

LENDING A HAND: Welch says Suzy played a key role shaping their book

Leadership for the 21st Century

JACK ON JACK

HIS NEXT CHAPTER

Newly wed and beyond the scandals, Welch is starting fresh with a smart new book.

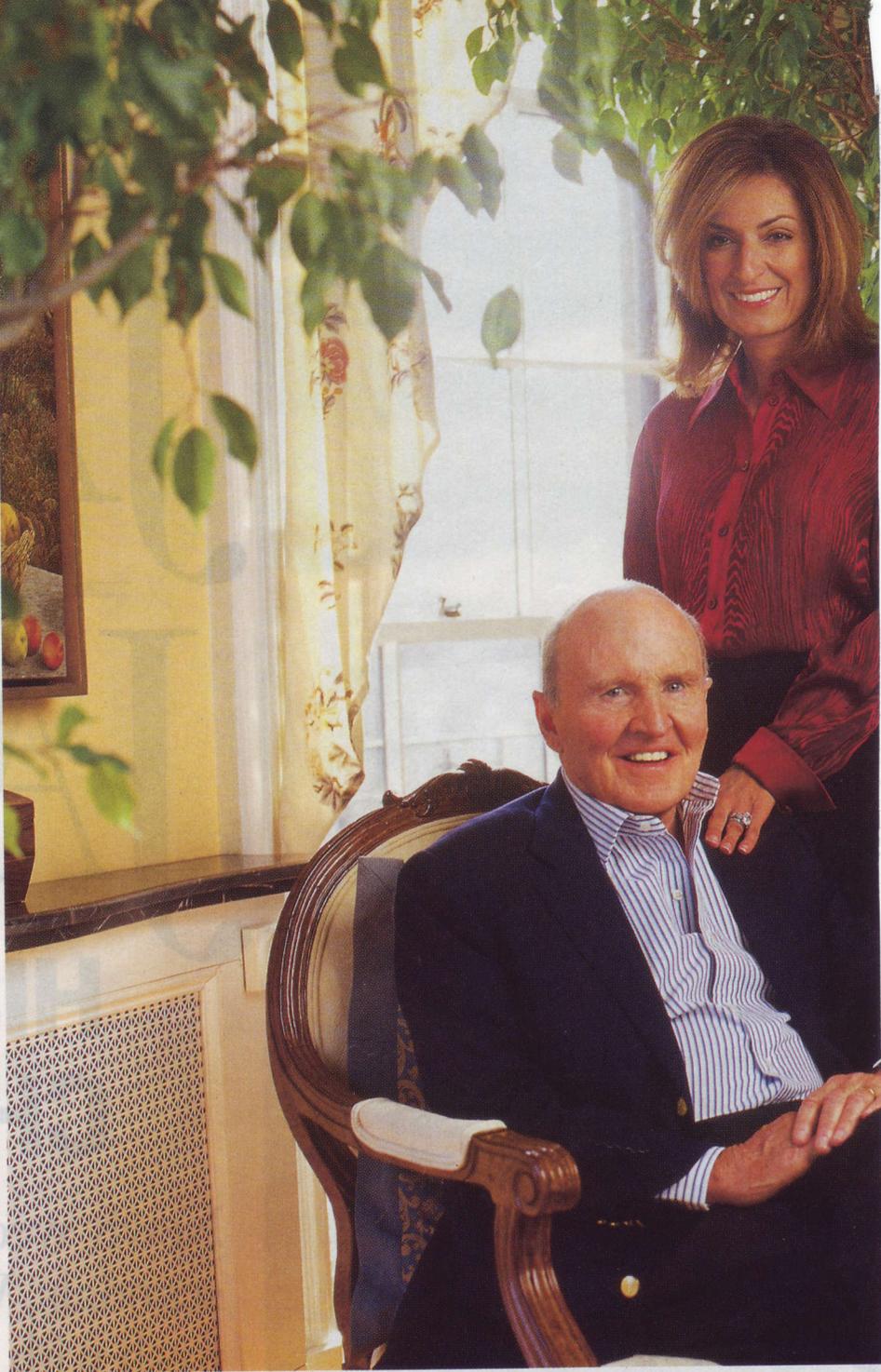
BY DANIEL MCGINN

DURING 21 YEARS AS THE CHIEF EXECUTIVE of General Electric, Jack Welch handwrote elaborate appraisals of his subordinates, reviewing what they did well—and what they didn't. Then, upon his retirement in 2001, Welch published his memoir, "Jack: Straight From the Gut," which gave the former boss the chance to receive some candid reviews of his own. "When confronted with a topic that

