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THE WORLD BANK

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The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

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Meeting: IBM Executives and
World Bank Vice Presidents
(Change Management Information Sharing Session)

Thursday, April 17, 1997
2:30 - 5:30 p.m.
T-9-065

The World Bank Group
Archives



30487497

Other #: Box #:

President Wolfensohn - Briefings Books for Presidents Meetings - Meeting Materials
International Business Machines [IBM] Executives and World Bank Vice Presidents

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A. CLASSIFICATION

☒ Meeting Material
☐ Trips
☐ Speeches

☐ Annual Meetings
☐ Corporate Management
☐ Communications with Staff

☐ Phone Logs
☐ Calendar
☐ Press Clippings/Photos

☐ JDW Transcripts
☐ Social Events
☐ Other

B. SUBJECT: MEETING: IBM EXECUTIVES & WB VICE PRESIDENTS -
CHANGE MANAGEMENT INFORMATION SHARING SESSION (B) (N)
VENUE: T BUILDING - T-9-065
CONTACT: NGOZI @ 32888
IN ATTENDANCE: JDW, J.D. GERBER (DEAN, BOARD), EXCOM MEMBERS,
VICE PRESIDENTS, F. WRIGHT (STAFF ASSOCIATION), HANY, CAROLINE,
MARISELA
IBM EXECUTIVES ATTENDING: (5)
MR. KEN THORNTON, GENERAL MANAGER FOR THE GLOBAL GOVERNMENT
INDUSTRY
MR. JOHN CHERBINI, VICE PRESIDENT, GLOBAL GOV'T. IND. CONSULTING
MR. JOHN KIRBY, VICE PRESIDENT, CUSTOMER SATISFACTION AND
QUALITY
MS. LYNNE LAWSON, PRINCIPAL CHANGE MANAGEMENT CONSULTANT
MS. SHARON LUTHER, CLIENT MANAGER
(B) NGOZI OKONJO-IWEALA // DUE: MONDAY, APRIL 14
(B) SPEAKING POINTS: CAROLINE ANSTEY
EXC: MM // ALI (4/10)

DATE: 04/17/97

Brief Includes Letter to Mr. Wolfensohn from Ngozi Okonjo-Iweala dated
April 11, 1997 "Information Sharing Session on IBM Renewal Program Briefing
Note"

with tabs:

- Session Briefing Note
- Agenda
- Bios

- Press Articles on IBM Renewal

IBM Booklet "Strengthening Leadership at IBM - An Assessment Handbook for
Executives" and Brochure "Leadership Makes a Difference at IBM"

C. VPU

Corporate

☐ CTR
☐ EXT
☐ LEG
☐ MPS
☐ OED
☐ SEC/Board
☐ TRE

Regional

☐ AFR
☐ EAP
☐ ECA
☐ LAC
☐ MNA
☐ SAS

Central

☐ CFS
☐ DEC
☐ ESD
☐ FPD
☐ FPR
☐ HRO

Affiliates

☐ GEF
☐ ICSID
☐ IFC
☐ Inspection Panel
☐ Kennedy Center
☐ MIGA

D. EXTERNAL PARTNER

☐	IMF
☐	UN
☐	MDB/Other IO
☐	NGO
☐	Private Sector

☐	Part I
☐	Part II
☐	Other

E. COMMENTS:

File Location ☐ EXC ☐ ISC ☒ Archives	Cleared By	Date: 04/21/97
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IBM Leadership Model

Today our growth strategies are in place. We have the experience and resources to gain world leadership in network-centric computing. But we won't succeed without improving our ability to execute.

Your leadership can make the difference at IBM. Outstanding leadership at IBM is the ability to make things happen with speed, simplicity, and teamwork. Your ability to execute will determine your success as a leader in IBM.

You should ask:

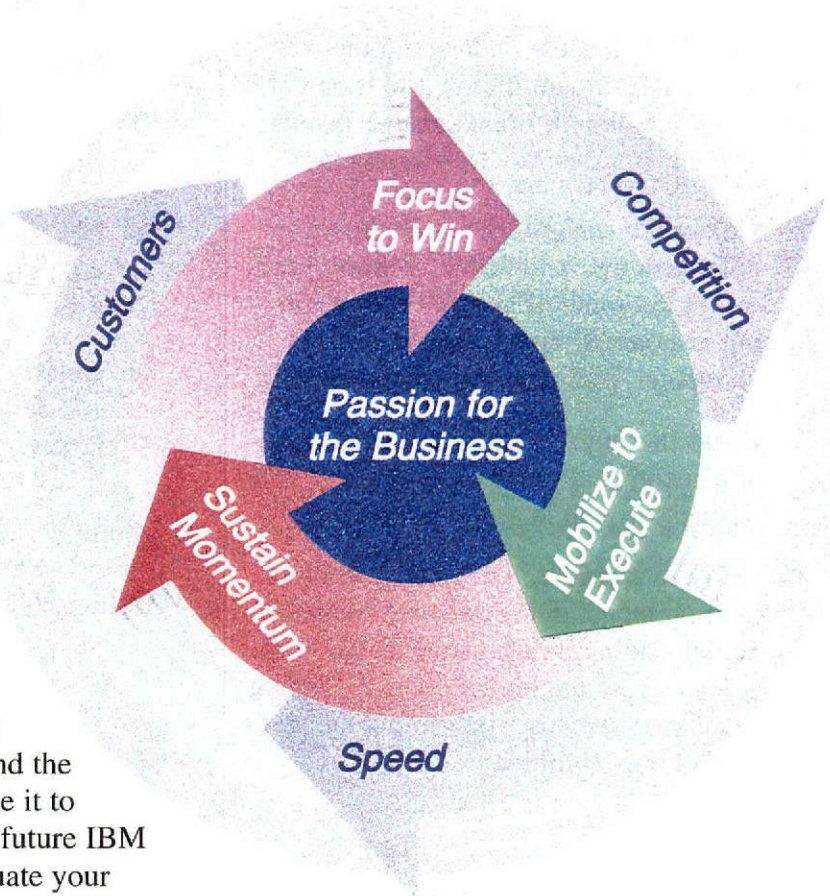
- What are my strengths and weaknesses as a leader?
- How can I change my behavior in order to improve?
- What can I do to help broaden the leadership group at IBM?

To help you succeed, we have identified strengths of some of IBM's best leaders - those who execute well. The result of this study is the IBM Leadership Model.

You can use this model to help chart your own development and the development of your team. Use it to understand what's expected of future IBM leaders. We will use it to evaluate your ability to execute effectively.

The IBM Leadership Model is organized into four clusters of excellence:

1. *Focus to Win*
2. *Mobilize to Execute*
3. *Sustain Momentum*
4. *Passion for the Business*





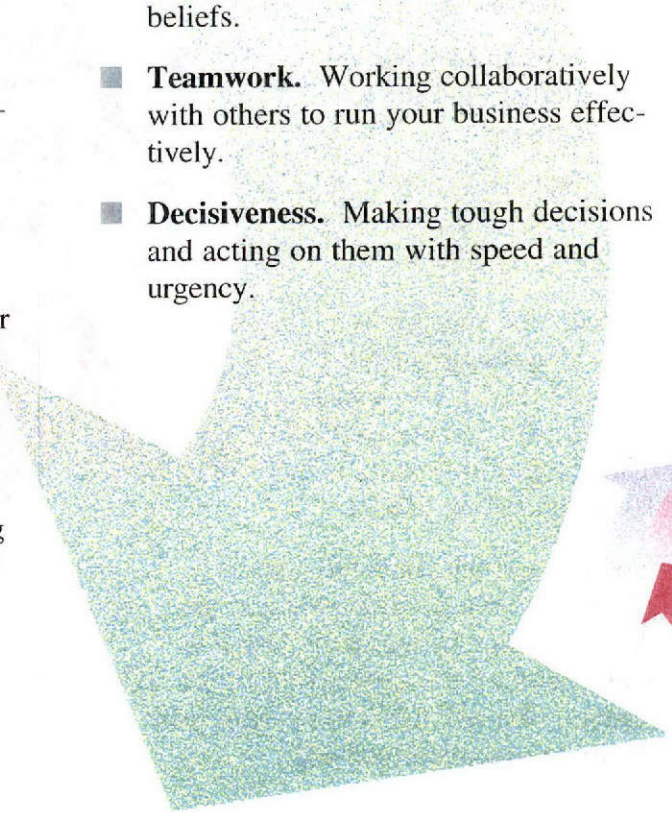
Focus to win

The best IBM leaders understand their business environment moment to moment, and set strategies for breakthrough results. Three competencies key to winning are:

- **Customer Insight.** Understanding your customer's industry. Putting yourself in the mind of your customer, seeing customers' businesses from their viewpoint, and anticipating their needs.
- **Breakthrough Thinking.** Generating new insights about how to position your business to win in the marketplace.
- **Drive to Achieve.** Making continuous improvements in the existing business model - doing things faster, better, and at lower cost and higher quality. Taking calculated business risks to pursue new market opportunities.

Mobilize to Execute

Focusing on winning isn't enough. Our greatest leadership challenge is to execute. Successful leaders demonstrate four key competencies that allow them to implement with speed and flexibility:

- **Team Leadership.** Focusing your organization on winning strategies through skillful influence and action with impact.
 - **Straight Talk.** Telling the truth, even when it's unwelcome. Acting with integrity that is consistent with your beliefs.
 - **Teamwork.** Working collaboratively with others to run your business effectively.
 - **Decisiveness.** Making tough decisions and acting on them with speed and urgency.
- 



Sustain Momentum

IBM's best leaders use these **qualities** to obtain lasting results that continue to grow. They sustain momentum by applying three key competencies:

- **Building Organizational Capability.** Getting the right people, systems and procedures, and aligning them with business strategies.
 - **Developing Talent.** Helping others grow and develop to win, not just today, but also in the future.
 - **Personal Dedication.** Aligning your personal needs and priorities with the greater good of IBM, not its individual businesses.
- 

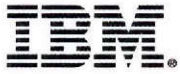
Passion for the Business

The best IBM leaders are passionate about their business and winning in the marketplace. They are excited about what IBM technology and services can do for the world. They are enthusiastic about how we serve our customers and win over competition. They embrace IBM's purpose to move at the speed that customers expect, providing them with leading-edge networks and technology. And they want to "*get it right.*" This passion for the business and for winning is at the core of IBM's Leadership Model.

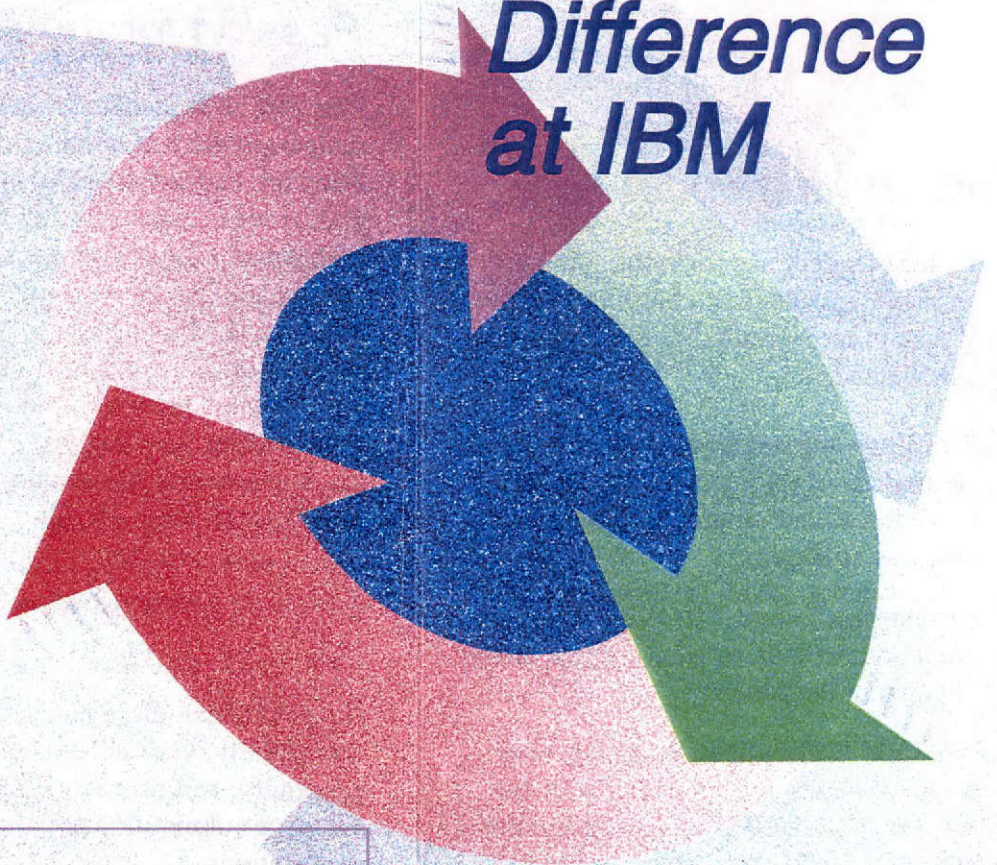


If you practice these leadership competencies consistently, you will execute with the speed, simplicity, and teamwork needed to keep ahead of competition and exceed customer expectations.

Your leadership can make the difference at IBM and help our customers make a better world.



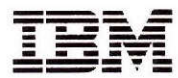
Leadership Makes a Difference at IBM



For more information about the IBM Leadership Model, please get in touch with your executive resources contact in Human Resources.



GM04-0403-00



Strengthening Leadership at IBM

*An Assessment Handbook
for Executives*

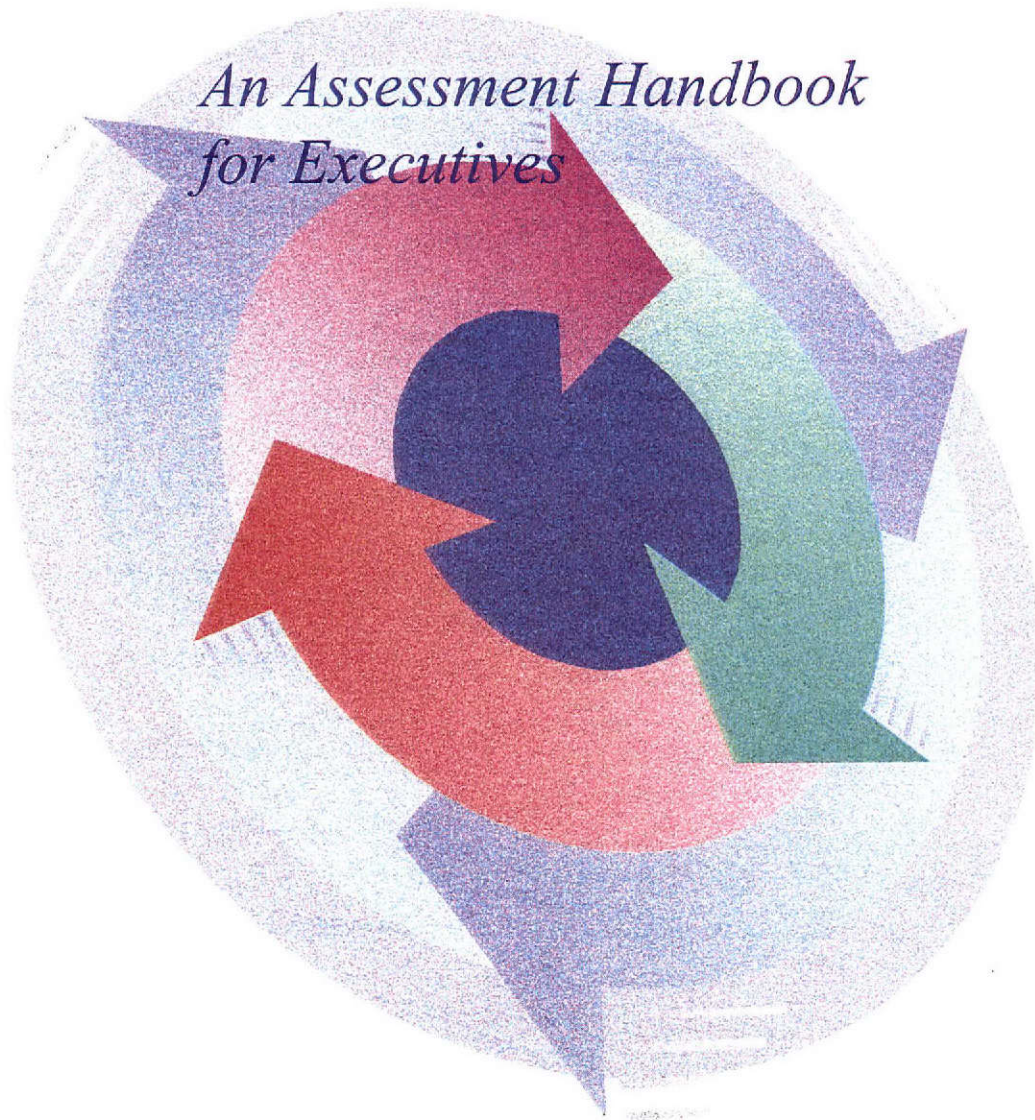


Table of Contents

About this Handbook	2
Leadership Overview	3
The IBM Leadership Competencies Described	9
Customer Insight	10
Breakthrough Thinking	12
Drive to Achieve	14
Team Leadership	16
Straight Talk	18
Teamwork	20
Decisiveness	22
Building Organizational Capability	24
Developing Talent	26
Personal Dedication	28
Passion for the Business	30
Leadership Competency Assessment Form	32

About This Handbook

How to use this Handbook

IBM has conducted extensive research into the behaviors, or competencies, that drive business leadership success at IBM.

This handbook is designed to help you understand the IBM Leadership Model. It sets a benchmark for the traits our leaders need to be successful in IBM, and will help you identify individual strengths and areas needing improvement. Use it as you create your own development plan and in professional growth discussions you have with your direct reports and other individuals you are developing for future leadership roles. Also refer to it as you prepare profiles for the annual Organization and Executive Resources Plan review.

