wall Street Journal*. Jack was coaching me on how to milk that little phrase. The Forum is also about working with great professors such as the professors we have in front of us. So let's get started. I'll introduce them and then I'll introduce Mr. Welch.

Professor Paul Argenti has been at Tuck for 21 years and serves as the Faculty Director for the Tuck Leadership Forum. Paul is not only a great teacher but also a prolific writer in the areas of corporate communication. Paul sits on prestigious editorial boards, is widely quoted on issues relating to communication and reputation and has advised major corporations such as Sony, Nokia and Goldman Sachs. He will be our moderator before the discussion.

Professor Sydney Finkelstein has been at Tuck for 9 years and in addition to also being a great teacher, he also a prolific writer on many editorial boards. His expertise is in strategic leadership, top management teams, mergers and acquisitions and corporate mistakes. So he is a busy, busy man now. He is working on a book now which I predict will be a blockbuster, and that is his opus on corporate mistakes. We are looking forward to that. Syd has leant his expertise to several major corporations and he is the director of one of our flagship executive education programs, The Tuck Executive Program that we hold in the summer here.

I am, of course, pleased to welcome our guest of honor today, Mr. Jack Welch, Former Chairman and CEO of General Electric Company. Many of you have already been introduced to Mr. Welch's philosophy on business and his book, Jack—Straight From the Gut, and of course he has been perhaps the most written about executive in our time.

Let me refresh your memory a little. Jack is an extraordinary man. He grew up just outside of Boston. I understand that one time he considered coming here to Dartmouth for college, but instead he got his college degree from the University of Massachusetts at Amherst. He earned a PhD in Chemical Engineering from the University of Illinois in just 3 years and joined G.E. in 1960. He became chairman of G.E., and knows was a lot of stuff in between there, but he became

Chairman. He became Chairman and CEO in 1981 and retired after 20 years last fall as one of the most successful CEO's in history.

After a run at G.E. that broke every measure of corporate growth imaginable, including creating tremendous value for all the stakeholders that had anything to do with G.E. Having Mr. Welch here today gives us an opportunity not only to learn from one of the best general managers ever, and we are the top general management school. But to also get an insight from him on the degree of pressure and scrutiny that leaders are under today.

Early in his book, Jack writes about how important self-confidence has been to his success. Monday's op-ed in the Wall Street Journal certainly showed us once again how leaders can deal with adversity, with determination, self-confidence, and honesty. In your first week of the term, you saw headlines about Tuck being number one. In your second week, you have the most famous business leader in our time here. I'm not telling you what we are doing next week. I think something to do with accounting and stuff like that. But I know one thing for sure for shared knowledge of what it is like to be at the very pinnacle of the business world, no one can match our guest today. So please join me in giving a warm welcome to Mr. Jack Welch. And now Paul Argenti takes over.

PA: Thank you Paul and thank you Jack for coming to this very special edition of AGM today. The way we would like to run this is actually to ask you alternating questions for the first half of the discussion and we have tried to ask questions that are on everybody's mind that maybe we could ask a little more delicately. Also to ask some questions that have to do with things we covered in the class. Then what we would like to do is have you, because we know you have had a lot of experience teaching at Crotonville, take over the second half of the class and just call on the students. I do that all the time. I know Syd does as well and just grill them anyway you want ok?

So let me start with the first question. I think this is a question that is probably on everyone's mind today. Despite your brilliant op-ed piece in Monday's Wall Street Journal and the many appearances that we saw where you discussed your dilemma on television that night, yesterday's papers were still filled with stories about the FCC investigation underway into the many benefits you received in retirement. In your op-ed piece you stated that perception matters more than ever today. What reforms are necessary in a post-Enron, World-com, Anderson world? And, how much in compensation and perks is too much?

JW: That would take a week to talk about. Let's talk first of all the op-ed piece and where that took me for a week. I am going through a divorce and therefore out of the divorce came a number of charges to put G.E. and myself in the spotlight. Many people thought from the initial one-sided filing that Jack Welch went to the retirement party, got a gold watch, and an envelope. It said, "Here in the envelope, Jack, is tickets to all the games, eat well at all restaurants, fly in the company planes, and stay in the company apartments. Let me tell you what happened. I wrote it in my op-ed piece in the *Wall Street Journal*.

In 1996 the front pages of several newspapers said Jack Welch is going to this company, that company, etc. G.E. stock had risen by, in that point and time, about \$155 billion. Everyone was after Jack Welch at that time. G.E. has no employment contracts. I had a quintuple bypass the year before. All my predecessors had retired at about 62 years old. The board came to me and said, "We would like to get this off the table." I had no great desire to leave G.E. and they knew it. The board, in order to protect itself and take care of its obligations, made me an offer of tens of millions of dollars in a sign-up bonus so that I would not go to any other company and I would never compete with G.E. in that 4 years, or for the rest of my life. In return for that, I'd get tens of millions of dollars.

My view at that time was I had enough money. I liked riding in the company plane. I liked the security that that involved. That's why I said, "Just let me keep

doing that and keep the money and I'll sign the contract." So I signed what is called an employment contract. Everyone at NBC has an employment contract. The one I like best is Alex Rodriguez. I believe he has a \$25 million balloon payment at the end if he stays with the Texas Rangers until the end. So I turned down the tens of millions of dollars. Roughly sixteen to twenty times the present value of what I settled for in order to get what I wanted which was the security and peace of mind of having access to certain benefits. That was described by the press as a retirement package, a retirement perk. It wasn't that at all, it was an employment contract and was executed in good faith.

There were a lot of allegations in the press, G.E. paid for personal meals, there were tickets to games. I paid for all my personal meals. G.E. has boxes and so does NBC at every event. I went to one Red Sox game, my favorite team, in 162 home games in 2 years. I hadn't been to a Yankee game, hadn't been to a Knicks game. I hate the opera.

But that is where I stood. I stood with a valid contract and by the way, this contract, all two pages of it was spelled out on the SEC website (and you can go and read it yourself). For six straight years the SEC had the contract, they had the papers with them. So this was not done in the dark of night on the last day. This was an open contract for employment. In the past week I have been under some siege, if you will, from a media that is angry because trillions of dollars had been lost in the stock market. The dot.coms collapsed. There is anger felt across America. What has happened? There have been some egregious acts in corporate America. People want to make the argument that it is the orchard, not a few bad apples. I happen to think it is a few bad apples and not the orchard. We'll talk about that a little later.

