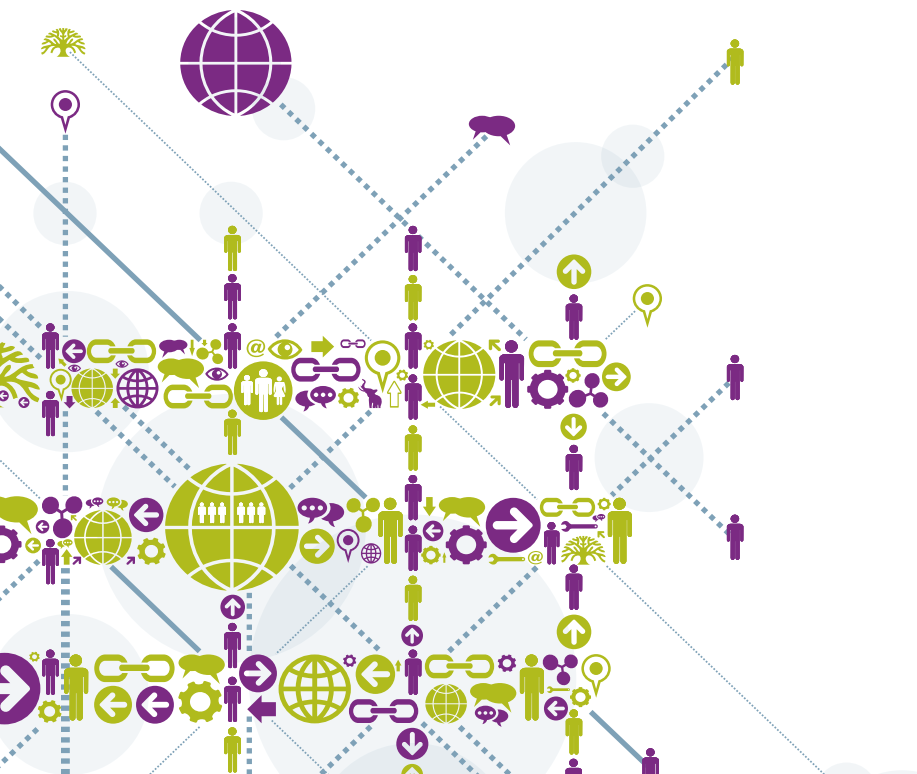


An interview with Michael Cannon-Brookes, Vice President, Business Development, China and India, IBM Corporation

In 2009, emerging markets made up 17 percent of IBM's revenues, rising to 22 percent in 2011. Currently the company is poised to achieve 30 percent by 2015. McKinsey's Martin Dewhurst talked with Michael Cannon-Brookes, IBM's vice president of global strategy for growth markets. The conversation focused on the cultural changes that are critical to successful growth in emerging markets.



Martin Dewhurst

McKinsey: *IBM has moved from aggregating business units as part of a global strategy to possessing a fully global strategic perspective. What kicked off that change?*

Michael Cannon-Brookes: Just after the millennium, we started thinking about IBM's global evolution, based on the assumption that it was no longer viable to have every function of the company in every major country. This had been our model until that point, and one that still is for many multinationals. We first identified 11 shared services with commonalities including supply chain, legal, communications, marketing, sales management, HR, and finance. These had been scattered across all of the product brands, and we appointed one global owner to run each consolidated function across all the businesses. We took a disciplined approach, assessing for each function where we could bring greater value to the business. Assessments were then made about which activities could be optimized, eliminated, and, based on skills and cost models, which functions possessed the viability to deliver the service. This provided the basis for IBM's globally integrated enterprise model.

