A Transformational Change at IBM

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Introduction

Back in the early 1990s, IBM was in trouble. Its sales force was selling hardware when customers wanted solutions; it was posting losses instead of profits; and, for the first time, lifetime employment was replaced by downsizing initiatives. Some executives realized IBM needed to transition from selling hardware to providing services, but that transition had not yet begun. This paper addresses an organizational change management project implemented in one geographic area in the early 1990s to transform part of IBM from selling hardware to delivering solutions.

Although it happened a while ago, the project still exemplifies the elements of successful transformational change. Despite the passage of time, the people aspects of change remain the same. The project redefined the strategy in one geographic area, turned the strategy into tactics, and incorporated a new opportunity management process that looked a lot like an early form of portfolio management. This paper discusses the organizational approach, processes and management systems developed to transform our business from selling hardware to delivering customer solutions. It contains no IBM confidential information. The author is now retired from IBM; everything written represents her own views rather than IBM’s. This is the true story of a major change initiative in a large company and identifies some common elements needed for successful organizational change.

Examples of Current Transformational Change Research

Executives know that their organizations must anticipate and respond to external and internal factors that cause their strategies to change. These factors may include increased competition, first-of-a-kind technology, economic downturn or best of all, anticipation of a market need and leadership in developing solutions. Change can turn our worlds upside down or be a small bump in the road; it can be incremental or transformational. For organizations, every new strategy involves transformational change.

But change isn’t just driven by executives. Every project involves organizational change. By its very definition, a project delivers a new capability to the organization. The new capability is embraced by stakeholders (good) or not (bad). Every project manager must therefore understand how to lead positive change and avoid the pitfalls. A recent study of 1,500 change practitioners
worldwide found that success in transformation projects hinges primarily on people rather than technology; that “changing mindsets and attitudes” and “corporate culture” were the two most significant challenges reported by the practitioners; and that this “soft stuff is the hardest to get right”, (IBM 2008b, p. 12). The study also found that about 60% of change efforts fail.

Worse, according to McKinsey & Company (Keller, 2008), Kotter (1995) and research by others, about 70% of major change initiatives fail. After almost two decades of intense change from corporate reorganizations, new software systems, and quality-improvement projects, the failure rate remains at 70%. A whole new field of change management consultants, with accompanying models, has arisen to try to improve this failure rate. Here are a few examples of transformational change research and attending models.

**Salerno and Brock Change Cycle**

Ann Salerno and Lillie Brock have written a book called *The Change Cycle* about how we as people actually feel during a change, whether personal or professional. Its intent is to help people get through significant changes at work with (to quote them) “minimal damage to blood pressure, career, relationships, productivity and confidence” (Salerno, 2008, p. 5).

![Figure 1. The Change Cycle Model (Salerno and Brock, 2008). Reprinted with permission of the publisher.](Image)

Figure 1 shows The Change Cycle™ Model by Salerno and Brock. They claim that people react, respond and adjust to change in a sequence of six predictable stages. Their model identifies the
thoughts, feelings and behaviors associated with each stage of change. Here are some examples of their descriptions of the first and last of the six stages:

- **Example, in Stage 1 – Loss**
  In Stage 1 you admit to yourself that regardless of whether you perceive the change to be good or bad there is a sense of loss of what "was". You feel fear, or at least caution. Behavior is paralyzed.

- **Example, in Stage 6 – Integration**
  By this time you have regained your ability and willingness to be flexible. You have insight into the ramifications, consequences and rewards of the change. In this final stage, you are feeling satisfied, focused and generous.

Many consultants are certified in this methodology to help organizations through change – my purpose in including this is simply to make the point that people go through somewhat predictable emotional stages when facing significant change, and awareness of this by those delivering change is important.

**Whetten and Cameron**

David Whetten and Kim Cameron developed another framework and incorporated it in their 2007 book “Developing Management Skills”, 7th edition. The five management skills and activities described as a framework for leading positive change are: establish a positive climate, create readiness, articulate the vision, generate team commitment, and institutionalize the change to create irreversible commitment (Whetten, 2007). Together, they lead to positive change, or what Whetten calls positive deviance and exceptional performance. To establish a positive climate, for example, Whetten proposes, in part, to:

- **Create positive energy networks**
  Many managers spend 80% of their time with 20% of problem performers. Research suggests that managers who spend more time with their best employees achieve double the productivity (Clifton and Harper, 2003). Although much attention is paid to information networks, being a positive energizer is 4 times more predictive of success than being in the center of an information network.

