How IBM's Lou Gerstner Taught the Elephant to Dance

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Management: modern concepts and technologies (2022/2023 modules: 1)

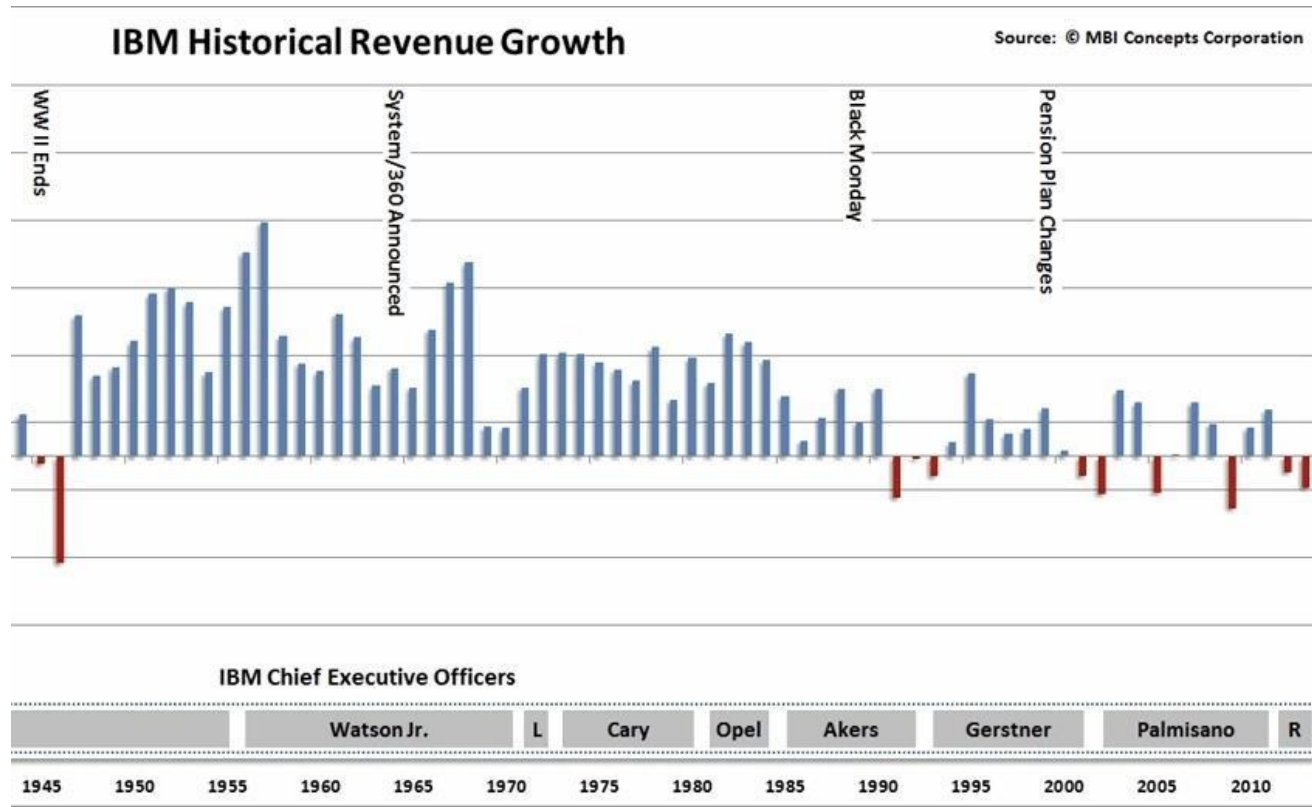Maria S. Plakhotnik, EdD

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Photo: Steve Marcus/Reuters

Abstract

"In the early 1990s, IBM had hit a wall. It was hemorrhaging money as well as losing market share, a victim of the trend toward personal computers and away from IBM's mainframes." But new IBM's CEO, Louis V. Gerstner, who did not have an insight into computer industry, but clearly understood the new globalized fast-changing world. He could identify IBM's customer orientation problem. In this article, our team tries to explain how Lou Gerstner taught the elephant to dance.

