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Building Emerging Businesses at IBM

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The following is an excerpt from Michael Giersch's keynote speech at the Front End of Innovation Conference, May 2008. Edited by Doug Berger, Managing Director, Innovate.

Getting new businesses started inside a big firm - this is a very hot topic and has been for a long time. In my view it is something most large firms struggle with. Academics and consultants have studied and consulted about it but there is no silver bullet, and not one recipe for success. So I'm not here with the magic formula. IBM has had failures and successes. Some suggest that the average life cycle of such an initiative is 4-5 years. Since 1992 we have tried at least three times … two fell short of that average, one exceeded it. I believe there are some real lessons in this experience, which I will share with you.

The first attempt was in 1992. You may recall that back in the early 90s, there was a lot of focus on enterprise process reengineering. IBM was deep into process reengineering and was working on a host of processes that were important for the firm, including product development. We concluded that there was nothing in this set of a dozen or so enterprise processes that actually dealt with adding new businesses to the firm. So the team said, "We ought to have a process for new business creation." I had just arrived at corporate, after having spent several years in Asia, and was given the task of taking this notion and implementing it . . . defining a process, deploying it group by group, building best practices, etc. While we got it started, it struggled to get traction and ran smack-dab into what we would call our "near death experience," when we were losing billions of dollars a year in the core business. A new CEO, Lou Gerstner, was brought in from the outside – a first for IBM. That was a pretty traumatic time. A focus on new businesses took a back seat and the process withered away.

The second attempt was in 1995. We had gone through some very serious restructuring to get expenses out and get above water. It was a time of major change in the firm. We got through that and onto level ground. But with all of that expense reduction, there was no money left to do new things. I was hearing that loud and clear from my colleagues in the business units. We decided that we needed some "lifelines' and created a fund and a small evaluation team. We asked the businesses, "What are the new things that you're doing that can't get on the agenda because of all these cuts we've had?" We evaluated a broad set of things and funded a number of them.

This funding-centered approach helped move some important things along. But we didn't have the system in place to really support them. There was no oversight. There was no notion about the leadership needed to drive these things. After a couple of years, we looked at this in a very critical way and said, "The businesses are just bowling for dollars. These are things they ought to be doing themselves." So that funding-based system lasted for about three years.

Those were the first two attempts. The first, a process-centered approach. This turned out to be only one piece of the puzzle. The second, a funding approach. And while funding is important, it also is only a piece of the whole system. This leads me to the third approach, which is the Emerging Business Opportunity (EBO) system, which I describe as a change management approach. It dealt with all the elements of the system. Of course, it's a lot easier standing here now, looking back, to describe this. We didn't think about it in these terms at the time.

Let me set the stage for this EBO approach, which began in 1999. Going back to 1999, the business was getting better. I would argue that it's a lot easier to change something dramatically in a firm when you're having that near death experience, then when things are starting to improve. Fortunately, our new chairman, who had been around for a few years by then, had some serious concerns. He had joined a company that he knew had enormous potential and he was very annoyed that we were missing some significant opportunities.

One of the examples was the intersection of biology and technology. We had actually created a new venture in that time frame to go after this life sciences opportunity. One Sunday morning, September 12th, 1999, Lou Gerstner was sitting at home, reading his e-mail, and having a cup of coffee. He read one of the business unit reports, which said that the life sciences project was being shut down. Lou fired off an e-mail to three senior vice presidents at 10:20am that same Sunday morning, asking why we miss these new things. If you looked at this email, written with a lot of caps for emphasis, you could tell that Lou was annoyed. He said, "I want some answers."

This was Sunday morning. So, when do you think he would want the answers? Monday morning, right? Lou said, "I want answers. Time – December 1." That's months away! Looking back, you can tell that Lou understood that this was a deep, systemic problem. It wasn't something that you could rush in on Monday morning and say, "I've got the answer." You really do have to understand the deep systemic issues. This is why Lou asked for the root causes, plus recommendations to deal with them.

That's what we started to do. We had from September to December 1. It let us spend time getting underneath some of the systemic issues that were causing us problems. We commissioned a small internal team of about a dozen people. We did the normal benchmarking of other firms, but I would say that the most important thing we did was to examine about two dozen little "case-lets." They were individual examples from inside the firm -- instances where we didn't get to the market fast enough, where projects stalled or failed. We interviewed executives, senior leaders, who were involved with each of them to understand the issues they faced, the inhibitors to progress. And by reaching out to most of the senior leadership around the firm who were all, in one way or another, involved in one of those projects, the team began to get buy-in. It really was a powerful little project, which was the start and one of the fundamental enablers of a change process. We built a holistic understanding about a set of root causes that were getting in the way of building these new businesses.

When I show executives from other firms this list of root causes, they say, "Well, take off the name IBM, and that's us." However, I would tell you that the journey we took to discover them, which allowed people to get actively engaged, was the thing that enabled the change management process. This team recommended a set of things, which in essence received no argument or debate. It was an easy final sale. We had brought everybody along with us through the learning, through that analysis.

So what was the essence of the EBO approach? The first thing we did was to declare our intent to pursue this new growth initiative. It had to be seen to be critically important for the firm. This became very clear in our internal communications, and most sharply with the appointment of a vice chairman as sponsor of the program. At the time, we didn't have a vice chairman. We took a senior leader who ran our multi-billion dollar software group, and he was named IBM vice chairman. He had one role, which was to drive these new businesses. This sent an enormous signal to the firm that this effort was important. Then we identified a highly visible short list of initial business opportunities. We started with six. It was pretty easy to select the first six. In the work that we had done over the previous three months, we were able to discover some things that were really floundering out there - that were on their way to sure death if something different wasn't done.