- **Ensure a climate of compassion, forgiveness and gratitude.**
  Desmond Tutu, the Nobel Prize winner from South Africa, said “Ultimately you discover that without forgiveness, there is no future. We recognize that the past cannot be remade through punishment…” (Tutu, 1998).
John Kotter’s 8-Step Process

Dr. John Kotter is one of the most prolific thought leaders, writers and consultants in the field of transformational change. As others have supported, he found during his 30 years of research and teaching at Harvard Business School that 70% of all major change efforts in organizations fail. In a ten year study of 100 corporations attempting transformations, he identified a series of phases and the critical mistakes during each phase that can lead to failure (Gallos, 2008 and Kotter, 1995). Dr. Kotter suggests that organizations can become successful at change by following the 8-Step Process for Leading Change (Kotter International, 2013), paraphrased here at its highest level:

1. Generate a sense of urgency
2. Establish a powerful guiding coalition
3. Develop a change vision
4. Communicate the vision for buy-in (clearly and often)
5. Empower broad-based action and remove obstacles to the vision
6. Plan for and create short-term wins
7. Never let up – drive new behaviors and practices and avoid regression
8. Incorporate changes into the corporate culture

Recognizing the Need to Change

With that and your individual experiences as a background, let’s go back to a time when IBM was struggling. At the time, the IBM field force was organized into geographic trading areas with industry-oriented branch offices. Its customers were supported by local branch office teams that were focused on selling hardware infrastructure to customer IT directors. The customer senior executives, though, were looking for business solutions. IBM found itself in an increasingly commoditized business, with little investment in the high growth sectors of the technology industry.

The mood in IBM was somber, both in headquarters and the field. Thousands of employees were given packages to leave. The Chairman was stepping down and the new CEO had not yet arrived. As hard as change is, most people knew we needed to change. We didn’t have the benefit of all the research about transformational change, but we knew that IBM needed to move in a new direction. Recognizing this, IBM’s corporate goals as stated at the time were:

- Become a technology-based services company
- Improve customer satisfaction
- Grow services revenue by 50% per year
- Realize a composite services ROA of 15%
- Establish IBM as a world-class provider of services by the mid-1990s

The graphic in Figure 2 illustrates the four sources of revenue for IBM compared to the industry in 1990. The four major sources of revenue were, starting at the bottom, Services (Blue), Software (Turquoise), Maintenance (Fuschia) and Hardware (Orange).
As can be seen, IBM was more reliant on hardware and maintenance revenue compared to the industry as a whole. The compound annual growth rates projected for the coming 5 years for each of the 4 sources of revenue were:

- Services and Software were projected to grow the fastest, at 12% and 13%, respectively
- Hardware and Maintenance were each projected to grow at only 4%

Total industry compound annual revenue growth was projected to be 8%. Thus, for IBM to grow at least as fast as the industry, it would have to shift its business focus from hardware and the related maintenance services toward software, and especially, services.

**Developing the Vision and Framework**

The IBM Southern California Trading Area was responsible for about 5% of IBM’s U.S. business, which was then reported at approximately $25 billion. It comprised 1,000 employees and had yearly revenues of over $1 billion. Two managers in the trading area, spontaneously and without knowledge of one another, looked at the industry data and the new IBM goals, and prepared separate presentations on how to address IBM’s doldrums within the trading area. One was a Business Unit Executive who reported directly to the General Manager (GM). The other was the author, then Manager of Consulting Services and Outsourcing, a new unit formed to address more of what customers really wanted.

The GM was a young charismatic leader who embraced ideas for positive change. The concepts that the two of us presented were astoundingly similar. He asked us to collaborate and return with a joint proposal. We went back to the GM in the first quarter of 1992 with a vision and framework representing the “to-be” (Kotter’s change vision). We developed a potential scenario for achieving it, and recommended establishing a task force of top-ranked people with specific areas of knowledge (Kotter’s guiding coalition).
The GM called his direct reports together to review the vision, framework and task force proposal. His enthusiastic endorsement carried the day. Of course it also helped that their sales-linked executive compensation was depressed along with IBM’s business.

Ranking employees by discipline was standard practice in IBM. The executives were asked to nominate employees ranked in the top 10% for each of the proposed teams. We reviewed the nominees and identified the desired team members. We also identified four outstanding first line managers, each of whom would manage multiple teams. The proposed teams were reviewed with line management, and the project was approved. The two of us who developed the vision and framework were named the Executive Sponsor and the Task Force Leader.

We briefed the task force members on the project during the second quarter of 1992. Like the executives, there was a learning and acceptance process. However, because these distinguished achievers recognized the problems we faced in the industry, buy-in was not as difficult as might be the case with other employees in subsequent stages. That’s why one key to success in organizational change management is having the best people working on the issues. In addition to their collective wisdom, they were respected by their peers and having them personally invested and acting as spokespeople later was most helpful (Kotter’s communicating the vision and empowering them for broad-based action).