So I had to decide what to do with a valid contract. I got opinions over the course of a week from all kinds of people. I wrestled. The way I think through problems is to wrestle with lots of people and lots of ideas. From Warren Buffet to media

people. I would say it never got higher than 60/40 in either opinion. Is the sanctity of a contract written 5 years ago worth something? The closer you got to the media people, the more the answer was “don’t give this back, because the media people in television sign outside contracts, from Katie Couric, to Tom Brokaw, to Matt Lauer—all of them. What good is a contract if it isn’t honored?”

We are living in a world now of Enrons, Global Crossings, dot.coms that have disappeared from the west coast, to the east coast. Perception matters. The last thing I wanted to do was to have my divorce bring the company that I worked for for 41 years into this thing. My divorce caused that company to get tainted by something that was totally legal. So I finally decided to write the piece.

One interesting side note is I sent the piece to my fourth child who is a boy. An environmental liberal lawyer in Oregon, who has views that are generally widely opposed to mine in most instances. He sent me back an e-mail Sunday night that was filled with anger about the American dream, what does it mean when you earn it? The company increased its market capitalization by over 400 billion dollars and became the most admired company in the world. He said, “A contract is a contract. Dad, if you walk away from a contract what kind of a person are you?” So, there was a view from a liberal who read it late at night and lashed out at me for doing it. In the end though I did it. I am happy I did it. I feel better sitting here rather than defending a contract and making a statement. I felt better yesterday, I taught at Crotonville (GE’s leadership development center) for 5 hours.

But whether or not to amend my contract was a dilemma. It was terrible dilemma. It was not an easy call. It may seem so easy to you to hand back. I have the money. “Jack, give back \$2.5 million.” You write a check every year for \$2.5 million to somebody for something that you earned. It is not that easy with a contract. It isn’t the money. It’s the principle. Yet in the end I did it

because I felt better doing it. There was no other reason. It wasn't an intellectual decision, it was an emotional decision.

As far as the SEC investigation, which you asked about, the SEC has about 15,000 informal inquiries, which is what this is technically, into anything they read about. They have to look at it. They will look at whether the contract was good. They will start by looking at their own website, I hope, being that the contract is there. And it will go from there. They will probably come up with some rules that will say the next time people have such a contract. You have to guess at what a contract might cost x number of years rather than specify what was given. I'm not sure of the outcome, but I am certainly not at all concerned about the inquiry. So it was a heck of a dilemma. I debated with a class yesterday a lot and I hope we will have a chance to hear your views on it, and what you would have done in this situation, and how you would have felt. Because, in my view there is no clear answer. I feel good about what I did though. A long answer to a short question.

SF: Jack, after the introduction by Paul Danos with some of what I have been doing, particularly the mistakes, the least I can do is ask you about that. Rather than ask you about the egregious examples I am more interested in some of the strategic breakdowns. If you look at what has happened to CEO's over the last 3 or 4 years the rate at which CEO's are being fired is increasing. There are plenty of examples from Deutsche Telecom, Vivendi, Mattel, Lucent, Ford, and Gap, none of those being part of the big telecom blowup. Many things happen in these organizations that brought them to crisis. But at some level there was some fundamental or set of fundamental strategic breakdowns.

For example, Jill Braud at Mattel. Numbers couldn't work for a long time. She went ahead and acquired The Learning Company for \$3.5 billion which turned out to be 4 1/2 times sales and this in a company not known for a very strong M&A capability.

Jean Marie Messier's media conglomerate strategy of Vivendi, is another example. So the question is in your experience are there any common themes to why such fundamental strategic mistakes occur. How can organizations learn from those types of breakdowns?

JW: I think I can answer best by coming at the companies that have fallen apart in our hands. The Global Crossings, the Enrons, the Andersens. I can give you a perspective that I have that you may or may not agree with. I say companies need fundamental compasses and culture and processes and practices. Even when they have them, they have breakdowns. They make mistakes. At G.E., I bought Kidder Peabody. That was a mistake. You deal with it. But you need a company with a core and a value system and a direction.

Let's take Andersen. Andersen is an old company. Andersen must have had processes. But for those of you who have looked at Andersen over any period of time, Arthur Andersen was a great audit firm, and then all of a sudden they learn that they can sell advice as high-tech consultants, and it was a hot business. So consultants, Tuck graduates, Harvard MBA graduates, a whole series of people ran to Arthur Andersen, not to be in accounting but to be in the new gee-whiz game. So what happened to the accountant. They became the back room, the less important, green eyeshade people, and then the company was in court for a decade fighting over the split over the partnerships. Who would get it? Accountants were the fundamental business and became the back room.

Enron. Enron was a great energy pipeline company. I like to think of them as the coveralls, overalls if you will, oil, and gas pipeline, utilities. They could get permits and get them working in more places than anybody. Then they hired a bunch of McKinsey MBA's from Tuck and places like that. They haul them all in and they say, "We don't want to wear coveralls. We don't want to be in pipelines." They changed their strategy. They went off and became suspenders

people. Slicked-back-hair traders. They traded everything from blockbuster film rights, to telecom rights, to railroad track rights. They lost their compass.

You take the new games, WorldCom. That was a guy who ran budget motels in Jackson, Mississippi. He became a leading telecom company. There were no principles, no fundamentals, and no processes. Then you take Global Crossing. Gary Whittick was a bond salesman on Wall Street. He went out and started something up, got Wall Street funding, got a lot of money, and there were no processes, again. That is not to say the Duponts, the IBM, the G.E.s, the J&Js, don't have people that create flaws and don't have problems. But we corrected them over 100 years. All with processes, and we have systems in place. For example, if I wanted to cook the books in G.E., I would have to get 2,000 to 2,500 people to come in and cook them with me. The processes are in place and things are transparent. These other companies are brand new or have had massive model changes.

