

# Integrated Strategy Project - IBM

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## 0.1 Executive Summary

No matter how dismal the US economy may currently be, these are heady times for IBM. Record profits were announced for 2007, with IBM reporting \$10.4 billion USD on revenues of \$98.8 billion. \$21 billion were returned to shareholders through stock buybacks and dividends, and a further \$12.2 billion invested into acquisitions and capital expenditures. Unprofitable businesses were sold off or divested, new markets entered, allowing IBM to enjoy a 42.3% gross margin on revenue.

Despite these splendid results, IBM knows full well that it must continuously put new offerings in the product lifecycle; rivals are all too keen to emulate or undercut IBM's line of products and services. IBM has long abandoned the traditional practice of customer lock-in, where customers are forced to use IBM products once they enter an IBM contract<sup>1</sup>. IBM fully supports any software platform on any hardware system, allowing customers low entrance and exit barriers. IBM relies on one asset that provides the highest value (and margins) – its consultants, contractors, and experts provided to customers to solve their most difficult technical and business problems. To meet client demands, IBM employees are dispersed through the world to be close to their customers, taking full advantage of 'virtualization', or an officeless, 'always on' working style.

IBM in many ways pioneered the current trend of virtualization, already having eliminated offices for employees and vacated entire buildings, such as the the famous address of 550 Madison Avenue in New York City. Employees are equipped with laptops that are their offices; they can connect and work anywhere, from home, client sites, airports, foreign cities, and any conceivable location with an Internet connection of some kind. Employees are 'always on', working a nominal 40 hours per week, but reachable at any time. IBM employees are also isolated, working as individuals, at their own discretion of what the company's future holds and what skills and developments they will undertake. IBM employees must regain a common vision, purpose, camaraderie, and form a learning network that has disappeared with their cubicles and offices.

Many of the components for this transformation is already in place; knowledge management systems are plentiful, social networks are readily used, reward mechanisms used, and education well established. What is missing is an architecture for implementing the new strategy of team-based learning, customer engagement, and market advantage. The new architecture has its components of high-level objectives mapped to critical success

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<sup>1</sup>Gerstner, 2002

factors, targets matched with initiatives, and artifacts such as a Balanced Scorecard will be used to monitor progress and results.

## 0.2 Introduction

IBM is a global IT manufacturing and consulting company, with 335,000 employees across nearly every industrialized country in the world<sup>2</sup>. Once largely focused on the sale of mainframes and related software contracts, IBM has evolved into lucrative technology and business consulting, supported by a wide range of IBM software platforms and products. Figure 1 shows IBM's value system in the marketplace, demonstrating a reliance on knowledge-based transformation and processes. Products such as hardware and software are either sold outright, or used (along with competitor's products) as a basis for consulting engagements.

Table 0.2 gives an overview of IBM's finances, showing a mildly flat growth in revenue, but a steady increase in profits for the past few years due to widening margins.

Year	2004	2005	2006	2007
Revenue	\$96.3	\$91.1	\$91.4	\$98.8
Net Income	\$7.5	\$8.0	\$9.4	\$10.4
Gross Profit Margin	36.9%	40.1%	\$41.9	\$42.2
Capital Expenditures	\$3.7	\$3.5	\$4.7	\$4.9
Working Capital	\$7.3	\$7.7	\$4.5	\$8.8
Share Repurchase	\$7.1	\$7.7	\$8.0	\$18.8
Number of Employees	329,001	329,373	355,766	386,558

Table 1: IBM Year-End Financial Results, in Billion \$USD

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<sup>2</sup>IBM Annual Report, 2007

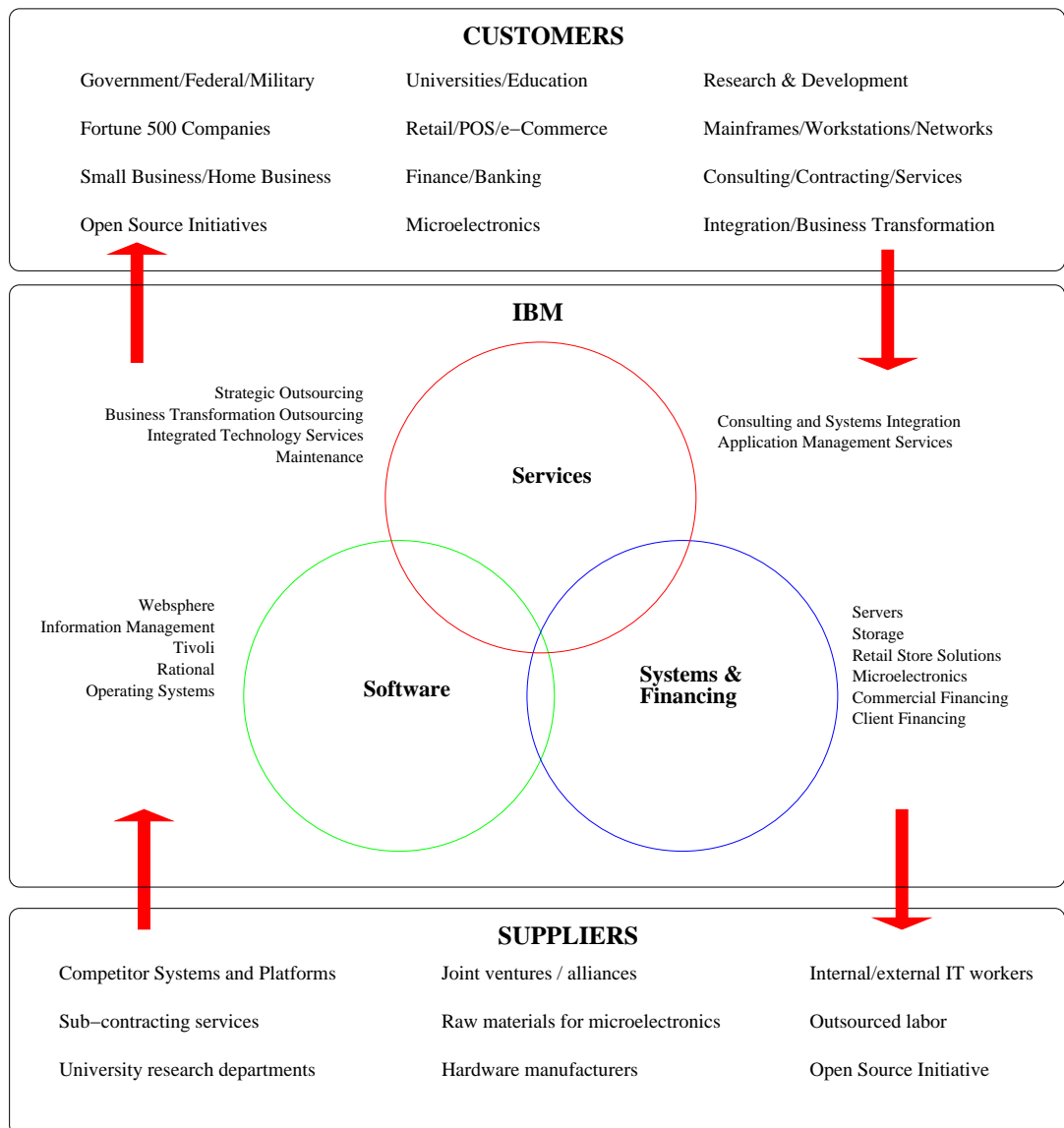


Figure 1: Value System of IBM

### 0.2.1 Assignment Structure

The structure of this assignment is in two parts; the first half determines IBM's current strategic position in the marketplace, with focus on competition and customer demands. From this determination, the underlying logical reasons for IBM's future directions are analyzed, formulating the basis of a business transformation. The second part of this assignment details the

mechanics of the transformation, keeping IBM ahead of rivals, preserving margins, and raising revenue.

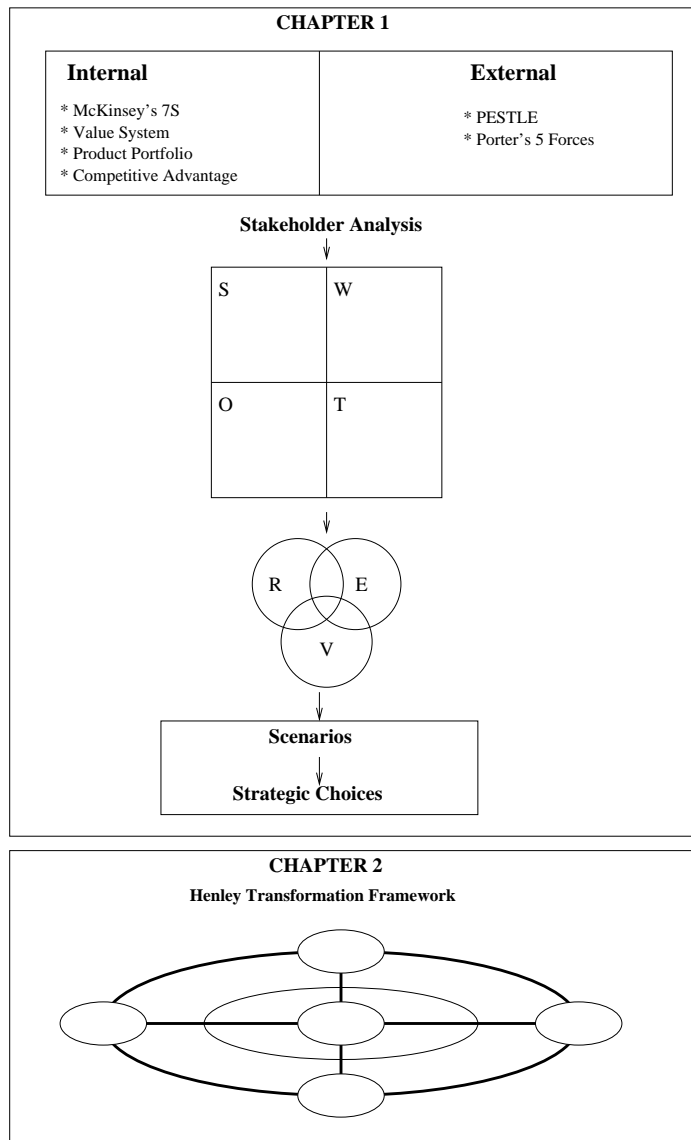


Figure 2: Assignment Structure



# Chapter 1

## Strategic Position Analysis

### 1.1 Strategic Direction

#### 1.1.1 External Analysis

##### PESTLE Analysis

A full PESTLE analysis is performed in Appendix .1.1, and the pressing issues are discussed in turn below:

- **Skilled Employees** - Despite the ranks of skilled workers in India and other countries, competition has shrunk the pool of available candidates. Employees work in a 'virtual organization', where location is no longer defined; employees are connected to each other through networks and technology.
- **Commoditization of Technology** - As competitors become adept at duplicating the same types of services IBM develops, competition increases and profits drop. Because IBM does not force clients to use any particular product, it is easy for clients to move to IBM, at the risk of them easily moving elsewhere.
- **Pressure to Innovate** - Innovation of new products and services (or the acquisition of the same) is the lifeblood of IBM, missteps in predicting industry trends can be costly investments with little return.

A dangerous position for IBM is the non-differentiation between a skilled employee working for IBM and the same employee later working for a competitor. Clients may not see value in paying IBM's premium prices if the same services can be found cheaper elsewhere. Simply paying employees

more merely increases costs all around and may not be an effective solution – a new way to differentiate the available pool of talent, raise competitive barriers, and yet keep overhead costs low must be found.

### Porter's 5 Forces

Figure 1.1 diagrams the detailed Five Forces analysis from Appendix .1.2.