might have actually made his memoir interesting, Welch runs in the other direction," wrote *The New York Times*. The *Miami Herald* concluded: "This thing might have emerged from the wrong end of the author's alimentary canal." "There were some great ones, too," Welch countered recently, when *NEWSWEEK* reminded him of those slams. Despite the book's sales—more than 2.7 million copies—Welch's associates say the bad reviews bothered him. He admits his first literary foray left room for improvement. "It didn't go far enough," he says. "It was just one guy's story."

His bid for redemption hits bookstores next week. It's the product of a transformative retirement. In late 2001, Welch began an affair with Suzy Wetlaufer, editor of the *Harvard Business Review*. The relationship filled gossip columns, ultimately costing Wetlaufer her job and Welch his second marriage. During his divorce, his former wife's lawyers leaked details of his lavish GE retirement contract, creating a second wave of scandal. But eventually the headlines faded—and the love affair didn't. Married last April, the couple now resides in a massive 19th-century town house near John Kerry's home on Boston's Beacon Hill. On the top floor, Welch's office is equipped with his-and-her desks. And for the past year, the newlyweds—he's 69, she's 45—have stopped cuddling long enough to take a second stab at burnishing Welch's literary credentials. They've co-authored "Winning," a 372-page management book that's everything Welch's first tome wasn't: smart, practical and not afraid to address tough subjects. Designed as a comprehensive instruction manual for corporate climbers, "Winning" describes his rules on leadership; how to implement Welch's famed system for rating employees as A's, B's and C's; how to hire and fire; how to survive when your employer is acquired, and how to plot strategy. In an unlikely bit of self-help from a man once derided as "America's Toughest Boss," he even includes a chapter on balancing work and family (excerpts begin on page 45). The couple is donating the \$4 million advance to charity, but must also be hoping for a different payoff: that the book will help remove whatever tarnish the scandals put on his legacy.

Sitting in his office a few hours after the first bound copies of the new book arrived, it's evident Welch the retiree has discovered some balance himself. Once a maniacal golfer, he's ditched his clubs and now practices Pilates. Once lukewarm on religion, he's now a churchgoer; last month he and Suzy dined with Rick



“WE HAVE EVERY SENSIBILITY THE SAME THE SAME. WE HAVE THIS MIND-MELD”

Warren, author of "The Purpose Driven Life." Mostly, though, he's gushingly—some might say obnoxiously—in love. "We have every sensibility the same. It's the happiest thing one could ever dream of," he says. "We think the same, we laugh the same ... we have this mind-meld; we call it the Vulcan mind-meld."

Seeing the Welchses together, one can imagine couples being terrified to go out with them, since it will lead to an inevitable argument on the drive home: *How come you're not as over-the-moon for me as Jack is for Suzy?* "He looks at friendship and family differently because of Suzy," says Andrew Lack, Sony Music



HIGH LIFE:
The Welch
in their huge
town house
on Boston's
Beacon Hill

AYS JACK. 'WE THINK THE SAME, LAUGH WE CALL IT THE VULCAN MIND-MELD'

chairman and a close friend. "[She's] renewed his life and changed his spirit."

Welch hasn't changed completely. He recently asked Suzy and his longtime assistant, Rosanne Badowski, who shares their home office, to submit memos to help him write formal performance evaluations of the couple's household help.

"You can't have a subordinate-superior relationship without having frequent, handwritten—typed if necessary—[feedback on] what you like about them and what can be improved," says Welch. Even if the job is cooking and cleaning.

