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# THE RISE AND FALL OF THE 'IBM WAY'

What the tech pioneer can, and can't, teach us

By Deborah Cohen

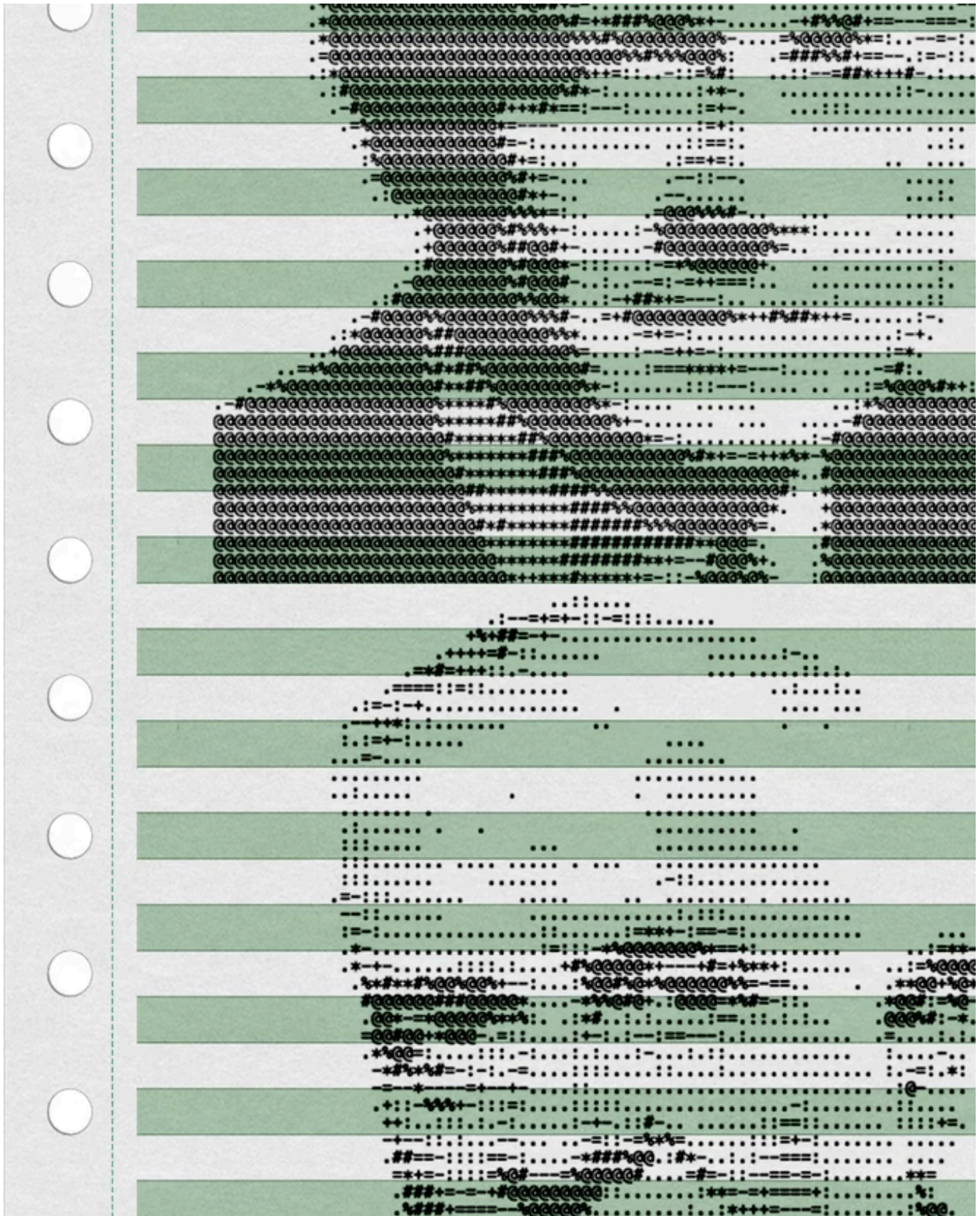





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IBM IS ONE OF the oldest technology companies in the world, with a raft of innovations to its credit, including mainframe computing, computer-programming languages, and AI-powered tools. But ask an ordinary person under the age of 40 what exactly IBM does (or did), and the responses will be vague at best. “Something to do with computers, right?” was the best the Gen Zers I queried could come up with. If a Millennial knows anything about IBM, it’s Watson, the company’s prototype AI system that prevailed on *Jeopardy* in 2011.



