

Final remarks as prepared

“A Business and Its Ideas: Shaping a Company and a Century”

**IBM Centennial Lecture
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Thank you, Dean Ramanantsoa. It's a pleasure to be here at HEC.

Your organization has built an esteemed reputation for itself by pioneering a new brand of educational innovation to prepare future leaders for a rapidly globalizing economy. Clearly when you look at the many and varied leaders around the globe who have earned degrees from HEC, you can see that the school has been a driving force for innovation here in France and around the world. There is a reason the Financial Times has ranked HEC Paris number one in Europe for the fifth consecutive year, and all one has to do is look around this room to see why.

So thank you for inviting me to be here with you today. And I am delighted to be a part of your Centenary Lecture Series.

In 1962, Tom Watson Jr. – IBM's chairman and the son of its founder – stood before a lectern at another great university, addressing an audience of future leaders. IBM had recently turned 50. Tom was invited to offer his thoughts on what half a century of corporate life had taught his company – and what other leaders might learn from that history.

He began with a striking statistic. Of the top 25 industrial corporations in the United States in 1900... only two remained on that list by 1961 – one of those because it had absorbed six others from the original list. Two companies had disappeared, and the remaining 15 had slipped far behind.

As he said... “Figures like these help to remind us that corporations are expendable, and that success—at best—is an achievement which can always slip out of hand.”

Now, here we are, 50 years later, and IBM is celebrating its Centennial.

So... what have 100 years of history taught us?

Well, one thing they have taught us is that Tom was right – success is fleeting. Of the top 25 companies on the Fortune 500 at the time of Watson’s lecture... only four remained in 2010.

More importantly, though, our history taught us something about the source of any business or institution’s continued success and impact. That’s what I want to talk about with you today.

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People who are familiar with our history are often struck not merely by our longevity... but with the fact that we have continually changed. We started off making clocks, scales and cheese slicers, in addition to the punched-card tabulator. After that, it’s a blur: typewriters, vacuum tube calculators, magnetic tape, the first disk drive, the memory chip, FORTRAN, fractals, ATMs, mainframes, mini-computers, personal computers, supercomputers, services, software, analytics... Also, we’ve gone from operating in one country... to more than 170. In some respects we’re only now becoming a truly global enterprise.

“Wow, you haven’t done the same thing for 100 years.” That’s one way of looking at our history.

Another view is that we’ve been doing exactly the same thing for a century. And that, I would offer, is the first lesson from our history.

I again quote Tom Watson from 1962:

“I firmly believe that any organization, in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs. And finally, I believe that if an organization is to meet the challenges of a changing world, it must be prepared to change everything about itself... except those beliefs... as it moves through corporate life.”

Let me repeat that last line: “be prepared to change everything about itself except those beliefs.”

Tom Watson was not talking here about ethical precepts. For him, a company’s beliefs were about its identity – what makes it distinct... what shapes its decisions and behaviors. If you could codify and sustain that core, it would ensure that the company remained unique and differentiated... decade after decade.

In IBM’s case, the need for continual forward movement is part of our business model. IBM’s value proposition is to create and provide innovative solutions to our clients – solutions they can’t get from anyone else. And because the frontier of what is truly innovative keeps moving, that compels us not to sit still. It is a constant reminder never to define ourselves by the things we make, no matter how successful they are today.

Time has taught us how essential this balance is – between what changes and what endures... how it can go awry... and how we have to continually revisit it for new generations.

In fact, I would argue that the need for a foundation of belief and values is greater today than ever before... because change is faster than ever before, and the arena is larger and more complex than ever before. In a globalizing world – with work spread across vast networks of organizations and individuals – people need something that holds them together, that provides a touchstone for their actions and decisions.

A decade ago, when I came into my job, we identified several shifts that would play out in the coming years – big shifts, tectonic-plate shifts, changes that would test the mettle of every company in our industry. A new computing model would sweep aside the PC-centric one. Globalization would re-order economies and markets. Our clients would have entirely different expectations for technology... not just as a tool for productivity, but as a tool for transformation.

A small circle of us at IBM knew that we needed to seize upon these shifts and turn them to our advantage.

We also knew that doing so would require another massive wave of transformation – and mind you, we were just coming out of IBM's financial turnaround in the 1990s. Quite honestly, I wondered if the management team and our employees were ready to take this on.

This is why we decided, nearly a decade ago, that returning IBM to greatness required getting back in touch with our DNA. So, one of the first things I did as CEO was to initiate an effort to reexamine our core values.

The question was... how?

We no longer live in a world where the chairman can simply lay out a company's "Basic Beliefs." Employees today are super-smart, highly independent... even cynical. You can't come down from on high and tell them, "These are your values."

So we took a different approach.

We came together online, as a global population over 72 hours in what we call a "jam." I guess we'd call it social media today. It was messy, passionate and contentious. But in the end, IBMers embraced a new set of values – because they themselves had shaped them.

I truly believe that none of our work since – remaking IBM's portfolio of products and services... globally integrating our company... even launching our Smarter Planet agenda in the depths of the global recession – would have been as effective or sustainable if we had not first gone back to basics, back to our roots, back to the foundation of our culture.

