ORGANIZATIONAL LEADERSHIP CASE ANALYSIS

GINNI ROMETTY

[redacted], SOFIA SERNA

ABOUT GINNI ROMETTY

Education and Career

- Born on July 29, 1957 in Chicago, Illinois
- Studied computer science and electrical engineering at Northwestern University
- Worked for General Motors after graduating
- Transitioned to IBM as a systems analyst in 1981
- Spent 10 years working in technical positions before transitioning into management roles

Role at IBM

- Became general manager of IBM’s global services team and led acquisition of the professional services consulting arm of PricewaterhouseCoopers (PwC), entering IBM into services business; integrated PwC with IBM
- Initiated plan to steer IBM away from hardware into more relevant technologies, establishing her role as a leader
- Became CEO in 2012, the first woman to ever lead the company
    - Held the roles of Former Chairman, President

BACKGROUND

Challenges At

- IBM was an **old-line technology** company - hardware and services - and needed to adopt new technology
- As CEO, Rometty propelled the mission to make IBM a cloud-based “solutions” business, **requiring billions** in investment
- Rometty’s changes led to **20 quarters of declining revenue**
- Needed to **rally IBM employees** and the markets around the innovative vision and long-term goal

Rometty’s Vision

- Bring IBM, a 106 year old company, into the 21st century
- Invest in advanced technologies around cloud, data, and security - creating a “durable” company
  - Emphasis on high-margin, scalable businesses
  - Divest from manufacturing chip business
- Support systematic change in hiring practices (ie skills-first recruitment)
- Prioritized passion, clarity, and perseverance

OVERVIEW OF CHALLENGES FACED

PUSHING AGAINST TRADITION AND PRECEDENCE

SOURCES

1) IBM's Product Focus Shift

In a time of rapid technological change, IBM needed to maintain its position as a top technology company. Rometty had to lead a re-positioning from selling workhorse legacy IT tools to higher-growth areas like cloud computing and AI.

2) Establishing an Effective and Convincing Plan

As IBM's first female CEO, Rometty had to overcome unconscious biases and prove herself as a leader, especially with such a radical plan. She had to convince shareholders and the market that her plan would allow IBM to prosper in the future.

3) Supporting IBM Employees and a Positive Culture

Rometty had to ensure her employees were supported throughout IBM's transition, and express genuine empathy for her workers. IBM's hierarchical management structure stifled employee development and diversity of thought.

QUALITIES AS A LEADER

Ginni Rometty overcame these challenges by...

1. Prioritizing diversity of thought
2. Focusing on her core values
3. Bringing in experts to lead IBM's transformation
4. Accepting the necessity of risk for positive, innovative change

CHALLENGE ANALYSIS

CHOICE #1: OUTCOME-DRIVEN

KEY SOURCE OF CHALLENGE: Divesting from businesses core to IBM to reinvest in the company's future

EXAMPLE OF: LEADERSHIP BY COMMITMENT

Rometty was focused on the collective goal of advancing IBM's status in the tech landscape in the face of new competitors like Google, Microsoft, and Apple. IBM no longer maintained the status of a "flashy" tech company.

A major challenge was whether IBM's highly integrated design and manufacturing systems could be reshaped into a new business model.

Rometty selected a team of respected executives to thoroughly investigate new opportunities and recommend integration strategies.

Rometty focused on innovation, while remaining open to new ideas. She worked on buidling a durable, scalable business by investing in high-value segments of the IT market and optimizing the company's portfolio.

The upfront investment caused shareholders to raise concern about her leadership position, however, she emphasized the long-term outcomes.

