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IBM: Building a Smarter Planet (Interview with Sandy Dochan and Jeff Tieszen)

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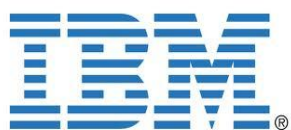
Building a Smarter Planet

The Interview:

On December 9, 2009, two officers of IBM – Sandy Dochen, Manager, Corporate Citizenship & Corporate Affairs and Jeff Tieszen, PR Manager, Western U.S., IBM Americas – consented to an interview for the JVBL at the company's Austin, Texas headquarters.

Q: *I understand that you (Sandy Dochen) are the Manager of Corporate Citizenship and Affairs with IBM. How long have you held that position?*

I have been with IBM for almost 12 years and this function has been around since before I was. It was called *Corporate Community Relations* and the name changed about two years ago to *Corporate Citizenship and Corporate Affairs*. We are part of the *marketing* organization so it involves marketing, communication, and citizenship. So we are now the "C" in the MCC.

Sandy Dochen, Manager, Corporate Citizenship & Corporate Affairs

Q: *It appears from IBM's 2008 Corporate Responsibility Report (CSR), that the company began concentrating its efforts in assessing the social and environmental – as well as the expected financial – impact of the company by the early 1970s. At a time when the Senate is contemplating the first climate control act in the United States (after have already being passed by the House), it appears that IBM acknowledged that there was a problem long before any other company of this size and global impact. Reviewing this entire report, it appears that the company uses the metrics of*

Jeff Tieszen, PR Manager, Western U.S., IBM

the Global Reporting Initiative to self-audit its performance?

While that is not my primary area, we certainly support it.

Q: *My inquiries transcend environmentally-related matters. How would you define corporate ethics and how would that definition apply to the operations of IBM?*

With respect to corporate ethics, a company has to run in the best interest of its shareholders, stakeholders, and customers.

Q: *How do you define shareholders as opposed to stakeholders?*

A shareholder is someone who is a stockholder, an owner of the company.

Q: *So someone with a financial interest?*

Yes. I have a financial interest in this company. I own a few shares. But it's not just bottom- line considerations alone – it's about the big picture, how I want to see the company run, how I want to be enabled to do things that the company sees is in the public interest – the world's interest – and how I believe that in my own belief statement. So if my own belief system intersects with that of the company's, then I am going to be much happier and productive and really believe in it. So as a shareholder, it is a share of the company's values to me as much as it is how many shares of stock I own.

Q: *There appears to be a growing trend with financial investors to identify more socially responsible stock and not simply calculate which companies will produce the largest dividend in the shortest period of time. Would you agree?*

Frankly, we have folks who talk to some of those socially responsible investors and that's an audience. That is a stakeholder or shareholder group who is very important.

Q: *Let's look at the demographics of IBM. IBM is headquartered in New York, however, there is this extensive complex here in Austin which I believe is replicated in Toronto, San Jose, and Boulder as well?*

We are in 170 countries with large facilities in the States. The largest one is Research Triangle Park in North Carolina. There are about 13,000 facilities. New York has the second largest which is located throughout the Hudson Valley, because that is where the company started. Third is Texas. We have about 11,000-12,000 people in Texas and about half of them are here in Austin. Fourth, I guess, is California. Boulder has a pretty good size facility and our facilities in Burlington, Vermont are or at least were the largest private employer in the state of Vermont. IBM is also in Rochester, Minnesota.

Q: *In light of this ubiquitous presence, would you say that a similar philosophy is shared throughout – that is, one permeated by the "triple bottom line" approach — one*

imbued with ethical considerations? Or do you believe that as a company grows larger and larger it becomes more difficult to maintain control and much easier to deviate from the standard?

No, I don't think so, because this company was grounded in these values before the early seventies.

Q: *And how about before the early seventies?*

IBM was the first company to take certain initiatives long before government regulation. For instance, IBM hired our first woman in the 20s and had the first woman vice president. IBM had a different voice; it hired minorities long before civil rights legislation. We used to have a big company, a big factory in Lexington, Kentucky, and in the fifties, it just declared to that state that it was going to integrate. On its own, IBM was determined to have an integrated diverse workforce. That was a little bit edgy at the time especially in Kentucky prior to civil rights laws.

Q: *If we were to go back to World War II, there is evidence that IBM's CEO at that time, John Watson, Sr., was leasing IBM punch card systems to the Third Reich. Is that a myth or a fact?*

You know, I don't know enough about that. I know of a fellow who wrote a book about that a few years ago and that was a big hub bub. You know I am Jewish, so obviously I don't have any application or any love for the Third Reich but I really can't speak to that because I wasn't there. Let me give you an interesting piece of information. We have this program today, you have probably read about it, *Corporate Service Corps*, and there is this part of it which is for IBMers, non-executive and non-management. We have just started an executive *Corporate Service Corps* program, and it was formally announced in December of 2009, although it has been brewing for several months. I got to read some of the applications which are pretty exciting. About 30 people – all executives – are going to go to cities and work with their city management to really look at systemic kinds of functions and how to build a *Smarter Planet.* The first two cities that were chosen were Ho Chi Minh City and a city in Poland, not Warsaw, not Krakow, but another one that I would have to look up. Here are two cities that fifty years ago people would say, "Oh my god, you are sending people to those communist countries?" We are past that. Those countries who used to be considered enemies are now friends. We have business in Venezuela but that does not mean we are in with Chavez.

