The following is a highlighted summary of the book, A Stake in the Outcome, *published by Doubleday & Company. The statements below are key points of the book as determined by James Altfeld and have been made available at no charge to the user.*

<u>Control Your Destiny or Someone Else Will</u>

(p.4)
Workers who share their employer's goals don't need much supervision.

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

"facing reality is crucial in life, not just in business. You have to see the world in the purest, clearest way possible, or you can't make decisions on a rotational basis.

"If you weren't already in business, would you enter it today?

The need to boost innovation and productivity is the imperative behind the GE revolution and the main challenge confronting any business that competes in world markets.

Efforts to improve productivity such as "just-in-time" inventory controls are pushing corporations into an unprecedented dependence on their suppliers.

> The old organization was built on control, but the world has changed. The world is moving at such a pace that control has become a limitation. It slows you down, you've got to balance freedom with some control, but you've got to have more freedom that you've ever dreamed of.

Until employees accept personal responsibility for their work, they need supervision, which Welch regards as a waste of time. GE tries to eliminate supervisory positions, giving more people to control their own work.

I see the process of corporate transformation as a three-act drama. These three acts usually overlap, but each depends on the one before.

In Act I, the organization awakens to the need for change; this is a time when tyrannical behavior can serve a useful purpose, since the awakening requires a frontal assault on the status quo. The goal of the attack is not to frighten employees, but to arouse the emotional energy of an entire organization. That energy, which manifests itself as fear and later as personal commitment to a plan of action, is the only fuel that can sustain a revolution.

Act I usually leaves workers and junior managers in confusion and despair, because the process destroys what's familiar and comfortable without providing a new basis for emotional security.

In Act II, the organization creates a blueprint for the future. As the old ways are swept away, even people who have resisted change begin to recognize the need for something new. The leader responds by articulating a new vision. But a vision can't be acted upon until it is shared, so effective communication becomes critical.

(p.25)

Act II concerns the creation of structures to institutionalize the organization's vision. New practices are created to embody the new ideas; over time, these practices influence the way employees think.

- What does your global competitive environment look like?
- In the last three years, what have your competitors done to you?
- In the same period, what have you done to them?
- How might they attack you in the future?
- What are your plans to leapfrog them?

(p.38)

Back to the late 1800s, when the "modern" business bureaucracy was just emerging. That is when the German theorists Max Weber extolled the benefits of systematic organizational controls such as clear chains of command and advancement based on merit. Corporations built on the Weberian model have relied ever since on bureaucratic schemes to reduce the inherent uncertainties of business.

The ideal was a system of such clear and enforceable rules that an organization could function with machinelike predictability. People were not expected to have ideas; the ideas were built into the system itself, as in Ford's famous assembly…

The larger and more complex the company, the more obvious the benefit of this so-called scientific management.
GEers fawned on their bosses and did what they were told, even when their orders made no sense. When criticized by superiors, they turned around and "kicked the dog" -- company argot for passing the pain onto subordinates. Ambitious GE managers kept their ties knotted and their mouths shut.

The mounting expense of this bureaucracy was a major reason GE became a high-cost producer, vulnerable to foreign competition.

The complex interaction of GE's culture, organization, and bureaucracy created a symphony of not-so-subtle signals that taught GEers how to behave. But as Jones realized, behavior that has been appropriate in 1878--or even 1978--might prove disastrous in the 1980s.

In an attempt to ensure fair treatment of its workers, GE had assigned all employees to one of twenty-nine civil service style levels of rank.

By counting Jim's ceiling squares, visitors could calculate the footage of his office, and thus his status in the hierarchy, that told the executives whether to grovel before Jim or boss him around.

(p.41)
The money helped, but ultimately Edison lost his job. The investors forced Edison out, replacing him with a former show salesman named Charles Coffin. In 1892, Coffin reorganized the burgeoning portfolio of business under his command into the General Electric Company.

Coffin.
Coffin became known as the father of professional management.

(p.44)
He also ordered a massive reorganization of GE, based on decentralization. Cordiner broke up the company's operations into departments, each small enough, in the CEO's phrase… By 1968 the company had 190 departments, ranging in size from $1.7 million in sales to $391 million. These departments resorted to forty-six divisions; the divisions reported to ten groups; and the groups reported to the CEO. Accustomed to military hierarchy from service in World War II, most GEers adapted easily to the strict new lines of authority.

Two years later, they emerged with the Blue Books, a five-volume, 3,463-page management bible. Buried in endless pages of stultifyingly elaborate prescriptions are such powerful concepts as management by objective-- as well as some of the most revolutionary ideas Welch would later espouse.

Decentralization… "A minimum of supervision, a minimum of time delays in decision making, a maximum of competitive agility, and thus maximum service to customers and profits to the company."

Cordiner described human motivation as a "baffling area." He also regarded people as fungible: "A manager is a manager is a manager."

GE's bureaucracy responded to Cordiner's innovations as if to a growth hormone. Decentralization added layers of supervisory management, and the rules in the Blue Books meant nothing without people to enforce them. Cordiner's formal job classifications, for instance, gave rise to a huge human resources staff that evaluated job descriptions, measured individuals' performance, and monitored salaries and promotions. Those staffers helped spread bureaucratic mind-set throughout the entire company: They ensured that salaries and bonuses mainly rewarded seniority, not performance.

Fred Borch… Among his most lasting contributions was the first large-scale implementation of strategic planning.

The consultants argued that GE was incapable of formulating sensible business plans, since it didn't even know what its businesses were.

(p.49)

That as mastery of the facts became impossible, illusion sufficed.

(p.55)

Every company has its Jack Welch, most likely several of them. If no forceful changemaker has made his or her way into the high echelons of management, that can only be because corporate politics have blocked the way.