In its simplest form, a globally integrated enterprise (GIE) is a 180-degree change from the traditional multinational. Instead of taking people to where the work is, you take work to where the people are. This means moving from the traditional vertical organization, where command and control are the driving forces, to a horizontal model, where the driving forces are coordination and communication. The structure of the work becomes more flat and less hierarchical. We began looking at the world very differently, seeking out pools of high value, competitively priced, talent and skills that could be used globally to serve both our internal and client needs. A great internal example comes from Japan, where corporate culture is

often considered very insular. Yet under our GIE model, we now have the HR for IBM Japan done in Manila, accounts receivable done in Shanghai, the accounting done in Kuala Lumpur, procurement in Shenzhen, and the customer service help desk is in Brisbane. *That* is true global integration, and it is also optimal for our Japan business.

When we started down the GIE path, we knew that this would be a 10- to 15-year journey as, fundamentally, this is a cultural change. Changing organization charts can take a few mouse clicks. Changing business processes can take months. However, changing a culture and the way employees adapt to new ways of working takes years. Laying these foundations has recalibrated the company for success and growth in these emerging markets.

McKinsey: *How did this change your approach in emerging markets?*

Michael Cannon-Brookes: Over the past few years, massive investments have been made by emerging market economies to build out their national infrastructure. Millions of citizens are entering the middle class, increasing their purchasing power, doing banking transactions, using mobile phones, consuming energy, taking mass transportation, and demanding access to healthcare services. The market opportunities and the IT solutions required to address them are staggering. It was in this context, not long after we had embarked on our globally integrated journey, that it became clear that emerging markets were very different from mature markets. The reality of doing business in emerging markets requires a deep understanding of the business and industry drivers. To succeed, we needed to adopt a radically different way of thinking, which was very hard to do from Westchester County, New York, where IBM is headquartered.

Traditionally, the multinational business model began with colonial roots. Today for practical reasons of proximity or skills transfer, multinationals tend to link developing markets to developed ones. This is why Latin America often reports to the US, South Africa reports to the UK, Eastern Europe reports to Western Europe, and so on. However, this model actually limits growth because the mature markets snap up the best resources and highest management attention. Developing markets get short shrift because they represent a small percentage of the overall business of the region. And because they receive neither resources nor attention, they fail to live up to expectations.

Building closer relationships with our clients in these markets is key to understanding local market industry drivers and business challenges so that we can create solutions that address their business needs. In 2008, IBM made the decision to establish a growth markets unit to run our emerging-market business globally out of Shanghai. We now have a leader and senior vice president for the emerging-market group who are based there with global responsibilities. This has fundamentally changed the way we do business across many time zones.

McKinsey: *IBM's Values Jam is a well-known technology story. From an emerging-market perspective, how did you see it help build shared values?*

Michael Cannon-Brookes: In 2003, we launched IBM's Values Jam, which, at that time was an unprecedented 72-hour company-wide conversation with employees from all over the world. The premise was simple. In an effort to stay true to IBM's core beliefs, we asked for global feedback to refresh the IBM set of values that would reflect the company's position to employees, clients, and the world.

The key themes that emerged were then shared online with IBMers around the world, prompting feedback and comments as well as pride of ownership. Every employee had the opportunity to participate utilizing IBM technologies as part of this global exercise.

Three core IBM values emerged as a result:

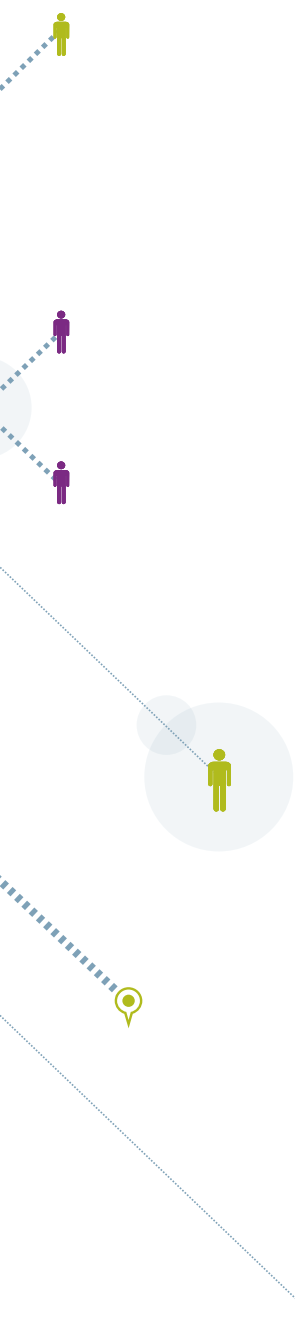
1. Dedication to every client's success
2. Innovation that matters—for our company and for the world
3. Trust and personal responsibility in all relationships.

