



Who Says Elephants Can't Dance

Louis V. Gerstner played the knight in the shining armor when he took over IBM, the world leader in providing services and solutions in advanced technology. It was in 1993 that Gerstner took up the challenging task of rebuilding the “elephant” of the corporate world. IBM was sclerotic, senile, and hemorrhaging when Gerstner started the Herculean task of cleaning the Aegean stables.

The company reported a loss of \$8 billion dollars with the share value plummeting from a decent \$43 to a heartbreaking \$12. Economists and experts hardly expected IBM to survive. Competitors like Oracle publicly commented, “IBM? It’s not dead, it’s become irrelevant.” One instance caused Gerstner to give the IBM offer a second thought. He almost declined the offer since he felt that he lacked the degree of technical competence needed to take on the sick giant. However, while working on the turnaround assignment, Gerstner realized that technical competence had little relevance. He would base most of his strategies on his experience as an IBM customer.

Gerstner at work:

The turnaround process began with a thorough analysis of customer profiles and needs. The mainframe business that accounted for more than 90% of IBM’s business was deteriorating. What troubled Gerstner was that mainframes are indispensable in businesses like credit cards and airlines. A business that involves huge data processing cannot rely on PCs. They need mainframes for this. Hence, it was the price and not the product that mattered. Gerstner recommended a price-reduction plan, which he thought was most essential to remain competitive. Until then, the company had maintained a very shortsighted view advocating that with lowered prices it would gather less profit and revenue.

The next issue was keeping IBM intact. As opposed to the views of many top management officials who were contemplating the division of IBM into smaller, supposedly manageable units, Gerstner maintained his stand. He was convinced that it wasn’t wise to divide the company into units. From a customer’s point of view, he felt it would be highly cumbersome to go through a plethora of suppliers and zero in on one. Gerstner believed that customers preferred a one-stop shop that offered all services at one door. “At the end of the day, in every industry there is an integrator,” affirms Gerstner.

Culturing culture:

Having worked on the external customer’s perspective, it was now time for Gerstner to stimulate the turnaround internally. The culture at IBM posed the toughest challenge in the effort. When Gerstner took up the assignment, he found himself adrift in a company that had an unclear culture. Employees were not sure whether it was their teamwork or their individual aspirations that sought top management’s appreciation. Also, employees were apprehensive about issues like risk taking, consensus building, and corporate protocol.

Another striking feature that figured on the “culture” list of IBM was the dress code. In one of his first meetings at IBM, Gerstner observed that all members were in stark white-collared shirts except him. He introduced flexibility in dress, giving employees the freedom to wear what made them most comfortable provided they adhered to decency. Gerstner viewed the dress code as an outward manifestation of severe internal problems that defined the IBM culture. The company was obsessed with internal rules and conflicts, each one trying to be one-upping over the other. Unhealthy competition among teams led to lost productivity. They spent more time debating transfer-pricing terms than incorporating a smooth product transfer system for employees.

He also observed a great amount of jealousy among employees, each one fiercely protecting his own privileges. Another shocking discovery was that the employees stationed in the European continent received only selected communication from Gerstner. Reason: the IBM head in Europe intercepted his e-mails. Gerstner confronted him and clarified that employees were not his personal property, they belonged to IBM.

Gerstner also worked on the “we are the best” attitude that employees reflected despite its faltering health. He attributed the attitude to the fact that IBM software was compatible only with IBM hardware. Customers were thus compelled to buy IBM products. However, with increased competition, there are better bargains that customers can get without having to rely on IBM. Gerstner facilitated the process of setting standards that would be compatible with competitor’s products. Thereby business opportunities would increase. This called for a sea change in the traditional IBM setup. Gerstner achieved it by opening channels of communication and sending regular e-mails to employees across the globe keeping them abreast of the change process.

The compensation system was also revamped. The focus shifted to total corporate performance from unit performance. The criterion for picking up promotions was also reworked. Those in senior management at IBM were more accustomed to getting work done, than getting to work. Gerstner changed this too.

What a Change!

Gerstner has retired. However, the time between his takeover and retirement saw many things change. Gerstner left IBM with 65,000 more employees than when he had joined. IBM is back on its feet, recording a profit of \$8 billion. Gerstner sports an unmistakable pride when he talks about the turnaround process in his book “Who says elephants can’t dance?” Justifiable beyond doubt, since he has been the triumphant elephant trainer!

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