Jill Berrard, wasn't that a toy company? Wasn't it a Barbie Doll? Off they went to a Learning Company acquisition. A total change of model. People can't lose their center. People have to have a direction. If you look at most of these failures, most of them were cases where that fundamental compass was lost.

PA: Ok Jack, now for maybe the second question that is on the mind of many of our alert readers here in the audience. Anyone reading your book may have thought you and your wife had a strong relationship. Why did things fall apart after you left G.E.?

JW: Marriages don't fall apart in an hour. Marriages go through long periods of time and my wife and I just ended the marriage. There is nothing more to it. One or two people in America don't make it work all the time. It is a hard job and we didn't make it work. It has nothing to do with anything else that we are talking

about other than the fact that that happened. I'm on with a new life—a happy life and I couldn't be feeling better about it. So there is nothing else to say.

SF: Let's take you back, Jack, to some of those principles in particular those principles at G.E. G.E. has been and still is a very heavily diversified company yet in contrast to many other companies with that type of profile, G.E. has prospered. In the classroom we talk a lot about focus. We talk a lot about core competencies and inevitably somebody is going to ask, "What about G.E.? What is their core competence? How is the sum of parts more valuable there? What holds everything together?"

JW: You hit me right in the gut. I love this one.

SF: It was straight from the gut.

JW: G.E.'s core competency is people, we believe without question that the development of leaders and the development of high integrity-driven leaders is the winning way for one company. A company is not bricks and mortar. A company is not an idea. A company is intellect. A company is the combined intellect. This room is a perfect example. If we took the intellect in the first row here, any one of them thinks they are pretty smart.

PA: That is our faculty.

JW: Ok, lets go in the second row.

I think the whole idea in G.E. is that you create a learning company. If you get around the table and we take this row, and get the best of every person in the row into one mind, that person will leave smarter than they were if they were alone. So the whole idea in G.E. is to create learning from each business. Whether it be a six sigma practice that is going on, or the processes of the aircraft engine

transferred to power systems. Get the generic ideas spread. Keep raising the bar of intellect in the company all the time. We take pride in being one company and driving intellect across boundaries.

For example, when we have our Corporate Executive Council meetings that are held quarterly, they last for 2 days. Each person gets up. They must give the best new idea they have as one of the presentation ideas. They must get up and give a practice that is of interest to everybody else in the room. The NBC guy doesn't get up and stand there and bore us to death about the ratings of Friends or ER. We don't give a damn, that is his problem. What we do want to know about are the ideas he is seeing and smelling and feeling. So he is up there with ideas, and if anybody starts droning on about their business, they get the hook.

When I was CEO at G.E., I would participate in Human Resource reviews for all businesses. We would go from 8:00 in the morning until late at night, reviewing all people. Then if we had an idea on services, or six-sigma quality or other things, we would build the leaders of that initiative into the meeting. So we get to see who the leaders were putting behind the initiatives. Now I picked up three new ideas. We'd move to the next city in the morning. We'd go from Cincinnati to Louisville. Now I'd have picked up some new ideas at one place and I'd exaggerate them a bit. At the next place, I'd tell them how well they are doing over here on this one. So my job in G.E. was to pick people, allocate resources, bet on certain things, and put mechanisms in place to transfer knowledge.

I have no argument about Tyco or Litton or other companies. They all ran models that were different. So I am not here to criticize them. They were proud of their models. Their models were where you run the healthcare business. You get paid by the healthcare results. If you run the widget company, you get paid for the widget result. You mail your results into headquarters, two people, the finance person and the CEO. We will take care of the numbers and we will report to Wall Street. That is the opposite of the way G.E. works.

We have a compensation system that starts with the bonus plan—if the company makes it, you qualify. If your business does certain things you get more or less. But if your business does certain things and the company doesn't make it, no rowboats make it to shore while the Titanic sinks. So every measurement is around the company. The company wins. That is why people transfer we got great people from businesses. People in Siemens would say to me, "How do you get somebody in Aircraft Engine to transfer one of their best engineers to Power Systems/Turbines or Medical Systems?" I'd say, "They don't go because they love me. They do it because they get paid by how well the company does."

During the days of the dot-coms we had people at Equity Capital who were spending G.E. capital. G. E. money. They, like day traders were making all kinds of money. So they came parading in and said, "We'd like a piece of the action." They, like everybody else, thought they were geniuses because they invested in companies that when they went public opened in the morning at 10 and went to 100. Their question was, "How do I get a piece of the action." I said, "We don't want you. You don't belong here." There is one currency. It is G.E. stock. If you are Katie Couric or Tom Brokaw you might get more of it, you might get less of it, but you got one currency. There is one company. If you want to share intellect you have got to be sure that whatever you do, if you start the company with 7 people, you got to be sure the interests of every person in that place are aligned. You can't have one person getting this and one person getting that in a totally different currency. If everybody gets aligned behind something, idea sharing, human resource sharing—everybody helps everybody out. So G.E.'s difference is its core competency is not technology, it is not finance, it is building bright people with leadership traits who involve everyone in the game in understanding that transferring intellect is our most valuable asset.

PA: You've been talking a lot about the media and we know that you owned a media company as part of G.E. and we have also been talking about companies like

Enron and Worldcom and the litany of companies that we have heard about. What do you think about the media's coverage over the last year and of those companies and also about their coverage of you over the last 6 months?

JW: I think you've got a situation where in some respects the media is doing their job. It's the post-bubble thing. The exact number, but it is a huge multi-trillion number that has been lost. Investors are angry. They got hurt. What happened is we brought investors into the market who had not been in the market. Some 60% of the American public is in the market today. It was around 20 years ago.

Who brought them in? Everybody but the media sure aided it. You felt like a dope if you were not day trading and making money on all of these things. It was like going to a lottery that didn't lose. Neighbors were telling each other, "You should see what I bought yesterday. It went up 100%, it went up 200%." Enron became the most innovative company in the world, on covers of magazines and all over. They sure were very innovative. They became the most innovative because they didn't have any assets. They were just trading. The media pumped it up.

Every company like G.E., and other companies were Neanderthals, they were old economy companies. If you were not in the new economy what the hell are you around for? There was no new economy. I was giving speeches on this 5 years ago. There was a new technology, not a new economy. People traded from wagons a hundred years ago and now they are trading online but it is still a business. You buy and sell based on value.

