



Smooth Succession: How IBM Set Records in the Realm of CEO Transition

“The CEO is not the brand! It is not about you. You are a temporary steward of a wonderful enterprise, so leave it in better shape than you find it.

— Samuel J. Palmisano, former President, CEO, and Chairman of IBM

In October 2011, IBM set a record for smooth succession when they announced that Virginia (Ginni) Rometty would replace Samuel Palmisano as the company's CEO. The official succession would occur a few months following, on January 1st, 2012, but the process of succession planning had already been underway for years. Unlike other companies, where succession follows fatal illness, abrupt retirement, or public scandal, IBM set an exemplary model for a peaceful and planned transition. How did they do it? Let's take a look.

THE PROBLEM

In October 2011, Samuel J. Palmisano announced that he would be retiring from IBM after eight years of serving as the tech giant's President, CEO, and Chairman of the Board. Prior to taking the helm as the company's leader, Palmisano had also served as senior vice president (SVP) and group executive (GE) of the Personal Systems Group, SVP and GE of IBM Global Services, and SVP and GE of Enterprise Systems.¹ As IBM's most senior leader, Palmisano reorganized IBM into a "globally integrated enterprise," oversaw the acquisition of PriceWaterhouseCoopers' consulting, and re-oriented IBM's strategy toward customer-focused solutions with personal computers and disk drives.² In doing so, Palmisano effectively led IBM through the transition from a hardware producer to a software/services powerhouse. With this significant change, as well as a 39-year career at IBM under his belt, one would think that Palmisano's retirement caused upheaval in the company and the stock markets. In reality however, Palmisano's succession was one of unparalleled success, described by Washington Post and countless other analysts as "noticeably smooth."³ How did they do it? With the help of a well-oiled succession planning process.



→ THE SOLUTION

When Palmisano made his announcement in October of 2011, he not only announced his retirement, he also announced his successor and explained what the transition process would look like. Palmisano was to be succeeded by Ginni Rometty, who would take over as President and CEO at the beginning of 2012, while Palmisano remained Chairman of the Board until September 2012. After a few months of transition, Rometty then assumed full leadership of the company as President, CEO, and Chairman of the board. Rometty's promotion was no surprise, as stakeholders had long known she was a front-runner for the position. Rometty also had a long history with IBM and had demonstrated that she was well-equipped for the role. She began working at IBM in 1981 and climbed the ladder from an entry-level position to SVP and Group Executive for Sales, Marketing and Strategy before her promotion to Chairman and CEO.⁴ Under her leadership, IBM continued to thrive. Rometty built new business capabilities in hybrid cloud, security, quantum computing, data, and AI, both organically and through acquisition. During her tenure, IBM acquired 65 companies, including Red Hat, the world's leading provider of enterprise open source solutions, like Linux, cloud, container, and Kubernetes technologies. Red Hat was the largest acquisition in IBM's history.⁵ Under Rometty's leadership, IBM also became the first tech corporation to win the Catalyst Award for advancing diversity and women's initiatives after Rometty achieved record results in diversity and inclusion. This was made possible particularly through an extended parental leave and 'returnship' program, which made it easier for women to return to work with hands-on training in emerging technologies.⁵ Rometty certainly did her job well, and her transition to leadership was commendably smooth. This was made possible only through an established leadership development process and a robust succession plan.

→ HOW THEY GOT THERE

IBM intentionally prepared Rometty for the role of CEO, but her succession was also imbedded within a larger leadership development process. This is a crucial step of succession planning that many companies miss. Rather than selecting and training a single successor, true succession planning consists of ongoing employee development. IBM invested in such a process, perhaps most notably in their Workplace Management Initiative (WMI). This initiative was launched after the company recognized their need for a transparent and comprehensive view of their talent supply, requirements, and implications for business strategy. The initiative consisted of a process for talent identification and development, as well as standardized tools for project planning, talent assessment, and performance management. The system was implemented by over 80% of IBMers and became a way for them to plan and track their own development, as well as for managers to assess talent requirements and availability.⁶

Under IBM's WMI, "dual-hatting" became a popular phenomenon. The term was used to refer to HR leaders performing tasks that not only benefitted functional areas in personnel, but also directly impacted IBM business areas (ex. HR Business Development assumed the role of "business leader" for the Software segment, as this segment had historically performed the most acquisitions). The dual-hatting model meant that there would be a much stronger connection between talent management and business operations. It also meant that business leaders had to have a stronger understanding of proper recruitment, training, and development strategies. Putting this understanding into practice then allowed managers and executives to build their teams to suit the game they're playing. Rich Calo (VP, Global Workforce Relations) used an ice hockey analogy to liken dual-hatting in the succession planning process as a model that allows HR to "skate to where the puck is going to be."⁷

In addition to a robust leadership development process, IBM did an outstanding job of selecting Palmisano's successor. Most notable is the fact that they selected a true successor, rather than a cookie-cut replacement. Unlike Palmisano, who holds a bachelor's degree in history and began working at IBM as a salesman, Rometty has a bachelor's degree in science with high honors in computer science and electrical engineering.⁵