What is in this Handbook

The next section briefly describes the IBM Leadership Model. It shows how the eleven competencies fit into four categories of leadership.

The second section describes each individual competency in detail. Included for each competency are:

- A continuum showing the range of behaviors for the competency, from “needs development” to “extraordinary strength.”
- Tips on how to apply the competencies to managers and professionals.
- A list of suggested developmental activities to strengthen one’s level of competency.

The last section includes a form for use when assessing individuals on the competencies.

It is impossible to list every behavior that might fall under each competency. Use the examples provided in the pages that follow to guide your thinking, and apply good judgment.

Leadership Overview

What successful leadership looks like at IBM

Outstanding leadership at IBM is the ability to execute with the speed, simplicity, and teamwork needed to keep ahead of competition and exceed customer expectations.

Successful leaders at IBM excel in four key areas. They *Focus to Win*, *Mobilize to Execute*, *Sustain Momentum*, and display *Passion for the Business*.

Focus to Win:

Understanding the business environment moment to moment and setting strategies for breakthrough results.

Mobilize to Execute:

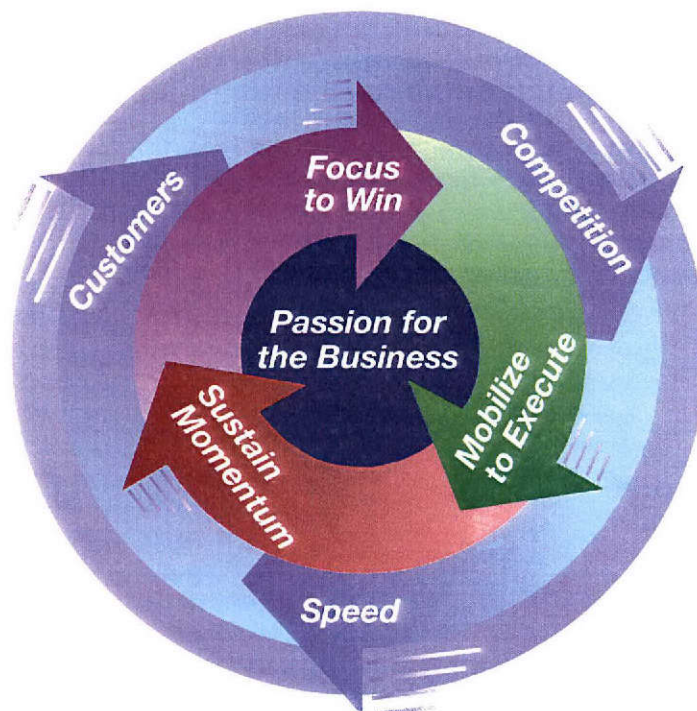
Implementing with speed, flexibility, and teamwork.

Sustain Momentum:

Obtaining lasting results that continue to grow.

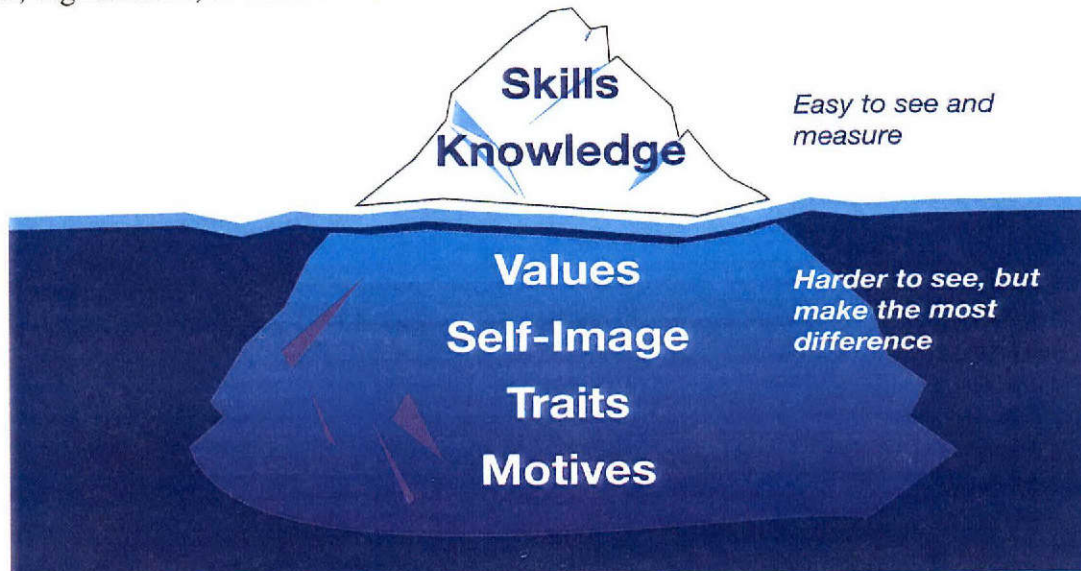
Passion for the Business:

Being excited about what IBM technology and services can do for the world. This passion for the business and winning in the marketplace is at the core of IBM's Leadership Model.



What a Competency is

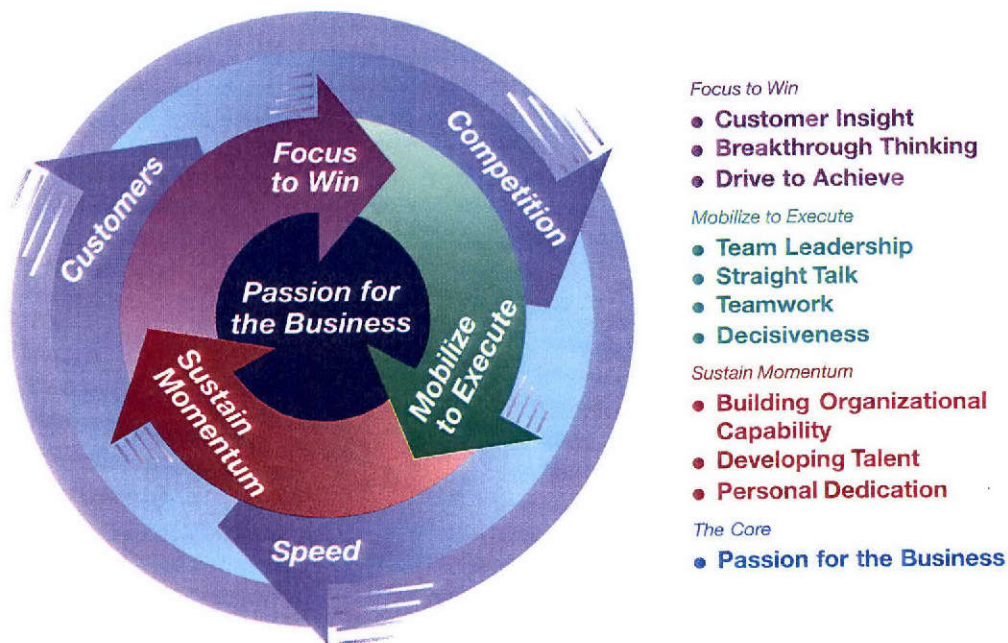
A competency is any demonstrated characteristic or behavior of a person that differentiates outstanding performance from more typical performance in a given job, role, organization, or culture.



Source: Hay/McBer

How successful IBM leaders behave

The four broad categories of leadership are broken into more specific “competencies” or sets of behaviors. There are eleven such competencies, as shown below:



Each of these competencies is explained in more detail in the remaining pages of this handbook.

Our most successful leaders have strengths in all four leadership categories.

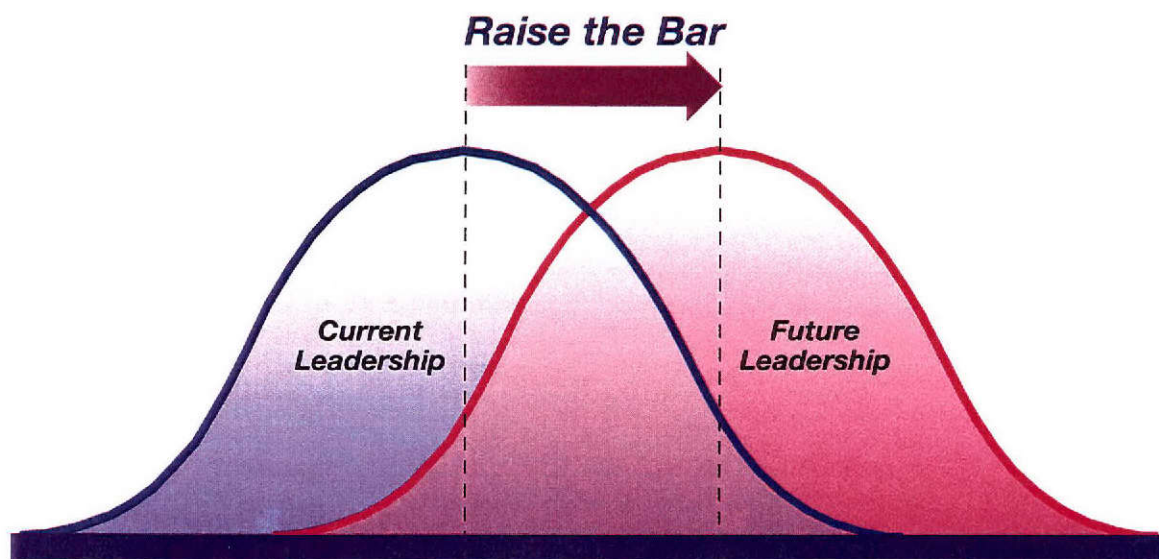
People who show strength in the competencies in one area, e.g., Focus to Win, without demonstrating strength in other areas are less likely to experience leadership success, in the long-term, than people who demonstrate competence in most areas. It is especially important to have some strength in the Mobilize to Execute area in order to execute well with teamwork and speed.

Do not expect, however, to excel at every competency. There is more than one way to be successful. The goal is to have strengths in each leadership area.

The Leadership Model links to the strategic direction of IBM.

The model focuses on leadership going forward at IBM. The competencies identified in this model are those that distinguish outstanding leadership at IBM. Some competencies are not highlighted in the model because senior leaders in IBM are expected to have them, e.g., self-confidence, analytical capability, technical/functional expertise, and basic communication and influence skills.

Technical/functional excellence is a core piece of successful leadership at IBM. Without a deep understanding and solid reputation for mastery of the technical “how to’s” in one’s function, the importance of the leadership competencies becomes irrelevant.



How to assess employees on the competencies

As you assess your direct reports or yourself on the leadership competencies, measure each individual's leadership against the high standard expected at IBM, and consider how his/her leadership is viewed across the organization. Use the following definitions to help *guide* your thinking in determining an individual's strengths and weaknesses. Keep in mind that everybody has something that needs to improve. We need to identify our leadership weaknesses and put plans in place to raise our performance.

Extraordinary Strength: The level of performance this individual shows is considered the benchmark or "gold standard." There is complete consensus that this individual has an Extraordinary Strength in this competency. This person could be referenced as a role model when coaching others on how to improve this competency.

Strength: The level of performance is widely recognized as significantly "above the high standard for IBM" and demonstrates solid expertise and consistent strength.

Demonstrated Competence: There is consensus that the level of performance this individual shows is at our high standard for IBM = demonstrated, strong and effective.

Needs Development: There is consensus that the performance of this individual in this competence does not yet meet IBM's high standard. As a result, the individual may be experiencing difficulties in the current job. It raises questions about whether the individual can grow into a job where this competency is required. A development plan should be implemented to raise this individual's competency up to our high standard, or even higher, in the future.

The four levels of leadership described above apply when a person has had the opportunity to demonstrate a competency. If that is not the case, the following assessment applies:

Needs Demonstration: There has not been an opportunity to observe this person's performance in this competency. A project, a task force assignment, or a new job assignment will be needed to test this competency. There is no reason to believe this competency won't be demonstrated when the opportunity arises.

Two Final Notes of Importance

1. Adjust the model for managers or professionals in varying levels of the organization.

The leadership model and its definitions relate directly to senior executives who run large businesses or divisions at IBM. The model can also be applied to managers and professionals, however, the competency descriptions should be adjusted to reflect the appropriate and more specific scope of responsibility.

The following examples show how these adjustments might be made:

Drive to Achieve might focus on how well you set goals for yourself or your team rather than how well you set challenging goals for your organization.

Customer Insight might reflect how well you respond to a particular customer need rather than how well you spend time in the market understanding unmet needs of a group of customers.

Building Organizational Capability might refer to getting the right people in the right places or changing communication and decision-making processes rather than changing or creating entire organizational systems.

Use your judgment to make these determinations. In this handbook, you will find a few examples to guide your thinking.

2. Adjust the behaviors in the model for individuals working in different cultures.

As you evaluate an individual's leadership it is important to recognize cultural differences in customs, language and appropriate interpersonal behaviors. What is acceptable practice in one country can be very different in another. You should be mindful of these differences as you assess people.

***The IBM
Leadership Competencies
Described***

Customer Insight

Outstanding IBM executives put themselves in the mind of the customer and see the customer's needs and businesses from the customer's point of view. These executives focus on the unexpressed or future needs of the customer. Executives having Customer Insight go beyond IBM's exemplary responsiveness to customer complaints or problems. They don't just try to sell IBM products and services. They spend time with customers and others in the marketplace to understand the underlying, unmet needs that technology and services can address. Based on this understanding, these executives focus on *new* business opportunities by finding a product or service that is quickly recognized as valuable to the customer.

Extraordinary Strength

Needs Development



Has deep understanding of underlying customer needs and exceeds customer needs and expectations

Is responsive, not proactive

Indicators of the Higher Levels of Customer Insight

Extraordinary Strength: Gets inside the customer's mind; understands a customer's unexpressed business needs and finds ways to meet them.

- Continually seeks information about customer's underlying or future needs
- Understands customers well enough to describe their business from their point of view, not IBM's
- Comes up with new approaches to meet the needs of a customer
- Learns about the marketplace to understand the underlying, unmet needs of customers
- Helps IBM customers serve *their* customers better

Strength: Cooperates with others across the organization to serve the customer.

- Works with other departments to provide the best solution for the customer
- Collaborates outside of one's own business segment to develop the best product or service for the customer, without regard for personal credit or measurements
- Sets aside organizational or personal differences with others in various departments to work together to serve the customer

Demonstrated Competence: Is responsive to customers and gets others to focus on adding value for customers.

- Helps others make decisions based on value-add for the customer
- Demonstrates to others that customer satisfaction is first priority
- Teaches others about a customer's marketplace and needs

Indicators of the Lower Level of Customer Insight

Needs Development: Is responsive to customer requests, but is not proactive in identifying underlying needs.

- Takes personal responsibility for resolving customer issues
- Ensures the customer's immediate needs or complaints are satisfied
- Corrects customer problems but does not anticipate future concerns or issues
- Provides the products and services requested by the customer

Indicators of Competency for Managers and Professionals

Emphasis is placed on gaining insight into the minds of specific customers rather than customer market segments on a broader scope.

Development Activities to Strengthen Customer Insight

- Investigate your clients' customers, study *their* needs, and think through how these customers drive your own clients needs and requests.
- Hold and attend focus groups with your best and worst customers to discuss emerging needs and how these needs are being met.
- Talk to the customers in your market, or an emerging market niche, about their business challenges.
- Study innovations from customers and their competitors to discover opportunities to assist or develop technologies or services that better serve the customer.
- Discuss customer service in every staff meeting.
- Look "outside in," not "inside out." Look at things from your customer's viewpoint. In developing business plans, ask yourself, "What does this contribute to meeting customer needs?"
- Ask customer groups to describe what they expect or want their business to be in five years and ten years into the future.

Breakthrough Thinking

Outstanding IBM executives think strategically about IBM in the marketplace and the world. They provide new insights to their peers and associates about how IBM can win in the marketplace. Executives who demonstrate Breakthrough Thinking are very good at spotting industry and market trends. They see new opportunities or new market niches that aren't obvious to others, such as using a mainframe as a server or seeing the power of the internet for business. Outstanding executives actually reconceptualize parts of their business in order to reposition IBM favorably in the marketplace. For example, they think of themselves as being in the solutions business rather than the computer business; they think of PCs as "perishable fruit." They reconceptualize the business to improve IBM's ability to respond, such as changing from a geography-focused to a customer-focused organization. There is always a practical side to these executives' thinking. They don't just theorize but instead think through "what we can do about this *now*."



Indicators of the Higher Levels of Breakthrough Thinking

Extraordinary Strength: Reconceptualizes the business. (Due to complexity and broad scope, implementation takes more than a year and requires the participation of most of the organization.)

- Generates new ideas not constrained by traditional views
- Thinks of applications or market opportunities that other people do not see
- Takes action to fundamentally change the business based on reconceptualizing the marketplace
- Identifies patterns in complex data and uses them to create a new understanding about business issues
- Reaches a new understanding of "what business we are in"

Strength: Thinks strategically about improving IBM's position in the marketplace, within the current understanding of the products and services offered. (Generally takes more than a month but less than a year to implement; involves significant numbers of people to execute.)

- Makes decisions based on strategic implications not precedents
- Creates new strategies for positioning IBM to win, such as affecting the market's perception of IBM
- Uses an understanding of the current products and services offered to devise plans to restructure IBM's ability to meet market needs

Demonstrated Competence: Thinks of new and creative ways to implement existing strategy. (Can implement readily within a month.)

- Finds a new niche for an existing product or service
- Develops promotional opportunities to sell current IBM products and services
- Creates an innovative marketing campaign based on current strategy

Indicators of the Lower Level of Breakthrough Thinking

Needs Development: Sees trends in business and market issues and uses this knowledge to solve problems or act on current opportunities.

