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Leaders Who Make a Difference: Sam Palmisano's Smarter IBM: Day 2

Note: This case is designed to be used in conjunction with HBS video 311-703.¹

This case is designed to support a second day of discussion on the changes at IBM led by Sam Palmisano Jr. It consists of comments made by leading managers at IBM during interviews with the author, and a conversation during a video interview of Sam Palmisano with the author on June 21, 2010. The comments are organized around three topics: Sam Palmisano as a strategist, as an organization builder, and as an individual performing in his role as chief executive of IBM. The comments are taken from interviews with senior IBM executives: Joel Cawley, Vice President Corporate Strategy, interviewed in Armonk N.Y. in January, 2010; D.C. Chen, General Manager IBM Greater China Group, interviewed in Beijing in March 2010; Bruno DiLeo, General Manager of Growth Markets, interviewed in Shanghai in March, 2010; Jon Iwata, Senior Vice President Marketing and Communications, interviewed in Armonk in March 2010; James Kavanaugh, Vice President and Controller, interviewed in Armonk in January, 2010; Steve Mills, Senior Vice President and Group Executive, Software Group, phone interview in March 2010; and Ginni Rometty, Senior Vice President and Group Executive Sales, Marketing and Strategy, phone interview in March 2010.

The material in this case presumes complete familiarity with both the video and printed material for the case "Leaders Who Make a Difference: Sam Palmisano's Smarter IBM: Day 1."

Palmisano as Strategist

So Sam's like, how do we do this without me just either hauling out Watson's belief system, which very few people would have remembered – because by then, the stats were something like six out of ten IBMers have been with the company for ten years or less. Back in 2002 or 2003, which meant they have no memory of Tom Watson's sayings, you know? And so Sam's choices were – he inventoried them for me. If you accept that we've got to lower the center of gravity because that's where decisions need to be made, because that's what integration

¹ Joseph L. Bower and Sonja Ellingson Hout, "Leaders Who Make a Difference: Sam Palmisano's Smarter IBM: Day 2," HBS Video No. 311-703, Harvard Business School Publishing, Boston, MA, December, 2010.

Professor Joseph L. Bower and independent researcher Sonja Ellingson Hout prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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means, how do we keep everybody together so they make decisions in the IBM way? We've got to have a set of beliefs, values, or principles. This sort of clarity of distinction, that we are in the enterprise space, not the consumer space, was threatening to people. It was very uncomfortable for people to say that. And Sam's been on this since day one, and been pushing us more and more in that direction, more and more of divesting pieces here, and getting us out of lower-cost commodity spaces, and carving off money to keep us and keep moving us into a high-value enterprise-focused business.

— Jon Iwata

I think that one of the things that characterizes Sam is that his references for everything we do are always outside references. His measurement for success, for quality are always the marketplace, the client, the stockholders, the competition. . . . So I don't think he one day woke up in the morning and said, "I need a new strategy for IBM company." It's a learning process. But he, by definition, is a leader who doesn't care about the internal plumbing of the company. He's not encumbered by the facts, by organization, and more by the way we do things.

— Bruno DiLeo

Video: Keeping the Focus External

What really started to accelerate after Sam came on board—and Sam encouraged this, but he wasn't the direct driver of it—was the inorganic growth of that business. So we did the big—we did CrossWorlds acquisition right around that time period. And that was the beginning of a different way of using inorganic growth strategies that was more focused on buying small pieces that filled in the pieces of the puzzle.

Sam is very much in the—focus on the basics, get the right core elements right, let the other guys get all distracted by all this other bullshit, but stay fundamental, stay focused on core. And it is good value propositions, good cost position, good way to monetize the value proposition—those are the fundamentals.

If you're the CEO of a company, and you're confronted with a challenge at a staff meeting, where it looks like you're going to have a miss of a quarterly target, when you see the hiccup, he said, where your head turns in that first moment—if your head turns to your CFO, it's one kind of company. If your head turns to your head of sales, you're a different kind of company. He said, where the CEO's head goes when that first information hits the screen, that determines the culture of the company, whether it's a growth company or a cost- and control-managed company.

