

Strategic change and implementation of ibm



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Introduction

“ Who Says Elephants Can’t Dance?” is the story of historic turnaround of IBM authored by Louis Gerstner, who served as the chairman and CEO of IBM from April 1993 to March 2002. Gerstner was a well-educated and talented student and graduate with strong family and ethical values. He worked in McKinsey as a consultant where IBM was one of his clients. Lou Gerstner accepted the challenge of leading IBM and joined IBM. Lou Gerstner had a vast consulting and business experience which made up for his lack of knowledge of the IT industry. Lou Gerstner changed IBM’s fortune from the threshold of bankruptcy and mainframe shadows to a leader in the technology business.

In the early nineties, IBM was facing a huge challenge. The challenge was how to change a global computer giant IBM that was a leader in every market it served, but it was continuously losing its market share to its competitors. Gerstner handled the severe financial crisis of IBM and kept IBM financial health solvent. In the early '90s, financial position of IBM was precarious. Gerstner repositioned corporate strategy of IBM to keep IBM together and pulled off a successful turnaround for IBM.

Gerstner delivered results for IBM. Many insiders and Industry expert criticized IBM for selecting a CEO with non-technology background. On analyzing performance of IBM during Gerstner’s reign, Gerstner was definitely the right choice for the job. Gerstner’s transformation of IBM was one of the most successful corporate turnarounds story of the century.

Strategy

Gerstner believed that the key to fixing IBM's problem was "All about execution". Gerstner decided to analyze the behavior of company's employees and customers and apply his own interpretation of the company's inherent strength. In doing so he turned the business of IBM around from the brink of bankruptcy. At the end of Gerstner's reign as the Chairman and CEO, the company employed 65, 000 more people and the US\$13 billion in losses notched up in the two years prior to his arrival turned into huge profits.

The turnaround process at IBM began with a thorough analysis of profiles and needs of IBM's customer. The mainframe business of IBM accounted for more than 90% of IBM's revenue was fast deteriorating. Gerstner analyzed and came to a conclusion that mainframes are indispensable in critical businesses like airlines and credit cards. Mainframe business involves huge data processing and security and it cannot rely on desktops and business needed mainframes for this. Hence, Gerstner concluded that it was the price and not the product that really mattered to the customer. Gerstner recommended a price-reduction plan for its customer, which he thought was most essential way to remain competitive in the mainframe market. Before this IBM had maintained a very shortsighted view reflecting that with the lowering of prices IBM will gather less profit and revenue.

Gerstner realized that IBM had a unique and expert capability to "genuine problem solving, the ability to apply complex technologies to solve business challenges and integration." These sustainable value proposition enabled Lou Gerstner to bring IBM back from the verge of near extinction. Gerstner realized that IBM needed not only a corporate makeover. Gerstner provided

a complete facelift to IBM. Gerstner realized that a difficult, painful and massive reengineering effort was required to get IBM to dedicate resources in bringing value to the customer in the competitive marketplace. Gerstner developed the theme of the “ new” IBM. Many Senior executive referred to Reengineering process in a humorous way. One of Senior Executive quotes “ Reengineering is like starting a fire on your head and putting it out with a hammer.” IBM needed a top-to-bottom overhaul of its basic business operations, which Gerstner implemented.

Gerstner appointed as Chairman and CEO of IBM set out a vision for IBM which led to the major cultural changes and subsequent financial turnaround of the organization. As summarized in “ Who Says Elephants Can’t Dance?”, the major eight principles that Louis Gerstner set out:

1. The marketplace is the driving force behind everything we do
2. At our core, we are a technology company with an overriding commitment to quality
3. Our primary measures of success are customer satisfaction and shareholder value
4. We operate as an entrepreneurial organization with a minimum of bureaucracy and a never ending focus on productivity
5. We never lose sight of our strategic vision
6. We think and act with a sense of urgency
7. Outstanding, dedicated people make it all happen, particularly when they work together as a team
8. We are sensitive to the needs of all employees and to the community in which we operate.

