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Leading Successful
Organizations



We have just been through a remarkable couple of weeks, now we are debating a \$700B gov't bailout. What does it mean?

It means we are in a hell of a time. Middle of last week I was in Europe, and there was true panic that markets were freezing, there's no liquidity. Thank God that we have Bernanke and Paulson, these guys are working around the clock and acting.

But it's the biggest gov't intrusion in the economy in decades, that's not something you would have liked?

I would have liked for it not to have happened -- mortgage lenders, rating agencies, those who took mortgages that can't afford them. That's what I like what Bernanke and Paulson have done, they haven't let ideology get in the way. Time to take action, not ponder.

Don't you have to look back and say how could it be that so many smart people did stupid things? How did we say you don't have to prove you have an income, and get into securities they didn't know what they were?

Money was free, interest rates were almost negative, and people took swings. Many to blame for these issues. One crowd that has to be looked at as the gov't bails them out are these investment bankers. When they were private, they were playing with the partners' money, so they had their own personal wealth at stake. When they went public they were playing with other people's money.

You are in private equity, is it different?

We don't go in and roll dice. To let people without accountability make \$5-10-20MM rolling the dice, is a crazy system. The only penalty is a cut in their bonus.

Q: How much does leadership or lack of leadership have to do with the financial crisis?

Money was so inexpensive, people did everything for yield, so all these products came in play. And leadership obviously didn't know what was happening. You have financial engineers, bright guys, developing this. They are shifting millions of dollars around, without the right risk management metrics, but the leaders are now paying big time.

Seems like there should be a basic rule in these securities, if you don't understand where it comes from don't buy it!

If earnings are too good to be true, don't buy it, if your bonus is tied to those earnings, you like it. The pyramid keeps happening.

Wasn't there a failure in leadership at the top?

Yes, failure of Congressional leadership for people buying homes. Right now, act, then figure out who is to blame, and fix it. This morning, Chuck Schumer made the connection between Wall St. and Main St. Hopefully they will get liquidity in the system. If they don't and it's unfair, people's 401K's and pension savings will go, so we have to act. Our best leadership in

the last 30 years came with divided leadership --when Reagan had to battle a Democratic Congress and when Clinton had to battle a Republican Congress .

You think we'll get a better bill back and forth.

I think once Congress steps in and bails them out, we have to get compensation tied to shareholder interest; and long term, can't be all cash and carry short term pay. There has to be an adjustment, it's a different day.

McCain said he thinks the way to deal with this is to get the smartest people like you to come to Washington and pay them \$1 a day.

I'd do it absolutely.

Where do you think we're heading? Will it change the nature of American capitalism? People are worried we'll end up with a European model?

They've been here before, in 1991. Answer is no. I've been the last holdout, and I thought we could skirt a recession. I now believe we are in for a deep downturn, and I think the first quarter of next year will be brutal. All of you running companies have to take the action now, don't ponder, get ready for real tough times. There is no credit out there right now. This is spilling over dramatically. Get your cost structure in place, be sure you are not over-leveraged, take care of your best people. Most people will miss their operating plans, and won't make it. If you have a tight budget, you might hammer your best people, so put a pot of money there for your best. They might not make their numbers, and you don't want to lose people in the second half. Don't dump your soldiers with bad morale. This is a view from a person that's the last one to cave on this economy. I am now caving.

How long will it last?

Will be slow to get out of, de-leveraging is huge. Got to be able to get people back in the game, get balance sheets back, free up markets. Examples of behavior changes occurring right now: food costs are up in restaurants, and seatings down. These are patterns. Those who run businesses will start to feel it. The benefit of this conference is to think of what we can do to take care of our people, and be ready for the next fight down the road.

How long it lasts depends on the leadership you get out of gov't?

Without question. Bernanke and Paulson, they didn't let ideology get in their way, when the first thing didn't work, they moved onto the next one. We are lucky these brilliant public servants are giving all they've got to make this work out.

Talk about the presidential campaign, you've written that being president of a country has a lot of the skills of running a company.