IBM acquired 65 companies under Rometty, sold off companies that accounted for $9 billion in yearly revenue, like semiconductor manufacturers or lower profit services

CHOICE #2: EFFECTIVE INFLUENCING

Rometty as "The Source"

- Spent 40 years at the firm, starting at the bottom of the ladder as a systems engineer
  - Her loyalty to IBM reflected her **trustworthiness** as an employee and credibility as a CEO – was understood to be *looking out for the broader group*
  - She also had **competence** with an engineering degree from the prestigious Northwestern University and brief time at General Motors
  - Rometty's **likeability** was fostered by her eagerness to serve others before serving herself

"I ALSO WAS LEARNING TO BALANCE MY OWN OPPOSING FORCES: TO BE NURTURING, CARING, AND SUPPORTIVE WHILE ALSO BEING ANALYTICAL, RIGOROUS, AND DEMANDING."

COMPETENCE

WARMTH

	Incompetent	Competent
Cold	anger/disgust	distrust/envy
Warm	pity	respect

*Greater penalty when women are percieved as not warm

CHOICE #2: EFFECTIVE INFLUENCING

WORKING THROUGH TENSION

"A good power approach … is willing to muster patience, sit through discomfort, and think through the impossible, holding the tension between two undesirable, incompatible options until **the situation can be reframed and a third alternative is found.**"

Rometty continuously fended off market doubts and criticism from those who disagreed with her vision. Although she lost the trust of some major investors, she publicly referenced experts within cloud computing and was clear IBM's transformation would have growing pains.

- Private Collection of Data: Rometty hired experts to internally train employees and discuss the details of migrating towards new business segments so that her employees would not be swayed by external unsatisfied critics
- Focused on diverse perspectives to overcome confirmation bias and present to shareholders external validation of her turnaround plan

CHOICE #3: ROMETTY'S MESSAGE

LEADING WITH "GOOD POWER"

"The ability to combine soft and hard leadership styles is an essence of good power."

Leadership Profile: Balanced persistent performance with genuine empathy for people

- "If you don't define it, somebody else will define it" – It's when others are trying to define you that you get into trouble.
  - Effective use of loss aversion: without change and growth, losing the chance to propel IBM's future success
- ***Network of Support***: "I think it's that you think about *what you give before you think about what you get*. And if you do, I think you build a network of support around you. Really register, '**what are you in service of?**'"
  - Leads to the creation of "Paul Revere Networks:" high in trust, diversity, and brokerage
- ***Employee Development:*** "The first was that how I'd really be evaluated is how well my people developed. 'How much do I do to make sure every one of them is better than they were when they started working for me?'"
- ***Value-Based Decisions:*** "The other thing I would tell managers, I say, again in difficult times, do not forget that decisions should be made based on values."
- ***Run to Conflict & Embrace Tension:*** "It's through conflict that you can find the real answers and real solutions."

EVALUATING HER CHOICES

OUTCOME-DRIVEN PRODUCT SHIFT

Under Ginni Rometty's leadership, IBM's pivot to cloud computing services was crucial to adapt to the rapidly evolving technology landscape and to remain competitive in an industry increasingly dominated by digital and cloud-based solutions.

HOW SHE DID IT:

Rometty transformed over half of IBM's offerings, developing a $21 billion hybrid cloud division and positioning IBM at the forefront of AI, quantum computing, and blockchain technologies. Simultaneously, she streamlined the company's focus on high-value integrated solutions by divesting almost $10 billion in annual revenues.

>50%
OF IBM'S PORTFOLIO REINVENTED

65
COMPANIES ACQUIRED

21B USD
HYBRID CLOUD BUSINESS BUILT

EVALUATING HER CHOICES

OUTCOME-DRIVEN PRODUCT SHIFT: OUTSOURCING

Established in 1964, IBM's semiconductor division was a leader in advanced integrated circuit technology and production. However, by 2015, advancing to the next level of chip manufacturing **demanded a significant investment**. Rometty recognized that financing IBM's future growth would require divesting certain assets, a decision complicated by the impact on thousands of employees and the company's long standing reputation in semiconductors.

