

The Evolving Strategy of IBM

IBM's former CEO, Sam Palmisano, liked to talk about the evolution of global strategy at one of the world's largest computer enterprises. According to Palmisano, when IBM first started to expand internationally, it did so in the classic "international" pattern of many enterprises, undertaking most of its activities at home and selling its products internationally through overseas sales offices. By the time Palmisano joined IBM in 1972, the company had already moved away from this model and was a classic "multinational" enterprise, with mini-IBM's in major national markets around the world. This structure made sense for IBM in the 1970s, given that many markets were still segmented from each other by high barriers to cross-border trade and given that national differences in business practices often required considerable localization.

In recent decades, IBM has moved away from this model and towards one that Palmisano characterizes as a "globally integrated enterprise." In his words:

We are locating work and operations anywhere in the world based on economics, expertise, and the right business environment. We are integrating those operations horizontally and globally. We used to have separate supply chains in different markets. Now we have one supply chain, a global one. Our R&D has been global for many years, with research and software development carried out in labs around the world. But in our professional services businesses, where we used to think about our human capital—our people—in terms of countries, and regions, and business units, we now manage and deploy them as one global asset.

Thus today's IBM locates its semiconductor R&D and manufacturing operation in upstate New York and Vermont and its global procurement center in China. Global services delivery is in India, while many of the services that support IBM's external and internal websites are in places like Ireland and Brazil. The people at each of these centers are not focused on their national markets; they are leading integrated global operations.

This strategic shift was a response to three things: the globalization of the world economy; the global nature of many of IBM's customers, who were themselves shifting towards a global integration strategy; and the emergence of fierce competition from enterprises in emerging markets such as China and India. Take India as an example; in the 1990s a trio of Indian outsourcing firms, Tata Consulting Services, Infosys, and Wipro started to take share away from IBM in its core information technology services business. The Indians enjoyed an advantage based on a large supply of highly educated but relative inexpensive

engineering and managerial talent. IBM felt that to compete, it had to adopt the low-cost model being pioneered in India. So in 2004, it bought Daksh, an Indian firm that was a smaller version of India's big three information technology services firms. IBM has invested heavily in its Indian unit, building it into a large global business with leading market share that now competes effectively on cost and quality against its Indian rivals. While Palmisano notes that the original motivation for expanding in India was to gain access to low-cost labor, he now argues that the skill base in India is just as important, if not more so. IBM can find a large supply of highly skilled people in India who can staff its global services operations and move seamlessly around the world. It doesn't hurt that most Indians have a good command of the English language, which has become the de facto language of business in much of the world.

Palmisano stresses that IBM has some way to go in its journey to become a fully integrated global enterprise. The big thrust going forward will be on developing the human capital of the enterprise—helping produce managers and engineers who see themselves as global professionals, and global citizens, who are able to move effortlessly around the world, and do business effectively in wide range of national contexts.

Case Discussion Questions

1. In the 1970s and 1980s Palmisano states that IBM was organized as a classic multinational enterprise. What does this mean? Why do you think IBM was organized that way? What were the advantages of this kind of strategic orientation?
2. By the 1990s the classic multinational strategic orientation was no longer working well for IBM. Why not?
3. What are the strategic advantages to IBM of its globally integrated enterprise strategy? What kind of organizational changes do you think had to be made at IBM to make this strategy a reality?
4. In terms of the strategic choice framework introduced in this chapter, what strategy do you think IBM is pursuing today?

Sources

"The Empire Fights Back," *The Economist*, September 30, 2008, pp. 12–16; S. Palmisano, "The Globally Integrated Enterprise," *Vital Speeches of the Day*, October 2007, pp. 449–53; and S. Hamm, "IBM vs. Tata: Which Is More American?" *BusinessWeek*, October 5, 2008, p. 28.