



# Tom Watson

IBM

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Tom Watson's monument was the giant American corporation known as IBM. Watson created IBM out of a group of companies put together by industrialist Charles Flint. Watson invented IBM's legendary corporate culture; developed the strategy that made the firm the acknowledged leader in its industry; and provided the leadership required for successful implementation of the strategy. And after ruling as the firm's benevolent dictator for thirty-six years (1914-1950), Watson successfully transferred power to his son, Tom Jr., during the period 1950-1956.

## YOUTH

Tom Watson's ancestors immigrated to the United States from Ireland in the 1840s. The family had earlier moved from Scotland to Ireland. Both moves were precipitated by famines.

In America, the Watsons pursued various occupations. Tom's father, Thomas, went to work for a lumber company as a teenager and later established his own lumber business, operating out of a farm house near Corning, New York. There Tom Watson, the future creator of IBM, was born on February 17, 1874.

Tom's youth revolved around church, chores and school. With his family he attended the Methodist church for Sunday School, church and mid-week prayer meetings. At home he had the full complement of chores expected of farm boys. At school he was distinguished for his aloofness. He was shy and avoided group activities with other young people.

By the time he finished high school, Tom had decided to become a teacher. He obtained a temporary teaching certificate with the idea that he would teach while completing his formal course of teacher training. But the work was so frustrating that he quit at the end of his first day.

His plans then turned to business. Enrolling in the Miller School of Commerce in nearby Elmira, New York, young Watson completed

courses in accounting and business in 1892. He then took a job as a bookkeeper at a butcher shop in his home town of Painted Post, New York.

The bookkeeping job paid six dollars a week, a sum large enough to support a family in those days. But Watson found the work boring. Looking around for something interesting, he found a job as a salesman's helper for a flat salary of ten dollars a week.

### **LEARNING THE SKILLS OF SALESMANSHIP**

The new job consisted of traveling with an older salesman. The two called on farms to offer a variety of merchandise including caskets, pianos, organs and sewing machines. Initially, Watson left the selling to the other man. But he watched and asked questions and learned. When the older man left for a different job, Watson took over as the salesman handling the route. For the next two years he worked the route alone. Then, convinced that the job offered a limited future, he resigned and went to Buffalo, New York, in search of a better job.

After weeks of job hunting he was about ready to give up and return to Painted Post when he was offered a job selling sewing machines on commission. But before he could make his first sales call he was fired. Feeling himself a total failure, he asked a friend for advice. The friend was also an unemployed salesman but was about to try selling securities on commission. He invited Watson to join him. Watson did so and earned \$169 in commissions in his first week on the job.

Saving much of his income, young Watson opened a butcher shop as an investment. He engaged a helper to run the shop while he continued to sell securities. And he began to dream about someday owning a chain of butcher shops ( Rodgers, p. 27).

Then disaster struck! The friend with whom he had been selling securities absconded with the sales receipts including both principal and commission money due Watson. Out of funds and in debt, Watson sold his butcher shop.

In the process of closing the shop, Watson visited the local office of National Cash Register Company (NCR) to terminate the installment purchase contract he had made on a cash register. " While there...he asked for a job... and encountered for the first time the man in whose likeness he would, in part, mold himself ...John J.

Range" (Rodgers, p. 28).

Here is how biographer William Rodgers describes the impact of Range on young Watson ( Rodgers, p. 28).

*"If competitive recall of an experience is an index of its impact, the impression made by John Range on young Watson was critical to his development. In hotel dining halls and convention centers around the world, Watson repeated his account of how Range demonstrated by example, by the use of reproof and persuasion, by withholding and granting favor, the techniques of converting a man into a dedicated salesman. Thousands of IBM salesmen, managers and staff people recall Watson's simplified, ritualized report of his years with Range in Buffalo. There was no doubt that Watson learned how to play the role of the father-figure boss of salesmen by first being a willing target of the technique himself."*

Range was not initially interested in hiring Watson. But by regularly calling on Range over a period of many weeks, Watson finally got a probationary job on a commission. Assigned to the west side of Buffalo, Watson failed to make a sale for almost two weeks. That performance earned him a sharp balling-out from Range. Range then took Watson on several sales calls to show the young novice how a professional handled selling. Watson observed how Range first established a friendly atmosphere and then pointed out the benefits of a cash register in terms of cost savings, security and better record-keeping. For the first time in his short career as a salesman, Watson realized that the key to success was understanding the customer's needs and making the sale by showing the customer how those needs could be met by Watson's product.

Watson learned well! On his own again, he became one of the top National Cash salesmen, earning an average of \$100 a week in commissions.

### **THE FIRST SALES MANAGEMENT JOB**

Watson's success led to a promotion. In 199 he was made the agent in charge of the National Cash branch office in Rochester, New York. There Watson first encountered the dubious ethical standards of National Cash founder and president John Patterson. Ordered to implement policies embodying those ethical standards, Watson complied.

Patterson had a Darwinian view of the competitive process. He felt it perfectly natural for a firm to seek to monopolize its line of business and to do so by aggressively driving the competition out of business. The attempt to eliminate competitors was not going well in Rochester at the time of Watson's appointment. Patterson's order to Watson were to crush the competition without concern for methods. Watson did so although he would later have regrets about some of his methods.

