

results-driven, make-it-rain, close-the-deal sort of guy?": not the first person you'd expect to hold forth on a subjective topic like "Trust."

In this edited conversation with HBR senior editor Paul Hemp and HBR's editor, Thomas A. Stewart, Palmisano talks about the strategic importance of values to IBM. He begins by explaining why—and how—hard financial metrics and soft corporate values can coexist.

*Corporate values generally are feel-good statements that have almost no effect on a company's operations. What made—what makes—you think they can be more than this?*

Look at the portrait of Tom Watson, Sr., in our lobby. You've never seen such a stern man. The eyes in the painting stare right through you. This was *not* a soft individual. He was a capitalist. He wanted IBM to make money, lots of it. But he was perceptive enough to build the company in a way that would ensure its prosperity long after he left the scene. His three Basic Beliefs successfully steered this company through persistent change and repeated reinvention for more than 50 years.

An organic system, which is what a company is, needs to adapt. And we think values—that's what we call them today at IBM, but you can call them "beliefs" or "principles" or "precepts" or even "DNA"—are what enable you to do that. They let you change everything, from your products to your strategies to your business model, but remain true to your essence, your basic mission and identity. Unfortunately, over the decades, Watson's Basic Beliefs became distorted and took on a life of their own. "Respect for the individual" became entitlement: not fair work for all, not a chance to speak out, but a guaranteed job and culture-dictated promotions. "The pursuit of excellence" became arrogance: We stopped listening to our markets, to our customers, to each other. We were so successful for so long that we could never see another point of view. And when the market shifted, we almost went out of business. And when the workforce of more than 400,000 people in half. Over the course of several years, we wiped out the equivalent of a medium-sized northeastern city—say, Providence, Rhode Island.

If you lived through this, as I did, it was easy to see how the company's values had become part of the problem. But I believe values can once again help guide us through major change and meet some of the formidable challenges we face.

For instance, I feel that a strong value system is crucial to bringing together and motivating a workforce as large and diverse as ours has become. We have nearly one-third of a million employees serving clients in 170 countries. Forty percent of those people don't report daily to an IBM site; they work on the client's premises, from home, or they're mobile. And, perhaps most significant, given IBM's tradition of hiring and training young people for a lifetime of work, half of today's employees have been with the company for fewer than five years because of recent acquisitions and our relatively new practice of hiring seasoned professionals. In a modest hiring year, we now add 20,000 to 25,000 people.

*In effect, gradually repopulating Providence, Rhode Island!*

Exactly. So how do you channel this diverse and constantly changing array of talent and experience into a common purpose? How do you get people to *passionately* pursue that purpose?

You could employ all kinds of traditional, top-down management processes. But they wouldn't work at IBM—or, I would argue, at an increasing number of twenty-first-century companies. You just can't impose command-and-control mechanisms on a large, highly professional workforce. I'm not only talking about our scientists, engineers, and consultants. More than 200,000 of our employees have college degrees. The CFO can't say to them, "Get in line and follow me." Or "I've decided what *your* values are." They're too smart for that. And as you know, smarter people tend to be, well, a little more challenging; you might even say cynical.

But even if our people did accept this kind of traditional, hierarchical management system, our clients wouldn't. As we learned at IBM over the years, a top-down system can create a smothering bureaucracy that doesn't allow for the speed, the flexibility, the innovation that clients expect today.