Lenovo-IBM: Bridging Cultures, Languages, and Time Zones
Integration Challenges (B)

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This case was written by Günter K. Stahl (Professor of International Business, WU Vienna and INSEAD) and Kathrin Köster (Professor of International Management and Leadership, Heilbronn University)
Post-merger Integration

While the synergies between Lenovo and IBM looked great on paper, the roadblocks to making Lenovo–IBM the PC industry’s world leader remained formidable. Not only would the process need to merge two companies with vastly different business models and cultures across 12 time zones, but the combined company needed to stay constantly competitive in the fast-paced PC industry. Michael Dell, the chairman of Lenovo’s main rival, asserted: “It won’t work”. Most observers agreed.

But Lenovo’s top executives vowed to prove these skeptics wrong. Their vision for the new Lenovo was to create a computer powerhouse that would combine the best of both worlds and thereby reinvent the entire global PC industry. As Lenovo executives stated: “….What Lenovo brings to the table is the best from East and West. From the original Lenovo we have the understanding of emerging markets, excellent efficiency and a focus on long-term strategy. From IBM we have deep insights into worldwide markets and best practices from western companies”.

This best-of-both-worlds integration approach could work if the combination represented a partnership rather than a takeover. Lenovo’s CEO Yang repeatedly stressed his perception of the IBM deal as a “marriage of equals,” based on trust, respect, and compromise. Yang demonstrated his willingness to compromise right from the start: He stepped down as CEO to make way for IBM’s Steve Ward, while he became chairman. Yang also accepted Ward’s proposal to locate the new headquarters in New York, rather than establishing dual headquarters in the United States and China. Lenovo’s new global headquarters took up the top floor of a nondescript office building outside the city; the IBM PC division’s staff mainly continued to work out of their existing site in Raleigh, North Carolina.

Despite the seeming friendliness of the deal, cross-border problems soon emerged. Simple geographical distance was a major barrier: The flight from Beijing to New York took 13 hours and crossed 12 time zones. Without any direct flights from Beijing to Raleigh, North Carolina, that trip took an additional few hours. Making the trip, in either direction, for a day of meetings or workshops was not possible, and any gathering or information exchange had to be planned weeks in advance to make the trip worthwhile. The thousands of miles separating the company’s main locations made exchanging information about best practices incredibly difficult. The regular business hours of New York and Beijing overlap only for three to four hours each day; if the company needed to include European colleagues, the operation became nearly impossible—or required employees to arrive at the office at very odd hours.

Even as they racked up miles of travel and readjusted their alarm clocks, the management teams on both sides continued to view the deal as an opportunity to learn. They displayed a genuine and remarkable willingness to set aside their own egos and make decisions in the best interest of the combined company. As one former IBM executive recalled: “Where the Chinese approach worked best, we borrowed it, and where the IBM approach worked best, we borrowed that. Or maybe an outside approach. The point was to do the right thing ... because the fundamental mission [was] to be seen as a global corporation, not a Western and not a Chinese company. And wherever we could get ideas or implement tools that advance that idea, we did”.

This pragmatic and learning-oriented approach also featured what appeared to be an honest enthusiasm for creating something new and better. Ravi Marwaha, the Indian-Australian in charge of running Lenovo’s worldwide sales, admitted, "I spent 36 years in
IBM. I could easily have retired. Why am I here? Because it is exciting\(\text{mil}\). Another senior Lenovo executive explained, "We are the first of this kind in the world, and I think people are authentically and genuinely excited about being in a place that is very fresh, and young, and new.... It is an experiment and something that has never been done before, and there is no company like us in the world”.

Such enthusiasm might have been expected from Lenovo, given that it was Lenovo that had acquired IBM’s PC business. But the general sense of excitement also seemed shared among the IBM PC executives, who had for years felt like the unpopular stepsister in their former company. That is, IBM considered hardware a peripheral business and thus made few investments in the PC division. With the merger, the PC division became a core business again, if for Lenovo.

