



Sam Palmisano

An Intimate Conversation on Leadership, Legacy and Continuity

When you put Jack Welch, former Chairman and CEO of General Electric, and Sam Palmisano, former President and CEO of IBM under whom IBM achieved record financial performance, on a stage together at Radio City Music Hall you end up with a fascinating business conversation filled with business advice on micro and macro levels, political opinions, stock tips and many laughs.

Initially, Welch wanted to know what Palmisano would do in Washington right now. Palmisano said that he wishes we “could ship it overseas” because he sees Washington today as a great disappointment. There are too many self-interests to truly get things done. He stated, “They are so self-absorbed in whatever their agenda happens to be that they cannot look at the US as a whole, and the country is being destroyed.” He said that Washington pushed IBM close to bankruptcy and has made running a public company extremely difficult these days.

Next, Welch inquired about IBM’s global philosophy. In response, Palmisano shared that globally they have a much larger talent pool. They look to “do things once for the entire enterprise: hiring, supply change, marketing, procurement, research, accounting, benefits administration.” He said, “It’s important to have a common approach, therefore a common IT system that you support it with, and locate it where it makes sense.”

Regional managers are an important component. Palmisano said that under this model they are primarily focused on sales and marketing. “All they have to worry about is the client. The accountants would add it up. HR would find the right people,” he said.



Then Welch wanted Palmisano to share his thoughts on big data. Palmisano said that it’s important to look beyond the “eye candy” and look instead at where value is generated. There’s a wealth of information today on markets, clients, environmental trends and infrastructure, so if you grow within your organization the capability to understand the data and bring the right people together in a partnership of different skills sets, so that the data is presented in a way that the non collectors can understand, great things can happen.

Because of the big data they have, and because there is no legacy business model to honor, Palmisano opined that FaceBook is a great stock to buy for long-team potential.

Welch then invited the audience to ask questions. The first inquiry was what do we do about the shortage of talent in the US. Palmisano thought this was a great question and stated that we should not educate people and send them back to their country, a comment that



was met with applause from the audience. Palmisano said that policymakers need to make it easier for those who are obviously looking to work, and who can contribute to the economy in a meaningful way, to live here and contribute. He said, as a society that has to run an innovation model, a model that requires smart people, we need to make it easier for smart people to collect here. "Let them in. Welcome them here. We need to facilitate their transition."

"Work is going to migrate to where there are high quality and smart people," said Palmisano. "You need to have a skill set and be competitive on a global scale."

Another audience member asked how to improve the quality of life of employees globally. Palmisano said that at IBM they have a high standard that they adhere to globally. He said that all suppliers are expected to meet the standards the company sets, and if they do not, they "hit them where it hurts – financially" and that gets their attention. He believes all companies have a responsibility to the global community to hold their suppliers accountable, even if it means not chasing every dollar.

On managing to good times and the bad, Palmisano said, "It's important to focus on where you want to be – not where you have been." ■

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Private Delegate Session, Sponsored by Hitachi

Brian Householder, COO of Hitachi Data Systems, joined Sam Palmisano, former CEO of IBM, at a private lunch sponsored by Hitachi. Leading in this rapidly changing world and business environment was the theme of the lunch, and Householder asked some probing questions to the former standout CEO to facilitate the conversation.

Q.) Leading IT giants Hitachi and IBM have both been in business for over 100 years. Both companies attribute their longevity and success to anticipating the changing needs of their customers and society. What are the transformations you had to go through during your time at IBM to get to where you are today as opposed to a decade ago?

A.) How we thought about change might not be your traditional strategic model. After the dot com bubble burst, we had a point-of-view where we thought technology would go, that it'd no longer be PC based but evolve into smart things. We thought the architecture that would support that was going to be horizontal, open, scalable and resilient. It's now called cloud.

We started with a technical vision of where we thought the world would be. The company wasn't there. Our go to market strategy was by brand. It wasn't integrated or solution oriented. We saw a need to drive this change in the company – not just in the portfolio, but in the entire operating model of IBM to globalize it. We wanted to get ahead. We learned in the PC era you just can't be behind.

Q.) Getting employees to embrace change and "buy in" for achieving transformation is one of the most difficult challenges corporate leaders face. Yet it is critical for success. How do they do it?

A.) That's the hardest part of this. You're dealing with human beings with their own personal desires. You try to align them with the company as best you can. A lot of companies try to change the players, to bring in a superstar. But what you really need is a complete team. We didn't change anyone. We put them in positions where they could excel. We had to

convenience the people analytically and take them through the facts. You had to have proof points along the way to convince them this works.

It is important to get people to understand what the core of a great enterprise is. To do so you must be able to answer:

- Why would somebody do business with you?
- Why would someone work for you?
- Why would someone invest with you?
- Why would society allow you to operate globally?

Q) What is the importance of innovation and how does it shape the future in the ever-changing IT industry?

A.) Unlike other industries, if you miss a trend the implications are devastating. You must have an act two. Act one won't get you to the future. It takes a long time and investment to get there. Technology cycles tend to be 15-20 years, so we are always changing. There is no such thing as a transformational acquisition. You have to give yourself financial flexibility and convince the shareholders that it's real. You have to bring people with you toward your goals. Without earnings, people are much less willing to invest in you. A company like IBM is expected to produce dividends and have a long-term roadmap.

Q) How can a CEO make or break a company?

A.) You can't be your own brand and be an effective leader. The CEO is a temporary steward of a wonderful enterprise at a point in time. You can't lead an organization if you place yourself differently than the organization. You cannot expect people to sacrifice if you are not willing to do so yourself. Distorted behavior that is not in the long-term best interests of the company is most harmful. That's when CEOs become short-term oriented: cut R&D to make small quarterly earnings, restructure the workforce, do a big acquisition on the way out of their term, etc. Your obligation is to leave the organization better than you found it. That's in all elements: innovation, repositioning the brand, shareholder returns, competency of your teams, the cultural aspect. ■