Let me give you an example.

We introduced the IBM PC in 1981 and the very popular Thinkpad in 1992. It was by any measure the most recognizable brand for us – and arguably the only brand that touched individuals... tens of millions of people. For all these reasons, the idea that we would divest the PC business was, for many – pardon the pun – unthinkable.

Yet, we knew that the emerging computing model would only accelerate the commoditization of the PC industry. And that's not where we wanted to be. Part of continually moving to the future is moving to where value will be greatest – and profits will be highest. It's why IBMers shaped a value that reads, "Innovation that matters – for our company and for the world."

Given the continual flow of technological process, forward motion is the only way for a tech company to stay out of commodity hell.

So we decided our PC business would have a better future in the hands of another company, which turned out to be Lenovo.

The point is... that decision, which could have caused a rift inside the company, was instead embraced – not merely on the basis of economics and strategy... but because it was consistent with our values.

We are innovators. In 1981 the PC was an innovation. Twenty years later it had lost much of its differentiation. It was time to move on – to the future.

Of course, every great company holds unique beliefs. But translating those beliefs into action... that is what separates the company from all others, and that is what keeps those beliefs alive. And that translation happens not in the realm of strategies or process... but of culture.

In this light, IBM's history can be seen as a century-long journey to create – and continually recreate – a culture.

Indeed, this was arguably Thomas Watson Sr's most enduring contribution to the world -- the notion that an organization can – and must – undertake the intentional creation of a culture based on its beliefs or values.

We have spent 100 years seeking to remain faithful to what makes us... us. Even when technologies shift. Even when the global economy moves to a fundamentally different basis. Through multiple generations of products, markets and people.

For most companies, their culture is an extension of the organization's founder – his or her beliefs, actions, decisions, personality. Which is why we see such interest in the charismatic, superstar leader. Without question, the cult of personality in business is a powerful lure. The press cultivates it. The Street trades on it. Some employees crave it. Thomas Watson Sr. himself was one of its prototypes.

But what happens when the founder is no longer around? The challenge becomes how to perpetuate a culture through time. That's hard.

For a century? That's really hard.

It's about how you bottle up what makes any organization distinctive – what makes Walmart Walmart... what makes Apple Apple – or for that matter, what makes HEC HEC.

As Tom Watson said in 1962, we need to do this if our organizations – whether in business, government, academia or anywhere – are, in his words, “to meet the challenges of a changing world.”

Let me offer some thoughts on two of those challenges that we face today – two forces that will drive change in the world for the foreseeable future: technology... and the rebalancing of economies.

First, the future of technology – and its implications for today's leaders.

Over the course of the last century, information technology has gone from a set of tools... to an industry... to a science... to a pervasive aspect of the modern world. It has therefore become something that every leader must master. And I don't mean learning how to tweet or use an iPad.

I/T today isn't just a back-office engine or a never-ending flow of consumer gadgets.

- Technology is the way we now see the world – including those dimensions invisible to the human eye.
- It's how we map and understand the dynamics of the world's complex systems.
- And it is increasingly how we decide on the best course of action – and put it into effect.

Indeed, this technology now pervades every aspect of the way our world works – the systems and processes that enable services to be delivered... physical goods to be developed, manufactured and sold... everything from people and freight to oil, water and electrons to move... and billions of people to work and live.

Today, there are nearly a billion transistors per human, and each one costs one ten-millionth of a cent. There are 4 billion mobile phone subscribers, and 30 billion Radio Frequency Identification tags produced globally. These sensors and devices give us, for the first time ever, real-time instrumentation of a wide range of the world's systems – natural and man-made. The planet isn't just instrumented... it's also interconnected.

Today there are two billion people on the Internet – but systems and objects can now “speak” to one another, too. This is what some call the Internet of Things. Think about the prospect of a trillion connected and instrumented objects – cars, cameras, roadways, pipelines... even livestock and pharmaceuticals.

All of this is creating vast amounts of data. And through advanced analytics and ever more powerful supercomputers, we can turn that data into insight.

All over the world, we see forward-thinking leaders who are mastering these new capabilities. They're applying all that intelligence to make systems, processes and infrastructures more efficient, more productive and responsive.

- Police Commissioner Ray Kelly is using data to fight crime in New York City.
- Stockholm transit head Gunnar Söderholm is deploying smarter traffic solutions for Sweden's capital.
- Social services director Don Edwards is applying analytics to improve services for the citizens of Alameda County, California.

You miss this if you see technology merely as a succession of gadgets, websites and "next big things." It's much more. It's the way our world works.

And therefore today's leaders – those who want to keep moving to the future – have an obligation to understand it – not its mechanics, but its implications – and to incorporate it into how they build their organization – not just processes, but culture.

The next trend I want to highlight is the future of global integration.

It's well understood that an economic global re-balancing is now underway. This is not just about the world becoming smaller and flatter. It's also understood that global integration will continue to create new economic opportunity – most importantly though hundreds of millions of people around the world entering the middle class. They are becoming consumers and entrepreneurs... and this is a macro-economic fact of historic proportions.

