



**Re-Think:
A Path to the Future**

By Samuel J. Palmisano



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Re-Think:
A Path to the Future
By Samuel J. Palmisano

Preface

In 2011, as IBM was planning to commemorate its 100th anniversary, it struck me that there were dramatic parallels between the company's transformation over 10 decades and the way in which the global economy had been transformed over the same period. Both had benefited from an expansion of economic growth, and an increase in living standards, that was without precedent in human history. This progress had been greatly enabled by the integration of global society and through the power and prevalence of information technology.

Today, global economic integration presents enormous opportunity for the future of business and society. And while many point to the risks of this integration, the more pressing and more pragmatic questions to me are the following: How do we deal with the future? Do we embrace it? Or do we cling to the past?

I felt the best way to advance this conversation would be through the eyes of business. Why? Because businesses are not hypothetical – they are living, breathing entities that face new challenges every day. And they must meet these challenges pragmatically if they are going to survive.

My aim is to offer a personal perspective on an important moment – the emergence of the first truly global economy and society. I begin by describing how countries throughout the world have achieved deeper levels of integration over the past two decades, creating the first truly global era in human history. This integration presents opportunities and challenges for companies everywhere. The fundamental issue is not whether to compete globally, but rather *how* to compete globally.

The introduction presents the globally integrated enterprise and describes why it's ideally suited to help companies navigate this global era and realize the maximum benefits from it.

Chapter 2 traces the evolution of the corporation from the mid-nineteenth century emergence of the international corporation to the post-1914 development of the multinational corporation. It goes on to focus on the past decade – the rise of the globally integrated enterprise.

Chapter 3 recounts how I saw the evolution of the globally integrated enterprise and my role in this evolution. I talk about my journey with IBM, from the time I joined the company straight out of Johns Hopkins University, and I highlight key inflection points along the way that illuminate my understanding of – and appreciation for – global integration, such as my time working for IBM in Japan.

Chapter 4 tells the story of IBM's transformation from a multinational company, with operations throughout the world, into a globally integrated enterprise. As one of the earliest explorers of what it means to be a truly global enterprise, IBM offers valuable lessons about how to build, manage and transform institutions.

Chapter 5 shows how IBM deepened its focus on countries we referred to as "growth markets" (often referred to as "emerging markets") during my time as CEO. The chapter showcases our investment in India, as well as internal initiatives designed to develop leaders with global experience and a global mindset.

Chapter 6 features specific companies that have embraced key principles of the globally integrated enterprise. The companies – Cemex of Mexico, Bharti Airtel of India, and Geely of China – are using the unprecedented opportunity to collaborate and innovate as part of their arsenal of global tools to drive growth and improve productivity.

Chapter 7 presents a number of the key issues that I believe will shape the future direction of globally integrated enterprises and enable them to thrive in an environment marked by rapid innovation and global competition. It also describes the transformations underway in manufacturing and the world's cities, which are ideal testing grounds for GIEs to demonstrate their value proposition.

I conclude by summarizing some guiding principles of the globally integrated enterprise. I also offer some suggestions about how to be prepared for – and make the most of – the global era.

I hope this book will in some small way help you prepare for the dynamic future that awaits us.

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Introduction

A New Enterprise for a New Era

The events of June 6, 2006 were among the most inspiring I experienced during my 39-year career at IBM. They also symbolized the way in which IBM was being transformed into a new kind of company: a globally integrated enterprise.

The setting was Bangalore – a city of more than eight million people often referred to as the Silicon Valley of India. IBM had a large presence in Bangalore – about 10,000 employees – and I was there to make a major announcement about our plans for India and, by extension, our plans for IBM’s new organizational structure.

