

# In the pink: The IBM

A near-perfect global diversification strategy, cutting-edge innovation in its global R & D centers and aggressive acquisition. These are the key components of the successful mantra that has kept IBM merrily afloat on the choppy waves of a turbulent economy.

SUJATA SRINIVASAN

**L**OOKING at 2008's fourth quarter results for International Business Machines Corp. (NYSE:IBM), the world's leading maker of storage systems, servers, mainframes and software, the first thing that strikes you is the near-perfection of Big Blue's global diversification strategy. It follows the wisdom of the simple, time-tested popular idiom: don't put all your eggs in one basket. IBM didn't, currently garnering nearly 60 percent of its revenues from international sales, posting a rock-solid operational performance in Asia. It posted a 12 percent increase in earnings during the last quarter of 2008, up from the same period in 2007. That's why the conglomerate is swimming along merrily in turbulent waters when many American companies are gulping for air and sinking fast.

Did I say American company? Didn't IBM cease to be an all-American company many moons ago? A jog back in time will trace IBM's global expansion in R&D between 1956 and 1998, when it opened technology centers in Switzerland, Israel, Japan, China and India. Located in Delhi and Bangalore, the India-based R&D center employs around 110 professionals and focuses on speech technologies, pervasive computing, e-governance, information management, e-commerce, life sciences, distributed computing and software engineering.

"IBM India is committed to a culture of innovation and will apply discoveries to important business and societal issues. Many of our technologies have made their way into major products and our solutions are on the thresh-



## SWOT: IBM

**Strength:** Expert in leveraging international markets and labor pool. Leading maker of mainframe systems and enterprise software. Rapid growth in business intelligence services. Aggressive cost-reduction strategies including a new program to relocate retrenched employees

from North America to emerging economies like India.

**Weakness:** Size could hamper agility and responsiveness to rapid changes in its markets.

**Opportunities:** Growing demand in In-

dia, China, Brazil and Russia. Strong suite of business intelligence products and IT solutions that enable clients to improve productivity in a turbulent economy.

**Threat:** Competition, international and domestic.

◀ Jeby Cherian, director, strategy and business development, IBM India/South Asia



A worker prepares a stand of IBM for an IT fair inside a hall in Hanover on February 27. Reuters

old of making a difference to our services organizations. In India, our R&D labs are busy not only innovating but applying the same for real customer benefits. One such example is a project internally codenamed as spoken web," said Jeby Cherian, director, strategy and business development, IBM India/South Asia.

The spoken web technology would transform how people create content and interact with information and transaction services, using spoken interactions over cell-phones instead of the personal computer and textual interfaces. The technology is based on the concept of a 'VoiceSite' analogous to Web sites but accessible over phone through a

voice interface. People can create and browse 'VoiceSites', traverse 'VoiceLinks', and conduct business through their existing telephone network. Cherian said the technology is compelling for people who don't have access to a PC and the Internet, or are unable to read or write.

IBM is offering clients smarter IT solutions to improve productivity. Several of these have been developed in India. "As more companies globalize and outsource their IT infrastructure, they need an advisor and partner like IBM, with broad product portfolio and experience to transform their IT environment to support business growth and to fuel pro-

ductivity in challenging times," Cherian said.

Cherian declined to comment on how much of IBM's \$6 billion investment in R&D annually is apportioned to India, or how many patents are filed from India. He turned the spotlight on IBM globally. "IBM's 2008 patent total nearly tripled Hewlett-Packard's and exceeds the issuances of Microsoft, Hewlett-Packard, Oracle, Apple, EMC, Accenture and Google combined," he said.

Still, large corporations will fight to stay agile. "A lot of innovation in IT comes from start-ups because it's a challenge for large companies to deal with rapid changes in the market," said Carl Claunch, vice-president

## 'India is one of the fastest-growing markets for IBM'

Carl Claunch, vice-president and technology analyst at Gartner Research, spoke with SUJATA SRINIVASAN on IBM India's opportunities & challenges

### ■ How will the recession in the US impact IBM in terms expanding market share in emerging economies like India?

You are going to see the percentage of IBM's business coming from high-growth economies like India continue to increase. If you look at the big four — Brazil, Russia, India and China — and the next 10 or so (smaller countries), that accounts for almost one-fifth of IBM's business. So IBM's interested in India for a number of reasons. One is pure opportunity, with very strong domestic product growth and an IT growth rate significantly above that because of greenfield opportunities for technology providers. The second is that the slow-

down in the US economy and Western Europe allows companies to reach their overall corporate growth (by expanding in emerging economies).