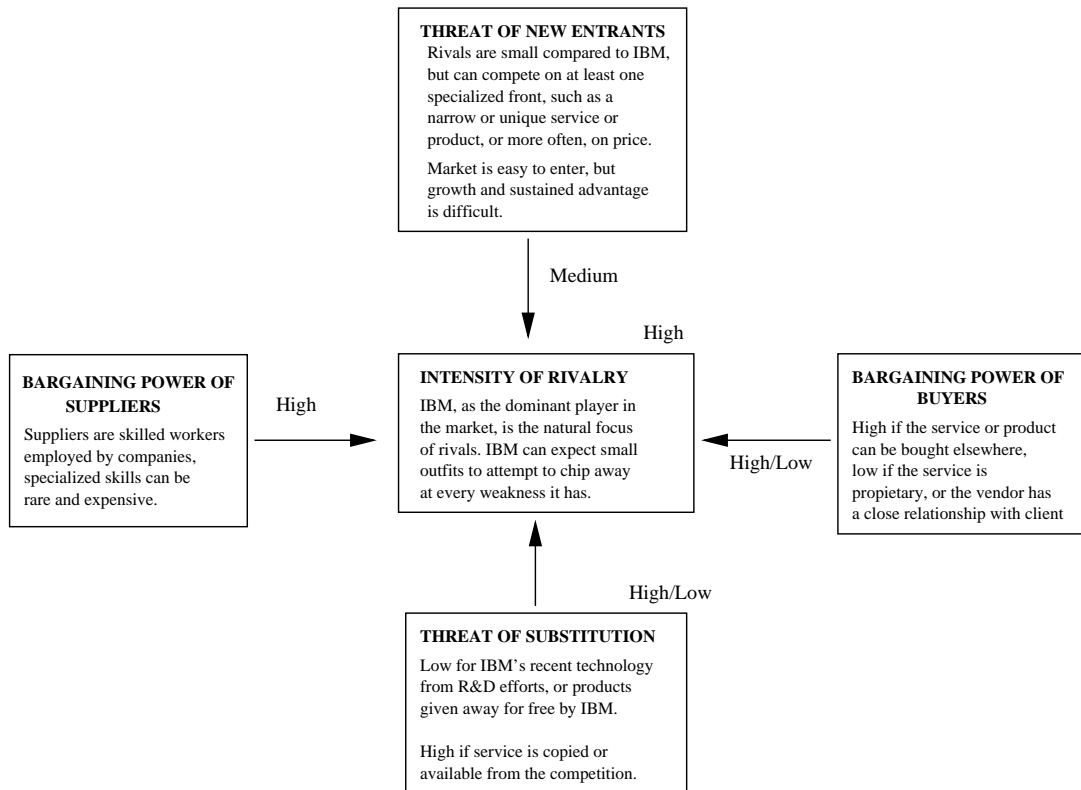


Figure 1.1: Porter's Five Forces

Competition is intense, although IBM holds the largest share of any one company (see Appendix .1.4), it does not hold a dominant position. Much of its competition is small companies and individuals who may have a focus as narrow as IBM's is wide. Few companies can hold their own against IBM's breadth and depth of software products and platforms, but the lucrative business of providing skilled individuals (the 'suppliers') is attractive to any company, large or small.

### 1.1.2 Internal Analysis

#### McKinsey's 7S

Figure 1.2 illustrates the effectiveness of each of the elements of the McKinsey's 7S model (please see Appendix .1.3 for more detail). The biggest weakness in this diagram is the *Structure*, putting IBM in a critical risk with competitors. Employees deployed in consulting positions often are working alone, with their learning self-directed. While materials are available for learning on any conceivable subject that IBM has interest in, there is little direction in which materials to study or the relevance of subjects not in the immediate scope of the employee's current position or project. In turn, *Structure* weakens the *Strategy* and *Shared Vision* portions of the 7S diagram. IBM's strategy pertaining to its consulting base is strongly linked to employees sharing the same corporate vision.

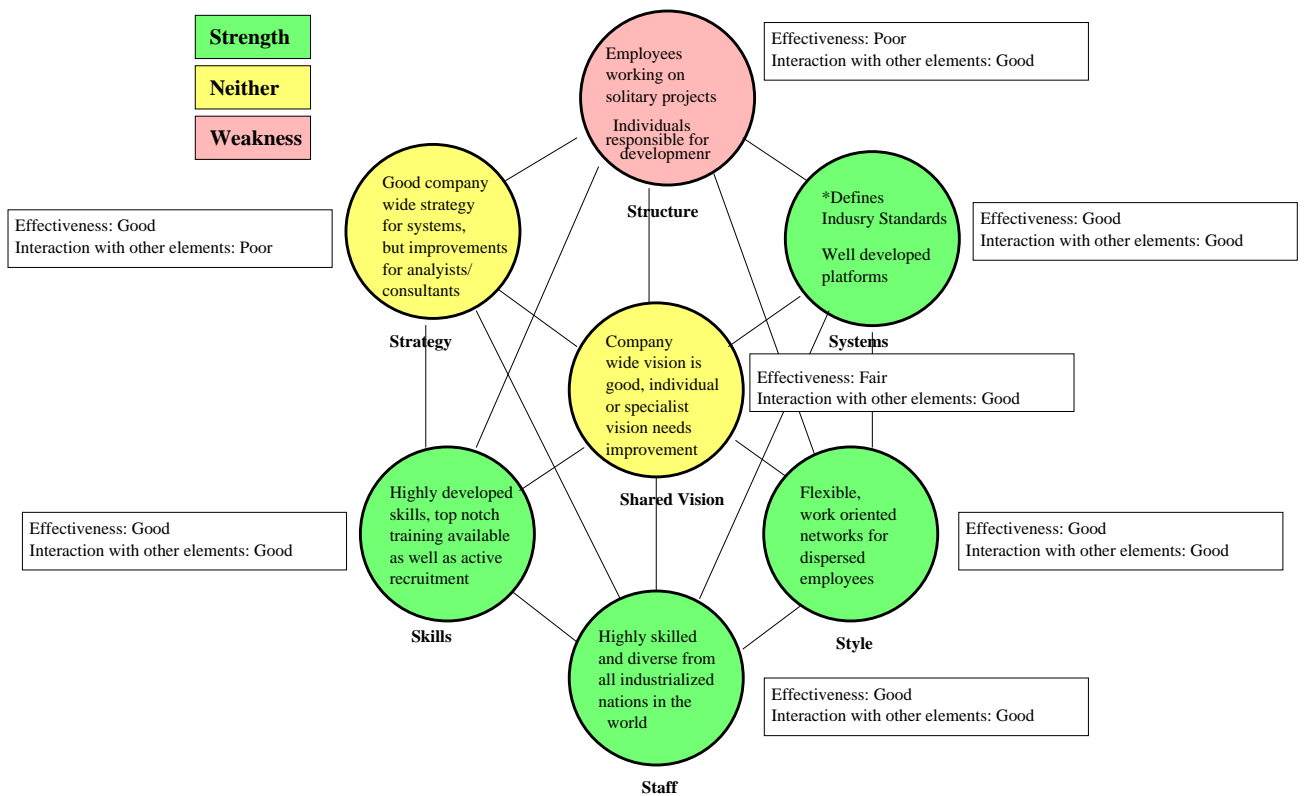


Figure 1.2: McKinsey's 7S

## Value Chain

IBM can be split into its components using Porter's Value Chain, as shown in Figure 1.3. In this figure, arrows in red indicate weak linkages, while arrows in green show strong links.

Playing to IBM's strengths is the strong link between *Technology Development*, *Procurement* and *Inbound Logistics*, as IBM has aggressively acquired or developed a wide array of technology platforms that meet the challenges of clients' needs, as well as a willingness to support non-IBM products.

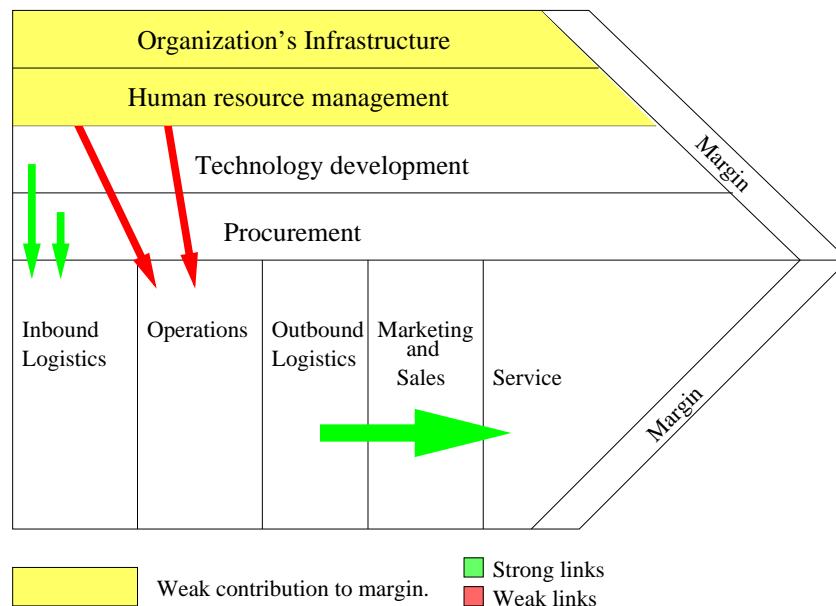


Figure 1.3: Value Chain

As Table 0.2 shows, IBM's profits have increased as a direct result of widening margins despite flat revenues. This is a result of cutting overhead and improving efficiency, but there is a natural limit to how long this trend can continue. To increase profits, revenues must increase. The weak link between *Human Resource Management*, *Organization's Infrastructure*, and *Operations* is the lack of differentiation between IBM's pool of consultants and the same pool at IBM's closest competitors. Areas that need stronger contributions to margins are indicated in yellow.

## Product Portfolio

IBM has an enormous product portfolio, encompassing every aspect of IT and business consulting for clients. IBM relies on wide margins and ability

to use its specialized knowledge to attract clients, rather than competing on price. For this reason, IBM puts great effort in creating new markets and responding to early trends. Figure 1.4 shows (in red) the random nature of employees directing their learning without guidance. Green arrows show the desired direction of learning effort. This requires a nimble mobilization of IBM consultants with readily available skills and experience in areas that represent a competitive business advantage for clients. It is essential that IBM orchestrates the learning efforts of employees to capitalize on emerging and potentially lucrative opportunities.

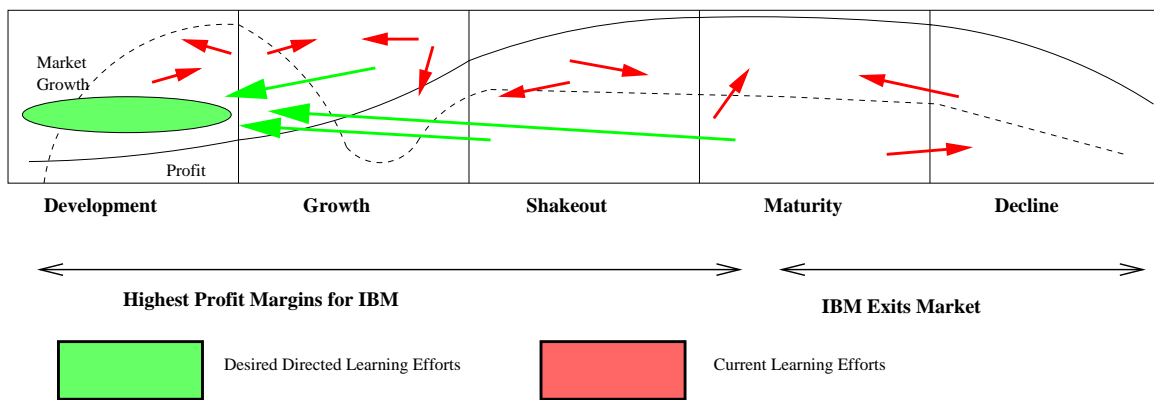


Figure 1.4: IBM Product Lifecycle

Mature or declining markets with diminishing profit margins are routinely exited, leaving the cost advantage model to lower priced rivals.

### 1.1.3 IBM Stakeholder Analysis

As a large public corporation with a global presence, IBM has many stakeholders with varied interests. The stakeholders of key concern are shown in Figure 1.5. Clients who are cost-sensitive are generally not pursued by IBM, and have a diminishing relevance. However, companies who provide discounted prices set the price floor for IBM, and hence IBM's exit point from the market. Quicker capabilities and entries by low-cost rivals puts pressure on IBM maintaining market lead. Clients with technological leading-edge needs who are willing to pay high initial prices are the most desired customers for IBM, as well as its closest competitors. IBM's critical asset, its own consultants, need to migrate up the *Power* scale to edge out competition with a early market capture advantage.