How do they feel about it? Guilty. And they are going to write about it until they are going to get it all out of their systems. They are just going to vent. They are doing it every single day. You can't pick up a paper that doesn't do it. Now there are sins. Don't let us walk away from the sins of some bad actors at the end of a bull market. There have been excesses in the '20s, this is not the first time

we have had this. We had bribery by defense contractors in the '60s. This is a bull market phenomenon. Somebody has got to get punished. People lost. People are angry. Everybody had paper that said they were worth so much. Now they have paper that says they are worth this much, and somebody has got to pay.

On the other hand, the media has generated rightful concerns about practices. They have taken the position that the orchard as I said before is bad. I take the position that there have been bad apples in the orchard. Excesses were built and then in fact we have to deal with the bad apples and deal with them aggressively. On the other hand we have to take a look at what caused some of the excesses, maybe modify some of the practices, and learn from it.

Let me tell you, everyone would like you to think these are the worst of times. "Oh my god these are the worst of times." The Dow is close to 9,000. Ten years ago the Dow was at 1,500. I became chairman of G.E. in 1980, December of '80. Let me give you the environment in December of '80. The prime rate was 21%. Inflation was 13% and unemployment was 11%. Just take those 3 numbers. The misery index. The combination of the 2 was 24%. Jimmy Carter was President. He had just declared the country in malaise. Japan was going to take over the world. American manufacturing was done. Why even go to work anymore? It was over. We were dead. Read it. It was there. That was 1980. Now what is different today is we have terrorism as a cloud. Let's look at the statistics. The prime rate 2-3%, inflation is running at 2, unemployment is 5.7, the Dow is at 9,300, the NASDAQ is above where it was in 93, 92, 91. We only have one thing that is different. We have terrorism, that we don't, any of us, know exactly how to deal with it. From the economic statistic standpoint, from a country competitive standpoint, we are in pretty good shape.

We have got to now get together and rally behind all the good stuff here. Get rid of the bad. Fix the bad, right the ship, deal with terrorism and get on with it. But every time you think it is the worst of times, go back through history. Go back

through sitting in London in 1940 and 1941 and getting bombed every single day, hundreds of thousands of people killed, and homes wiped out. Do you think they would think these would be the worst of times? They wouldn't think it was the worst of times. I see people in lots of crowds, I talk to lots of people and too many think it is the worst of times but in many ways it is the human condition that gets people to rally and gets people to do something about it and would get people to react positively and make the country great again. It is not a disaster.

SF: Jack lets go back to those budget motel guys down in Mississippi, World-com. How could an apparent huge accounting fraud like that take place or more generally what are some of the markers that you can look at as an investor, supplier, customer, manager that will tell you almost like an early warning sign that there is some trouble brewing?

JW: Cash. Cash. Cash. Net income is an art. Cash is countable. If you go to World.com in hindsight, all these analysts that are making \$2 and \$3 million a year on Wall Street. I have a lot of friends in the telecom industry, Bill Escry at Sprint, and some others who could not believe how they were getting outbid. At G.E. when I was chairman, we loved WorldCom We loved them. They would always come in and be 20% below any bid we ever got for our telecom services. It appears they got there by doing something that shows you what accounting is. How many of you have had accounting courses here? How many of you think now after having it that accounting is a pure science? Let me see your hands. I don't see one. So it is judgment.

Now knowing something is bad is one thing. But they wrote a white paper that said leasing lines, leasing capacity, for 20 years allowed them to capitalize then if you will, their plant and equipment. A thoughtful white paper that justified not expensing current expenses. Analysts should have picked that up. Others should have picked it up. They are going to defend themselves on that basis. "I'm not smart enough." Most people will say the argument is slim to none. But because

accounting is not so precise and having a 20 year right to lines and capitalizing it allowed them to keep those costs off the expense line. But they weren't getting cash.

If you look at the cash, Enron had negative cash flow the last 3 years. Where were the analysts? Where were the writers? Where were the professors?

SF: Investing in Enron.

JW: It is a tough problem. We had some bad apples, lets not kid ourselves.

PA: I have one more question Jack and then we will let you take over with the audience. How do you assess Jeffrey Immelt's job as leader of G.E. since you turned over the company to him and what attributes led you to chose him in the first place over Nardelli and McNerney? I know you wrote about it in the book a little bit. I ask because the company's value has obviously dropped significantly since you left and today's Wall Street Journal reported that G.E.'s nine year double digit earnings streak may be at an end.

JW: Yes, well we are in a very tough economy. I talked to 65 people at G.E. yesterday and from across the world, every segment of every piece of business in this economy is very tough. This economy in the third quarter did not pick up. In this economy, we are looking at statistics that might show you 2 or 3 percent pure industrial America. It doesn't feel that good. It feels flat, waffling along, there is no pricing.

Let me go back to the Jeff Immelt question. I think he has done a remarkable job. Imagine taking over a company on September 7 and being at Boeing, your customer, when the awful day occurred on September 11. First instinct was to get out front and talk to people. Get to the employees. One of the leader's jobs is to cushion the uncertainty in the company. What does this all mean to our

company? He communicated fast and quickly. He was on the phone to Mayor Giuliani within 24 hours and started the World Trade Fund by donating \$10 million from G.E. within 24 hours. The World Trade Fund eventually grew enormously. That was instinct he had. He in my opinion made every right move. I couldn't be more proud of what he has done. Of course he is a Dartmouth graduate. Not of the Tuck School, but a Dartmouth graduate. He has been all over the issue. He is up front. He has self-confidence.

The other two have also done extremely good jobs. Nardelli is gone to Home Depot. He put a lot of discipline in and has done a great job. Again there are 14 CEOs today that came out of the last 7 years of G.E. That is a pretty good people factory. That is a pretty good statement about what G.E.'s core competency is. The CEO of Honeywell, the prior one Larry Bossidy, the current one Dave Cote, Stanley Work's, John Traus, 3M, Jim McNerney and Home Depot's Bob Nardelli. These are all in the last 5 year vintage, so that was part of a succession process to move them on to new companies while we brought in new leadership.