IBM: Technologies through Centuries
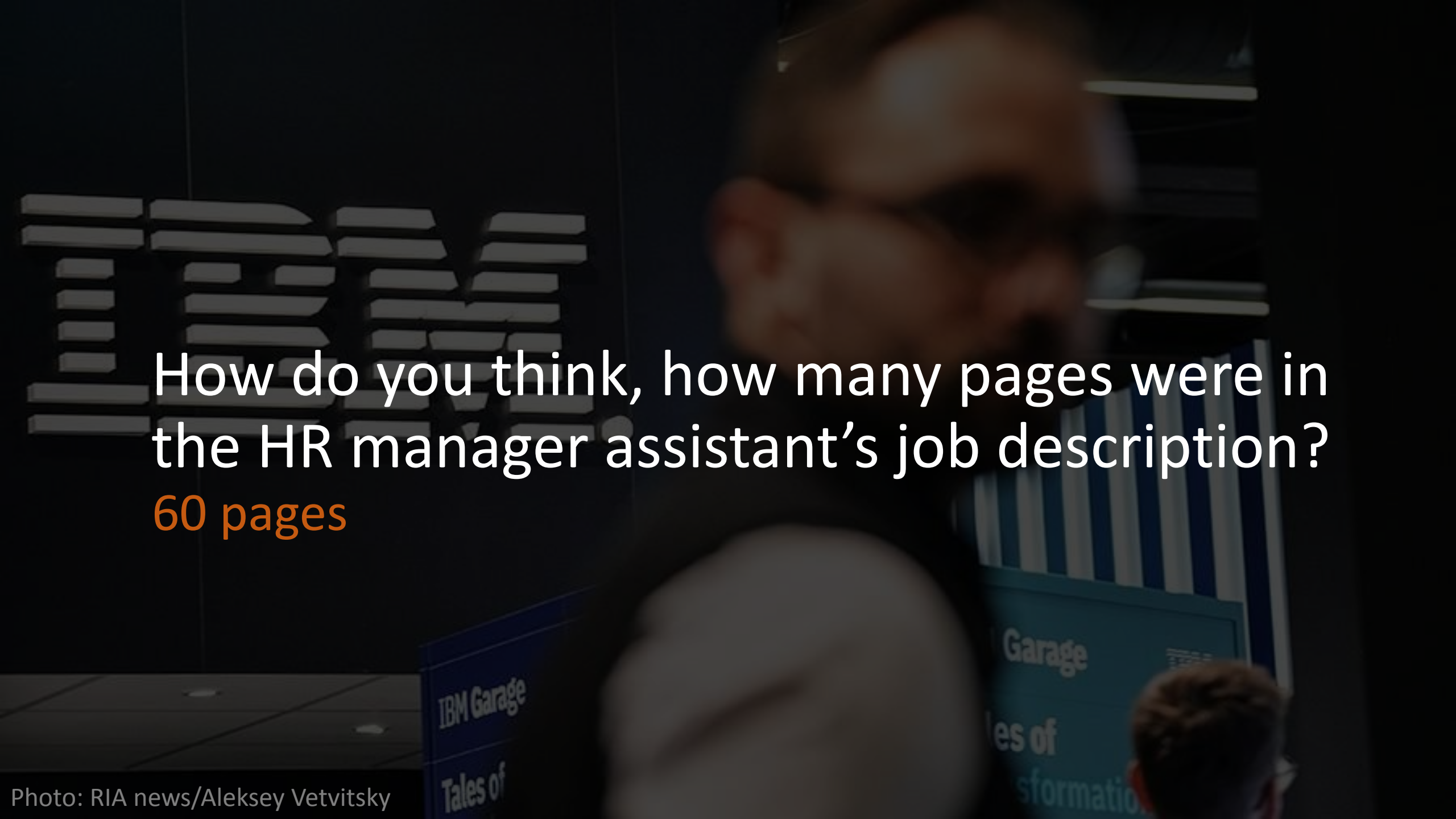
Welcome to the Company!

IBM Historical Revenue Growth — Source: © MBI Concepts Corporation

https://www.mbiconcepts.com

"Gerstner was appalled by the lack of customer orientation he found at the ultrapolitical and heavily bureaucratic IBM…"

The Main Problem 1: Hyper-centralization and Bureaucracy

https://diplomaticreview.com

The job description of assistant personal director consist of 60 pages, including dress code and the pocket content.

How do you think, how many pages were in the HR manager assistant's job description?

