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Business Innovation Through  
Technology

## [ ORGANIZATIONAL BEHAVIOR AND BUSINESS MANAGEMENT- IBM ]

A company's controlling interests and management should never forget that the business is a living, breathing entity. A company will and always should have its own character and demeanor, much like a person. The whitepaper looks at how IBM defined success in its organizational behavior.

A company's controlling interests and management should never forget that the business is a living, breathing entity. A company will and always should have its own character and demeanor, much like a person. Certain companies have been able to create an organizational architecture and business behavior model that is unparalleled in business and is often looked at as innovating in its design. One such company is IBM. IBM has over performed as a business for over 100 years. The critical success for IBM has been found in its core business development through organizational culture, decision making and organizational structure. It is crucial to understand what a driving force IBM has been in business in the last century and how its culture, structure and decision making defined business.

The foundation of any successful business over a long period of time is reflected in two critical components; "preserve the core and stimulate progress. What preserve the core/stimulate progress does is create an institutional set of processes that map to a very, very deep primal human distinction: our need to believe and our need to create" (Fast, 2004). IBM has used these business fundamentals to create its core values and business culture.

IBM was founded as three smaller companies in the late 19<sup>th</sup> century. At the time IBM was known as the Computing Tabulating Recording (CTR) Corporation. The name of the company as it stands today, International Business Machines (IBM), was adopted in 1924. IBM is an international business in over 170 countries with 91 billion dollars in annual revenue (Wikipedia, 2006). From its inception IBM has been focused on the needs of its customers and not on its need to grow. That is not to say that IBM has not put considerable thought into its development as a business. IBM was a leader over the last 75 years in creating a culture of remarkable achievement in business.

With high marks for sales, service and customer satisfaction, IBM has created a very sales-centric culture. This culture puts a high mark on satisfying the end user of the IBM products and services. IBM has created a series of training facilities and takes great pride in its extensive orientation process for new employees. IBM has a rigorous program for managerial advancement. It is rare that IBM hires a manager from outside its organization. IBM has created what some might consider a cult like culture. IBM prides itself on finding young, ambitious talent in new hires. These new employees are trained and trained on IBM practices and culture. IBM makes it very clear that employees will do things the IBM way or work somewhere else. With a stringent culture in place, IBM will do what it takes to bring up its best internal employees into management. This preserves the culture and enforces achievement through embodiment of the cultures guidelines.

The IBM culture is successful because it focuses on bringing up employees from within. The culture works because it has always worked. IBM does not attempt to do something in business as its core value that no one else has ever done. IBM simply creates a very unyielding culture that emphasizes the satisfaction of the customer as the most important part of their business. With the values of the customer in mind, IBM has created a culture its employees need to get behind.

In identifying a successful company, a person must appreciate that the culture of a business is its soul. After the vision of a business the culture is what drives the rest of the company's direction (Collins, 1994). Many companies lose focus on their need to guide their culture as they get larger and the end product often suffers. IBM has made sure this does not happen because they have used satisfaction as the core value of their business, building their company culture around it. In the paradigm of the seven primary

characteristics of organizational culture, IBM most reflects attention to detail. From the signature IBM white shirts, black ties and dark pants; IBM screams professional service and satisfaction to the customer. IBM has created facilities for training, research and development of services and products that are geared toward the complete fulfillment of their customer's needs.

As the examination of IBM continues, it becomes clear that over the last 100 years, IBM has not been an outright success in all endeavors. IBM has come very close to filing bankruptcy on more than one occasion. In the early 20<sup>th</sup> century IBM was forced to make a decision to aid its financial foundations and change the direction of its business forever. IBM acquired the services of Thomas J Watson, Sr. formally the number two executive at the National Cash Register Company (IBM, 2006). Watson laid the foundation for the company's culture and organizational structure that have prevailed to this day. Watson enabled the individual within IBM. He created the mantra of THINK within his organization and supported the need for employees to love their company and help it grow by each action they could control.

IBM was under Watson's control as it began unprecedented growth. In order for the company to control its resources and create a successful business, the senior management had to create a functional organizational structure. Watson introduced management concepts that had not yet been implemented in other large organizations at the time. Watson introduced the idea of formal training for employees. The training was more indoctrination into the organization than actual training, but it served the purpose of creating a foundation for IBM to pull loyal employees from for management. IBM has and will continue to promote from within its organization. Because of the strong culture within IBM, the company is able to groom internal employees for management at a much more effective clip than pulling managers in from outside organizations.

