Discussion Questions ◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦◦

1. How can a culture such as the one at Xerox be so successful in supporting outstanding performance and at the same time be so resistant to adaptation and change?
2. It has been argued that while a strong organizational culture is a necessary component of outstanding performance, it is not sufficient. Do you agree? Explain your position.
3. Why are organizations with multiple stakeholder values likely to be more adaptive than organizations that value just one stakeholder?

4. Referring to Exhibit 4–3, how might the self-sealing value loop work for a manager who holds Theory Y values?
5. If the value of employee participation in creating motivation for change is so widely recognized, why is it that managers might still resist the idea?

✳ Case Discussion ◦◦◦

Read the following case and prepare the following questions:

1. How was the culture of IBM at the time of Lou Gerstner's arrival impacting the organization's ability to achieve outstanding performance?
2. Did Gerstner need to change the IBM culture in order to return the company to outstanding performance or did he need to reestablish its original culture?
3. How successful will Gerstner's efforts be? What other steps might he take?

New Culture or Back to Roots? Lou Gerstner at IBM (A)

When Louis V. Gerstner first arrived at IBM on April 1, 1993, as chairman and CEO of that ailing corporate giant, he held a conversation with Dennie Walsh, head of Integrated Systems Services Corporation, a wholly owned IBM subsidiary. With previous experience running American Express and RJR Nabisco, and as a consultant with McKinsey & Company, Gerstner had no background in technology-intensive organizations. So he was now an eager listener.

Walsh ran his small service operation largely out of sight from the main corporate activities, but he presented Gerstner with a vision not just for his unit but for IBM as a whole. "He envisioned a company," recalled Gerstner, "that would literally take over and act on behalf of the customers in all aspects of information technology—from building systems to defining architecture to actually managing the computers and running them for the customers." [38]

But beware, added Walsh, of the pervasive IBM culture that would reject an integrated service business much like a body's immune system rejects a virus. When Gerstner asked him to explain, Walsh laid out two concerns:

1. A service operation, to be truly aligned with the needs of the customer, would have to be willing to recommend the products of IBM competitors such as Microsoft, Hewlett-Packard, and Sun Microsystems; not to mention servicing those products. IBM salespeople would *never* do that.
2. Major service contracts could well last for over a decade and not even generate profit for the first several years. Compensation and performance measurement systems would work against that requirement.

The company's culture, Walsh suggested to Gerstner, posed the biggest barrier to change.

Gerstner left this meeting with Walsh convinced that a service-led model could be a strategy uniquely aligned with IBM's competitive advantage—size, scope, complexity, and multiplicity of offerings—but concerned that, in his own words, "the culture of IBM would fight it." [39]

IBM Background

Founded in 1911 (as the Computing-Tabulating-Recording company), IBM first took its modern form under the leadership of Thomas Watson, Sr. Watson shaped the company's long-lasting culture: "dark-suited

salespeople, an emphasis on corporate pride and loyalty, implied (although never actually guaranteed) lifetime employment, and the work ethic expressed in the slogan THINK."[40] The dominance of IBM lasted well into the 1980s, and in 1990 IBM was the second most profitable company in the world.[41]

IBM Culture

IBM has often been thought of as the prototype for the strong company culture. "As far back as the mid-1930s," write Kotter and Heskett, "IBM employees had the reputation of being loyal and highly motivated. There was a surprising amount of consensus concerning how to conduct business."[42] As Gerstner learned more about the culture and values of IBM and its employees, he came to understand that respect, hard work, and ethical behavior were the all-encompassing cornerstones shared by virtually all employees. That was the "company's DNA—from the paternalism to the stingy stock option program; from the no-drinking at corporate gatherings policy to the preference that employees be married."[43]

Gerstner believed, however, that many of IBM's values had ossified into hard-and-fast rules that, in fact, failed to represent the true assumptions that underlie Watson's views. Take the dress code. Watson wanted his sales force to dress in suits and white shirts because that was how his customers dressed. But the world of business dress had changed, and IBM had failed to keep pace. The salespeople now stood outside of the customer's culture rather than blending in. In 1995, Gerstner announced the abolition of the dress code while still adhering to what he believed was Watson's original intent. "Dress according to the circumstances of your day," he told employees, "and recognize who you will be with (customers, government leaders, or just your colleagues in the lab)."[44] Take your cues from outside the organization, Gerstner was saying, from customers, rather than from the inside, from internal rules.