And he recognized that that cultural difference needed to come directly from the leaders who were directly involved in managing those businesses. And so he put a lot of emphasis on trying to get the right people in China, the right people in India, who would have that growth mindset, who would not turn to their CFO but turn to their sales head to capture the growth.

— Joel Cawley

He's obsessed with the stockholders and the clients and the marketplace. He is an acute observer. He is always trying to—at least when I am challenged by him, and it happens every day—he's always trying to figure out if I am focusing on what is really relevant.

You ask me where did he get this from? I can't give you a Cartesian answer. I think it's part of the essence of being a leader that has to transform a company, you know? You have to be constantly debating with these two key questions. Even three, no? One is what you really want to do and, and even, even worse, *how*, no? How do you get this done? In favor of him, he's a longtime IBMer. That makes it easier when you want to drive change. How do you drive change? You need to know internals of the company. Otherwise you can get lost. The whole system can swallow you.

The thing that is crucial (and people may say that he's not so good at) is you need to commit the people to your strategy. And commitment is something very difficult to build because it's personal. You don't write a paper and the people suddenly get committed, you know? People commit to your strategy if they believe that there is some personal gain or fulfillment to their own needs. Then they will say, okay, like it or not like it, but I will engage. This is good. He is extremely good on communicating and driving this in the, in the top management of the company. I think the best piece of communications on the transformation of the company that he did was the values jam. That was a way to create a new set of right and wrongs that was owned by everybody, no?

— Bruno DiLeo

Video: Managing a Values Based Organization

I think one of Sam's great strengths is that he is an extremely strong operational leader. And I share the view that great strategies—if you're not great operationally, you really don't have a great strategy. It's a paper document. People might comment and say, gee, what a wonderful strategy, but you never implement what you write down. Frankly, my perspective is, the opposite is really what you want to be known for. In other words, your tactical approach is incredible, your execution is superb, your results period by period are excellent. And then people conclude that you must have a great strategy.

And Sam has been relentless in driving the company to high value. Now it's a recognition of IBM's core DNA—we invent.

— Steve Mills

Video: The Concept of a Smarter Planet

As I talked about, the four pillars—capturing higher value, portfolio management, investing for growth, growth markets, shifting the operating model. This is about enabling an organization to be customer-focused, agile, empowered overall.

— Jim Kavanaugh

Palmisano as Organization Builder

Video: Managing the Expectations for Speed

I would characterize Sam's style—Sam, having been a football player in high school and college, sort of brings the football mindset to running IBM. So it's hard driving, it's aggressive, it's sort of full contact.

He's not one to mince words. He's not a big believer in subtlety, he's very direct. And he's a real player coach in the sense that he really reaches down into the organization. He's very connected to people. He's constantly talking to people. Besides IBM's addiction to email,

we're also addicted to instant messaging at IBM, which the product we sell is called Sametime, which we all love to call Sam-time.

— Steve Mills

We have a cooperation tool in the company which is called Same Time. It's a chat. A chat room, okay? And he is there. And he has the same access I have to the performance indicators and the daily load, and the sales orders that I have. So he not only is—he is not a CEO sitting in a glass house surrounding—surrounded by people telling him what people think he should know. Because he can access anybody in the company anytime, any moment, and know what the heck is really going on. And he has a management dashboard which is the same [as] I have that will let him know if we are placing the orders we said we would in Mexico for this week . . . So I don't have formal performance reviews with him. He doesn't need them. So he calls and he's—how is Brazil doing? What is going on with this? We have short, focused, sweet conversations about—no? How is your investment case on this? I heard that. He is on the territory all the time. He spends a considerable amount of time visiting my countries. Sam has been in Egypt, in South Africa, in Saudi Arabia. You name it.

— Bruno DiLeo

Now, as the top guy, he's very dependent upon the people he chooses to help him. Everyone's got to play their position, as it were. And who you pick and whether or not they can fit with your management style—it's critical. He would tell you that. Their knowledge and competency are certainly important. But if your style isn't compatible with his style, it's not going to work, because he's too strong a player coach to put up with somebody who can't match his pace or better.