I'll tell you why I'm voting for John McCain. I believe in jobs and more people getting jobs. I don't believe that you tax small business. They are the creators of jobs. When you tax small business you cut the core of job creation in America. I do not want the President of the U.S. in

the pocket of Unions. It's not good for competitiveness. The Free Choice Act is for every one of you, it's when the secret ballot is taken away. Barack Obama is for it-- that a union can be formed by a card check, they walk in and tell you you are unionized. How many union jobs are being created in the economy? You want your employees to trust you and have an open relationship, if you end up with a union, it will kill that.

Do you worry about John McCain's age?

I think he's the right age – a high potential.

Sarah Palin? Do you worry about her experience?

If you were the senior person in a business and you were picking an associate out there, would you hire the 64 year old hack who's been in the same job for 30 years or a young professional with young ideas? She'll get it, she'll have enough bright people around. You need judgment and she's got judgment.

It's going to be a difficult time for the next president. With Iraq and frightening terror attacks, what will it take?

Another point with McCain, I think a divided government, this debate today between Congress and Paulson and Bernanke is good for our country.

Both candidates talked about coming together but now are in the opposite direction....

Having 2 opinions coming together with best ideas. This idea of one party rule doesn't work so well in America, look at Carter and 2 years of Clinton, and then the next 8 years of Bush, it doesn't work.

What we've been hearing about McCain's anti-business rhetoric, from both parties, are you concerned about it?

What they say now, come on. It's a vote here or there, but back to my fundamental policy, I don't think you can be a businessman, want to create jobs, and have the American dream and vote for somebody who wants to increase taxes in a tough time and wants to unionize America. How will they do it?

Is the American dream threatened?

Today, of course it is, but we'll fix it. We've been through the RTC, the Asian crisis, long term capital, Black Monday -- we'll fix it.

These cycles were generational events, everyone lost their senses for a while, there's a correction and everyone says we have to be careful and people forget and do it again, but now these cycles come so fast and furious....

Globalization is an acceleration, but the fixes also come faster. Think if you were trying to fix this without the internet and instant knowledge, responses are made much faster to crises, but crises can come faster. The whole game is faster.

What is the biggest change that's happened in business since you left GE?

Globalization has intensified, interconnectivity of business is greater, information age is faster – therefore people have to make decisions faster. Good news about this, I have always believed that tying economic interests together is the way to peace. China is buying our paper, they have to keep the cycle going.

You don't worry about China as a global strategic competitive threat to the U.S.

I see them as all that but also a huge opportunity, if you get a more unionized workforce, you won't have that. Have to have education that's better, not a teacher's union that blocks everything going forward. Have to compete in this globalized world.

How have things changed? 3 years ago they said you were out of date.

They said Jack was all about best people and passion. You want more equilibrium. You want to act and take charge. Right now you want the same old things you always had -- a leader who can articulate a vision to a scared organization. They are thinking about their families, jobs, future, pension – a leader must articulate a vision. Keep them informed all the time. Where you are, you cannot over-communicate now. Your people need to hear from you, hear what you are thinking. Tell them what you want to do, make your values clear. If you've got capital, you can do what Warren Buffett did this morning. Look at your competition, private equity companies now, and at adjacent players, bury them or buy them. Who can you go after, how can you use credit terms to keep good customers going. Create partnerships for long-term by using capital now to keep customers alive. This is the best time and also the worst time, the best deals come now. Go after opportunities with an offensive mindset .

What about the three people who were candidates for your job . . . talk about Chrysler ...and Bob Nardelli.

How would you like to be the #3 or #4 player when your customers can't get credit. He wanted to prove to the world that he is the best operating manager of the world. He thinks he can fix it. If it works, it will be one of the greatest turnarounds. He didn't expect this financial crisis. I don't know the answer.

Jim McNerney went to Boeing, is about to face a strike.

He has a strike, he's fine. Boeing's earnings are great, he's dealing with the Union, he put a big offer on the table, they thought they had him against the wall, and they have a strike. He's willing to take on the issue. Long term, he'll have a battle with Chinese who will be in the market 10 years from now. He doesn't want to leave an uncompetitive company for his successor.

Jeff Immelt, who succeeded you, is having a tough time getting share price up now, possibly dismantling big pieces you put together.

It's time to report the plant. If he did the same thing, why did we put him there. You want change and fresh ideas. The idea that he sold something I bought doesn't bother me. I sold a lot my predecessor bought.