This positive attitude spanned various levels of the organization. In the first days of the new Lenovo, people took creative steps to bridge their geographical distance. IBM sent camera teams to Raleigh and Beijing, to enable video greetings to various counterparts around the globe. In the call center in Raleigh, employees filmed themselves throwing their IBM badges into the trash. Frances O’Sullivan, the COO of Lenovo International, initiated a program called the “Trash Bin Project,” which encouraged ex-IBMers to submit examples of what they had done in their previous work life but did not want to do in the new Lenovo\(\text{v}\).

Creating a Structure

The new Lenovo started with three separate business units: China PCs, China Cell Phones, and International Operations (former IBM PC division). In this sense, business continued much as usual for the IBMers, except that project teams formed to support different functions, such as sales, finance, and order management. The project teams consisted of former Lenovo and IBM managers and took the responsibility of preparing the further integration of the functions.

Yang Yuanqing announced a managerial restructuring on September 30, 2005. Top management jobs would be split approximately evenly between the Chinese and Western sides (see Exhibit 1 for an overview). One-third of the board members would be from Hong Kong (where Lenovo is registered); another one-third would come from the United States and Europe; and the rest would be from China\(\text{v}\). This restructuring aimed to provide a framework for further integration, but it also was designed in accordance with Lenovo’s goal of joining the league of global technology powerhouses, in that it provided a multinational management team spread across national boundaries and several time zones.

The new management structure then led to closer integration in functions such as supply chain management, planning and control, product development, and marketing. In support of its global supply chain, the company applied a unified IT system that enabled it to ship directly to 100 countries, usually with products configured to order\(\text{vi}\). In the wake of this integration, corporate headquarters moved from New York to Raleigh.

But the integration also meant some redundancies, especially in IBM’s sales structure. Therefore, layoffs announced in March 2006 affected approximately 1,000 of the company’s 21,400 employees. The cuts spread across company offices in the Americas, Asia-Pacific, and EMEA regions\(\text{vii}\).
The functions integrated, headquarters moved, and managerial responsibility was being shared. Yet without a common language and shared values, it would be impossible to form a unified, global management team.

A year before the acquisition, Lenovo had launched a major campaign to improve the English language skills of its managers and employees. Most of the company’s senior Chinese executives could speak some English, though not all were able to do so fluently or with sufficient ease to support effective working relationships. Few of the lower-level managers were fluent in English. Of the IBM managers, virtually no one had even rudimentary knowledge of Mandarin. These immense language barriers led to lengthy meetings and frequent misunderstandings. For example, one of the most senior executives did not speak English, so board meetings had to include a translator. Yet the company determined that English would be its corporate language.

The language barriers seemed obvious from the start; less apparent were the widely divergent preferences regarding communication styles. Especially tricky were conference calls, which offered no visuals to help participants interpret the true meanings and nuances of others’ verbal comments. Bill Matson, the HR Director of Lenovo, observed:

“IBM leaders would do most of the talking and the Lenovo leaders would do most of the listening. The Chinese, and Asian cultures in general, are much more silent in a conversation. They first think about what they want to say before they say it. And if you think about what you want to say before you say it, and you also translate it from your native language into English … you can understand that a 5 second or a 7 second gap in a conversation is not a long time. Yet, to a Western person, 5 seconds silence in a conversation seems like an eternity. So, often times what you would see in meetings is that the Western leaders would be filling in the gap in conversation, and therefore would dominate these discussions, and all too often would not spend as much time as they probably should have seeking out the perspectives and experiences of their Lenovo colleagues”.

These differences in communication style were not just frustrating; they affected decision-making and problem-solving quality.

Therefore, the company instituted several programs, designed to overcome such barriers. The “East Meets West” program taught the company’s global executives about the foundations of both Chinese and American cultures. The “Lenovo Expression Workshop” targeted the Chinese managers—typically, pragmatic, hands-on people who were not strong communicators, according to Western standards. One Chinese manager explained, “When Chinese people talk, we start from the background, and then we ... talk about the present situation and the challenges that we are facing, and then we gather lots of supporting materials, so at the end we say ‘ok, this is our proposal.’ I guess this is different from what you call the Western approach: You have an executive summary at the very beginning, basically you tell what you want to tell on the first page”. The program coached Chinese executives in Western communication and presentation styles, with the ultimate goal of facilitating mutual understanding and helping the staff members collaborate more effectively.

