

*So you're saying that values are about how employees behave when management isn't there, which it can't be—which it shouldn't be—given IBM's size and the need for people to make decisions quickly. You're basically talking about using values to manage.*

Yes. A values-based management system. Let me cast the issue in a slightly different light. When you think about it, there's no optimal way to organize IBM. We traditionally were viewed as a large, successful, "well-managed" company. That was a compliment. But in today's fast-changing environment, it's a problem. You can easily end up with a bureaucracy of people overanalyzing problems and slowing down the decision-making process.

Think of our organizational matrix. Remember, we operate in 170 countries. To keep it simple, let's say we have 60 or 70 major product lines. We have more than a dozen customer segments. Well, if you mapped out the entire 3-D matrix, you'd get more than 100,000 cells—cells in which you have to close out P&Ls every day, make decisions, allocate resources, make trade-offs. You'll drive people crazy trying to centrally manage every one of those intersections. So if there's no way to optimize IBM through organizational structure or by management dictate, you have to empower people while ensuring that they're making the right calls the right way. And by "right," I'm not talking about ethics and legal compliance alone; those are table stakes. I'm talking about decisions that support and give life to IBM's strategy and brand, decisions that support and give life as a company. They're the basis of what we do, our mission as a company. They're a touchstone for decentralized decision making. It used to be a rule of thumb that "people don't do what you expect; they do what you inspect." My point is that it's just not possible to let people do what they want without guidance or context. You've got to create a management system that empowers people and provides a basis for decision making that is consistent with who we are at IBM.

*How do the new values help further IBM's strategy?*

In two main ways. Back some 12 years ago, three-fifths of our business was in computer hardware and roughly two-fifths was in software

and services. Today, those numbers are more than reversed. Well, if three-fifths of your business is manufacturing, management is basically supervisory: "You do this. You do that." But that no longer works when your business is primarily based on knowledge. And your business model also changes dramatically.

For one thing, people—rather than products—become your brand. Just as our products have had to be consistent with the IBM brand promise, now more than ever, so do our people. One way to ensure that is to inform their behavior with a globally consistent set of values.

Second, the IT industry has continued to shift toward reintegration. We all know the story of how the industry fragmented in the 1980s and 1990s, with separate companies selling the processors, the storage devices, and the software that make up a computer system—almost killing IBM, the original vertically integrated computer company. Now customers are demanding a package of computer products and services from a single company, a company that can offer them an integrated solution to their business problems. This is a big opportunity for IBM. We probably have a wider array of computer products and services and know-how than anyone. But it's also a challenge. How can we get our people in far-flung business units with different financial targets and incentives working together in teams that can offer at a single price a comprehensive and customized solution—one that doesn't show the organizational seams?

Companies usually face the issue of workforce integration after a huge merger. We needed to integrate our existing workforce as a strategic response to the reintegration of the industry. It won't surprise you that I didn't think the answer lay in a new organizational structure or in more management oversight. What you need to foster this sort of cooperation is a common set of guidelines about how we make decisions, day in and day out. In other words, values.

*And what happens when the strategy changes?*

Ah, that's why the right set of values is so important. There's always going to be another strategy on the horizon as the market changes, as technologies come and go. So we wanted values that would foster an organization able to quickly execute a new strategy. At the same