And you'd like to have a lot of MVPs on the field to ensure that you can continue to score. And again, by way of style and technique, I think Sam is the pacesetter. And he's been very good at making that pacesetting contagious within the business.

— Steve Mills

Video: Building the Team

End of the day, all that matters is the execution and delivering on that strategy, right? So not only did he lay the strategy out, he energized 400,000 people around the world to go execute to it. Powerful.

— Jim Kavanaugh

Global integration would be, how we did service delivery. That led a lot of the big mass of skills in this globally integrated network. . . . Now apply the same thinking to how you run yourself as a company, and that would be what Sam pushed the envelope on. How do you run your finance function? Is the work done in the best places in the world? And he's a big believer in constantly benchmarking, benchmarking. If there's any place in the world that can run better than you, then benchmark that. And by the way, if you're the top of breed, well, then find the next thing. So that is a hallmark of his leadership, which is around constantly looking at positioning yourself at what the next—where the next level of performance is, not where the current one is. So that, to me, was global integration. It was centers of excellence networked around the world. It was both about how IBM ran itself and then how we served our clients.

— Ginni Rometty

Sam has been a real hawk on, you know, we're trying to connect the company in three dimensions. We're trying to connect the company geographically. We're trying to connect the company industry wide, because if you're a bank in China, your interests as a bank reflect banking interests everywhere in the world. So besides being geographically structured, you have to be industry focused wherever possible. In some remote areas that's harder to do than others. And then you have to have technology expertise, know-how and capability, to apply technology to solve problems. And so there are really three dimensions, if you will, in the running of the business. Now the two stronger dimensions are the brand dimensions, and we report our business results on a segment basis, which is the brand view. That's the dominant profit-and-loss dimension of the company. Geographic is next. You can't deny geography. I mean, local culture, custom, language – geography is a reality. You have to be local.

– Steve Mills

Number one is, I think, that he transformed IBM from a multinational into a global corporate. I think that this, this goes beyond being a globally integrated enterprise. This is one of the things. But there was this definition in the world that being global was to be able to focus on the markets that really matter. I think that he has evolved this concept into – being global means synergizing a diverse portfolio of abilities that different countries and market have, no? I think that the global integrated enterprise is challenging this old paradigm that we learned in the school, that is – and the economy has to choose what is, what is the mix between capital and work, no? Because now work moves anywhere. People [are] no longer moving to work; work is moving to – where the people go, no? So I think that's the number-one contribution. He truly made IBM a global company.

The executives of this company, this is a slow process, but you can see it. They are more international, they are more eclectic. They are less Westchester or Connecticut, New York mentality, okay? They are less – if it works in the U.S. [it] has to work everywhere. They are less – we are good boys, you are bad boys. They are more – stop, let's think. They are more international, they are more open-minded. They all have some multiple brand, multiple business, multiple company experiences.

– Bruno DiLeo

Video: On Making Strategy Operational

Palmisano as a Performer

A key event you might look at is the meeting in Bangalore, 2006. May 2006, kind of this planting the flag, kind of exposing a strategy. And 10,000 IBM Indian employees also attended.

The President of the country came. It was quite symbolic. That's the thing about Sam. I mean, he wants to signal to – in this case, not just the employees, but I think to others. Inflection points in the evolution. He deliberately wants to have things that are very visible and very symbolic, and that was one of them. The India thing was hard to do, but it was undeniable. You could not miss it, if you were inside of IBM or on the street, following us.

– John Iwata

Sam does not have burning platform. Integration was a big decision, which clearly impacts a country like IBM China. On June 2, we are going to have the global IBM forum in Shanghai. Last year, he had it in New York. Now he picked the place where he [was] going to make the

global smart city forum in Shanghai, right? This is almost, you want to tell whole world – say, urbanization: use it smartly. Why don't you come to China and take a look at how they've used systems in Shanghai. And then after Shanghai, you have 100 second-tier cities, right? We all have to figure out how to be part of smart growth. At the same time, if you look at when we moved the work to where the talent is, we are a little different from India. IBM in China has 20,000 people. Half of them play global mission, so using China as the base to perform research, development, and services for procurement for the whole world – is IBM.