In addition to their education, Rometty and Palmisano differed in their path along IBM's leadership pipeline. While Palmisano stepped into the role of CEO after being the COO,⁷ Rometty transitioned into her leadership from an executive position in sales, marketing, and strategy rather than operations.⁴ This distinction is important, because far too often successors are chosen because look and act like the leader who is being replacing. This may not be ineffective, but it falls short of true succession. Instead of focusing on the person, a robust succession plan identifies and develops the best candidate for the role. Palmisano himself commented on this when pressed on the demographic differences between him and his successor "Ginni got it because she deserved it," he told The New York Times. "It's got zero to do with progressive social policies."³

Finally, Rometty's succession was able to occur smoothly because it was planned. At no point in the process were any stakeholders surprised. Investors were aware that Rometty was a frontrunner for the position, as were other executives and employees at IBM.¹⁰ In addition to announcing his successor in advance, Palmisano also outlined the planned process for succession. It was to occur over the following 12 months, with Rometty stepping into the role of CEO in the new year while Palmisano remained Chair of the Board through to September. Not only was this process transparent, it was also timely as the transition was neither rushed nor dragged out. In this way IBM set an example for strong succession planning, one of the few cases in life when boring (or at least predictable) is better.

A TIMELINE OF TECHNOLOGY¹⁰

- 1928** IBM's punch cards become the industry standard, holding nearly all of the world's known information and enabling large-scale projects like the US Census
- 1936** IBM tabulates 26 million American employment records, working with the government on the US Social Security Act of 1935, and facilitating the largest accounting project of its time
- 1937** IBM invents the Type 805 International Test Scoring Machine, newer models of which are still used to grade scantron exams in schools across the world today
- 1952** IBM introduces the world to digital storage via magnetic tape data, marking the transition from punched-card calculators to electronic computers
- 1953** IBM's lung-heart machine enables the world's first successful open-heart surgery on a human
- 1956** Arthur L. Samuel programs an IBM 704 to play checkers (considered to be the first display of AI)
- 1961** IBM accomplishes speech recognition with the Shoebox machine, setting the stage for Siri, Alexa, and Watson AI
- 1962** IBM and American Airlines launch the first computer-driven airline reservation system, the first example of eCommerce and predecessor of eBay, Amazon, and countless others today
- 1969** IBM built the computers and software for Apollo missions, effectively landing the first man on the moon
- 1970** IBM invents the magnetic swipe strip, which we still use to process card-transactions today
- 1971** IBM releases the world's first floppy disk
- 1973** UPC bar codes are invented by IBMer, Norman Woodland
- 1980** IBM patents LASIK surgery
- 1981** The IBM personal computer is released, revolutionizing household technology
- 1997** IBM's Deep Blue supercomputer defeats the best chess player in the world
- 2011** IBM Watson defeats the champions of Jeopardy!, demonstrating unparalleled fluid speech recognition
- 2019** IBM unveils the first circuit-based commercial quantum computer



ABOUT IBM

IBM's predecessor was the Computing-Tabulating-Recording Company (CTR), incorporated in 1911 by Charles R. Flint, and based in NYC. CTR sold items ranging from deli slicers and commercial scales to tabulators and punch cards. In 1914, Thomas J. Watson became the company's general manager. He implemented the motto, "THINK," and established a corporate culture of positivity and good customer service that IBM still upholds today. CTR's name was changed to International Business Machines Corporation, and the global brand IBM was formed in 1924. During the First World War, CTR expanded their business to autograph recorders and electric accounting machines. During the Second World War, IBM facilities were then used by the American government to build machinery to support the war effort. This was also when IBM made their initial foray into computers, creating the Automatic Sequence Controlled Calculator - or Mark I - in 1944. Since then, IBM has entered homes, businesses, and schools with personal computers and software/service solutions. IBM has also spearheaded research in Big Data and Artificial Intelligence (AI), with one of their most notable accomplishments being the defeat of the world chess champion Garry Kasparov by IBM's 32-node IBM RS/6000 SP "Deep Blue."⁹

→ KEY TAKEAWAYS

1. **SUCCESSION IS A PROCESS** IBM's executive level takes succession very seriously.⁸ Rometty was not selected as Palmisano's successor the day he announced his retirement, she was trained and transitioned into her leadership role over time. This process is evidence of IBM's mature, integrated, and global talent management program, and it provides an example of true succession planning rather than last-minute replacement hiring.
2. **SUCCESSION REQUIRES A PLAN** In addition to being a process, succession planning requires a plan. The process does not take place on its own. Developing candidates takes time, but it also takes intentional effort. Like IBM, it is important that you assess and develop your leadership candidates' skills, and provide them opportunities to apply those skills, build connections, and gain experience.
3. **IT'S ABOUT THE POSITION, NOT THE PERSON** A common practice in succession planning is to choose leaders based on the qualities of the incumbent. Essentially, we are tempted to replace the person rather than fill the position. Not so at IBM. Rometty was chosen based on her merits, rather than qualities that matched her predecessor. She had a proven track-record of accomplishment in the past, and a vision and potential for how to carry IBM into the future.

→ HOW SIGMA CAN HELP

Like IBM, your organization can establish a leadership development and succession planning process. SIGMA is here to help. To get you started, we've developed an engaging Succession Planning Certification Workshop. The workshop is delivered in two half-day virtual sessions, both of which are designed to provide concentrated and interactive succession planning training. By the end of this training, you will understand Succession Planning, hold a working Succession Plan for a position of your choice, and have the knowledge and tools to replicate the process across all levels of your organization. For more information, or to register for our upcoming session, visit our [website](#) today. ■



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