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# Nearly all the companies our grandparents admired have disappeared.

Of the top 25 industrial corporations in the United States in 1900, only two remained on that list at the start of the 1960s. And of the top 25 companies on the Fortune 500 in 1961, only six remain there today.

Some of the leaders of those companies that vanished were dealt a hand of bad luck. Others made poor choices. But the demise of most came about because they were unable simultaneously to manage their business of the day and to build their business of tomorrow.

As you read this, IBM begins its 101st year. Today we take a moment to step back and view the longer arc of history. We'd like to share some of what we have learned—sometimes in humbling ways—on our journey so far.

A century of corporate life has taught us this truth: *To make an enduring impact over the long term, you have to manage for the long term.*

This seems about the simplest lesson we could share, yet putting it into practice is a lifetime's work. Long-term thinking affects almost every aspect of how you lead.<sup>1</sup> And it turns out to be anything but safe, steady and conservative. Its rewards are powerful,<sup>2</sup> but to achieve them, long-term thinking compels you to confront some fundamental questions:

## *How does an organization outlive its founder?*

We have learned not to confuse charisma with leadership. In business, there are archetypal examples where the genius of a founder created tremendous good fortune—at least in a company's opening act. The cult of personality is seductive.

But what then? How does an enterprise follow the departure of its founder or of a larger-than-life CEO?

Without question, the personality, drive and ethos of IBM's first CEO, Thomas J. Watson Sr.—his irrepressible optimism, his obsession with performing tasks in a superior fashion, his belief that the problems of the world could be settled easily if people were only willing to THINK—made an indelible imprint on IBM.

But Watson's most enduring contribution to business was his intentional creation of something that would outlast him—a shared corporate culture.<sup>3</sup> He showed how the basic beliefs and values of an organization could be perpetuated—to become its guiding constant through time. This is why we have never defined IBM by what we make, no matter how successful the product or service.

By values we do not mean ethics or morals, which are requisites for every enterprise. We mean the characteristics that identify what is both unique and enduring about any *particular* enterprise. And by deliberately building a culture, we don't mean memorializing the routine of what the founder did. Rather, it's about institutionalizing *why* the organization does what it does—getting to the essential truths of what makes you, *you*. Grounding a culture in such values and purpose is about how employees, anywhere around the globe, at this very moment and for generations, honor and deliver on that.

Values therefore force choices: Whom you hire. The ways you serve the customer. How you develop talent at all levels. Which businesses you create, enter and exit, and when. How much risk taking you promote.

When we have lived our values, IBMers and our company have thrived. When we haven't, it hurt us.



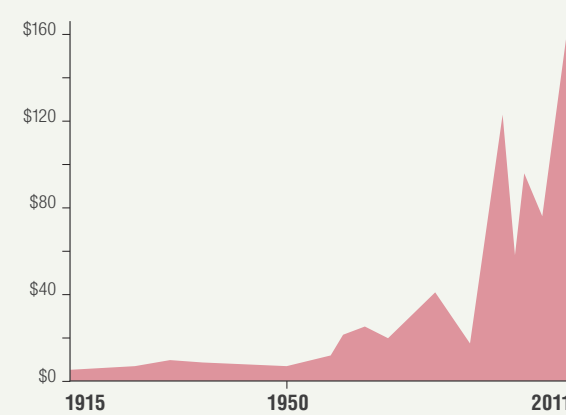
<sup>1</sup>“I believe that if an organization is to meet the challenges of a changing world, it must be prepared to change everything about itself, except its beliefs.”

—Thomas J. Watson Jr.

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### <sup>2</sup> THE REWARD OF LONG-TERM THINKING.

IBM's stock price from initial listing to the present.\*



If your great-grandparents bought one hundred shares of IBM in 1915, their investment would be worth around \$200 million today.

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### <sup>3</sup> A SAMPLING OF HOW IBM HAS DELIBERATELY BUILT ITS CULTURE.



In 1924, Thomas Watson Sr. created the One Hundred Percent Club to be the pinnacle of sales achievement at IBM. This recognition resulted in promotions, public adulation and a trip to a rally, where IBMers sang company songs like “Ever Onward.” Today, we continue to reward and celebrate our top client representatives.

The IBM Fellows program was started in 1963 to allow distinguished IBM technical leaders to pursue their own projects free from most of the usual constraints. To date, 231 Fellows have been named, selected for their outstanding records of discovery and achievement.

IBM's Corporate Service Corps, modeled after the Peace Corps, is helping thousands of IBMers learn to be 21<sup>st</sup>-century global citizens. Teams of top performers engage in community-driven economic development projects at the intersection of business, technology and society in emerging markets—helping solve problems and build local economies.

In 2003, IBM's values were refreshed for the 21<sup>st</sup> century through an online dialogue open to all IBMers. During this global “jam” we collectively committed to: *Dedication to every client's success; Innovation that matters—for our company and for the world; and Trust and personal responsibility in all relationships.*

## How does an organization deal with the inherent tensions among its constituents?

A company's constituents all have choices—the employee of where to work, the investor of where to put a dollar. Communities allow companies to operate within their borders; customers choose which company wins their business.

