

Professional computer services industry – the case study of IBM Global Services

Przemysł profesjonalnych usług komputerowych – przypadek IBM Global Services

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Abstract: The historical achievements of International Business Machines gave the foundations for IBM Global Services company, which became a new step in development of IBM Corporation. The biggest rival of IBM Global Services, EDS, generated revenues that were nearly doubled by IGS revenues (\$36.6bln) and revenues of the next rival in raw, Accenture, were more than tripled. The market share of IGS was 8,2% at that time and it was the highest percentage among all companies operating in professional computer services industry. In the last quarter of year 2000 IBM Global Services grew around 5%. At that time, the revenues from e-business services begun to grow 70% year over year. In described SWOT analysis positive aspects (strengths and opportunities) prevailed. The most important strengths of IBM Global Services are global position on the market and universalism of the offered services. Main weakness of the company lies in the lack of ability of fast bringing new services to the market. The existence of strong, well-known competitors like Hewlett-Packard and Accenture is the main recognized threat. At corporate level, IBM points in invention and development in terms of information technologies. IBM operates on global market in global industry with ethnocentric strategy. IBM Global Services has the long term objectives: technological leadership, competitive position and profitability. The IGM's main generic strategy is still differentiation. In the opinion of the author, IBM Global Services provides concentric diversification. Considering the grand strategies, IGS's management should make its further decisions basing on the ability to maintain the human resources.

Key words: computer services, case study, Whitley's National Business Systems theory application, SWOT analysis

1. Introduction

This paper contains short outline regarding to the history of the IBM Global Services with marking the most important events that led to the opening of the company and putting a special pressure on development of the company and outlining the path of its growth. Moreover, it contains a SWOT analysis for IGS with description of factors that have been pointed out. Also, the paper covers the descriptions of strategies at corporate and business levels (long term objectives, generic and grand strategies). In last but not least paragraph are recommendations made by the author for the company. The last part is summary of all covered material.

2. Area of the research

International Business Machines is the full name of the company called IBM in short and the mother-company of IBM Global Services. It has more than a hundred years. It has lots of significant and often even breakthrough achievements on its account. The most significant were inventing the first personal computer that had place 10 years ago and inventing its movable version-the very first laptop called ThinkPad.

The official history of IBM Global Services started In December 1996 when IGS was founded by International Business Machines. However, the predecessors for this establishment were two important events in IBM. The first was in 1986 when IBM introduced Business Recovery Services, which were the very first services offered by IBM ever. These services were enabling a business to continue operations in the event of an unplanned disaster or outage. Also, in 1989, IBM began involvement in the IT services for the very first time and signed with Eastman Kodak Company the agreement to design, build and manage the absolutely modern data centre in Rochester. IGS, with its outstanding business results, quickly became the fastest growing part of IBM corporation. In 1999, when its growth seemed to be sustainably faster than industry, IBM Global Services was already well recognized in the world as the biggest services company. The revenues of EDS, the biggest rival of IBM Global Services, were nearly doubled by IGS revenues (\$36.6bln) and revenues of Accenture, that was the next rival in raw, were more than tripled. The market share of IGS was 8,2% at that time and it was the highest percentage among all companies operating in professional computer services industry. This success IGS achieved operating in so-called multisegment that means in and between four main segments: custom programming, system integration, consulting

and outsourcing. The important event that had influence on IBM Global Services activity was selling the IBM Global Network to AT&T in 1999. This finished the involvement of IGS in the network services area. In the year 2000 IGS's revenue declined that objectives for year haven't been fulfilled. Moreover, costs were higher than revenues. The reason of such a situation was lots of promising investments in the area of Web Hosting that did not contribute in the gross profit at that time yet. However, in the last quarter of year 2000 IBM Global Services grew around 5%. At that time, the revenues from e-business services begun to grow 70% year over year. Meantime, revenues from services based on problem of the year 2000 were moving down. IGS started broadening its range of service offerings and developing its resources through alliances and acquisitions. In year 2001 it acquired a database application and consulting company named Informix and became a part of strategic alliance with Ariba, the company that provide a business to business applications and services; and i2, a supply chain management business and e-business consulting firm. The successes of IBM Global Services gave the managers of its mother company the incentive to consider the role of whole IBM in the market. They desire to transform International Business Machines more into a services company that could join together IT and Business Services parts within the IGS unit. This idea must be considered in IGS.