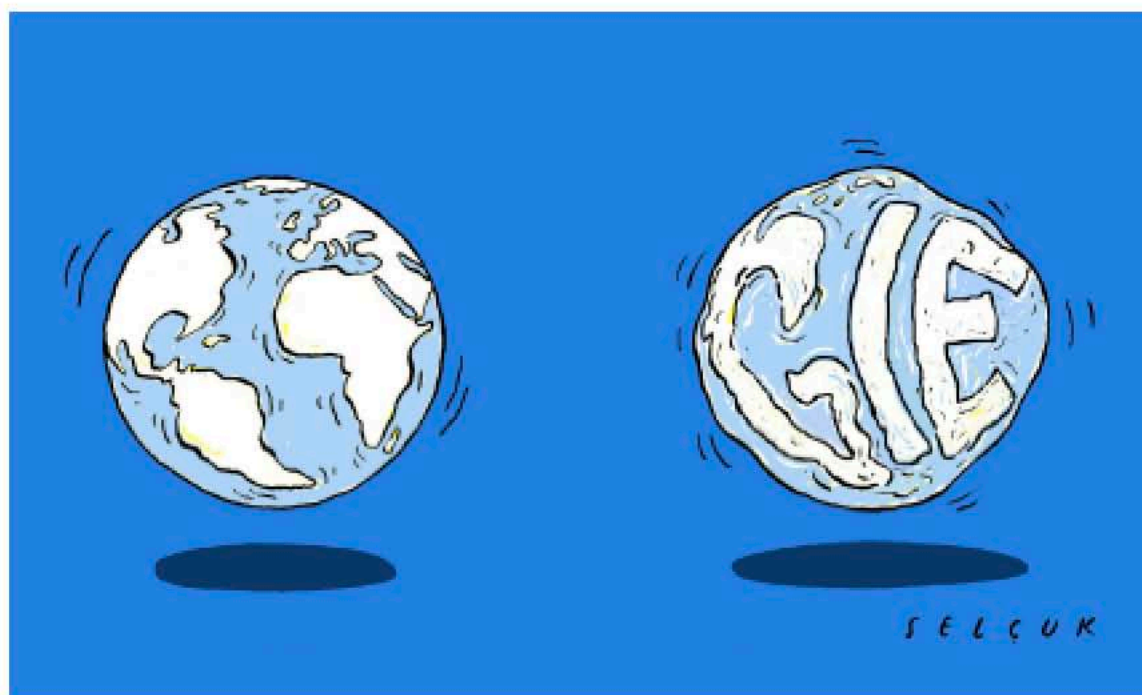
We had rented out the grounds of Bangalore Palace, which covered more than 450 acres, and we erected a tent to accommodate the 11,000 people scheduled to attend (10,000 of them being IBM’s Bangalore-based employees). Also in attendance was India’s President, A.J.P. Kalam, equity research analysts from New York and other financial capitals throughout the world.

When I arrived at the venue and walked through the crowd before the proceedings began, people rushed toward me, and in the few seconds we had together many of them described how IBM had dramatically changed their lives for the better. The *New York Times*, to my surprise, reported that it was as if I were a rock star. It was certainly a humbling experience, and a powerful reminder that just as IBM was transforming itself, it was also transforming the lives of others.

At 10:15 a.m., the event emcee (Bollywood actress Dia Mirza) introduced me, President Kalam, and Sunil Mittal, who was the founder of a company, Bharti Enterprises, which was a major partner of IBM in India. We were met with enthusiastic applause as we took the stage, and we started the proceedings with a ceremonial Indian lamp lighting ceremony.

I told the crowd, “Your career options within I.B.M. are limitless, whether working in research laboratories or with clients, or working in different geographies.” And I announced that over the next three years, IBM would be tripling its investment in India – rising from \$2 billion to nearly \$6 billion. “That investment will ensure that we make the most of the opportunities to grow this marketplace, while it also enables IBM to fulfill its vision to become a globally integrated company.”

As part of the announcement, IBM was creating and establishing a number of entities that would be based in India but serve a global function. These entities would be staffed largely by Indians. During IBM’s time as an investor in India, we had always been overwhelmed by the huge pool