**Defining the Transformation**

The starting point for the Task Force was the conceptual design (vision and framework) for the transformation prepared in late 1991 and early 1992 by the Executive Sponsor and the Task Force Leader, and endorsed by the General Manager. The Task Force worked in the following groups:

- Client Team
- Platform Team
- Solution Team
- Maintenance Service Team
- Opportunity Management Team
- Measurement and Compensation Team
- Cross-Team Issues

It comprised 100 senior but non-management people who were ranked in the top 10% in each of their current roles. Four managers were charged with coordination of progress and issues for their respective teams. Each team had a designated lead and was asked to develop for their areas:

- Mission, roles and responsibilities
- Process steps
- Positions
- Functional organization description
- What the functional organization is not
- Primary skills required
- Methodology for determining the actual result,
• Recommended specific results; for example, the Solution Team needed to identify which solutions should be fielded during implementation and why

During the second half of 1992, the Task Force, with the help of many others who worked on special teams to address specific issues, developed an organizational approach, processes and management systems intended to transform the business into one that would:

• Deliver customer mission-critical solutions through IBM consulting and systems integration services
• Apply new marketing approaches for our hardware and software platform business
• Make us more responsive and competitive by bringing the right expertise to the right opportunities
• Position us for sustained profitability and growth

In January and February of 1993, everyone was transitioned into the new roles and processes. Along the way, there were numerous communications, presentations and sessions, from large town halls to one-on-one meetings to move everyone from:

• I hear, to
• I understand, to
• I accept, to
• I am a part of this – I become

These are similar to the “never let up” and “stages of acceptance” in all three change frameworks described at the beginning of the paper. At the time, of course, we had never seen them, nor had they been developed and published.

**Defining How the Transformed Organization Looked and Worked**

The transformed business resembled the matrixed organizations of today, and included the Functional Organization and the Matrixed (Project Delivery) Organization.

**Functional Organization**

The Functional Organizations in the planned scenario were responsible for skill development, career planning and management, providing a critical mass of expertise, and delivering resources for projects or opportunity teams. The Functions were:

• Client -- own the executive relationships and know the business of key clients
• Solutions -- industry-oriented or cross-industry systems integration, development and project management
• Platforms -- e.g., network, mainframe, storage, workstation, operating system (implementation of infrastructure)
• Service Operations -- maintenance and availability services
• Business Support -- administration and accounting
The client teams were comparable to today’s worldwide Sales & Distribution, organized into specific industry sectors. The solutions teams were analogous to today’s IBM Global Business Services, while the platform teams were analogous to today’s IBM Global Technology Services.

Matrixed (Project) Organization

Projects were resourced by drawing people from the functional teams to create virtual project teams. This resource was allocated and balanced by the group of opportunity (portfolio) managers, based upon the initial prioritization of an opportunity. The objective was to move the right people, each of whom was highly skilled in his or her own discipline, to a project that made it through the selection process, or to a potential project that required such resources to properly qualify it. The virtual team was expected to produce better results and higher customer satisfaction; it was made up of specialists who could be brought to bear on a complex customer need.

Because we knew that people tend to perform to the way they are measured and rewarded, we designed measurement systems and opportunity management systems aligned with the new goals and objectives of the trading area. Figure 3 shows a schematic of the matrixed organization.

![Matrixed Organization](image)

Figure 3. Matrixed Organization

The opportunity (portfolio) management process worked together with what we called the market / delivery / support process to ensure that the right opportunities were pursued with the right resources. It was a set of ground rules that allowed deeply-skilled teams to function in a matrixed organization. It was not yet a full project portfolio management process but it had many of the same elements as today’s better PPM practices.
Opportunity (Portfolio) Management Process

The stated purpose of the opportunity management process was to ensure that appropriate resources are allocated to the right opportunities in an efficient and effective manner, resulting in maximized customer satisfaction and profit. To support this purpose, the task force opportunity management team developed a process guide explaining the 9-step process, along with a quick reference card. Examples of the process in action were developed and taught. In addition, information systems were installed by the IT staff to support the process, including a database to manage opportunities and an organizational knowledge repository, similar to today’s CRM systems.

Each opportunity was assigned to one of the opportunity managers (one per discipline), to qualify the lead and acquire resources to support it. In effect, the team of opportunity managers determined the portfolio. Opportunities were prioritized by expected financials, customer relationship including history and growth, perceived competitiveness of the IBM solution (can we win it), and impact on market share. The task force team established a process for evaluating progress, terminating under-performing projects, and re-assigning ownership and resources. Statistics were tracked and used to improve the process. We emphasized establishing ownership of opportunities early, selecting the right ones to deliver, moving resources to them, and “over-managing” the process in the early months until it could become spontaneous.

