



Note Critique

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“Who says elephants can’t fly?”

By Louis V. Gerstner Jr.

Gestion des Ressources Humaines GRH – MBA HEC 2005

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1. Introduction

1.1.Short resume

This book tells the story about Louis Gerstner who in 1992-2001 repositioned IBM's corporate strategy to keep the company together and pulled off a successful turnaround. When Gerstner came on board, the conventional wisdom, from both industry experts as well as many IBM insiders, was that the only way to save IBM from eventual disaster was to break it apart. But Gerstner looked beyond this advice and opted to preserve the real strength he believed IBM brought to customers. His decision to keep the company together and "teach the elephant to dance" 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 writes.

Lou Gerstner has written an interesting first person study of how organizations can become plagued by inertia, and fall out of step with their industry. As an outsider, Gerstner was immediately able to spot troubling cultural behavior and ask questions about IBM's products, strategy, and way of conducting business that insiders did not. Some of the most interesting material deals with trying to change both strategy and behaviors once he recognized that they were leading IBM towards potential ruin.

Lou Gerstner led IBM from the edge of bankruptcy and mainframe obscurity back into the forefront of the technology business.

1.2.Why did I choose this book?

During our introductionary MBA courses we had invited a current Manager at IBM Suisse. One of the topics was the restructuring that was performed between 1992-2001 at IBM. He also brought a copy of the book and advised that all business persons should read it in order to have an insight of a major company. In addition it also gives a "business persons" look at the other major players in the market not just an insider techie perspective.

Personally I think that the target market for this book is for experienced business leaders, young IT managers, and the everyday computer client. If you have a slight interest in IT I warmly recommend the book.

Not only does it show a revolutionary turnaround in an IT company but it also brings some logic to the reason "why" the computer arena runs the way it does. We understand the key success factors that have changed for IT companies during the last twenty years. We therefore understand that the 20-year-old IBM corporate strategy needed to be adapted to an extremely fast growing IT industry.

I also found motivated to read a book about a CEO without a tech background that successfully restructured a great company as IBM.

An essential volume for anyone interested in technology, large organizations, or IBM's miraculous rebirth under Gerstner's leadership

1.3.Relationship with my past experience

Since my experience is quite so limited the only part that I could relate to was the time spent in the IT department at Nestlé. I imagined myself the scenarios where Nestlé would have come in such a situation of restructuring.

Also by not having seen the top level management of Nestlé, I could through the words of Gerstner have an insight to how a big multinational is run and structured.

1.4. Relationship with MBA GRH course

One of the first things that stroke me on the first chapters was the recruiting of Gerstner. The book provides an interesting insider's view of the CEO recruiting process for a Fortune 50 company. The way all candidates were secretly analyzed and ranked was a bit of a practice example of what we have seen during the GRH course.

Another issue that I could relate from the GRH course was the way Gerstner was able to re-motivate the employees when the company was firing people. How can anyone be happy to come and work when they know that today it can be their turn to leave? By having a professional and open communication style, Gerstner inspired trust and respect. People realized that what he was doing was for a purpose and the played the game without asking too much. The result turned out to be a positive one which strengthens Gerstner's authority.

2. Book content and analyses

IBM's historic turnaround as told by Louis V. Gerstner, Jr., the chairman and CEO of IBM from April 1993 until March 2002. Before joining IBM, Mr. Gerstner served for four years as chairman and CEO for an equally intriguing corporation RJR Nabisco, Inc. This was preceded by an eleven-year career at the American Express Company, where he was president of the parent company and chairman and CEO of its largest subsidiary. Prior to that, Mr. Gerstner was a director of the management consulting firm of McKinsey & Co., Inc. He received a bachelor's degree in engineering from Dartmouth College and an MBA from Harvard Business School.

After a brief foreword and introduction in which Gerstner provides his pre-IBM background, he jumps right into the story of his IBM experience. The book is divided into five parts: "Grabbing Hold", "Strategy," "Culture," "Lessons Learned," and "Observations."

Shortly after Lou Gerstner was introduced as IBM's CEO in the spring of 1993, he met with the company's Corporate Management Board — roughly the top 50 people in the company. He laid out for them a number of troublesome areas in the company:

- Loss of customer trust, supported by low customer ratings on quality
- The mindless rush for decentralization
- Slow response to cross-unit issue
- Tension over control of the marketing and sales processes
- A confusing and contentious performance measurement system, resulting in serious problems when closing sales with customers
- A bewildering array of questionable, even senseless, alliances.

Gerstner announced a program called "Operation Bear Hug." Each of the 50 members of senior management would, within three months, pay a personal visit to a minimum of five of IBM's biggest customers, find out first-hand what their needs and concerns were, and report back to Gerstner. The Bear Hug meetings became the first step in reducing the customer perception that dealing with IBM was difficult.

One of Gerstner's first tasks was to redirect the company's attention to the outside world, where a marketplace was quickly changing and customers felt largely ignored. He succeeded mightily. A massive, difficult, and painful reengineering feat was required to get the insular IBM to focus on bringing value to the customer in the marketplace.