Biographer Rodgers relates two stories illustrating the ethical issue. The first involved a rival salesman whom Watson regarded as a friend. One evening the friend mentioned to Watson that he planned to call on a promising prospect the next morning. Learning the identity of the prospect, Watson then got up early the next morning, traveled 20 miles to the prospect's place of business and sold the man a cash register. Watson's friend arrived shortly after the sale. As a younger man, Watson used to tell this story with pride, citing it as an example of the type of opportunism expected of IBM salesmen. "But as the years passed and Watson proclaimed the Golden Rule as the guideline of business... the story changed in tone and so did the moral of it. Instead of interpreting it as an exercise in opportunism ... he cited the incident as an example of regrettable conduct (Rodgers, p. 33).

The second story deals with the methods commonly used by National Cash. Here is how Rodgers described those methods (Rodgers, p.40):

*" One of the Cash methods was intimidation and threat of ruin, which Patterson's agents were compelled ...and trained... to carry out. Watson would stand outside the Hallwood office in Rochester and observe ... spotting it was called ... who came in and went. He and other NCR salesmen were under explicit order to report every contact between a Hallwood agent and any prospective purchasers who were coded as PPs. men especially trained in persuasion and tactics of intimidation sometimes in company with regular salesmen would swoop down on the prospective purchaser of a Hallwood or other competitive cash register and ' warn' the customer that the machine was no good, that it infringed on NCR patents, that the manufacturer was being sued, and that anyone who bought and used a Hallwood machine would, likewise be sued. These arguments were reinforced by an offer to give the customer a National register at a fraction of the price of Hallwood."*

## HEAD OF AN NCR DIVISION

Watson's outstanding performance in Rochester earned him another promotion. And once again, Patterson wanted him to take charge of an unethical effort to eliminate the competition.

The new assignment was to head up a wholly owned subsidiary that would take control of the second-hand cash register market. Initially the subsidiary's ownership by NCR would be kept secret and Watson would present himself to the public as head of an independent company. Patterson's idea of how the market was to be captured was his typical ruthless approach. Competitors were to be driven out of business by any means possible, including the kinds of intimidation used in Rochester, patent infringement suits and some forms of what author Rodgers calls industrial espionage. Watson, himself, did not get involved in the suits or espionage, but he was aware of what was going on and years later would go out of his way to see that IBM did not stoop to such tactics.

Watson set up his business first in New York and then moved his base of operations to Chicago. Then, in 1907 he moved to Dayton, Ohio where the second-hand business became a publicly acknowledged division of NCR. Patterson had not expected the second-hand business to produce a profit directly. It was merely supposed to eliminate second-hand competition for NCR's new machines. But Watson made the business profitable in its own right. In doing so, he did eliminate much of the competition but did so in a far more humane fashion than Patterson had in mind. As biographer Rodgers put it, "It was said that Watson's success was a unique and commendable victory, a personal triumph over the accepted practices of his time, because in winning -that is eliminating the competitors - he treated the losers with consideration making their failures acceptable financially and personally" (Rodgers, p. 40). "The fact remains," adds biographer Robert Sobel, "that Watson engaged in underhanded behavior at NCR" (Sobel, p. 42).

Watson's second-hand business became NCR's most dependable source of profit. It also became a standout in terms of its approach to selling. Whereas the Patterson emphasis was on knocking out the competition, Watson shifted the emphasis to selling the virtues of the National Cash machines. Also stressed was the follow-up service which the customer could expect from NCR.

But aside from the differences with regard to dealing with competition, Watson admired and followed the Patterson approach.

"Patterson was the father of modern salesmanship, the Henry Ford of distribution who, by making mass selling possible, made mass production possible. It might be, as his detractors claimed, that he originated little, that most of his techniques had been used somewhere, at some time, by someone else; but even conceding that doubtful point, no one could deny that he was original in selecting what was effective and then applying it with ferocious energy and system. His conventions and schools, the quota system and the guaranteed territory, commissions and advances - this bag of tricks was his greatest contribution to American business" (Belden and Belden, p.44). All of those tricks were revealed to Watson and became part and parcel of his approach to sales management.

There was one other difference which began to emerge at this time. While Watson believed in Patterson's basic procedures, he felt that Patterson went too far when insisting that salesmen follow "canned" procedures including a "canned" sales presentation. To Watson it was important and effective to allow the salesman to follow the general guidelines laid down by Patterson but to make minor changes to take into account the individual salesman's personality. " Watson did not eliminate the standard approach ...but he changed it. He outlined rather than detailed the demonstration, suggested arguments rather than prescribing them...'Never attempt to copy the manners and style of another,' was the new and welcome order" ( Belden and Belden, p. 47).

Following Patterson's procedures meant a never-ending round of motivational and educational talks to groups of salesmen. These were conducted with a chalk board upon which Watson would write the words, phrases and slogans driving home the day's lessons. One of his frequent phrases was "DO RIGHT." On one occasion as he tried to emphasize a point he surprised himself by writing "THINK" on the board. Patterson happened to walk by while the session continued. Spotting the word THINK, Patterson was moved. He later ordered it printed on signs which were to hang in every room in the company. Later THINK would grace the walls of IBM offices.

### **ANTITRUST, MARRIAGE AND UNEMPLOYMENT**

In 1910 Patterson fired NCR's general manager and a number of other top executives. "Watson was one of the few to be spared, probably because he was too valuable a man to lose. But he was exiled to Manhattan for a period. Then he returned to Dayton with the title of sales manager" ( Sobel, p. 42).