McKinsey: *How did IBM manage this global cultural transformation?*

Michael Cannon-Brookes: There is no one silver bullet that addresses a complex multi-level transformation of a global corporation—essentially it's an exercise in planning, time, and patience. Cultural transformation begins at the top. It requires a CEO who is passionate and drives through to achieving the target. As the saying goes, it's not what you say, but what you do, and every large transformation needs milestones as proof of this change.

Part of the cultural change comes from our awareness as individuals that we are now part of a larger global business environment, which has implications on the working life of an employee. Even small things, like time zone consideration, count. For example, many people in New York like to have global calls on a Friday morning so they can get it all clear before the weekend. However, that's Friday evening in Asia and therefore impacts colleagues' lives on the other side of the world.

Moving people around the world to gain a global perspective and experience is a key part of the process. This includes career development



Michael Cannon-Brookes



Vital statistics

64 years old

Australian and UK citizenship

Lives with his wife in Shanghai, plus three children and seven grandchildren in Sydney

Education

Graduated with Honors in Law, University of Cambridge

Career highlights

IBM

(1997–present)

Vice President, Global Strategy, IBM Growth Markets (2008–present)

Vice President, Strategy & Business Development, IBM China and India (2005–07)

Vice President, Global Strategy, Marketing, and Operations, IBM Business Consulting Services (2002–05)

General Manager, IBM Industry Value Project (2001–02)

General Manager, IBM Global Banking Industry (2000–01)

Vice President, Financial Services, IBM Asia-Pacific (1997–99)

Freehills

(1992–94)

Managing Director of leading Australian law firm

Citibank

(1969–1991)

Leadership roles across Asia, Australia, the US, and Europe

Fast facts

27 years of growth markets experience

assignments from mature to emerging markets, from emerging to mature markets, and increasingly between emerging markets. In this way, we try to develop global IBMers. Teams from across the world often work together on projects, senior leaders address their teams via webcasts, global programs are delivered via intranet portals, and teams network via mobile smartphones and tablets.

Another part of this cultural shift is the willingness to develop products and solutions designed specifically *for* emerging markets *in* emerging markets, and then “re-innovate” them back into major markets to add vitality there. The emerging

markets provide large pools of skills, talent, and innovation. That’s why our largest research, hardware, and software development labs are outside the US in locations like India, China, Latin America, and Eastern Europe.

McKinsey: *How do you think about managing people in this new culture?*

Michael Cannon-Brookes: One fundamental lesson I’ve observed is that people underestimate the cultural change that an executive has to go through when they move from a mature market to an emerging market. They usually come from an

environment where the business opportunities are constrained and productivity and cost cutting are a constant focus. Suddenly they find themselves in a climate and culture of growth in Shanghai or São Paulo or Dubai, in an environment where there are more business opportunities than there are resources to match. Adapting to this can take time. These executives need to have a certain passion for such markets, with unpredictable working hours across multiple time zones.

The most important challenge in these markets is the recruitment, development, and retention of local talent, which differs significantly from country to country. At a foundational level, a

well-designed campus recruitment program, an employer value proposition that resonates and differentiates you in the market concerned, and a well-recognized and respected brand name in the marketplace are essential. In many of these markets where there is a rapidly growing organization, you are faced with the situation where recent recruits suddenly become first-line managers and then second-line managers. This requires sophisticated training programs to develop management, sales, and technical skills. As a result, leadership training and career development assignments in other markets are a vital ingredient in developing leadership and skills for the 21st century.