### ■ What are the challenges for IBM in India?

The big challenge is how fast IBM and the others can take advantage (of the opportunities). The market is growing so dramatically that it's very difficult getting talent and building up what you need to be able to deliver ser-



vices throughout India, while not letting labor costs escalate beyond market pricing. So labor-intensive segments of IBM's business would be under stress.

### ■ Could you discuss India in the context of IBM's other markets?

India is one of the most positive and fastest-growing markets for IBM. Still, only 18 percent of IBM's revenue is from rapidly-growing countries but India doesn't contribute the entire 18 percent. So you grew 50 percent a year in India, but if business sagged in North America and Western Europe, even the 50 percent wouldn't be enough to make up for it.

### ■ What will provide new revenue streams for IBM India?

I think areas like financial services and infrastructure that's powering the entire economy, such as building utilities, has an IT component. Then there are brilliant ideas coming out of India like microfinance. Who knows what that's going to power in terms of IT?

### ■ What kind of new technologies can we expect in cloud computing, nanotech etc.?

I can't comment specifically, but in general, these areas are all great where you're leveraging people with advanced degrees and technologies that are of value to the Indian market.



# story

## At a Glance

INTERNATIONAL BUSINESS MACHINES CORP. (NYSE:IBM)

Headquarters: New York

No. of employees worldwide: 400,000, of which around 130,000 are located in North America

Global presence: 171 countries

and technology analyst, Gartner Research.

Over the years, IBM has solved that problem through an aggressive acquisition strategy. Between 2000 and 2008, Big Blue acquired close to 80 companies in areas from business intelligence to information security and content management software.

## GROWTH OPPORTUNITIES IN INDIA

"India is one of IBM's most important emerging markets. We have achieved strong growth here for reasons including not viewing India as just a location for labor arbitrage. We are invested in India for our domestic clients," Cherian said.

He said the domestic IT market's strong growth in the last three years was because the market has come of age.

"The IT outsourcing services continues to outgrow technology product services and forms the largest chunk of the Indian IT services market. End-to-end outsourcing deals have seen major traction, thereby signaling the maturity of Indian enterprises in embracing outsourcing services, in line with the trend in mature markets," Cherian said.

IBM India sees opportunities in sunrise industries such as retail, infrastructure, media and entertainment, energy and utilities, telecommunications, and financial services (insurance, banking). "We are confident that we will be able to replicate our telecom success with some of the clients in these industries," Cherian said.

He pointed out that as businesses mature in India, clients' IT requirements are becoming sophisticated. "They are looking for an IT provider who can simplify their processes while enabling them to scale up. Our domestic market strategy is based on identifying growth industries such as retail, media and entertainment, infrastructure, etc. to focus our skills on, to grow our mid-market client base by strengthening our presence in tier 2-3 cities and to optimize our capabilities in SAP consulting and implementation," said Cherian.

SUJATA SRINIVASAN

THERE'S change afoot at Big Blue, big time. It goes by the name Project Match under which retrenched IBM employees in North America have the option to relocate to emerging economies such as India, China, Brazil, Russia, Nigeria, Argentina, Czech Republic, Hungary, Mexico, Poland, Romania, Slovakia, Slovenia, South Africa, Turkey, and United Arab Emirates.

According to an internal notice at the company published this February by several media outlets including *The Indian Express*: "IBM has established Project Match to help you locate potential job opportunities in growth markets where your skills are in demand. Should you accept a position in one of these countries, IBM offers financial assistance to offset moving costs, provides immigration support, such as visa assistance and other support to help ease the transition of an international move." Wages for relocated employees, who will adhere to local labor laws and working conditions, will be at the prevailing rates in these countries.

Alliance@IBM, an affiliate of the Communications Workers of America, has posted the following message on its website <http://www.endicottalliance.org>: "Help bust IBM on training offshore replacements and then being fired! Click & Take Action! Job cuts and job shifting offshore by IBM!"

"It was very touching to hear Obama say, with Palmisano (CEO Samuel Palmisano) next to him, that it's people like Sam who 'create jobs'. Did he mean jobs in India? Is our new president really so clueless?" wrote an IBM employee on January 28 this year.

Another comment said: "Massive layoffs in Research this week — completely indiscriminate regarding performance. Several likened it to being shot down at random in a shopping mall".

While IBM has declined to quantify the total number of jobs axed, Alliance@IBM estimates that the company terminated almost 5,000 employees in 2009. "Exact numbers are hard to come by because IBM claims the Securities and Exchange Commission allows them to not to report these job cuts because it is 'routine practice'," the website states.