(p.63)
Von Moltke argued that detailed plans usually fail, because circumstances inevitably change. A successful strategist, he wrote, always must be willing to adapt even broad goals must be flexible enough to respond to new events.

"The people with whom I have been associated have worked harder, enjoyed it more, although not always initially, and in the end, gained increased self-respect from accomplishing more than they previously thought possible."

(p.73)
Businesses organized on the old scientific model still build their best ideas into systems instead of encouraging employees to think for themselves.
        Managers at the top of these old-fashioned organizations issue instructions, and then wait while their orders shuttle from desk to desk down the chain of command. When underlings misunderstand, or find ways to disobey, nothing gets done. It happens all the time.

…Integrated diversity, the principle that GE's varied businesses can maintain their operating independence while working closely together as a team, sharing everything from financial data to people to best practices.

…Boundarylessness now. The ability to face reality and communicate candidly is prerequisites of boundarylessness.

> We've learned a bit about what communication is *not*. It's
> not a speech like this, or a videotape. It's not a plant
> newspaper. Real communications is an attitude, an
> environment. It's the most interactive of all processes. It
> requires countless hours of eyeball-to-eyeball back and
> forth. It involves more listening than talking, it is a
> constant, interactive process aimed at [creating] consensus.

Welch's focus is on the larger mission: creating a team of like-minded people who believe in what they do and work better as a result.

(p.78)

> Simplicity, consistency, and repetition-- that's how you get
> through. It's a steady continuum that finally reaches a
> critical mass.

(p.88)
Welch was trying to avoid the boiled frog syndrome. If you put a frog in a pan of cool water and gradually turn up the heat, the frog will just stay put until it dies. But if you drop a frog into boiling water, it will jump right out-- and survive.

> Some people say I'm afraid to compete. I think one of the
> jobs of a businessperson is to get away from slugfests and
> into niches where you can prevail. The fundamental goal is
> to get rid of weakness, to find a sheltered womb where no
> one can hurt you. There's no virtue in looking for a fight.
> If you're in a fight, your job is to win. But if you can't win,
> you've got to find a way out.

(p.93)
> Lay off 2,000 people, or 3,000, or 4,000 is nonsense. You
> should be talking about how to deliver the results that a
> healthy business should deliver. That makes sense to talk
> about an earnings number. *That* number will forces
> whatever headcount or other changes the business needs.

GE has its leaders the freedom-- and responsibility-- to decide for themselves how to reach the earnings targets.

Welch immediately seized the revolutionary's three main levels of control: the police, the media, and the schools.

Corporations have their equivalents of police, media and schools. At GE, "schools" were Jim Baughman's bailiwick, and later mine: Crotonville. The "media" included executives' speeches and publications from employee magazines to their corporate annual report. Aware…

GE's "police" were the cadres of professional nit-pickers and second-guessers on the strategic planning and finance staffs, who reviewed every operating decision and supervised the allocation of capital. … Once he got the planning and finance staffers under his thumb, every one of those reviews became an opportunity to influence the behavior of the people who actually ran GE.

A chief executive, unlike less senior managers, has limited opportunity to run a business directly. All he or she can do is set strategy, select a team of executives, and supervise the allocation of capital.

(p.103)
"You're either the best at what you do or you don't do it for very long."

(p.108)
A statement of the four main goals behind the portfolio changes appeared in 1985, as part of a draft of GE's corporate values:

- **Market leadership:** The rule of No. 1 or No. 2
- **"Well-above-average real returns" on investments:** Welch refused to set inflexible numerical targets.
- **A distinct competitive advantage:** The best way to avoid "slugfests" is to provide value no competitor can match.
- **Leverage from GE's particular strengths:** GE is well equipped to prevail in larger-scale, complex pursuits that require technology, massive capital investment, staying power and management expertise.

"I don't mind being wrong," he says. "The key is to win a lot more than you lose."

> Without everybody embracing what we want to do, we haven't got a prayer.

(p.112)
The ultimate goal of the GE revolution is for all employees to act for the good of the company without having to wait for orders. That means getting people to face facts and take responsibility-- an astoundingly difficult thing to achieve, especially in large organizations.

(p.118)
The Schlemmer team set a pattern that has since become… They eliminated whole layers of management, consolidating overlapping jobs and business units, and forced employees at every level to take far more responsibility for their own work. If something wasn't absolutely necessary, they eliminated it.

"We learned to do only what is necessary, not what's nice."

Another of Paynter's ideas was the "customer awareness trip." He'd gather a group of 150 employees-- a mix of hourly workers and supervisors, plus a few managers-- charter a plane, and take them on an overnight visit to one of the railroads that bought GE's locomotives.

> The idea was to talk about quality. It gave the people who maintained the locomotives out in Omaha or wherever the chance to talk to our people. The electrical guys could talk, "Why did you wire it that way?"
>
> I finally developed a philosophy: If Jack has to tell you what to do, you're way late. You have the responsibility to respond, and it seems to me that if your challenge is the size of a grapefruit, your response ought to be the size of a basketball.

"I'm responsible for those projections, I know they're wrong. Now I want to stay and clean up the mess.

(p.127)
It also gave Welch an opportunity to clarify his message to employees: He expects them to win with their integrity intact. The CEO urged every GEer to take what he calls the "mirror test," critically examining their own actions for integrity.

Self-respecting executives commonly take home office supplies, or ask their secretaries to type their kids' résumés. Strictly speaking, that's theft. Most people who take the mirror test seriously find something in their own behavior to change.
        Let's face it: People are susceptible to ethical lapses. In the real world, competitors may cheat, suppliers or customers may demand bribes, and regulators may tacitly or even explicitly allow rules to be broken.
        Studies show that well over half of all major U.S. companies have experienced corporate crime.

> In a global business, you can win without bribes. But you
> better have technology. That's why we win in businesses
> like turbines, because we have the best gas turbine. You've
> got to be the low-priced supplier, but in almost all cases, if
> you have quality, price, and technology, you win-- and no
> one can sleazeball you.