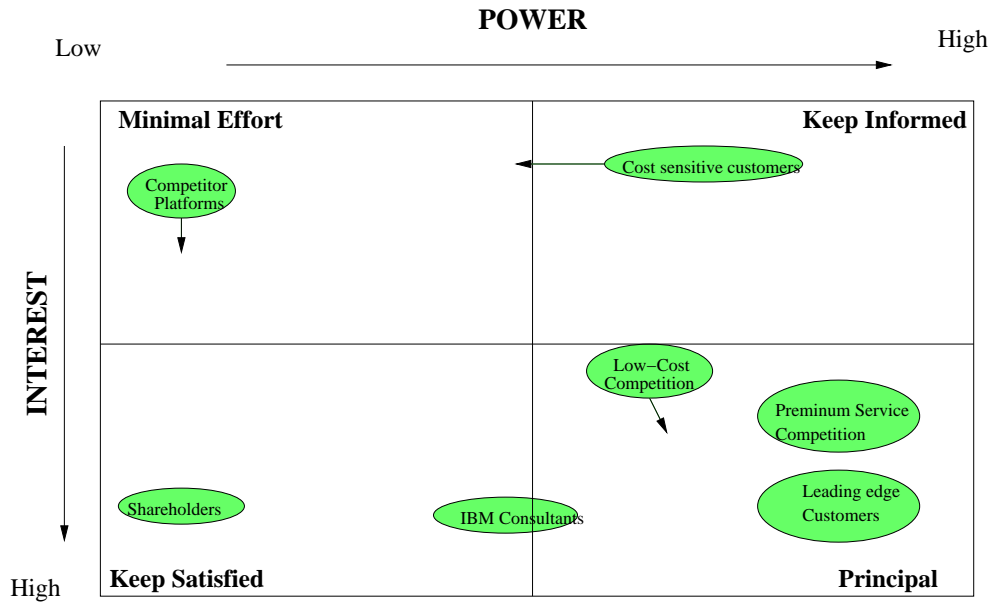


Figure 1.5: IBM Stakeholder Mapping

#### 1.1.4 SWOT Analysis

Table 1.1 is a SWOT analysis for IBM. IBM has enviable strengths in market leadership and responding to new trends, in addition to having billions \$USD to spend as necessary.

The weaknesses that IBM faces are skills shortages in critical areas, especially in new products and services IBM wishes to dominate. Timing is critical, waiting too long to get employees up to speed on needed puts IBM at risk of losing business to lower-cost rivals. Motivating and directing employees in a learning corporation requires shaping and driving a common set of values. A lack of competitive advantage in retaining and deploying skilled employees shortens the time when IBM can count on the wide margins driving profits.

#### 1.1.5 EVR Congruence

IBM is a tightly run organization; careful strategies, positioning of products, and level of service has resulted in a effective EVR congruence. However, *Values* is in danger of drifting out of congruence, due to the need to coordinate the vision and direction of IBM consultant employees (Figure 1.6).

	<p>Strengths</p> <ul style="list-style-type: none"> <li>• Industry Leadership</li> <li>• Deep resources</li> <li>• Nimble response</li> </ul>	<p>Weaknesses</p> <ul style="list-style-type: none"> <li>• Undirected learning</li> <li>• Reliance on high margins</li> <li>• Employee values</li> </ul>
<p>Opportunities</p> <ul style="list-style-type: none"> <li>• Emerging markets</li> <li>• Immediate client needs</li> <li>• Skills demand</li> </ul>	<p>Continuously scout for new market opportunities and develop products and services, cultivate demand through marketing.</p>	<p>Systemize employee learning efforts to point to emerging markets and areas of high demand. Mobilize teams to support client needs.</p>
<p>Threats</p> <ul style="list-style-type: none"> <li>• Cost competition</li> <li>• Low entry barriers</li> <li>• Skills shortage</li> </ul>	<p>Formulate new strategy that makes skills provisioning hard to duplicate by competition.</p>	<p>Address skills-building and employee values issues.</p>

Table 1.1: IBM SWOT Analysis

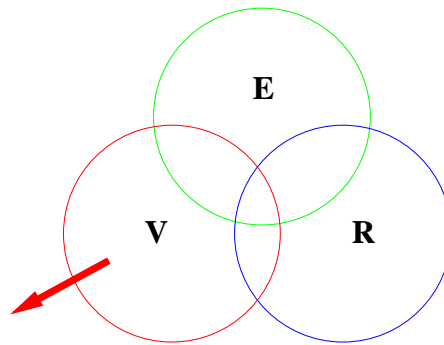


Figure 1.6: IBM EVR Congruence

### Environment

IBM has responded to an environment of high competition and a constant need for innovative and emerging technology from clients seeking out any business advantage. The business model of creating new markets and responding to emerging trends is critical to maintaining IBM's wide profit margins.

### Resources

IBM has considerable resources, in cash, assets, intellectual property, and product lines. Despite these assets, IBM's principal method of creating shareholder value is to buy back its own shares. Table 1.1.5 shows IBM's stock price and market capitalization vs. the amount spent on share repurchase<sup>1</sup>.

Year	2005	2006	2007	2008
Share Repurchase (Billions, USD)	\$7.7	\$8.0	\$18.8	N/A
IBM Stock Price, January	\$98	\$85	\$98	\$110
Market Capitalization (Billions, USD)	\$163	\$129	\$146	\$160

Table 1.2: IBM Effects of Stock Repurchase

The flat market capitalization and stock price seems to indicate that investors do not see IBM as a growth company. It is not clear that the share repurchase is having any significant effect on value creation. This money

<sup>1</sup><http://fortboise.org>

may be better spent on innovating new ways to create growth and revenue increases for IBM.

## Values

IBM currently has a working process, but in order to energize value creation at IBM, a more focused vision and strategy is needed. Values is an area of critical attention, and must be prevented from drifting. The disconnect that employees feel as they work in a virtual environment enforces drift; each employee makes the best choice from the information that is available to them and applicable to their situation.

## Conclusion

IBM is in danger of becoming an ‘unconsciously competent organization’ without a strict correction of its values<sup>2</sup>. A better redirection of IBM’s considerable resources can tighten the EVR congruence.

### 1.1.6 Scenarios

In the near future there is a best case and a worst case scenario for IBM to consider:

#### IBM’s Worst Case

IBM can experience a natural limit to improvements in efficiency and cost reduction that is currently driving margins. Revenue remains flat, stalling profit growth. Competitors take advantage of IBM’s isolated consultants and employees by poaching them, providing focused teams vs. IBM’s unorganized ranks, and chip away at widening niche advantages (cost and expertise) over IBM.

#### IBM’s Best Case

IBM can increase profits by both increasing revenue and lowering overhead, and differentiate their consulting services to raise entry barriers for rivals. Figure 1.7 shows the ideal position for IBM’s consulting offerings, which is done by identifying and enhancing IBM’s sweet spot advantages over the competition<sup>3</sup>.

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<sup>2</sup>Thompson, Page 125

<sup>3</sup>Collins & Ruckstad, 2008

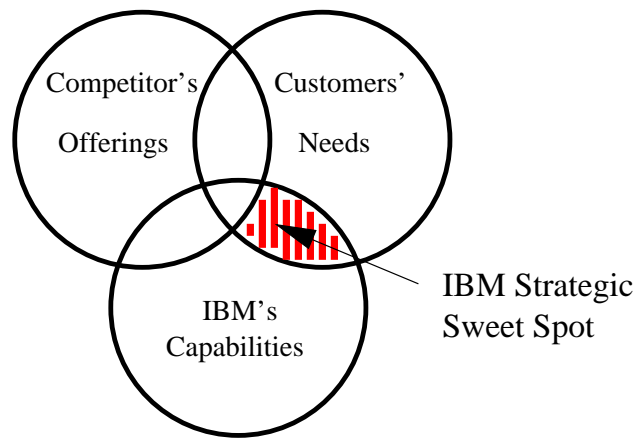


Figure 1.7: IBM Strategic Sweet Spot

### Option 1

IBM counters the downsides of virtualization, bringing IBM employees together to address the needs of a 'Learning Organization' <sup>4</sup>:

- A Shared Mindset
- Speed of New Ideas
- Learning And Knowledge Management
- Accountability
- Collaboration
- Leadership

### Option 2

IBM leaves employees to find their own learning plan based on their position and understanding of industry trends. IBM devises a reward scheme to employees who successfully reach levels of skills that clients demand.

### Option 3

IBM aggressively hires employees with high-demand skills, and sheds employees with skills that are in industries that IBM plans to exit.

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<sup>4</sup>Henley Critique 11

## Conclusion

Options 2 and 3 are the most easily implementable and may use financial rewards as incentive for employees to find the best solution to gain skills, perhaps in ways IBM has not thought of. Unfortunately, this does not provide any distinct capabilities that cannot easily be copied by competition. Employees who have independently achieved high skills through their own initiative may not feel that they must remain loyal to IBM, and can easily leave to work for competitors or themselves.

Option 1 is the hardest to implement, but fits with the new goal of creating a sustainable competitive advantage. This option makes the assumption that employees can become capable in new skills, avoiding the problem of recruitment in a tight labor market. Option 1 is chosen for the Business Transformation in the next Chapter, to implement the goal of continuous retraining as shown on Figure 1.4. This type of change will not be a sudden shift for IBM, as it will take advantage of many programs and facilities already available, marking it as an ‘Incremental Transformation’ as shown in Figure 1.8.

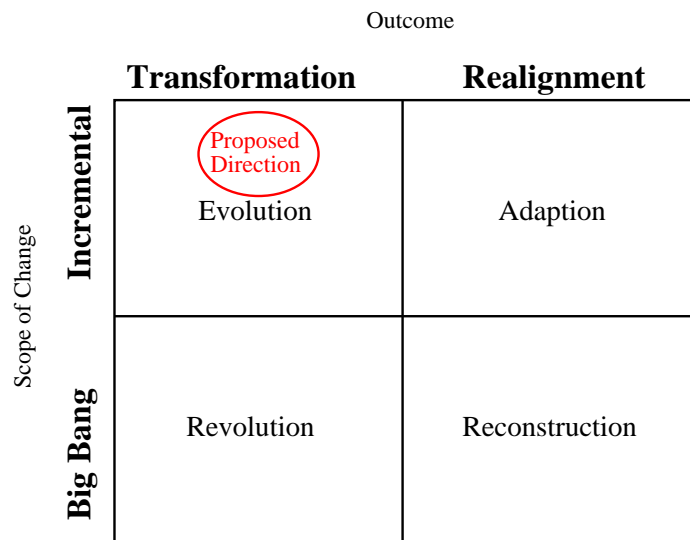


Figure 1.8: IBM’s Scope of Change

## 1.2 Analysis of Suitability, Feasibility, and Acceptability

The strategy from the previous section is analyzed through a SFA test, as shown in Table 1.2.

<b>Suitability</b>	The chosen strategy fits in with the aims of creating sustainable and hard-to-duplicate competitive advantage for IBM, while avoiding problems with recruitment or inefficient training mechanisms.
<b>Feasibility</b>	IBM has spent much energy solving the 'hard' factors of virtualization, the balance remains on focusing on the 'soft' factors. The transformation is based on behavioral and people management issues, and not reliant on technology that needs to be invented or software that may not be used or accepted.
<b>Acceptability</b>	There will be certain employees who will not accept any changes, no matter how beneficial these changes are thought to be. For this reason, this transformation must be targeted to employees who are receptive to changes that will be beneficial for themselves, their career, and for IBM.

Table 1.3: SFA Analysis - Johnson and Scholes

### 1.2.1 Conclusion

From the SFA analysis, the Transformation will target IBM's highly motivated employees, with a suitable reward mechanism, to alleviate the isolation from the virtual work environment. The end result will be a migration into learning teams that cannot easily transferred to competitors if an employee leaves IBM.

# Chapter 2

## Business Transformation

In this Chapter, the Henley Business Transformation model is used to lead the change for IBM to sustain competitive advantage.

### 2.1 Mobilizing for Change

At the center of the Transformation, IBM will address the following five core categories of behavior<sup>1</sup>:

- Challenging the Processes
- Inspiring a Shared Vision
- Enabling Others
- Modeling the Way
- Encouraging the Heart

The focus of changes will be in the ‘Structure’, ‘Strategy’, and ‘Shared Vision’ components of the McKinsey’s 7S model (Figure 2.1). Many of the components necessary for the transformation exist (as indicated by ‘Structure’), but are poorly utilized or disorganized.

The ultimate focus is to instill a new ‘Shared Vision’ that will lead IBM forward.

#### 2.1.1 Communicating the Change Process

At this juncture, IBM faces a difficulty in mounting any transformation efforts; the balance sheet is too good (Table 0.2), IBM beat Wall Street estimates for 2007<sup>2</sup>, and continued ‘wins’, or significant contracts with important

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<sup>1</sup>Kouzes and Posner (1998)

<sup>2</sup>IBM Annual Report, 2007

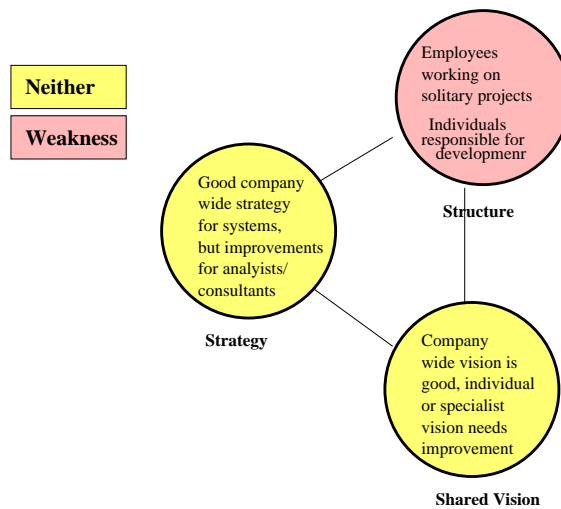


Figure 2.1: IBM's Changes in the McKinsey 7S

clients, continue to be signed. There is little urgency for change; it is not plausible to state IBM is in trouble. A sense of urgency therefore must be created to motivate employees to look forward to what may be in store in the future. Unmotivated or change-resistant employees will be bypassed, with the expectation that employees who go along with the changes will set a good example by having an advantage in lean times.