On the more practical side, Gerstner applied four basic strategies for the recovery of IBM:

1. Keep the company together
2. Change the fundamental economic model
3. Re-engineer how we do business
4. Sell under-productive assets to raise cash for the company

Lou Gerstner made the firm decision to keep IBM intact, and he changed its fundamental economic model, re-engineered how the company did business, and sold the underproductive assets. He focused on customers-and he used his ability to drive the focus into the employees by holding the leadership and management accountable . And these steps helped IBM turn around and rise above all the expectations.

Structure

The next major issue was keeping IBM intact as a single entity. When Gerstner came on board, the conventional advice and wisdom, from both IBM followers and industry experts as well as most of the IBM executives, was that the only way IBM could be saved from eventual bankruptcy and massive disaster was to break IBM apart into smaller companies. Gerstner maintained his stand not to divide IBM as opposed to the views of many top IBM management officials who favored the division of IBM into smaller and supposedly manageable units. Lou Gerstner looked beyond the advice of splitting IBM but rather opted to preserve the real strength of IBM which was to understand the needs of its customers. He was convinced that it wasn't wise to divide IBM into smaller units. Gerstner felt that from a customer's point of view, it would be highly cumbersome for them to go through a

plethora of suppliers and zero in on a single one. Gerstner believed that most of the customers preferred a one-stop shop that offered all of the services at a single door. “ I knew that if IBM could serve as the foremost integrator of technologies, we’d be delivering extraordinary value,” affirms Gerstner. Gerstner took the decision to keep the company together. Gerstner quotes “ So keeping IBM together was the first strategic decision, and, I believe, the most important decision I ever made – not just at IBM, but in my entire business career”.

Gerstner had a sheer knowledge and attention of customers’ notions of success. Gerstner’s single-minded focus was how IBM should respond to marketplace needs. Gerstner’s market-driven approach of doing business really helped to develop the “ new” IBM culture. Gerstner helped IBM to turnaround as a dominating technology landscape player at the start of the current century, just as IBM was in most of the last century. Gerstner set new goals, newer direction and newer priorities for IBM by starting IBM Global Services. IBM shifted its focus towards selling optimized solutions rather than just products alone. The new thrust in IBM was for the on-demand solutions. Gerstner helped IBM concentrate on the higher end of customer solutions consulting rather than the lower end outsourcing business. Lou Gerstner initiated the on-demand concept (or solution offering). Gerstner focused on the idea that customers always wanted bundled solutions of services, software and hardware customized to the requirements of company and industries rather than a sheer catalog of standard products. Gerstner basis for building IBM Global services was that an integrator, acting in a service role, and this integrator controls every other major industry. Gerstner led

IBM's transformation from geographical organization to a global, customer-oriented organization. Lou Gerstner created a Global Enterprise based on capitalizing IBM's ability to "integrate all the parts" for the customers.

Another of the Gerstner insight was that every big industry is built around open standards. This realization by Gerstner led IBM software products to enable and to build upon open standards in a network-centric world.

Gerstner led IBM to abandon proprietary development and to embrace open software standards (J2EE and Web Services). Lou Gerstner argues that the most valuable technology and service companies are those OEM suppliers who leverage their technology wherever they find a huge opportunity; therefore, he remodeled IBM so that it can actively license its technology to be successful in the market place. Gerstner remodeled the IBM structure so that IBM could cater to e-business requirement of its customers (IBM IT On Demand, grid computing and autonomic initiatives).

People/HRM

IBM's people were one of the Gerstner's targets for change. At IBM, employee aren't just not resources but the main revenue generator. An organization can be termed as a collective capacity of its employees to create value for itself and customer. Gerstner's most important accomplishment was to establish a culture that brought employees of IBM closer to its customers. This was formulated by inspiring employees to be motivated toward customer-defined success. Gerstner focus was to stimulate the turnaround internally for IBM's employees. The toughest challenge in the effort to change IBM's culture which Gerstner faced were the employees and management at IBM.