I've never answered why I picked Jeff Immelt, and don't intend to answer it today. The board and I voted unanimously. It wasn't a one-man pick; it was a 6-year process of moving people around, watching them, looking at them, seeing all their attributes. We couldn't be happier with the selection. Whether or not G.E. grows 9% as the journal says or grows 11% as the journal says, it has grown double digits in the middle of this recession for the last two years and it will grow next year. Whether it is plus or minus 10%, I don't know the answer to that. G.E. is going to earn about \$15 to \$16 billion after taxes this year and have cash flows equal to their earning. Not a bad year by any measure.

PA: They are all yours.

JW: I'm not sure how to handle all this crowd. I would say I would like to talk about dilemmas for minute. Not just the one I just faced. I would like you to think

about your dilemmas. The dilemmas that you face. I'll give you a couple I faced in business before the one I faced in retirement. One was in a plant we had in Louisville, Kentucky, with our large appliance factory. We made white boxes—refrigerators and washing machines and other things there. The business had no growth. It made about \$300 million of cash flow a year, so it allowed us to fund other businesses. Appliances is a tough competitive business. Look what a refrigerator costs today versus what it cost 10 years ago, compared to cars, or other things. The price has gone nowhere. It is a tough industry. The people that ran the business, and we had 2 or 3 leaders, would come in and make the case to close down Louisville and get to Mexico, or source some in China or do something else. Louisville was our largest union. We had all these other businesses that depended on ratifying the union contracts. We never had a major strike in our union in the 20 years I ran the company. We always had open candid relationships with them, and the Louisville union was our best, most cooperative, eager to work hard, great productivity. Yet the business people were always in saying, “We can make \$100 million more closing it down.” We always tweaked it, bought a little more time, and never took the bold move to make the business more competitive than take the risk of alienating the union, which meant so much to the other \$15 to \$16 billion of earnings that were around the company.

The dilemma was we were always facing a general management vice-president who was in pounding the table, “How can you not do this?” The issue was, “Should we deal with the appliance business or should we worry about the next union election and lose 4,000 votes in that election and would that damage the company more.” Every time I had an appliance person in Crotonville session, if you worked for Appliances and you were in this room, you would get them saying to me, “Jack, what the hell are you waiting for, we are non-competitive, we have to get out of here.” You would have to try and defend the case on the broader issue. Why am I working in an uncompetitive business? We wrestled with that for a long time.

The second dilemma was a more personal one and a tougher one. I was out speaking at Bill Gates' Microsoft Conference at dinner about three or four years ago and G.E. is in the jet engine business. The G.E. 90 is a big new engine that powers the 777 long-range jet. Vicious competition for the engine between Pratt & Whitney of United Technologies, and Rolls Royce of England, and ourselves. I asked Phil Condit, the Chairman of Boeing if he would have lunch with me the next day. We are all fighting feverishly for the engine and who would get it. So I sat down to lunch with Phil and we got talking and I was giving the attribution. Phil was well briefed and knew everything he was going to do. Finally at the end of the lunch Phil said, "Jack, you guys are going to get the engine. You are going to win this competition. I'll commit that to you but you got to commit to me that you don't tell your guys. They have got to negotiate and they have got to fight over the next four months not knowing that they are going to win."

Now I am faced with the CEO of Boeing whom I liked and trusted, and my new knowledge. Now I have my team, Jim McNerney (who is now the 3M CEO) who was then the head of the G.E. jet engine business, and he is coming to me every week saying, "We have got to give them \$20 million more." Ok, you have got to give them \$20 million more. You got to give him this concession. Or we have got to give him spares for so long. I really don't know if what Phil Condit said was for real. I believed him. I trusted him. But I don't know in my soul was, "Is Phil Condit testing me?" I can't go back on my word to him that I wouldn't tell my team.

This went along for four to five months. It cost in the neighborhood of \$200 to \$300 million in the engine development. Finally the last day came and I my guys said, "We have got to give it one more shot \$50 million and they say we will have it." I said, "No I don't want to do it." They said, "We have come this far and we have got to get it." And I said, "Let me call you back in a half an hour." Because we had gone down to where it was razor thin at that moment, I called Phil. I said, "Phil you busted our chops to the point I had to call you." I said, "There is no

more blood in the stone.” He said, “Tell your guys to hold firm. They will get it. You’ve gone far enough.” So I called them back and I said, “Guys I’m not going to do it.” I still didn’t tell them. “I’m not going to do it.” They said, “Are you crazy? What are you doing?” I said, “I’m not going to give it to them. No, that is enough, we are through, if we lose, we lose.” Boeing kept their word and we kept our word and we got the deal.

Try living through that for four months. That is a real dilemma. That is a real dilemma because you never know the answer. I don’t think we would have gotten the order if we stopped initially. Then when I finally asked them for permission to stop he said, “Ok.” Those are the things you will face when you work in companies and go through things, and I think it would be kind of fun to pick on you in the brown sweater. How about you talking about either a dilemma that I’ve faced and what you would have done either the one in the op-ed piece or these last two or one that you are wrestling with personally.

PA: Her name is Erica.

E: I think you did the right thing by keeping your word. If not you would have ruined your relationship with Boeing going forward.

JW: But what about one that you have faced. What is the biggest dilemma you have faced?

E: In my schooling or...

JW: Anything.

E: I worked in private equity and I think a dilemma that we often faced was when we uncovered certain things with the startup companies that we worked with where they were not reporting revenues as they should have or they were being

dishonest with their private shareholders and certain things like that that went on. That was certainly a problem whether we had uncovered this and taking the deals out into the market. How we presented it, knowing we had information that was not being presented honestly. It's the investor environment.

JW: What did you finally do?

E: We had to uncover it obviously, but it is unfortunately a very difficult issue because you take a company very far, you commit a lot of time and resources, and then all of a sudden you uncover something sort of half way through the process, so it is obviously disappointing. Our name as a firm stands on our word, so it was important that we do that.

JW: Does anybody have or want to volunteer an interesting one that we can all talk about? Anybody want to raise their hand? It is interesting. You go to a G.E. crowd of 60 people and 50 of them have one. Yes, over here.