For Gerstner, there were four immediate strategic issues:

- Whether or not to break IBM into many freestanding businesses?
- How to change the economic model of expenses and margin to generate cash?
- How to re-engineer IBM for efficiency and profits?
- What unproductive assets could be sold to raise cash?

IBM was in 1992 rapidly falling prey to smaller companies that could make the same products better, faster and for less money. Wall Street was calling for its break-up into small, independent business units, but Gerstner had other things in mind — to keep the company together, change the way it did business, and show it could keep up with and even surpass the start-ups and small businesses presenting its biggest challenges. Lou Gerstner thought the enormous corporate elephant could dance as gracefully as its much smaller competition. He was right. Moving ahead of his critics, Gerstner made the hold decision to keep the company together, slash prices on his core product to keep the company competitive, and almost defiantly announced, "The last thing IBM needs right now is a vision."

After only 100 days on the job, and with major news outlets and analysts alike calling for some visible, tangible proof of a turnaround at IBM, Gerstner went public with four key strategic initiatives:

a) *Reengineer How the Company Did Business.*

Gerstner saw IBM's business processes as cumbersome and highly expensive, requiring a reengineering program of gargantuan proportions, a top-to-bottom overhaul of its basic operations. Gerstner focused on six core initiatives: hardware development, software development, fulfillment, integrated supply chain, customer relationship management, and services. These were the processes most visible to external customers, and they were soon joined in reengineering efforts by several internal processes, including human resources, procurement, real estate, and, oddly enough, information technology. From 1994 to 1998, the total savings from these reengineering projects was \$9.5 billion.

b) *Change the Company's Fundamental Economic Model*

In simplest terms, if a company's revenue, gross profit, and expenses are all moving in the right relationship, the net effect is growing profits and positive cash flow — the makings of a successful business. In 1993, those relationships at IBM were all wrong — revenue was slowing (due to the company's reliance on declining mainframe sales); gross profit margin was sinking (due to the discounted prices it had resorted to in order to sell mainframes); the company's expenses were out of control. Expenses were, however, the first issue tackled — \$8.9 billion was slashed out of the budget. This required employment reduction of 35,000 people (in addition to the 45,000 jobs cut in 1992 — the first such layoff in the company's history).

c) *Keep the Company Together*

Gerstner decided very early on to keep IBM one unified enterprise, in the face of an increasingly diversified computer market. While IBM was slow to deliver distributed computing (delivering increased computing power to individual users), other companies moved in, supplementing IBM's basic systems with add-on applications and hardware that provided the powerful systems both business and home computer customers wanted and needed.

d) *Sell Unproductive Assets to Raise Cash.*

Only a handful of people understand how close IBM came to bankruptcy in 1993. Gerstner noted then that there were a number of assets that could be sold to make the company solvent again, and, thus began a wholesale jettisoning of nonessential, unproductive assets:

- I. The corporate airplane fleet was sold.
- II. The corporate headquarters in New York City was put on the block.
- III. The bulk of the company's fine art collection was auctioned off.
- IV. IBM's Federal Systems Company (which primarily handled government contracts) was sold to the Loral Corporation.

Gerstner outlined in the book the so called "eight principles" that led him to the success:

1. *The marketplace is the driving force behind everything we do.*

Gerstner recognized that IBM was guilty of producing confusing technology, then making it instantly obsolete. Under the first of Gerstner's principles, the company vowed to focus on serving customers and, in the process, beating the competition.

2. *At our core, we are a technology company with an overriding commitment to quality.*

Technology was always IBM's greatest strength. Under Gerstner, the company needed to funnel that knowledge into developing products that served customer needs above all else.

3. *Our primary measures of success are customer satisfaction and shareholder value.*

No company is a success, financially or otherwise, without satisfied customers.

4. *We operate as an entrepreneurial organization with a minimum of bureaucracy and a never-ending focus on productivity.*

The warp-speed marketplace demands that the company accept innovation, take risks, and pursue growth, both by expanding existing businesses and finding new ones.

5. *We never lose site of our strategic vision.*

Every business, if it is to succeed, must have a sense of direction and mission.

6. *We think and act with a sense of urgency.*

Planning and analysis should never be carried out to the extent that the job that needs to be done now does not get done.

7. *Outstanding, dedicated people make it all happen, particularly when they work together as a team.*

The best way to end turf wars is to cherish and reward teamwork, particularly teamwork that delivers customer value.

8. *We are sensitive to the needs of all employees and to the communities in which we operate.*

People must have the room and resources to grow, and the communities in which we do business must become greater because of our presence.

It was only in the second year of the turn around that Gerstner turned his attention to formal strategy. There is the recognition of a coming change in the industry scenario as personal computing was expected to give way to network computing. IBM developed assumptions about what it would take to win. The key insight was seeing that the future value must come from integration of various open standard components in a "solution" rather than selling the proprietary system hardware that had built IBM in the preceding decades. This understanding led managers to develop growth strategies in each of their core business segments (services, software and components) and to recognize that, unlike the "do it all" business model for the mainframe, they would have to focus on segments where they could win.