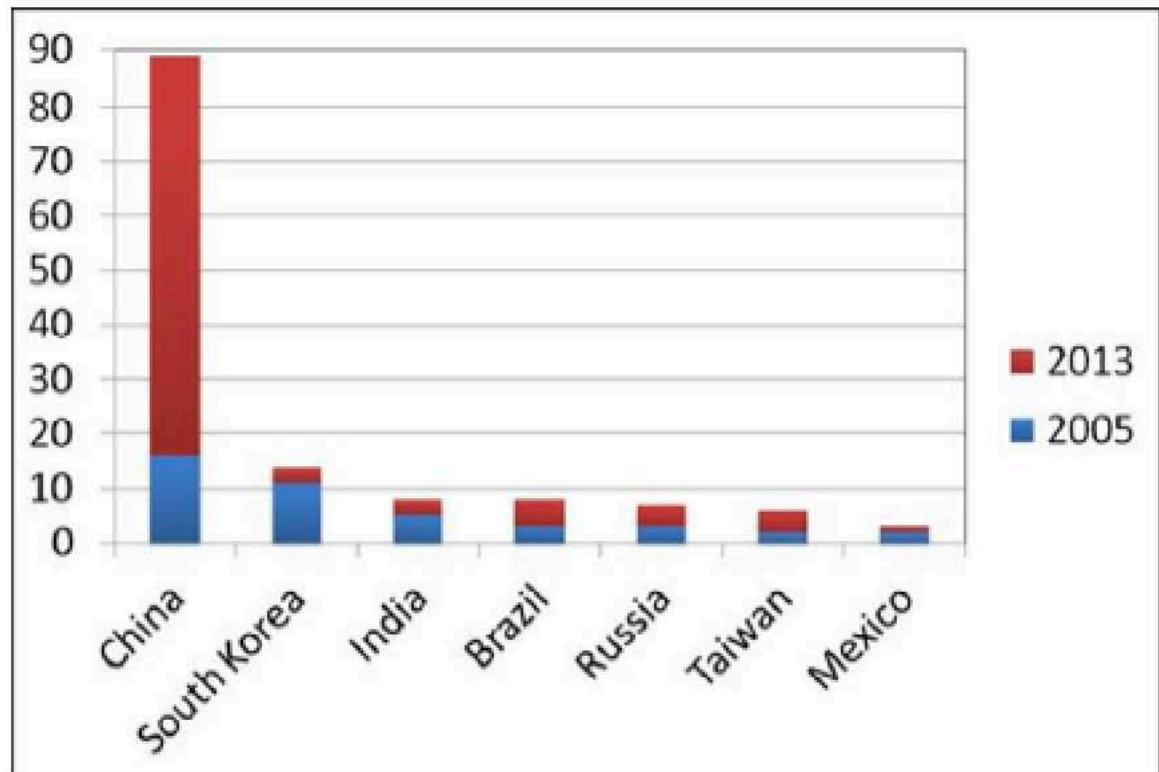
Chapter 2

A New Global Stage and a New Global Actor

Corporations began as creatures of the state. They were chartered and sanctioned by governments to perform specific duties on behalf of the nation and its rulers. In 1606, King James I chartered the Virginia Company for the purpose of establishing colonies in the United States. To finance the voyages, the Virginia Company was a joint-stock company and sold shares to the public, analogous to the publicly-traded companies of today. While the first settlement, in Jamestown, Virginia, proved a financial failure and was dissolved by 1624, future state-chartered corporations would prove much more enduring and successful.

A few years before the launch of the Virginia Company, Queen Elizabeth I granted a 15-year charter to a group of 218 men for the purposes of trade with the East Indies, as well as the countries and ports of Asia and Africa. This entity became known as the East India Company, and maintained its government monopoly on trade for more than two centuries. In the process, it established its own military and was a leading actor in Britain's imperial history. It purchased the land that would become Singapore and it was a driving force behind Britain's colonization of

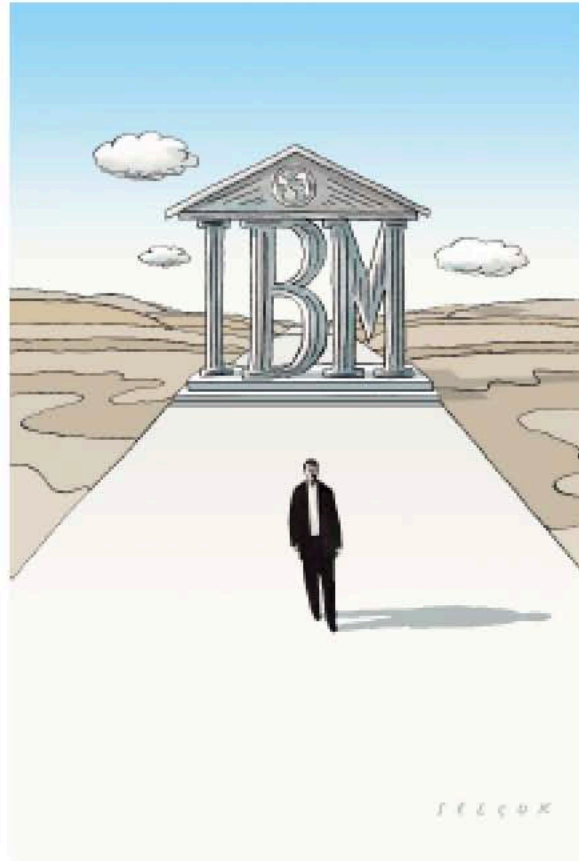
Fortune 500 Companies in Select Countries



The expanding opportunities in emerging markets, coupled with the attractive investment conditions and modern technology, have enabled companies to locate more of their operations throughout the world. Companies can draw on and nurture local talent while being closer to potential customers.

Emerging markets, by definition, still have room to develop and they face challenges moving forward. Economic growth has slowed in the BRIC countries (Brazil, Russia, India, and China), and it's an open question as to whether growth rates will ever return to what they were in the boom years (a potent reminder that Act II of globalization is a lot more challenging than Act I). While struggling to revive growth, these countries cannot lose sight of their long-term value proposition, which is offering a large supply of well-educated workers who possess marketable skills, such as the ability to innovate.