(p.158)
James MacGregor Burns, who defined the term, "transformational leadership." This is leadership that transcends the mere management of what already exists, to create something fundamentally new.

"The Pit"

(p.164)
> We think the only honest way to handle this is to tell people
> that there is no job security in GE-- other than what the
> consumer can provide. Therefore, if you're making
> turbines at 40% more than Korean or Japanese turbines,
> and they make a better turbine with more quality, then you
> will face turndowns. That's the reality of the
> marketplace…
>   This is very painful, and I think you need to
> empathize with the middle managers who have worked for
> GE for twenty-five years and face terrible downsizing. We
> must deal with this with compassion, and with fairness--
> but we must deal with it.

I passionately believe in these shared values. But I'm not naïve enough to think that everyone in GE believes in them. Some people down know about them; some managers think the values are a crock. But I believe in them, and my challenge to each of you is that you need to decide. Get clear on what your values are and whether they fit with GE, if they don't fit, make the decision to get out. If they do fit, terrific-- but make that decision based on a clear understanding of what GE is, what we are attempting to accomplish, and what you want to do.

Welch loves being in the Pit, bashing ideas back and forth with GEers.

A systematic new approach to gathering feedback, requiring every participant to fill in a one-page appraisal sheet that asks three questions:

- What did you find about the presentation that was constructive and clarifying?
- What did you find confusing or troublesome?
- What do you regard as you most important takeaway from this session?

(p.171)
"There are no textbook answers to the problems we face. We have to write our own textbooks every day."

By listening to people, you encourage them to think; and by encouraging them to think, you can win their involvement and commitment.

A statement of values should never be considered done.

- Only satisfied customers can provide job security.
- Change is continual, thus nothing is sacred. Change is accepted as the rule rather than the exception.
- Leaders share knowledge rather than withholding it as an element of power. Everyone benefits when they know what the leader knows-- nothing is "secret."
- Paradox is a way of life. You must function collectively as one company and individually as many businesses at the same time. For us, leadership means leading while being led, producing more output with less input.
- We encourage the sharing of these values because we believe they are both fair and effective, but we realize they are not for everyone… Individuals whose values do not coincide with these expressed preferences will more likely flourish outside the General Electric Company.

(p.177)
For the first time since Welch took office, the CEO had the luxury of deciding which person belonged in which job.

> I delayed fixing the structure for two reasons: First, I felt I
> hadn't done the job long enough, and I didn't want to
> disrupt the place. And second, I liked the people. They
> were my friends-- I'd put some of them into those jobs.
>
> The people running the sectors had no power. Their role
> was transmitting information, so they acted as filters. They
> were in-betweeners, with no way of actually knowing
> anything firsthand… When I'd ask a question, they had to
> go check with somebody who knew-- someone who was
> running a business.

…This was the great opportunity that defined the second act if the revolutionary process. To seize it, he had to help his organization define a new guiding purpose; a new set of rules-- a new vision. This is not something a leader can impose by fiat.

GE greatly increased their authority over capital allocation, one of the most important functions of management. In the old days, no executive below sector level could approve a major capital investment without going to the CEO. Now business chiefs have the same authority to approve investment as the CEO. When they spend more than they can approve themselves, they present their cases directly to GE's board.

…To create organizational structures driven by the needs of the market rather than the bureaucracy.

> The world of the 1990s and beyond will not belong to
> "managers" or those who can make the numbers dance.
> The world will belong to passionate, driven leaders--
> people who not only have enormous amounts of energy but
> who can energize those whom they lead.

…The people who controlled the company-- not just the CEO, but the executives who actually ran businesses-- largely agreed about what they were doing and why, its amazing how much easier it is to run a company that way.

(p.188)
GE's old wedding cake structure achieved control by brute force.

This sort of hierarchy isn't much more complicated than "me Tarzan, you Jane"; simplicity is one if it's main virtues.

…Formal structure created an ambiguous chain of command that reliably kept the enterprise under control

…It also shaped the attitudes and behaviors of employees, often in destructive ways. People learned to do what they were told and not much more.

…Open communication was almost unthinkable.

**

Welch's solution in 1986 was to create the Corporate Executive Council, or CEC… It meets quarterly to discuss the most important issues facing GE, whatever those might happen to be at the time.

The council's formal mandate is to share information, swap ideas, and help guide GE toward its goals.

**

The CEC is a high-level think tank, where the company's best informed (and presumably most talented) people work together on issues of common concern. If the definition sounds fuzzy, that's partly intentional: A main purpose of the CEC is to build trust and kinship among executives who might otherwise be slitting each other's throats.

> We strive for the antithesis of blind obedience. We want people to have the self-confidence to express opposing views, get all the facts on the table, and respect differing opinions. It is our preferred mode of learning; it's how we form balanced judgments. We value the participation, involvement, and conviction this approach breeds.

CEC meetings are not meant to be combative, but nervous executives and newcomers sometimes have found them so, particularly during the CEC's early years.

"We tee up a subject and they take each other on… We end up with a consensus."

A typical session begins with a scene-setting talk from the CEO: an overview of GE's current status and prospects, and a sounding of the big themes Welch wants to cover. Each member presents a very brief oral report-- rarely longer than ten minutes-- on his or her business situation. From then on, loosely guided by a prepared agenda, the meeting is given over to wide-ranging discussions marked by profanity, jokes, and frequent interruptions.
The main agenda items usually concern problem solving or sharing of good ideas.

One of the CEC's functions is to serve as GE's main nerve center, ensuring that good ideas-- what GEers call "best practices"-- get communicated throughout the company at lightning speed. If Plastics has come up with a great way to cut insurance costs, or if Aircraft Engines has developed an effective employee-involvement program, the CEC is where they spread the word.
Welch wants a company characterized by "integral diversity."