- Identifies a trend in the marketplace and positions an IBM product or service to take advantage of the trend
- Spots recurring market cycles
- Recognizes and acts on a current issue in the marketplace, such as Internet connectivity

Indicators of Competency for Managers and Professionals

Emphasis is on spotting trends, thinking strategically, and finding new ways to look at smaller pieces of the business or particular products and services, rather than the business as a whole. Effective managers and professionals tackle the biggest issues they can in their current jobs. For example, they:

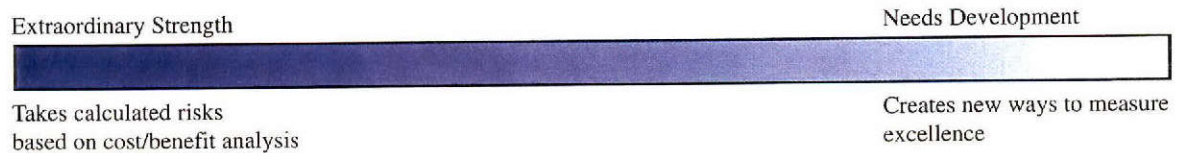
- Develop a new solution to an existing problem in a work area
- Demonstrate interest in how other parts of the business link to their particular area
- “Connect the dots;” discuss business issues at a conceptual vs. a concrete level

Development Activities to Strengthen Breakthrough Thinking

- Study how IBM does business. Read about and think through alternatives that could radically alter the way business is conducted in the marketplace.
- Examine industry and market trends for new opportunities.
- In writing, describe how your business/department is perceived in the marketplace, how you would like it to be perceived, and your unique ability to contribute to that ideal.
- Serve on industry, university, or community strategy boards or task forces.
- Take part in a strategic planning exercise or a business strategy program.
- Don’t dismiss ideas because they seem unrealistic. Use fantasy to help you generate creative ideas.
- When asked for a solution to a problem, brainstorm a variety of new alternatives.

Drive to Achieve

Outstanding IBM executives get frustrated with wasted time and money and with maintaining the status quo. They are constantly looking for ways to make things better (e.g., do things faster, at lower cost, or higher quality). They constantly set improvement goals and evaluate results to see how they and their businesses are performing. Outstanding executives demonstrating Drive to Achieve take calculated business risks to pursue challenging goals, based on an explicit cost/benefit analysis of the returns they are likely to get given the investment they will need to make.



Indicators of the Higher Levels of Drive to Achieve

Extraordinary Strength: Takes calculated risks by setting priorities and committing significant resources based on explicit cost-benefit analyses.

- Makes decisions and sets priorities on the basis of calculated inputs and outputs
- Commits significant resources to address new business opportunities
- Evaluates pros and cons of a business situation and uses these to make decisions to improve business performance

Strength: Sets challenging goals that result in significant performance improvements.

- Creates measurable improvement goals and measures performance against those goals
- Sets challenging goals to substantially improve performance

Demonstrated Competence: Makes continuous incremental improvements to performance.

- Constantly finds ways to make things simpler, faster, and better
- Changes the work process to improve performance without setting a specific, measurable goal
- Is not satisfied with current high performance levels; pushes self and group to do better

Indicators of the Lower Level of Drive to Achieve

Needs Development: Finds new and better ways to evaluate own or group performance.

- Sets own measures of excellence beyond management requirements
- Creates new tools like customer satisfaction surveys and performance indexes to help assess one's group against standards

Indicators of Competency for Managers and Professionals

Emphasis is placed on setting challenging goals and improving one's own performance rather than setting goals and overseeing the performance improvements of a group. For example,

- Consistently produces high quality work products
- Meets or beats deadlines
- Recommends or implements ways to work more efficiently
- Wants to do the best job possible
- Makes cost/benefit analyses to support a suggestion or recommendation

Development Activities to Strengthen Drive to Achieve

- Identify an area where there is inefficient use of resources, set a goal and take action to improve efficiency in this area.
- Find out who is the most efficient producer, performer or company in your area, set a goal that beats them, and measure your performance against that goal.
- Before committing significant resources to a project, write down all of the costs and benefits of doing the project and make a calculated decision about initiating the project using this information.
- Challenge those around you to set high standards for their work.
- Develop a clear picture of the outcomes you need from your work efforts, stay focused to ensure you are delivering those outcomes.
- Participate in a tough project that is beyond what you have done before, requiring a stretch commitment.
- Seek feedback about your performance aimed at achieving your goals.

Team Leadership

Outstanding IBM executives focus their organizations with a new sense of urgency to meet a challenge or fulfill a new strategy for winning in the marketplace. They create a sense of direction and purpose for their organization and use ongoing, sometimes dramatic actions to influence people to pursue that direction. Inspirational Team Leadership is essential to execution.

In some parts of the world, effective leaders draw on previously established respect rather than on verbal imagery to inspire others.



Indicators of the Higher Levels of Team Leadership

Extraordinary Strength: Reinforces the new sense of direction or strategy for the organization with continuous commitment and focus.

- Provides frequent feedback to team about their progress toward the direction or mission of the organization
- Offers practical assistance in helping the team meet their goals which are aligned with the strategic direction of the organization
- Finds ways to consistently encourage team members to achieve the goals
- Gets cooperation from other areas of the organization to clear out obstacles to goals

Strength: Uses vivid imagery or language to generate enthusiasm for pursuing the new direction or strategy for the organization.

- Uses powerful imagery to provide clarity and excitement about the business
- Creates a sense of pride and belonging among team members
- Gets the team charged up about the mission and direction of the organization by using powerful stories and anecdotes

Demonstrated Competence: Acts consistent with the message (direction, strategy) one has created.

- Ensures own behavior reflects the new direction or message
- Holds direct reports accountable for acting consistently with the strategic direction

Indicators of the Lower Level of Team Leadership

Needs Development: Refocuses and energizes the organization with a new direction.

- Generates a new sense of commitment
- Effectively communicates a vision to one's organization or team

Indicators of Competency for Managers and Professionals

More experienced managers and team leaders may show the entire range of Team Leadership, but in relationship to their own team. For professionals, emphasis is placed on being an effective team member rather than being the leader who inspires others toward increased effectiveness. For example,

- Acts consistently with the organizational message
- Expects others to behave consistently with organizational goals
- Sets goals that contribute to the larger direction of the organization
- Provides positive feedback to those working to fulfill the purpose of the organization

Development Activities to Strengthen Team Leadership

- Identify an expert in inspiring others and ask him or her to mentor you.
- Create a vision for your organization that is a concrete picture of long-term performance, has measurable milestones, challenges the status quo, doesn't violate the core values of the people it's supposed to inspire, and differentiates your organization from its competitors or other similar organizations.
- Work with your team to develop a strategy for implementing your vision or direction.
- Ask for feedback on your presentations. Did they inspire others?
- Ask yourself after every interaction with subordinates, "Have I left them feeling stronger and more capable than before?"
- When considering action, ask yourself, "Is this consistent with the message I'm sending?"
- Develop expectations which will challenge the skills and abilities of group members and promote pride in achievements.
- Reward team accomplishments. Celebrate as a team and create symbols of team success.
- Read books such as *Moments of Truth* by Jan Carlzon, *The Articulate Executive: Orchestrating Effective Communication* by F. Bartolome, and *Developing High-Performance People: The Art of Good Coaching* by O. Mink.

Straight Talk

Outstanding IBM executives share information candidly, accurately and openly with peers, managers, and subordinates, including appropriate financial information that hasn't been shared before. They ensure the "whole" story is told, not just their position. These outstanding executives act with integrity that is consistent with their beliefs, e.g., speaking in a frank and direct manner when it is difficult to do so or when being candid will be unwelcome. This leadership capability is essential for energizing a team to quickly execute a new direction. Executives demonstrating Straight Talk challenge the status quo and enable teams to break out of the old modes of thinking and acting.

Executives who are very strong in Straight Talk also seek candor from others, are open to negative messages, and select people "because I can trust him or her to tell me the truth." They say what they think and require others to do the same.

In some parts of the world, Straight Talk behaviors may be less blunt, or a leader may speak bluntly only with those individuals with whom he or she has established a deep, trusting relationship.

Extraordinary Strength

Needs Development

Gives candid opinions in difficult situations so issues can be resolved

Is vague, incomplete, or puts a "spin" on a message

Indicators of the Higher Levels of Straight Talk

Extraordinary Strength: Gives managers, peers or external parties straightforward and honest opinions in a blunt, but uncontentious manner; requires others to be candid.

- To resolve issues or proceed in negotiations, gives candid viewpoints in a straightforward way
- Demands honesty and candor from others
- Is honest and candid in external negotiations and tough discussions with bosses or peers even when it would be easier, in the short run, not to do so

Strength: Is publicly candid with the team about their performance and what is ahead for the group.

- Shares information (e.g., competitive comparisons, appropriate financials) openly with the team
- Gives the team honest feedback about its performance against external standards such as competitors
- Speaks honestly with the team, even when it is difficult to do so
- Gives an accurate and honest view of what lies ahead for the group
- Always acts with integrity consistent with one's beliefs

Demonstrated Competence: Gives honest feedback to individuals and teams about their performance or career potential, even in tough situations.

- Gives candid one-on-one feedback about performance to subordinates
- Shares a difficult assessment with a person about his or her career potential
- Discusses business realities openly as they relate to a person's job or future at IBM

Indicators of the Lower Level of Straight Talk

Needs Development: Is vague, puts a 'spin' on a message, or gives incomplete information.

- Postpones giving unpleasant information
- States difficult things in a way that makes them more palatable
- Fails to take unpopular stands with boss or peers
- Goes along with how the "political winds" are blowing

Indicators of Competency for Managers and Professionals

Emphasis is the same for managers and professionals. These individuals should also be truthful and candid, act with integrity, and expect the same of others.

Development Activities to Strengthen Straight Talk

- Practice expressing your beliefs while at the same time acknowledging the validity of the other person's point of view. For example, "I hear that you feel doing X would be more beneficial to the company because of Y and Z. On the other hand, I believe we should do A because of B and C."
- Practice stating a strong opinion in a way that does not blame or undermine someone else.
- Avoid second guessing what your boss wants to hear before meeting with him or her.
- Think through the core message you want to get across in a difficult discussion ("What's the bottom line?") and, if it's culturally appropriate, practice starting the conversation with "the bottom line" in a candid, but open way.
- Cultivate an atmosphere where opinions can be shared freely. Monitor the kind of behavior you tend to reinforce. If you routinely favor people who agree with you over those who challenge you, make a conscious effort to change.
- Provide both positive and negative feedback. Learn to give feedback without generating defensiveness.

Teamwork

Outstanding IBM executives work collaboratively and cooperatively across organizational lines and with their own teams to serve the customer and win over competition. They can be relied on to actively support and enact team decisions or commitments to the team. They represent their bosses' and peers' perspective to their direct reports accurately and objectively. Outstanding executives foster Teamwork by treating their own teams with respect and empowering them to make decisions without second guessing. They celebrate their team successes and encourage all team members to be accountable to each other and to work in collaboration and cooperation across organizational lines.



Indicators of the Higher Levels of Teamwork

Extraordinary Strength: Stands by manager's and peer team decisions despite resistance within own organization *and* demonstrates confidence in the team and supports team decisions without second guessing.

- Actively looks for ways to help other parts of IBM
- Works to resolve conflicts with peers and own team members
- Supports peers and other parts of the organization to better serve the customer

Strength: Makes and keeps action commitments to team projects *and* fosters teamwork by empowering the team and showing respect for and positive expectations for the team.

- Follows through on team decisions
- Encourages all team members to be accountable to each other
- Celebrates team successes

Demonstrated Competence: Encourages participation and collaboration across the organization. Provides help and resources across organizational boundaries *and* fosters teamwork by getting others to participate in and contribute to the team process.

- Values diverse inputs from across the organization
- Uses information and ideas contributed by team members
- Actively solicits opinions and information from team members and across the organization
- Readily shares information that is useful to other parts of IBM

Indicators of the Lower Level of Teamwork

Needs Development: Encourages teamwork within own organization. Treats team members with respect and fosters teamwork by setting positive standards for team functioning.

- Creates an environment where communication and cooperation are valued
- Provides positive feedback to group members who show appropriate team behaviors
- Provides input to team and listens to others

Indicators of Competency for Managers and Professionals

Emphasis is the same for managers and professionals. Cooperation with others and collaboration across organizational boundaries are key. For example,

- Executes team decisions despite resistance within own organization
- Makes and keeps commitments to team projects
- Is a dependable team member
- Values and uses input from others
- Treats team members with respect
- Participates, provides input and shares useful information

Development Activities to Strengthen Teamwork

- Think of other departments and organizations that could benefit from knowing what you are working on, and share that information with them.
- Bring a conflict within your group or with peers out in the open and encourage its resolution.
- Solicit views from other team members, particularly quiet members.
- Acknowledge and celebrate team successes.
- When you disagree with team members, acknowledge and restate their viewpoint and take that viewpoint into account when formulating your response.
- Volunteer to work on projects or committees that span organizational boundaries.

Decisiveness

Outstanding IBM executives make and act on tough decisions with the speed and sense of urgency needed to stay with or ahead of the market, competition and customer needs, or to improve the organization.

Extraordinary Strength

Needs Development



Sticks by tough decisions that are right for IBM

Acts on current opportunities or problems

Indicators of the Higher Levels of Decisiveness

Extraordinary Strength: Promptly makes and sticks by tough decisions that are right for IBM.

- Always makes decisions that are consistent with IBM's business ethics and principles
- Stands by decisions despite resistance from others
- In the face of personal or career cost, holds firm on a decision that is right for IBM

Strength: Confidently implements decisions in challenging market situations with a sense of urgency.

- Willingly takes on the lead and makes tough decisions in time of crisis
- Has confidence to make bold decisions quickly
- Implements decisions with urgency in a challenging situation

Demonstrated Competence: Acts decisively, even without complete information.

- Stops excessive debate and makes a decision
- Acts quickly when needed
- Acts decisively in the face of uncertain or ambiguous circumstances

Indicators of the Lower Level of Decisiveness

Needs Development: Proactively pursues current opportunities or addresses current problems that are not threatening or difficult.

- Takes action without being asked or forced by events
- Recognizes and addresses a current opportunity
- Persists to overcome a current obstacle

Indicators of Competency for Managers and Professionals

Emphasis is also placed on being decisive and taking action. Managers and professionals can address current opportunities or problems, act decisively when needed, and support others who make tough decisions for the benefit of IBM. For example,

- Makes an urgent decision with incomplete information
- Supports a boss or peer who makes a controversial decision that is right for IBM
- Sees and acts on a current opportunity

Development Activities to Strengthen Decisiveness

- Volunteer to resolve a crisis situation in order to improve your ability to act decisively when appropriate.
- Read nonfiction books about people or companies that have taken stands to do difficult things that they believed were ethically right (e.g., Johnson & Johnson's handling of the Tylenol crisis, biography of Abraham Lincoln).
- Identify a situation you are concerned about that has not yet become a problem. Analyze the situation and determine the steps that need to be taken to prevent the problem from occurring.
- When you encounter obstacles, ask the following questions:
 - How does this obstacle affect the key results I'm trying to obtain?
 - Are there more important things to do than attacking this obstacle?
 - What is the best approach to eliminating this obstacle?
 - Who can help brainstorm solutions?
 - What is the timeframe for acting on this obstacle?
 - Am I willing to stand by the decision I've made regarding this obstacle, even if others challenge me?
- Make a list of tough decisions that you have been confronted with in the past. Make a list of those that you faced up to and a separate list of those you avoided. Analyze which strategy worked effectively. Think about what helped you face up to difficult situations and helped you solve them more effectively.
- Avoid using qualifiers such as "I think," "Maybe" or "I'm not sure, but..." to talk about issues on which you are confident that you are right.

Building Organizational Capability

Outstanding IBM executives act to build the organization's longer-term ability to produce and sustain excellent results. They take control of the situation to improve it, and follow through in an influential manner. These outstanding leaders proactively and quickly realign the systems or processes of the company so that the correct people are in place and the correct measures and information are supplied to support the business strategy and focus people's attention correctly. They make these changes to support strategy, not just for the sake of change.

Extraordinary Strength

Needs Development



Changes organizational focus or aligns whole systems to support competitive strategies

Gets the right people in place

Indicators of the Higher Levels of Building Organizational Capability

Extraordinary Strength: Aligns organizational systems to enhance organizational capability.

- Makes significant, lasting changes in climate, culture or focus of the organization
- Creates new systems or structures to support long-term strategy

Strength: Modifies existing systems to support the strategy.

- Gets rid of unnecessary bureaucracy and inefficiency
- Changes metrics, job responsibilities, information reported, awards, etc. to align with strategy
- Adapts organizational structure to support current market requirements

Demonstrated Competence: Changes communication and decision-making processes.

- Makes information available that was previously inaccessible to increase organizational effectiveness
- Establishes methods for open communication and decision-making to support the strategy

Indicators of the Lower Level of Building Organizational Capability

Needs Development: Gets the right people in place to address current problems or opportunities.

- Makes hiring or training decisions to address current opportunities
- Continually upgrades the capability of the organization by making good staffing decisions

Indicators of Competency for Managers and Professionals

Emphasis is also placed on changing or creating systems to build IBM's ability to produce and maintain excellent results. For example,

- Gets people with the right skills into the right jobs
- Provides information and clarity to the team about what they are doing and why
- Improves communications and feedback within own group
- Alters job structures and rewards within his or her scope to increase the productivity of own group, for example, reorganizes the workload or uses rewards such as awards or celebrations

Development Activities to Strengthen Building Organizational Capability

- Make a systematic analysis of your organization. Begin by answering the question "What is my strategy?" Once you've made your strategy explicit, review your organization's structures (job duties, feedback system, rewards, etc.) to see whether they support your strategy. Make changes in those structures that do not support your strategy.
- Ask your subordinates where they experience blocks in getting their work done and make changes to those systems or structures that impede them.
- Develop relationships that will help you to acquire resources when you need them.
- Help your group organize itself to support the work of the company. Discuss how group goals can be made more consistent with organization goals. Talk frequently with the team about the core business of IBM; explain why a particular strategy has been chosen, and discuss its implications for the group. Discuss how to structure the work of the group to reflect the goals of the group.
- Anticipate how your area can respond to change as it happens, rather than reacting after the fact.
- Read journals such as the *Harvard Business Review* to glean ideas on how to address issues your organization is facing.
- Read *Built to Last* by Collins and Porras.