Beyond these differences, the variance in cultural norms and values became something of an issue; the United States and China can be worlds apart, both literally and figuratively. In particular, their attitudes toward hierarchy and authority are widely divergent. As one former senior IBM executive observed, “Lenovo was a more hierarchically driven company…. You didn’t challenge authority quite as much, and the leadership was certainly
revered…. In IBM, you are probably a bit more process oriented, a culture that is a bit more accepting of challenges and bottom-up kind of thinking”. Another former IBM manager was surprised to receive, during his first meeting with his Chinese counterpart, gifts of a cell phone and a portable music player. He also noted a significantly greater level of attention to detail by his new Chinese colleagues viii.

For the American managers, these differences were notable; for the Chinese delegates, they often verged on offensive. For example, Yang and several other Lenovo executives arrived at John F. Kennedy International Airport in New York for their first planning meeting and found no representatives of IBM waiting to greet them. In China, any such high-ranking guests would have found not only counterparts at the airport to greet them but also a limousine to whisk them away to their hotels.

The potential for offense was mitigated somewhat by the commonalities in the corporate cultures—both sides shared strong beliefs in innovation, personal responsibility, and responsiveness to customer needs. Both sides also talked about the need for commitment. However, on this topic, the interpretations were rather different: “in Lenovo, planning before you pledge, performing as you promise, delivering your commitment is really deeply ingrained in the culture. And when people sign up for a plan, they execute it. And that was probably not as effectively implemented in the old company [i.e., IBM’s PC Division] that we bought”.

These ubiquitous differences were not limited to the relationships between the two companies; they also influenced customer relationships. The deal had been tailored to minimize disruptions and offer service as usual to customers, but some refused to work with the new entity. The U.S. State Department, citing fears of spyware in Lenovo computers, altered its use of some 14,000 PCs it had ordered from Lenovo ix. The bias against the Chinese company also reared its head in some former IBM sites; in Japan, the former IBM staff fiercely resisted the idea of Chinese ownership. The Japanese design team in particular expressed deep concerns about any attempts to change the look or feel of ThinkPad notebooks—a design inspired by a Japanese lunch box that had remained unchanged since 1992.

**Leadership**

A year into it, the “new” Lenovo could look back on some major achievements: It had launched its operations and brand in more than 65 countries, without any major disruptions to deliveries and support. No mass exodus of customers had occurred, as some had predicted. It managed to retain 98% of its employees. And it had gained global market share, including in BRIC countries, making it the world’s third-largest PC manufacturer, behind Dell and HP (see Exhibit 2 for an overview of global PC market shares).

Then, in December 2005, the skeptics felt a sense of vindication, because something had to be wrong: The American CEO Steve Ward resigned. Why did Ward last only eight months? Some guessed a personality clash with Yang Yuanqing—a man 10 years his junior who embraced a completely different style. Others speculated that Ward had been too accustomed to the “IBM way” and could not adapt to the new culture. Perhaps his departure marked the end of a power struggle between the Lenovo and former IBM executives, won by Yang. No one outside the company’s top management team knew the answer for sure, which kept observers buzzing. Whether the IBM deal would help Lenovo become the global market leader in the PC industry remained uncertain, but this incident certainly raised questions about Lenovo’s ability to build a strong multinational management team and successfully run a global business.
Exhibit 1: "New" Lenovo's Executive Team

Yang Yuanging
Chairman

Steve Ward
President and CEO

Deepak Advani
SVP, CMO

Mary Ma
SVP, CFO

Ravi Marwaha
SVP, Geographies

Liu Jun
SVP, COO Global Supply Chain

Frances O'Sullivan
SVP, COO Product Group

Liu Zhijun
VP, Mobile Business
Exhibit 2: Lenovo’s Market Share, 2005

Worldwide PC Shipments Market Share 2005

- Dell 18%
- HP 16%
- Lenovo 8%
- Acer 5%
- Fujitsu Siemens 4%
- Others 49%

Source: Adapted from Quech and Knoop (2006)
Endnotes

All interview excerpts were taken from Baumeister, B. (2009), Lenovo’s acquisition of IBM’s PC division: A success story of cultural post-combination integration? Unpublished master thesis, WU Vienna, unless referenced otherwise.