Coercive control --   where you point a gun at someone
Utilitarian control--   paying people to do what you want
Normative control--   is what induces people to devote themselves to a cause

**

As speed, quality, and productivity become ever more important, corporations need people who can instinctively act the right way, without instructions, and who feel inspired to share their best ideas with their employers.

That calls for emotional commitment… You've got to earn it, by standing for values that other people want to believe in, and by consistently acting on those values, day in and day out.

(p.197)
Sharing information of all kinds is an important aspect of boundarylessness… "Managers traditionally haven't shared information. Information was power, so that held it back. They saw their job as control…"

Sharing information creates peer pressure that goads people to even higher standards of performance. In the old days, GE executives were masters of obfuscation, using splendidly packaged reports and 35-mm slides to avoid the tough issues and snow their masters in Fairfield. But when you're stuck in a room where everyone knows everything, with no props at your disposal, you have to face reality. If your performance stinks, if you're avoiding a major strategic challenge, you won't be able to hide it. The result is openness, candor, and an incentive to produce real results.

(p.215)
The final element of productivity drive was Opie's call for "continual change productivity"-- in other words, revolution as a way of life.

> The good things I do today, I fall in love with. So if you come tomorrow and say, "There's a better way," I'll resist you.
> I'll say, "Hey, I just thought of that, they gave me a management award. They told me it was good."
> So now I've become an obstacle. Somehow you've got to get me to say, "You're right, that's a great idea."
> You got to constantly keep adjusting the organization, so you don't allow those habits and assumptions to become entrenched.

The best way to protect jobs is by beating the competition. That was the point of the rule of No. 1 or No. 2.

> In the environment of the 1990s, globalization must be taken for granted. There will only be one standard for corporate success: international market share. Success within a particular country will not guarantee corporate survival. The winning corporations-- those which can dictate their destiny-- will win by finding markets all over the world.

Fortress America had become a trap.

The huge size of the domestic market, the government protection of certain industries, and the lack of meaningful foreign competition had "delayed the onset of the need as well as the development of the skills needed to hunt in the global wild."

As CEO, Welch did not immediately impose globalization on the rest of GE. Until as late as 1984 or 1985, the corporate revolution and GE's domestic problems preoccupied him, so he gave second priority to international efforts. Besides, he was convinced that the only way to make the strategy work was for each business to take responsibility for its own globalization, creating and implementing a plan appropriate to its particular needs. Having witnessed the failure of many corporate-wide policies, he believed than any cookie-cutter approach would be doomed.

To give ownership a chance to work, Welch had to grant the operating businesses a large measure of freedom.

For any organization accustomed to domestic success, the introduction of global standards of performance can be deeply threatening. It's a classic example of what Welch calls "raising the bar": demanding a higher level of performance than was ever expected before.
    In addition to the complex issues of language and culture, going global requires massive transformations in the way a company does business and measures success. As in domestic competition, only a few top-ranked players can expect to prevail in a global marketplace. Winners must achieve best-of-class status in four areas:

- **Products and services:** Offering the world's best design and technology at the world's best prices.
- **Organization:** Integrating worldwide purchasing, manufacturing, distribution, and marketing networks. Balancing economies of scale with responsiveness to the particular needs of local markets. Institutionalizing learning and communication processes to enable the organization to adopt new techniques quickly.
- **Human resources:** Developing a cadre of cosmopolitan executives marked by what GE calls "global brains": the ability to understand and respect the national and ethnic biases of others, and to feel comfortable anywhere in the world
- **Alliances:** Finding ways to cooperate with other companies-- sometimes even competitors-- who can help you quickly surmount trade barriers and other obstacles.

Building a cadre of managers with "global brains" ranks among his most substantial challenges.

(p.238)

The boundaryless organization he envisioned couldn't work without the active participation of the whole work force-- but he couldn't expect people to participate in something they didn't understand, How to reach them?

Baughman designed Work-Out to Welch's specifications: an ambitious, ten-year program that Harvard Business School professor and GE consultant Len Schlesinger has called "one of the biggest planned efforts to alter people's behavior since Mao's cultural revolution."

"Without productivity growth, it is possible to lose in twenty-four months businesses than took a half-century, or a century, to build. Productivity growth is essential to industrial survival."

By 1988, GE's top-level executives understood Welch's ideas and embraced them. The Corporate Executive Council had become an effective mechanism for pushing shared values; CEC members were accustomed to mining good ideas in one part of GE, and moving them quickly to the rest of the company. The CEC, in turn, had spawned similar councils at all of GE's thirteen major businesses, engaging another layer of executives in the new style of management.

But as the complaints at Crotonville indicated, managers further down in the organization were far less likely to share the new GE values. Middle- and lower-level managers still did not see any urgent need to change. Despite delayering, GE still had a substantial hierarchy… junior managers were still filling out unneeded reports, taking superfluous measurements, and coping with draconian goals.

(p.241)
Assuming you want this transcribed? If not, erase italics.

1. *Buy into Corporate message. If cannot: Come and talk to any of us [Welch or the vice chairmen] about what bothers you and what would you like to change/modify, We can/will react to what is troublesome.*
2. *After buying in, sit with all direct reports and dialogue about Corporate message. Invite us to participate, as you see fit, in sharing the Corporate message with your direct reports.*
3. *Ask you direct reports what they can buy into-- and what they can't. Dialogue to achieve consensus on Corporate message. Use examples and illustrations pertinent to your business.*
4. *Have each of them meet with their direct reports-- and you participate. Then bring it to the next level until every manager in the Company has met with his/her leader-- and if they are troubled, see you.*
5. *Devote some time-- at each staff meeting, at each level-- to discussing progress in support of the Corporate message, One-time announcement/discussion will not achieve intended result.*

THE OBJECTIVE IS TO HAVE EVERY PERSON IN THIS COMPANY BE EXPOSED TO AND HAVE A DIALOGUE ON THIS CORPORATE OPERATING OBJECTIVE AND ITS SUPPORTING MESSAGES BY JULY 1, 1988.