Developing Talent

Outstanding IBM executives actively mentor or coach others, in an individualized, one-on-one manner to build a strong leadership team now and for the future. They take responsibility for developing future talent and have a positive impact on others' professional growth and development. They enjoy seeing other people grow and move on.



Indicators of the Higher Levels of Developing Talent

Extraordinary Strength: Is an effective mentor and enjoys seeing others develop and grow.

- Expresses pride in others' accomplishments
- Enjoys seeing subordinates move on and grow, even at a cost to oneself or the team
- Provides coaching and inspires the long-term development of others
- Has substantial positive impact on others' professional growth and development

Strength: Provides long-term coaching.

- Arranges development opportunities for people to build their skills and confidence
- Helps subordinates to work through problems or crises
- Identifies future leaders in the organization and develops them over time

Demonstrated Competence: Encourages and gives suggestions for improvement.

- Encourages others after a setback
- Gives helpful hints or suggestions to help someone learn a task
- Expresses positive expectations about future performance to subordinates

Indicators of the Lower Level of Developing Talent

Needs Development: Gives suggestions and support on how to do the job now.

- Gives specific instructions regarding how to perform a task
- Provides necessary resources to get a job done
- Tells subordinates how to do things, without giving them the rationale that explains why the tasks are done

Indicators of Competency for Managers and Professionals

Experienced managers and team leaders may show the full range of Developing Talent, but in relation to their own team. For professionals, emphasis is placed on helping and giving advice to team members rather than taking responsibility for the long-term development of subordinates. For example,

- Shares ideas, experiences, and helpful hints that may provide insight to others
- Offers suggestions on how to get a task done
- Gives complete, detailed instructions
- Shows a new employee how to do a job
- Encourages someone to shadow him or her to learn how to perform a task

Development Activities to Strengthen Developing Talent

- Provide new, challenging job assignments, together with mentoring and coaching support.
- Assign a project to someone who could learn from the experience, rather than to someone who has all the skills for the job.
- Conduct regular developmental discussions with subordinates, based on their developmental or career path objectives.
- Maintain a development file on each of your subordinates to track successes, failures, developmental needs, and action steps.
- Establish times when people can stop by and ask for help.
- Express positive expectations of others' potential.
- Identify someone who is an effective coach and observe how he or she interacts with subordinates.
- Assign an inexperienced person to work with a more experienced person on a project that he or she needs to learn about.
- Celebrate the developmental successes of team members.
- Make developmental classes or seminars available to subordinates.

Personal Dedication

Outstanding IBM executives act in ways that promote organizational goals or strategies. They align their personal needs and priorities with the needs, priorities and goals of IBM—not with an individual organization.

Extraordinary Strength

Needs Development



Supports difficult decisions that benefit IBM, even if it involves a cost to one's own group

Is loyal, works hard to support IBM if no risk is necessary

Indicators of the Higher Levels of Personal Dedication

Extraordinary Strength: Backs unpopular decisions that benefit IBM, even at a cost to own department.

- Gives up own group's short-term advantage for the longer-term benefit of IBM
- Asks team to make sacrifices to meet overall needs
- Supports decisions that benefit IBM, even if they are controversial or unpopular
- Gives up key people who are needed elsewhere in IBM

Strength: Makes personal or professional sacrifices to meet IBM's needs.

- Puts IBM's needs ahead of professional identity (product, service, etc.)
- In critical situations, makes the personal accommodations necessary to pursue significant business opportunities
- Achieves strategic results while managing the balance between work and personal life

Demonstrated Competence: Supports IBM's goals.

- Aligns own activities and strategies with those of the larger organization
- Understands and works to meet IBM's priorities and goals
- Cooperates with others to meet the needs of IBM

Indicators of the Lower Level of Personal Dedication

Needs Development: Models loyalty and works hard.

- Expresses feelings of commitment to the organization
- Works hard for IBM when it does not involve personal or professional risk
- Is proud to work for IBM

Indicators of Competency for Managers and Professionals

Emphasis is placed on supporting tough decisions made for the overall benefit of IBM, aligning own activities with IBM's needs and goals, and cooperating with others for the overall good of IBM. For managers and professionals, emphasis is typically not placed on making the controversial decisions or getting the team to make sacrifices or align their priorities with those of IBM.

- Sets aside professional (engineering, software development, etc.) concerns or priorities for the overall benefit of customers or IBM
- Supports unpopular decisions that are in the best interest of IBM as a whole
- Works to meet IBM's goals and strategies
- Cooperates with others for the good of IBM

Development Activities to Strengthen Personal Dedication

- Set aside time to network with peers in the larger organization to find out what their issues and concerns are. Keep a record and use this information to help you determine how your actions and decisions affect the larger organization.
- Before you take action, think through the implications of the action for the larger organization.
- Write down the goals and priorities of your department as well as the strategy and needs of the larger enterprise. Review these to evaluate whether there are links between the two. If necessary, realign your group's goals so that they support the larger organization's strategy.
- Set a good example by maintaining focus on work that will contribute to the implementation of the organization's strategy. Devote your time to activities which serve the organization's needs rather than your own.

Passion for the Business

The best IBM leaders are passionate about their business and winning in the marketplace. They are excited about what IBM technology and services can do for the world. They are enthusiastic about how we serve our customers and win over competition. They embrace IBM's purpose to move at the speed that customers expect, providing them with leading-edge networks and technology. And they want to "get it right."

Passion for the Business is at the "heart and soul" of the model. It fuels Customer Insight, Breakthrough Thinking and Drive to Achieve which energize the executive.

Extraordinary Strength	Needs Development
Expresses great enthusiasm for serving customers based on an underlying passion for IBM's business and its impact on the world	Does not express excitement about technology or winning

Indicators of the Higher Levels of Passion for the Business

Extraordinary Strength: Expresses great enthusiasm for serving customers based on an underlying passion for IBM's business and its impact on the world.

- Is excited by the breadth of IBM technology and services and what they can do for the world
- Sees where technology is going and how it will transform industries (e.g., banking, insurance, retail merchandising)
- Communicates how IBM technology can solve customer issues and is motivated and energized by results...winning in the marketplace
- Is excited about the possibilities of IBM's technology to solve customer and social issues
- Is consumed with IBM becoming the leader in our industry and constantly pursues ways for IBM to win in the marketplace

Strength: Focuses on winning in the marketplace *and* personally uses leading-edge technology.

- Regularly uses Lotus Notes and the internet to communicate with others both internal and external to IBM
- Uses technology-driven presentations
- Acts as model for peers and subordinates

Demonstrated Competence: Focuses on winning in the marketplace.

- Generates enthusiasm among others for competitive wins and win-backs
- Expresses slogans such as “We want to be #1” or “Let’s be the best in our market”
- Keeps abreast of how competitors are doing in the marketplace and celebrates when IBM moves ahead of or increases its lead on a competitor in a specific market or industry
- Constantly pursues ways for IBM to win in the marketplace

Indicators of the Lower Level of Passion for the Business

Needs Development: Does not visibly express excitement about technology or enthusiasm about winning.

Indicators of Competency for Managers and Professionals

Emphasis is also placed on having a passion for technology and seeing the many possibilities that it has for helping customers.

Development Activities to Strengthen Passion for the Business

- Identify someone who has a strong Passion for the Business, spend time with that person to learn how he or she views technology, its possibilities, and the excitement he or she has about the transformation of the world through technology.
- Read popular technical computer literature to keep abreast of leading-edge technological ideas.
- When reading news articles about other companies, ask yourself, “How could technology help solve their problems or address their issues?”
- Practice behaving in ways consistent with high levels of Customer Insight. These activities will stimulate Passion for the Business.
- Learn IBM technology; enroll in a class; surf the net.
- Speak to external and internal audiences about IBM and the future direction of our industry using IBM technology.

Leadership Competency Assessment

Executive/Leader: _____

EXTRAORDINARY STRENGTH	STRENGTH	DEMONSTRATED COMPETENCE	NEEDS DEVELOPMENT	NEEDS DEMONSTRATION
		CUSTOMER INSIGHT		
		BREAKTHROUGH THINKING		
		DRIVE TO ACHIEVE		
		TEAM LEADERSHIP		
		STRAIGHT TALK		
		TEAMWORK		
		DECISIVENESS		
		BUILDING ORG'L CAPABILITY		
		DEVELOPING TALENT		
		PERSONAL DEDICATION		
		PASSION FOR THE BUSINESS		

Completing An Assessment:

- Assess the leader's level of performance for each leadership competency.
- For anything that is "Extraordinary Strength," "Strength," "Needs Development," or "Needs Demonstration," mark an "X" in the appropriate box.
- For anything that is "Demonstrated Competence," the competency should be unmarked.
 - Keep in mind that "Demonstrated Competence" means there is consensus that the level of performance the individual shows is at our high standard for IBM. This strong and effective leadership is viewed positively.

Notes

[illegible]

April 11, 1997

Mr. James D. Wolfensohn

Mr. Wolfensohn,

Subject: **Information Sharing Session on IBM Renewal Program
Briefing Note**

On April 17, 1997, you will chair a meeting from 2:30pm to 5:20pm of the VPs and the Executive Committee members in which IBM Executives will share experiences from their ongoing renewal program. The Staff Association (Fred Wright) and Mr. Jean Daniel Gerber, Dean of the Board, have been invited.

Background

In a meeting with IBM Executives, Ken Thornton, John Cherbiny, and Sharon Luther on January 23rd, you mentioned your interest in having them share their experiences with managing change at IBM with Senior Bank Managers. This sharing of experience would also be a logical follow-up to your January meeting with top CEOs in which Lou Gerstner was a very active participant. The IBM Executives, Messrs. Ken Thornton and John Kirby, who will lead this briefing session, mentioned Mr. Gerstner's strong support for this session.

The presentation will focus on the change imperatives for IBM, the company's vision and transformation program including examples of some of their important initiatives on decentralization, skills development, customer satisfaction, resource allocation, culture change, and measurement. Time will be allowed for questions and discussion after each set of presentations. The expectation is that Senior Managers will find the parallels with the Bank and lessons learned useful in implementing the Strategic Compact. The IBM Executives are familiar with the Strategic Compact and have been briefed extensively on our renewal program.

The agenda for the session is attached, as well as short biographies of the IBM team. As chair of the session, we would appreciate your opening with some introductory remarks

and wrapping up the meeting at the end. Below are suggested talking points for your opening remarks.

Opening remarks

- Welcome to the IBM team and thanks for joining us today to share experiences on the IBM Renewal Program.
- We have just, with a great deal of effort, won unanimous approval from our shareholders for the Strategic Compact, including the resources to implement it. In doing so, we have launched an unprecedented partnership for implementation between staff/management and the Bank's Board. Something new in the Bank's history.
- The task of implementation is now before us. We shall be closely monitored. The world will be watching, and for the sake of our 4.7 billion clients, we will need to deliver on the results we promised. In this endeavor, we clearly need to learn from others.
- It is in this spirit that I asked Lou Gerstner and his colleagues at IBM to share with us the challenges they faced, and the approaches they followed as well as lessons learned in pursuing their own renewal program.
- As many of you know, there are several parallels between the cultural and organizational challenges IBM faced at the start of its program and those confronting us now as an institution.
- I hope we can learn from their experience. I would like this to be as interactive a session as possible. I, therefore, urge all of you to participate actively.
Thank you.
- After these remarks, you should call on Ngozi to introduce the IBM Executives.

Briefing and Information Sharing Session on
IBM's Renewal Program

Thursday, April 17, 1997
2:30pm - 5:20pm
T9-065

On Mr. Wolfensohn's invitation, a group of us from IBM propose to engage with the World Bank leadership in a session which will promote the sharing of IBM lessons learned in enterprise-wide change management. The session will highlight parallels between the World Bank and IBM in recognizing the compelling need to change, meeting extremely complex and time-sensitive challenges, and executing organization-wide solutions.

We will share the challenges faced in the beginning of IBM's crisis-driven transformation. We will highlight the issues inherent in designing, initiating and sustaining the cultural shifts necessary to align one of the strongest corporate cultures in the world with a new set of business mandates for survival. IBM will review the bold and sometimes risky leadership actions which were required to mobilize a global organization to quickly respond to competitive and marketplace pressures. We will share the challenges of managing many enterprise-wide changes simultaneously, while also maintaining and enhancing existing business operations. We will review examples of executive communications, visible leadership actions, and top leadership behavior changes to effect the required changes. We will review the critical success factors that we encountered in managing organization-wide changes from concept to planning to execution to measurement and improvement.

Throughout the presentation, we shall highlight lessons learned with the hope that these might be of benefit in implementing the Strategic Compact.

Briefing and Information Sharing Session on
IBM's Renewal Program

AGENDA

- | | | |
|------|---|------------------------------|
| 2:30 | Welcome and Introductory Remarks | James Wolfensohn |
| | <ul style="list-style-type: none">• Introduction of IBM Team | Ngozi Okonjo-Iweala |
| 2:40 | Change Imperatives | Ken Thornton |
| | <ul style="list-style-type: none">• Why Change & Vision Parallels• IBM Transformation Framework• IBM Global Facts and Demographics<ul style="list-style-type: none">• Presentation and Discussion | |
| 3:05 | Management Systems/Business Process Initiatives, some examples | Ken Thornton
& John Kirby |
| | <ul style="list-style-type: none">• Skills Development• Customer Satisfaction• Resource Allocation/Restructuring & Decentralization Issues<ul style="list-style-type: none">• Presentation and Discussion | |
| 3:50 | Coffee Break | |
| 4:00 | Leadership Initiatives | Ken Thornton
& John Kirby |
| | <ul style="list-style-type: none">• Communications• Culture• Measurements<ul style="list-style-type: none">• Presentation and Discussion | |
| 4:50 | Results and Critical Success Factors | Ken Thornton &
John Kirby |
| | <ul style="list-style-type: none">• Presentation and Discussion | |
| 5:15 | Wrap-up and Closing Remarks | James Wolfensohn |

Kenneth R. Thornton
General Manager
IBM Global Government Industry

As the General Manager of IBM Global Government Industry, Mr. Thornton directs IBM's consulting, solutions, sales and services businesses for governments worldwide. He has worked with governments across the world, helping them better understand leadership issues associated with leveraging information technologies for government efficiency, service to the citizen and economic development. He has a particular interest in the transformation of governments driven by the implementation of electronic channels of service delivery. His career with IBM began in 1967, and has spanned both commercial and government sectors.

John Kirby
Vice President
IBM Customer Satisfaction & Quality

Mr. Kirby is responsible for customer satisfaction, quality and reengineering for IBM. His current responsibilities include providing the integration management of more than fifty corporate reengineering projects. Integration management includes allocation of funds, issues management, the reengineering management system, communication of plans and results to all IBM staff. He is the corporate advocate for reengineering, a role which closely aligns with his customer satisfaction and quality responsibilities. Prior to this corporate role, Mr. Kirby was a vice president of the IBM Consulting Group responsible for the IBM consultants engaged in the transformation of IBM. He was instrumental in the start-up of IBM Consulting Group's worldwide Business Transformation practice.

John R. Cherbini
Vice President
IBM Global Government Consulting

As the Vice President of Worldwide Government Consulting for IBM, Mr. Cherbini provides consulting services in business transformation, process re-engineering, change management, IT strategy, IT planning, systems integration and outsourcing for Federal, State and Local Government clients. He has also run the IBM Government Solutions organization, developing and implementing solutions in selected government market segments and providing systems integration to large government clients. Mr. Cherbini has over 25 years experience with financial management and large scale systems design and implementation. Prior to joining IBM, Mr. Cherbini was a Managing Partner in Privatization, and a Partner-in-Charge of the Technology & Finance Unit, at Coopers & Lybrand. Earlier in his career, he was the Director of the Accounting Financial Management Division at the U.S. General Accounting Office and a consultant with Arthur Andersen & Company.

Lynne Marvin Lawson
Principal
IBM Government Consulting

Ms. Lawson is a principal in IBM's Government Systems Consulting Practice. In this role, she consults with Federal, State and Local Government clients in their reinvention initiatives, especially in the areas of business transformation and reengineering, organizational development and organizational change management. As a principal, Ms. Lawson also provides leadership and guidance to IBM Senior Consultants and Consultants in the planning, execution and growth of their job responsibilities. She has over 18 years of experience working with Government clients. She has also led organizational strategy and change management projects in IBM's Government Systems sales and services businesses. Ms. Lawson has extensive experience in managing large projects (e.g. systems implementation, organizational development programs, leadership programs, skills development initiatives) and teams.

