IBM's Challenging Transition to Global Integration

Mark Peterson

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Leadership Strategies for a Changing World

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Professor

Rebecca Herman, PhD

Summary of the Case

This analysis of the 2009 International Business Machines (IBM) case study

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ENG explores the important role that multicultural leadership contributes to organizational

transformation. IBM must continually respond to the changing needs of clients, customers and

the global economy in order to deliver a sustainable value proposition (Denning, 2011). Under

the guidance of Chairman and CEO Sam Palmisano, IBM is in the process of transitioning from

a multinational corporation to a global integrated enterprise (GIE) by emphasizing multicultural

leadership and increasing local assimilation as part of its global integration strategy.

The reason the GIE transition is so vital in 2009 is due to inefficiencies of a multinational

structure against competition in a global marketplace. In addition, Palmisano has identified that

IBM's philanthropic initiatives and investing global citizenship is the gateway to new product

space. "Thought leadership" today considered the cutting edge of innovation (Rogers, 2013).

Absent of physical products like hardware and software, thought leadership is dependent on

corporate integrity and trust, must be tightly invested in local cultures for both product

development and advocacy, and requires global integration for IBM to achieve revenue-

generating success.

Major Issues

- IBM's business model was ineffective, struggling to compete in software and hardware

  manufacturing against much nimbler and lower margin companies (Denning, 2011). In

  multinational companies, operations are decentralized, communication between divisions

  is marginalized, and local markets have a disparate influence on marketing and business

strategies (Huebsch, 2015). This new product spaces requires a globally cohesive leadership structure that taps into local communities.

- Transitioning to a global organization is a massive undertaking. Integrating all units and unifies product lines is monumental, considering that in 2008, IBM employed 380,000 people in 170 countries and carried 86 billion in operational expenses (Kanter, 2009).

- Local governments lose trust in international companies because they do not have their best interests in mind. Global integration requires multicultural leadership and greater investment in local societies (DuBrin, 2013).

- Corporate culture requires substantial change to legitimize thought leadership as a viable product. Leaders need to be positioned closer to customers to understand the marketplace and deliver value. Cultural diversity needs to permeate inside the organization to foster marketable "brain power" that can be directed towards new partnerships with local communities (Rogers, 2013) and ultimately generate revenue.

Alternate Courses of Action

IBM could attempt to remain an international company and avoid making the effort to fully transition to a GIE. By doing so, IBM would be communicating to stakeholders, including countries and local governments that IBM is just a US company beholden to its shareholders. Shareholders may challenge benevolent investments in emerging markets that have no immediate pay off and may take years to develop into business relationships. Competitors could seize the opportunity to build trust with local communities and squeeze out IBM's influence through increased global citizenship, philanthropy, investment in local education and community services.

IBM could attempt to continue to achieve global success by leveraging the reputation of the IBM brand. After all, IBM is the second most recognized global brand behind Coca-Cola, and in front of Microsoft (DuBrin, 2013). IBM could leverage its brand and return to manufacturing consumer products, but in such a competitive market IBM's margins will be razor thin, and brand and reputation will remain vulnerable if the company does not reflect cultural sensitivity and workplace diversity. In today's competitive marketplace, workplace diversity a strategic necessity for technology innovation (Childs, 2005).

IBM could continue to emphasize hardware and disregard thought leadership as a new revenue generating opportunity with an innovative value chain. Since thought leadership starts with corporate responsibility and philanthropy (Bruce, 2013), such disregard of IBM's core values would signal a spiraling decline against fierce competition. According to Denning (2011), IBM has a history of only responding to challenging market conditions when exceptional leaders have stepped in to save the company from near catastrophe by ignoring IBM's bureaucratic mindset and listening to customers. In the 1990's, after IBM was forced to sell off mainframes because it could not compete with more agile companies, Gerstner listened to customers and transformed IBM to a software and service company (Kanter, 2009). In 2009, Palmisano is facing similar problems and extends Gerstners's attention to customer focus into focus on the global community. Most recently, Stanley Ludlow, considered IBM's current transformational spear, drew upon a background of corporate citizenship to find new markets at the country level to generate revenue through corporate responsibility (Bruce, 2013).