In executed SWOT analysis positive aspects (strengths and opportunities) prevailed. The most important strengths of IBM Global Services are global position on the market and universalism of the offered services. Nowadays almost each company needs computer services but companies need consulting services as well because without good consulting implementing a new computer system in the company or executing the service successfully is almost impossible. In IGS this is possible because of very good, qualified specialists and gaining another companies and their resources. This mix of factors is perfectly adjusted to needs of the market and observed trends. One trend is increasing spending on information technology. Situation is similar in terms of separated consulting services. The new trend, that these two sorts of services combined into one offer, is arising because more and more clients expect all-in-one solutions. Moreover, new acquisitions are good supporting points in further preparation to fulfillment of these and similar needs.

The main weakness is lack of ability to bring new services to the market in a fast way. This is a main disadvantage of the fact that IBM Global Services is too complex. Moreover, IGS has no effective system supporting the careers. This, in long run, may turn into a threat of lack of the most important resource: skilled and qualified specialists. This vision is more probable because of already existing shortage of high-skilled IT professionals on the market.

Pointed out existence of strong, well-known competitors like Hewlett-Packard and Accenture is a threat too. Big, strong, well-known companies have a capital to invest in their core areas and improve their competitive areas. What is more, companies with such a brands have a trust on the market and may threaten the leader position of IGS comparably easy. Furthermore, the margins may become squeezed because of strong competitors and their continuing specialization.

IBM Global Services is a part of International Business Machines and its strategy at a corporate level is the strategy of whole IBM. The IBM's mission statement is:

"At IBM, we strive to lead in the invention, development and manufacture of the industry's most advanced information

technologies, including computer systems, software, storage systems and microelectronics."

And it is developed into:

"We translate these advanced technologies into value for our customers through our professional solutions, services and consulting businesses worldwide."

Above-mentioned mission statement is expressing the ethnocentric strategic orientation of International Business Machines. IBM is perceived and want to be perceived as innovative company, which puts pressure on development of information technologies, especially on computer systems, software, storage systems and microelectronics. The general outline of this idea must be expressed by each one division of the company. The key arguments for this are top-down governance structure, global integration, hierarchical product divisions, supporting and promoting the culture of home country. Also, profits are repatriated to home country. However, with time IBM has more and more geocentric aspects for example in terms of marketing (global product with local variations), personal practices (best people everywhere developed for key positions everywhere) and more national responsiveness in strategy. The global planning is not very complex because of general standardization brought by computerization. As far as IBM is concerned, there is a stakeholder activism referring to demands placed on the global firm by the foreign environments (especially foreign governments). The industry that IBM operates in is global, there are some needs for customized products as a result from various legal environments. IBM is a company that has one global management team (has global vision and culture, cross-cultural training, frequently travels internationally), global strategy (selects country targets strategically, performs business function where most efficient), global financing (finances globally to obtain lower cost), global core marketing, global operations (uses common core operating processes worldwide to ensure quantity and uniformity) and global technology (does not duplicate R&D and product development -gains economies of scale).

The long term objectives of IGS are: technological leadership, competitive position and profitability. IGS wants to be a absolute worldwide leader in information technology, its fostering and producing; and stays highly profitable company.