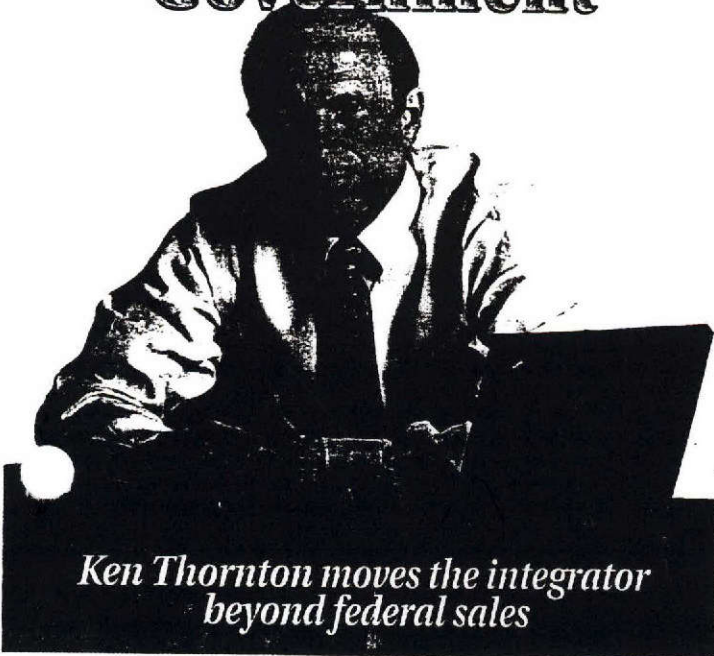
Sharon Luther
Senior Client Manager
IBM Government Marketing

Ms. Luther is a Senior Marketing Representative with 10 years experience working with IBM government customers. In her role as Client Manager for the International Banking Community, her customers include the World Bank, the Inter-American Development Bank, the International Monetary Fund and the Export-Import Bank of the United States. She is responsible for understanding client requirements and developing solution oriented strategies for meeting them; such solutions might include IBM consulting and systems integration services, hardware and/or software. She is an active member of IBM's United Nations Selected International Account Team; in this role, she works collaboratively with IBM Client Managers across the globe to leverage the United Nations synergy and replicate successes across the UN system.

WASHINGTON TECHNOLOGY

The Business Newspaper for Government Systems Integrators

IBM's New World Government



Ken Thornton moves the integrator beyond federal sales

Ray Kania

By Jack Sweeney
Editor

Among the legions of executives whose careers felt the pinch of IBM Corp.'s cost-conscious turnaround strategy, the name "cookie monster" became a popular alias for IBM chairman Lou Gerstner, the former head of cookie giant, RJR Nabisco.

Today, IBM's top government executive, Ken Thornton, is becoming known as the "cookie cutter," as he executes his own twist on Gerstner's global formula and helps redefine the government marketplace for systems integrators around the world.

"By making the sale of solutions repeatable across the world, we are capable of scaling this business into a wide model," said Thornton, general manager of IBM Worldwide Gov-

ernment Industries.

Rather than brag about giant defense contracts or 1,000-unit desktop agency awards, the 54-year-old Thornton instead underscores the government integrator's success in selling niche market solutions to multiple governments.

"We just took a tax collection system developed for the state of Maryland and installed it in Malaysia," said Thornton, who al-

ludes to similar cookie-cutting feats with postal, public service and justice sector solutions.

Welcome to IBM's worldwide government, where almost every foreign nation is a local customer.

"The global trend has transcended all of IBM's commercial businesses and the government segment is now naturally following," said Bob Djurdjevic, president of Annex Research, a high-tech research firm based in Phoenix. Djurdjevic said IBM's vertical approach to worldwide government resembles the global approach now being deployed by IBM's commercial outsourcing groups in the banking and pharmaceutical sectors.

According to Thornton, certain industry executives wrongly interpreted

IBM

continued from page 1

IBM's move to sell its federal systems group to Loral in 1994 as a possible exit strategy from the government business.

"What we sold was principally a large systems integration organization that was really not related to the rest of our business. For instance, it had very good skills in aerospace, but that's not where we're headed," said Thornton, who continued to underscore the move toward worldwide government instead of an organization dominated by federal sales.

Last week to emphasize its expansive global reach, IBM opened the Institute for Electronic Government in downtown Washington. According to IBM, the institute was created to offer government executives from around the world a forum to explore different electronic information strategies and problems.

Beyond its obvious marketing purposes, the institute makes clear that IBM's government executives now plan to mobilize resources from all over IBM's empire.

John Nyland, vice president of marketing, IBM Government Industry, said government customers are more than ever appreciating IBM's ability to operate in a global fashion.

"We're now working on a [global] contract

where we were able to borrow a number of data warehousing experts from somewhere else in the company. That's the benefit of having global reach, because no matter where you are you can always find the people you need," said Nyland.

But leveraging IBM's global infrastructure is only part of the plan. In-house solution development is today playing a growing role in the government integrator's business model.

Dave McQueeney, a researcher who works in an IBM laboratory in Yorktown Heights, N.Y., said he has been in steady contact with Thornton's team of IBM worldwide government executives.

"What comes to mind is their work on postal systems where we've been incorporating optical character recognition

technology," said McQueeney, who also indicated that IBM's government integration arm was now evaluating certain voice recognition technology.

One application now under development for government deployment has been dubbed "flash," and could soon be assisting law enforcement officials in identifying suspects through voice recognition.

"We've got a lot more to bring to the government customer than the typical systems integrator and we are now making sure we tap into those resources," said Thornton, who believes the integrator's new global government plan will encourage others to move overseas. ■

**IBM plans
to mobilize resources
from all over its
empire.**



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THE MAGAZINE FOR SENIOR FINANCIAL EXECUTIVES

AMERICA'S BEST REENGINEERS

G. Richard
Thoman, CFO
of IBM, winner
of the 1996
REACH Award
for overall
excellence

IBM LEADS AN ELITE GROUP OF
COMPANIES THAT ARE RAISING
THE BAR IN BEST PRACTICES

Reengineering has evolved from an expensive fad to a continuing priority for corporate-finance organizations.

COVER STORY

As a management phenomenon, reengineering no longer dominates headlines the way it did a few years back. Trend-spotters and fad-followers have moved

recognize corporate reengineering achievement in eight finance categories. In 1996 there were nearly twice as many entrants as in 1995, the program's inaugural year.

Reengineering has been marked by a refreshing willingness among companies to share their insights with others. That's the case with the 1996 REACH winners we profile on the following pages: **IBM Corp.**, cited for overall excellence as well as its change efforts in travel and entertainment expense reporting, treasury, and information management; **Aetna Inc.**, cited for excellence in purchasing; **Dun & Bradstreet Corp.**, for accounts payable; **Electronic Data Systems Corp.**, for billing and accounts receivable; and **Owens Corning**, for controls and compliance. Their achievements may not necessarily be tem-

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THE PERMANENT REVOLUTION



▲ For IBM, reengineering is an ongoing enterprise, says CFO G. Richard Thoman. "We're not about to declare victory and stop."

on to other game, like strategic planning or knowledge management. Is reengineering passé?

Au contraire. If anything, reengineering is more widespread than ever. Strong evidence of that can be found in the burgeoning interest in the annual REACH Awards, cosponsored by *CFO* magazine and MasterCard Purchasing Card. The awards

Where once there was a lot of talk about reengineering and little action, now there is less talk and a lot of action. "Reengineering may have left center stage, but I believe it's more pronounced than it ever was," says Greg Hackett, president of The Hackett Group, a consulting firm in Hudson, Ohio, that specializes in restructuring corporate finance. "It's an effort that, when properly conceived and well executed, can lead to huge gains and is quietly transforming many American businesses."

The past few years have witnessed tremendous growth in general understanding of the most effective ways to perform various finance functions. The emphasis increasingly is on reinventing business processes not just to cut costs, but also to support new ventures. Corporate change managers and seminar leaders now talk about "reengineering for growth"—and that isn't an oxymoron. Rather, it's a recog-

plates for others to follow, but they certainly are a testament to what is possible. And proof positive, by the way, that reengineering is alive and well.

"We're not about to declare victory and stop," says CFO G. Richard Thoman of IBM's commitment to reengineering. "We're off to a very, very good start." ■

Stephen Barr is a contributing editor of CFO.

CATEGORY WINNER:

- TRAVEL & ENTERTAINMENT
- TREASURY
- INFORMATION MANAGEMENT

THE TRANSFORMATION

Intensive reengineering across the board has made IBM a leaner, more productive enterprise—and the winner of CFO's 1996 REACH Award for overall excellence.

PHOTOS BY EDWARD SANTALONE

Its woes of much of the past decade are an oft-told business tale. So is its dramatic turnaround over the past three years. But behind the stories of a gyrating stock price, massive layoffs, and

more important, in changing the mind-set of how we think about and do things," says CFO G. Richard Thoman. "This is a large, complex organization, and there was a school of thought that reengineering was not doable," Thoman adds. "But we proved that if you approach things in a disciplined way and are unrelenting in reaching your targets, you can do it, even at IBM."

Indeed, IBM did it so well that it won the 1996 REACH Award for overall excellence, as well as REACH Awards in three categories—travel and entertainment expense reporting, treasury, and information management. In these three areas alone, IBM realized \$178 million in annual cost savings.

The arrival of CEO Louis V. Gerstner in 1993 was followed by a declaration that IBM's cost structure was \$8 billion too high and that its business processes were not working efficiently. That prompted, first on the watch of former CFO Jerome B. York and carried on under Thoman, nearly a dozen reengineering initiatives across the company in such areas as product development and customer relations. "We had done downsizing and old-fashioned budget cutting, but we had never changed our business environment from the bottom up," says Harry Beeth, an assistant controller who was put in charge of the reengineering effort in finance.

Beeth created eight teams to work on various finance processes. The teams were generally small, with between two

and five members; they were made up of experts in the areas under review and others within finance who were simply well regarded by their peers. "If these teams came up with radical ideas, we didn't want others to think this was something crazy from the top," says Beeth. "We wanted them to know that the ideas came from people they respected."

The IBM reengineers looked at finance across functional areas. One team worked on purchasing and accounts payable as a single process, and the same was true of disbursements, which encompassed payroll, T&E expense reporting, and human resources. In addition, since 60 per-

BY STEPHEN BARR

cent of IBM's business is overseas, the change effort was global. "If we wanted to fix things, we had to fix them globally," says Beeth. The teams did benchmark studies, investigated best practices at other companies, and set aggressive improvement targets.

THE COSTS OF DECENTRALIZATION

Decentralized operations accounted for a large part of the high costs, redundant activities, and absence of coordinated policies and strategies in finance at IBM. Each country ran its own treasury shop, for instance. That meant not only independent systems and procedures, but individual banking and insurance relationships and an individualized approach to risk management. Similarly, T&E expenses were reimbursed at multiple locations, and



▲ Left: Assistant controller Harry Beeth assembled eight teams to reengineer IBM finance across functional areas.

Above: Bob Cappello (left) and Rich Bannon channeled dramatic changes in treasury and T&E.

various strategic realignments is an untold tale of finance reengineering. By any accounting, it is part of what has helped IBM Corp. return from the brink.

"Reengineering has been absolutely crucial to our overall improvement at IBM—not just in terms of our financial results, but

N OF IBM

each site had its own travel policies and vendor relations.

Consolidation, however, was only the beginning of a solution. "We wanted our teams to design the best processes, and then to find the best applications to automate them," says Beeth.

IBM's work in information management grew out of its eight reengineering initiatives, where creating a common system for each function and linking that system to others was a key goal. It became clear that critical information for management reporting and decision making was hardly at anyone's fingertips; financial analysts were spending at least half their time trying to collect information. The solution: define data standards across the company, develop a common chart of accounts, put the data in a central repository, and give managers the tools to look at that data on the desktop.

"We wanted executives to call finance with tough questions, not to ask for the data," says Beeth.

IBM may have encountered less resistance than other companies because the commitment to change was clear at the top of the organization. During implementation, plans and project results were communicated by E-mail and in face-to-face meetings. Still, Beeth concedes that the hardest part of the effort was to get buy-in from employees. "There is a lot of anxiety associated with reengineering, and we underestimated the amount of communications required," he says.

TRAVEL AND ENTERTAINMENT: THE 10-MINUTE FORM

Travel and entertainment expense reporting is frequently the first function tackled by financial process reengineers. It's a core administrative process that tends to be performed in different ways at multiple sites; thus, it's ripe for the kind of consolidation that can bring huge cost savings and productivity gains. Moreover, T&E has high visibility outside of finance—its customers are the thousands of travelers who come from all parts of the company. A win here often helps establish credibility for even more dramatic reengineering.

"We made sure we viewed the employee who travels

as our customer in everything we did," says Rich Bannon, director of corporate accounting services and a leader of the T&E change initiative. Back in 1993, Bannon's team sought input from travelers in the design of the new process;

it continues to solicit feedback even today. As a result, IBM has simplified and standardized travel policies, leveraged technology, and taken significant steps to relieve travelers of the burden of getting reimbursed for travel. The benefits to the company include about \$30 million in annual savings.

Prior to reengineering, there were 182 manufacturing and marketing locations that handled their own T&E expense processing. System centralization was an obvious initial step, and could have immediately provided huge cost reductions. But the reengineers spent nearly two years rolling out the new T&E process, dubbed the National Employee Disbursement System. Their concern was the multitude of changes in policies, procedures, and controls. They stressed

the need for a concerted educational effort; the entire initiative could have backfired if the users just didn't get it.

The reengineered T&E process at IBM revolves around an electronic expense form, filled out on the user's PC. Dialogue pop-up boxes prompt travelers to submit all required information with their report, including answers to policy-related questions (about using the lowest-cost airfare, for example) and explanations for noncompliance. The self-auditing system also has built-in tolerances and knows how much, say, a hotel in Boise should cost. These prompts are the basis for exception reports, which are sent to managers monthly.

According to an internal study, it takes IBM travelers about 10 minutes to fill out the electronic T&E form. Approval and reimbursement cycle time has also been sped up through the electronic routing of the completed form to the appropriate manager, and a telephone voice-response system allows employees to find out where their reports are in the cycle. Other practices that make travel easier include the use of a corporate charge card for cash advances, paycheck disbursement of travel expenses, and the imaging of all receipts at a central location.

SNAPSHOT: T&E EXPENSES

Company: IBM Corp., Armonk, New York
Business: Computer hardware and software, information technology services
Revenues: \$71.9 billion

BEST PRACTICES

1. Single T&E system, centralized expense report processing, and one travel agency companywide
2. Corporate charge card, with cash advances drawn from ATMs
3. Employees enter expense-report data via online terminals or laptop computers; intuitive dialogue box asks policy questions, requires explanations for noncompliance
4. Automated system with self-audit; management reports and policy-exception reports electronically routed to managers
5. Expenses reimbursed via payroll; direct payments to charge-card issuer
6. T&E information management system automatically feeds ledger for budget reporting; also linked to other systems
7. Use T&E data to negotiate discounts with airline, lodging, and car rental vendors, among others
8. Standardized, simplified travel policies on meal limits, hotel limits, and so on, published and available online
9. All T&E receipts are imaged (about 2 million annually)

KEY METRICS	1993	1995
Total cost per T&E form	\$15.00	\$3.25
Staff size	173	32
T&E payment systems	182	1
Average time to fill out T&E form	24 minutes	10 minutes
Customer satisfaction rate	N/A	87% satisfied

Source: IBM Corp.

THE TRANSFORMATION OF IBM

How fast is the reengineered reimbursement process? "I submitted my T&E on Friday, and the money was in my bank account on Monday morning," reports a pleasantly surprised traveler. Quarterly customer surveys consistently register a nearly 90 percent satisfaction rate, but that hasn't fostered complacency. Earlier this year, the IBM sales force suggested a stand-alone version of the T&E form so travelers could fill out their expense reports on their laptops, in flight. And Bannon listened. "Now they just upload the information and it immediately starts routing for approval," he says.

TREASURY: BACK ON THE MARK

To say that IBM had a highly complex treasury organization is an understatement. Two years ago there were more than 100 different groups worldwide—all maintain-

SNAPSHOT: TREASURY

Company: IBM Corp.

BEST PRACTICES

1. Domestic and foreign cash management policies coordinated
2. Integrated treasury management information system
3. Financial risk management strategy coordinated companywide
4. Emphasis on cash flow optimization
5. High level of awareness of effective treasury management practices throughout the company
6. Integrated processes and management for global banking and capital raising
7. Comprehensive interest rate and currency risk management systems for tracking and analysis
8. Effective use of hedging instruments

KEY METRICS	1993	1995
Organizational expense	\$40.1 million	\$26.6 million
Staff size	339	224
Insurance expense	\$135 million	\$96 million
Bank relationships	782	577
Bank accounts worldwide	1,664	1,220
Insurance brokers	66	2
Insurers	203	25

Source: IBM Corp.

ing their own banking and insurance relationships, and all operating independent treasury information systems. If a new corporate treasurer wanted to know what IBM's cash balance was on a global basis, or how much cash and debt IBM had in a given country, it took weeks to obtain an answer—and that spreadsheet report was considered incomplete anyway.

"When we did some benchmarking, we saw that we were way off the mark," says Bob Cappello, a corporate treasury analyst and a member of IBM's treasury reengineering team. "We had no idea how much

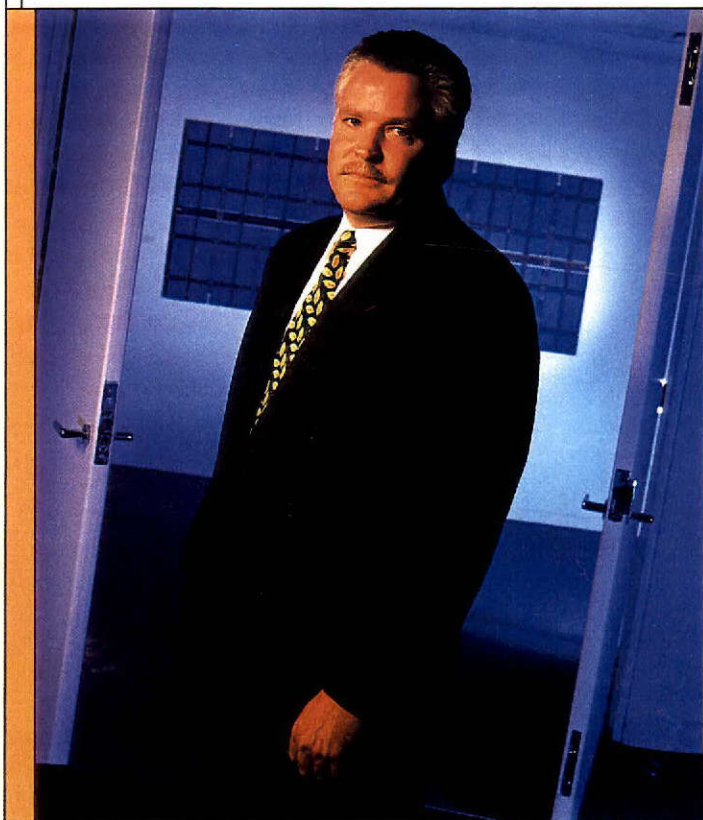
duplication of effort there was, and how little coordination." Today, he boasts, the corporate treasurer can click an icon on his PC to bring up treasury-related information within seconds. As for economies of scale, annual savings to the company are \$62 million.

