

# Innovation: The View from the Top

IBM's honcho on what CEOs can do to lay the groundwork for real breakthroughs

**IBM CONDUCTS A SURVEY OF CEOs** and government leaders every two years to find out what's high on their agendas. This year's topic: innovation. Some results were surprising. Business-model innovation scored high, especially at top-performing companies. And execs now see collaboration with other companies—even rivals—as indispensable. Senior Writer Steve Hamm interviewed IBM Chairman Samuel J. Palmisano about the findings. Here's an edited version of their conversation.

*\* co-opetition*  
**Innovation is a hot button for chief executives. What's driving that?**

CEOs and business leaders around the world see increased competitiveness, and they see challenges in their business models going forward. They see many things commoditizing. They see that all roads lead to innovation. With the Internet and the proliferation of semiconductors, you'll end up with trillions of things connected—not just individuals but cars, roads, homes, appliances, health-care data, and pacemakers. All of these things are available today that weren't available in the past.

In a way, everybody needs the challenge or the threat to get them going. The threat is that all these competitors are coming online that have global capabilities. They're all enabled by these technologies. The opportunity is to take advantage of the fact that we have low-cost transistors, RFID [radio frequency identification] tags, and supercomputing that is inexpensive and pervasive. All of a sudden, this infinite computing capacity is available, and it's economically affordable to solve many of the world's more complex problems. So my colleagues, other CEOs, look at this thing and say, "You know, geez, the opportunities are everywhere. So how do I take advantage of it?"

**Your survey found that business-model innovation has become a focus for CEOs.**

People realize that you need to do innovative products. You need to have your products differentiated. But with product innovation, it's a certainty that your competition is shortly going to copy what you've done. There was just an announcement that Samsung has a pretty cool way to listen to music as an alternative to the iPod. There will always be the next hot car and the next great high-definition television. But with all of those things, your competition's going to react to what you've just done. It might take them a year or two, but it's inevitable. They will react.

With business-model innovation,

though, if you can come up with a unique way of doing things, it's much tougher to react to. The holy grail of strategic thinking is, how do you come up with a business model that differentiates you and that creates value for your customers, and, by doing that, puts you in a unique position in your industry? ✓

**Why is business-model innovation so much harder to achieve than product innovation?**

It's because organizations have inherent resistance to change. Look at [how long it has taken] IBM. Years ago we talked about remixing our product portfolio. We talked about moving to the high-value innovator spaces in technology and services because there's more profit-margin opportunity. Now, the profit of our portfolio is mixed a third, a third, a third—services, software, and systems and technology.

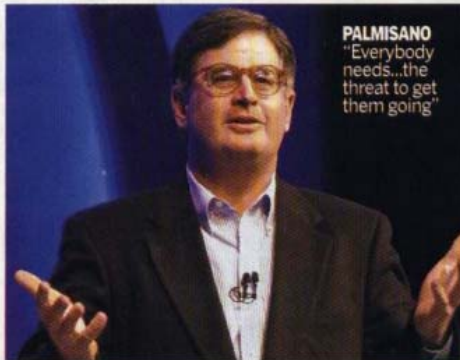
The next step to drive productivity is we're going to globalize IBM. We're flattening our structure and having collaboration hubs established around the world, and rebalancing all those resources. That's 330,000 people.

There's a lot of inherent resistance to this shift and this change. With many companies, what makes it hard to do is not necessarily setting the strategy but executing it. That's where it requires strong leadership from the CEOs as well as collaboration with groups outside of your own organization. You need to collaborate because the collaboration is so important to learning.

**Is collaboration with business partners a key part of business-model innovation?**

Our point of view is simple: In today's environment, with all the global opportunities that exist and these new technologies, the best way to make them unique for your own enterprise is to foster collaboration. You can do that in multiple dimensions. You can collaborate within your own organization. We can be multi-cultural and diverse in IBM because we happen to be in 173 countries around the world. So, by definition, there's a lot we can do amongst ourselves to collaborate with different views of opportunity or technology within our diverse population.

In addition, you need to collaborate between companies and governments and educational institutions. I think that the breakthrough that we got done in the Cell processor, which is based on our Power



**PALMISANO**  
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JEFF GEISLER/BLOOMBERG NEWS

architecture, would not have happened if we hadn't designed chips for Sony, Toshiba, Microsoft, and Nintendo. Now, clearly, some of these folks are easy to collaborate with because they aren't in our space—Sony or Nintendo. But the other two are clearly competitors of IBM—Toshiba and Microsoft. Yet at the end of the day, it was through these collaborations that we were able to get through this incredible breakthrough. Now we're applying that breakthrough to all sorts of places, whether it's high-definition television, consumer electronics in the home, high-definition radar systems, or medical imaging.

We also started collaborating with communities of experts. It started with Linux and the open-source community, where we all come together and share in some of these areas of technology and standards.

**Another thing that you found in your survey is that the CEOs feel they have to personally lead the innovation campaign.**

With product innovation, if you stand up on your soapbox and you cheer a little bit, that will certainly help. But the reason I think that the CEOs have to lead this is because, fundamentally, the biggest breakthroughs are a result of changing the business model and the processes and the culture. When you say the new strategy is going to be to change the business model, every CEO understands that's their job. When you talk about driving culture or management systems to change your culture, my colleagues all understand that's their job. So CEOs realize that they have to get these new types of innovation done through their own leadership.

We all do it in different ways. Go back even 10 years ago. Was it natural for IBM to go collaborate around the future of innovation or the future of our technologies? Was it natural for us to open up to the world the things we solved technically as we were inventing things to get feedback on where that was going? Was it natural for IBM to join into the open-source community to talk about standards around lots of technologies? These weren't natural things to occur. The CEO has to give permission to the organization to have it happen. If the CEO doesn't give people permission to go change behavior and to collaborate, then it's not going to happen. Everybody is looking for the signal. They want to know whether things are really changing fundamentally. ■