"One of the things we can't do as top management is solve local problems."

To illustrate what he was up against, Welch tells the story of a typical question-and-answer session that took place at GE Plastics' factory in Holland:

> This engineer says to me, "The plant is nothing like it used to be. It's nowhere near as much fun as it was ten years ago. What the hell are you going to do about it?"
>
> I looked at him and said, "Let me tell you what I'm going to do. I'm leaving for Paris in about thirty minutes and I won" be back within a year, maybe two years. So personally, I'm going to do very little about it.
>
> "Why don't you get fifty people who were here ten years ago, and why don't you for the next two and a half days, go and write down, in the left-hand column, why it was fun before? And in the right-hand column, why it isn't fun now. And then why don't you fifty people change it and move everything back to the left side, so you're having fun again. Because you're the only people who can do it."

Work-Out began with four major goals:

- **Building trust:** GEers at all levels had to discover that they could speak out as candidly as CEC members do, without jeopardizing their careers. Only then would GE get the benefit of its employees' best ideas. Welch regarded this goal as so important that he allowed the program to proceed for years without proof that it was working.
- **Empowering employees:** The people closest to any given task usually know more about it than their so-called superiors. To tap workers' knowledge and emotional energy, the CEO wanted to grant them much more power. In return, he expected then to take on more responsibility. "There's both permission and obligation," he says.
- **Elimination to unnecessary work:** The quest for higher productivity was only one reason for pushing this goal. Another was the need to provide some relief for GE's overstressed workers. And Welch hoped to show employees some direct, tangible benefits from Work-Out, to generate enthusiasm for the program.
- **A new paradigm for GE:** Ultimately, the CEO wanted Work-Out to define and nurture a new boundaryless organization. The process was analogous to the way the scale was much larger.

To ensure that people could speak candidly without fearing retribution, bosses were locked out during discussion times. Welch made it clear to managers that he would treat any obstruction of Work-Out as "a career-limiting move." Facilitators, all outside consultants at first, ran the workshops.

Meeting in small groups, the employees would define problems and develop concrete proposals. On the final day, the bosses would return. According to Work-Out's rules, they had to make instant, on-the-spot decisions about each proposal, right in front of everyone. Some 80% of proposals got immediate yes-or-no decisions; the remainder that needed study had to get decisions within a month. As Welch had hoped, the process quickly exposed those GE managers who didn't "walk the talk."

A middle manager at Appliances tells how the Work-Out process worked at one plant there:

> We were getting screws from one supplier that was not so good. The bits would break off the screw heads, and scratch the product, and cut people's hands-- we had one guy get eighteen stitches. Tempers flared, but management never went and fixed it. They said, "Okay, we'll go get you some screws from the good supplier." But then the bad screws would always reappear.
> So a shop steward named Jimmy stood up at a Work-Out and told the story. This guy was a maverick, a rock thrower, a nay-sayer. He wanted to test us, to see whether we really wanted to change.
> He knew what he was talking about. And he explained the solution, which had to do with how deep the bit could be inserted into the screw head, and also the point contour on the screw.
> We listened, and then said, "Okay, what do you suggest?"
> And he replied, "We need to go tell the supplier what the problems are."
> Well, I was nervous about it, but I decided to charter a plane to fly Jimmy and a couple of other guys to the plant in Virginia where they made the bad screws. They left that very night.
> Jimmy got the problems fixed, and it sent a powerful signal to everyone here. He became a leader instead of a maverick, simply because we gave him the forum and allowed him to have some ownership. Now we don't even have supervision in his part of the plant. He carries a two-way radio, and if he needs help he asks for it.

The boundaryless Company we envision will remove the barriers among engineering, manufacturing, marketing, sales and customer service; it will recognize no distinctions between "domestic" and "foreign" operations-- we'll be as comfortable doing business in Budapest and Seoul as we are in Louisville and Schenectady. A boundaryless organization will ignore or erase group labels such as "management," "salaried," or "hourly," which get in the way of people working together. A boundaryless Company will level its external walls as well, reaching out to key suppliers to make them part of a single process in which they and we join hands and intellects in a common purpose-- satisfying customers.

He envisioned the replacement of hierarchy with cross-functional teams, the transformation of managers into leaders, and a radical empowerment of all the workers who were still getting bossed around.

> In the new culture, the role of the leader is to express a vision, get buy-in, and implement it. That calls for open, caring relations with every employee, and face-to-face communication. People who can't convincingly articulate a vision won't be successful. But those who can will become even more open-- because success breeds self-confidence.

(p.249)
Figuring that no company could corner the market for good ideas, Welch forced the organization to look outside.

During the summer of 1988, Welch assigned Michael Frazier of GE's Business Development staff to develop a list of companies worth emulating, and then to study their achievements. Frazier and his team selected nine companies to study including Ford, Hewlett Packard, Chapperell Steel, and two of Japan's best-known multinationals, both of which participated on condition their names be kept confidential. The team's ten members fanned out around the world, and spent a full year collecting on-site data of all these companies… They were seeking answers to the question, "What is the secret to your success?" Their report argued that the accomplishments of the world's productivity champs depended on common traits:

- They managed processes rather than people. Instead of tracking how *much* they producers, they focused on *how* they produced.
- They used process mapping and benchmarking to spot opportunities for improvement. Process mapping is a matter of writing down every single step, no matter how tiny, in a particular task. Benchmarking means comparing oneself to an objective standard, such as competitor's performance.
- They emphasized continuous improvement, and lauded incremental gains.
- They relied on customer satisfaction as the main gauge of performance. That overcame the tendency to focus on internal goals at customers' expense.
- The stimulated productivity by introducing a constant stream of high-quality new products designed for efficient manufacturing.
- They treated their suppliers as partners.

