

Four questions to success

Former IBM chief Samuel J. Palmisano devised four questions that pushed his company to stay a step ahead of rivals, writes **Steve Lohr**

BECAUSE it has become so consistently successful, IBM is almost boring. This is a company so predictable that its financial forecast is packaged as a "five-year road map", as if it were some sort of state planning exercise.

Yet behind IBM's relentless progress over the last decade is a game plan that has been anything but conservative. The company shed multi-billion-dollar businesses. It chose higher profit margins over corporate size, and expanded aggressively overseas, seeking sales, low-cost engineering talent and quicker organisational reflexes.

Investors, however, haven't been bored. The company's stock price has surged. In November 2011, Warren E. Buffett, who typically shuns technology stocks, announced he had accumulated US\$10 billion (RM310 billion) of IBM shares, a stake of more than five per cent.

All of that didn't just happen. A large portion of the credit goes to Samuel J. Palmisano, who stepped down recently after nearly a decade as chief executive. During his tenure, IBM has been a textbook case of how to drive change in a big company — when so much of the study of business innovation focuses on start-ups and entrepreneurs.

Palmisano says his guiding framework boils down to four questions:

- Why would someone spend their money with you — so what is unique about you?
- Why would somebody work for you?
- Why would society allow you to operate in their defined geography — their country? And
- Why would somebody invest their money with you?

He formulated those questions in the months after he became CEO in March 2002. His predecessor, Louis V. Gerstner Jr, recruited to IBM in 1993, had already pulled the company out of a financial tailspin, first reducing the size of the workforce and cutting costs, and then leading a remarkable recovery.

In meetings after he took over, Palmisano told colleagues that IBM



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was still good, but that it wasn't the standard-setting corporation that it had been when he joined in 1973. (A history major at Johns Hopkins and a star offensive lineman on the football team, he turned down a tryout with the Oakland Raiders of the NFL for a sales job at the company.)

The four questions, he explains, were a way to focus thinking and prod the company beyond its comfort zone and to make IBM pre-eminent again. He presented the four-question framework to the company's top 300 managers at a meeting in early 2003 in Boca Raton, Florida.

"This needs to be our mission and goal, to make IBM a great company," he said, according to executives who attended the gathering.

The pursuit of excellence in those four dimensions shaped the strategy. To focus on doing unique work, with its higher profits, meant getting out of low-margin businesses that were fading. IBM's long-range technology assessment in 2002 concluded that the personal computer business would no longer present much opportunity for innovation, at least not in the corporate market.

The hub of innovation would shift to services and software, often delivered over the Internet from data centres, connecting to all kinds of devices, including PCs. Today, that is called cloud computing. When IBM started promoting the concept several years ago, the company called it on-demand computing.

In 2004, IBM sold its PC business to Lenovo of China. Palmisano

says he deflected overtures from Dell and private equity firms, preferring the sale to a company in China for strategic reasons: The Chinese government wants its corporations to expand globally, and by aiding that national goal, IBM enhanced its stature in the lucrative Chinese market, where the government still steers business.

In total, the PC, disk drive and other hardware businesses that Palmisano sold off, generated nearly US\$20 billion a year in sales, if not a lot of profits.

The divestitures meant that IBM was no longer the world's largest information technology company. Hewlett-Packard took that title and took a different strategic path as well, doubling its bet on PCs by acquiring Compaq in 2001. "You see the choice that was made, and how the economics worked out," Palmisano observes.

Today, IBM's stock market value, at US\$217 billion, is more than four times that of the struggling HP. IBM invested heavily elsewhere, buying the business consulting firm PricewaterhouseCoopers Consulting, for US\$3.5 billion in 2002, for its expertise in specific industries.

For IBM, the emphasis was to move up from selling customers computers and software to helping them use technology to solve business challenges in marketing, pro-

curement and manufacturing.

Corporations and governments are drowning in a flood of data from internal systems and the web, struggling to make sense of it. To get ahead of that

challenge, IBM has spent more than US\$14 billion since 2005 buying 25 software companies that specialise in data mining and analytics, looking for useful patterns in data in fields as varied as disease treatment, traffic management and crime detection. And it has increased its research and development budget by 20 per cent under Palmisano, to about US\$6 billion a year.

Combining research, specialised skills and sophisticated technology is the recipe behind IBM's Smarter Planet initiative, begun in 2008. It now has more than 2,000 projects worldwide, applying computer intelligence to create more efficient systems for utility grids, traffic management, food distribution, water conservation and health care.

The idea, Palmisano explains, is to "go to a space where you're uniquely positioned and use the value of IBM's integration".

For him, the Smarter Planet effort is a return to IBM's roots. Shortly before he became chief executive, he dipped into corporate archives, reading speeches and memos from the founder, Thomas Watson Sr.

When Palmisano was an executive assistant to John F. Akers, then the chairman, in 1989 and 1990, he had lunch with Thomas J. Watson Jr, a former chairman, once a month. The Watsons, he says, always defined IBM as a company that did more than sell computers — they believed that it had an important role to play in solving societal challenges.

"It's old-fashioned, but it's motivational," he says.

And it resonates with the young people IBM is recruiting these days, he says. A couple of times a year, Palmisano speaks to groups of elite students whom IBM is trying to woo to its research labs. The pitch, he says, is that IBM is a place where you can make a difference and do deep science.

"You can change the world, and you can compete for a Nobel prize," he says, referring to IBM's five Nobel winners.

(Eighty-seven per cent of the candidates who were offered jobs by IBM Research last year joined the company.)

Palmisano's appeal to young technologists is just one example of an answer to one of his four questions. All four, he says, must be addressed. That challenge is now passed to Virginia M. Rometty, who is the ninth chief executive in the company's 100-year history.

"The hardest thing is answering those four questions," Palmisano says. "You've got to answer all four and work at answering all four to really execute with excellence."