His return coincided with an antitrust suit brought against NCR by

the rival American Cash Register Company. In 1912 the federal government joined in the suit. The trial began in Cincinnati and attracted national attention. "James Cox, a former newspaper publisher and long time enemy of Patterson was governor-elect of Ohio and he made no secret of his desire to see the NCR chief behind bars. The press in general appeared to feel that Patterson was guilty, as much for his arrogance and dictatorial methods as for anything else. But even without this negative atmosphere, the evidence was damning ... The government produced evidence that NCR salesmen had interfered with and sabotaged their rivals, along with a string of snappy statements Patterson was alleged to have made about the way he did business. ' We do not buy out. We knock out,' was typical of the genre ... Watson ...remained in the background ... But the evidence showed he was involved ...(H)e denied wrongdoing and his defenders later would observe that such operations as those he headed, while technically in violation of the statutes, were commonly accepted business practices of the period " ( Sobel, p.44). The thirty NCR defendants were found guilty on February 13,1913. Both Patterson and Watson received one year jail sentences and \$5,000 fines.

NCR immediately appealed the case. While awaiting action on the appeal, the thirty-eight year old Watson married twenty-nine year old Jeannette Kittredge. Kittredge came from a prominent Dayton family which lived across the street from Patterson. Patterson was so pleased with the marriage that he gave the couple a new house as a wedding present.

Shortly after the marriage Dayton was struck by a devastating flood that left 90,000 persons homeless. Patterson took charge of the rescue effort and sent Watson to New York to arrange for the shipment of emergency relief supplies. Both Patterson and Watson received widespread publicity for the effort and the good will thereby generated led to petitions to have the antitrust case settled without sending the men to jail.

With the antitrust decision still pending, Patterson somewhat predictably fired Watson. The action was predictable in the sense that Patterson had a history of firing strong executives when they became too prominent or too independent. Watson was completely loyal to Patterson - loyalty was a virtue that Watson valued highly. But Watson had shown independence in running his part of the business. Worse yet, he had received much personal publicity for his handling of the flood relief effort and that kind of press could be expected to irritate Patterson. " A difference over sales policy was the occasion of the final break. Patterson decided to change a policy,

and Watson opposed him, saying his idea would cut sales in half ... The battle was carried on in full view of the company and at one time Patterson was so rude to Watson before the board of directors that Watson threatened to resign. When a reconciliation was offered, Watson went back to his desk, but nothing was the same afterward... (W)ithin two or three weeks, Patterson asked him to leave" (Belden and Belden, p.86).

"Watson left NCR with \$50,000 in the bank and a feeling of abandonment. He had seen men fired for whimsical reasons, yet could not seem to relate the knowledge to his own fate. NCR was his home, his life, his world. To be ejected from the company...was completely demoralizing" ( Rodgers, p.69). But out of the hurt emerged the resolve to outdo his mentor. "I am going out to guild a business bigger than John H. Patters," he told his numerous friends ( Belden and Belden, p. 87).

Despite the affront, Watson continued to respect Patterson's genius and to look fondly on the "good days" at NCR. And he continued to maintain friendships with numerous old NCR salesmen. "For over twenty years after he left Dayton, Watson kept track of his NCR salesmen. They were always welcome in his office; and when some of them fell upon hard times in their old age, he supported them, gladly, too, not only for those whom he might have felt some responsibility - men who had been involved in the second-hand business or had a hand in starting him on his way up - but many others" ( Belden and Belden, pp. 283-284).

### **PRESIDENT OF A NEW COMPANY**

The unemployed Watson took his time in finding a new job. He was offered positions at several large corporations and was approached by a venture capitalist willing to back him in a business of Watson's choosing. He accepted none of the offers. Instead he searched out Charles Flint and asked I Flint might have an attractive opening. Watson had heard Flint speak many years earlier and for some reason thought him to be the type of person for whom he would like to work. Flint was a financier who involved himself in a variety of ventures including submarines and electric automobiles. At the time Watson approached him, Flint was planning to put under one management a collection of companies that he had acquired.

"Flint found Watson ...something different from the common breed of combative personalities of the period. Somewhat gleefully predisposed to piracy himself, Flint saw in Watson a mystic who could learn, imitate, improvise and pour limitless energy into an

undertaking, doing whatever was effective or required and ascribing to it all a measure -a condition - of truth and goodness" (Rodgers, p. 72). After a period of negotiations, the two men came to terms. Watson would be hired to run the daily affairs of the collection of companies that Flint was bringing together under the name of Computing-Tabulating-Recording Company (C-T-R). An older gentleman, industrialist George Fairchild, would be chairman and chief executive officer. But Watson would run the daily affairs of the business with the title of general manager until the antitrust case was settled. If the case were settled on favorable terms, Watson might then be named president.

Watson was hired in 1914. The antitrust appeal was settled by a consent decree in 1915. Watson, himself, refused to settle because he felt to do so would be an admission of guilt and he preferred to have the courts clear his name. But the federal government was satisfied with NCR's signature on the consent decree and the case against Watson was dropped. The C-T-R board of directors named Watson its president at the next board meeting.