"Best Practices has legitimized plagiarism."

Work-Out now depended heavily on tools acquired from the Best Practices study, process mapping in particular. In business after business, GEers would gain control over processes by identifying every step in them. Some process maps were so complex that they covered whole walls and resembled diagrams of wiring in computer chips. The maps noted even such

seemingly minor matters, as the signatures required to approve purchases or shipments. Since a document tends to sit on a desk for a day before it's signed, cutting out a few unnecessary approvals can significantly speed up a process.

To forge a shared commitment to speed and customer satisfaction, GE invited customers and suppliers such as 3M and Sears to join in the sessions. These gatherings were very effective at building trust, but not always pleasant.

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Phase three of Work-Out began in 1992. Called the Change Acceleration Program, or CAP, it is a systematic attempt to use Work-Out to breed a new type of GE manager. Welch wants all GE's leaders to be professional change agents rather than mere managers. The idea behind CAP is to disseminate to top management all GE's accumulated knowledge and wisdom about the change process itself; how to initiate change, how to accelerate it, and how to make it stick.

If the CAP training works, outside facilitators won't be needed.

"People who are comfortable as coaches and facilitators will be the norm at GE. And the other people won't get promoted. We can't afford to promote people who don't have the right values."

Once you get the ideas, you keep refining and improving them; the more simply your idea is defined, the better it is. You communicate, you communicate and then you communicate some more. Consistency, simplicity, and repetition are what it's all about.

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Welch defines an effective corporate executive as "someone who can change the tires while the car's still rolling."

In GE-speak, keeping the car rolling means producing terrific financial results.

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Under what we called the Global Leadership Program, seven small teams, each with executives from the United States, Europe, and Japan, were assigned major projects that took nine months to complete. Sample assignments: devise a system to quickly transfer new technologies across the business; globalizing new-product planning; and creating a strategy to compete with Siemens, the world's No. 2 producers of diagnostic-imaging equipment, in its home market of Germany.
    Trani regarded the program's goals of long-term executive development and short-term problem-solving as equally important. In the early years, the Global Leadership Program also served to build the human network that helped tie GEMS together, while Trani's team experimented with more formal mechanisms.

One of our rules is that the coaches all work outside their areas of expertise: The head of the technology staff, for instance, coached the team working on a marketing project. That helped the coaches leave the hard business issues to the team, which were qualified to handle them, while helping out with subtler human problems.

The teams' work on their projects continued long after the Faro workshop ended. Knowing they would have to report real results to a real boss, participants had to teach themselves how to communicate with their teammates across two oceans via fax, electronic mail, two-way video systems, and in-person meetings. People who'd never left the United States became accustomed to flying to Tokyo one week, and Paris the next. As team members quickly discovered, globalization is a pain in the ass. The discomforts range from lost sleep to the resentment of the stay-at-home managers stuck with the work that globetrotters leave behind.

The only reason to put up with so much complication and disruption is that globalization so clearly seems to be the winning strategy. Market forces are compelling businesses to transfer technology and expertise throughout their organizations regardless of geography. And the economies of scale that come with globalization are impressive; if you can't figure out how to exploit them, your competitors will.

When we asked the participants to tell us what they'd learned, several key themes emerged.

- When the Americans dominate team discussions, as they are prone to do, people of other nationalities quickly lose interest and nothing gets done. It helps to speak slowly and write things down-- and sometimes to restrain the impulse to speak.
- The French love of argument can make emotionally neutral remarks seem combative and hurtful.
- The Japanese too often keep their good ideas to themselves.
- Almost everyone was astounded at the amount of time and effort necessary to accomplish meaningful work across global boundaries. The consensus was that true globalization would require years of effort.
- The program's most obvious payoff was the grid of interlacing networks formed by participants. Forcing people to get to know one another during the workshops, and then obliging them to work together, encouraged people to form lasting personal bond. Those networks of personal relationships provide the best way to steer work projects through the maze of a global organization.

One of the participants summarized it will when he wrote:

> If there's anything we've learned, it's to give equal time to both the project and the globalization experience. If you walk away from this with an excellent project completion, but don't know how a Frenchman lives, don't know why a Japanese businessman gets promoted, haven't tasted sushi, haven't ridden in the British subway, etc., you've blown it.
>
> To be global, you must know hoe the other poles think, what their customers want, and, basically, what makes them tick.
>
> This isn't as complex as it sounds. Just talk to them as colleagues, not aliens.

In the distant future, no doubt, the skills required for international communication will become more widespread. For now, though, it makes no sense to waste resources teaching language and other complex skills to the adults who are already established in business organizations. Welch, one of the best global managers around, speaks no language but English. Trani, though widely traveled, is not the sort of guy who visits temples while in Japan. You don't need to know how to bow correctly, or enjoy eating brains, to succeed as a global manager.

       If you're good at what you do, and know how to get along with people, you're 90% of the way there.

> We decided to try to get fives times better in both quality and speed by 1995. Before we even got to the question of how to get there, we had to figure out how to measure our progress. We got a group together and started talking about it, and everybody had a different measurement.
>
>   Well, everybody was sitting around the table, thirty people. And it was impossible to get them to agree.
>
>   It became clear this wasn't going to work. It wasn't really until after that meeting, when I thought about the complexity of it, that I realized processes were the way to go.

The formal networks laid out in organization charts rarely work as well as the informal ones that people create ad hoc. Anyone who has served in the military knows that the best way to get supplies is not through the cumbersome official requisition process, but through back channels, as Milo Minderbinder did so memorably in the book Catch-22. Individuals' ability to outsmart the organization becomes more crucial as corporate structures become more complex. At GEMS, one person may simultaneously be working on several project teams, reporting to different people in widely scattered parts of the business, and working closely with multiple sets of colleagues, some of whom may be located thousands of miles away. A few months later, the same person may be working on entirely different projects and dealing with a new cast of characters. Organizations simply aren't smart enough to cope with so much complexity; only people are.

