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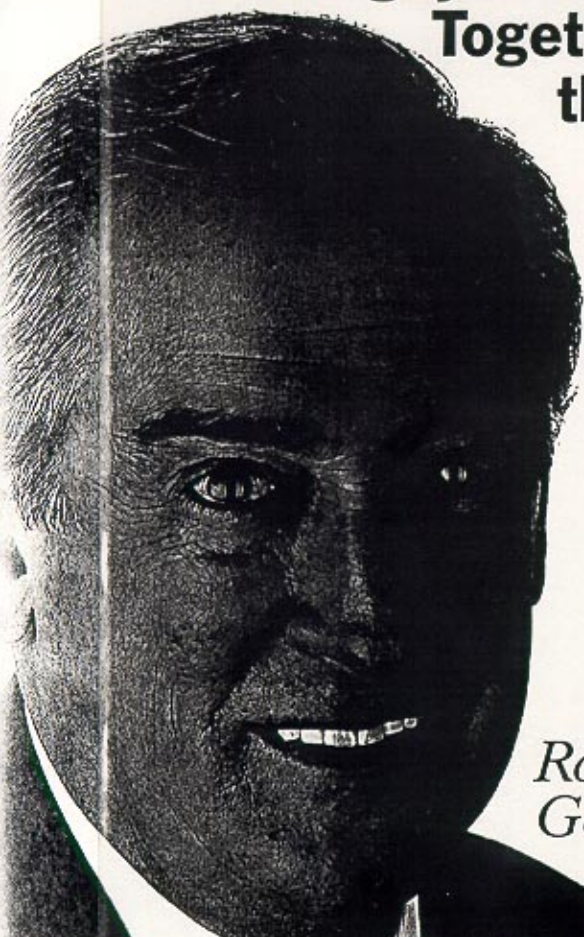
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■ GE
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By Marshall Loeb

JACK WELCH LETS FLY ON BUDGETS, BONUSES, AND BUDDY BOARDS

John Francis Welch looked wan. He has made dozens of trips to Asia as CEO of General Electric and for the first time came back with a debilitating parasite. (The affliction had nothing to do with the later chest pains that led to his successful angioplasty in May.) So he could have easily withdrawn from a scheduled appearance before students and faculty at New York University's Stern School of Business, where I was to interview him. But withdrawal is not Jack Welch's style. He showed up and stayed for almost 90 minutes, talking at high speed about how he runs his giant corporation and what he likes—and what he hates—about the way companies, including his own, are managed today.

You talk a lot about building creativity and passion among your employees. How do you accomplish that?

Marshall, your magazine had an article a while ago that I thought was off the wall [FORTUNE cover story "Kissing Off Corporate

America," February 20]. It was about how big companies are dead, and nobody wants to be [General Motors CEO] Jack Smith or Jack Welch. Instead, let's all show up in a garage and start a business. Well, in the end, that's what it's all about, trying to create a small-company soul in a big-company body. If you can do that and use the leverage and power, the global reach and human resources of a big company, you can create massive amounts of opportunity. The job for big companies, the challenge that we all face as bureaucrats, is to create an environment where people can reach their dreams—and they don't have to do it in a garage.

You also talk about aiming for "stretch" goals, that nothing is impossible. What do you mean, and what are you trying to get GE to stretch for now?

Stretch means that we try for huge gains while having no idea how to get there—but our people figure out ways to get there. I

was in Japan in the fall, and I saw Toshiba's new VCR. They had a stretch goal: Produce it with half the parts, in half the time, at half the cost. They sent a team away to design the new model and ended up reducing the number of parts by 60% and producing it in one year instead of the usual two.

The Japanese are becoming incredibly more competitive because they have that complete belief. Nobody in Japan asks, "How much more productivity can you get?" as if it were a finite element. After 30 years of productivity growth, nobody in Japan asks, "Is it all over?" It's never over.

Okay, you can set marvelous goals, but what does it take to reach those goals?

It takes an atmosphere where a goal doesn't become part of the old-fashioned budget. The budget is the bane of corporate America. It never should have existed. A budget is this: If you make it, you generally get a pat on the back and a few bucks. If you miss it, you get a stick in the eye—or worse.

Making a budget is an exercise in minimization. You're always trying to get the lowest out of people, because everyone is negotiating to get a lower number.

If I worked for you, Marshall, you would come charging into the boardroom and say, "I need four!" We'd haggle all day, me making presentations, with 50 charts, saying the right number is two. In the end we'd settle on three. We'd go home and tell our families that we had a helluva day at the office. And what did we do? We ended up minimizing our activity. We weren't dreaming, reaching. I was trying to get the lowest budget number I could sell you. It's all backward. But if instead you ask people, "Give us all you can; give us the best shot at what you can do," then you can't believe the numbers you'll get. You'll get more than you need. There's a trust built that people are going to give their best.

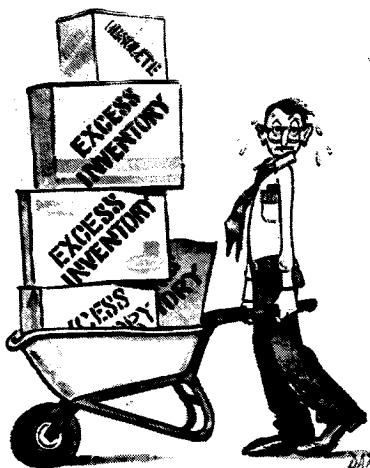
Our plastics business last year had an up year, something like 10% or 11%. But in my view they had a relatively poor year. They should have been up 30% to 40%. They got caught in a squeeze with prices; and they didn't act fast enough. So their bonuses were affected.