It's a step down from managing a company of 313,000 employees, but it's a

small piece of a busy life. Welch consults for Barry Diller's growing Internet empire and advises Clayton Dubilier, a buyout firm. He gives talks around the globe (at \$150,000 per speech). And he follows the news voraciously. Every morning at 6:30, four newspapers land on the Welch's doorstep, and the couple spends hours each day dissecting and debating the business pages. (Later, Suzy visits a newsstand for the New York Post, the gossipy tabloid that is Welch's favorite read.) Inevitably, the phone starts ringing. Ask Welch about any big business story—a CEO's removal, a merger, an investigation—and he not only has an opinion, but he's often spoken directly with those involved. His voice drops a few decibels when he dishes, lacing the scuttlebutt with phrases like "my sources tell me ..." Welch may be even more plugged-in these days, since other moguls are more willing to seek his advice now that he's not a competitor. "Other CEOs talk to him in ways that are unvarnished," Lack says.

Some of what Welch hears troubles him—especially when boards overstep their bounds. He harshly criticizes HP's directors for dumping chief executive Carly Fiorina before she had time to execute the strategy the board had endorsed. He's most offended by the HP board's attempt to "micromanage" Fiorina by telling her who should be running HP's various divisions. "[Boards] aren't there to micromanage the company, and some are losing sight of that," he says. He says Michael Eisner deserved a voice in choosing his successor, despite dissident shareholders' complaints. Even after Enron and as regulators shift power to independent directors, Welch believes companies still need strong, empowered CEOs.

Welch makes similar observations in "Winning," but mostly the book focuses on his formula for succeeding in business and grooming subordinates to do well, too. "The Welch legacy is all about Jack as a teacher [who] developed other leaders," says Noel Tichy, a University of Michigan management professor and longtime Welch confidant. Indeed, four of the 30 Dow Jones industrials are now led by Welch protégés. Welch credits his wife with shaping the book; in fact, several of the case studies in which Welch describes something happening to "a friend" are drawn directly from his wife's career. Other examples draw on their everyday life, such as when they analyze the strategic



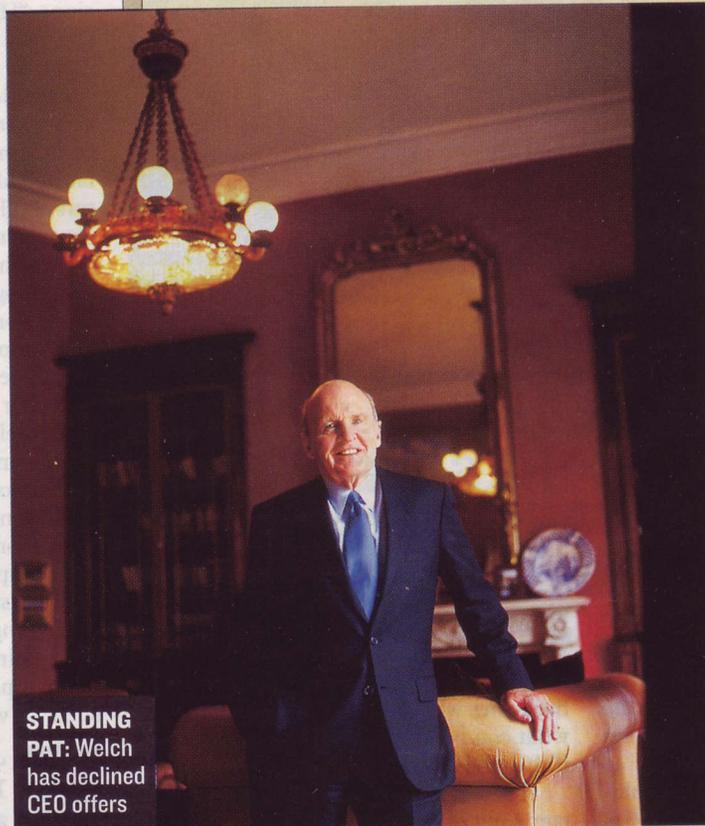
Join Jack Welch for a Live Talk on
Thursday, March 31, at noon, ET,
at Newsweek.com on MSNBC

advantages of Upper Crust, a pizzeria near their mansion. "They're very much in love, but they have an unbelievably effective work relationship," says Andy Wasynczuk, a Harvard Business School lecturer and close friend.