### **THE SITUATION AT C-T-R IN 1914**

C-T-R consisted of three basic parts. One, International Time, manufactured time clocks used to record hours of work by employees in factories and offices. A second, Computing Scale, manufactured scales used to weigh and measure both consumer and industrial products. A third, Tabulating Machine, manufactured machines which used punch cards to process data and print the results.

International Time produced the bulk of the company's revenue and profits in 1914, but Watson looked to Tabulating Machine to provide the biggest share of future growth.

The three components themselves had subsidiaries. In total there were ten separate companies, each with its own board of directors. And each had an independent attitude. It was clear to Watson that he would need time to change the situation and he decided to proceed cautiously. " Watson during his first years in his new job, elected to remain in the background, giving the spotlight to others - Fairchild, the presidents of the subsidiary companies, star salesmen. He assumed this calculated anonymity for two reasons: with dissension rampant in the company, he wanted to avoid becoming the center of controversy; and he needed to free himself to concentrate on the big, overall problems of personnel, organization and finance which had to be solved or the company would flounder" ( Belden and Belden,

p. 101).

Watson decided to begin the process of creating a unified organization by remaking the part he saw having the brightest future. He opened a general sales office for Tabulating Machine near C-T-R headquarters in New York. He had himself appointed president of Tabulating Machine (while continuing as general manager of C-T-R). And then he went to work to remake Tabulating Machine into an improved image of what he had seen at NCR.

### **REMAKING TABULATING MACHINE**

In selecting Tabulating Machine as his base of operations, Watson had to take on the firm's founder, Herman Hollerith. Hollerith was the brilliant inventor of the process whereby machines could punch data onto cards, sort them and read them, printing the results on paper. Hollerith's machines were originally developed to speed up census counts. There subsequently developed a demand for the machines by railroads, electric utilities and a few other commercial accounts. Hollerith's firm was the industry leader when Hollerith sold the business to Charles Flint in 1910. But by 1914 a rival firm started by government employee James Powers threatened to overtake the Hollerith operation. Watson was convinced that Herman Hollerith was no longer able to meet the technological challenge and therefore replaced him as president of Tabulating Machine. Watson then established a research unit and gave it the responsibility of developing new machines superior to those of Powers.

In the long run that research effort proved to be a key decision. But in the short run Tabulating Machine was able to provide a decent cash flow without new machines. In part this was due to the fact that the machines were leased so that machines placed in service in earlier years continued to generate an income for C-T-R. And most of that income came not from the lease payments, but from the sale of punch cards to be used with the equipment. Seventy-five percent of Tabulating Machine's income came from the sale of the cards.

"Watson's objectives were clear and simple. He hoped to create a sales force in the NCR mold, produce advanced machines superior to those of any rival, and by wedding the two become the prime mover in the office machine industry" (Sobel, p. 56). With a start made on the research side of that strategy he turned his attention to the sales force.

Included in the techniques to be used were those which had worked so well for NCR -high commissions, superior training, exclusive territories, meaningful quotas, and the creation of a corporate culture that inspired loyalty. There were also a few changes. One was a commitment to ethical standards in selling that were far above those practiced by Patterson. A second was a commitment to what amounted to lifetime employment for all but the poorest performing employees.

The men at C-T-R might be excused if they doubted Watson's sincerity on the matter of ethics. He had, after all, implemented NCR's questionable practices. But, as Belden and Belden point out ( pp.96-97):

*"Within three months of joining the company, Watson effectively demonstrated the sincerity of his stand by concluding an agreement between the Tabulating Machine Company and its competitor Powers Accounting Company. Herman Hollerith, inventor of the tabulating machine, had been interested only in the electrical application of his idea; and when he failed to patent the mechanical version, his one-time foreman, James Powers, took up that line of development himself and before long had machines superior to Hollerith's. But the men backing Powers found that his system infringed several of Hollerith's patents.*

*'Mr. Watson, you are in a position to put us in business or put us out of business,' Watson remembered one of them saying to him; and he always pointed with pride that a license agreement was promptly concluded. Later, when a fire destroyed Powers' card stock supply, Watson helped the company obtain card stock during the emergency."*

Watson took personal responsibility for creating a new corporate culture at Tabulating Machine. His favorite method was the pep talk, delivered to small groups and large, wherever and whenever he could find an audience. Corny as his talks might seem to an outsider, they worked. As biographer Rodgers reports ( pp.79-80).

*" What was felt by those to whom the sermon was addressed was the fire that feeds on newly evoked desires, on the vision of being held in high esteem and of being materially rewarded for work.*

*Before long the growing admiration of the men was channeled into song, for a crusade is part chorus. And so they sang, to a melody no longer remembered, the words that praised the man - Watson; the company - C-T-R; the virtues of honorable heroes; the spirit of playing the game; and how to make it all worthwhile in terms of pay and profit ...*

*Under the spell of the camaraderie that replaced earlier insularity and distrust, Watson got on well with the men in sales and ...income brought in a profit of \$1,313,062 during Watson's first year."*

The emotions unleashed by Watson's pep talks were coupled with training programs, quota systems and generous commission plans. Like Patterson, Watson insisted that his men learn to sell service rather than hardware. " Don't sell machines, sell results ...emphasize applications, not hardware, the WHY not the HOW" (Belden and Belden, p. 166). That was Watson's message to his men.