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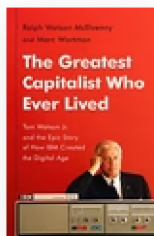
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In the chronicles of garage entrepreneurship, however, IBM retains a legendary place—as a flat-footed behemoth. In 1980, bruised by nearly 13 years of antitrust litigation, its executives made the colossal error of permitting the 25-year-old Bill Gates, a co-founder of a company with several dozen employees, to retain the rights to the operating system that IBM had subcontracted with him to develop for its then-secret personal-computer project. That mistake was the making of Microsoft. By January 1993, Gates’s company was valued at \$27 billion, briefly taking the lead over IBM, which that year posted some of the largest losses in American corporate history.

But *The Greatest Capitalist Who Ever Lived*, a briskly told biography of Thomas J. Watson Jr., IBM’s mid-20th-century CEO, makes clear that the history of the company offers much more than an object lesson about complacent Goliaths. As the book’s co-authors, Watson’s grandson Ralph Watson McElvenny and Marc Wortman,

emphasize, IBM was remarkably prescient in making the leap from mechanical to electronic technologies, helping usher in the digital age. Among large corporations, it was unusually entrepreneurial, focused on new frontiers. Its anachronisms were striking too. Decades after most big American firms had embraced control by professional, salaried managers, IBM remained a family-run company, fueled by loyalty as well as plenty of tension. (What family isn't?) Its bosses were frequently at odds. Meanwhile, it served its customers with fanatical attentiveness, and, starting in the Depression, promised its workers lifetime employment. "Have respect for the individual" was IBM's creed.

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## The Greatest Capitalist Who Ever Lived: Tom Watson Jr. and the Epic Story of How IBM Created the Digital Age

By Ralph Watson McElvenny and Marc Wortman

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Today, as we hurtle toward a future in which AI threatens to obliterate the individual both as employee and creator, much of the IBM story reads like a tale from a faraway world. The company's technological accomplishments are still recognizable as the forerunners of the digital era, yet its culture of social responsibility—a focus on employees rather than shareholders, restraint in executive compensation, and investment in anti-poverty programs—proved a dead end. A mashup of progressivism and paternalism, communalism and cutthroat competition, the once ballyhooed “IBM Way” was, for better and worse, inextricably intertwined with the family at the top.

**F**OR MOST OF ITS HISTORY, and especially from the First World War through the 1970s, IBM's business was making business run more efficiently. During the late 19th century, the development of railways, the telegraph, and electricity created the conditions for a significant expansion in the scale and scope of American firms. As companies produced and distributed goods to middlemen and consumers, they had to deal with ever more complex logistics. Firms required new



ways of tabulating, storing, and recalling information. Enter the typewriter (patented in 1868), the cash register (1883), and the adding machine (1888).

At the apex of this information-machine ecosystem was the firm National Cash Register, which was where Thomas J. Watson Sr., born in 1874 and raised on a farm near Painted Post, New York, served a 17-year apprenticeship. At NCR, Watson found his calling as a salesman. At the behest of NCR's dictatorial boss, he also ran a shady scheme to undersell secondhand-cash-register vendors to drive them out of the market. He was indicted for restraint of trade and then, deepening the humiliation, forced out at NCR. By the time Watson landed on his feet as the new general manager of the New York-based Computing-Tabulating-Recording Company in 1914, he was 40 years old and newly married with an infant son, Tom Jr.

Watson soon renamed the company International Business Machines Corporation, a much more fitting description of his global ambitions. IBM's embrace of punch-card technology, the state-of-the-art method for aggregating information, was his doing. So was the creation of an evangelical company culture, equal parts moral uplift, corporate paternalism, and personality cult. Inscribed on the company's walls were Watson's favorite slogans: "A company is known by the men it keeps." "Spend a lot of time making customers happy." And "THINK," a dictum that to Watson (as the business historian Richard S. Tedlow has observed) likely meant "Think like me."

If these injunctions call to mind "Don't be evil" (Google's former mantra) or "Do the right thing" (the current Alphabet slogan), those are the hollow echoes of what was at IBM an all-encompassing credo, anchored by the promise of a permanent job. Attached to IBM plants were IBM country clubs, which served dinner three nights a

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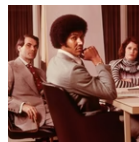
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week. When Watson and his wife traveled to visit IBM offices in other cities, they attended meticulously planned employee “family dinners.” IBM men were clean-shaven and wore the regimental attire: dark suits, starched white shirts, and ties. Alcohol was forbidden at company events.

With the optimism of a true believer, Watson Sr. boldly expanded the business during the Great Depression, stockpiling tabulators, adding to the sales force, introducing the lifetime-employment guarantee. A Democrat and (unusual for a corporate executive) a supporter of President Franklin D. Roosevelt, he was perfectly placed to furnish the machines necessary to implement the Social Security Act when it passed in 1935. By the late 1930s, IBM was the dominant player in data processing.

