

HaRe Group newsletter: 7 October 2003

Subject: The People Factory

Dr John F ("call me Jack") Welch may not be everyone's role model, but he has set so many successful management standards that his views cannot be ignored.

Returning to **JACK**, his 2001 autobiography, I recalled some of his experiences as a junior employee and also as CEO. Many of these experiences can tell us something about building a high performance organisation for the long-term, specifically General Electric. (Note: GE's dividends have increased every quarter since 1975).

Amongst all the wheeling and dealing done at General Electric, Jack says "...GE's all about finding and building great people..." and "...(nothing) comes as close to the passion I have for making people GE's core competency." In the chapter titled **The People Factory**, he emphasised the importance of differentiating people based on their performance.

Being such a large organisation, GE needs a formal performance management process so that all employees know very clearly what is expected of them. GE's process focuses on building "great people, who then build great products and services." The process includes intense debates about differentiating between employees. In Jack's words, "in manufacturing, we try to stamp out variance. With people, variance is everything."

To support this process, GE has adopted a Vitality Curve, which requires all managers to produce a performance ranking for all employees. This ranking identifies the top 20%, the "vital middle" 70% and the bottom 10%. Generally, those in the bottom 10% have to leave the company.

A bit harsh? Jack says "differentiation raises the bar higher and higher and increases the overall calibre of the organisation" and "this is how great organisations are built." He believes it is "false kindness (to) keep people around who aren't going to grow and prosper."

Underpinning the GE Vitality Curve is a talent assessment process that identifies A, B and C type employees. The A people have:

1. very high **E**nergy levels
2. the ability to **E**nergise others
3. the **E**dge to make tough decisions
4. the ability to consistently **E**xecute and deliver on their promises

The B people may share all the 4 "E's" but they often lack the passion to grow. The C people usually struggle to get their jobs done.

These performance outcomes "...must be supported by the reward system..." For example, GE rewards the A people with pay increases 2-3 times the amount given to the B people. The C people receive no increase. The A people (and most B's) are also awarded equity in the company. In all cases, GE managers ensure that they measure and reward the specific behaviour they want. Quoting Jack again, "by not aligning measurements and rewards, you often get what you are not looking for."

This approach has helped deliver a very encouraging result for GE: less than 1% of the A people leave the company each year.

Since **JACK** was published, Dr Welch has elaborated his views on performance management. Earlier this year, he spoke at a Melbourne conference where he emphasised the importance of employees living GE's values. For example, if an employee delivers great

results, but his/her behaviour consistently contradicts company values, s/he should be removed before this corrosive behaviour damages the business and its people. (For GE's values, link to http://www.ge.com/en/company/companyinfo/at_a_glance/ge_values.htm)

There is much more in [JACK](#) about GE's approach to successful HR management and the creation of a high performance organisation. If you haven't read [JACK](#), I suggest you find a copy and consider how GE's approach could apply to your people management processes - even if your organisation is smaller than GE!

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