Figure 2.2 shows the targeted stakeholders in this change effort:

In addition, IBM's efforts in the commitment curve shown in Figure 2.3 will focus on employees at the 'Adoption' stage, and not spend any significant energy on employees in the 'Denial' or 'Resistance' stage. Employee participation will be optional.

IBM, by no means, is a static company; there are many programs and initiatives that currently exist. IBM employees have responsibilities for important ongoing goals, such as a personal development plan, skills assessment, certifications, professional interest groups. In addition, there are classes, workshops, electronic community groups, electronic forums, and education available. What is missing is a formal structure, as shown in Figure 2.4.

The new structure for employees is to form formal learning groups, in which employees belong to groups that are expected to achieve levels of competencies in specific technical areas, increase communication among similar groups, provide mentoring opportunities, and award professional recognition for accomplishments. This structure is described in Section 2.4.

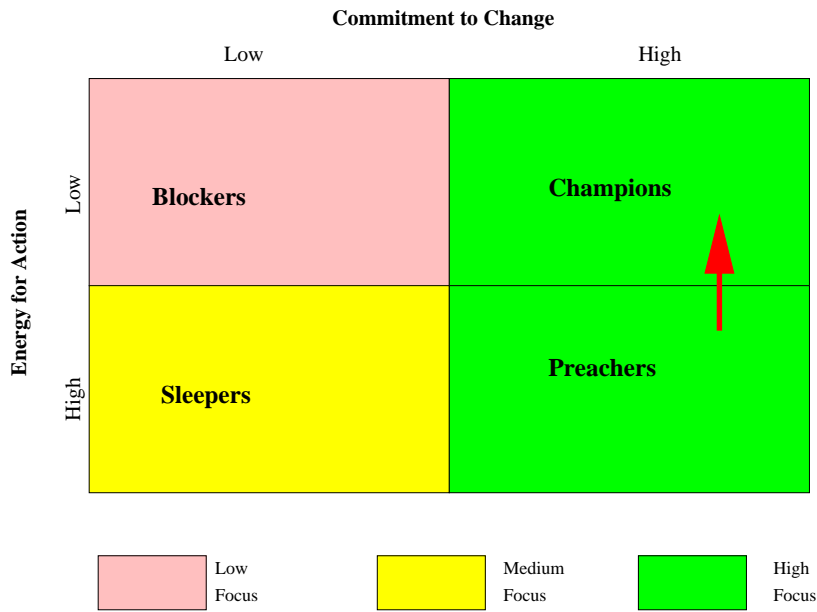


Figure 2.2: IBM Stakeholder Mapping

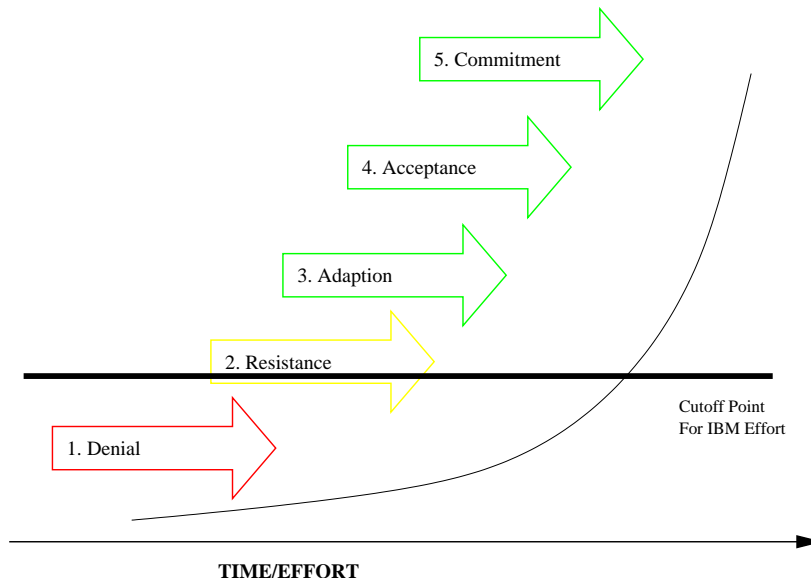


Figure 2.3: IBM Commitment Curve Focus

**Unfreeze, Move, and Sustain**

A communications strategy will be complex, especially in an organization the size of IBM. The focus will draw and attract receptive employees, with the

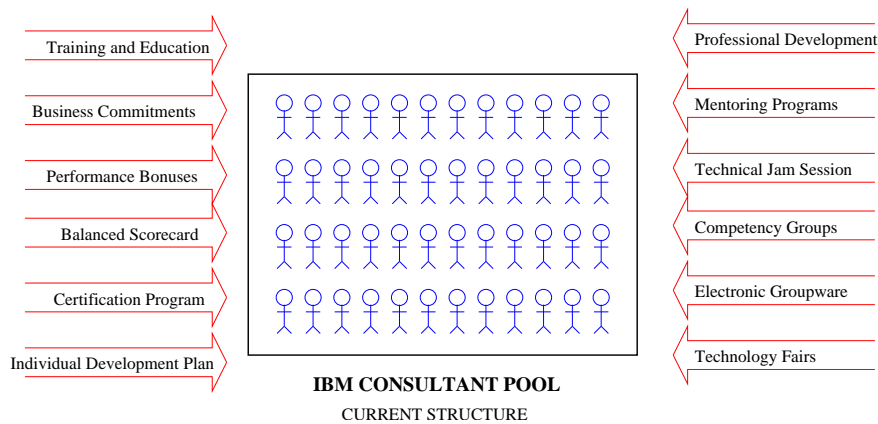


Figure 2.4: IBM Employee Structure Now

message of ‘promoting your career’; the desired segment will be employees who have an interest in moving ahead in their line of work.

### 2.1.2 Leadership and Change Agents

IBM has no shortage of good leaders, and can rely on skilled employees who are experts in their specialty to ‘give back’ to the community. The focus of leaders and change will be the emotional needs of employees to ensure success.

In this transformation, the leaders are given the goal to form a sense of community and to enhance morale among IBM employees who may not be located in the same geographic area. With support from upper management, leaders will be recruited from current IBM ranks that demonstrate the following characteristics:

1. A desire to lead and to inspire workers
2. Highly charismatic and champions for employees
3. Deep experts in a distinct, specialized field
4. Are able to design learning programs and certification levels

Dozens to a few hundred leaders may be recruited, for specialized communities (for example, database development), with a learning plan, drawn from IBM’s wide range of training materials. Leaders will be in charge of organizing recruits, fostering networks, and giving recognition to achievements – in an environment where employee participation is strictly voluntary.

Change Phase	Communications Purpose	Aims	Method
Unfreeze	Mobilizing	<ul style="list-style-type: none"> <li>• Bring awareness to IBM staff</li> <li>• Generate interest</li> <li>• Create momentum</li> </ul>	Begin advertising in IBM internal web pages before roll-out. Pamphlets, e-mail distributed to managers and staff. Transformation details released.
Move	Inform	<ul style="list-style-type: none"> <li>• Describe changes</li> <li>• Benefits</li> <li>• How to participate</li> </ul>	Provide full details in websites, how to get started, workshops, conference calls, kick-off meetings.
Sustain	Update	<ul style="list-style-type: none"> <li>• Sustain interest</li> <li>• Provide progress updates</li> <li>• Success stories</li> </ul>	Announce successes; employees who have gone through the transformation, encourage employees to list credentials earned, periodic workshops to invite non-participants to take part of transformation.

Table 2.1: IBM Unfreeze, Move, Sustain

The next sections appraise the cultural changes that may be needed within IBM to realize the transformation.

### Operational Culture Focus

Table 2.1.2 shows the analysis from the Garrison Diamond Test Model to determine the necessary issues that must be focused on to make the transformation effective.

Behavior	Current	Desired
Activity	Focused on employee's current assignment, dependent on values and goals of client. Employee's sense of activity is out of alignment with IBM due to isolation.	Employee encouraged to keep up with latest developments, contribute to peer learning, and forge emotional and professional ties to co-workers.
Excellence	Rewarded through client work and at IBM, based on client feedback. Honorary and financial incentives exist.	Continue focus on excellence, using any additional resources that become available.
Balance	Balance is skewed toward success of clients. Development and career desires of employees are sometimes neglected due to lack of communication from IBM side. Career advice often comes from clients' employees rather than IBM.	Adjust balance so that IBM employee has a ready and sympathetic group to discuss concerns and desires, and to get advice and help from IBM resources.
Friendliness	Camaraderie exists within IBM ranks, with recognition for working for the same company.	Leverage this friendliness into a true networking, learning, and engaging experience.

Table 2.2: IBM Garrison Diamond Test

From the Garrison Diamond test model, the need to move the dependency for connection and fulfillment away from the client and back into IBM.

### Management Style & Structure

Figure 2.5 shows the current and desired position of IBM in the Blake-Mouton-McCanse model. IBM's current orientation lies between 'Production Pusher' and 'Do Nothing Manager'. This reflects IBM focusing on results (success at the client engagement) while leaving IBM employees to find their own culture and guidance. The desired position is to be in the 'Team Builder' quadrant.

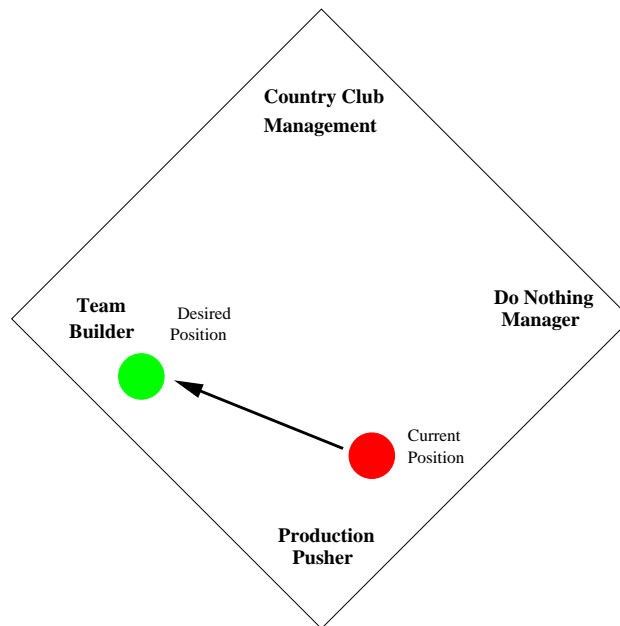


Figure 2.5: IBM in the Blake Mouton McCanse Model

Using the Handy model, IBM is currently leaning toward the 'Task Culture', with the desired emphasis on 'Person Culture'. The goal being to recognize the IBM employee as a person needing a person-oriented network, rather than being focused only on the tasks on their current assignments.

### Risk Orientation

IBM is a great risk taker, as indicated in the Deal & Kennedy model in Figure 2.7. As IBM, by necessity, must always find new markets and eventually must abandon entire industries as low-cost competition catch up in capability. IBM is in a constant position of needing to 'bet your company', and will likely keep this culture in the foreseeable future.

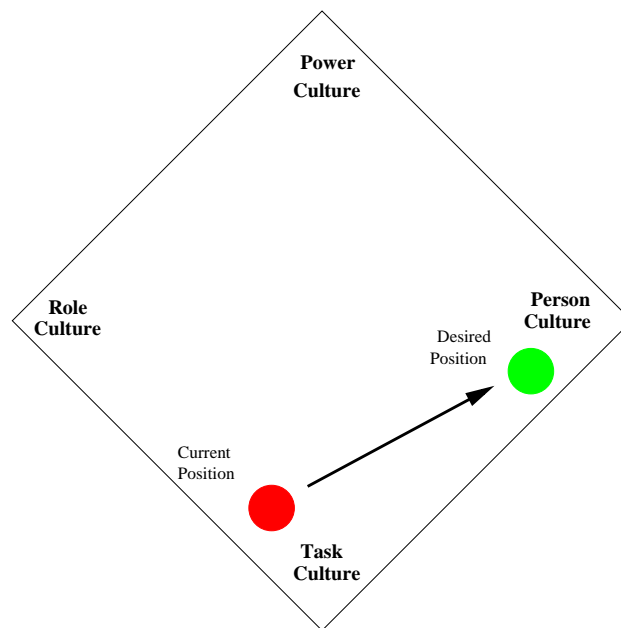


Figure 2.6: IBM in the Handy Model

The previous models show that IBM is task-and-results oriented, with little in the way of addressing the employee as an individual. Figure 2.8 supports this conclusion by showing control through great emphasis on technological achievement, but not following through on the softer organizational needs.