Young Tom had a front-row seat to both his father’s formidable ambitions and his vanities, including his 20,000-plus-square-foot mansion in Manhattan and the appreciative letters from FDR he carried in his pocket. But even by the free-and-easy standards applied to well-heeled young men of the time, he was an underachiever. He got into mischief and flunked his classes; he spent weeks in bed suffering from bouts of depression. Despite his father’s money, Princeton refused to admit him: The director of admissions told Watson Sr. that his son was “a predetermined failure.”

**I**NDEED, WITHOUT the Second World War, what would Tom Watson Jr. have been? A flying enthusiast, in May 1940 he joined the Army National Guard. Major General Follett Bradley, the commander of the First Air Force, made him his personal pilot. During the war, Watson kept a diary for the first time, as if—at age 28—his life was just beginning. After the war, he returned to IBM at Bradley’s suggestion. His father was pleased. As Watson Sr. liked to say, nepotism was “good for business”: In a company run like a family, he encouraged the employment of fathers and sons, and expected that his own sons, Tom and his younger brother, Dick, would one day head IBM. But Tom was stifled by his father’s rule, disgusted by the sycophants he thought his style of management encouraged.

Their fights were frequent, titanic, and brazen—and often conducted in plain view of IBM employees: “God damn you, old man! Can’t you ever leave me alone?” They agreed on IBM’s guaranteed lifetime employment, the importance of customer service, the need for a CEO to have an open-door policy, and the danger of

complacency. Like his father, Tom Watson Jr. was a political liberal; he refused to permit racial segregation in IBM's southern plants and opposed Senator Joseph McCarthy's witch hunts. But they disagreed about nearly everything else, not least the direction of IBM's core business.

Watson Sr. forbade the term *computer*, worrying that it would antagonize people who feared that these novel machines would replace workers. Curious as he was about the new "thinking machines," he didn't see the point of electronic speed, figuring that few companies would need it. They certainly weren't business equipment. Tom, by contrast, was beginning to grasp their significance.

By the early 1950s, the father, now in his 70s, started to withdraw from day-to-day management, naming his older son as president of IBM in 1952. Watson Sr. had cultivated a patriarchal style, with 38 managers reporting directly to him. His son introduced an IBM organization chart, and the company's managers started to take down the photographs of Watson Sr. that had once decorated every sales branch's showroom. More important, he moved IBM decisively into computers; in 1952, the company opened a campus in San Jose, Silicon Valley's first computer factory and corporate-research facility.

The company's growth was extraordinary, and so was Watson Jr.'s risk-taking. In the early 1960s, he made a bet-the-company gamble on the decision to produce a fully compatible line of computers, the System/360. At that point, IBM was producing seven entirely separate systems with different levels of computing power. Each had a distinct internal architecture, so migrating data from one computer line to another was often impossible. Clients that wanted to upgrade their computers would effectively have to start from scratch. And IBM itself was saddled with inefficiencies in production, including 2,500 distinct types of circuit boards.

The System/360 has been described as one of the greatest product innovations in 20th-century American history, next to the Ford Model T. Achieving compatibility across a wide array of processors was an engineering nightmare, requiring millions and millions of lines of code. IBM's investment was equivalent to \$50 billion today, more than twice the cost of the Manhattan Project. The new computer made every one of

the company's other lines obsolete, meaning that if the System/360 didn't work as anticipated, IBM stood to lose its clientele to other firms.

When the System/360 line finally shipped after many reversals, including problems in both the engineering and manufacture, it proved an instant success. From 1964 to 1970, IBM added almost 120,000 new employees (for a total workforce of 269,000), and its revenues more than doubled, from \$3.2 billion to \$7.5 billion, unprecedented growth for a major corporation. Saying "let's not be piggish," Watson Jr. had stopped taking his stock options, worth five times his annual salary, in 1958.

**A**S THE ECONOMIST Theodore Levitt famously argued in 1960, businesses that bank on particular products, even very successful ones, are courting obsolescence. Hollywood's moguls failed to see that their business wasn't movies but entertainment; they let television, the greatest opportunity of the era, slip from their grasp. Watson Sr. thought he was in the tabulator-and-punch-card business. Watson Jr. understood that IBM's actual business was information.

Why IBM made the shift from mechanical to electronic modes of data processing has presented something of a puzzle for scholars. The leap into the unknown, as James W. Cortada deftly explains in his recent history of the company, *IBM: The Rise and Fall and Reinvention of a Global Icon*, owed much to the ways in which the Cold War with the Soviet Union, and especially the Korean War, supercharged the federal funding available to private R&D efforts. The company's engineers, too, played a key role, initially in pressuring management to see the promise of the new technology, then in transforming complex computing systems into commercially viable products. IBM's customers began to demand the new machines. Still, it could easily have been otherwise. Despite a technological head start in computers, Remington Rand, IBM's major competitor in the tabulator industry, chose to focus on electric razors, typewriters, and office furniture.