IBM treasury is now managed in a centralized manner. Individual country treasurers were replaced with regional treasurers, and treasury centers in New York, Ireland, and Singapore provide operations activities for most of the company. Technology played an important role with the development of an online system that tracks worldwide information on cash, debt, banking relationships, and counterparty risk limits and exposures, among other data. More than a report-generating tool, the enhanced systems allow IBM treasurers to coordinate risk strategy, track currency exposure, and move money to improve overall profitability.

More than half of IBM's treasury savings came from making smarter purchasing decisions, says Cappello. For instance, before reengineering, the company bought insurance through 66 brokers and 203 insurers. IBM reduced those numbers to 2 and 25, respectively—a move that slashes millions of dollars in premium payments and allows risk managers to spend more time focusing on strategic issues. Similarly, the banking and cash management processes were simplified through reductions in the number of bank accounts.

"We wanted to transform the treasury organization from a back-office shop that did a lot of funds transferring into an information-based system that will be strategic in a global competitive market," says Cappello. Judging by the

◀ "Being in the information management business didn't make our job any easier or harder," says IBM reengineer Rich Carroll.



boost in IBM's treasury productivity—45 percent in two years, measured from an expense-to-revenue standpoint—Cappello's intention has become a reality.

INFORMATION MANAGEMENT: PLAYING TO STRENGTH

If IBM can't do it, who can? That was the stunning realization of the finance reengineers whose task it was to develop integrated systems and data warehouses to serve the company's information needs on a global basis. It was a little like the shoemaker who didn't have good shoes to wear; information management, after all, was the main product IBM was selling to its customers.

But while IBM had the hardware inventory and software brainpower readily available to support the effort, the results—a 50 percent staff reduction, a 48 percent gain in productivity, and a 35 percent decrease in costs—are arguably achievable by any company.

"Being in the information management business didn't make our job any easier or harder," says Rich Carroll, director of corporate accounting operations and the reengineering team leader. "We thought that we could do a better job using technology, but as far as what we did, we could have been in any industry."

IBM's first two steps—defining the data required to run the business and sourcing that data on a worldwide basis—had nothing to do with technology, points out Carroll. Prior to reengineering, IBM business units and geographic sales units had the freedom to define data and measurements according to their own particular needs. (This freedom jibed with IBM's former strategy to decentralize the company.) Accounting operations in more than 100 countries recorded transactions in their own general ledger using a unique local chart of accounts. These data were consolidated at four geographic centers in different ways before they were transmitted to corporate headquarters.

In essence, the information management process supported external reporting requirements; the aggregated financial information lacked such rudimentary details as product line and customer. Homegrown systems served to widen the inconsistencies in data definition and added to the overall cost structure of the company.

CEO Gerstner's decision in 1993 to reverse course and

reintegrate IBM meant that the babble of data had to end. The initial challenge, says Carroll, was to work with the business units and geographic groups to define the critical data that had to be recorded; standardize the data definitions across IBM; and develop a worldwide chart of accounts.

What followed was the building of a data warehouse that would contain the critical corporate information that had previously been available only on an ad hoc basis. Because of the desire to serve an extensive and diverse base of users, the change team developed an application for IBM's intranet that simplifies access to and use of the central database. Any user with a PC, a password, and a Web browser can drill down into the database. A Web server forwards queries to the database, then formats the

retrieved information in an HTML (hypertext markup language) document. The result, from the end-user's point of view, is point-and-click simplicity.

The warehouse implementation, which took 18 months, says Carroll, was "iterative"; each quarter, more data were put into the warehouse. "When we thought about how to deploy the warehouse," he explains, "we knew we could never get everything 100 percent right ahead of time, so we deliberately phased in the warehouse to build momentum. And we continue to increase the functionality of the warehouse as business dictates."

SNAPSHOT: INFORMATION MANAGEMENT		
Company: IBM Corp.		
BEST PRACTICES		
1. Key transaction data captured at the lowest meaningful level to support business objectives		
2. Data warehouses developed to aggregate financial and non-financial data, with an intranet-based user interface to access the data		
3. Strategic objectives of the company drive technology initiatives		
4. Centralized management of information systems		
5. Rapid application development tools utilized across the company		
6. Hardware and software standards defined across the company		
7. Business-critical information requirements identified as the basis for information systems design		
8. Business units receive only those performance metrics required to steer progress toward strategic objectives		
KEY METRICS	1993	1995
FTE Employees	3,667	2,362
Labor cost	\$270.8 million	\$175.8 million
Monthly close	18 days	7 days
Charts of accounts	>100	1
Fulfilling requests for information	Days	Less than 30 seconds (80%)

Source: IBM Corp.

So far, the mammoth undertaking has resulted in significant benefits. Put aside the estimated \$95 million reduction in annual labor and benefit expenses and consider these results: Changes in the consolidation process have helped reduce the cycle time of the monthly close from 18 days to 7 and assured the easy availability of consistent country data. The common chart of accounts yields 10 times more data than previously, and the warehouse has become the primary communication tool for business information at IBM. Corporate decision makers can view reports on financial and nonfinancial metrics online, and tailor queries to their particular needs.

"By making the data available," says Carroll, "interactions have shifted from a 'What's the number?' mode to one of 'How can we use this information to help the customer?'" And that's the main question the IBM turnaround has tried to answer. ■

IBM seizes a new day



By Jonathan Levine, Gamma Liaison

Riding high: Lou Gerstner, IBM's chief, has presided over a turnaround in the company's fortunes.

COVER STORY

Speed thrills as stodgy firm updates image

'The dinosaur culture is gone'

By James Kim
USA TODAY

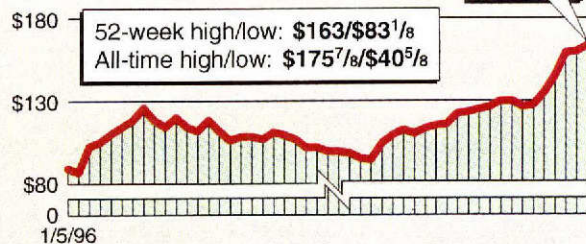
NEW YORK — Just over a year ago, IBM seemed listless. Key businesses were flailing. Management was accused of lacking a strong

vision. Investors were skeptical. Employees were unsure of the future. So CEO Lou Gerstner delivered a speech.

"I told them that soon, something very important will happen: The wind will turn. The wind that has been in your

Blue-chip rebound

Since the start of this year, IBM's stock price has nearly doubled.



Source: USA TODAY research

By Genevieve Lynn, USA TODAY

face will be at your back. I said it will be a feeling of exhilaration that you won't understand unless you work through it. I said I didn't know when the change is coming, but when it does, you will feel it," Gerstner recalled in a lengthy sit-down interview. "You can feel it now."

Without question, Gerstner has put IBM — the world's biggest technology company with an expected \$77 billion in 1996 revenue, more than seven times Microsoft's — in position to take advantage of a brisk new wind. Its main hardware and software units are more solid than they've been in

IBM seizing a new day

Continued from 1B

years. Its balance sheet is strong. It's stalking a hot market, delivering technology solutions to entire industries, such as its Integration network to let people bank from home using personal computers. And IBM is forging a new identity, shedding its image as a company that lingers while smaller companies like Microsoft and Intel accelerate.

Reflecting the new Big Blue, IBM's stock has soared nearly 84% this year vs. 22% for the Standard & Poor's 500. The past

COVER STORY

month, it has risen 27%. Some Wall Street analysts think the stock could eclipse its all-time high of \$175 7/8, set in August 1987. Since Gerstner took over as CEO in April 1993, the stock has nearly tripled, making his stock options granted from 1993 to 1995 worth nearly \$90 million.

Ask Gerstner about the stock, and he barely lifts a brow. "The stock is doing fine," he says. "We manage the company, we don't manage the stock price."

Gerstner would rather talk about customers, his No. 1 priority, and what IBM can do for them. "The No. 1 thing that will drive IBM's growth in the future is a total commitment to solutions, not piece parts," Gerstner says. "We're not selling a browser. We're not selling a 3-D engine for your PC. We're selling ways for companies to make more money."

Other companies rely on a core technology to anchor their earnings and product lines, such as Microsoft's Windows, Intel's microprocessors, Netscape's Internet browsers and Oracle's databases. IBM's forte is taking parts — made by IBM or not — and fashioning networks that can handle critical sales or financial transactions. IBM calls it e-business.

Finding solutions

Consider retail stock brokerage Charles Schwab. "We're totally committed to the electronic marketplace," says Ken Richmond, director of data management. In December 1995, the company decided it needed a World Wide Web site to let people buy and sell securities and analyze their finances. "We talked to a lot of companies," Richmond says. "But we felt IBM was the only one that could help us get the site up within our time frame."

The company had its eSchwab site up in four months. "IBM had the best solution. Instead of giving us just the hardware or software, or consulting or services, they had it all. That was the key."

Gerstner says the last thing he wants to do is ask customers to assemble parts themselves. "Customers have arrived at the point where they say, 'This technology is too complex. It changes too rapidly. We can't afford the technological obsoles-

cence. We can't afford the labor costs to maintain it and just stay up to date.'"

In the era of the Internet, the need for complete, turnkey solutions may be IBM's biggest opportunity in a decade. It estimates companies will throw \$250 billion at network-computing projects between 1996 and 2000. Of that, IBM says 65% will be spent for basic services and building solutions, its strengths.

The solutions IBM has created "will change the way institutions and individuals carry out business, real business."

In addition to its Integration network, IBM has fashioned a solution called Insure-Commerce, to let insurance, agents, brokers and buyers shop for insurance. IBM's PetroConnect will let oil companies buy geologic, weather and other critical data.

There's no guarantee that those initiatives will pay off. "IBM has yet to prove anything. They may yet, but not so far," says George Colony, president at Forrester Research.

Still, "You can't go to a company and not hear the CEO talk about the Internet. They're convinced that network solutions are the next great explosion," says Frank Dzubeck, consultant with Communications Networks Architects.

That has IBM's competitors — like EDS and Computer Sciences Corp. — excited as well. But Gerstner argues no other has the sheer breadth of IBM, which makes everything from personal computers to industrial-strength mainframe computers to network software like its Lotus Development unit's Notes product.

Here's a little-known fact: While mainframe computers often are derided as relics, IBM estimates more than 50% of all corporate data is stored on IBM mainframes. For many companies, the biggest issue now is how to take that data and make it accessible over networks.

Travelers can use American Airlines' Web site, for example, to buy tickets. The key to getting that running was to feed data from American's Sabre system, which runs on a bank of 10 IBM mainframes in an underground bunker in Tulsa. No company was in a better position to help American. IBM "allowed us to take the service quickly from the Sabre system and extend it to the Web," says John Samuel, who is in charge of data distribution at American.

Gerstner predicts that as more companies try to build networks that access cor-

porate data from mainframes, IBM will reap more business. But he insists that when IBM creates a solution, it will not force its products down customers' throats.

Still, many IBM units are doing well on their own. The PC unit, for example, has racked up 25% more unit sales so far this year compared with last year. IBM expects its Lotus unit to have pushed the number of Notes licenses to 9 million vs. 4.5 million at the end of 1995, exceeding analysts' estimates.

New culture

Gerstner is also pleased with the pace at which the new IBM is attacking. "I would argue that there's not a company that has

come close to what we've done," he says. "The culture has become very focused on speed." In the old days, IBM worked at its own pace. That hurt the company in the late 1980s as smaller, nimbler companies like Microsoft and Intel seized leadership in the industry.

Now "the dinosaur culture is gone," Dzubeck says. "I make calls there at 6 p.m. and people are working. You now have people giving home phone numbers out so you can talk to them at night and on weekends. You get responses to e-mail back from Europe and China." The new, hipper IBM even threw a toga party at the recent Comdex industry show.

IBM is also reaching out like never before, to the media, analysts and customers. Chief financial officer G. Richard Thoman says he spends a lot of time marketing

IBM timeline

April 1, 1993: Lou Gerstner joins IBM as CEO.

July 1993: IBM announces 35,000 job cuts.

Aug. 16, 1993: IBM stock hits all-time low of \$40 1/2.

December 1994: Has first profitable year since 1990 with \$3 billion net income.

July 5, 1995: Buys Lotus in \$3.2 billion deal.

September 1995: Launches Aptiva personal computers.

Nov. 13, 1995: Gerstner at Comdex announces network computing vision.

December 1995: Forms Internet division.

March 4, 1996: Buys software maker Tivoli for \$743 million.

July 1996: IBM is worldwide sponsor of the Summer Olympic Games. Nearly loses confidence of users because of technical glitches throughout the Games.

Sources: IBM, USA TODAY research by Derek Rose and Tammi Wark

IBM to Wall Street. And last month, IBM's Internet division, headed by Irving Wladawsky-Berger, staged a technology show at the glitzy Asia Society in New York City, showing off its recent achievements and trotting out executives to field questions. Next week, Gerstner will deliver a speech at the Internet World industry show.

As for the future?

Some analysts think IBM can return soon to double-digit growth rates vs. about 8% the past several quarters. But Gerstner takes a long pause before addressing the future. "I don't want to get too exuberant," he says. "I want to have a fairly strong dose of . . ." Another pause. "Well, what's the right word." A longer pause. "Well, I don't want to use Andy's (CEO Intel Andy Grove) word." Which is *paranoia*. "I want us to keep running, to keep moving ahead. Some may feel that because the wind is now at our back, it's time to coast. They are allowed a five-minute celebration, then it's time to get back to work for the other 55 minutes of the hour."

Checking priorities

Reporter learns the hard way about IBM's agenda

Lou Gerstner stood me up. I had spent a day traveling to IBM's Armonk, N.Y., headquarters, which has the ambience of a minimum-security prison and actually features a sculpture of a nuclear waste pile, and the IBM CEO snubbed me.

Four days later, this time in New York City, a colleague and I had a rescheduled interview. Gerstner waved us into his airy, spare office. I was expecting an apology.



Technology

By Kevin Maney

Forget it. Gerstner just said: "I had a customer thing that went longer than I thought. I give priority to customers. My meetings are subject to delay based on what I'm doing with customers."

Yeah, well, I've got a mind to ... uh, y'know ... ah, jeez. The big lug is right, after all.

After years of ditsiness, IBM finally has its priorities straight. It is totally focused on making its corporate and government customers happy.

Gerstner, who says he spends 40% of his time with customers, is leading by example. I may have wanted to give him a wedgy for it, but IBM shareholders have to be happy to have a CEO so hungry for business he'd blow off the media.

It's no act. Gerstner is for real. IBM, as an institution, wasn't broken. It was lost. Horribly lost. It needed a leader. When Gerstner left RJR Nabisco to become IBM's chief executive in 1993, a lot of people thought he was just a good manager who could stabilize the company. But in the past year, he's become the honest-to-goodness leader. IBM is following him. It's believing in him.

That's probably because Gerstner is giving IBM back its heritage. Sitting across from Gerstner, you can hear it. He calls it focusing on "solutions," but he's really getting IBM to do business the way IBM used to, when it bonded with customers and took care of all their technology needs.

Gerstner is reacquainting IBM with what author Jim Collins calls its core values — the culture and heart of a great company. "If he can do it, IBM will come back as one of the world's most revered corporations," Collins says. He's not sure Gerstner is there yet, but he adds that an outsider can sometimes come in and do that for a company. Michael Eisner did it for Walt Disney. Gerstner is trying at IBM.

IBM has always made all kinds of technology. It makes big computers and little ones, networks that tie computers together, software for computers, parts that go inside computers, and so on.

For a while, beginning in the late 1980s, that

was thought to be a handicap. "There were companies 20 years ago that delivered solutions," Gerstner says. "And then the industry went through this disaggregation, and now there are 60,000 competitors in the industry all making these little pieces."

A lot of customers decided to buy the pieces and assemble their own solutions. IBM tried to play in that arena. It couldn't. It wasn't in its genes.

But these days, technology is moving so fast, customers can't keep up. They're baffled. They're ripe for someone to come in and take care of everything.

Gerstner has helped IBM realize that its gigantic size and scope are an asset. IBM knows the breadth of technology better than anyone, he tells his employees. The company can't and shouldn't fight all the little battles, but it can win the big ones. It can do all the technology for an airline or a university. That is in its genes.

"So we have organized to create solutions, and customers are finding that very appealing," Gerstner says. IBM has stopped worrying about whether it's the best at selling a particular PC or piece of software. "We're selling ways for insurance companies to make more money," Gerstner says. "We're selling health care solutions."

Gerstner has even made IBM proud of what was recently its albatross: mainframe computers. Gerstner never, ever uses the word mainframe. "We just have large, scalable servers," he says, laughing. But they are mainframes, modified to work as engines for networks and the Internet. They're selling like hot toys at Christmas.

"As the money shifts toward network solutions, the money shifts toward servers and systems management and transaction processing software and complex solutions," Gerstner says. "That's our business."

So IBM is back. It's winning new business. It has momentum. Its stock price is back near its all-time high. Thousands of IBM employees no doubt worked very hard to make that happen. But it wouldn't have happened without Gerstner.

Gerstner, though, isn't looking back. In fact, here's a hint. If you ever get an appointment with Gerstner, and if he shows up, don't ask him what were the most important moves he made at IBM. I did.