### Learning Organization Structure

A new organizational structure is necessary to implement the learning and community environment to re-introduce a sense of common values to IBM employees. The new structure, shown in Figure 2.9, is replicated across specific technical subjects, and is designed to accomplish these objectives:

1. **Address need for emotional sense of belonging and loyalty to IBM**

A single face is given to each technical specialty, usually a recognized domain expert. Chosen for charismatic leadership, this Resident Domain Expert is responsible for organizing IBM courses for training, setting up networks, being a point of contact, and driving momentum in networking efforts.

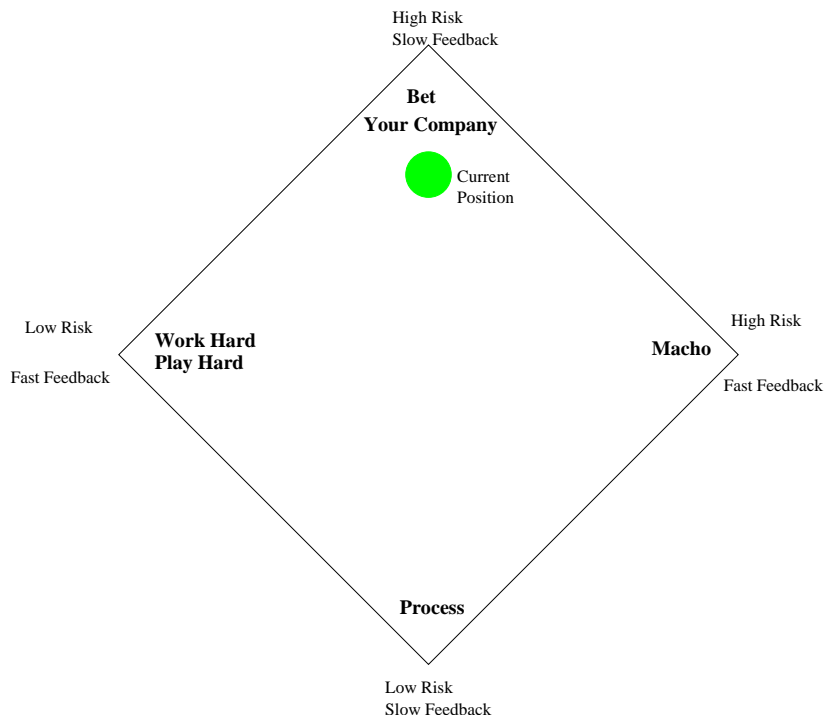


Figure 2.7: IBM in the Deal & Kennedy Model

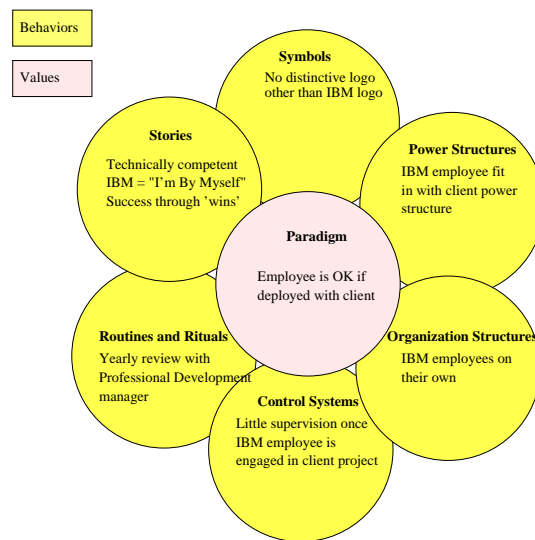


Figure 2.8: IBM's Cultural Levers

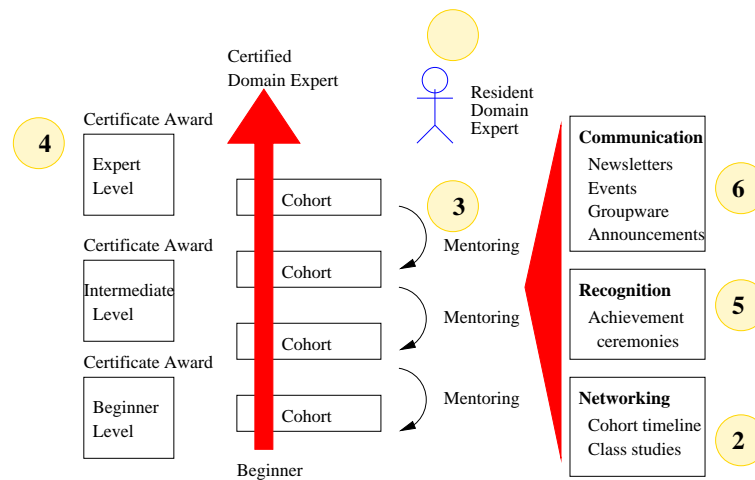


Figure 2.9: Transformational Organization for IBM

2. **Build networks among employees with similar interests** IBM employees are placed into ‘cohorts’, or groups formed at specific times with a timetable to complete a course of study for a certificate. Team assignments, regular calls, and a small and intimate group will form bonds and a sense of obligation between members.
3. **Give informal advice about career and skills**  
Employees in cohorts will be encouraged to mentor employees in less advanced cohorts.
4. **Promote learning in chosen specialty**  
A staggered learning course with awarded certificates are given at each level of learning. Cohorts and networking facilities allow remote learning.
5. **Reward and recognize achievement among peers**  
Formal awards ceremonies are held to present achievements; if geographic considerations make this impossible, then other forms of recognition are given, such as personal congratulations from the Resident Domain Expert, publication in a company wide newsletter, and the right to use a title on presenting qualifications in IBM’s ‘Blue Pages’ directory and resumés sent to clients.
6. **Use existing IBM resources and initiatives**

Courses and facilities are simplified by using IBM's established training programs, tailored to fit the schedule of the cohort so each member learns alongside familiar people.

## 2.2 Translating Strategy Into Objectives and Initiatives

### 2.2.1 Process of Implementing Strategy

To determine the eventual result of the Transformation, analysis must be performed to determine the specific actions to be taken. The strategic goals are taken from Section 1.2 and are mapped in a network of strategic goals in Figure 2.10.

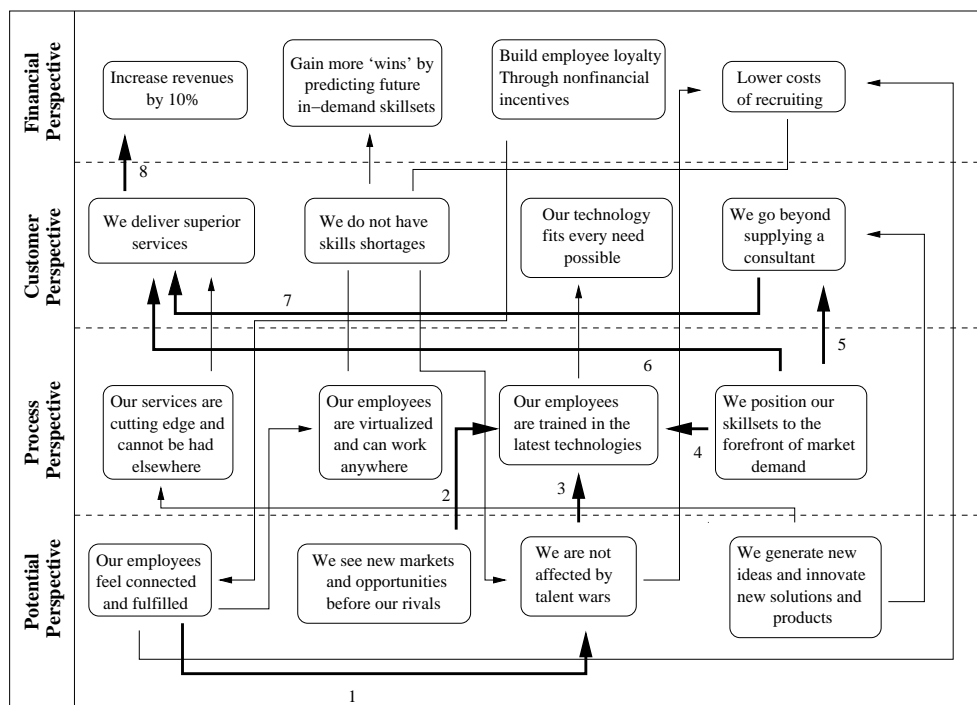


Figure 2.10: IBM Strategic Goal Network (Ahn, 2001)

Strategic links point to the ultimate strategic goal of raising revenue by 10%, a point raised in Section 0.2. Reducing costs and overhead sets the floor of margins, while total revenue sets the ceiling. The links are discussed below in turn:

**1. Link 1**

IBM employees feelings of fulfillment and connection builds loyalty and makes IBM an employer of choice. Salary is not the only consideration for employees who have choices of where to work.

**2. Link 2**

By seeing where the market is going and new opportunities, IBM can position training programs to meet skills demand ahead of time. Employees often only see the day-to-day responsibilities of their jobs and not long-term industry trends, or strategy positions IBM may be taking.

**3. Link 3**

By being in a company that offers the latest training, IBM employees become aware that they lose this benefit in the long term by moving to a competitor.

**4. Link 4**

By making the training regimen team and network oriented, the client is assured that they are not benefiting just from the talent of the IBM consultant, but also from the personal network and resources available to the consultant. The client has penetration into IBM's total knowledge.

**5. Link 5**

Keeping in with IBM's strategy of pursuing the high-end market, IBM assures the client of superior services to any other in the market. This assurance rests on the quality of IBM employees.

**6. Link 6**

Superior services means going above what a competitor can offer, in this case, more than just what the consultant is experienced with – the potential to tap into other experts as needed.

**7. Link 7**

With the position of providing only superior services, more 'wins' are signed, contract negotiations falling to IBM's favor, with the goal of boosting an otherwise flat revenue trend upwards.

### 2.2.2 Gap Analysis

The gaps between IBM's present state and the desired state in 3 years is analyzed in Table 2.3.

2008	2011	Gaps
Loyalty and belonging to immediate surroundings, such as client worksite.	Loyalty, connections, and fulfillment within IBM.	Create networking structures to overcome drawbacks of 'virtualized' workplaces.
IBM employees must decide their own learning strategy on own perception of industry trends.	Directed training programs to keep ahead of client demands and industry trends.	Create training programs based on informed decision on technology and demand trends.
IBM Employees can move to a competitor easily.	IBM Employees reluctant to move to competitors because of loss of peer networks.	Enhance and encourage employees to work together, even with geographical gaps and across projects.
Clients get the knowledge that comes with the IBM employee.	Clients get the same knowledge plus everyone else on the employee's network.	Encourage networking and track metrics and effectiveness of teamwork.
Revenues remain flat.	Revenues increase markedly, goal is 10% over three years.	Implement strategic planning with ultimate goal of revenue enhancement.

Table 2.3: IBM Gap Analysis

### 2.2.3 Finance

The financial goals are a 3.3% growth over 2007 revenues, as shown in Table 2.2.3.

2007	2008	2009	2010	2011
\$98.8	102	105	108.58	111.84

Table 2.4: IBM Financial Goals, in \$USD, billions

### Initiatives

The financial goals are a 10% increase of 2007 revenues over 3 years, representing \$10 billion USD in 2011. Consultants with desired skillsets in demand, and IBM gaining a ‘first to market’ advantage, drives extra revenue. Revenue can come from new clients, negotiating a higher rate for existing clients, or follow-up contracts from completed work. IBM is not to lose any business by not having skilled contractors ready to work on a proposed contract ready to sign.

### 2.2.4 Customer Perspectives

Set goals for Customer Perspectives:

1. IBM provides clients with competitive advantage
2. IBM has a reliable supply of skilled consultants
3. IBM commands a premium fee, not discounted services

### Initiatives

To realize this goal, marketing focuses on IBM’s consulting initiatives with the message that ‘clients get more than just an IBM consultant’. This promise is followed up by superior customer satisfaction, a perceived gap between IBM’s level of service vs. a competitor, and delivery of service based on competitive value rather than on price. Marketing campaigns, readily available resources, and clear leadership in industry trends are vital.