As Welch describes their work together, his wife enters the office and takes off a leather jacket. Perfect timing: he's just been raving about how she's in phenomenal shape. She grabs a copy of the newly arrived book and explains that though she loved Welch's first book, the second is much more useful for folks who don't happen to work at what she calls "G-Eden," the utopian corporate culture Welch created.

They appear to have put their scandalous past behind them. But the controversy over his retirement perks still irks him. Welch says his contract, which was filed with the SEC years earlier, was entirely proper, and that he never even used many of the goodies—Knicks tickets, free postage—to which he was entitled. He agonized over giving up the deal. "If I gave it back, I looked like I did something wrong," he says. "If I kept it, I looked like [a] greedy pig. I picked the first one."

As ebullient as Welch is about their marriage, it's tinged with sadness over their 24-year age difference. "It's very painful to have missed all this time together," he says, acknowledging that his age has led them to decide, after much agonizing, to forgo having a child together (each has four children from previous marriages). "She very much would like to," Welch says, but he believes it'd be unfair for a child to have such an elderly father. A few minutes later, however, he backtracks: "I'm not sure I'd even lock it up that it's done. Rupert Murdoch did it older than we are." Welch had a heart attack 10 years ago, and now with a younger wife and an unresolved debate over having another child, mortality is on his mind. "I want to live a long time now, particularly with her," he says. These days Jack Welch worries more about the Red Sox score than earnings per share, more about service at the local pizzeria than whether to buy Honeywell or sell NBC. But he's still setting goals, and still stretching to reach them. ■



STANDING PAT: Welch has declined CEO offers

'The President on Line 1'

When NEWSWEEK last sat down with Jack

Welch, in December 2000, he'd just picked Jeff Immelt as his successor, and the U.S. Supreme Court had just cemented George W. Bush's presidential victory. At one point, Welch interrupted the interview to take a call from the president-elect. In an interview this month, Welch told NEWSWEEK's Daniel McGinn what they discussed—and why he didn't think an affair would cost Suzy her job. Edited excerpts:

Did the president talk to you about a cabinet post?
I've had opportunities to be considered.

You weren't interested?
They're brutally hard jobs. You have to understand, the

reason CEOs don't often make great cabinet officers is they've been the chief executive for the last, in my case, 21 years. Going to be a staff man for somebody else's policies is not something that appeals to me in any way, shape or form.

You were approached last year to run Coca-Cola. Have you ruled out becoming a CEO again?
Absolutely positive.

The recent firing of Boeing's CEO involved romantic e-mails he sent to another Boeing executive. Your ex-wife, Jane, discovered your affair with Suzy when she saw your e-mails. Are people too naive about the privacy of e-mail?

I think e-mails are difficult if people are doing something wrong, but I wouldn't make a

broad point about it. If Eliot Spitzer picks up a bad e-mail because somebody is setting prices, I'm glad he did. But I was retired; my affair was with someone who was divorced—I'd send those e-mails tomorrow.

Didn't Suzy deserve to be fired over your affair?

Let's assume you and I are gay—you're a gay guy, I'm a gay guy and you're writing a story about me. We have a great chemistry. At Harvard, when you do an article, you have a chance to negotiate with the writer the context of the article. So [after Suzy and I first met] we had six weeks of e-mails, phone calls, with no relationship whatsoever ... Then she came down for a photo shoot [and] I invited her to lunch afterwards, which was the beginning of the relationship. Nothing happened, but it was clear I was liking her, and she was liking me ... When something did happen, she went to her boss and said, "I'm having a romantic relationship with Jack Welch. I think the article has to be pulled." They pulled the article ... With her record and her résumé and her withdrawing the article, I thought, "Suzy, this will not be a criminal offense." She said: "This is Harvard—they won't want any bad press." She was right.

What do you think of Larry Summers's woes?

If you read the transcript, he raised thoughtful questions that an academician should be able to raise. I think it's outrageous. I think it got more outrageous when Will Smith's wife went there and they criticized her for being "heteronormative." I'd never even heard the word before. It's a funny place over there.

During his long career, Welch mentored a generation of future CEOs. In an exclusive excerpt, his rules of the game.