The leaders of these countries, and the municipalities within them, need to ask some basic questions: Why would a company want to invest here, rather than somewhere else? Why would



Chapter 3

From Here Through There

I grew up in the Northwood section of Baltimore in a typical hardworking Italian-American family (my father owned an auto repair shop). I had a wonderful set of parents and siblings, and my grandparents, who lived nearby, still communicated with each other in their native tongue. I was expected to work hard, do well in school, and behave.

My parents encouraged me to take up music, so I played the saxophone in high school and often performed in a band at local events and school functions. When the Temptations came to Baltimore, they hired musicians like me to play back-up. I once made \$1,000 in five days and promptly spent the money on a used station wagon.

My other noteworthy extra-curricular activity in high school and college was football. It wasn't glorious – I was the center (and captain) – but I learned the importance of teamwork and that it



Chapter 4

Transforming into a Globally Integrated Enterprise

When I joined IBM in 1973, it was a classic multinational – with mini-IBMs in countries all around the world. IBM Japan, IBM Brazil, IBM UK, IBM Germany, IBM Spain, IBM Ireland (where we were the first IT multinational – starting operations in 1956). And it was a very successful model. It allowed us to grow in those markets and understand local customer requirements and customs. The IBM brand became a strong national asset in each of these countries. Very importantly, we developed local talent. We did not export Americans all over the world. We didn't have to. We hired and developed leaders “in country” and exposed them to various parts of IBM during their careers.

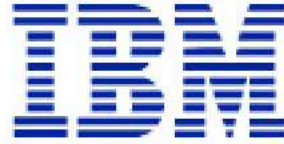
This was a very efficient way to grow in local markets. What once looked like efficiency, however, came to look like redundancy. In order to gain access to local markets and to scale our businesses in all of those countries, we had to replicate IBM in every country. Every country operation had its own sales force, but also its own supply chain, procurement, finance, HR and other so-called “back-office” functions. In many cases, the countries had their own manufacturing, development, even research capabilities. In his book, *Who Says Elephants Can't Dance?*, my predecessor as CEO, Lou Gerstner, described the fragmentation he discovered when



Chapter 5

The New Playing Field

In the previous chapter I described IBM's transformation during my time as CEO. Coinciding with this transformation, and helping to drive it, was an ongoing transformation in emerging market countries throughout the world. Their economic models were being revolutionized – shifting away from simply being a source of low-cost labor and instead transitioning into centers of innovation and differentiation, while also deepening their integration with the global economy. Along the way, they were achieving robust levels of economic growth, which was enabling people living in these countries to become consumers and join the global middle class. Hundreds of millions of people were opening their first bank accounts, getting their first cell phones, using their first credit cards. Tens of millions were buying their first automobiles. These were historic developments, and are pretty far removed from economic fluctuations in the United States, Europe and Japan.

The IBM logo, consisting of the letters 'IBM' in a bold, blue, sans-serif font.

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Chapter 6

The World of GIEs Beyond IBM

Throughout this book I've documented IBM's history and its transformation into a globally integrated enterprise. But IBM is far from the only company that has adopted key GIE principles and practices. In fact, a number of companies, operating across a diverse set of countries and industries, have implemented measures that resemble those we adopted at IBM. That's not because we showed them the way, but rather because their own experiences led them to the same conclusions: that companies need to be global in order to stay competitive, but need to do so in ways that keep them close to their customers while also emphasizing values and principles that foster agility, innovation, and productivity.

In this chapter, I showcase three companies that are following this path: Cemex of Mexico, a leading producer of cement and other building materials; Bharti Airtel of India, one of the



Chapter 7

Where To From Here?

The globally integrated enterprise presents enormous opportunities for companies to become more agile and more productive in the 21st century. But realizing these opportunities depends on companies making the right decisions about their internal evolution and their external engagement. In this chapter I lay out a number of the key issues that I believe will shape the future direction of globally integrated enterprises and enable them to thrive in an environment marked by rapid innovation and heightened competition.

Trust and Transparency

One of the fundamental challenges facing globally integrated enterprise will be how to earn, maintain, and manage trust – internally and externally. Meeting this challenge will be more difficult given that companies operate in an age of increased transparency, which has the



Conclusion

An Age of Discovery

I graduated from college in 1973 and started work at IBM shortly thereafter. At the time, no one talked of a “global economy.” The United States and other developed countries in Western Europe were dominant – accounting for about half of global gross domestic product. The term “emerging markets” didn’t exist (it wasn’t coined until 1981), primarily because those countries weren’t seen as “emerging.” They were poor, many of them saddled with ineffective leaders pursuing misguided policies and with large populations that were then viewed more as a burden