"We believe some of this work is being offshored to other countries—India, Poland, Russia, Brazil," said Lee Conrad, national coordinator, Alliance@IBM, CWA Local 1701. "Part of the problem is that IBM is being kind of secretive about the true numbers. We rely on employees sending us documentation that shows how many employees are being terminated."

The job cuts shook up the workforce because it came close on the heels of a buoyant fourth quarter growth last year. "That's what was shocking to a lot of IBM's US employees. They heard these glowing reports of how well the company did, and the very next day employees were shown the door in USA and

# Outsourcing woes make workers see red



Canada," he said. "Employee morale is very low and shaky. It wasn't poor performers that were let go; employees who have excellent records found their jobs being eliminated. This has sent a ripple effect throughout the company that nobody is safe."

Conrad said that according to information gathered by him, just 10 employees have opted to avail Project Match; mostly individuals from the countries who want to go back.

Alliance@IBM is reaching out to trade unions in countries listed under the relocation option. "We have contacts with trade unions in India and are working with them," Conrad said.

Industry experts have attributed the tech giant's growth to the globalization of its markets. Project Match appears to be an extension of this strategy of reducing dependence on North America. First, it was an expansion of market share internationally. Now, it is labor.

India is proving to be an attractive R&D destination for IBM's competitors such as Microsoft and Hewlett-Packard. "The Office Team's (at MSIDC) vision is to empower customers to realize their potential by delivering business applications and live services for any device. It creates easy-to-use solutions for information workers and businesspersons on platforms of their choice —

## The job cuts rattled the workforce because they followed a buoyant 4th quarter growth last year

whether a desktop, a live service or a handheld device. Projects owned by the MSIDC Office Team include Office Mobile, Office Live Services, MS Dynamics CRM and Duet," said Srinu Koppolu, corporate vice-president and managing director, Microsoft India Development Center.

IBM's Project Match might be just the right fit for non-resident Indians (NRI) who are increasingly returning to India. Sriganesh Madhvanath, a former IBM employee and currently a senior scientist at HP Labs in Bangalore, worked in the US for 10 years before relocating to India in 2001. He said HP Lab's work culture in India was similar to that of research labs in the US. "The population is younger and more energetic than in the US and other locations," he said.

Madhvanath listed other challenges with regard to research. These include difficulty in connecting with researchers at other locations for collaboration; extremely limited access to university collaborators with the right academic credentials and an understanding of the imperatives of industry collaboration; absence of access to continuing education and refresher courses in advanced topics.

From a business perspective, entry barriers for R&D include poor enforcement of intellectual property rights. "India must bolster the confidence of people who would like to have advanced R&D in India, that they won't lose rights to the innovation they come up with," said Carl Claunch, vice-president and technology analyst, Gartner Research.

The other impediment is infrastructure. "Compared to China, India has no problem. But compared to Israel, there are some differentials," Claunch said.

# 'Diverse teams are high performance teams'

Margaret Ashida, director, diversity and workforce programs, IBM, shared her views with SUJATA SRINIVASAN on how diversity is a driving force

■ How has the concept of diversity evolved at IBM these past few years?

IBM's foundation of inclusiveness goes back for many decades. As we've become a globally integrated enterprise, the concept of diversity and inclusiveness, and how that bridges between the workplace and the marketplace, has become more vital than ever before. Today's global economy is a talent economy and we know that in order to be successful, people work across lines of difference that includes issues like gender and ethnicity, but also aspects such as functional and industry expertise. That's all part of today's workforce diversity.

■ More than a half of your employee-base is situated worldwide. How has this translated into innovating new products?

Many studies have shown that diverse teams are high performance teams that drive higher innovation in their thinking and approach. We've seen innovations come about as a result of diversity, especially out of IBM's R&D labs, where scientists in India collaborate on a regular basis with teams in Europe, north and south Amer-



ica, and throughout the Asia-Pacific region.

■ Please comment on how IBM aligns its diversity initiatives with globalization, in respect to growing market share in Asia?

A good example is the IBM Asian Leadership Summit. In 2006, IBM worked with companies around the world to bring together thought leaders on Asian leadership in terms of corporate culture, leadership development and marketplace opportunity for Asians in the east and beyond. The effort was so powerful for clients, and for IBMers, that we are now undertaking a second Asian Leadership Summit, where more than a dozen other com-

panies are taking on these issues and focusing on opportunities in India and other Asian countries.

■ How much of an American company is Big Blue in terms of where the product is designed and made?

Research and development is a global endeavor at IBM and has been for decades. It doesn't matter where products are designed or made. We have skilled professionals in 170 countries around the world and approximately two-thirds of IBM's workforce and revenues sit outside the United States. We are truly a globally integrated enterprise.