*The Greatest Capitalist Who Ever Lived*, as is inevitably the case with biographies, puts the emphasis on individuals—Thomas Watson Jr., specifically, as well as the IBM executives who at various points served as his consiglieri, soothsayers, and foes. As Watson Jr.'s grandson, McElvenny offers an insider's assessment of familial dynamics, drawn from interviews and private papers. Most notable, the authors go further than



most scholars have in portraying the son's embrace of computers as a repudiation of his father. The resentment, they explain, was mutual: When Watson Jr. appeared on the cover of *Time* magazine in 1955, a marketing triumph for the company, the old man didn't say a word. The rivalry between them continued to spur Watson Jr. on, even after his father died the next year.

In a sense, Watson Jr. was founding a new company when he took over IBM, and the need to prove himself meant that he ran the firm like an entrepreneur rather than an heir. Instead of surrounding himself with yes-men, he preferred, he wrote, "sharp, scratchy, harsh, almost unpleasant guys who could see and tell me about things as they really were." He established a system of "contention management" that required executives and their subordinates to fight out disagreements in front of the corporate management committee. The guarantee of lifetime employment was supposed to encourage responsible risk-taking and make the inherent friction within the hierarchy productive for the company. As Richard Tedlow has observed, Watson Jr. wanted the dynamic he had with his father to "metastasize" throughout IBM.

As profitable as this Oedipal conflict may have been for IBM's bottom line, it was near disastrous for the Watsons. In McElvenny and Wortman's apt description, they were "the Kennedys of the corporate world," complete with yacht racing, extramarital affairs, ski weekends with the actual Kennedys, and psychological breakdowns. The story of the System/360 was also the undoing of Dick, Tom Watson Jr.'s younger brother. Dick Watson was a much less rebellious character than Tom; he'd even permitted his father to accompany him and his bride on their honeymoon. As young men, the brothers had been close, and Dick was able to cajole a depressed Tom out of bed when no one else could. Dick had been running IBM's worldwide operations very successfully; Tom wanted his brother to follow him as CEO.

But Tom's decision to put Dick in charge of the manufacturing and engineering of the System/360, and to task his rival for the CEO position, T. Vincent Learson, with selling the line, backfired badly. As production delays mounted, Dick stopped coming to work; rumor had it that he was drinking too much. The brothers barely talked to each other, and after Tom effectively fired Dick, the estrangement was complete. In 1970, at age 56, Tom had a major heart attack and soon resigned as CEO; he formally

retired from IBM in 1974. Later that year, Dick died at 55 from a fall down the stairs at home.

**T**OM WATSON JR. was in the Soviet Union, serving as President Jimmy Carter's ambassador there, when IBM's executives made the disastrous deal with Bill Gates. Watson wrote an unusually frank memoir, *Father, Son & Co.*, which in 1990 spent 14 weeks on the *New York Times* best-seller list. By that time, IBM—"my company," he still called it—was a wounded giant. Overinvested in the mainframe business during the 1980s, Watson's successors failed to capitalize on the PC and its software, forfeiting a huge consumer market. As IBM's fortunes sank in the early '90s, Watson Jr. would wake up crying at night. He died in 1993 after a stroke.

Lou Gerstner, the executive who took on the job of rescuing IBM that same year, was respectful about the Watsons' leadership. But in his own memoir, he left no doubt about the damage their six-decade reign had caused. The contention-management system had failed: The bad feeling it created led to a habitual avoidance of conflict rather than a frank airing of alternatives. The lifetime guarantee of employment had ossified into an entitlement, and Gerstner insisted on its formal end.

Nearly two years into Gerstner's tenure at IBM, nearly half of the employees who had been on the company's payroll in 1987 were gone. The old Watsonian culture barely survived as a memory. IBM has been sued multiple times in the past decade for firing workers over the age of 40. (The company has said that it "never engaged in systemic age discrimination.")

Maybe humans won't matter much longer anyway. Last spring, IBM debuted its new AI product, watsonx, which has been lauded as the company's most valuable innovation in years. It can streamline HR operations, provide tennis commentary at Wimbledon, and much more—a creation with the potential to accelerate automation in unprecedented ways.

Watson Sr. had always been more concerned than his son about the possibility that machines could take the place of humans. At the same time, in his mind, IBM had never been merely a company. "IBM," he once proclaimed, "is not merely an organization of men; it is an institution that will go on forever." Preserving its soul, in

his view, was crucial. That relinquishing its humanity might in fact turn out to be the secret to eternal life would surely have stunned both father and son.

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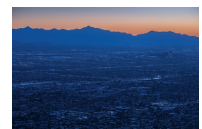
Deborah Cohen is the Richard W. Leopold Professor of History at Northwestern University. She is the author of *Last Call at the Hotel Imperial: The Reporters Who Took On a World at War.*

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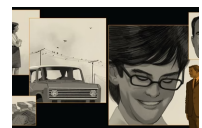
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