Economic Viewpoint

BY JEFFREY E. GARTEN

JACK WELCH: A ROLE MODEL FOR TODAY'S CEO?

On Sept. 7, Jack Welch will retire from his 20-year reign as chairman and CEO of General Electric Co. (page 136). Already he has been hailed as one of the great business leaders of the past half-century—and deservedly so. Now a new generation of CEOs is emerging, including Jeffrey R. Immelt, Welch's successor; Kenneth I. Chenault at American Express, W. James McNerney Jr. at 3M, Alan G. Lafley at Procter & Gamble, Anne M. Mulcahy at Xerox, and Steven S. Reinemund at PepsiCo. As he leaves the scene, should Welch be considered a role model for this new generation of business leaders, or will they need different or additional skills? There are reasons to discount Welch as a prototype. Unlike many CEOs, he inherited a company that had been financially successful and widely admired for most of the 20th century. He also enjoyed the tailwinds of America's longest and most powerful economic expansion. Nevertheless, almost everything Welch did is worthy of emulation.

He not only identified many of the biggest ideas—globalization, quality, the shift from manufacturing to services, and e-business—he also embedded them deep into GE's culture. He combined strategic discipline—every division had to be either No.1 or No.2 in its industry or close down—with a culture of entrepreneurship. He handled executive development and corporate acquisitions with stunning precision.

"SPECIAL BRILLIANCE." In an interview, University of Southern California business professor Warren G. Bennis said to me: "Welch's genius was the capacity to energize and inspire hundreds of thousands of people across a range of businesses and countries." According to Harvard Business School historian Richard S. Tedlow, "his special brilliance was to make big changes before the market demanded them and before his competitors saw the need." Added Wharton School professor Michael Useem: "He could change the direction of a huge conglomerate with the speed and agility of a small firm."

I asked Welch to assess his record. "The biggest change we made, without question, was the move to a boundaryless company," he told me. "We got rid of the corner offices, the bureaucracy, the 'not-invented-here' syndrome. Instead, we got every mind in the game, got the best out of all our people." How did he do it? "My main job was developing talent," he said. "I was a gardener providing water and other nourishment to our top 750 people. Of course, I had to pull out some weeds, too."

It all paid off. From 1982 through 2000, GE's average annual total return to shareholders was 25%, compared with 17% for the Standard & Poor's 500-stock index. Had you bought $10,000 of GE stock at the beginning of the period and held it, by 2001 you would have earned $677,000, compared with $194,000 for an identical investment in the S&P.

Welch's record is far from perfect, of course. He himself admits to many blunders, such as the acquisition of Kidder Peabody in 1987. Some critics say he relied too much on GE Capital, its financial services division, which now accounts for half of the company's profits. Others point to the shortage of women and minorities in top management. But perhaps Welch's biggest shortcoming was his handling of growing political and social pressures, as evidenced by the European Union's veto of the proposed GE-Honeywell merger and the Bush Administration's decision to order GE to clean up its polluting of the Hudson River at a cost of nearly $500 million.

TOO MUCH? Indeed, for new CEOs, Welch's take-no-prisoners style, so effective when competing for customers, will need to give way to something more subtle and compromising when negotiating with governments and public interest groups. As these nonfinancial pressures are added to the already horrendously complex challenges facing global CEOs—including increasingly volatile financial markets, disruptive technologies, more intense globalization, and tenuous loyalty of employees and customers—the range of skills required may just make the job too much for one person. Welch himself made this prediction to me: "Leadership of companies is going to have to become much less CEO-driven. There's going to have to be far more delegation, far more participation [by other executives]."

It won't be easy. At Citigroup, Sanford I. Weill and John S. Reed couldn't coexist as joint CEOs. But today, Weill and former Treasury Secretary Robert E. Rubin, men with vastly different skills, seem to be working well together in a looser arrangement. At Microsoft, Chairman Bill Gates and CEO Steve Ballmer appear to be an effective team. Perhaps the same will happen at Ford Motor Co. as Chairman William C. Ford Jr. and CEO Jacques A. Nasser seek a closer working relationship. Still, no one yet claims the right formula for genuine power-sharing at the top of global enterprises.

Welch was indeed the most impressive CEO of his time. But while there is an extraordinary amount to learn from studying how he did what he did, for global business leaders, a new era is dawning as well.

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