– D.C. Chen

Video: Values: Why Strategy Energizes

I think one of the more interesting aspects of the IBM today, as I see it, is that today I would characterize IBM as a company of continuous change. I think that's a very important point to make, and I think it differentiates IBM, and it is to a large extent a reflection of Sam's leadership and Sam's style. He's a believer in continuous change. Meaning that these expressions that one often hears or reads about, you know, companies having to remake themselves, companies having to rethink who they are and what they're doing. Well, the perspective we have in the company today is that you need to do that all the time. It's not an every-now-and-then phenomenon, it's an everyday phenomenon.

Sam's management model is a tough management model. It's a pretty exhausting management model. I would venture to say there are companies that do not have the energy, strength, and fortitude to withstand that management model. The idea is to create a sense of enthusiasm, a sense of quest, of purpose, that the goals are worth striving towards. There's a great esprit de corps within the company, a great connection of people to people, a strong belief in the values of the company and an excitement about what we do. It's a sense of quest. It's *Indiana Jones*, it's a movie.

– Steve Mills

Video: Managing the Energy

Sam has a very personable style. People do like him—he's a genuinely likable person, likable personality. And it's a bit like your college coach. You know, if you played sports in school, there was [a] peculiarity that your coach sometimes would get all worked up and start yelling at the team. On the other hand, your coach was there to put his arm around you and tell you when you're doing a great job and make you feel like you belong. You have to have that change up in style to keep the energy level going, and Sam has that style.

So much is personality. And kids that come out of business school, one thing they go through is, they—if they're going to be successful in business—they finally have to figure out that wherever they're working, that's their company. And so it's their job to power that company forward. And then the question is, well, how do I do that? How do I motivate? How do I incent? How do I create a sense of excitement? How do I make the organization move? Because as an individual, I'm not scalable. I only have my persuasive powers and my sense of humor, my ability to interest people, excite people, and get people to want to come in every day and work their butt off to make this company successful. Hard thing to learn.

– Steve Mills

I almost venerate this man because he has a level of integrity in the way he thinks. He's consistent. The Sam you see today is the same Sam that you see, and you will see, in ten years from now when he's retired, or the same Sam you, I, saw when I was—the first time I met him in my life in June 1986. So he has this—he is natural in the way he does things. He is who he is.

— Bruno DiLeo

Lou [had a] very strong silo management focus. And it was a control-oriented mindset and culture, and it was accountability within the silos. We needed that. It got us out of the ditch. Without it, we would have been in trouble. We wouldn't have survived. But for the type of business we're in today, we need fluid mixing across things. We need to be able to draw from different parts of the business, all of whom are in a similar space, but have different business models. We need to be able to flexibly move that stuff around.

And this was Sam's observation at his integration-and-values team meetings. So this is 300 of the top execs in the company, it was a week or so ago. We did the normal drill, a couple of days of speeches and material about what the priorities are for the year, and what we're trying to get done. And it was interesting, because Sam got up at the end of the session and just reflected on what the dialogue had been for the last two days. And he said, you know, we've had these meetings for 20 years, and this is the first time that I can remember where every discussion was about the problem we're trying to solve for a client, or what we're trying to get done in the marketplace, or what we're trying to get done for some of these other things. There was essentially zero discussion about individual silo issues and challenges.

He said, so guys, this is what we're talking about. This is what culture is about. When we get to a mode where our focus is on how we team together, pool our capabilities to solve client problems, and put the focus on the client problem, not our cross-silo coordination issues. His observation was that—I've never seen it as clear as we saw it last week.

— Joel Cawley

Video: Driving Values

Summing Up

OK? So if I had to sum up—in my mind, I guess (you'll make your own conclusions)—under Sam's tenure, I think what you will have found is that he has—his insight into competitive strategy has been impeccable. He's had a maniacal focus on execution. And he's rendered the complex simple.

— Ginni Rometty

I can't say enough about the fortitude of the management team, and Sam in general, of taking that bold step in 2007. I mean, at that point in time, knowing what we know now, we would have been through one of the most horrific recessions we've ever seen, I've ever seen, in my life. To come out of that and achieve it one year earlier just speaks to the power of the strategy and the financial model, right?

— Jim Kavanaugh