HOW TO BE A GOOD LEADER

BY JACK WELCH WITH SUZY WELCH

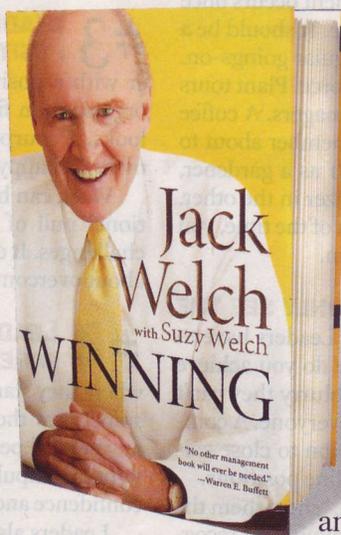
ONE DAY, YOU BECOME A LEADER. ON Monday, you're talking and laughing with colleagues about life and work, and gossiping about how stupid management can be. Then on Tuesday, you are management. You're a boss. Suddenly, everything feels different—because it is different. Leadership requires distinct behaviors and attitudes, and for many people, they debut with the job. Before you become a leader, success is all about growing yourself. When you become a leader, success is all about growing others.

Without question, there are lots of ways to be a leader. You need to look only as far as the freewheeling, straight-talking Herb Kelleher, who ran Southwest Airlines for 30 years, and Microsoft's quiet innovator, Bill Gates, to know that leaders come in all varieties. In politics, take Churchill and Gandhi. In

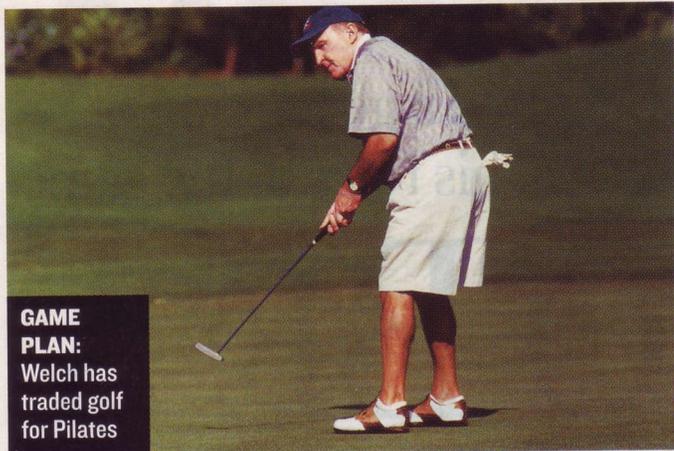
football, take Lombardi and Belichick. Each of these leaders would give you a different list of "rules."

During my talks with students, managers and entrepreneurs, leadership questions invariably were asked. "What does a leader really do?" and "I was just promoted and I've never run anything before. How can I be a good leader?" These kinds of questions have pushed me to make sense of my own leadership over 40 years. I ran teams with three experienced people and divisions with 30,000. I managed businesses that were dying and ones that were bursting with growth. There were acquisitions, divestitures, organizational crises, moments of unexpected luck, good economies and bad. And yet, some ways of leading always seemed to work. These became my eight "rules."

First, a word on paradoxes. Leadership is loaded with them. The granddaddy of them all is the short-long paradox, as in the question I often get: "How can I manage quarterly results and still do what's right for my business



From the book *WINNING* by Jack Welch with Suzy Welch.
© 2005 by Jack Welch, LLC. Published by arrangement with
HarperBusiness, an imprint of HarperCollins Publishers, Inc.



GAME PLAN: Welch has traded golf for Pilates

five years out?" My answer is, "Welcome to the job!" Performing balancing acts every day is leadership. That's part of the fun of leading, though. You can only give it everything you've got. Here's how:

#1 LEADERS RELENTLESSLY UPGRADE THEIR TEAM, USING EVERY ENCOUNTER AS AN OPPORTUNITY TO EVALUATE, COACH AND BUILD SELF-CONFIDENCE. The team with the best players usually does win. And that is why, very simply, you need to invest the vast majority of your time and energy as a leader in three activities.

You have to evaluate—making sure the right people are in the right jobs, supporting and advancing those who are, and moving out those who are not.

You have to coach—guiding, critiquing and helping people to improve their performance in every way.

