

Summary:

Brief History of IBM: In the late 1800’s, IBM was called the Computing-Tabulating-Recording Company. When the diversified businesses of C-T-R proved difficult to manage, the former number two executive at the National Cash Register Company, Thomas J. Watson, Sr., then age 40, joined the company as general manager. He later became President.

Drawing upon his sales experience at NCR, Watson implemented a series of effective business tactics: generous sales incentives, a focus on customer service, an insistence on well-groomed, dark-suited salesmen, and an evangelical fervor for instilling company pride and loyalty in every worker. Watson boosted company spirit with employee sports teams, family outings and a company band. He preached a positive outlook, and focused on three principles:

- Respect for the individual
- The best customer service
- The pursuit of excellence

These principles formed the culture of IBM for nearly a century.

After decades of innovation and leadership in the computer technology industry and growing to be one of the largest and most successful companies in the world, Big Blue was brought to its knees in the early 1990’s. Competition and complacency hit IBM hard. Very hard. As a result, ex-RJR Nabisco CEO and McKinsey consultant Lou Gerstner was hired to reduce, reorganize, retool and return fire. The company trimmed from about 500,000 employees to 300,000 and transformed itself from a mainframe maker into a robust provider of integrated hardware, networking and software solutions.

The Presenting Problem: Gerstner had righted a sinking ship and the company was saved, but new CEO and lifetime IBM-er Sam Palmisano saw a potential problem that he thought could be even more deadly. People were down, beat up, and out of energy from all of the upheaval they had been through. They needed something and they needed it now.

What the CEO Did: Palmisano felt that the basic beliefs of the company that had formed the culture of IBM for so long needed to be dusted off and brought back. He felt that these could serve as the foundation for a new set of corporate values and re-energize the employees. His management team thought he was crazy. With his next move, they were sure he was crazy. He held a three-day discussion via the corporate intranet about the company’s values. It was dubbed ValuesJam, and more than 50,000 employees participated. After lots of venting, confusion, and a fair amount of cynicism, many executives wanted to call it off.

How It Turned Out: Sam hung in, and after about 36 hours, the mood shifted. The counter critics weighed in and the old remnants of corporate pride took over. The values were reshaped to say:

- Dedication to every client’s success
- Innovation that matters
- Trust and personal responsibility in all relationships

Sam told his 15 direct reports that they had better follow these values and do something about them. His team hosted a follow-up worldwide intranet discussion, informally called LogJam, where employees were asked to identify organizational barriers to these values and make suggestions for improvement.

Where IBM is Headed Now: Changes were made to eliminate the barriers. Hiring has resumed, innovation is up, sales are up, profit is up, motivation is up, the company is on track again, and they are achieving most of this by getting back to what matters. Sam realized that he couldn’t “manage” a company of 400,000 people, no matter what structure, or style, or process he chose. There are way too many variables. He decided that if his employees all shared the same values and believed in them, that this would be all the structure they needed. He believes that people, rather than products, are the real brand of IBM. He also believes that just as IBM’s products and services have to be consistent, so do its people. And the best way to ensure that consistency is to inform their behavior with a globally consistent set of values.

Opinion:

Good news: The article is well-written, tells a compelling and true story, and wakes you up to some tough issues IBM faced recently. It also clearly points out what Sam Palmisano did to make a real difference when many weren’t convinced he had to do anything at all!

Bad news: Sam repeated himself in some of his answers to HBR’s questions, and the editor didn’t edit like he could have. The article, therefore rambles, gets redundant, goes on and on....well you get the idea.

Good news: I have edited the interview for you and also offer some meaningful applications below.

Applications:

1. Whether you have an organization of 400,000 or 4,000 or four, don’t assume that things are going well with your employees just because you don’t hear negative feedback. Find out, just like you do with your customers. Walk around, ask questions, hold lunch-time chats, interview, survey, zoomerang or even ValueJam, like IBM did. Don’t forget that your people are your brand and your most important asset.
2. Once you find out what the issues are that might be holding back progress, or performance, commit to changing. Even if you find out that things are going well, commit to keeping things that way. Change what makes sense, and continually check in.
3. The last idea is probably the hardest, but maybe the best. Like Sam, make sure your values are clear to you. Get input from as many others as you can. Reshape them as necessary for your organization. Communicate them often, and “manage” by these values. It takes upfront work. It means allowing people to walk down a wider road than some of us are comfortable with, and it means trusting people to do the right thing. But, like IBM, it might pay off in a big way.

And Finally:

If you have additional thoughts or questions about this article and opinion, please e-mail Rich Steel at rsbvc@aol.com or call me at my office on 610.388.3680 or on my cell, 610.324.8466.