We have often heard that small is beautiful. But when something big goes bad then the turnaround story of such an institution becomes exciting and would be regarded as the history’s most successful turnaround story. Yes we are talking about the corporate turnaround story of IBM which was engineered by Lou Gerstner. The company known as Big Blue and which was into hardware, software and services business was on the verge of extinction by the end of 1994. But what followed that was something which should serve as a case study for every budding manager who wishes to enter the corporate world.

IBM, once the poster of American dominance had got it wrong in the early 90’s. In 1990 the company had one of the most profitable years. But by 1994, the company had lost almost $16 Bn due to the changing dynamics in the IT Industry. Actually the company had enough cash to sustain for another 100 days. The reason behind sudden slide in fortunes was attributed to its elephantine size, a laidback corporate culture and inability to integrate the business effectively to offer a bouquet of solutions to its customers. The company had to do something quick and that’s when entered Lou Grestner who over the next decade at the helm of the company taught the world that even Elephants could dance.

So who exactly was Lou Grestner? A brief biodata about this man reveals that he was highly qualified man having completed his MBA from Harvard Business School. He had held senior positions at American Express and Mckinsey & Company. Prior to being appointed as the Chairman of IBM he was the CEO of RJR Nabisco. A man with impeccable credentials was chosen to lead the company in those tough times and did he deliver remarkably.

Then what did he do right which his predecessors had not done. The first job he had to take up when he joined was to make the company solvent. He embarked on a mission to cut billions of dollars of expenses and also raised cash via selling assets. He had to do this as the company was fast running out of cash to run its day to day expenses. However the gameplan was not to break the company into smaller manageable units. Instead he wanted to leverage all the 3 core parts of the business. He wanted to leverage all the business to deliver the entire gamut of end
to end services to the customer. This strategy helped them then and is still working wonderfully well for the company.

Once the company becomes too big each unit acts as a separate company on its own and the company as a whole begins to suffer. Same was the case with IBM with separate units competing with each others and causing harm to the company. He broke this thinking and tied the rewards of the employees to the performance of the entire company rather than to the unit which they were working for. This ensured better integration and ensured cohesivity among the various units. So he wanted to break the fiefdom culture which was slowly engulfing the company.

Being an outsider he was not particularly attached to one single product. He had one mission and that was to turnaround the company and he was willing to sacrifice a few non performing products which an insider would have found it difficult to do. He also had to look upon the people management as in IT industry skilled people are the biggest assets. He bought in a culture where in the performance was the key to the success of the employee in the organization. He also made the employees a partner in the turnaround story by issuing liberally the stock options which till then was restricted only to a few in the organization.

With this Lou Grestner had successfully made the Elephant dance to his tunes. In his 9 years at the helm, the company had grown by around 40% with the majority of the growth coming from the services and consulting division. Also the stock price of the company during that period increased by 8 times. He had laid a vision on what should be the focus areas for the company in the future. So the services and consulting led growth had now catapulted the company back to its glorious days. Lou Grestner will always be remembered in the company and also across the world in the times to come as the architect of one of the world’s most successful corporate turnaround stories.