Making the Transition

By now, lots of communication had taken place. But, making the transition involved detailed planning, down to the individual customer and the individual employee. We knew that the “devil is in the details”; meaning that the tactics in any transformational change must be defined at an executable level for the major stakeholders, in this case, employees and customers.

Transition Plan for Each Customer

The current (existing) sales team for each customer was asked to develop a transition plan using a template that included customer contact information and key relationships; and current projects or opportunities, with appropriate details for each one, including the platform or solution team to own it after transition, forecasts and other specific relevant information. This information was entered by the current team into the opportunity management system.

The Task Force Client and Opportunity Management teams defined a customer transition certification process to ensure that the new owner had accepted the opportunity and turnover was completed.

A scripted presentation was prepared, to be delivered to each customer by the current sales team. It explained what IBM was doing, why we were doing it, and why it would be good for the customer. Written FAQs were also provided, and current sales teams were trained on how to deliver the message. Target schedules were provided and managed to ensure rapid delivery.
Transition Plan for Each Employee

The transition was also defined down to the individual employee level. Complete position descriptions were developed, including:

- Mission
- Primary objectives
- Roles and responsibilities
- Whom they serve
- Primary skills
- Who might be candidates
- Relationship to the organization
- What the position is not

Performance plan outlines and sample performance plans for each position were developed. The performance plan was the annual agreement between an employee and management on what is to be achieved, and against which the employee is evaluated and compensated. The Task Force Measurement and Compensation team developed new guidelines for performance measurement and compensation that were aligned with the objectives of the trading area.

We also developed a guide for one-on-one conversations between an existing manager and each employee about his/her new role and preferences. Each employee then completed his/her own skills and preferences questionnaire, and the manager did the same for each employee. This information was fed into a trial organizational spreadsheet based on the responses; final decisions on the new position for each employee were then made by the GM’s direct reports, as the senior managers of the trading area, assisted by Task Force leadership.

Updates were provided to employees throughout the six-month task force process. Although the prevailing literature calls for small wins, in our case the calendar year mandated the deadlines for measurement, so it was necessary to be ready for an all-at-once implementation. “Big bang” transition was accomplished in January, 1993.

Conclusion

The IBM Southern California Trading Area successfully transformed its business in 1993, based upon the work of the Task Force. Although there were some pockets of resistance (in one instance a thirteen hour meeting with a recalcitrant executive), the planning was thorough, with attention to detail, and the communication was frequent. Top management had vision and supported us, and reinforced that throughout the process. A conceptual design for implementation had been developed ahead of time. We had the top-ranked people on the Task Force. We knew the “as-is” and could envision the “to be”. We defined the “to be” at a level of detail that could be executed.
Critical Success Factors (Why We Succeeded)

These were critical success factors for us. Each was part of the reason we succeeded in making the change.

1. A clear and compelling vision made actionable
2. Proactive executive support
3. Commitment of people
4. Clear missions, roles and responsibilities, skills
5. Metrics and rewards modified to support organization goals
6. Opportunity (portfolio) management process and system

How IBM’s Business Mix Grew and Changed

During 1994 and 1995, the remainder of the IBM field organization transitioned to a structure and processes that resembled what we did in the trading area, and the IBM business results speak for themselves.

IBM revenue grew from about $64 billion in 1992 to $107 billion in 2010. This increase in revenue was accompanied by an increase in the percent of revenue attributed to services (solutions) from 9.38% in 1992 to nearly 57% in 2010 based on IBM Annual Reports from those years. According to IBM’s 2012 Annual Report, pre-tax income has grown from $9.6 billion in 2000 to $24 billion in 2012 (IBM, 2012). During that time, the percent of total pre-tax income from services and software has grown dramatically, while the percent of pre-tax income from hardware and financing has shrunk over the same period.

But, even that successful transformation was reactive, in response to a shift in market needs that temporarily caught us flat-footed. As IBM and other entities have since learned, simply responding to shifts in the environment is not enough; we must become adept at anticipating and leading them, whether the opportunity arises at a project, program or portfolio level or at the enterprise level.
References


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Sue earned her Master of Science in Project Management from the Graduate School of Business at The George Washington University, where she received the Dean’s Award for Excellence and was admitted to the Beta Gamma Sigma business honorarium. A member of PMI, she contributed to the PMI Standard for Portfolio Management and is currently serving on the OPM3 Third Edition team. She and her husband live in Missouri. Sue can be reached via e-mail at sbivins@gwmail.gwu.edu.