

Final as Prepared

“Long-Term Thinking and Operational Excellence”

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Remarks on Accepting the First Annual Deming Cup
W. Edwards Deming Center for Quality, Productivity and Competitiveness
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Thank you, Shelly (Lazarus), for that kind introduction. I am deeply honored to receive this award – which I accept not on my own behalf... but on behalf of the more than 400,000 women and men who actually operate the IBM company.

As we all know today, W. Edwards Deming was a transformational thinker about quality and operational excellence, with enormous influence on modern business... and, indeed, on the way the world works today. He is celebrated in MBA programs and boardrooms across America. But, as we also know, it was not always thus. His then-radical concepts didn't get much uptake in his home country. He had to go elsewhere to find an outlet for his ideas – to post-war Japan, where they were enthusiastically embraced... and did much to spark Japan's extraordinary economic boom.

Why was Japan more open to these ideas? Perhaps it was because the Japanese faced the challenge of re-creating an entire economy. They had neither the advantage nor the burden of a prevailing mindset, an established system... a status quo.

I believe something similar is happening today, with regard to another radical idea – one that, once again, is often overlooked here. I'm talking about “managing for the long term.”

The hazards of short-term thinking in business are all too well understood. Of the recent crises that have shaken companies, markets and even entire economies... many can be traced to decisions made for immediate gain – often for the shameless benefit of individuals... and at the expense of future prosperity.

Again and again, people made tradeoffs that short-changed the future. They slashed R&D to boost quarterly profits... only to discover that they'd eaten their seed corn. They incented and richly rewarded short-term financial results... encouraging top management to get their 'pop,' or 'flip' their companies, and then leave for the next opportunity.

In the US and Europe, we generally laud the virtues of long-term thinking... but seldom see it in practice. Interestingly, as I travel around the world, I see a different mindset – in China, India, Vietnam and the other emerging markets.

Perhaps it is because they, like post-war Japan, are writing on a comparatively blank sheet of paper. Perhaps it is because they have more hope for the future. Perhaps it has something to do with cultures that go back not a few hundred years, but a few thousand.

Whatever the reason, I believe this capacity to adopt a longer perspective is a major national asset and an enormous competitive advantage.

I say this as the CEO of a corporation that next year will celebrate a tiny fraction of that kind of longevity – 100 years. But as brief as it is, it has taught us something about the value and wisdom of seeing yourself... not as “a captain of industry”... but as the temporary steward of a great enterprise. When you do so, then how you manage... where you invest... how you actually behave... all proceed from that.

Strategic planning and goal-setting are part of this, even as Deming taught us the importance of process improvement. But he also taught us that quality has to pervade the corporate culture. So it is with managing for the long term. It is about creating and nurturing a culture of long-term thinking. It's not just about what you produce, or even how you produce it. Rather, it goes to why you exist as an institution.

IBM's former chairman Tom Watson, Jr. – the son of our founder – spoke about this in 1962, in a lecture right here at Columbia. Let me quote him:

“I firmly believe that any organization, in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs. And finally, 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 those beliefs... as it moves through corporate life.”

I want to repeat that last statement: “be prepared to change everything about itself except those beliefs.”

That statement, and the values it expresses, have been essential to IBM's ability to sustain a culture of excellence and innovation through decades of change... including a period of severe decline as a business twenty years ago.

Managing for the long term is a management approach. And it produces certain clearly identifiable behaviors and choices.

For example:

It determines how and where you invest and allocate resources. It is easy to mistake patience for inertia. For example, it takes a kind of corporate patience to invest in R&D. The payoff, if it ever comes, can take years. On the other hand, when opportunities fundamentally shift, do resources and investment also shift? A long-term mindset helps you know which investments to make, and when.

It changes your view of talent development. Grooming and selecting people for leadership roles can be well-planned and strategic... or it can be political and disruptive. The cult of personality – the search for the charismatic, superstar leader – is the opposite of building for the long term. To develop talent that can lead the enterprise generation after generation takes money, time and patience. And this is not just about people at the top – it's about developing future leaders broadly and deeply throughout the organization.

Managing for the long-term guides the ethics and behavior of both management and employees. It's an insurance policy against decisions and behavior that can damage the company's reputation and mortgage its future. Operational excellence over time requires ethical rigor, through good times and bad.

It shapes the way you see your company's role in its industry, and in society. When you think for the long term, you don't view your company as an isolated entity, but as part of larger, complex systems – business, societal and natural. This was central to Deming's perspective. He wrote about how a company is a system... within a global network of systems.

This is also, by the way, what we mean at IBM when we describe the opportunity to build a smarter planet. And it is what we've had in mind as we have transformed IBM over the past decade... from the old "multinational" model to something new – and far more systemic... a globally integrated enterprise. This has changed not only the new market opportunities we have pursued... but also the way we work and our operational systems, from sales and marketing to HR and R&D. It has changed where we locate decision-making... as we have significantly lowered our center of gravity. And it has changed our understanding of the kinds of skills, relationships – and responsibilities – that IBMers must have to succeed as global professionals and global citizens.

Finally, managing for the long term also tells you how and when to take decisive action. It's not a mindset of "slow and steady." It is not being risk averse. On the contrary, building for the long term is not for the faint-hearted. It often compels the enterprise to act when it is not obvious to do so... to place bets that seem risky to those who are focused on short-term gain... and to combat corporate inertia when times are good.

None of this implies – or excuses – a failure to produce consistent results or execute with ongoing excellence. IBM has generated earnings growth for 31 consecutive quarters – the only member of the Dow 30 to do so.

But managing for the long term is what you do if you understand that times will change. It's what you do if you take to heart a simple truth – the enterprise will outlive you.

If you do so – and we try to do this every day at IBM – then you realize that your first responsibility is to pass on... to the next generation of clients, investors, employees and communities... an enterprise that is stronger, more vibrant and more confident in facing the future. For me and for my fellow IBMers, this is the core of sustained operational excellence. And it is also, I like to think, a perspective that would be warmly embraced by W. Edwards Deming.

Which is why I am, again, so honored and humbled to accept the first-ever Deming Cup, on behalf of my company and my colleagues. It is something we will treasure... for a long time.

Thank you again.