Unlike Patterson, however, Watson continued his emphasis on the individual employee making full use of his unique talents. That emphasis was most dramatically presented in his famous speech known as "The Man Proposition." In that speech he would write the following list on a blackboard:

The MANufacturers

General MANagers

Sales MANager

Sales MAN

Factory MANager

Factory MAN

Office MANager

## Office MAN

Then he would turn to the audience and say, " We have to deal with just one thing throughout the whole organization... MAN" (Sobel, p. 59).

While preaching individualism, Watson, in fact favored a standardized appearance and approach. Through selection and training he forged a sales force that believed in and practiced the C-T-R system, making only minor variations to capitalize on individual strengths.

### **GROWTH OF C-T-R: 1914-1924**

A decade passed before Watson assumed full control of C-T-R. During that decade the company experienced good growth of sales and profits. In fact, during Watson's first four years company profits doubled, with much of the increase coming from the sale of punch cards for tabulating machines. Contributing to the growth was Watson's insistence on reinvesting all profits for the first few years. That proposal was opposed by chairman Fairchild who represented a group of investors looking for immediate dividends. But Watson secured Flint's backing and made his long run approach stick ( Belden and Belden, p.100). The dividend was reinstated in 1916. By that time cash flow was good enough to enable Watson to start new construction and increase inventories in preparation for a new sales push ( Sobel, p.64).

By 1919 Watson was ready. The sales forces of the three divisions had been brought together making it possible for Watson to train and motivate them all. The first fruits of the research effort were ready for marketing in the form of a new printer-lister. And in Watson's view C-T-R had taken the lead in terms of both technology and sales ability. Finally, there remained a huge untapped market of businesses for which the company's machines would represent a wise investment.

When a recession failed to occur at the end of World War I, Watson committed C-T-R to the ambitious expansion program. The capital required exceeded the company's cash flow and Watson floated a new bond issue and took out short term loans which were used to expand inventories. Then disaster struck!

The national economy entered a sharp recession in 1921 and C-T-R's revenues declined by one-third. " Watson was obliged to

institute a cost-cutting program, not only slashing away at deadwood, but also discontinuing some of his most prized programs. The research and development division was virtually eliminated and wages for everyone at C-T-R, from the president down were cut by 10 percent. Some of the salesmen were furloughed ... (and) in a moment of despair Watson even stopped production of the new printer-lister, though demand remained strong, as he concentrated on slashing inventories in order to keep the firm afloat and solvent ... (That C-T-R was able to survive was due in part to Watson's success in retrenchment and keeping creditors at bay)" ( Sobel, p.66). Watson experienced an additional 40 percent cut in his own pay because of the profit-sharing formula with which his compensation was calculated.

The 1921 brush with bankruptcy had a permanent effect on Watson's management policies. "Never again would he permit C-T-R's cash position to fall as low as it had in 1919 and 1920. He would maintain a policy of low dividends, high reserves and careful cost controls. Not for another four decades would the firm make so large a wager on the success of a new line as it had in 1919 and 1920. Watson would expend large amounts of money on research and development, but his company usually lagged when it came to the introduction of new products. Others would blaze the trail, while Watson took careful note of what happened. Then, if all went well, he would enter the market with his version and try to take sales away from the innovator" ( Sobel, pp. 67-68).

### **A WATERSHED YEAR - 1924**

By 1922 the company had weathered the crisis and rapid growth resumed for two years as Watson continued the process of gradually remaking the company in his image while being careful to humor chairman Fairchild. That situation finally ended in 1924. The year began with the board accepting a proposal from Watson to change the name of the company to International Business Machines ( IBM). And the year ended with Fairchild's death. The board immediately abolished the position of chairman and gave Watson the title of chief executive officer to go along with his presidency. " At last his apprenticeship, the long period of imitation and subordination, was over. At fifty Watson found himself in control of his business for the first time, a control no less absolute because it was based on his record and personality, not on his stock ownership" ( Belden and Belden, p. 126).

From 1924 on Tom Watson was a benevolent despot as chief executive officer at IBM.

## THE NEW CORPORATE CULTURE

Watson moved quickly to complete the creation of a new corporate culture. Employees throughout the company were now encouraged to become enthusiastic, loyal, cooperative team players and idealists. "You cannot be a success in any business without believing that it is the greatest business in the world," he told them over and over. And then he added, " You have to put your heart in the business and the business in your heart" ( Belden and Belden, p.27). These messages were presented at company meetings at all levels, meetings that began with a prayer and had the air of a revival meeting.

A major element of the new IBM culture was loyalty. Watson considered it the key to building a family spirit within the company. And so he demanded and gave it. " At one time or another he touched the lives around him in an unforgettable way - arranging hospital care in an emergency, driving miles to family funerals, lending money when it was needed. What moved people deeply, in a way they never forgot, was not so much what Watson did...but the sign of genuine concern...More than a pronouncement or policy, his kindness created the family spirit in IBM and was the cement of the company" ( Belden and Belden, p.149).

Kindness was not to be confused with friendship. In his view, " A personal friend can be a liability as a business associate ... All of us must remember never to let personal friendship guide us in making decisions. Not only can it harm the man you are trying to help, but it can harm you" ( Belden and Belden, p. 142). At work Watson was always addressed as "Mister", and he deliberately maintained a certain amount of aloofness.

Kindness was also not to be confused with the absence of anger. "Besides ... uncontrollable burst of temper, he got angry in a calculated way, to stir his men to greater effort. His job as executive was to be an assistant to his men, Watson always said - to bring out the best in them. And one of the ways to accomplish this, he believed, was the electric shock method which kept his men on their toes" ( Belden and Belden, p146).