### 2.2.5 Process

Set goals for Processes:

1. Create directed learning in skills identified to be especially valuable to IBM’s clients.
2. Create groups of networks for IBM employees to participate in.
3. Encourage peer networking, track effectiveness through metrics.

### **Initiatives**

The initiatives to create this new process follows these stages:

1. Identify areas of skills that are in short supply and lucrative.
2. Identify and recruit leaders responsible for encouraging and driving learning and networking activities.
3. Create certificate levels and curriculum (from IBM's existing education courses), depending on industry needs.
4. Standardize communications through IT systems, such as wikis, forums, newsletters, personal communication, mentoring.
5. Track networking activity (such as awarding points for answering people's questions), and continuously improving program.

#### **2.2.6 Potential**

The Potential perspective has two main goals:

1. IBM Employees are connected and fulfilled at IBM.
2. IBM is not affected by talent shortages.

### **Initiatives**

To achieve these goals, IBM must pay special attention to the human networking needs of employees who are not working in traditional offices, and follow through with directed learning initiatives.

## **2.3 The Change Process**

The Transformation will focus on the change levers shown in Figure 2.11 to affect a new paradigm.

### **2.3.1 Symbols**

IBM employees value marks of technological distinction, such as titles conveying a level of achievement ('Certified IT Specialist', 'Distinguished Engineer'). These titles give status to employees, especially in a situation where employees work at home and rarely meet their peers in person. Traditional

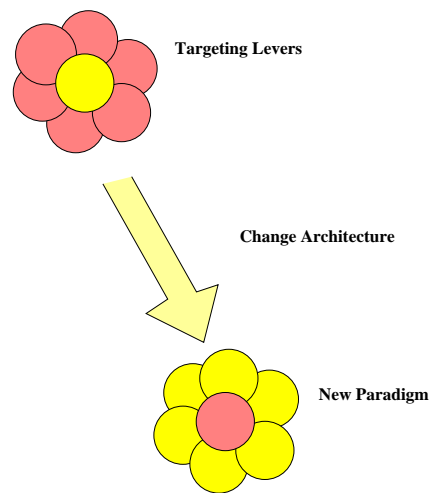


Figure 2.11: IBM Culture Change

symbols such as company cars and corner offices are not effective if employees are not seen in them.

In the virtual world, symbols appear in the form of employee resumé (viewable by anyone), the number of times a name appears in a search engine, and mentions in company newsletters. Taking advantage of this focus, a new symbol will be introduced for employees who have achieved a high level of certification in a directed learning course. This symbol will be displayed prominently in an employee's entry in the 'Blue Pages', or company directory. The employee will have the right to use this symbol in his resumé, and to reinforce the prestige of such symbols, a real-life manifestation will be awarded as well. This manifestation may be a small plaque, pin, or other item meant to be displayed at home or in an office.

### 2.3.2 Power Structures

The Transformation is designed to be voluntary, with IBM employees choosing if and when they will participate in the directed learning and networking. This is designed to ensure a high level of commitment and enthusiasm in those that participate. IBM employees are empowered in this regard, with the focus of power on those who freely share their knowledge rather than their position in the management hierarchy.

### 2.3.3 Organizational Structures

IBM employees currently have a networked organizational structure, which follows the non-geographical nature of virtualized workspaces, and the fact that employees often change assignments, with new project managers and co-workers with each change. Figure 2.12 shows a typical network of an IBM employee in red, and the new elements in blue. The new elements are the cohorts that are also taking the directed training as the employee, and the professional network instituted by IBM.

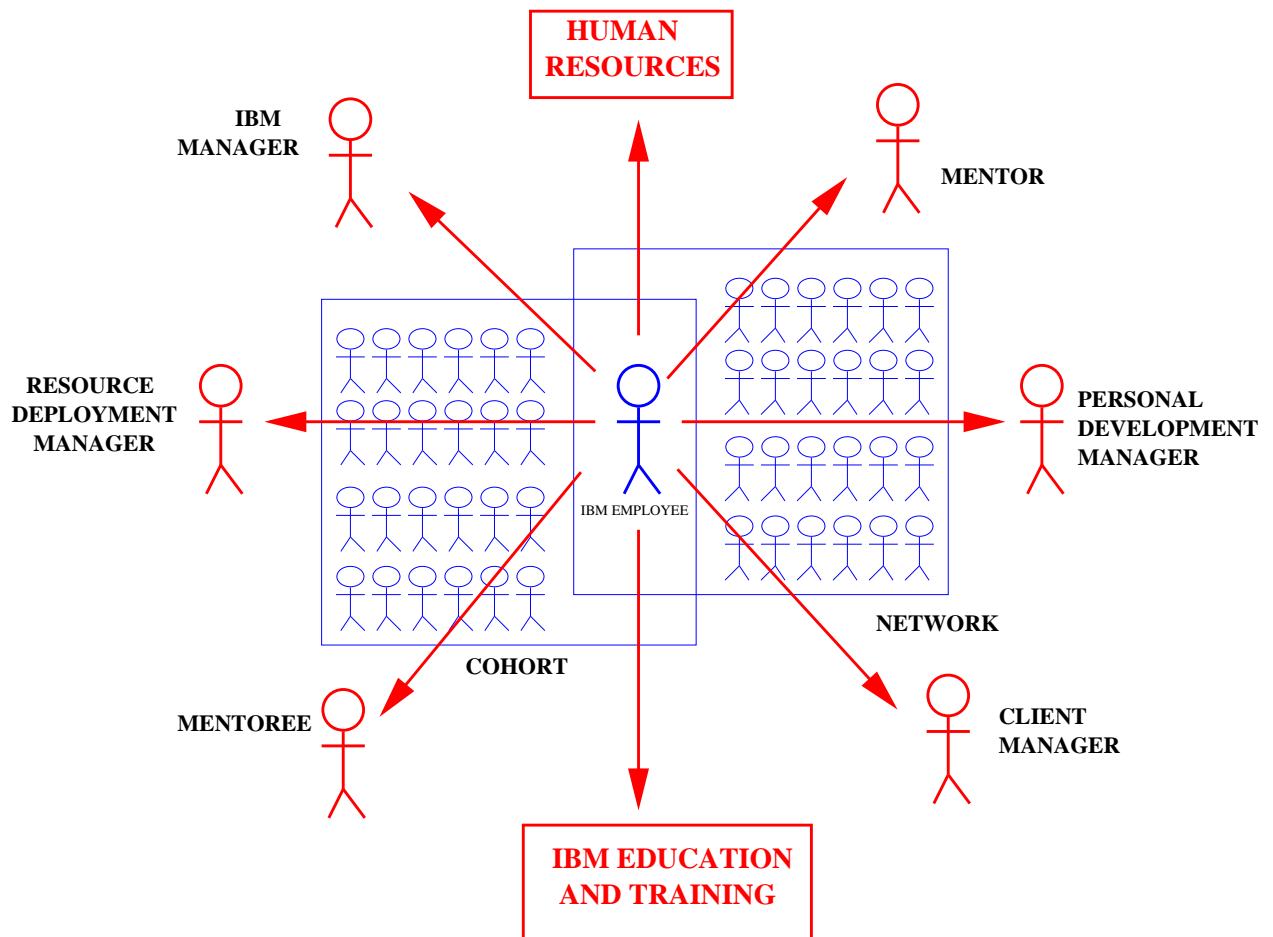


Figure 2.12: IBM Employee Organization

### 2.3.4 Control Systems

#### IT Systems

IBM has a heavy investment and dependence on IT systems, and the existing infrastructure will be vital in measuring the success of the Transformation. As employees will have very little chance to network in person, the basis of communication will be nearly entirely electronic. Figure 2.13 shows the necessary metrics to be collected. Key to encouraging networking and communication is keeping score in how often the employee accesses the networking facilities, the frequency and nature of interactions, and focus on timesaving shortcuts to make the system convenient and easy to use.

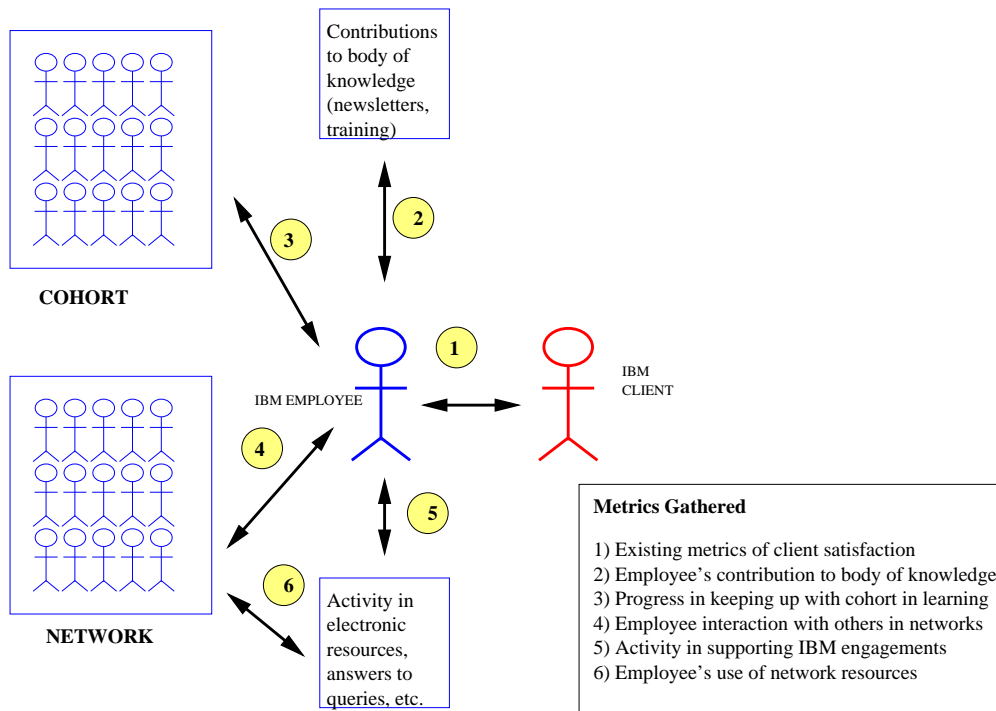


Figure 2.13: IBM Controls

#### Management

Central to the Transformation is the desired increase of human interaction; the “Resident Domain Experts” (Figure 2.9) to encourage and drive this interaction. They may choose to publish regular newsletters, answer inquiries, communicate one-to-one with individuals. Their purpose is to put a human

face on to the process, and serve to draw interest and interaction to issues and topics of the day. More importantly, these leaders continuously improve the process in a cycle shown in Figure 2.14.

In addition to existing criteria considered at the employee's annual review, participation and notable contributions to networking will be a factor in determining the outcome of the employee's review.

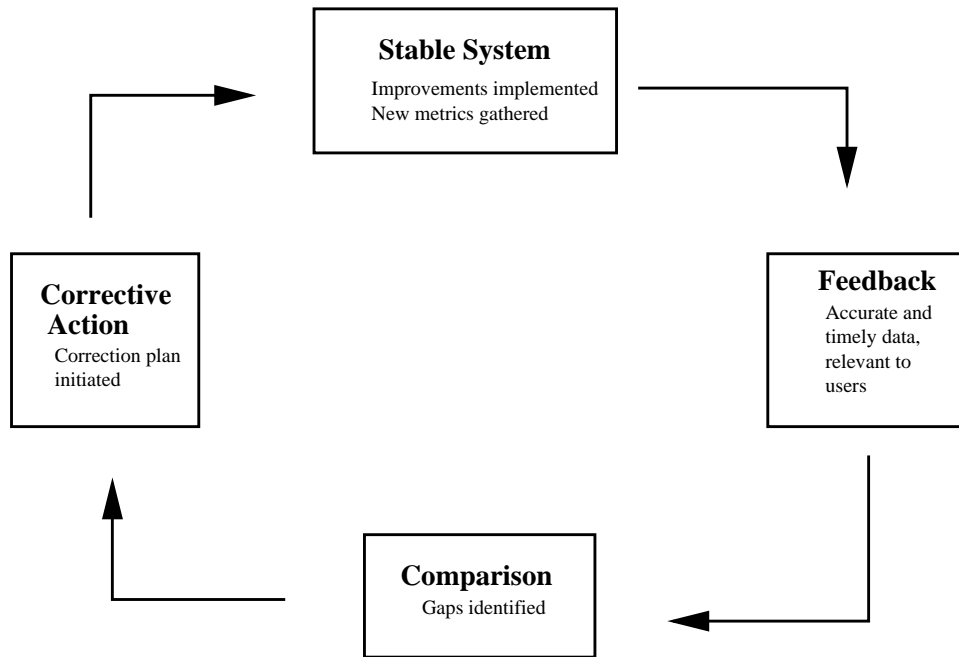


Figure 2.14: IBM Performance Monitoring

### 2.3.5 Routines and Rituals

On an ongoing basis in the interest of recognizing achievements and periodically reviewing the performance of the directed learning and networks installed by the Transformation, routines will include:

- Quarterly reports of metrics and performance by Resident Domain Experts
- Periodic newsletters, 'meet and greet' events, workshops
- Individual one-on-one discussions between the Resident Domain Experts and constituents of directed learning and networking efforts

Rituals will include:

- Awards ceremonies, recognition for achievements
- Feedback for annual review giving metrics for employee's participation in Transformation efforts
- Balanced Scorecard results tying Transformation to ultimate goal of 10% revenue increase.