60 pages

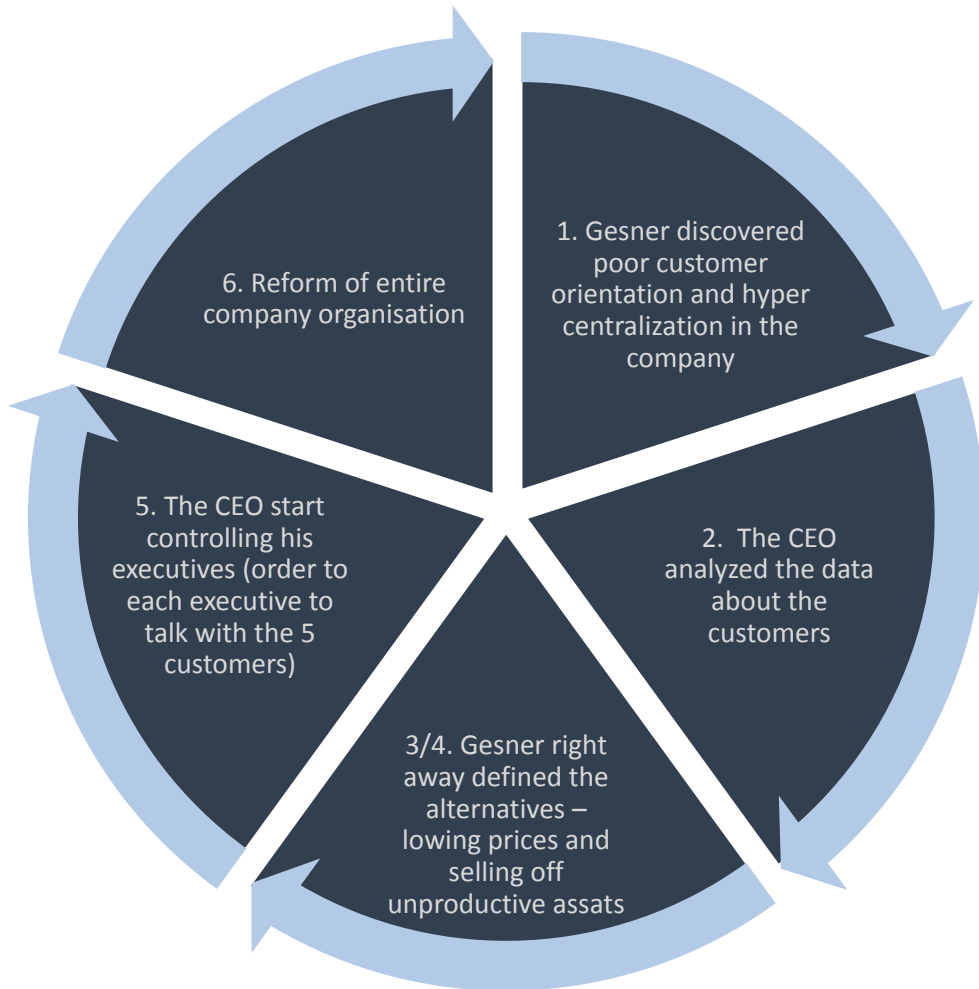# The Main Problem 2: Losing Touch with the Customers and Useless Assets

1993

Introduction	Timeline

· 1880s	· 1950s	· 1990
· 1890s	· 1960s	· 1991
· 1900s	· 1970s	· 1992
· 1910s	· 1980s	· **1993**
· 1920s	· 1990s	· 1994
· 1930s	· 2000s	· 1995
· 1940s		· 1996
		· 1997

People

Employees	256,207
Stockholders	741,047

Finance

Revenue	$62.71 B
	- 2.8 %
Net earnings	$ - 8.10 B
	- 63 %

https://www.ibm.com

Steps of Lou's Decision-making

6. Reform of entire company organisation

1. Gesner discovered poor customer orientation and hyper centralization in the company

2. The CEO analyzed the data about the customers

3/4. Gesner right away defined the alternatives – lowing prices and selling off unproductive assats

5. The CEO start controlling his executives (order to each executive to talk with the 5 customers)

Endnotes

1. Verne, H. & Jim, C. *"FORTUNE The Greatest Business Decisions of All Time: How Apple, Ford, IBM, Zappos, and others made radical choices that changed the course of business."(October 2, 2012, p. 96)*

2. *https://www.if24.ru/k-ibm-prishlo-vtoroe-dyhanie/*