And finally, you have to build self-confidence—pouring out



“THINK OF YOURSELF AS A GARDENER, A WATERING CAN IN ONE HAND AND FERTILIZER IN THE OTHER.”

encouragement, caring and recognition. Self-confidence energizes, and it gives your people the courage to stretch, take risks and achieve beyond their dreams. It is the fuel of winning teams.

Too often, managers think that people development occurs once a year in performance reviews. That's not even close. It should be a daily event, integrated into every aspect of your regular goings-on. Customer visits are a chance to evaluate your sales force. Plant tours are an opportunity to meet promising new line managers. A coffee break at a meeting is an opening to coach a team member about to give his first major presentation. Think of yourself as a gardener, with a watering can in one hand and a can of fertilizer in the other. Occasionally you have to pull some weeds, but most of the time, you just nurture and tend. Then watch everything bloom.

#2 LEADERS MAKE SURE PEOPLE NOT ONLY SEE THE VISION, THEY LIVE AND BREATHE IT. Leaders have to set the team's vision and make it come alive. How do you achieve that? First of all, no jargon. Targets cannot be so blurry they can't be hit. You have to talk about vision constantly to everyone. A common problem is that leaders communicate the vision to close colleagues and it never filters down to people in frontline positions.

If you want people to live and breathe the vision, “show them the money” when they do, be it with salary, bonus, or significant recog-

ognition. To quote a friend of mine, Chuck Ames, the former chairman and CEO of Reliance Electric, “Show me a company's various compensation plans, and I'll show you how its people behave.”

#3 LEADERS GET INTO EVERYONE'S SKIN, EXUDING POSITIVE ENERGY AND OPTIMISM. An upbeat manager with a positive outlook somehow ends up running a team or organization filled with ... well, upbeat people with positive outlooks. A sourpuss somehow ends up with an unhappy tribe all his own. Unhappy tribes have a tough time winning.

Work can be hard. But your job as leader is to fight the gravitational pull of negativism. That doesn't mean you sugarcoat the challenges. It does mean you display an energizing, can-do attitude about overcoming them.

#4 LEADERS ESTABLISH TRUST WITH CANDOR, TRANSPARENCY AND CREDIT. Your people should always know where they stand. They have to know how the business is doing. And sometimes the news is not good—such as imminent layoffs—and any normal person would rather avoid delivering it. But you have to fight the impulse to pad hard messages or you'll pay with your team's confidence and energy.

Leaders also establish trust by giving credit where credit is due.



TEACHING MOMENT: While CEO, Welch looked for chances to coach

They never score off their own people by stealing an idea and claiming it as their own. They don't kiss up and kick down because they are self-confident and mature enough to know that their team's success will get them recognition, and sooner rather than later. In bad times, leaders take responsibility for what's gone wrong. In good times, they generously pass around the praise.

#5 LEADERS HAVE THE COURAGE TO MAKE UNPOPULAR DECISIONS AND GUT CALLS. There are times you have to make hard decisions—let people go, cut funding to a project, or close a plant. Obviously, tough calls spawn complaints and resistance. Your job is to listen and explain yourself clearly but move forward. You are not a leader to win a popularity contest—you are a leader to lead. Don't run for office. You're already elected.

Sometimes making a decision is hard not because it's unpopular, but because it comes from your gut and defies a "technical" rationale. Much has been written about the mystery of gut, but it's really just pattern recognition, isn't it? You've seen something so many times you just know what's going on this time. The facts may be incomplete, but the situation feels very, very familiar to you. Sometimes the hardest gut calls involve picking people. You meet a candidate who has all the right stuff. But something nags at you, and you're left with that uh-oh feeling. Don't hire the guy.

#6 LEADERS PROBE AND PUSH WITH A CURIOSITY THAT BORDERS ON SKEPTICISM, MAKING SURE THEIR QUESTIONS ARE ANSWERED WITH ACTION. When you are an individual contributor, you try to have all the answers. When you are a leader, your job is to have all the questions. You have to be incredibly comfortable looking like the dumbest person in the room. Every conversation you have about a decision, a proposal, or a piece of market information has to be filled with you saying, "What if?" and "Why not?" and "How come?" Questioning, however, is never enough. You

On Hiring, Inspiring

Hiring good people is hard. Hiring great people is brutally hard. Yet nothing matters more in winning than getting the right people on the field, then guiding them on the right way to succeed and get ahead.