IBM has had a long history of acquiring other businesses in order to remain a competitive organization. As the company assimilated other entities, IBM began to develop the foundation for business organization that would be known as business units. IBM created countless divisions using the concept of business units. "There are two reasons for doing this: First, nurturing innovation usually requires different skills, different resources, a different benchmark of success, a different management style, less aversion to risk, and a different focus from the mainstream business. And second, innovation can be a distraction to the mainstream business, threatening the processes and attention to traditional customers that have made the mainstream business successful" (Pollard, 2006).

During the late 1980s and early 1990s, IBM began to slip as a global powerhouse. IBM had begun to get so large and had created so much management and red tape within its own organization that it was unable to be flexible within its market. In 1993 IBM appointed a new CEO who had a very difficult decision to make. Lou Gerstner was in charge of deciding whether IBM should break up into a series of smaller companies or if it should remain a large entity with a different internal organizational structure. Gerstner knew that the wrong decision could destroy all of the capital IBM had earned over the last 100 years of business.

Gerstner decided to take a gamble and did not divide of the company. Gerstner made an organizational change that loosened up the internal management of the business and realigned some of the key IBM personnel to create better decision making avenues. IBM saw many benefits to decentralization: "(1) It

encourages motivation and creativity; (2) it allows many minds to work simultaneously on the same problem; and (3) it accommodates flexibility and individualization. The importance of these benefits varies greatly, but they are often especially important in certain industries and business functions. For example, the success of most professional services organizations (such as consulting, software development, and law) hinges on the motivation and creativity of their professionals. Consequently, these organizations are especially good candidates for decentralized decision making. Creativity and innovation are also often particularly important in functions like engineering, sales, product design, and information technology. Here, too, decentralization will often pay off" (Malone, 2004).

Being that IBM is a professional services company, the need for decentralization in their business was critical in maintaining a level of creativity for its divisions that a structured management environment would have destroyed. Since its change in organizational structure, IBM has seen a ten fold increase in its stock value and has become the largest systems consulting company in the world.

The last business tool for examination in reference to IBM is that of decision making. Being that IBM is a business systems consulting company, it stands to reason that it would have some very interesting ideas concerning decision making within an organization. IBM has never left its core ideology created by Watson in the early 1900's. Think! IBM goes out of its way to recruit from the best business and college pools that are available in the world. IBM uses the best of its recruits to create better managers. IBM then grooms the best managers to be better executives. All of these factors fall into the foundation of IBM's decision making process; individual decisions matter- Think.

IBM returned to its core values in the early 1990's under the direction of Gerstner as was previously discussed. The organizational structure change that Gerstner implemented not only changed the structure of IBM's hierarchy, but also changed the way the company made decisions. IBM moved from a centralized decisions making entity to a loose hierarchy decisions making entity.

IBM seems to function at its best when it sticks to the fundamentals that created its greatest success. Under the guidance of Watson, Sr., IBM discovered its identity. IBM has since become a global super-company with business divisions in almost all of the continents on the planet. With a multi-national organization, IBM must be able to change frequently, but without destroying the fundamentals that created its success. IBM has been able to achieve success and the power to adapt quickly by following key business structure, culture and decision making standards. By holding true to a key set of values and creating a culture for business from these values, IBM has been better able to change its direction and attitude. With a solid foundation, change can be achieved quickly. "Turns out when you study religious institutions, there's a very interesting thing, say a theological seminary. You ask yourself the question, which theological seminaries are better able to change? It turns out that it's the conservative ones. You ask yourself, why is that? It's because they have such clarity of their conservative values that they're more easily able to change all their practices. Because they're very clear about their values as an anchor point" (Collins, 2004). Looking at IBM it is easy to see how it was able to make turn around after turn around over the last 100 years. IBM has a solid anchor in its values and culture.

Progress in business is measured in ever changing variables. IBM has proven its dominance with 100 years of success and its ability to thrive through global change and market turmoil. IBM has achieved its success by being true to its core, thriving on competition and better products, being flexible in its

structure and allowing for change in its decision making processes. The 21<sup>st</sup> century will create more change in business and will require IBM to rethink its direction. With a global market, the business community will need to examine how it handle international divisions, changing cultures for a multi-national company and what type of organization will allow for flexibility and prosperity without anarchy.

IBM will be able to move into the 21<sup>st</sup> century business community as a proven leader and a solid foundation created with an unwavering culture of strong ideals and need for creating a successful product.

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