       Trani moved to the third phase of the organization's development: the creation of a new social architecture. His team designed an organization built on six basic processes:

- **Advanced Technology:** The equivalent of research and development, this is the process of developing the basic technologies on which future products will rely.

- **Offerings Development:** The design of products and services based on those technologies.

- **Go-to-Market:** The identification of market needs-- including the particular demands of individual national markets-- and the fine-tuning of product designs to meet them.

- **Order-to-Remittance:** This sprawling process encompasses everything that gets done from the placing of a customer's order to the delivery of the equipment, including sales, purchasing of supplies, manufacturing, distribution, on-site installation and testing, and billing and collection. Here's where GEMS can leverage its global position and integrate its operations to achieve important economies of scale.

- **Service Delivery:** Providing repairs and upgrades to the installed base of GEMS machines-- a business that produces a very substantial portion of GEMS' profits.

- **Support:** This included all the staff functions, from finance to human resources to government relations.

One of Trani's goals is to force employees into an awareness that, no matter how it is divided, GEMS remains a single organization with the shared goal of servicing customers. That idea got lost in the tangle of functional, product, and national rivalries.

> An organization is a learning laboratory. The more we get
> into this, the more we realize we have to scale back and
> simplify. It was just too complex to try to do the whole
> thing at once. We're discovering that to get global is even
> more difficult that what you might think.

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Management is fine as far as it goes, but leadership is the way to win. GE has created an organization designed to demand leadership from every one of its members. As an employee at Appliances wryly notes, "We hired the arms and backs and legs of people for years, and we never knew the brains came free."

> The old organization was built on control, but the world has
> changed. The world is moving at such a pace that control
> has become a limitation. It slows you down. You've got to
> balance freedom with some control, but you've got to have
> more freedom than you ever dreamt of. To measure value,
> we're trying to look at what you contribute instead of what
> you control.

The urge to unlock the latent power of ideas explains almost everything Welch has done since he became GE's chief executive in 1981. From the first, his goal has been to get GE's employees to see the world as it really is, and then to act on that understanding. That's what he means by "facing reality." The idea sounds simple, but the turbulent history of the GE revolution demonstrates the difficulty of putting it into practice. It also shows that the payoff can be enormous.

He defined four types of executives:

> The first is one who delivers on commitments-- financials or otherwise-- and shares the values of our Company. His or her future is an easy call. Onward and upward.
> The second type of leader is one who does not meet commitments and does not share our values. Not as pleasant a call, but equally easy.
> The third is one who misses commitments but shares the values. He or she usually gets a second chance, preferably in a different environment.
> Then there's the fourth type-- the most difficult for many of us to deal with. That leader delivers on commitments, makes all the numbers, but doesn't share the values we must have. This is the individual who typically forces performance out of people rather than inspires it: the autocrat, the big shot, the tyrant. Too often all of us have looked the other way-- tolerated these "type 4" managers because "they always deliver"-- at least in the short term.
> And perhaps this type was more acceptable in easier times, but in an environment where we must have every good idea from every man and women in the organization, we cannot afford management styles that suppress and intimidate. Whether we can convince and help these managers to change-- recognizing how difficult that can be-- or part company with them if they cannot, will be the ultimate test of our commitment to the transformation of this Company and will determine the future of the mutual respect and trust we are building… We know now that without leaders who "walk the talk," all of our plans, promises and dreams for the future are just that-- talk.

The CEO recently said that for the first time since he took office, he is satisfied with every member of the CEC. The council's lineup has continued to change as other companies lured away such prized executives as Larry Bossidy and former Plastics chief Glen Hiner, who became chief executive of Owens-Corning Fiberglass. But Welch also quietly removed a few people who didn't belong.

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The new compact gives employees more freedom than ever before, and potentially, greater rewards for performance. But their jobs remain at risk every day. Over time, the idea of exposing every member of the organization to the common risk has become one of GE'' most fundamental values and an essential part of the corporate culture.

This is not for the weak of squeamish. As a GE dealmaker puts it: "The company gives me all the resources and independence I need. If I perform well, I can make more money here than anyplace. If I don't, I'm out. That's the way it works at GE, and I knew it when I came. We all know it." About 45% of the corporation's current employees arrived after Welch became CEO: They knew what they were getting into when they signed on. The old-timers who can't stand the risk have mostly bailed out.

GE's toughness and its emphasis on shared values are not contradictory. Both spring from the same source: The insistence that the company control its own destiny. They are different manifestations of a single idea, that the competitive realities of the late twentieth century and beyond require a new relationship between employer and employee. In the years ahead, even a well-tuned business engine won't be enough. The winning corporations will be those that can create *human* engines, powered by tuned-on, committed, responsible employees. Companies with old-fashioned, control-based organizations will disappear in the dust.

Given the right kind of people and clearly understood goals, intricate webs of informal networks among employees can accomplish much more than any rigid, traditional organization, producing tangible competitive advantages.

Not everyone is suited for this style of work. Welch makes the cut on the basis of what he calls "head, heart, and guts." By "**head**" he means intelligence and technical expertise. **"Guts"** is just another word for self-confidence, one of the qualities he values most in people. As for the elusive quality of **heart,"** it is a mixture of human understanding, consideration, willingness to share-- and the ability to keep one's ego in check. Not many executives embody all three attributes. People with "head" aren't hard to find, but the business world attracts fewer people with "heart: than it needs. As for "guts"-- many of those who appear to have it actually don't; genuinely self-confident people are surprisingly rare.

