1. Introduction

In 1992, NASDAQ made a study in Silicon Valley to identify the best survival strategy for its clients. By a large majority, the opinion expressed by cognizant high-technology company executives was that, to survive, a Silicon Valley firm must reinvent itself every two to two and a half years. It takes vision, resources and nerve to achieve that pace of renewal.

Companies are slow to change because they are made up of people and people mostly do not have the vision for ‘U-turns’, let alone the courage to implement them. Worse yet, some companies work on the principle that ignorance is bliss, and once they have reached the pinnacle of power in their industry, they think that they will stay there for ever. This is a belief totally devoid of realism.

The legendary watchmakers of Switzerland provide an example of what happens when a company, or a whole profession, stays put. Swiss watchmakers were so good at their craft, and so widely admired, that in the late 1960s, a quarter-century after the end of World War II, they controlled a remarkable 65 per cent of the world market for all types of timepieces.

But by 1980, just a dozen years later, the Swiss share of the global watch market plunged below 10 per cent. The Swiss had not suddenly forgotten how to make excellent clocks and watches. Nor did anyone boycott their products. What they were guilty of was failing to reinvent their watch industry. Others did it for them.

When an inventor suggested that quartz movement should replace the mainspring, the knowledgeable watchmakers of Switzerland scoffed. The Japanese listened, and companies like Seiko seized the market. This is a telling example of how the market looks at failures of vision and of guts, in changing the status quo, as unpardonable sins.

IBM in the 1980s presents another case of a company going down the drain because of management ineffectiveness. When it was the leader of
the computer industry, IBM could afford to charge what it liked for its mainframes. But Japanese and other rival mainframers developed good reputation with lower prices, and they turned the tables on IBM. At the same time, mini and maxi computers decreamed the market.

By the early 1990s IBM found it difficult to sell its mainframe even at huge discounts. Its equity was battered at the New York Stock Exchange and the crisis cost its shareholders some $75 billion in capitalization while its employees were decimated, losing thousands of jobs. All stakeholders, from equity investors to employees, suffered from top management's ineptitude.

In the early 1980s, at least one part of IBM had tried to reinvent the company’s product line. In 1981, Don Estridge, a middle-level manager, led a unit which launched IBM’s first personal computer. It was a market success, and helped the whole company to announce record annual profits. This success story, however, did not meet with wholesale approval, and senior IBM executives became resentful of the amount of publicity Estridge and his ‘baby computer’ were receiving.

- IBM PC worked as long as the company’s huge, cumbersome bureaucracy gave it free rein.
- But after top-level carriers were threatened, petty bureaucracy and internal politics reasserted themselves, and IBM’s new foray into concepts was doomed to failure.

Over a couple of years, Estridge and his team developed a series of functionality improvements which could have proved invaluable. They attempted to build a home computer and wanted to incorporate a faster processor in the PC, but their efforts were wasted because of senior management’s opposition and its support for the status quo – the obsolete mainframes.

What the company’s top brass allowed in 1983 was the ‘PC Jr’, aimed specifically at the home market, as opposed to IBM’s traditional business market. This was hopelessly inadequate. The machine was supposed to come out in July, in time for the Christmas season, but PC Jr faced many delays because IBM’s top executives insisted on a number of changes which had an adverse effect on the product. In the end the PC Jr finished up as an inferior, expensive piece of equipment, and though intended for the home market, it was sold through the same outlets as mainframes, where kids and housewives never go.

The happy postscript to the IBM story is that it finally did manage to reinvent itself, but under totally new management. When Lou Gerstner took over, he made the necessary changes to the company’s human resources, structure and product line; downplayed the mainframes, focused on software and services, and implemented a new strategy. By June 1994 the company had rallied. The disaster of 1990–92 was repaired, but no senior manager in any company should allow himself to forget this lesson.