? I worked in a retailing environment and we had several operating divisions so we would negotiate for price from manufacturers independently and if I knew I was getting a better price than my peers and I negotiated that in good faith with my supplier I wasn't supposed to tell other people. But again, I didn't have stock in my division, I had stock in the company, and it was a real dilemma on what to do and most of the time we kept our word with the manufacturer and did not share the information across the division, which sounds opposite of what you would have done at G.E.

JW: Yes, but I would say the only part of that dilemma is you should have made it clear that you wouldn't make a private deal for your division and that anything they told you would go across your company. That would be my response to that. I don't think if you make a private deal with them. The way you should deal with

the supplier is what you give me will go anywhere. That would be my case; I don't know how you all feel.

Anyway let's move on to something that always gets a fight going, which is this vitality curve that I believe so much in regarding the evaluation of people. The top 20, the middle 70, the bottom 10, and moving on the bottom 10 or telling the bottom 10 where they are. I'd like to start the question to ask you how many of you have worked in a corporation for three or four years before coming to Tuck? How many of you think you worked for a company with integrity? Almost the same amount, I would say about 95%. How many doing that in the period that you worked there got a straight forward written between the eyes appraisal of what was right with you and what was wrong with you? That is about 20%. That is the highest I have ever seen. It is usually about 5 or 10%. How do you work with a company, which you say has integrity and you worked there for three or four years and you haven't gotten a straightforward appraisal as to where you stood? I don't think those dots connect.

I think the cruelest thing corporations do to each other is not tell people where they stand early in their career. The only way you can get at this is with the ranking system and you have got to let people know where they stand in the system. It is not about firing somebody. Nobody wants to be at the bottom of a pile in a company. No one has any desire to be there. They want to move on and find a place where they are more respected, where they are more appreciated. Your job ambition is to get the boss's job. The boss would write down, fully qualified with a check mark. That would be it for the year and it would be the end of the annual appraisal system. Corporate America is filled with that.

What happens when layoffs come, people get laid off and they say, "Why am I getting laid off? You told me I was ok." When they get laid off usually in their 50's when their options are fewer and lower and chances to move on to other things are limited. So a vitality curve is not what you think it is but people

challenge it as Darwinian. It is a way to get candor into a system. When you start up a company, when you run a company, when you work in a company you have to do everything to get candor in to it, it is absolutely critical. It is something that is worth debating. Do any of you have any views that are different than that?

Yes.

?: ..... so you know you and everybody knows the people they work with who are kind of falling into that category. My question for you is after reading your book I feel like you really push it to the extreme so that you continually identifying these bottom 10. What happens when you get to the point where you've got a lot of really good people. Why and how do you keep identifying the bottom 10 after that point?

JW: Because you keep wanting to raise the intellectual bar and if you do it early enough and often enough and if you ever fall prey to that argument everyone who manages a group will come and say, "My group is now perfect." The first year it is easy because everyone can identify the bottom 10 and deal on it. Second year it gets a little tougher. The third year it is a love affair. The team is now together. It got so in G.E. that as good a company as we had, one person actually put down a name of person who was a medical doctor who died between the time of the appraisal and the event. This is not a nice story in many ways but they put him in the bottom 10, because that fulfilled the obligation. It is against human nature to rank people candidly.

The thing that is wrong is people think it is cruel. If you have a team and they are all good, you move on because you built a great team. Now Paul comes in as a leader. He looks at them and says, "Here's the bottom 10." He doesn't know they have two kids and that their kids go to school with your kids, that they are friends, that they all know each other. They have a life together. He doesn't know any of those things. He just knows they have a certain performance and all

the bias you built up over three years. Now what you have to understand is that in this process people don't generally get fired. They leave.

If I wrote the book again, I would say, "Put the vitality curve in your company and use it for 5 years without acting on it. Without firing people. If you throw a vitality curve over the fence into a company that has been filled with lies, you are inviting the plaintiff's bar to drive in with lawsuits in the morning, because people can show appraisals that never showed they are in the bottom 10. So until you have a system, where candor exists, you can't have a vitality curve.

I used to go to a crowd like this in G. E. and I would say, "Great news! We just gave out stock options last week." It is great news for everyone. For those who got it, the stock value increased 25% a year for years. You are going to make a lot of money. Those who didn't get it and think you are doing well, ought to go in and see your boss because you are getting BS'd, because we gave it to our best people. You ought to have a meeting right away and find out why you didn't get it. You must have every mechanism you can to get candor into these companies.

Now you have all worked for companies, you know how much candor exists. Am I talking crazy to you? Does candor exist everywhere you all work? You can sit at your desk, and examine who the bottom 10 were. You all know. You know the bottom 10 of your class. You know better than he knows it. Our people knew it better than I knew it. Now the leader knows it. They see it everyday. Guess what? In G.E. we ran a survey, we did tons of surveys and we never asked about the cafeteria, the food or the parking places, we asked about what we are saying are you feeling it and are you seeing it? There are three categories, the top 500, they believed what we were saying and seeing is 95% in terms of rigorous appraisals of people. It would drop to 80% in the next group, about 4,000. We eventually got to above 50% for the first time in the lower ranks those 50% of the people felt G.E. was rigorous enough on poor performance. It took 15 to 20 years

to get over the 50% markdown in the ranks because the ranks know in detail who is doing what.

Managers give orders. For example, people are going in a boat, five on each side rowing. Five on this side will row like hell three on this side are rowing. What does the boat do? They know it. The boat gets there eventually. Then some people don't come in and they don't work as hard. They know it. We don't know that. So we were never able to get to the fact that the lower level people believe we were rigorous enough. That survey tells us so much about the way things work. I know your question. It is the most often asked question about when I get my team perfect why should I have to look at the bottom 10, because you know why? There is a bottom 10 in your team. Even when you think it is perfect.

?: I think there is a big connection between when we all raised our hands when we thought we worked for a company of integrity, but we didn't raise our hands when we were asked if we felt we were given candid reviews. The big reason for that is a lot of people are not good at giving reviews. I personally find it something that is difficult to do and administer. What are some of the tools that G.E. has for its managers to help them identify the 10% and the top 20% and so on?