WHY SHE DID IT:

Rometty's decision to outsource manufacturing while retaining chip design in-house allowed IBM to **focus more on its core competencies in software and services**, which were crucial for its reorientation towards high-value technologies. While this aligned more closely with the company's goals, the decision to outsource has its caveats:

POTENTIAL CAVEATS
(1) While outsourcing aimed to free up resources for new initiatives, it may have initially diverted focus and management attention, temporarily impacting IBM's ability to innovate and adapt, which may explain the prolonged period of revenue decline.
(2) Despite using outsourcing to reduce costs, IBM's operating margins continued to fall, suggesting it didn't achieve the financial efficiencies Rometty expected.
(3) Outsourcing can lead to over-reliance on external partners for core functions, risking a loss in internal innovation capacity and responsiveness to market changes.

EVALUATING HER CHOICES

OUTCOME-DRIVEN PRODUCT SHIFT: OUTSOURCING

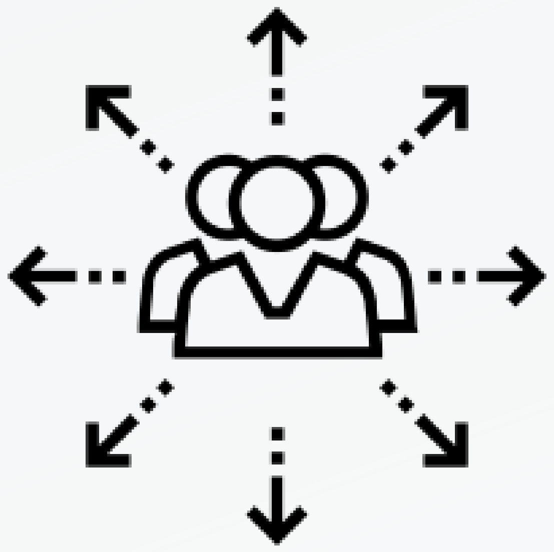
The choice to outsource manufacturing was **outcome-driven**, allowing IBM to (in the long run) strategically distribute its effort, time, and resources based on its goals. The execution of this change, however, lacked **coordination:**

THE ROLE OF CONNECTORS:

A **"connector"** is someone who focuses on integration and effective communication across different departments and organizational levels, aligning all of a company's segments with its strategic goals. Connectors have a thorough understanding of both the company's vision and its operational dynamics.

Rometty's decision to outsource IBM's manufacturing sought to reallocate resources and reduce operational burdens, allowing the company to prioritize innovation. However, Rometty may have developed a sort of "tunnel vision," failing to recognize that IBM's outsourced operations remained integral to its business.

The absence of connectors likely led to misalignments between IBM's outsourced activities and its core objectives. This disconnect could have caused operational inefficiencies and delayed the transformation that Rometty envisioned.



TAKEAWAY:

While the division of labor, in this case through outsourcing, is necessary for success, it is important that individuals within a company understand the "bigger picture" and connection points.

EVALUATING HER CHOICES

LEADERSHIP STYLE & FINANCIAL OBJECTIVES: EFFECTIVE INFLUENCING

When she became IBM's CEO in 2012, Rometty initially embraced her predecessor's goal to double per-share earnings by 2015. However, by mid-2014, Rometty realized this target could hinder IBM's transformation efforts. In October 2014, she decisively abandoned this earnings goal and committed to reshaping IBM into a cloud-centric solutions enterprise by investing heavily in cutting-edge technologies and divesting from non-core legacy units.

PUBLIC HESITATION

When Rometty first unveiled IBM's planned transformation, the public response was unfavorable: many viewed Rometty's strategy as overly ambitious and felt that it could potentially tank IBM. Aware of her minority position, Rometty acknowledged these concerns to demonstrate **open-mindedness**, and used **vivid and emotionally evocative arguments** to steer focus toward her strategic goals:

★ ***"IBM will grow again. But we need to grow in the right ways. We're moving into areas that have value and shedding ones that don't. We could have higher growth rates, but we made a bold decision to divest commoditizing businesses before they commoditize further. The new areas are higher margin, but we have to invest in them and then scale them up."***

STAKEHOLDER HESITATION

Though initially patient and supportive of Rometty's vision, shareholders' confidence began to wane as IBM continued to experience declining revenue growth. In 2017, Warren Buffett, IBM's largest shareholder, revealed that he had sold a third of his shares since the start of the year. Despite the evident decline in stakeholder confidence, Rometty maintained focus on her core plan to modernize IBM, a commitment that paid off. By the time she stepped down as CEO, IBM had returned $43 billion to shareholders and doubled its dividend payouts.