Our aircraft engine business went down
REPORTER ASSOCIATE Thomas J. Martin

Welch: "Early in my career, there was way too much focus on making the numbers."



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HOW'S BUSINESS?

\$50 million in earnings to \$500 million. But we increased their bonus pool 17%. They had a drop, but they knocked the hell out of the competition around the world. They lost \$2 billion in sales as the military market and the airline business came down. But they responded to their environment better and faster than their competitors did.

Now if we were operating under a budget system, plastics would be seen as having a nice year, and aircraft engines would have got a slap in the eye.

You also speak very often about "boundarylessness." Want to elaborate?

In business, what is worse than having departments? They don't talk to each other. You have to make open behavior something that is rewarded. Finding an idea, sharing it, spreading it becomes rewarded behavior. Boundarylessness says that every time you meet somebody, you're looking for a better and newer and bigger idea. You are open to ideas from anywhere.

Jack, you're wagering much of your company's future on expanding in India, China, and Mexico. But Mexico is in the tank. China's government is trying to slow its rapid growth. India has problems. How do you analyze those countries now?

If you ranked them today, you'd pick India first, China second, Mexico third. But that's silly. All three of them are important.

We [the U.S.] and Mexico *have* to be partners; we *have* to find a way together to make Mexico work. My belief is that Mexico is a great country and will be a great country.

When you choose men and women to promote, to be leaders of the company, what qualities do you look for?

You clearly want somebody who can articulate a vision. They have to have enormous energy and the incredible ability to energize others. If you can't energize others, you can't be a leader.

When you later determine that you chose the wrong person, what do you think you did incorrectly?

Early in my career, and in many other careers, there was way too much focus on making the numbers, on delivering the goods. And a lot less on the softer values

of building a team, sharing ideas, exciting others.

What does the decline of the dollar tell us about the state of the U.S. economy and the global economy?

Last year I gave a number of speeches saying that America was prematurely patting itself on the back about how competitive it had become. I was trying to rally people to compete better. The Europeans got very competitive in this last recession. I wouldn't have predicted that German companies could have restructured to the extent that they did. I also wouldn't have predicted that the dollar would go below 90 yen. But the Japanese are going to be able to compete at 90 yen to the dollar. If it ever goes back to 120, America will get its brains beaten out—unless we get even more competitive.

You've had a great run. To what do you attribute your success and that of your management team?

The basic thing that we at the top of the company know is that we don't know the business. What we have, I hope, is the ability to allocate resources, people, and dollars. Our job is to smell opportunities, put the right people behind them, and give them the dollars to go create. I don't go to a major appliance review and pick out the colors or the crisper trays or all that sort of stuff. That's not my job. Every time I meet somebody who's deeply into a business, I know how little I know. Like, I'll meet a single-product competitor who is so much smarter about his business than I am, and I'll try to fake my way through the evening and get out of town.

How does GE select directors?

On our board we have no buddies. We have a nominating committee that is very serious and operates independently of me. The last director added was Roger Penske, whom I had barely met. He had established a great reputation not only as a racecar driver but also as a businessman.

Has your foray into Eastern Europe, buying the Tungsram lighting business in Hungary, been successful?

That's one of the most exciting things we've ever done. We bought it from the communists in the last week of their regime

in 1989. They were much easier to deal with than the capitalists who replaced them. The business was harder than we predicted. We lost maybe \$50 million in the second year. But we made \$50 million last year. In 1995 we'll make \$65 million. On these new deals we rarely get it right the first time. But staying power is important.

You've made many acquisitions. What have you learned from them?

One of the things people don't really understand is that having the company you work for acquired is probably the worst thing that can happen to somebody, other than the loss of a family member. All the things you have learned, all the truths you have known—your boss, where you get your paycheck from, your security—change in one day. New people come in, they talk about their values. At GE, when we've been the acquirer, I don't think we've been as sensitive as we could have been over the years. But in most cases we went too slow in trying to get the new company to adapt to our ways. You know: Let's not give our culture to these people; let's let them be themselves. That's the lesson: You've got to take the actions, get it done, and get on with the game.

Why have you decided to do a \$5 billion stock buyback?

We are the best investment we know, an undervalued company if you look at our earnings strength. We'll keep on making small acquisitions. If I saw a blockbuster acquisition, I'd make one tomorrow morning.

With all the restructuring going on in American industry, employees may well ask, "Why should I give my best to a company that may push me out tomorrow?" The question actually is, **In whose interest do you think corporations should be run? And in whose interest are they run?**

I think that's a helluva question. A proper balance between shareholders, employees, and communities is what we all try to achieve. But it is a tough balancing act because, in the end, if you don't satisfy shareholders, you don't have the flexibility to do the things you have to do to take care of employees or communities. In our society, whether we like it or not, we have to satisfy shareholders.

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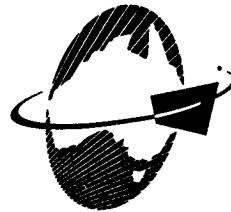
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