Watson's concept of loyalty showed up in several labor policies. There was the promotion and firing policy. Promotion from within was the rule and the company underwrote a comprehensive training program to give every employee a chance to rise to his or her highest level of competence. And there was job security for all but the poorest performer, although, " Watson ... developed a technique

of firing within also known as the lateral promotion - movement without advancement" ( Belden and Belden, p.138). On those occasions when a man had to be fired, Watson could not bring himself to do it personally and would instruct another executive to break the news.

The job security policy applied to those rare occasions when sales revenue fell sharply. That occurred in 1921 and, because he reported to Fairchild, Watson had been forced to lay off employees to protect the stockholders. But after 1924 the policy was to keep employees on the payroll and sacrifice short run profits. Watson justified this on pragmatic grounds. He argued that the expenditure on training people and socializing them into the IBM culture was too great an investment to permit them to be laid off.

### **THE FIRST TEN YEARS IN FULL CONTROL: 1924-1934**

From 1922 to 1931 IBM's sales revenue rose steadily from \$10.7 million to \$20.3 million. Profits followed the same pattern, rising from \$1.4 million to \$9.1 million.

The expansion was driven by a standardized sales force selling the services of a standardized product line. The product consisted of machines that processed and presented large amounts of data. Consequently the customers were mainly larger businesses and government agencies. The salesman's job was to visit the manager, " ... and offer to analyze his operations on a non-commitment basis. If he was invited through the door, he would attempt to show how the use of IBM machines would speed the gathering of data, increase the efficiencies and cut costs. Watson's men would tailor-make a system for each business from existing components. If all went well the main office would be called in to arrange leasing terms and these, too, were fitted to each individual need. IBM-trained technicians would install the equipment accompanied by a service representative who would be on call in case anything went wrong and would offer advice on how to best alter or add machines as the business changed" ( Sobel, p.76).

IBM's competitors sold their machines, but Watson preferred to lease. Leasing made some sales easier since the customer did not have to pay as much initially. Furthermore, the leases provided a steady flow of income. And by doing its own financing, IBM captured the finance charge. Income was further increased by requiring users of IBM machines to buy their punch cards from IBM.

The uninterrupted increase in sales and profits ended in 1932 when revenues began a two year decline. The unexpected downturn caught Watson in the midst of a program to increase manufacturing space by one-third and to substantially improve employee benefits. But Watson refused to cut back dividends or production. The unsold production went into inventory where it became a tool to sell IBM products to the federal government's New Deal in 1934. " The early New Deal was a massive attempt to reshape important aspects of the American economy and society and all this required elaborate statistics, accountings and enumerations, the kinds that IBM machines had been performing for the private sector in the 1920s. ... IBM had an edge in the competition, in part because its machines were the best suited for this kind of work but also because it had good relations with government bureaucrats ... Moreover, IM was able to deliver machines from inventory whereas other companies usually could not" ( Sobel, p. 86).

It was also during the early 1930s that Watson became concerned about labor unions. "In theory he had nothing against organized labor. He always believed and publicly said that unions had a legitimate function to perform where they were needed. But unions did not fit into his ideas about the IBM family. Without them Watson gained two advantages: a direct unmediated relationship with the worker, whose loyalty went to the company, not the union and a greater flexibility in the use of his labor force. To remain without unions, Watson thought, IBM had to give more benefits to its workers than unions were demanding; and so labor conditions in the company, heretofore not much different than those in other plants of its kind, began to improve markedly"

( Belden and Belden, p. 151).

Wage rates rose to almost fifty percent over the national average for manufacturing by 1932 (a decade earlier IBM's wage rates had been BELOW the national average). A regularized pension system was introduced, low rate life insurance was added, and in 1935 the first IBM country club for employees was opened.

It was also in 1935 that Watson eliminated piece work. "He was opposed by nearly all the management of the factory; but, convinced that quality, not quantity, was the issue ... he took an arbitrary stand about the matter, the first, he said, he had been forced into since coming to the business... In the end he was vindicated: production costs were reduced markedly and quality steadily improved" ( Belden and Belden, p. 152).

## **WATSON BECOMES AN INTERNATIONAL CELEBRITY**

### **AND IBM TAKES OVER LEADERSHIP OF ITS INDUSTRY:**

**1934-1946**

During the 1930s IBM passed its major rivals in the business machines industry to become the leader by a small margin. In 1928 IBM's revenues and profit were far smaller than those of Burroughs, Remington Rand and National Cash Register. By 1939 IBM had passed all but Remington Rand in sales and was far ahead of all competitors in terms of earnings and assets.

New products and superior marketing produced that performance. Included among the new products were a new alphabetical tabulating machine introduced in 1932 and electric typewriters. IBM entered the electric typewriter business by purchasing a small firm known as Electromatic Typewriter. Underwood was the leading typewriter firm at the time, but all of its models were mechanical and it was slow to enter the electric segment of the market. By the time it did, IBM held an unbeatable lead.

In addition to the by then well-honed sales techniques, the marketing effort added a new dimension --- publicity. It was during the thirties that Watson became an international celebrity. Watson was a life-long backer of the Democratic Party, actively backed Roosevelt in the 1932 presidential campaign, and became a confidant of the newly elected President of the United States. Roosevelt began to use Watson to communicate with the business community. And Watson became a prominent national figure.