Recommendations

- Continue cultural investments and global citizenship

Palmisano and IBM's Integration and Values Teams (ITVs) should continue to recognize the importance of local cultural investments to generate the structure necessary for IBM to provide value propositions at a globally integrated level. The company structure more accurately reflects the new global requirements and fosters better cultural communication at the highest level and across the organization.

Establishing global citizenship and thus validating thought leadership as a new product space requires IBM to continue to be philanthropic, investing in local education and community services; and continue to revise the management model that pushes senior leadership closer to customers, increasing inter-personal communication, greater attention to local governments.

- Greater investment multicultural leadership

The recommended next step in IBM's strategy is to further invest in multicultural leadership; to influence, motivate and inspire local communities which Rogers (2013) contends will generate local experience and relevance in new markets where IBM can achieve a competitive advantage. Multicultural leadership requires implementing greater cultural sensitivity and cultural intelligence (DuBrin, 2013).

Obtaining cultural value leadership is strategic for IBM because the values engrained in a local culture influence interpersonal relationships and leadership perspectives (DuBrin, 2013), and influence IBM's ability to culturally assimilate and collaborate with local societies as part of its global integration strategy.

Cultural sensitivity requires leaders to shift from awareness to actively embracing cultural differences and showing tolerances. Cultural intelligence means that IBM's leaders must be able to pick up subtleties of expression, body language and attitude and align their

mannerisms to local customs when then they are in the field acting as IBM's ambassadors (DuBrin, 2013).

- Greater workforce diversity

Just like thought leadership, investment in multicultural and diversity leadership starts inside the workplace, and IBM leaders must nurture emotional intelligence and tolerance of ambiguity when leading cross-cultural teams. Efforts to engage culturally will increase employee motivation and inspiration, enhance IBM's reputation and sustainable competitive advantage (DuBrin, 2013). At IBM, workplace diversity must be considered as strategic an imperative as technology innovations (Childs, 2005). Diversity leadership plays a key role in the success of global companies; but the process requires active participation throughout and not just downward delegation in order for staff to contribute at their highest levels (Childs, 2005).

- Reduce operational cost

In 2007, IBM's revenue increased by $7 billion, operational expenses increased by $6 billion, reflecting a net income of $1b billion (Kanter, 2009) illustrating that global citizenship requires substantial financial investment. IBM must find creative ways to reduce the operational costs while continuing to invest in local cultures and delivering its thought leadership value proposition. While flying leadership out into the field and investing in close personal dialog has been highly effective at building trust and assuring that in each country IBM has their best interests in mind, such travel is very expensive. As IBM completes the transition to GIE, travel used to compensate for a lack of an efficient business model may be reduced, but additional operational savings will be needed to make thought leader a viable product.

One opportunity IBM could consider is greater investment in immersive videoconferencing and similar collaborative technologies that do not to eliminate and instead

augment the personal travel, making the travel that is required as productive as possible. IBM

must be careful to apply its investment in cultural sensitivity to the application of such

communication technologies so that any cost cutting effort do not undermine the multicultural

leadership intuitive. Personal engagements will continue to be strategic and strong interpersonal

skills and charismatic leaders in the field are mandated. In time, IBM's investments in education

and training should result in highly effective local leaders in the field so that the need for travel

from leaders in central offices can be minimized.

Conclusion

Recognizing that there are dimensional differences in cultural values, implementing cultural sensitivity and cultural intelligence are key components that IBM can expand upon in its effort to apply multicultural leadership to its GIE strategy. IBM's complete GIE transition is essential because IBM is struggling to remain competitive as a multinational in existing markets.

Palmisano recognizes that IBM's philanthropic initiatives and investment global citizenship is paying dividends in the form of marketable thought leadership. Absent of physical products, IBM must assert corporate integrity and trust a value propositions, which requires long term investment in local cultures for both product development and sponsorship. IBM's management transformation drives senior leadership closer to customers and local governments, increasing the strategic importance of cultural awareness in effective interpersonal communication.

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