Gerstner: Changing Culture at IBM - Lou Gerstner Discusses Changing the Culture at IBM

IBM was in deep trouble when Louis V. Gerstner came on board as chairman and CEO almost a decade ago. But as he told MBA students at Harvard Business School, he wasn't the only one responsible for the change: He had lots of help on the inside.

by Martha Lagace, HBS Working Knowledge

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Every confident man is shaken up at least once in a while, and for Louis V. Gerstner it happened on one of his early days at IBM.

Three weeks into his job as the newly installed chairman and CEO in 1993, Gerstner was presiding over his first meeting at the company on the topic of strategy. Everyone in the room was actively sharing ideas. "After eight hours I didn't understand a thing," Gerstner recalled recently, in a talk for MBA students at HBS. "I was very depressed."

Discussion at that IBM meeting, he said, seemed to be conducted in almost a private company code, like another language. Gerstner was not hearing the dispassionate, cost-driven analysis that he had been hoping for. The meeting, however, was a pivotal one for him at IBM, because it made him realize what he was up against in his charge to restore the once-great company to health. For just a little while after that meeting, he admitted to the students, he began to doubt his decision to join the company: as he put it with a smile, gripping the podium with both hands, "Sometimes I thought I bought the ranch."

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| **— Louis V. Gerstner, Jr** |

He didn't, but it may have looked that way at the time.

If a company is "a bag of bones," according to Gerstner (HBS MBA '65), then undertaking a massive overhaul should be no big deal. After all, such a company has nothing left to lose.

But if a company is, say, a once-mighty behemoth like IBM was in 1993, a former pacesetter in its field with a sterling reputation that was slowly fading into history, then change can be excruciating: Even—or perhaps especially—when everyone at the company knows the organization has to change or die. By the early 1990s, IBM—300,000 employees strong—was losing billions of dollars.

"Transformation of an enterprise begins with a sense of crisis or urgency," he told the students. "No institution will go through fundamental change unless it believes it is in deep trouble and needs to do something different to survive."

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In his talk on November 20, titled "IBM's Transformation," he made clear that he did not see himself as the white knight in IBM's subsequent transition and return to viability. He had the advantage of being an outsider when he joined the company after working at McKinsey & Co., American Express Company, and RJR Nabisco. Beyond that, however, change came to IBM in large part due to the pride and energy of the employees themselves, he said.

His role was to kick-start the process: As an outsider, they let him.

"People at IBM were very smart. I didn't have to [look] outside; I had to find the people already there" who were ready to turn things around, he said. "So I didn't need a lot of outsiders. I just needed a few."

Culture is king   
These days, Gerstner sees the basis of IBM's subsequent transformation as wholly cultural. When he joined, however, it was not at all clear where the problem lay. In his first three months on the job, he didn't spend "an hour" thinking about culture, although he learned a lot about it without trying. There was the IBM culture of crisp white shirts, the culture of hordes of administrative assistants, and the culture, most debilitating, of the individual with a capital "I," of me-first for every employee.

"IBM's extraordinary success in the '60s and '70s was built on one of the most dynamic sales cultures in the world," he said. In his various roles before joining IBM, he was often a customer for the famously dynamic IBM salespeople. "They were very good, very relentless, very focused. And very individualistic."

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That kind of individualism and decentralization had served Big Blue well for many years, but by the 1980s and early 1990s it was no longer tenable. He saw that the company needed to come together to survive.

"We needed to integrate as a team inside the company so that we could integrate for the customers on their premises. It flew in the face of what everybody did in their careers before I arrived there. It meant that we would share technical plans, we would move toward common technical standards and plans, we would not have individual transfer pricing between every product so that everybody could get their little piece of the customers' money," he said.

Very few companies in the world today can afford to indulge in unique systems for every office branch, he said.

Most managers in corporate life these days fixate on strategy as their way of envisioning company transformation, Gerstner said. Strategy work by itself, though "terribly important," is not enough to save a dying company. "You don't 'win' with strategy," he said. "Everybody's strategy in industry is fairly similar. There's no way to create a unique strategy. You can have a good one, but you can expect that your competitors are going to emulate it every day."

Customers want solutions   
Under Gerstner, IBM's new strategy was to use processes and culture to regain advantage. Moving from proprietary standards to open standards, for example, was important to IBM's new strategy, and the ramifications for processes and culture were enormous. Using IBM's technological finesse to make solutions for customers in addition to just creating fancy technology was also a key to its new strategy. Customers wanted solutions, he said. They didn't want to know what their equipment ran on.

"In our case we were able to define a strategic path that made sense," he said, adding that the strategic path was not altogether different from what some people at IBM had been espousing before he arrived. But now a united culture gave IBM's strategy the speed and effectiveness that was missing before. The Internet was certainly a galvanizing force, too. The company has spent $800 million per year for the last nine years on process transformation, he said, and it is now transforming the process systems once again to make them all network-enabled.

Underneath all the sophisticated processes, Gerstner concluded, there is always the company's sense of values and identity.

"It took me to age fifty-five to figure that out. I always viewed culture as one of those things you talked about, like marketing and advertising. It was one of the tools that a manager had at his or her disposal when you think about an enterprise."

He added, "The thing I have learned at IBM is that culture is everything."

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Gerstner stepped down as CEO of IBM in March 2002. At the end of this year, he will vacate his post as chairman. He has recently published a memoir, Who Says Elephants Can't Dance? Inside IBM's Historic Turnaround (HarperBusiness 2002).