"You just — the duck just came down. It's now 100%," Gerstner said, rolling his eyes. "There is never a meeting I don't have with reporters or outside people when they ask me to look back retrospectively and say, what was the most important decision you made? I've been working so hard here and focusing on the future, I haven't had time to think about it. To sort of contemplate, you know, the hills and valleys of history is not on my agenda."

Especially if there's a customer waiting.

Kevin Maney's e-mail is kmaney@usatoday.com

MURDOCH VS. EVERYONE / FIXING FIDELITY / BEST GIFT IDEAS

BusinessWeek

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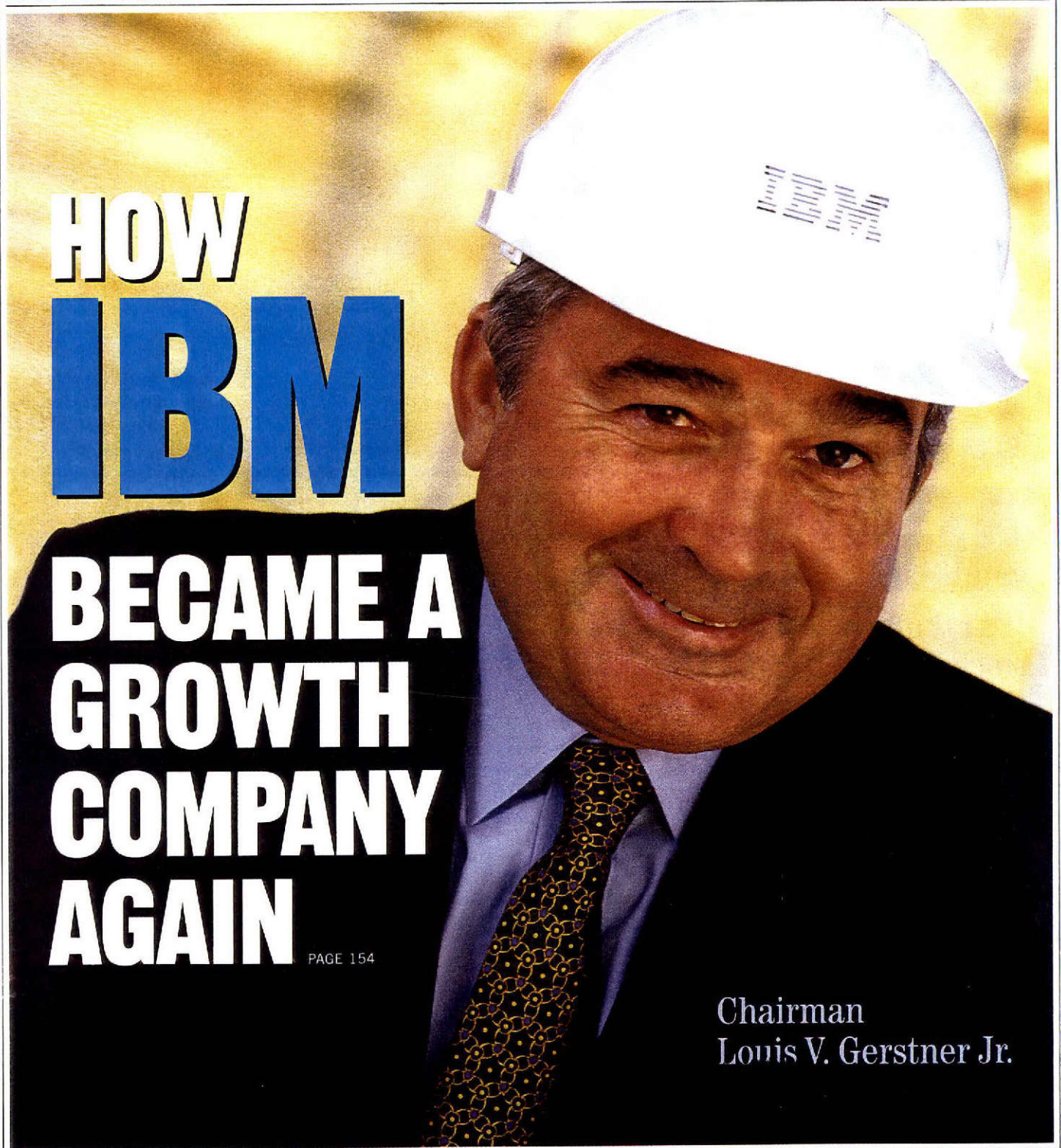
A PUBLICATION OF THE MCGRAW-HILL COMPANIES

HOW
IBM

**BECAME A
GROWTH
COMPANY
AGAIN**

PAGE 154

Chairman
Louis V. Gerstner Jr.



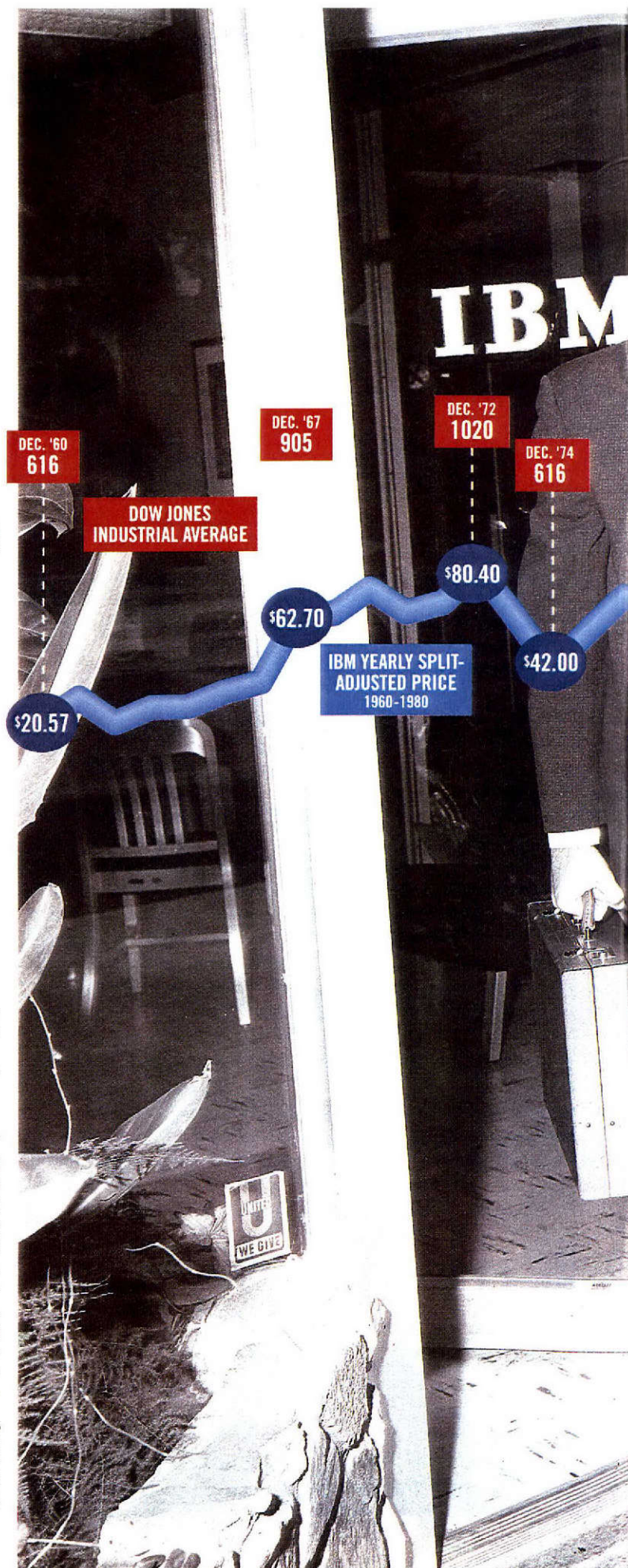
Cover Story

HOW IBM BECAME A GROWTH COMPANY AGAIN

It's raking in new business, its stock is roaring, and it's regaining the respect of Corporate America. What's Gerstner's secret?

It's getting harder to remember the days when IBM was regarded as a national disaster. In the latest quarter alone, IBM snagged a staggering \$11 billion in the lucrative computer-services business—winning four out of five deals it went after. A new mainframe model, introduced in September, is sold out for months. Sales of personal computers have risen 25%, and the company can't keep up with demand for its new home PC. Most important, IBM's core business—selling computers and all manner of information technology to major corporations—is healthier than it has been in years: These customers will spend \$58.3 billion with IBM in 1996, a respectable 8% jump from \$54 billion in 1995.

As investors have come to fully understand the scope of this winning streak, they have aggressively bid up IBM shares. From around 129 in October, IBM has been on an increasingly rapid rise. In a nine-point streak on Friday,





THE WAY IT WAS

Setting off on a sales call in 1957. By the 1980s, IBM had forgotten the benefits of human contact. The old ties were gone

Nov. 15, it hit 145, a nine-year high. The following Monday, it jumped to 149 before settling back to 146%. By Nov. 22 it hit 158%, helping lift the Dow Jones industrial average through a series of new records. Daniel Mandresh, an analyst at Merrill Lynch & Co., predicts the stock could hit 195 by the end of next year—20 points over the company's 1987 high.

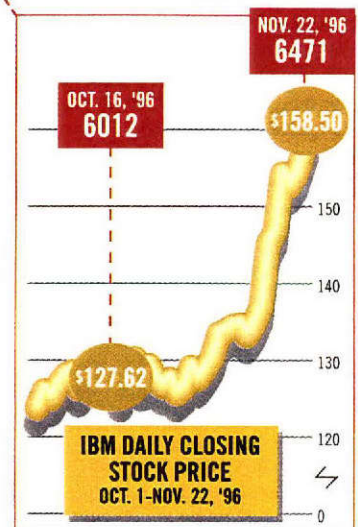
Why, it's as if Wall Street has found a new growth stock to love. And in a way, it has. The 7%-to-10% revenue increase that analysts expect from IBM this year may not be much by the standards of, say, Microsoft Corp. or Intel Corp. But the increase of \$5 billion is huge—equivalent to adding another Dell Computer in revenues.

Factoring in this new growth potential, analysts say that the stock, even now, is undervalued. Instead of trading at 10 times projected 1996 earnings per share, as it has been—the sort of multiple associated with a no-growth utility—IBM's growth rate and excellent cash flow should warrant a price-earnings ratio closer to that of other high-tech companies. Com-

paq Computer Corp., for example, commands 18 times earnings. IBM is doing its part, too. On Nov. 26, the board authorized the repurchase of \$3.5 billion in IBM stock.

Some analysts reason that IBM's p-e should go higher. Even though two thirds of its revenue now comes in relatively low-margin segments such as PCs, workstations, and services, IBM is still one of the more profitable computer makers. For the year, it is expected to earn \$6 billion on revenue of \$77 billion, according to Mandresh. If the economy holds, the outlook is for more of the same for at least the next few years. Mandresh predicts earnings of \$6.5 billion on \$83 billion in revenue in 1997 and \$6.9 billion on \$89 billion in 1998. That's why, 30 years after it helped lead the 1960s' go-go market, IBM is again an issue that money managers don't want to miss out on. "I wish I had kept more," says fund manager James Cramer of Cramer & Co., who sold when IBM hit 90, but recently bought 50,000 new shares. "It's a changed company. The fundamentals are the best they've ever been."

IBM has arrived at this happy juncture by doing lots of things right since Chairman and Chief Executive Louis V. Gerstner Jr. took over 3½ years ago. But the secret to IBM's success isn't great technology, cutthroat pricing, or flashy marketing moves. It's approaching double-digit growth for the first time in almost seven years for one main reason: Under Gerstner, IBM has gone back to the most basic notion of how to succeed in business: talking to customers, learning their needs, and figuring out how to



satisfy them. "That sounds simple, but show me companies that are really good at it," says Gerald Ross, a co-founder of Change Lab International Inc., a consultant in Stamford Conn. "It's easy to say but hard to do."

Making that customer connection, it turns out, is Gerstner's thing. "I came here with a view that you start the day with customers, that you start thinking about a company around its customers, and you organize around customers," he told BUSINESS WEEK in a recent series of interviews. That approach, in part, is the reason why IBM is on such a tear in computer services—and one of the reasons why Wall Street is suddenly so fond of IBM. For the first time in years, almost every cylinder in the massive IBM engine is fir-

ing: new mainframes, PCs, and minicomputers are selling well. And IBM has worked

Cover Story

hard to put itself in position to be the indispensable helper that companies need to put all those products—and many more—together in complex network setups such as corporate intranets. Now, computer services is IBM's biggest growth business—expected to skyrocket to \$16 billion by the end of this year, up from \$12.7 billion in 1995 and just \$9.7 billion two years ago. "What really differentiates IBM is its ability to integrate products, and its breadth," says Steven Milunovich, a Morgan Stanley & Co. analyst. "Customers are trusting IBM again."

DEAF EARS. Even the competition acknowledges the improvement—and the threat. When it comes to competing with IBM, says Richard C. Watts, general manager of Hewlett-Packard's Computer System group, "it's a harder fight than it was." And IBM's focus on the service end of the business is something that other computer makers will adopt, says Sun Microsystems Inc. Chairman Scott McNealy. "Customers want you to help them fix something," he says.

Before IBM could help its customers, it had to fix itself. Gerstner, who arrived in April, 1993, after a 27-year career in consulting and management at McKinsey, American Express, and RJR Nabisco, had no illusions about his expertise in picking technology winners and losers. But he knew a lot about how big companies work—and why sometimes they don't.

One of IBM's most glaring problems, Gerstner concluded, was not its various technology gaffes but that it had basically screwed up relations with its customers. Once famous for blanketing big corporations with legions of pin-striped marketing and field-engineering troops, Big Blue had become distant, arrogant, unresponsive. In the 1980s, the company that had taught corporations how to use computers in the first place—in the process earning entrée into every major board-



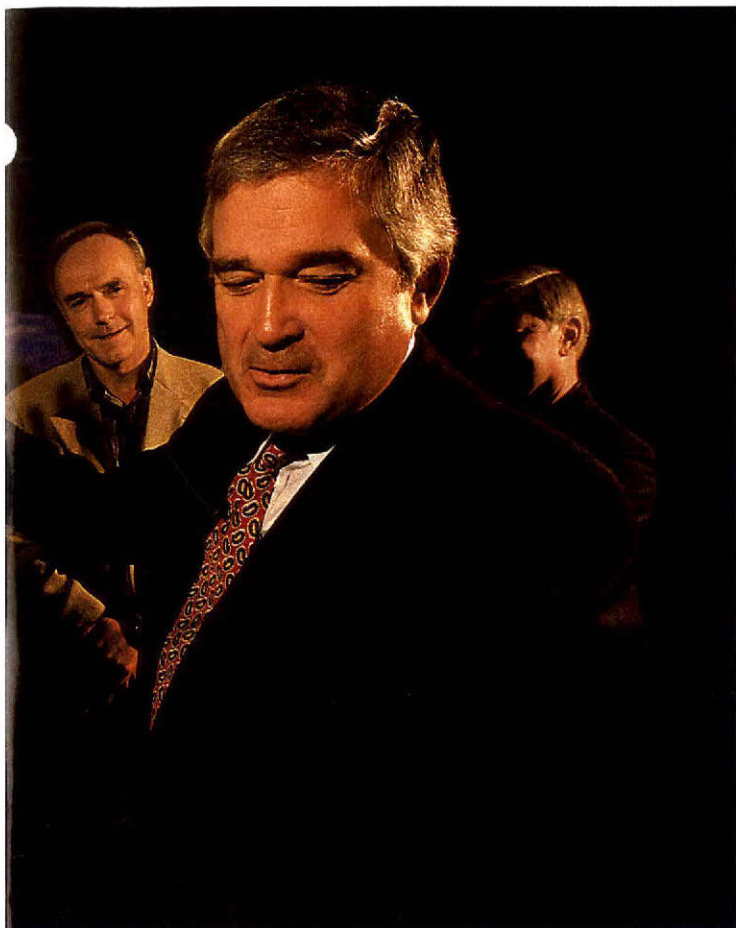
room in America—changed gears. It shifted to a high-growth strategy, that emphasized pushing hardware (often not the best and rarely the most competitively priced) rather than dealing with a client's business problems.

At first, that strategy paid off. But by the early 1990s, the growth evaporated. Meanwhile, the company squandered what it had taken decades to build: a position of trust with customers and the ear of top decision-makers in corporations. "I started out selling to the corner office," says William A. Etherington, a 32-year sales veteran and the head of IBM's industry sales units. "Then, we started to get moved to the CFO, and then to the data processing executive, and finally to the data center manager." Gerstner saw firsthand how bad things had gotten shortly after joining. When he invited CEOs of major corporations for a technology briefing,

WHERE IBM HAS TAKEN BACK LOST GROUND

	AETNA	CONTINENTAL CABLEVISION	DUPONT	INDIAN AIRLINES	LIBERTY MUTUAL INSURANCE	POHANG IRON & STEEL	SEARS
PROJECT	Claims processing	Customer management and billing system	Global system to run SAP software	Online reservation system and passenger service system	Reengineering and associated systems development	Controllers for manufacturing process	Data warehouse for 120 million credit-card accounts
EQUIPMENT	Four mainframes	Large-scale parallel computers	Workstations and database software	Two mainframes and systems integration services	Consulting	Servers, workstations, and systems management software	Three large-scale parallel computers
COMPETITOR	Amdahl	Tandem	Hewlett-Packard, Oracle	Unisys	Andersen Consulting	Digital Equipment	NCR

DATA: IBM



FACE TIME

Gerstner meets with clients in Atlanta. The CEO figures that he spends 40% of his time with customers, listening to their complaints and plans

into a global network of experts in everything from banking to higher education.