EVALUATING HER CHOICES

SUPPORTING EMPLOYEES & SHIFTING CULTURE

To exemplify her commitment to IBM's transformation, Rometty personally prepared and taught the initial hour of "Friday's Think Academy," an IBM online learning experience. She taught 50 sessions over a four years, **leading by example** to rouse others to join in the transformation movement.

EMPLOYEE EDUCATION

Wanted to change conservative culture, which emphasized rank of position over craft and respect for hierarchy to the company's fault. Rometty emphasized **psychological safety** to encourage the sharing of creative ideas and information

COMPANY CULTURE

Eliminated bachelor's degree requirement for many positions, focusing on the practical skills needed rather than formal education credentials. This shift allowed IBM to **diversify and broaden its talent pool**, especially in areas like cybersecurity where practical skills are at a premium.

SKILLS-FIRST HIRING

RECOMMENDATIONS

ADVICE FOR GINNI ROMETTY

1) Stakeholder Communication

- While Rometty was striving for long term goals for IBM, she failed to clearly communicate this with stakeholders. Therefore, when the company had poor performance in the beginning years under Rometty, stakeholders believed this was a sign that Rometty was doing a poor job leading at IBM.
- If Rometty would have clearly communicated with stakeholders regarding her personal goals for IBM (Long Term Growth), it would have reinforced Rometty’s leadership at the CEO position. However, Rometty failed to do so leaving stakeholders doubting whether she was the one for the position of CEO at IBM.

2) Implement Quick Wins

- While Rometty’s main goals were all long term success, she could have benefitted from incorporating short term wins. Rometty should have prioritized the long term wins without losing the trust of stakeholders in IBM because of not seeing immediate change.
- After Rometty had resigned as CEO of IBM, her changes and leadership began to make an impact. For example, Rometty and IBM decided to acquire RedHat, a software distributor in 2018. After this purchase, IBM failed to generate growth. But, when Rometty resigned in 2020, analysts praised IBM for its acquisition of RedHat, as it gave them a edge in a growth area known as hybrid cloud. Additionally, many companies are starting to follow Rometty’s lead by prizing skills over degrees in hiring processes. Rometty’s positive impact was eventually praised, but if she had implemented quick wins earlier while CEO, she may have been able to maintain a more positive image, which in turn, would make her a more effective leader.

LEARNING LESSONS FOR STUDENTS AND FUTURE LEADERS

Loss Aversion

- People are risk averse and **losses are more painful** than gains are pleasurable
- "Don't associate risk with fear, instead associate it with learning." -Rometty

- Look at risk as a potential positive by asking **"what do we lose if we don't change?"**
- First year students may be scared of putting themselves out there and taking risks such as trying new classes, extracurriculars, or internships
- But, if they do not, they are losing the opportunity to gain knowledge, discover new interests, and create new connections

High Performing Teams

- Planning, goals, coordination, psychological safety
- Rometty created a positive culture, diversity of thought through "skills based training" and brought in outside experts

- In group projects, students can use **outcome driven planning** by creating a final goal, communicating this with their team, and ensuring all steps lead to this to obtain best outcome
- Students can create psychological safety by valuing classmates' thoughts and opinions so that team work is coordinated and effective

Influencing Others

- Competence and warmth are key traits of successful influencers
- As a female leader in a male dominated industry, Rometty demonstrated her hard technical skills as well as soft skills

- As students interview for jobs/internships, they can demonstrate competence and warmth to influence their interviewers and convince them of their suitability for the job
- Furthermore, students can leverage "experts", such as upperclassmen who have recently gone through similar recruitment processes and recent graduates for help

THANK YOU