Environment concerns, how big a threat is global warming?

My view, will not be politically correct. If you are involved in business and you have products that can meet this environmental wave that's here, don't sit home and try to decide if global warming is real or not real. Get on the train, there's a marketing opportunity to move product. There's been a shift because consumers are afraid they are not getting enough value if they buy a green product, today people are worried about eating and living. Right thing for a CEO, if you have a green story, tell it. There is a market out there that wants to deal with global warming at a value.

What does corporate social responsibility mean to you?

Winning, and to create good jobs. When you win, you have money you take it and give it back to community. If you don't win, you don't have anything. This idea of starting with social responsibility is back-assward! You have to be socially responsible when you win. This is the name of the game, it's the responsibility of good citizens. We had the resources because we were winning. There's a book on that ... (Winning) and all the proceeds of that book go to charity. If it didn't sell, they wouldn't have benefited from it. It goes back to that point of winning.

Questions & Answers:

Q: How do you feel about the auto industry (bailout of institutions)?

A: It's more complicated. There are alternatives, they are not linked to all kinds of other Main St. issues. You'd hurt the auto workers in those companies, but the vacuum could be filled by foreign competitors operating out of the U.S. It's a tough line to cross. If the gov't imposes demands on them on something that's a disconnect, you have to give them support for that. These café standards are a real issue, they desperately need the money to re-tool. You can argue why didn't they do it before this happened. Unlike the banking industry, the automotive one is more limited and not as clear to me.

Q: What kind of car do you drive?

A: Toyota, an old one, I'm not a car person.

Q: You were chairman and CEO for 20 years, this morning they said that one person should not hold both jobs.

A: I believe in giving them the job and if they don't do it, throw them out. I don't believe in the model of two jobs. I think it works fine with a lead director. This compromise gives the internal organization one head, but the Board is a mechanism to deal with that one head.

Q: You were CEO for 20 years, the average CEO today is lucky to be there for 4 years, are we being too tough on the people running companies?

A: It's all about performance. Measure it by stockholder value plus earnings performance. Sometimes you're out of favor in a segment in the market. The market is a fickle thing, but over time earnings performance is important.

Q: Hasn't been shareholder performance in GE

A: I think they're out of favor.

Q: Predictions, especially given events of last 2 weeks, when a single country might exceed our GDP and who might that be, should we welcome it or resist it?

A: We ought to be resisting with our intellectual and competitive capital. If you take a straight line, you'll get China by us, and in 2052 you'll have India. But who knows what disruptions occur. The have not's in these countries are still very large, and the have not's always want to have what the have's have. You always have the possibilities of unrest. I am not predicting anything. If you take a straight line, there will be China, India, and the U.S. vying for leadership. You can't have a limit on visas and send home the people we educate. This country was built because we kept the best and brightest, and now we are kicking them out.

Q: Importance of recruiting and keeping talent, how have you assessed talent for integrity and wisdom?

A: Very tough to test for integrity and wisdom, you have to feel it in your bones when you meet somebody. There's no gray area. In an investment bank, it is not a question of having smart people, I don't think they were dishonest, I think there were on a treadmill that didn't stop, the money was free and they were gambling. They were doing what they thought they could do. These investment banks do have the best and brightest.

Q: Somebody should have said this doesn't make sense?

A: I agree with you, their motivations were wrong. You look at the motivations in your company and how you measure and reward behavior. In their case that reward system is out of whack -- , keep getting high profits and get enormous bonuses. We have to get the motivations lined up right.

Q: Japan's been struggling for last 20 years and still 2nd largest economy in the world, haven't heard it mentioned, what's the outlook for Japan?

A: Great example of why they struggled for so long, they didn't have Bernanke and Paulson, they piddled with it. The Japanese are strong, powerful, smart, committed, the outlook there is very strong, but I don't think they have enough people to be one of the top three 50 years from now.

Q: If you had to do it all over again, what would you do differently?

A: Act faster on just about every decision, how many decisions in your life do you say I wish I took 6 more months. We are all guilty of extra pondering. But overall, imagine an Irish kid, father working for a railroad, sitting here, how would I want to do anything different?