To be sure, IBM can't get by on a shoe shine and a smile. It needs to continually develop or acquire the technology and the skills that customers are clamoring for. Indeed, the turnaround is still a work in progress. For example, IBM has yet to prove that it can consistently keep up with ever-shortening product

cycles of the computer business, particularly in PCs and Internet-related software. And for the growth scenario to play out, IBM needs more than its recent surge in service business and a healthy mainframe-replacement cycle. Among other things, it needs to revive its flagging \$8.5 billion mainframe software trade and stagnant maintenance business, reverse its slide in the potentially lucrative mainframe disk-storage area, and do better in fast-growing markets such as PC servers.

Also, it remains to be seen whether Gerstner can really carry off his strategic initiatives: the \$3.5 billion purchase of Lotus Development Corp., the Tivoli deal, and the alliance with Sun Microsystems to make Java a major computing "platform." Microsoft Chairman William H. Gates III gleefully notes IBM's dismal track record with projects such as the PowerPC microprocessor (which has not dented Intel's dominance) or OS/2, the personal-computer operating system that all but disappeared in a world of Windows PCs. Will IBM do better with Lotus or Java? "They have an absolutely perfect track record on software initiatives," Gates says sarcastically.

But even Gates has to concede that IBM does have momentum. And now that Big Blue is on a winning streak, that could lead to more interest in its products, which could lead to more sales and more earnings—and higher stock

managers had to scramble to find enough chief executives to fill the 20 slots.

From the beginning, Gerstner set about rebuilding ties to IBM's biggest customers, laying the foundation for the successful services strategy. "I want to take IBM back to its roots," says Gerstner. He made it a point to get out of the office and meet regularly with customers—something his immediate predecessor John F. Akers had rarely done. By his reckoning, Gerstner still spends 40% of his time with customers, often chatting CEO to CEO, to learn what's going on.

He listens—and he acts. When he heard customers complain about the high prices of mainframe software, Gerstner quickly ended the ongoing debate within the company about software pricing and ordered cuts up to 30%. Customers balked at investing more in proprietary hardware and software, so he pushed for more industry standards, such as Sun's Java programming language. Corporations were having trouble running complex computer networks, so IBM bought Tivoli Systems for \$743 million to improve its systems management skills. Clients were growing leery of spending so much on technology and not seeing the payoff. IBM set about transforming its sales force

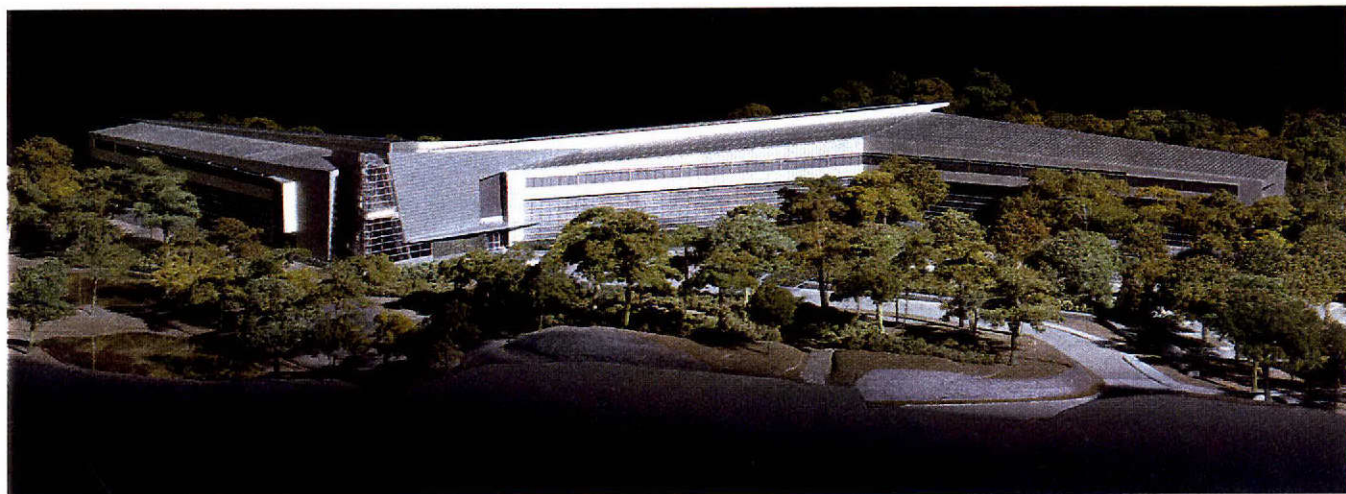
DEADLINE PRESSURE IBM has yet to prove it can consistently handle the crunch of product cycles that grow less forgiving. PCs and Internet software are particular concerns

U S WEST	WAKE FOREST UNIVERSITY
Data warehouse	Notebook computers with Lotus Notes for students and faculty
Large-scale parallel computers	ThinkPad Notebook PCs
NCR	Apple Computer

prices. "There's a horde mentality in this industry," says Lynn Berg, an analyst with Gartner Group. "Part of the reason Microsoft is so successful is that people are afraid of making an unpopular choice," she says.

RAP SESSION. Folks used to say that about IBM, and if the company can rebuild relations with customers, they could be saying it again. Which is why Lou Gerstner's world tour keeps rolling on. A typical CEO schmooze trip begins just after dawn on a drizzly, cold October morning. The 54-year-old CEO arrives at the Westchester County Airport from his home in nearby Greenwich, Conn., and boards IBM's Gulfstream IV. At 7 a.m.—Gerstner has moved up the departure hour three times to make sure he's not late—the plane takes off for Toronto, where Gerstner will meet with 20 top executives invited from such organizations as Rubbermaid Inc. and the University of North Carolina.

In Toronto, Gerstner chats excitedly about the Internet and technology issues confronting top management, as his car makes the 50-minute slog downtown through rush-hour traffic. There is no entourage. Just Gerstner. "The networked world offers the promise that maybe the information technology industry will start to, for the first time in a decade or so, address CEO-level issues," he says. At The King George Hotel, he bounds out of the car to the elevators. In a con-



ference room upstairs, the CEOs sit around a horseshoe-shaped table. Gerstner slips off his jacket and holds forth for the next 90 minutes—no slides, no canned presentation, and no eye-glazing discourse on technology. He launches into a high-level rap session, a wide-ranging discussion that touches on everything from the quality of public schools to the changes technology is bringing to financial-services companies.

The pitch is subtle but effective. The audience is left with the impression that Gerstner—and by extension, IBM—has figured out how the 21st

Cover Story

century high-tech society and economy will unfold. "He acts as a translator to his clients," says Wolfgang R. Schmidt, the chairman and CEO of Rubbermaid who has come to Toronto for a primer on the new technology. "He's able to connect." **"SELLING TRUST."** IBM isn't the only company trying to get close to its customers, especially at the CEO level. From DuPont to Marriott to Hewlett-Packard, relationship building has become the mantra for corporate honchos. "More and more CEOs have become conscious that they are the CEO of marketing. You're selling trust," says Philip Kotler, a professor at Northwestern University's J.L. Kellogg School of Management. And that, says Kotler, starts at the highest levels of the organization. "It's building bridges, not just between the salesman and the purchasing manager: It's CEO to CEO," he says.

The approach is simple, but it works. When Gerstner and his management team came calling on Procter & Gamble Co. last December, they got a warm reception: It was the first

time an IBM CEO had visited in decades—despite the fact that \$35 billion P&G is one of the best IBM accounts. Gerstner had run into P&G Chairman and CEO John E. Pepper at a business function where Pepper mentioned that he and his senior managers were wrestling with how to better exploit new technology such as the Internet to streamline operations, speed innovation, and reach customers through new channels. Within a few days, the IBM chairman called Pepper to suggest that he bring his management team out to P&G for a daylong briefing on their vision of a new era of electronic commerce. "It was a very proactive step to call and say: 'I'll bring my management team out,'" Pepper says.

The packaged-goods giant is still working on its technology plan. But IBM is deeply involved—and in position to sell computers, network services, software, and whatever technology P&G decides to buy. "The meeting was an eye-opener and a catalyst for the role information technology could play strategically," says Pepper.

When Ameritech Corp. was looking to farm out its data processing operations, Gerstner made a sales call at the Chicago-based Baby Bell. He also phoned Ameritech Chairman and CEO Richard C. Notebaert several times before the deal was done. Of all the companies bidding on the \$2.6 billion, 10-year contract, says Notebaert, "Lou was the only CEO who was deeply involved." The attention paid off. IBM won the business. And the relationship that Gerstner built helped the companies get together on a \$400 million joint venture that will offer help-desk services to other corporations.

In a world turned on end by the Internet, these new relationships could now help IBM seize a golden opportunity. Gerstner foresees tremendous growth potential by providing customers in industries as far afield as health care and utilities with the complex software, systems, and networks for electronic commerce. Over the past year, IBM executives have hatched plans for everything from online shopping malls to an electronic infrastructure serving a consortium of banks (page 160).

Whether it's a network for a single

A LITTLE SOMETHING EXTRA IN THE PAY ENVELOPE

As if being the head of Big Blue didn't pay well enough, Gerstner, like many other CEOs, is rewarded annually with shares of IBM. The value of Gerstner's holdings has jumped phenomenally. Consider that a good portion of the initial 500,000 shares he was given in 1993 has increased more than threefold in value.

	CUMULATIVE OPTIONS	MARKET PRICE PER SHARE (\$)	AVERAGE GAIN PER SHARE (\$)	NET VALUE OF OPTIONS (\$)
DEC. 31, 1993	500,000	47.880	8.620	4,310,000
DEC. 31, 1994	725,000	73.500	21.567	15,636,000
DEC. 31, 1995	822,092	91.375	37.055	30,462,385
DEC. 31, 1996	770,603	158.500	103.884	80,053,484 (est.)

DATA: COMPANY REPORTS, BUSINESS WEEK ESTIMATE

Bill Gates derides the Lotus and Java deals: IBM has "an absolutely perfect track record on software initiatives"

company or an industrywide effort, IBM is approaching all these deals as a way to build ties that will bring more business in the future. For example, instead of cramming its gear down the throats of customers, the company is increas-

Cover Story

[not invented here] syndrome is not getting in the way," says Sun's McNealy.

While IBM may sacrifice some short-term hardware and software sales, it stands to reap greater rewards by creating a lasting relationship with a customer. "They are helping us find solutions, whether with their hardware or someone else's," says Robert G. Miller, chairman and CEO of Fred Meyer Inc., a \$4 billion retailer in the Pacific Northwest that uses IBM mainframes to keep tabs on more than 225,000 items in its 216 stores. That builds intense customer loyalty, says Gartner's Berg. "IBM has figured out how to position themselves as a neutral third party," she says. "The next thing you know, they are the infrastructure for how these companies do business. That's something that will bear fruit for years."

REVENUE RIVER. In the process, IBM could be building up a nice annuity for itself. How? Because the new electronic-commerce systems are so complicated and the technology is evolving so rapidly that customers are opting to let IBM handle all the details and pay a fee for the service. That's what online tenants that take space in World Avenue, IBM's Internet mall, will do, for example. Such constant revenue flow could even out the cyclical nature of the hardware business and, to the analysts, guarantee future earnings. "The volatility of earnings is less," says Morgan Stanley's Milunovich. Already, nearly 35% of IBM's revenue comes as steady monthly payments, he estimates.

No chance is missed to make better customer connections, even if that's not the apparent agenda. Take the 1996 Olympics. IBM spent a huge \$75 million on the event and suffered a public-relations black eye when its network could not get the scores out to the media. But the Games were a great success in terms of flesh-pressing. IBM hosted 1,600 executives from client companies around the world, including 800 CEOs. Gerstner was in a conference room at the Ritz Carlton, showing the CEOs how the huge IBM Olympic network operated. "He was demonstrating various pieces of software and showing us how to do different things," says Ameritech's Notebaert. He also closed some business, inking a deal with Helmut Werner, CEO of Mercedes-Benz, that

had been in the works since the end of 1994. It revolved around a proposal by IBM to collaborate on efforts to shrink the number of electronic components in a car. For Mercedes, 30% of its parts bill, or \$3.3 billion a year, is electronic components of one kind or another. "It's a natural marriage," says Werner. "We know how to build cars, and IBM knows how to build systems."

Now that the orders are rolling in, don't expect Gerstner to slow down. In November alone, he crisscrossed Europe several times, hitting four countries in seven days. Since taking over IBM, he has logged 542 flights in the corporate jet and 408,000 air miles. This schedule hasn't done much for his golf game, Gerstner jokes (he declines to divulge his handicap.) Nor has it allowed him much time for pastimes such as



BASICS 101
IBMs attend a class on customer service. One of the company's original tenets was that the salesperson should be a trusted adviser

gardening or fly fishing, although he did manage a day outing on a friend's boat off Nantucket in September.

On the other hand, with the stock at its current levels, Gerstner can look forward to a fabulous payday. At current prices, Gerstner's stock options are worth a cool \$80 million (table, page 158).

Of course, the CEO schmooze sessions can only do so much. That's why Gerstner continues to tinker with his organization to make sure that it has the right people in the right places to maintain ties with customers and translate their requirements into products and services. He is even sending IBM executives back to school for a course in the basics of market and customer selection, and sometimes he's the lecturer himself. "The art of management is about choice," says Chief Financial Officer G. Richard Thoman, who has been leading the effort.

The day-in, day-out contact, however, still falls to the

sales force. And there, Gerstner has also made his mark. To staff new marketing units aimed at particular industries—such as insurance, finance, and health—Gerstner has hired consultants from Booz, Allen & Hamilton, McKinsey, Coopers & Lybrand, and other firms. The top requirements: intense knowledge of their industries and customer contacts at the highest levels.

Take higher education. Sean C. Rush, the general manager of the unit, “knows as much about running this institution as I do,” says Michael G.

Hooker, chancellor of the University of North Carolina. Rush spent 12 years in higher education as a consultant for Coopers & Lybrand. Hooker had avoided using IBM equipment and software after bad experiences with the company in the late 1980s. Now, the educator is listening as IBM pulls out all the stops to win the university’s business. “One

of the things I bring with me is a set of relationships in higher education,” says Rush.

Not every customer is dazzled by IBM’s new performance. Jorge Rincón González, director general of support systems at Grupo Nacional Provincial, one of Mexico’s largest insurance companies, flew to Venice to attend a special insurance seminar set up by IBM. That was after Fred J. Amoroso, the general manager of IBM’s insurance-industry marketing unit, came calling. Rincón says that he’s impressed with IBM’s new attitude and has even asked Amoroso’s team to review his company’s strategic plan. However, he doubts that he’ll make any sharp switch from other suppliers—Hewlett-Packard, Electronic Data Systems, and Xerox—in IBM’s favor. Lou Gerstner’s IBM, he says, is “a big step forward, but that doesn’t mean we’re getting married.” Maybe not, but at least IBM is back on the dance card—in corporations and on Wall Street.

By Ira Sager in Armonk, N. Y., with bureau reports

Cover Story

THE WOONG—AND WIRING—OF THE BANKS

When Louis V. Gerstner Jr. became chairman of IBM, skepticism abounded in the industry about how this techno-babe-in-the-woods might fare as head of the world’s largest technology company. Well, it turns out the gang can learn a lot from a guy like Gerstner.

Consider, for example, how his unfamiliarity with PC software wound up putting IBM in the middle of a massive online banking consortium. Back in late 1994, Gerstner visited the CEOs of two of the largest banks in the U.S. As he sometimes does, he asked the execs who they thought their biggest future rival would be. Gerstner says he figured the answer would be Merrill Lynch or Fidelity or American Express. It wasn’t any of them. Both CEOs mentioned Intuit Inc., a maker of home-finance software that had just agreed to be acquired by Microsoft Corp. Gerstner was surprised. “I had never heard of Intuit. I mean, I had to fake it with the first guy,” he says, smiling.

Gerstner got a copy of Intuit’s Quicken program and started playing around with it. He realized that companies such as Intuit would soon be able to do what banks should have been doing: offer home banking and other financial services to PC users. Unless the banks caught up, he reasoned, Microsoft and others could easily wedge their way between the banks and their customers.

Next, Gerstner called Robert M. Howe. The former Booz, Allen & Hamilton Inc. partner, hired in 1991

to build up IBM’s consulting business, heads its \$9 billion financial-services organization. Howe was told that IBM had better start thinking about what the banks needed to do to compete in the new environment.

Howe and his people spent the



STEP INTO THEIR WINGTIPS
Told to think like a banker, Bob Howe created an online network for 15 banks with 60 million depositors

next 18 months working out a way to help banks provide online services. Howe saw a nifty opportunity: IBM could create a national network that all the banks could share. The banks could own the system jointly with IBM, split the costs, and avoid the

hassle of inventing their own system. IBM would also be paid a fee for each transaction. Howe hit the road to drum up support among bankers.

So did Gerstner, who stayed in constant touch with Howe. “We always talked about the strategy,” says Howe. “Hell, he helped me sell a number of the CEOs.” Indeed, after getting Howe’s unit on the case, the IBM chairman was on a trip with Hugh L. McColl Jr., chairman of NationsBank Corp. Gerstner recalls saying: “You know, you guys have got to do something here. You’ve got to help us.” NationsBank became an early partner.

SHOP TALK. Gerstner reeled in John B. McCoy, chairman of Banc One Corp., during a golf tournament last winter. The two were part of a foursome, and, through three holes, McCoy recalls, Gerstner kept talking about this great electronic banking consortium. Exasperated, McCoy finally asked if they could just play some golf. However, Banc One did join the consortium.

On Sept. 9, Gerstner and the CEOs of 15 banks with 60 million depositors—including Banc One, NationsBank, and Bank of America—announced Integrion Financial Network, the electronic-banking consortium. The first services to be offered are scheduled for the first quarter of next year. Meanwhile, IBM is creating a similar nationwide service for banks in Brazil. Sometimes, it’s the simple questions that provide the far-reaching answers.

By Ira Sager in Armonk, N. Y.