### 2.3.6 Stories

Stories will reflect the success of individuals who have completed a course of education in a given skillset, focusing on how they contributed to IBM's success as well as their own. The positive benefits of networking and how employees relied on it to solve difficult problems are highlighted, while plans are discussed to address areas where drawbacks or difficulties have been uncovered. These stories will be used to draw non-participants into the Transformation scheme, using all available communications channels within IBM.

### 2.3.7 New Paradigm

As a result of modifying the change levers, Figure 2.15 shows the outcome of the Transformation.

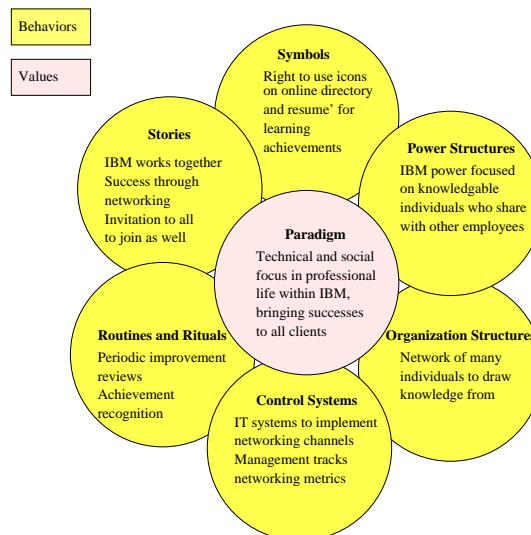


Figure 2.15: IBM Culture Change

## 2.4 Align the Organization

### 2.4.1 Social Cohesion

The desired alignment of the Transformation is to raise ‘social capital’, or social cohesion among IBM employees in a virtual workplace<sup>3</sup>. Figure 2.16 shows IBM moving through Phase 5, where growth is a result of collaboration<sup>4</sup>. To lead IBM employees through this phase change, management will stress that the action is voluntary on the employee’s part. This sidesteps employees who may resist or oppose the change, while giving ambitious and willing employees an opportunity to build and create the missing social capital in their day to day activities. By setting an example, they may entice those with a ‘wait and see’ attitude to join as well. A voluntary approach ties managements’ hands in the number of approaches they can employ; namely, coercion is ruled out, leaving only positive change behaviors such as personal encouragement, acting on feedback and criticism, as well as setting the tone of mutual respect, power of knowledge, and recognition of achievements.

### 2.4.2 Action Plan

The timeline for this action plan is shown in Table 2.5, giving the events and their outcomes. Cost is not detailed here, as the costs are either sunk (such as development of existing training modules) or already allocated to a general budget (paying for servers and computing resources for any legitimate business need). Employees chosen to be Resident Domain Experts will already be on the payroll, with their duties shifted to this endeavor. A modest budget will be allocated to each Resident Domain expert to host awards functions and prizes as appropriate.

### 2.4.3 Monitoring and Evaluating the Change Process

For a large scale effort involving many people and their needs, criticism and feedback are to be expected immediately after inception and implementation. For this reason, the Resident Domain Experts are given a wide latitude on actions taken to improve the Transformation efforts. Periodically, feedback and metrics measurements are gathered, analyzed, and acted upon, as shown in Figure 2.9, showing a double-loop learning feedback system.

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<sup>3</sup>Greenier 1972

<sup>4</sup>Henley Critique 8

<b>Event</b>	<b>Time</b>	<b>Outcomes</b>	<b>Principals</b>
Identify skillsets, now and future, that are in short supply and lucrative.	July 2008	List of skillsets, in priority of projected market returns	Industry forecasters, top strategy managers, expert employees, HR
Identify and appoint Resident Domain Experts, each in charge of skillsets identified.	August 2008	Appointments made, job descriptions changed to focus on Transformation.	Top expert employees, HR, Strategic management
Domain Resident Experts to design core curriculum for 'Immediate', 'Advanced', and 'Expert' qualifications, designed for part-time study for cohorts at a fixed time	October 2008	Curriculum using existing IBM training courses, with absolute minimum of new materials created.	Domain Resident Experts
Create standardized structure for electronic resources, libraries, wikis, newsletters, allow for maximum ease-of-use and multiple networks for users.	November 2008	Directed learning and networking platform that is easily replicated as new skillsets are created, using existing IBM technology.	IT Services, Domain Resident Experts
Begin advertising and communicating to IBM employees about directed learning and networking opportunities, stressing benefits and calls to participation.	December 2008	IBM Employees form first cohorts, undergo training as designed, begin use of networking.	HR, Senior Management, Resident Domain Experts, IBM Employees
Ongoing collection of metrics, focusing on performance, effectiveness, and bottom line scores.	Ongoing	Metrics collected and analyzed, feedback acted upon, improvements made	Senior Management, Resident Domain Experts
Ongoing Awards recognition, periodic newsletters, one-on-ones with individual IBM employees participating in Transformation program.	Ongoing	Activities to drive metrics collected	Resident Domain Experts
Halfway point in 3 year program - measure progress of company against eventual goal of 10% revenue increase in 3 years after inception.	Jan 2010	General report on program effectiveness, successes & issues to act upon.	Senior Management, Resident Domain Experts
End of 3 year program - measure progress of company against goal of 10% revenue increase in 3 years after inception.	July 2011	Decision to continue Transformation program or terminate due to lack of performance.	Senior Management

Table 2.5: IBM Transformation Action Plan

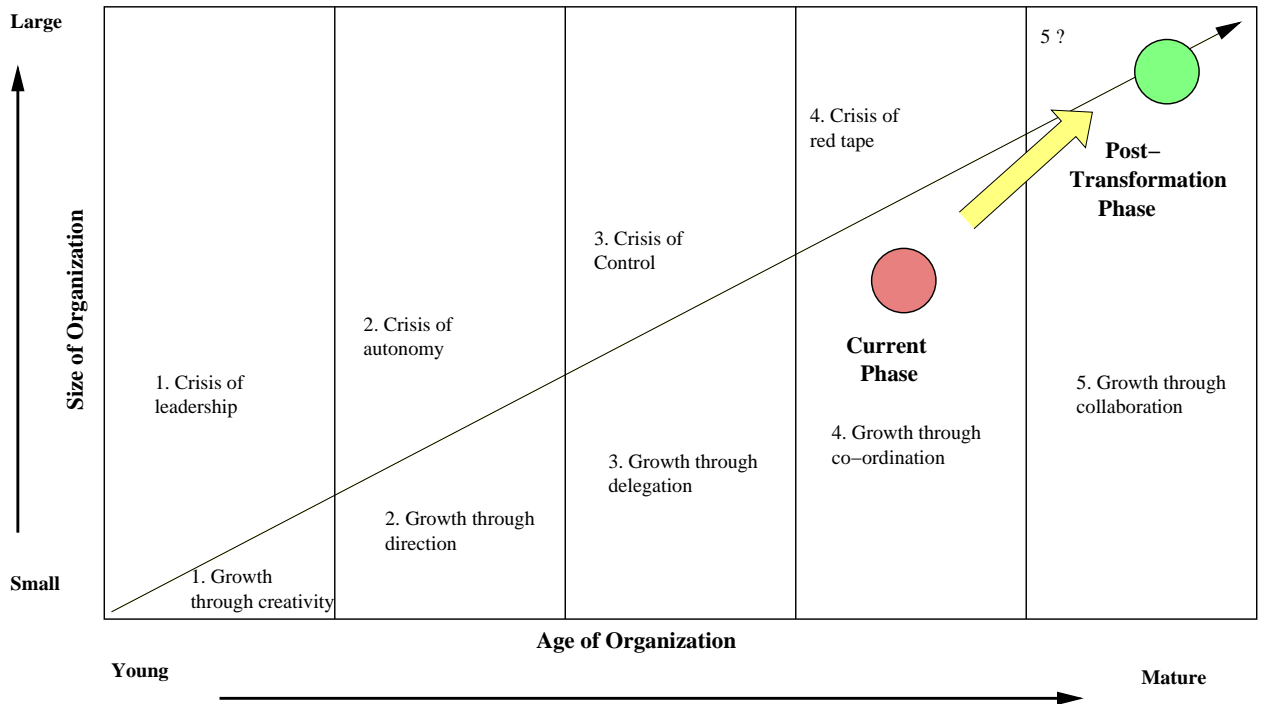


Figure 2.16: IBM Growth through Phases

## 2.5 Conclusion

This paper has detailed the proposed Transformation, on how IBM can give itself a distinctive advantage over rivals who constantly try to duplicate IBM's offerings at lower cost points. IBM gained a good deal from its virtual workforce, being the pioneer in many cases, but now must address the downside - the loss of camaraderie and knowledge sharing within a traditional office setting. The end result of the Transformation is to restore the social setting of the IBM employee, building loyalty to the company, promoting teamwork and reliance among peers, giving joy to the work experience, and satisfying clients with excellent service that cannot be obtained anywhere else in the market.

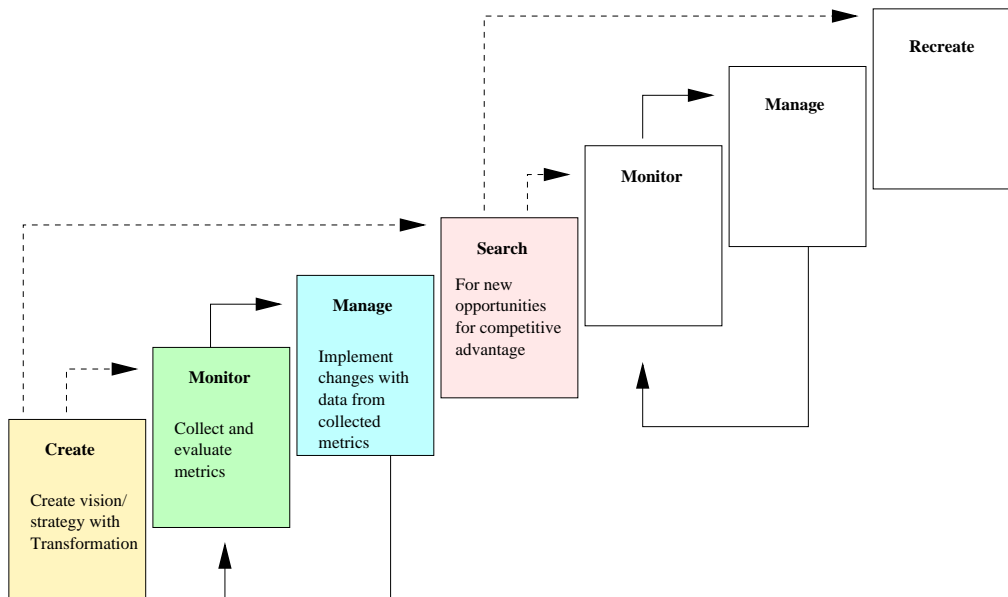


Figure 2.17: IBM Double Loop Learning

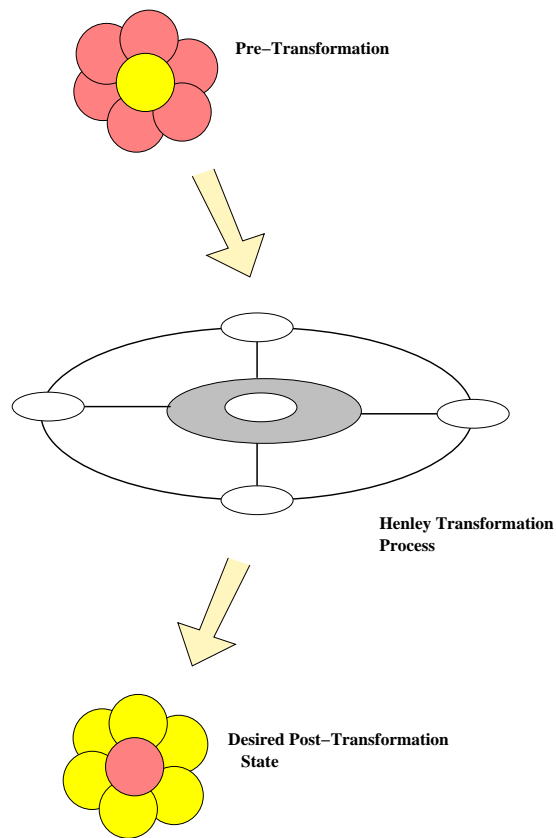


Figure 2.18: IBM's Transformation Process

## 2.6 Personal Development Report

IBM has been an excellent place to work, and in many ways I feel fortunate to have joined IBM when I did, just at the very beginning of the dot.com collapse. In some ways IBM presented credibility and security, being ‘old economy’ and an established company. IBM may not be glamorous as working for Google or Facebook might be, but in exchange, working on decidedly bread-and-butter industries such as insurance and investment banking gives me invaluable experience on projects that have no hype to sell; whatever IBM project I am on is successful because of the many experienced people I find myself working with.