The IGM's main generic strategy is still differentiation (however, IGS seems to be more and more interested in focus strategy with time passing by). The main areas are: consulting, custom programming, systems integration and outsourcing. Although it is generally hard to realize such a strategy through product leadership, IBM has strong commonly required skills for that: well-developed product engineering, strong capability in basic research, very good corporate reputation for quality of technological leadership and strong marketing abilities. Moreover, IBM meets following organizational requirements for above-mentioned generic strategy: strong coordination among functions in R&D, product development and marketing; both, subjective measurement and incentives with quantitative measures too. The ability to attract highly skilled labor, scientists or creative people in long term is missed now.

Considering the grand strategies, IBM Global Services provides concentric diversification strategy mainly through acquisitions (Informix) and strategic alliances (Ariba) with companies that are related to IGS in terms of technology, markets and products.

3. Discussion

According to Whitley the most important factor determining each national business system is path dependence defined as the dependence of economic outcomes on the path of previous outcomes. Future is the variable of today and mainly of the historical events. Whitley states that emerged in twentieth century business systems differs in forms of organization and control, types of dominant firms, relationships between customers and suppliers and work systems. Despite the growing role of globalization, national business systems seem not to be flexible to its influence. Moreover, countries seem to specify in their business systems. Regarding the nature of business systems, there are patterns of economic organization related to providing and using of capital, customers and suppliers, competitors, firms in different sectors, employers and different types of employees. Whitley divides existing national business systems in:

- ownership coordination;
- non-ownership coordination;
- employment relations and work management;

Ownership coordination characterizes direct control of firms by owners and alliance control, in which owners delegate decisions to managers.

Non-ownership coordination is characterized by alliance coordination of production chains, collaboration between competitors and alliance coordination of sectors.

Employment relations and work management are characterized by employer-employee interdependence and delegating to employees (based on trust).

Finally, globalization process had and still has not to overestimate influence on MNCs. MNCs, internationally trading, producing and selling goods have the impact on our lives. However, it is worth noticing, that existence of MNCs in its current form is strongly related to cost of transportation. Changes in oil prices may effectively hinder operations of MNCs. In Poland, most of companies are small and medium (hiring less than 300 employees). The main reason of this is the fact that state is not participating in sharing risk with the entrepreneurs. Polish capital market is weak and liquid so credit based. Considering risk sharing, participants in risk and types of developed strategies companies in Poland are artisanal and opportunistic. Big companies that operate in Poland are, in majority, parts of the foreign/international companies.

4. Summary

The biggest problem of IBM Global Services is lack of good management system that would support career development among well-skilled specialists. This fact, connected with problematic situation on the labor market may lead to permanent lack of high-qualified personnel. This problem should be perceived as strategic because people are the most important resource for IGS.

The company should make further decisions basing on its ability to maintain (regain) this resource. If there is real oppor-

tunity to have enough specialists than IGS should keep offering so diversified services at the global level and go into a path of concentrated growth (Model of Grand Strategy Clusters shows this). Following this strategy would be feasible because of position that IGS already has on the market and the way it is perceived by customers.

Otherwise, company should use the divestiture strategy to limit the scope of offered services in order to maintain its operations. This would finish temporarily appearing problems with costs and let the company concentrate on the engine of recent growth: e-business.

IBM is a company with very long tradition. Its daughter-company, IBM Global Services was established in 1996. Since that time company gained lots of consumers and became a very successful. The main strengths of IGS are: global reach, position of the leader and strong, well-known brand. The weaknesses are for example: lack of ability to bring new services to the market in a fast way, too big complexity of the company. Main opportunities regards to great estimations about markets IGS operates on. Main threat is vision of losing high qualified specialists.

At corporate level, IBM points in invention and development in terms of information technologies. IBM operates on global market in global industry with ethnocentric strategy. At the business level, IGS has the long term objectives: technological leadership, competitive position and profitability. The IGM's main generic strategy is still differentiation. Considering the grand strategies, IBM Global Services provides concentric diversification. IGS's management should make its further decisions basing on the ability to maintain the human resources.

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