JW: First of all, I never represent a business that is precise and perfect. It has all the human imperfections. It is just the best system that I can think of, but it has imperfections. We use 360 degree evaluations by peers, subordinates and customers. I find they fall apart after about two or three years because the peers make a deal, "If you say nice things about me I'll say nice things about you." That only works for a couple of years. We teach 5,000 people at Crotonville every year about appraisals. You asked about the curriculum when you spoke before. Very rarely have I found when and I have talked to every big business school across the country. The schools don't spend a lot of time teaching people how to do that and there is not a lot of time spent in evaluation processes. I was

asking kids at different schools what they were studying. Disruptive technologies, that won't help you win anything—disruptive technologies. What the hell is that going to do for you? Business is about human beings. It is the team that fields the best player that wins. That is what it is about.

So if a school isn't teaching you how to field the best team, a school is not doing its job. Most of these deans blushed because they never, in most curriculums deal with taking a class and having them evaluate each other and having them sit down and appraise each other across the table privately, and having them go through the form, and have them ask each other. If I ran a class, I would do that. How do you build the best team? How does this team come out here knowing they are the best team to take on that team? I would rid myself of the weak players and I find every way I could to evaluate it. I would use inputs from peers, from people in campus, from roommates, from anybody, to get evaluations. Hallway dialogues. Every form you can get your hands on to evaluate people.

In the end business is all about fielding the best team. The company with a widget, somebody copies the widget. The company with something else, somebody copies it. We spend countless hours. When I consult for all these companies I tell them, the G.E. courses are three weeks. They say , “Three weeks? The economy is terrible!” Look there has never been a more important time to educate people than in tough economies. Education and learning and raising intellect is a steady line. It is not cyclical. You need it more in bad times than you do in good times. Having a cohesive process and a cohesive message and a cohesive system in bad times is more important than ever.

PD: For top management teams, you read a lot about that in academics, how did that work? I can understand that at the different levels and at the operating levels and there are all kinds of others. Could you make that work? How would that work in terms of a team with the very top people?

JW: We have one nice mechanism. We had an end point. My retirement. So we were able to bring the team together and say look, “You are terrific. You are the best CEO of business x, y & z, \$5 or \$7 billion. But, Joe, John, or Mary or whoever, you are not going to get the top job. You ought to be a CEO somewhere. Why don’t you start working over the next year to land yourself a CEO job?” and there you want out and other people would call me and say, “Are these guys any good?” I would say, “How did you find out he ...is he leaving?” They now populate corporate America. Fourteen in the last seven years and twenty-six over my time. They are very good, don’t get me wrong, they are terrific. I was able to see they were not going to become CEO of G.E. as the forcing mechanism. Other people can use, “You will always want to be the chief engineer. You can’t be the chief engineer here, there are two other guys that are going to be chief engineers. Why don’t you go out in the next year and talk to Pratt Whitney or another company. You want to be chief engineer right?” “Yes.” “Go do it. Go do it on your terms. You don’t have to fire people. You talk to them.”

Now all these CEOs now running companies who left G.E.. They are great CEOs. This is not an indictment of them. They were not just good enough to run the company we were filling the job for. We did it candidly and openly. A couple of them went in to private equity. I am actually working as consultants to them after moving on to private equity. We always had it straight together. We never had a wink. I’m telling you if you manage people, you can’t wink. If you lead people, you can’t wink. As tough as it is for you, one of the things if you want to work in an institution, you have to come to grips with using the best tools available to you and they are never going to be precise and they are never going to be perfect, but you can’t think of it as cruel, you’ve got to think of it as the fairest thing you have ever done. That is the hurdle people have to get over. People think it is mean to give people honest appraisals. It is not mean, it is the kindest thing you will ever do, so they can then do something with their lives to fulfill it and reach their dreams and grow to new levels. They are not going to make it in your area.

?: The other side of that question is I understand .....but when you are at that top and you are looking at 500 people who..... you job. Then you don't lose the 10% you give back the 90% because ..... Is there any way to avoid losing all that capital?

JW: No. You don't lose it all because some want to run what they are doing. What you don't want to have around...

?: Is it a matter that when people don't get that job they don't feel good about it so they will leave because...

JW: No, not if they know all along and you have been talking to them every three months about where they stand. "Do you want to continue to run this?" "Yeah, I love my job, I love the industry, I'm CEO of a \$14 billion company, I don't have your headaches with Wall Street and PR and all that stuff. I love my job. I get more time with my family, I get a better balance." What you don't want to keep around are the people that desperately wanted it and then are around with the people who wanted them to have it and they are not quite happy with things.

?: Before you chose Immelt, you said for 6 years you were looking at people. Isn't it clear to the people who are being looked at are being transferred from division to division that they were in the pool. So is there any way to then retain those people after...

JW: A lot of them are retained. A lot of them are there today. But those that desperately want to be CEO aren't because we told them they are not going to be. We told everybody that when we got down to 3 out of 24 we told the whole gang of them during different points in time that they were not going to be there. But we would like them to stay if they would like to stay and they stayed. Some others had CEO-itis in their teeth. We told them that now is the time for you to

go out and market yourself and go somewhere else. It is a balance. Look I mean we have three people. Two of them got the jobs in 10 days. If I had picked Nardelli, the other two would have gotten the job in 10 days. They all had contingency plans, as they should have. But I wanted them to get great jobs.

This week I have talked to Nardelli and McNerny on occasions about issues in their businesses. We are friends. We never had a problem. It was a fair process, they don't agree with the decision, but they know we gave it everything we had because it was open. Am I making sense to you for is this just not making sense? The incredible desire for candor in a company, believe me, is worth gold. I can honestly make this comment. I never asked anybody to leave G.E. that came into my office that was ever surprised. No one ever came in and got canned and was surprised because they always knew where they stood. It was always down on paper. It was always in their face. We are friends. You should never, as you leave here and go to management, take it on yourself as a responsibility to never ask someone to leave the company as a surprise. Never ask someone to leave your company with the answer "my boss told me I had to get rid of you." That is the worse one ever. You always have a relationship where you can defend and describe to the person the rational for any decision you make and it is not a surprise. It is a big deal.

?? How does one develop self-confidence and then how do you balance self-confidence with humility?