In a company of experienced and talented leaders, it is difficult for any one person to stand out from over a quarter million employees, and the ones that do are employees who have done a great deal for IBM’s bottom line. Standouts include salesmen, inventors of market creating products, visionaries, and people who have shown prescience in the way the markets are heading. While I have certainly done well on projects with a technical focus or delivery, I’ve always been only somewhat aware of the business deliberations that took place before I became involved in the work. With the MBA studies, even with the basics in ‘Foundations of Management’, I’ve found it much easier to make sense of what IBM was doing in its business dealings, such as in its acquisitions or courting of certain clients. In my own personal daily worklife, merely mentioning an interest in business processes has opened doors to working closer with business analysts on projects most noted for its strict divide between technology and business interests.

One way I’ve found that would allow me to stand out at IBM is to bridge the gap between technology and business. It is rare to find anyone willing to work with both groups. Usually when the business analysts are done with their requirements, it’s tossed over a fence to the technology group to implement to be tossed back at some future date. With my knowledge and tools I have learned from Henley, hopefully some day on my projects there will be no fence.

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## .1 Appendices

### .1.1 PESTLE

Table 6 gives a PESTLE analysis of IBM.

Drivers	External Factors	Influence on Industry 0 to 10 (A)	Impact on Company -5 to 5 (B)	(A)*(B)	Probability of Change
Political/Legal	Conflicting regulations between different countries; compliance with local laws vs. global operations.	4	-1	-4	Low
	Patent laws are in a flux in the US and worldwide; patent reform changes nature of competition.	8	3	24	Medium
Economical	Global recession from US economic troubles	9	-4	-36	High
Social	Shift away from US as primary market	7	3	21	High
	Workforce growing older; fewer young employees and more diverse workers	6	2	12	High
	Workers separated geographically; trend of employees working from home or regional offices	8	3	24	High
Technological	Technology quickly becomes widespread / copied by low cost rivals	8	-4	32	High
	Disruptive technology; new invention creates or destroys an industry quickly	9	+/-5	+/-95	Medium
Environmental	Focus on 'green' or low-consumption sustainable energy	4	2	8	Medium
	Natural disasters	2	-4	-8	Low

Table 6: Environmental factors affecting IBM

#### Political / Legal

- IBM is a multinational company operating in many countries, often resulting in IBM needing to navigate conflicting regulations. What may be legal in one country may not be in another, financial practices may differ. Worker's rights, patent laws, export controls are all factors that need to be taken to consideration.

**Economical**

- Economic recessions can impact clients who may cut back on spending on IT and business operations. IBM may find that it needs to rely less on US operations for profit as emerging countries come on line, for example, Chinese companies looking for premium IT service.

**Social**

- Workers are gradually graying, becoming older as boomers move toward retirement. Employee needs and desires change as workforce becomes more diverse. Technology allows employees to collaborate and work far away from each other, downsides of isolation and separation need to be addressed.

**Technological**

- IBM is the trendsetter and market maker for new technology for IT automation and business. It is likely that old standards can be disrupted overnight with introduction of a new technology. IBM needs to continuously innovate as anything can be copied or adopted by rivals.

**Environmental**

- Natural disasters can disrupt IBM operations, as facilities are located worldwide. Focus on 'green' technology an important issue as clients and governments try to address global warming.

## **.1.2 Porter's Five Forces**

### **Threat of New Entrants**

As the IT and business consulting market is lucrative and a global business, new entrants are constantly entering the market in response to new opportunities. This is especially true of emerging countries, where skilled and low-cost workers in countries such as China and Vietnam are underbidding India, once the leading low-cost bidder for Western outsourcing business. As having an advantage through business automation and cost savings through outsourcing means a advantage over competition, any business of appreciable size will welcome new products and services that will work to their favor.

Threat: High

### **Supplier Bargaining Power**

IBM can no longer engage in customer lock-in, in which the customer is forced to use IBM products exclusively once entering a contract. Open standards allows a client to migrate their data and process to competitor platforms as needed. For this reason, IBM embraces competitor products as well and provides service with the same depth as a similar IBM brand. 'Suppliers' can also mean IBM's consulting base, employees who can work for IBM, a competitor, or hang out their own shingle as an independent consultant.

Threat: Low

### **Buyer Bargaining Power**

Buyers are divided into two camps, one seeking low-cost service and the other camp seeking leading edge IT products and services. Low-cost service reduces overhead for clients, but requires a mature market with an adequate number of competitors. Leading-edge clients often will pay a premium for new products and services, and have few vendors to choose from. IBM nearly exclusively positions itself in the leading-edge market, and must constantly cede business to low-cost competition once margins become unsatisfactory.

Threat: Medium

### **Threat of Substitute Products & Services**

When a new service or product is developed, a new market is created, one that promises a new level of automation or a new way to reach customers. In the time of market creation, products and knowledge (in the form of consultants) are limited. Over time, as competing products are made and

more consultants gain knowledge, customers have more choices and the threat of substitution increases.

Threat: Medium

### **Competitor Rivalry**

Competition is fierce, but IBM enjoys a large share of the leading-edge IT consultancy market. Many of IBM's products set the market standard, allowing IBM to control the direction and progress of the market. Many of IBM's competition are niche-oriented or cost-leaders, or are complementary (using IBM's products to drive demand for a specialized service).

Threat: Medium

### .1.3 McKinsey 7S

- Hard Elements
  - **Structure** A company of IBM's size is split along three lines: Software, Services, and Systems & Financing. By necessity, there are diverse structures suited to the nature of a particular business. The structure that is in question is the ranks of IBM consultants, who are generally individuals on assignment and are not necessarily aligned with any direction other than their own.
  - **Strategy** IBM summarized their strategy succinctly with "... to solve our clients' hardest problems"; IBM continuously seeks opportunities which represent a technological advantage or a cost savings for clients. Service contracts based on IBM products and platforms are lucrative for growth markets.
  - **Systems** IBM often sets the industry standards for systems and automation, and has an interest in being flexible and responsive to market conditions. Many mechanisms, such as training, HR, and assignment deployment are well developed, although often left to employees to discover and determine how best to use them.
- Soft Elements
  - **Style** IBM has a surprisingly informal and collaborative style for an organization of its size. Gone are the days of pinstripe suits and 'sincere' ties, replaced by a global collaborative network in which IBM employees work on projects from any location. A full third of IBM employees work from home, with the rest in 'solutions delivery centers', IBM campuses, or in client sites.
  - **Shared Values** IBM places emphasis on integrity and customer satisfaction, and every IBM employee must read and sign a document defining what IBM stands for. Because of the dispersed nature of IBM, often values may be that of a client the IBM employee is working for, or assumed values from a temporary group working together. Transient assignments tend not to reinforce values over time.
  - **Skills** IBM places a high premium on skills, as it is what makes the company marketable to clients. IBM is often the company of first resort to solve complex issues or introduce new technology to clients. Despite the importance of skills, cultivating and directing learning efforts is left to the individual employee.

- **Staff** With nearly 400,000 employees, IBM has a wide pool of labor to draw from. Cleanly divided into ‘bands’, or levels of responsibility (and pay) as well as broad job definitions, IBM marks out stepping stones in advancement for the employee. A yearly performance based bonus (both individual, department, and company) motivates employees. Special programs such as ‘certification’ and titles such as ‘distinguished engineers’ give special recognition to employees who have achieved a remarkable level of skill.

### .1.4 Market Share

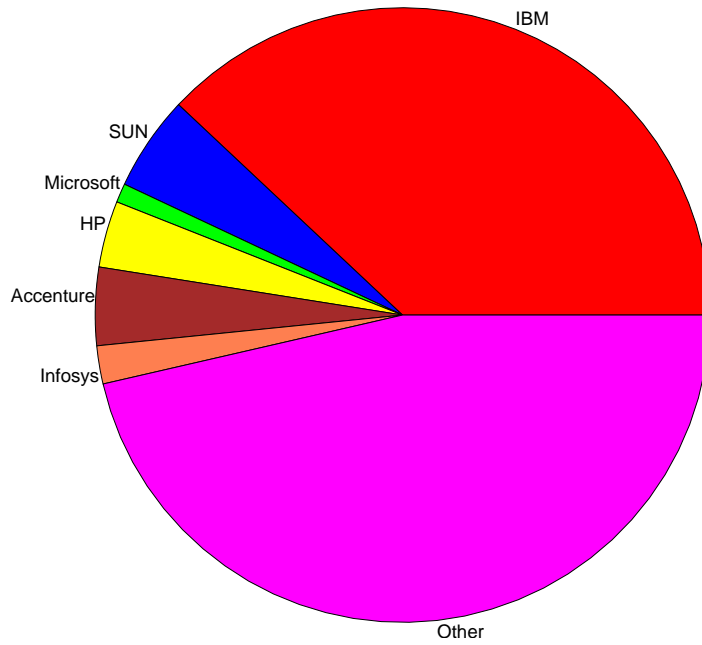


Figure 19: IBM Market Share 2006

IBM's market share for IT and Business services in 2006, showing that while IBM has a large portion of the market, an even larger portion is held by small IT consultancies. Individual consultants, small shops, and universities lending scholars make up for the largest share of the IT market. Rivals such as HP, Infosys, and Microsoft have a small market share now, but are expected to invest and stake out a larger share over time.

## **.1.5 IBM's Stakeholders**

### **Competitor Platforms**

IBM supports all IT platforms and products as a normal course of business. IBM has no stake in providing service exclusively for its own products. As a result, competitors often take an interest in IBM supporting their platform as it can drive sales. On the other hand, IBM's openness also allows the possibility of a customer migrating to an IBM product as well.

### **Shareholders**

Shareholders have not treated IBM as a 'hot stock', and IBM's P/E ratio remains low compared with other similar companies within the industry. This treatment makes it difficult to retain key executives with stock options and employees who may own IBM stock through company plans. Even with record profits, IBM is not treated as a growth company.

### **IBM Consultants**

IBM Consultants are the stock in trade when giving customers advice and supplying skilled labor. Consultants find themselves in high demand when their skill set is in short supply. However, consultants can find themselves isolated from any sense of direction or corporate vision as they are isolated, either by being embedded in client corporations or working alone from home. While IBM may see emerging trends, this is often not shared with individual consultants.

### **Cost Sensitive Customers**

Cost sensitive customers are clients that have found a cheaper alternative to IBM, usually when a technology matures enough that low-cost competitors have developed sufficient skills to provide the same service IBM does, but at a discount. IBM cannot compete on cost so must find ways to provide clients value that low-cost competition cannot.

### **Low Cost Competition**

Low cost competition are competitors who have developed sufficient skills to compete against IBM, especially in mature or declining markets. Low cost competition sets the price floor for IBM, driving IBM forward to finding new markets in which IBM can charge higher prices.

### **Premium Service Competition**

Premium service competition are competitors who have the same business model as IBM, eschewing competition on price and instead focusing on value delivered to the client. IBM may either compete head-on or else form partnerships and alliances with this competition, especially for technology requiring substantial knowledge and investment.

### **Leading Edge Customers**

Leading edge customers are customers who will pay a high price for products and services that will give them a business advantage or significant cost savings. These clients seek to gain an edge over their own competition, and are willing to make the required investments. Leading edge customers can also be cost sensitive customers, especially when portions of their infrastructure has matured enough to make it difficult to justify retaining IBM to service it.