Watson's public image was enhanced in 1937 when he became president of the International Chamber of Commerce. A great believer in arbitration as the way to settle disputes and maintain peace in the industrial world, Watson set forth to make arbitration a tool for world peace. He naively approached Hitler and Mussolini in this spirit and was fooled into believing that both men were seriously interested in the peaceful settlement of the issues threatening to lead to war. Both Germany and Italy bestowed medals on him and Watson for a while became an admirer of the two dictators. When war did break out and he realized he had been fooled, he returned his awards. For the rest of his life he was reluctant to receive awards for fear that his name would be used in

some unwanted fashion.

Watson's disillusionment with Hitler and Mussolini did not deter him from continued involvement in world affairs. He became a leading advocate of the United Nations after the war. He provided financial support for those striving to make the U.N. work; he served as a representative to the Assembly; he sponsored cocktail parties, dinners and trips to the opera in support of U.N. fund raising efforts. And he spoke to public gatherings both in Europe and the United States. "American diplomats abroad praised him for refuting the European image of American businessmen, and Secretary of State Cordell Hull told him, 'Through your constructive interest in foreign affairs you have made a marvelous contribution to the country' " ( Belden and Belden, p. 216).

In addition to the gratuitous publicity, Watson paid for other publicity aimed at the American business establishment. After having disdained to use advertising for his entire career, he began to place ads in the nineteen-thirties. But his ads were institutional ads designed to create an image that would facilitate later sales. To further enhance the image, in 1935 he began publication of a slick magazine of serious thought named THINK. Circulation rose to 60,000 just before World War II (Belden and Belden, p.172).

There was also a bit of negative publicity. "In 1935 the government began publishing a list of the leading salaries in the country beginning with the fiscal year of 1934. That year Watson's salary was the lowest it had been since 1926, but, much to his mortification, he found that it was first in the country...With millions of unemployed in the country Watson became the focus of a national debate about the justice of large incomes..." ( Belden and Belden, p. 189).

Another bit of bad publicity came from an antitrust suit brought against IBM and decided by the United States Supreme Court in 1936. IBM was found guilty of violating the antitrust law by requiring users of IBM machines to purchase the punch cards from IBM. Watson thought this a perfectly logical and legal practice, but with IBM having almost 80 percent of the business, it was perhaps inevitable that the Court would find the firm guilty. The remedy was to require IBM to drop its requirement of exclusive use of IBM cards with IBM machines.

## **SUCCESSION**

It was Tom Watson's hope that his sons, Tom, Jr. and Dick, would eventually come to work at IBM. And it was generally assumed that Tom, Jr. would be the one to succeed his father as president of IBM. After earning a degree at Harvard in 1937, Tom, Jr. was hired by IBM, sent through basic training and then given a sales territory in Manhattan. He made his quotas easily but raised some concern on the part of his father by spending much time in nightclubs, skiing and yachting. In 1940 Tom entered the Army Air Corps as a private. He became a pilot and spent the war years ferrying planes across the Atlantic. By the time he was discharged as a lieutenant colonel he had become totally serious about achieving a distinguished career at IBM. Returning to the company he was placed in a one year intensive executive training program and then was given an assignment in the company's computer development program. Two years later he was made executive vice president. Watson, Sr. moved to the newly created position of chairman of the board and chief executive officer, and John G. Phillips was named president. In effect, Phillips was serving as a "regent" in preparation for Tom, Jr.'s elevation to the presidency. In 1952 Phillips retired and Tom, Jr. became president. Four years later Tom would become chairman and chief executive officer.

Tom's younger brother, Dick, returned from World War II military duty to finish his college degree. He then went through the IBM sales training program, gained sales experience, and was eventually put in charge of a newly organized IBM subsidiary. Called IBM World Trade Corporation, the new entity was responsible for all IBM operations outside the United States. The company had begun manufacturing operations in Europe in the nineteen-twenties and by 1940 had production facilities or sales agencies throughout the world. There was even a production facility in Japan, started in 1937. But all of the foreign business together was small in terms of the corporate total. Dick Watson's job was to turn the foreign operations into an engine of growth. So well did he do that job (with a great deal of goading and guiding from his father) that World Trade eventually passed the U.S. operations in sales revenue.

## COMPUTERS

IBM's major challenge after World War II was computers. The company had been a pioneer in the field due in large measure to Tom Watson's leadership. That, in turn, was due to his thinking regarding universities. "Watson...was one of the first men in his industry to realize that the right kinds of connections at institutions of higher learning could be good business as well. Such places could provide IBM with a small but significant market for its products and

also be a source of concepts which might be used in the development of new machines and techniques" ( Sobel, p.96).

Because of that attitude Watson was the only business executive to respond to a request for help from psychologist Benjamin Wood of Columbia University. Wood wanted to develop a test scoring machine and had contacted every firm that might be in a related business. Watson ended up funding a research project for Wood. Out of that project eventually emerged the 805 test scoring machine and a decision to expand the relationship. "By the mid-1930s the Columbia University Statistics Bureau had received millions of dollars worth of equipment and grants from IBM, while at the school's Thomas J. Watson Astronomical Computing Bureau several scientists, led by Wallace Eckert, were adapting tabulators and accounting devices designed for use in offices and banks for utilization in the study of the stars and planets" (Sobel, p. 96).