Which of these constituents has primacy? It's a false choice. Generating shareholder value may be the baseline responsibility of a public corporation, but we have learned that, by itself, it does not build a lasting enterprise, much less a great one.

Perhaps you'll agree with us that this is not merely about balance and compromising among divergent interests. Rather, it's about making the hard choice to live at their intersection—using the inherent tension to drive innovation.

As the recent downturn reminds us, the tensions get harder the tougher times get. Shareholder expectations for higher returns don't diminish when the economy stutters. In these moments, the temptation is strongest to cut investments in skills and R&D. But Tom Watson Sr. actually increased investments during the Great Depression.<sup>4</sup> In this most recent down cycle, we protected R&D and continued to make strategic acquisitions. But this also meant that we had to drive higher levels of productivity in other parts of the business—our global supply chain and functional processes. Doing so required—and led to—major innovations in how we operate the company, resulting in \$6 billion productivity savings over the past 5 years.

Other times, tension is caused by a seismic shift in the world around you. By the middle of the last decade our pension obligations were almost as large as our revenues. We had to address this or risk severely impairing IBM's long-term competitiveness. Yet we also knew that helping our people build secure futures is itself a competitive advantage. So the real work began—to replace the traditional pension plans with entirely new kinds of programs and options. Certainly some employees did not welcome the change. But many did, and several aspects of the new program are viewed as leading innovations.

In our history, there are many other examples<sup>5</sup> where tensions—among the interests of investors, employees, society and clients—were resolved through innovation and by responsibly confronting, not shying away from, new realities.

## How does a company confront relentless commoditization?

The technology field is cruel to those who fail to make the leap from era to era, but tech companies are hardly alone. The hand of commoditization spares few. The question becomes, as leaders, what to do about that.

Our lesson learned: You have to keep going to the future.

Partly, it's about creating new spaces to move into—investing in good times and bad. This requires a kind of institutional patience; upside benefits rarely come this quarter, or even next year. Sometimes, they never come.<sup>6</sup>

But it's not just about what you create. It's also about what you choose to leave behind.<sup>7</sup> Every institution, by its nature, favors the ideas, products and services that made it successful. Leadership often requires shedding emotional attachment to that heritage.

Consider the IBM Personal Computer. This wasn't just a breakthrough invention and successful IBM business. It was a product that spawned a whole new sector of our industry. But several years ago, it became clear that the PC was not central to our future—or the future of computing. So we got out—a move that scratched almost \$11 billion in annual revenues from our books. This was just one of several similar moves over the past 10 years. All part of the perpetual motion of building higher-value businesses.<sup>8</sup>

Moving to the future can also include reinventing what you have—as we repeatedly have done with our mainframe business. Despite repeated pronouncements of its imminent demise, we've increased installed mainframe capacity 1,000% over the past 13 years.

The largest lesson we have learned is about value creation itself. Every leader has to determine how “the new” is born. We have realized that innovation itself is ever evolving. Over a century, we have added fundamental research to development. We have collaborated with universities and governments. We embraced open source. We selectively acquired companies. And most recently, we have generated ideas at population scale via social media. We have learned that a profitable idea can come from many sources.

### FROM TENSION COMES PROGRESS: MOMENTS THAT MATTERED.

<sup>4</sup> The young company's future was tested by the Great Depression. Watson Sr. defied conventional wisdom by doubling down on the company's products and research. The result? When the U.S. Social Security Act was passed, only IBM could operationalize it—simultaneously enabling the New Deal and bringing a surge of growth to the company.

<sup>5</sup> Wanting to expand manufacturing in new geographies and to take advantage of a skilled workforce, Watson's son faced a very different dilemma in 1953. When two Southern U.S. governors told the company its new plants would have to be segregated by race, Watson Jr. refused—and issued IBM's Policy Letter #4, establishing the company's equal opportunity policy 11 years before the Civil Rights Act. (The governors backed down, and the plants opened.)

### <sup>6</sup> NOBODY'S TRACK RECORD IS PERFECT. IBM'S 100 YEARS HAVE SEEN THEIR FAIR SHARE OF MISSES.



We predicted the **IBM PCjr** would be a huge success. It was not.



With **IBM's OS/2** operating system, we hung on long after the industry had voted against it.

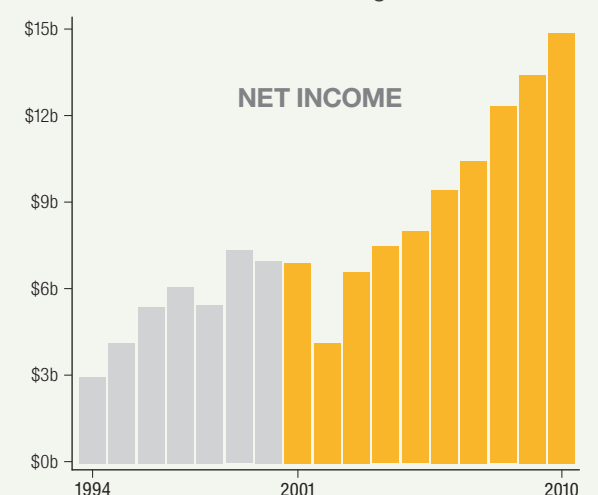


Online service **Prodigy** might have been a good idea—but was ahead of its time.