JW: With arrogance really. Such a fine line between self-confidence and arrogance that everyone walks that line very carefully. Self-confidence comes from your mother's knee, from coming to Tuck and getting good grades and looking a peers and seeing how well you do it, how comfortable you are in the class. It comes from life experiences. I gave my first speech in G.E. I was a PhD. Chemical Engineer. I gave my first speech before an officers group when I was 28 or 29. I ran to the bathroom four times before I gave it. I have a speech impediment. I

had a written speech. All I had to do was stand up there and read it and I almost had a nervous breakdown. Today, I would rather stand up in front of 10,000 people with my speech impediment and talk for a week then hit a golf ball in front of 20 people, because I feel comfortable in doing this. Because I have done it. I teach a Crotonville all the time. I was there all day yesterday getting brutal questions and enjoying the hell out of it. But I couldn't have done that when I started.

Every one of these experiences, mistakes, victories, are going to build it. It doesn't come from an injection. It comes from lots of experiences and the more experiences that you have. Coming here is another notch. Graduating from here makes you special. Now you are going to go another group after you graduate and look at yourself against another group and see how well you do. As you do well you will just keep building this experience base. Does anybody have a better answer to self-confidence?

?: Do you think the opportunity for G.E. to be more educated in Europe or Asia is currently holding the truths or do you think you should play more by the European rules or the Asian rules in trying to continue to build the company?

JW: G.E. is a \$26 billion company in Europe. It is \$14 billion company in Asia. It is large company—one of the 10 largest companies in Europe. So it plays there everyday. People always ask me, “How do you transfer a G.E. culture to other cultures?” That is a favorite question. What is the G.E. culture in my view? The G.E. culture is giving voice and dignity to everybody. Now if you go to India to a call center, you see 2,000 people in a call center, living in great environments, having a chance to grow, having a change to build a career. They have voice and dignity. People want voice and dignity in China, in Indonesia, it doesn't matter where you are from Jakarta to Beijing. You have to understand that trying to get the maximum intellect out of every person that comes to work is your job. Every time you have somebody coming to work in a mind numbing job, you have failed.

The one thing to think about, it's Drucker's idea not mine, but I practice it religiously, always make your back room somebody else's front room. Believe it. What is a call center or credit collection center in G.E. It is the second class citizen. It is the mind numbing job processing the paper. It is the registry of motor vehicle person getting you your license. It is the back room. It's the place that isn't. Do you take care of them, give them options, do you run there? No. Now you put one in Delhi or put one in Bangalore. You get PhDs you get bright people. They get careers they become managers, they get to be heads of the call centers. They come to a lifestyle they never could have believed.

When you outsource a guard service, you give the guard an opportunity. A guard who works for the company is often the lowest rung of the company. You ought to have a guard service where that guard can go to become head of 10 guards, manager of 50 guards, vice president of the guards and then president of the guards. He is in an industry that allows it. Food service. Running a cafeteria, companies who used to run cafeterias. Now you go to the great food service companies. People grow and flourish because that is their business. Only keep people in your business where their jobs are exciting. Where they come to work everyday on fire. Where they can grow and get rid of the mundane work. Get that mundane work to other companies who can make that into an exciting job for those people. Shame on any of you that run a unit that has dullness in it, that has people with a boring job hanging around there. Shame on you for not finding work that makes it more exciting where people come to work everyday reaching for their dreams. That is your challenge, otherwise why are you a leader? You are a leader to energize others. To stimulate them to things they have never thought of. That is what your job is. Not to manage it.

?: Jack, G.E. has recently been accused of managing their earnings to meet quarter over quarter. I don't know if it is true or false and even if it is true I don't think it is necessarily wrong. The question is, is catering to Wall Street a necessary evil or is it simply manage your business to the best of your abilities?

JW: Let me say this about management, if you weren't G.E. you couldn't have the predictable earnings that we have. If you were running plastics at G.E. you would cycle like this, if you were running aircraft engines you would cycle like that. The benefit of having a 100 businesses is you can manage what is going to happen here and there. I got criticized in the last years for taking and selling a business, taking a gain and writing off something, closing a factory. That is the dumbest argument in the world, why do you think I am there?

The arguments would go something like this: In the third quarter, G.E. sold a business and took a gain and wrote it off. If they had closed the business in the fourth quarter they would have had a huge gain the third quarter and a loss in the fourth quarter. Why fix your roof until you have the money. If you have a leaky roof, the only reason for being a manager is to do things when you have the money to do them with. You act when you have resources here to offset problems here. For example Montgomery Ward. We wrote off Montgomery Ward when we had the Paine Webber gain of \$2 billion. We could have kept running Montgomery Ward, lost a little bit of money here and there, but when we had the Paine Webber gain, lets clean this up. It is as simple as going out and fixing your roof when you don't have any money. What does G.E. provide? It provides an investor with a consistent earning stream. That is what it promises investors. That is what we said to everybody at Wall Street. That is what we said to every shareholder. What has G.E. done in the last year of this recession? It has grown earnings every quarter by somewhere between 10% and 18%. Consistent earning because we have Power Systems up. You couldn't have done that if you were Plastics. Plastics is in the toilet. You couldn't have done it with a number of businesses, but we have all these businesses and you manage them. We know what next year will be like plus and minus a few percent. Jeff knows, he is going to have some short cycle businesses that will be the swinger one way or the other, but he knows where his backlog is coming from, what is going to happen. We manage

businesses to create consistent earnings. You can't manage consistent earnings, you manage businesses.

PA: Jack in the interest of ending our class on time. I have to ask one last question that I've been dying to know for many years about you. You are a smart guy, obviously, you are a genius. How on earth for someone who backs winners all the time can you be a fan of the Red Sox?

JW: On that note, thanks a lot for coming today. I hope you got two cents worth of stuff here that is worth something. But most importantly, you got the chance of your lifetime. You have got the chance that not many people get. You are now ranked as the best business school in the country.

?: World.

JW: World. You've got something in your hand and you can't kick it away. Every dream you want is in your hand. Don't kick it away. Reach for it, be candid, be open. Operate with integrity every day and go for it. Winning is good. Winning is very very good and don't let anybody tell you it isn't. When you win you can give back. You can give back to the community. You can give back to society. You have every opportunity. God bless you and win. Thanks.