A young Harvard University professor, Howard Aiken, learned of the work going on at Columbia and asked IBM to support his efforts to build what became known as a computer. A half million dollar grant got the project under way in 1940 and by 1943 the machine, called the Mark I, was ready for demonstration. Watson continued to fund work by Aiken and other outside researchers, but also decided that the company's major effort to develop a commercial computer would be done within the company.

After the war a team at the University of Pennsylvania invented an electronic computer that surpassed all competitors. The developers, J. Presper Eckert and John Mauchly, were terminated by the university for lack of scholarly output and the two decided to turn their invention into a business. They offered the business to IBM. Watson turned them down. Eckert and Mauchly then took their proposal to Remington Rand which bought the business. The resulting computer, known as the UNIVAC, was delivered to the first customer, the U.S. Bureau of the Census, in March 1951. At that point Remington Rand had a clear lead in the fledgling commercial computer industry.

Tom Watson did not panic. "(H)e seemed content to permit research and development to proceed (slowly) and even put together some models for demonstration purposes or to fill government orders. If copies of these would be leased to old clients, well and good. He held back on a full-scale effort, however. Why do otherwise? The market for his 600 line of electronic calculators was expanding rapidly; by late 1950 IBM was placing them at the rate of 40 a month, and the number reached 100 a year later. His customers

wanted these kinds of machines, not the huge, expensive computers" ( Sobel, p. 115).

Tom, Jr. had a different view. He was concerned that IBM might fall too far behind in computer technology and he pressed his father to make a major commitment to the development of technologically competitive computers. In 1949 Watson, Sr. agreed to fund such an effort. The first fruit was the 701 scientific computer which was well received by the market. But it was not as good as the UNIVAC I and Tom, Jr. convinced his father that IBM should make an all-out effort to catch up. "All this would take enormous amounts of capital. Retained earnings alone would not suffice; IBM would have to enter the capital markets to sell bonds, placing the company deeper in debt than at any time in its history. Meanwhile, additional resources would be needed to turn IBM's current lines of machines, most of which were meeting with good receptions. Finally, the company was making a great effort to expand overseas and this, too, would require large expenditures that might take years to recoup" ( Sobel, p. 124).

There were questions on Wall Street and on the IBM board of directors regarding the wisdom of incurring so much debt. But Watson backed his son and the commitment to a crash effort was made. By 1955 IBM was ready to take orders for an advanced computer known as the 702 and in 1955 placements began. Even more competitive models, the 704 and 705, were announced that same year. With a year IBM passed Remington Rand and took over industry leadership in terms of both computers installed and computers on order.

### **SUCCESSOR MANAGEMENT TAKES OVER**

Tom Watson, Jr.'s leadership in the development of computers was one of three visible signs that he was ready to replace his father as chief executive officer.

A second was the matter of organizational structure. "For years, IBM had been a one-man success ...But those days were gone forever. Whereas there had been only about thirty executives in the company in 1914, there were now more than a thousand and no one man, not even Watson, could watch over them all. Nor was he able to supervise two thousand salesmen by going over their daily call reports as he insisted he could ... These truths Tom Watson, Jr. saw, and it was he who undertook to persuade his father that the company had outgrown its former organization" ( Belden and Belden, pp. 241-242). Tom, Sr. was reluctant to permit the decentralization his son insisted on. But he gradually allowed it to occur and by the time of

his death in 1956 the company was well on its way to being restructured into autonomous divisions with a line and staff structure.

Tom, Jr.'s third major act of independence occurred when the federal government filed another antitrust suit against IBM. The suit was filed in 1952. It charged IBM with monopolizing the tabulator and card markets and demanded that IBM sell as well as lease the machines. The most logical approach for IBM was to sign a consent decree. "But it was not an idea Watson (Sr.) could tolerate... He was afraid of being tinged in the public eye ...He would not yield ... the technicalities of the case didn't interest him; it was the justice of it, the apparent violence to personal principles that offended him" (Rodgers, p. 230). Tom, Jr. saw the situation entirely differently. To him it was imperative that IBM settle the suit quickly and get on with the more important business of maintaining industry leadership. After failing to get his father's formal agreement, he decided to sign the consent decree anyway. "While in court to sign the decree, Tom Watson received a terse, typical note from his father" ( Sobel, p. 144):

100%

Confidence

Appreciation

Admiration

Love

Dad

In May of 1956 eighty-two year old Tom Watson, Sr. relinquished the chief executive position at IBM while retaining the title of chairman. A month later he suffered a heart attack and was taken to the hospital. He died on June 19<sup>th</sup>.

## CONCLUSION

Tom Watson died still hurting from the government antitrust action. But, "If he thought society had condemned him ...(he) was wrong. TIME magazine called him ' one of the first of a new breed of U.S. businessmen who realized that their social responsibilities ran far

beyond their own companies,' and the NEW YORK HERALD TRIBUNE said he was,'a man who could well stand as a symbol of the free enterprise system.' President Eisenhower mourned him as a friend and 'an industrialist who was first of all a great citizen and a great humanitarian ' " (Belden and Belden, p,. 314).

"Throughout the country he was praised for what he left behind ... IBM, ...a new kind of salesman, (and) his slogans THINK, and WORLD PEACE THROUGH WORLD TRADE" (Belden and Belden, p. 314).

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