<sup>7</sup> *“If your business is based on moving to the future, you can't be emotionally tied to your past.”*

—**Samuel J. Palmisano**,  
Chairman, President and CEO, IBM

<sup>8</sup> IBM has divested over \$15 billion of low-margin revenue since 2000. During the same period, we invested \$58 billion in R&D for high-potential technologies. This helped us increase gross profit from 37% to 46.1%, and net income to an all-time high of \$14.8 billion.



## What does a company's nationality mean in an era of global business?

We have learned that national origin is less important than the indigenous value you create everywhere you choose to do business.

Certainly this starts by creating jobs, making local investments, paying taxes and bringing products and services to new buyers. But it goes beyond that.

Our history teaches us the difference between entering a market and making a market. The latter requires working with leaders in business, government, academia and community organizations to help advance their national agenda and address their societal needs.<sup>9</sup> It requires building real skills in the local workforce and enabling new capabilities among its citizenry—being a force for modernization and progress.

All of this means we must think differently about long-term commitment and investment.<sup>10</sup> And, as the world becomes flatter, it also means that we have to be particularly thoughtful and progressive in helping every part of the world adjust to and participate in global integration.

## How do leaders manage for the long term in a world driven by short-term thinking?

Fifty years ago, the average share owner held their investment in most companies for about eight years; today that's down to six months. Markets move at an ever-faster pace, increasingly driven by speculators. In the past 15 years, CEO turnover has increased by approximately 50%.

Short-termism is winning.

Or is it?

We see an increasing number of leaders in business, government and civil society choosing instead to think systemically, and think for the long term. They have come to believe there are no short-term fixes for long-term problems, no shortcuts to longevity.

In our case, it starts with remembering why IBM exists as a corporation. We listed IBM on the New York Stock Exchange for the first time in 1915, which gave us access to capital for long-term investment and growth. In return, we accepted the responsibility to provide our owners with clear, fact-based updates on the performance of their company, and to comply with applicable rules and regulations.

In the years since, this has compelled IBM leaders to build real businesses that create tangible value for our clients, actual profits, cash flows and returns for investors. It means never mistaking 90-day reporting cycles for the end goal. It means behavior that consistently meets high standards, because future growth depends on trust. None of this is easy. It requires leaders to show up in defense of the future. We remind ourselves of this every day.

## What must never change.

If Tom Watson Sr. were to visit IBM today, he would hardly recognize what we make or the services we provide—analytics, clouds, the *Jeopardy!*-winning computer named in his honor, solutions for a smarter planet. But he would very much recognize *why* IBM is pioneering these spaces—to make the world work better through information and the tools of thinking.

If Tom Watson Jr., our second CEO, were to return, he would not recognize the structure or global footprint of IBM. But he'd instantly recognize the IBMer—the women and men who still very much believe that a company can, and must, change everything about itself... except its beliefs.

Over the past 100 years, millions of IBMers have chosen to lend their talents to fulfilling this company's mission. Tens of millions of share owners have given us their trust. More than 170 countries have welcomed us to do business within their borders. And hundreds of millions of clients, customers and business partners have found value in our products and services, and used them to help make the world work better.<sup>11</sup>

To every single individual, thank you. We pledge boldness in IBM's second century to create a company that never stops moving to the future.<sup>12</sup> *Ever onward.*

### <sup>9</sup> GOING GLOBAL MEANS CREATING LONG-TERM INDIGENEOUS VALUE.



Indonesia  
1950



Nigeria  
1965



Brazil  
1952

IBM's archives contain hundreds of photographs of our global expansion—not of ribbon cuttings but of classrooms, where we helped build local skills, scientific knowledge and business capabilities.

<sup>10</sup>In South Africa under apartheid, we tried for several years to work for change from within, including taking a leadership role in drafting the Sullivan Principles. But sometimes the barriers to progress are too steep. And so you leave—hopefully not forever. IBM returned to South Africa once the apartheid regime ended.



1973 IBM invents the UPC bar code, transforming the retail industry.



2009 Smarter healthcare and digitized medical records were adopted in Guangdong, China.



2011 A computer called Watson wins Jeopardy!®

### <sup>11</sup> THE IMPACT OF A COMPANY.

Today, IBM celebrates our 100<sup>th</sup> anniversary. Visit us at [ibm100.com](http://ibm100.com) to learn more about the Icons of Progress and join a global conversation about the future.

<sup>12</sup>What does the future hold? On a planet infused with intelligence, we see the potential for a new age not just of technology, but of thinking itself.

