Mapping strategic change within IBM on the
Adaptive Cycle of Resilience

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ABSTRACT
In this paper, we map IBMs ‘90s transformational process on the Adaptive Cycle of Resilience model. This practical example shows that looking through the ACR lens helps managers understand the phases organizations go through in dealing with a dynamic business environment, and helps identify what skills and management styles are necessary during each phase.

Keywords
Adaptive Cycle of Resilience, transformational change, enterprise crisis.

1. INTRODUCTION
The purpose of this paper is to look at transformational change within organizations through the model of the Adaptive Cycle of Resilience (ACR). To bring to live the model, we are concerned with the question: how to map the aspects of a real world organizational change scenario onto the ACR model? The transformational change within IBM as a result of a crisis in the early ’90s has been chosen to serve as the main example. The illustration provided in this paper can help the reader better understand the different phases a company goes through by looking through the lens of the ACR model.

Companies these days find themselves in an increasingly dynamic environment. Globalization, and the advances in disruptive technology and communication give rise to all sorts of new opportunities and creative ways to innovate. Organizations can no longer assume that current successes will be sustainable in the future (Fukuyama, 2011). These dynamic environments demand an organization to continuously adapt, sometimes suddenly and unexpectedly.

The state of equilibrium, in which business goes as usual, can be followed by a state of crisis, in which sudden and disruptive change is vital for survival. Transformation can be achieved by means of reorganizing business processes, restructuring the organization, changing business models, steering the organizational culture another way, and many other possible undertakings. When an organization is unable to meet the demands of a dynamic and competitive environment, it is likely to fail to meet customer demands, lose market share and eventually go out of business.

An example of a company that failed to evolve alongside its environment is Eastman Kodak, which had been active in the traditional photo industry. They faced a severe crisis due to their inability to capture the benefits and potential of digital image capturing, which has damaged its position enormously (H. Lucas et al., 2009).

2. THE ADAPTIVE CYCLE OF RESILIENCE
In brief, the ACR model distinguishes between 4 phases a company can find itself in based on what a company can, and what it wants: equilibrium, crisis, new combinations and entrepreneurship. These phases are connected in that the company moves from one to the other in a cyclic path as shown in Figure 1.

In the equilibrium state, it is clear what goals are pursued and how to reach them, customers are satisfied and competition is within proportion. A company strategy can develop incrementally on the basis of historical and cultural influences, but fail to keep pace with a changing environment, this is referred to as strategic drift (Johnson et al., 2008). Strategic drift can be the cause of a company crisis, in which it becomes uncertain in what and how the organization should continue. When possible solutions are identified, and the vision of change has been embraced, the
phase of new combinations has started. In this explorative stage, creativity is the leading stimulus for the company’s future success. As soon as a viable option has been selected, the company moves to the phase of entrepreneurship, in which the desired option is executed. This phase involves fast growth and accumulation of knowledge and experience. Eventually, the point will be reached where the new processes are running, standards are set and experience is present; the company finds itself back in the equilibrium state, however not identical to the previous one. For a more detailed explanation, refer to the article *Sustainable Assertiveness – The Adaptive Cycle of Resilience* (T. Abcouwe & B. Parson, 2012).

3. IBM STRATEGIC CHANGE

IBM, short for International Business Machines, has been ranked as one of the best companies in the world on official lists like the Fortune 500 or Forbes Global 400 lists. It even became target of antitrust suits by the government concerning unfair competition (F.M. Fisher, 2000). However, the company has had its difficulties.

Around the ‘90s, more than half of IBM revenues came from its mainframe business, in which it was highly specialized. During this time, personal computers and the internet were becoming increasingly more important. IBM however, was slow to react due to a focus on its previously so successful mainframe business. IBM consisted of 20 separate business units, 125 data centers and had 128 CIOs actively working in these business units. Flexibility therefore, was not a trivial issue. B. van Kralingen, general manager IBM North America, has said that customers who had previously said “no one ever got fired for buying IBM” were abandoning us for faster, more nimble competitors. One major business publication labeled us as a dinosaur. Another said our era had passed (Kralingen, 2010).

As a result of this inflexible and rigid company situation, IBM faced a severe crisis, during which the stock had decreased more than half (see Figure 2), its revenues flattened and it had to lay off half of its workforce.

In answer to the situation, the board of directors appointed Lou Gerstner as the new CEO to oversee the transformation activities and free the company from its current crisis. Gerstner identified that client-server networks for desktop computers would become increasingly important compared to its core competency mainframe business. Consequently, the mainframe development spending was reduced significantly. In the next years to come, led by Gerstner, the company would transform through reorganizing the business units, reducing the number of CIOs, changing system development processes, alliance networks (K. Dittrich et al. 2007), integrating new technologies and acquire other companies to meet client demands and increase its stake in the software industry (Sabina et al. 2011, Kralingen, 2010). IBM has acquired more than 200 companies at a cost of 30 billion dollar to fill a new portfolio of product and service offerings in strategic growth areas, like the analytics business. This strategic change helped IBM transform from a stagnant hardware manufacturer into a dominant service provider.

4. MAPPING ON ACR

The happenings and activities in the previous section can be plotted on the ACR model for a clearer illustration of the transformation process. Figure 3. depicts the transformation process of forced release from its current equilibrium into a state of crisis, towards a reorganization of its business model and organizational structure. Innovation takes first place in this undertaking, and the business is change oriented. Key activities during these phases or plotted on the ACR model.

![Figure 3. Release and reorganization](image)

Figure 3. Release and reorganization

Figure 4 illustrates how the organization gets back from the state of uncertainty into a state of equilibrium. Ideas are selected, action plans are carried out and opportunities are
fully exploited so that the organization eventually reaches stability.

It is worthwhile to point out that the cyclic path has resulted in a new form of equilibrium, that is adapted according to the demands of the environment. Due to continuous changes in the environment, companies have to go through these phases repeatedly (IBM, for example, is much more focused on software consultancy as of today, being in yet a new state of equilibrium). The ACR model helps to point out the importance of continuous adaption in order to withstand the demands of a dynamic environment (resilience). It also serves to understand the need of different cultural styles and management and leadership skills necessary in each phase. The phases on the left side of the model are better served by conservative and performance oriented management styles, whereas the right side asks for more innovative, creative and explorative attitudes.

A possible pitfall of merely thinking in terms of the conceptual framework provided by the ACR model, is the fact that its simplistic rendition might prevent the manager from realizing that an organization can find itself in multiple stages of the model at once. This is possible when the organization offers products that are in different stages of the maturity model, consists of multiple (independent) business units, or has dedicated departments for exploitation and exploration activities concurrently. This is, however, not a limitation of the model, but rather a potential and probable danger to the unaware practitioner.

5. CONCLUSION

In this paper, we outlined the different phases an organization goes through during transformational efforts, based on the Adaptive Cycle of Resilience (ACR) model. We took the case of IBM and its difficulties during the '90s when it was forced to change its focus from mainframe computers to the software and internet industry. We successfully mapped the activities during these changes onto the ACR model and concluded that the model is a suitable tool to illustrate the importance of organizational (adaptive) resilience to cope with a dynamic environment. The model shows that, in the words of B. van Kralingen “companies can find their way back if they are willing to reinvent themselves in ways that will make them viable and relevant in today’s global economy” (B. van Kralingen, 2010).

6. REFERENCES