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> Only the most productive companies are going to win. You can't sell a top-quality product at the world's lowest price, you're going to be out of the game. In that environment, 6% annual improvement in productivity may not be good enough anymore; you may need 8% or 9%. And while that bar keeps getting raised higher, higher, higher, we're all going to be experiencing slow revenue growth. It's brutal!

We're focusing our efforts on value-driven products because in business after business, wherever you look, value is what people are buying. With a few exceptions such as pharmaceuticals, the demand for the newest, most expensive, fanciest products is not booming. Look at the sales of European luxury cars-- or supercomputers, for that matter. That's not what people want anymore.

Technology is still absolutely critical, but in industry after industry it will be value-driven. Who can make the most energy-efficient light bulb or refrigerator? Whose medical-imaging system is the most cost-effective? The medical diagnostic-imaging business is a perfect example of that's happening everywhere. The market is shifting away from the "technology leader" in the high-end niche to the guy with the basic, proven, low-priced systems that produce acceptable images. Governments have decided they don't want to pay more for health care, so if you're trying to pitch some hot new technology, the customer's going to say, "See you later."

The United States faces some serious issues-- but our country isn't being torn apart to the extent of Czechoslovakia, say. What we have to do now is to educate out people. Companies have to get involved in the school systems with dollars and volunteers. Within GE, we've got to upgrade workers' skills, through intense and continuous training. Companies can't promise lifetime employment, but by constant training and education we may be able to guarantee lifetime employability. We've got to invest totally in our people.

When I try to summarize what I learned since 1981, one of the big lessons is that change has no constituency. People like the status quo. They like the way it was. When you start changing things, the good old days look better and better.

You've got to be prepared for massive resistance.

Incremental change doesn't work very well in the type of transformation GE has gone through. If your change isn't big enough, revolutionary enough, the bureaucracy can beat you. Look at Winston Churchill and Franklin Roosevelt: They said: *This is what it's going to be*. And they did it. Big, bold changes, forcefully articulated.

When you get leaders who confuse popularity with leadership, who just nibble away at things, nothing changes. I think that's true in countries and in companies.

Another big lesson: You've got to be hard to be soft. You have to demonstrate the ability to make the hard, tough decisions-- closing plants, divesting, delayering-- if you want to have any credibility when you try to promote soft values. We reduced employment and cut the bureaucracy and picked up some unpleasant nicknames, but when we spoke of soft values-- things like candor, fairness, facing reality-- people listened.

If you've got a fat organization, soft values won't get you very far. Pushing speed and simplicity, or a program like Work-Out, is just plain not doable in a big business bureaucracy. Before you can get into stuff like that, you've first got to do the hard structural work. Take out the layers. Pull up the weeds. Scrape off the rust.

Every organization needs values, but a lean organization needs them even more. When you strip away the support systems of staffs and layers, people need to change their habits and expectations, or else the stress will just overwhelm them. We're all working harder and faster. But unless we're also having more fun, the transformation doesn't work. Values are what enable people to guide themselves through that kind of change.

Another takeaway for me: Simplicity applies to measurements, too. Too often we measure everything and understand nothing. The three most important things you need to measure in a business are customer satisfaction, employee satisfaction, and cash flow. If you're growing customer satisfaction, your global market share is sure to grow, too. Employee satisfaction gets you productivity, quality, pride, and creativity. And cash flow is the pulse-- the key vital sign of a company.

One thing I've learned is the value of stretching the organization, by setting the bar higher than people think they can go. The standard of performance we us is: *be as good as the best in the world.* Invariably people find the way to get there, or most of the way. They dream and reach and search. The trick is not to punish those who fall short. If they improve, you reward them-- even if they haven't reached the goal. But unless you set the bar high enough, you'll never find out what people can do.

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The enormous advantage we have today is that we can run GE as a laboratory for ideas.

The only way I see to get more productivity is by getting people involved and exited about their jobs…

It's a matter of understanding the customers' needs instead of just making something and putting it into a box. It's a matter of seeing the importance of your role in the total process.

When people see that their ideas count, their dignity is raised. Instead of feeling numb, like robots, they feel important. They *are* important.
I would argue that a satisfied work force is a productive work force. Back when jobs were plentiful and there was no foreign competition, people were satisfied just to hang around. Now people come to work with a different agenda: They want to win against the competition, because they know that the competition is the enemy and that customers are their only source of job security. They don't like weak managers, because they know that the weak managers of the 1970s and 1980s cost millions of people their jobs.

That's what boundarylessness is: An open, trusting sharing of ideas. A willingness to listen, debate, and then take the best ideas and get on with it.

I think that any company that is trying to play in the 1990s has got to find a way to engage the mind of every single employee.
If you're not thinking all the time about making every person more valuable, you don't have a chance. What's the alternative? Wasted minds? Uninvolved people? A labor force that's angry or bored? That doesn't make sense!

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Leaders of any institution, private or public, are in the business of helping each and every employee generate high levels of positive emotional energy.

The ultimate test of leadership is enhancing the long-term value of the organization.

THE WORK-OUT SESSION. The five-day Work-Out session was an intense effort to unravel, evaluate, and reconsider the complex web of personal relationships, cross-functional interactions, and formal work procedures through which the business of GEMS gets done. Cross-functional teams cooperated to address actual business problems. Each functional group developed a vision of where its operations are headed.

John Trani participated in a round table where he listened and responded to the concerns and criticisms of middle managers. Seniors members of the GEMS staff worked to build trust and more effective communication with the functional managers. All the participants focused on ways to reorganize work and maximize return on organization time, on team time, and on individual time. An important part of the session was Bureaucracy Busting. There are several forms of Bureaucracy Busting. One that we developed is the CRAP detector (Critical Review Appraisal) of unnecessary work. Individuals are asked to look for CRAP, which can be unnecessary plans, approvals, policies, measurements, meetings, and reports. The CRAO detector is presented below and should be used to help identify ways you can begin rearchitecting your job.