The next question was, "What do we do with them?" One of the debates was about whether or not we should create a separate venture division. That's one model we saw in our benchmarking, but many of those firms said that one of their biggest issues was that of reintegration after the venture started to grow up. It tended to cause some real problems. The other end of the spectrum was letting significant innovation stay down at a business unit level. From what we just learned we knew that letting it just go on in the business unit, and not having any real connection to it, wouldn't work. However, we did want to leverage the capabilities sitting out at our business units. So we defined what we called a hybrid approach. We decided to house these new things in the business unit where it eventually, and most logically, would live. But we added a structure, a support system, around them from corporate, in order to provide special treatment and help connect them to the required other parts of the firm. Our aim was to ensure that they were nurtured, guided, and protected. We wanted to leverage the good cholesterol out there in the business units, but protect them from the bad cholesterol – the bad things that we saw happen in the past.

The special treatment included a number of things. First, for each one of these new areas we said that we wanted it run by a designated "A-Team" leadership person. In our case-let work we discovered that in many failed initiatives this role was being played by a lower-level, often part-time, individual. They didn't have that stature/experience to make all of the necessary connections in a big, complex company like IBM. We concluded that we really needed dedicated leadership for each one of these opportunities. So we took people who were running billion-dollar divisions and put them in charge of these new startups. It was interesting. As we recruited some of those people, they had some hesitation. One leader said, "Well, if I'm going to do that, what will I tell my mother? I've been running a billion-dollar business. Now you want me to go run this flaky little thing?" Our chairman, vice chairman and the senior vice president did the first interviews for those first EBO leaders. It really sent the signal that they were important. That was key.

Then we built a special support structure at the corporate level. It was a small team inside the corporate strategy structure. It was outbound and it helped these new business teams work through the issues, make connections and work them through the system.

The next thing was protected funding. We put a process in place where the majority of the funding came from the business units because they were ultimately going to own it. When it was needed, we added extra funding from the corporate level. More importantly, with our colleagues in finance we created a process that allowed us to see down into the business unit to make sure that the funding continued. This transparency allowed us to ensure that bad things weren't happening to these targeted business opportunities.

Then we measured and managed these things differently – not at all like we measure the established businesses. These had milestones – internal and external ones. And we did a lot of review and oversight, which sounds onerous for startups. These really were workouts sessions with the team, to work through the issues and make the connections. This is where the role of the vice chairman and senior vice president of strategy were particularly critical and helpful. It really gave those teams a heavy dose of very senior level advice and counsel – which was probably the most important critical success factor of our approach.

That was it in a nutshell. The idea was to nurture and graduate, or kill, this initial short list of opportunities, and then identify new candidates. There was no lack of ideas. There was a lack of being able to gain traction in a significant way on the right ones. So we took ideas from across the firm, inside and outside. We were looking for things that we thought could ultimately be billion-dollar businesses -- things where we'd have market leadership and sustained profit potential. We weren't looking for a fast payback. We were looking for leverage. They could be entirely new markets for us. They could be completely different business models. They could be disruptive technologies. In my experience, large firms tend to struggle with getting all three of those things going.

Our portfolio, at its height, was about 18 EBOs. Here is an interesting example. Linux, with which I think most people may be familiar, was one of our early EBOs. It was a disruptive marketplace opportunity. If we go back to the beginning, it was viewed as the domain of the academic space. Linux was not seen as going into the business space. We thought it might. So we created an EBO, which reported to our systems group. It enabled us to transform a variety of our systems products to take advantage of a completely new platform. It created enormous value, not only for our systems group, but for our services group as well.

Results? A number of our EBOs have in fact grown to over $1B. Recently, at one of our analyst briefings where we talk to the outside world about what we're doing, we identified over 10 billion dollars whose origin was our EBOs. It's been quite successful for us.

Getting to the lessons learned - I'd put into two categories. One is how you get started. The second is operating and sustaining. For the first piece, getting started, you really need a burning bridge to drive significant change in a large, complex firm. While some people will say that you can do some of this without CEO top-level support, I'm real happy that Lou Gerstner sent that email on Sunday morning. It was the sponsorship we needed to get going. The second step was this internal assessment of the root causes, and really, truly getting under the systemic things. For systemic issues, you've got to really get down and dirty to understand them. Building the case for change with broad, senior level buy-in is probably the hardest part, and this assessment helped us do just that.

As far as operating and sustaining, we had active and dedicated senior leadership. We used a number of different mechanisms to drive alignment and process support. We fenced and watched resources. We did quick starts - quick stops. Not every one of these EBOs was successful. However, this was not going be a venture capital model where we were looking for one in ten to be a hit. We were looking for them all to be successful. However, we also accepted that in all likelihood, some wouldn't. So out of our portfolio of 18 or so at the time, there were about three that didn't make it. And that was okay. We learned enough in trial experiments in the marketplace to conclude that it was not a good deal. We shut them down for the right reason, not the wrong reason, and then took the leaders and moved them along to new and better things. We didn't shoot anybody.

Another important factor was continued evolution. This journey started in 1999 and is still going today. It does need some continued work and tuning.   We have done a number of different things in the way we drive the pipeline. And we concluded that 18 EBOs were probably too many to run at the corporate level. So we morphed it by having fewer, yet broader platforms with individual EBO projects within them. One of these, for example, is around energy and environmental opportunities.

So that's our story, so far. As I said at the beginning, I do not believe there is one model for success. Much depends on the nature of the firm. But I believe that our experience over several attempts demonstrates that there are basic lessons that can improve the odds of success in driving the necessary change in the firm!