Before you even think about assessing people for a job, they have to pass through three screens. The first test is for integrity. People with integrity tell the truth, and they keep their word. The second test is for intelligence. The candidate has a strong dose of intellectual curiosity, with a breadth of knowledge to work with or lead other smart people in today's complex world. The third ticket to the game is maturity—the ability to handle stress and setbacks, and enjoy success with equal parts of joy and humility.

I then apply the "4-E (And 1-P) Framework" for hiring that I've found consistently effective, year after year, across businesses and borders. The first E is positive energy. It means the ability to go go—to thrive on action and relish change. The second E is the ability to energize others, and inspire them to take on the impossible. The third is edge, the courage to make tough yes-or-no decisions. The fourth E is execute—the ability to get the job done. Then I look for that final P, passion—a heartfelt, deep and authentic excitement about work.

When you actually interview somebody for a job, make sure every candidate is interviewed by several people. Over time, you will find that some people in your organization have a special gift for

picking out stars and phonies. Rely on them. Make sure you exaggerate the challenge of the job; describe it on its worst day. As you crank it up, see if the candidate keeps saying, "Yes, yes, yes!" If he does, you should worry that he has few other options, if any. Be impressed if the candidate starts peppering you back with hard questions.

Don't check just the references the candidate gives you. Call around, and don't allow the conversation to be perfunctory. Stop yourself from just hearing the good news you want to hear. Challenge anything that sounds like lawyer-speak.

The most important question to ask in an interview: Why did the candidate leave his previous job, and the one before that. Was it the environment? The boss? The team? What exactly made her leave? Maybe the candidate just expects too much—he wants a

boss who is entirely hands-off or teammates who always agree. Maybe he wants too much reward too fast. Or maybe she's leaving her last job because she has just what you want.

So you've made your hire. What to tell them about how to get ahead? Basically, getting promoted is a matter of dos and don'ts:

- Do perform far beyond expectations, and expand the boundaries of your job.
- Manage your subordinates with the same care that you manage your boss.
- Get on the radar screen by being an early champion of your company's major projects or initiatives.
- Search out lots of mentors.
- Have a positive attitude and spread it around.
- Don't make your boss use political capital in order to champion you. And don't let setbacks break your stride.

have to make sure your questions unleash debate and raise issues that get action.

#7 LEADERS INSPIRE RISK TAKING AND LEARNING BY SETTING THE EXAMPLE.

These two concepts often get lip service—and little else. Too many managers urge their people to try new things and then whack them in the head when they fail. And too many live in not-invented-here worlds of their own making. If you want your people to experiment, set the example yourself.

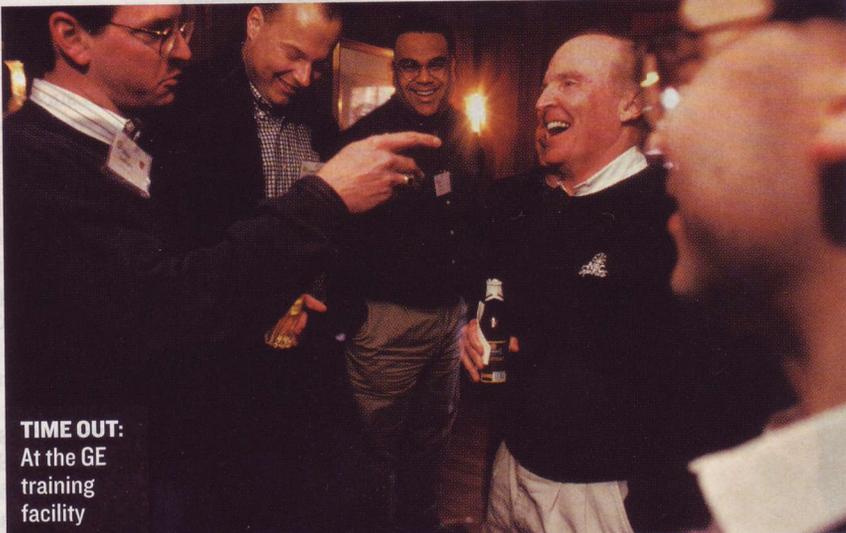
Consider risk taking. You don't need to be preachy or somber about your errors. In fact, the more humorous and lighthearted you can be, the more people will get the message that mistakes aren't fatal.