But the implications for leaders of organizations go beyond looking to emerging markets for growth or productivity gains.

This shift is also changing how we work... and it will force us once again to reset our world view – and how organizations see their role in that world.

Because we believed that this shift was inevitable, we transformed IBM over the past decade. We changed from the 20th century "multinational" model – where companies created mini-versions of themselves in country after country, in order to be able to operate amid the crazy quilt of international trade and regulatory barriers. Instead, we are moving to something new... and far more systemic – what we call a globally integrated enterprise. It's not only changing the market opportunities we pursue... but also the way we work and run the company – from sales and marketing to HR and research.

For example, we have significantly lowered our operational center of gravity. I'm not talking about '80s-style "horizontal" management structures and reporting lines.

It's about where you locate expertise and decision-making – not concentrated in corporate headquarters, but globally networked. And it's also about where you integrate your company – for us, at the point of client interaction.

We have also changed our understanding of the skills, relationships and responsibilities that IBMers must assume to make this globally integrated model work.

Let me give one example that encompasses all these shifts, in the area of leadership development. In my day, you prepared future leaders of a multinational through “overseas assignments” – typically for two years, and typically in mature markets. I did this myself, living in Japan for a couple of years. As a management development system, it was expensive, and limited in scope to a handful of executives.

But in a world where growth is increasingly coming from the emerging markets... and where IBM’s global engagement is far wider and closer to the ground than in the past... those old multinational approaches no longer work.

We need to create a whole generation of global professionals and global citizens... and the model of overseas assignments won’t scale to that.

So, three years ago, we launched an experiment we call the Corporate Service Corps. It’s not modeled on earlier forms of executive training... but on the Peace Corps.

It puts together diverse teams of high-potential IBMers from around the world... and sends them for a month to communities and cities in emerging markets such as Ghana, the Philippines, Turkey and Vietnam. They work in communities with NGOs and local leaders to jump-start their economies... and to make their cities smarter. And when they come back, they spread what they have learned to their colleagues through social media.

The results have been highly encouraging. Not only can we provide this experience to far more IBMers – thousands rather than dozens – but these targeted interventions are having a transformative impact... both on local communities and on the IBMers themselves. Most say it is one of the most meaningful experiences of their lives.

And oh, by the way... it is also helping us to gather invaluable learning about the reality on the ground in these emerging markets. It’s strengthening IBM’s societal relationships. And it is surfacing profitable new business opportunities.

The world has been going global for centuries... but that will mean very different things in the 21st century than it meant in the 19th or 20th. To be a leader in the future will mean thinking globally... and not only about geography.

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Put it all together, and what does IBM’s history teach us?

I would suggest that its lesson is this: If you want long-term success, you have to manage for the long term.

Of course, everyone pays lip service to that, but if you take it seriously – if you make long-term thinking a management approach – then it produces some clearly identifiable behaviors and choices.

It determines how and where you invest and allocate resources. It takes a kind of institutional patience to invest in R&D. The payoff, if it ever comes, can take years.

It shapes your view of talent development. To develop talent that can lead the enterprise generation after generation takes money, time and patience.

And this is not just about people at the top – it's about developing future leaders broadly and deeply throughout the organization.

It shapes the way you see your company's role in its industry, and in society.

From its inception, IBM has been an advocate for social progress... and we have made that real through progressive workforce policies.

- We hired our first disabled employee in 1914.
- We established equal pay for equal work for women in the 1930s.
- We put out an equal opportunity policy in 1954, 11 years before the U.S. Civil Rights Act.
- And in 2005, we became the first company to put genetic information off-limits in employment-related decisions.

Finally, managing for the long term also tells you how and when to take decisive action. It's not a mindset of "slow and steady" or being risk-averse.

On the contrary... building for the long term is not for the faint-hearted. It often compels the enterprise to act when that isn't obvious... to place bets that seem risky in the near term... and to combat corporate inertia when times are good.

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The constant in all this is what the enterprise values and believes. And to keep that front of mind, the CEO has to set the pace.

For me, I come to work every day with the mindset that IBM will outlive me... and with a determination that I and my colleagues will pass on to future generations of IBMers... and to the world... a better IBM than the one we inherited. In fact, one thing that leading a company like IBM teaches you is not to see yourself as a "captain of industry"... but as the temporary steward of a great enterprise.

The measure of any entity – any business, government, university or other institution – is ultimately: what was its impact? How is the world different because it existed?

I admit to bias, but I believe the past century has been better because of IBM... and I am confident that the next one will be, too.

I also like to think that we will still show up near the top of the Fortune 500 for the year 2061... and 2111. And I believe that IBM's history offers all of us – and not just IBM shareholders and employees – reason for hope.

It's an object lesson in the hard work of progress. And goodness knows, there is need for such hope today.

Despite the litany of challenges we face, I believe that the forward-thinking individuals, communities, companies and countries of the world can build a smarter, more secure and more sustainable planet.

I hope you share my excitement about the opportunity before all of us.

Thank you.