Gerstner, of course, realized that IBM's culture presented more serious problems than changing dress style. Despite huge investments in research and development, IBM was either late to the game or fumbled its entry into most of the computer innovations of the 1980s. IBM's value of "superior customer service" during a time of near monopoly control of the marketplace had come to mean servicing IBM products for customers and had little to do with really understanding or meeting customer needs. Likewise, the pursuit of "excellence in everything we do" had come

to mean a labyrinth system of checks and balances that slowed new product development and implementation to a crawl. "IBM's organizational and product changes," said an industry observer, "were calculated, slow and methodical."[45] Finally, "respect for the individual" had become, in practice, a desire to protect employees from the vagaries and uncertainties of the external markets and a reluctance to take action against underperforming employees.

Financial performance reflected the underperforming culture. Revenues softened while costs continued to spiral. The organizational complexity of the company—20 separate business units—rendered coordination nearly impossible. Then CEO John Akers moved to reduce costs, abandoning the company's implicit no-layoff policy in 1991.

Changing the Culture

Almost immediately after arriving at IBM, Gerstner wrote out and distributed eight principals that he described as the "new" IBM culture, the values that would "take IBM back to its roots":[46]

1. The marketplace is the driving force behind everything we do.
2. At our core, we are a technology company with an overriding commitment to quality.
3. Our primary measures of success are customer satisfaction and shareholder value.
4. We operate as an entrepreneurial organization with a minimum of bureaucracy and a never-ending focus on creativity.
5. We never lose sight of our strategic vision.
6. We think and act with a sense of urgency.
7. Outstanding, dedicated people make it all happen, particularly when they work together as a team.
8. We are sensitive to the needs of all employees and to the communities in which we operate.[47]

A year later, at a meeting of IBM's top 400 executives, he told them that they would all need to become change agents within the company. For a decade, IBM's market share and profitability had been eroding, and in large part that was due to IBM's culture. "We don't demand implementation and follow-up," Gerstner told the gathered executives. "We don't set deadlines. Or when they're missed, we don't raise some questions. But we do create task forces; and then they create task forces. We don't execute, because, again, we don't have the perspective that what counts outside [the company] is more

important than what happens inside. Too many IBMers fight change if it's not in their personal interest."[48]

IBM's culture would change, Gerstner promised. If anyone was uncomfortable with that notion of change, "you should think about doing something else. Those of you who are excited about it, I welcome you to the team, because I sure can't do it alone."[49] ∎

Endnotes ◦ ⊚ ◦

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6. Anthony Bianco and Pamela L. Moore, "Xerox: The Downfall," *BusinessWeek Online*, March 5, 2001, p. 2.
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9. Terrence E. Deal and Allan A. Kennedy, *Corporate Cultures: The Rites and Rituals of Corporate Life* (Reading, MA: Addison-Wesley, 1982), p. 4.
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14. Jennifer A. Chatman and Sandra Eunyoung Cha, "Leading by Leveraging Culture," *California Management Review* 45 (Summer 2003), p. 21. The following three footnotes are from the original article.
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17. M. L. Tushman and C. A. O'Reilly, *Winning Through Innovation: A Practical Guide to Leading Organizational Change and Renewal* (Boston: Harvard Business School Press, 1997).
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20. Kotter and Heskett, *Corporate Culture and Performance*.
21. *Ibid.*, p. 46.
22. Douglas McGregor, *The Human Side of Enterprise* (New York: McGraw-Hill, 1960).
23. *Ibid.*, p. 48.
24. Jim Collins, *Good to Great: Why Some Companies Make the Leap . . . and Others Don't* (New York: Harper Business, 2001), p. 30. Emphasis in the original.
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