When Gerstner took up the assignment of Chairman and CEO of IBM, he found that IBM had an unclear culture. Employees were confused whether it was their teamwork or their individual aspirations that will help them get top management's appreciation. Employees were apprehensive and not familiar about issues such as consensus building, corporate protocol and risk taking. Another important feature that figured on the employee list of IBM was the dress code at work. In one of his first meetings at IBM, Gerstner saw that all participant employees were wearing stark white-collared shirts except him. Lou Gerstner introduced flexibility in dress at the work, giving employees the freedom to choose to wear what made them most comfortable provided they adhered to decency. Gerstner viewed the dress code at work as a severe cultural problem that the IBM employee faced.

IBM was obsessed with conflicts and internal rules, each employee trying to overpower the other. Lou Gerstner observed that there was a great amount of jealousy among employees, each employee fiercely protecting his own privileges. There was unhealthy competition among teams which led to lost productivity. The teams spent more time debating on the transfer-pricing terms rather than incorporating a smooth product transfer system for its employees. Gerstner addressed to resolve these problems by fostering more collaboration among teams and employees.

Processes

Before Gerstner, in IBM there was internal resistance in form of internal department ego clashes, process driven culture and excessive decentralization which leads to slow decision making which was leading to strategy becoming non-implementable. Gerstner discovered that the

employees working in the European geographical region used to receive only selected communication from Gerstner. The main reason behind this was that the IBM head in European region intercepted his e-mails. Gerstner immediately confronted him and made him aware that employees were not his personal property, they belonged to IBM.

Gerstner changed the “ we are the best” attitude which the employees reflected despite IBM’s faltering health. The reason behind this was IBM’s software was compatible only with IBM hardware. Customers were compelled to buy IBM’s products. With increased competition in the marketplace, there were better bargains that customers were getting without having to rely on IBM. Gerstner established the process of setting standards that enabled IBM’s solutions to be compatible with competitor’s products. This helped business opportunities to increase. Gerstner opened channels of communication and send regular e-mails to employees across the globe keeping them aware of the process changes.

Gerstner’s quotes, “ fixing IBM was all about execution” and “ IBM needed – an enormous sense of urgency.” Gerstner’s approach which is quoted as “ Drive all we did from the customer back and turn IBM into a market-driven rather than an internally focused, process-driven enterprise.” IBM turnaround was all about execution and after that it was optimal ways to measure its effectiveness. Before Gerstner joined, IBM had a tendency to use data and indices (subjective product milestones and customer satisfaction numbers), but Gerstner changed all these processes of measurements.

Rewards

The compensation system at IBM was revamped. The focus of compensation shifted to a total corporate performance from a unit performance. The criteria's for promotions were vastly reformulated. Gerstner changed the attitude of those in senior management at IBM who were more used to getting work done rather than getting to work. The pay structure was made performance based and variable component was introduced in the pay structure. Stock-based compensation was also provided and the bonus was linked to overall IBM's performance

Conclusion

Lou Gerstner was a pragmatic leader who took action based on good quality information and who showed great respect for the collective knowledge that existed in an organization on the brink of collapse. The major key to survival are adapting to one's environment and continuous evolution. Many American corporations that have failed to adapt with the changing business environment have perished in the past. IBM is one of the company that understood the changing environment and survived. I believe IBM is a success stories of business transformation and evolution.

Lou Gerstner comments – “ The most important value-added function of a corporate management team is to ensure that the strategies developed by the operating units are steeped in tough-minded analysis, and that they are insightful and actionable.” Gerstner believes that rigorous reviews are needed to review the critical assumptions such as industry growth rates and pricing. He believes that when strategies are developed for employees and customers, the new strategies should be believable and implementable. Lou

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Gerstner is of the view that “ Good Strategy is long on details” and hence his ability to execute the strategy is commendable. He dismisses the common phrase “ Small is Beautiful, Big is Bad” and comments “ focus combined with good leadership can enable an elephant to be nimble and flexible.”