Gerstner's most important and proudest accomplishment was to institute a culture that brought IBM closer to its customers by inspiring employees to drive toward customer-defined success.

Gerstner is arrogant but with good reason. He knew what to do and did it, however unpopular it was. He wasn't there to protect jobs or careers. Gerstner rightly saw that IBM should not be a welfare program for "loyal" employees; it had to be a productive and profitable enterprise and he did what was necessary

Although many people criticized IBM for selecting a non-technical CEO, based on IBM's performance during his reign, Gerstner was definitely the right person for the job. His reinvention of IBM was one of the most dramatic corporate turnarounds of the twentieth century, and the numbers in Appendix C of this book will certainly shut the mouths of any would-be critics. In the appendix we see the evolution of the different indices to measure the performance of IBM and we can spot the clear improvements after 1994.

3. Ideas retained

3.1. Positive ideas

Gerstner's/IBM High Performance Principles: Drivers for success:

1. The marketplace is the driving force behind what a company should be involved in
2. What is at the core of a company: In IBM's case, it is a technology and nothing else
3. Look outside to measure success via customer satisfaction and increased shareholder value

4. Operate as an entrepreneurial organization with minimum of bureaucracy and never ending focus on productivity
5. Have a sense of urgency (Planning & analysis is secondary to action)
6. Never lose sight of strategic vision, direction & mission Reward teamwork
7. Be sensitive to ALL employees needs

Appreciated techniques:

One of the personal appreciated measures was the so called "Operation Bear Hug" that Gerstner initiated in his first month at IBM. This operation consisted of pushing the 50 top managers to go out and visit their clients and give a written feed-back directly to Gerstner. I think this measure shows the importance of the customer and the problems a company will have when trying to ignore the customer.

Before Gerstner arrived, IBM had a tendency to fool itself with false indices and data (e.g., customer satisfaction numbers generated from specially selected samples; subjective product milestones, etc.), but he changed all that. "People do what you inspect, not what you expect," he explains. This last citation is an important one to be learned which is that people measure what you ask them to, which is maybe not the right thing to measure.

3.2.Negative ideas

- You get the feeling that Gerstner was more of a Mr. Fixit focused on the short-term turn-around. It would have been interesting to hear him talk more about the long-term strategies for IBM to remain competitive, and particularly how to use IBM's size as an asset rather than liability. We see clearly that we would have wanted to have more depth in such issues. Gerstner fixed the problems in the short term but will these changes turn out to be right on a 20 year period?
- One of the other things that Mr Gerstner failed to address was the on-going concerns between access types in the public vs private domain: business vs personal use of access, cost sharing and privacy issues when at work. Issues like, on-line shopping, stock trading, personal email, etc are vague and unsupported. Maybe this is because he is not a so-called "techie." Since this was mostly a self-biography we get the feeling that from the technical point of view there are a lot of questions unanswered.
- In one of the early stages of his reign he mocked a serious employees email by copying it entirely and afterwards criticizing it.
- Also, he includes a strangely long and dull appendix of his collected communications to IBM employees. I do not see the point to go through a bunch of emails that Gerstner send to his employees during his period at IBM. I found it just unnecessary and after reading one of the emails I considered the issue no longer interesting.

4. Conclusion

4.1.IBM today?!

I also like to see IBM from a more negative point of view. IBM was once a Product-Based company. Now, in 2005, it is a Service-based company. Basically, it has nothing to sell IBM lost the relational database business to ORACLE, IP networking to CISCO, UNIX servers to SUN, and the PC hardware business to DELL.

Then what does IBM have to sell? Not much of anything, IBM is now a service company with a group of technicians fixing servers and PC. True, Real companies have products to sell. What engineers and technicians now are selling are the Brain-Skills of the workers. IBM does not own Brains. They can leave at any time. What ever happened to great Products?

4.2. Lessons learned

Finally, the "lessons learned" chapter is full of advice:

- "Lack of focus is the most common cause of mediocrity"
- "A successful, focused enterprise is one that has developed a deep understanding of its customer's needs, its competitive environment, and its economic realities. This comprehensive analysis must form the basis for specific strategies that are translated into day-to-day execution."
- "Good strategies start with massive amounts of quantitative analysis...blended with wisdom, insight and risk taking."
- True intelligence (not biased or wishful thinking) wins wars
- "Good strategy is long on detail and short on vision"
- Allocating resources is where strategy becomes action
- Strategy can only take you so far...in the end it comes down to leadership and execution to achieve results
- Superb execution comes when strategy is simple and crystal clear and the organization has its values and commitments aligned with that strategy.
- Leadership is critical and it takes passion and integrity to do it well.

More than the story of "what I did at IBM" Gerstner is able to lay out the elements of what it takes to turn around a failing company as he provides insight as to how to tackle the tough jobs of changing culture to get results from strategy.

Whether you read this book or not I think it is safe to say what happens in your PC on your desktop right now was made possible in large part by the people in this book, all the IBM employees (past and present) as well as their competitors.