As for learning—again, live it yourself. Just because you're the boss doesn't mean you're the source of all knowledge. Whenever I learned about a best practice that I liked at another company, I would come back to GE and make a scene. Maybe I overstated the case, but I wanted people to know how enthusiastic I was about the new idea.

#8 MANAGERS CELEBRATE.

Why does celebrating make managers so nervous? Maybe throwing a party doesn't seem professional, or it makes managers worry that they won't look serious to the powers that be, or that, if things get too happy at the office, people will stop working their tails off.

There is just not enough celebrating going on at work—anywhere. I harped on the importance of celebrating for 20 years. But during my last trip as CEO to our training center in Crotonville, N.Y., I asked the 100 or so managers in the class, “Do you celebrate enough in your units?” Even know-



TIME OUT:
At the GE
training
facility

ing what I wanted them to say, less than half answered yes.

What a lost opportunity. Celebrating creates an atmosphere of recognition and positive energy. Imagine a team winning the World Series without champagne spraying everywhere. And yet companies win all the time and let it go without so much as a high five. Work is too much a part of life not to recognize moments of achievement. Make a big deal out of them. If you don't, no one will.

I am often asked if leaders are born or made. The answer, of course, is both. Some characteristics, like IQ and energy, seem to come with the package. On the other hand, you learn some leadership skills, like self-confidence, at your mother's knee, and at school, in academics and sports. And you learn others at work—trying something, getting it wrong and learning from it, or getting it right and gaining the self-confidence to do it again, only better. ■

On Work and Family

If there was ever a case of “Do as I say, not as I did,” this is it. No one, myself included, would ever call me an authority on work-life balance. For 41 years, my operating principle was work hard, play hard and spend some time as a father.

It's clear that the balance I chose had consequences for the people around me at home and at the office. For instance, my kids were raised, largely alone, by their mother, Carolyn. And from my earliest days at GE, I used to show up at the office on Saturday mornings. Not coincidentally, my direct reports showed up too. Personally, I thought these weekend hours were a blast. We would mop up the workweek in a more relaxed way and shoot the breeze about sports. I never once

asked anyone, “Is there someplace you would rather be—or need to be—for your family or favorite hobby or whatever?” The idea just didn't dawn on me that anyone would want to be anywhere but at work.

My defense, if there is one, is that those were the times. In the 1960s and '70s, all my direct reports were men. Many of those men were fathers, and fathers were different then. They did not, by and large, attend ballet recitals on Thursday afternoons or turn down job transfers because they didn't want to disrupt their kids' sports “careers.” Most of their wives did not have jobs with their own competing demands. All that changed, of course.

I have dealt with dozens of work-life balance situations and

dilemmas as a manager, and hundreds more as the manager of managers. And over the past three years, I've heard from many people—bosses and employees—about the complex issue of work-life balance. I have a sense of how bosses think about the issue, whether they tell you or not. You may not like their perspective, but you have to face it. There's lip service about work-life balance, and then there's reality. To make the choices and take the actions that ultimately make sense for you, you need to understand that reality: your boss's top priority is competitiveness. Of course he wants you to be happy, but only inasmuch as it helps the company win. In fact, if he is doing his job right, he is making your job so exciting that your personal life becomes a less compelling draw.

■ Most bosses are perfectly willing to accommodate work-life balance challenges if you have earned it

with performance. The key word here is: *if*.

■ Bosses know that the work-life policies in the company brochure are mainly for recruiting purposes and that real work-life arrangements are negotiated one on one in the context of a supportive culture, *not* in the context of, “But the company says ...!”

■ People who publicly struggle with work-life balance problems and continually turn to the company for help get pigeonholed as ambivalent, entitled, uncommitted, incompetent—or all of the above.

■ Even the most accommodating bosses believe that work-life balance is your problem to solve. In fact, most know that there are really just a handful of effective strategies to do that—staying focused on what you're doing and saying no to demands outside your work-life balance, for example—and they wish you would use them.