Q: *But on the flip side, the argument has been advanced that many corporations have been above any national allegiance and have transcended political and social platforms, all of which could possibly interfere with making a profit. So when you say IBM has permeated former communist countries, and if there was something true back in World War II concerning an alliance with the Third Reich – at least with respect to furnishing the data systems for monitoring those in concentration camps – could this not substantiate the premise that the larger the corporation becomes, the less allegiance there is to any type of political philosophy? Instead, what matters is the bottom line,*

period, plain and simple. It might look good that IBM is doing business with former communist countries, but how much of that is profit driven?

We are in those two countries, because they are growth markets. Those are emerging markets and we want those IBMers to really understand what an emerging market is and be a better global citizen. It is an amazing experience for them and it's a terrific priority for the company. So are we above nation-building or systems of government. When you are in a hundred plus countries, I suspect one reason you admire us in this country for being ahead of the pack is because Europe is ahead of the other continents in some of its environmental regulations and we are familiar with that. We have dealt with that and no company likes too much regulation, right? There is always a balancing act. We understand that; we have experienced it and we can be big enough to figure out how to work it with respect to our current business priorities. We can help our clients learn how to work with it. A lot of our business is on the consulting side. Most of these things can be opportunities for business. Rather, we assume a position that says: "Let's see how we can make this work."We do lobby what we advocate for policies that are judged to be in company's interest, but you know when something happens, we learn to live with it. We wouldn't be almost a hundred years old if we couldn't adapt.

Q: *Has the service sector of this country largely replaced the manufacturing?*

I think we started that in the IT industry. I know that sounds a bit cocky but maybe we didn't quite start it. We have been on that for years. It used to be a lot of our business came from hardware, you know computers, servers, etc. A lot of the software you could say supported the hardware; it's the operating software which is integral to running the servers. Well, hardware is twenty percent of our revenue now; mostly it is split between software…

[Jeff Tieszen]: Services that shifted primarily under the influence of Lou Gerstner.

Lou Gerstner and Sam Palmisano have really carried it along.

Q: *When did that occur?*

Gerstner was 1992/93 and Palmisano was six or seven years ago, now. See, we don't sell these any more. When you think IBM, you think IBM computers; we simply don't sell those anymore. We could not make any money on them; the margins were terrible. Dell probably helped to contribute to that, because they figured out how to do it better, although they (Dell) are having issues now.

Q: *In view of the job situation now, is IBM hiring?*

We are always hiring because there are always people coming and going or people retiring or we are expanding into new things. Our hiring is down a whole lot from a year or two ago because of the recession.

Q: *Have there been any major reductions in forces lately?*

There are always people coming and going; there might be little groups, sometimes.

Q: *But I am referring to more than a historical pattern of people who retire in a natural progression. Since the recession really began in early 2008, has IBM experienced a major reduction in force at any of its different locations?*

What is your definition of major?

Q: *Anything that is abnormal; that deviates from historical patterns.*

[Jeff Tieszen]: We are always shifting resources, but I wouldn't classify it as anything abnormal.

Q: *Would you say then that you have been basically recession-proof?*

Oh, I don't know that anyone is recession-proof, but I will say that because we are really emphasizing and gearing up services and people in emerging markets like India and China that our overall number of employees has stayed about the same. We are close to 400,000 and that has been the case for at least a couple years; it's always fluctuating. Now are there fewer people in the States than there were three and five years ago? Yes, and more now in India. We have sold a lot of manufacturing; we just don't do it anymore. We have outsourced certain services.

Q: *To which countries do you outsource?*

That is hard to generalize, because there are people in Tulsa, Oklahoma who are people who work for IBM but are assigned to Williams, an oil company. We are the IT department for a lot of companies. So they have outsourced to us. So where we have those people depends on where the customer is and/or where the job is – where the person power would be to keep the customers' expenses down.

Q: *When you say that twenty percent of what IBM still does is still in hardware, you are obviously still doing some manufacturing. So where are products produced?*

Some of it is still in the States; some of it is with IBM on the big servers.

Q: *And outside the United States?*

I don't really know. We used to have a huge laptop plant in Guadalajara, Mexico. That was big – six to seven thousand people. While we still have a lot of people in Mexico, they are doing other things – serving customers the way we do elsewhere.

Q: *I was wondering if these manufacturing plants are basically located in third world countries or as you say, emerging markets. Is this outsourcing a result of the influence of unions and higher wages in the U.S.? Is it to avoid such agencies as the EPA and OSHA?*

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We calling them "emerging" because a lot of these countries are still growing and that is where our biggest growth percentages lie. We don't have unions at IBM; even in heavy manufacturing, we don't have unions. At least I think we never have.

Q: *Has there been any attempt in the past for the creation of a union? Or does IBM disfavor a worker's union?*

When you read this [*IBM's Corporate Responsibility Report*] and you read about our benefits, people are largely happy. We take internal surveys. Our benefits are as good if not better than most companies of any size.

[Jeff Tieszen]: We show up on a lot of "Best Places to Work" surveys. *Working Woman* Magazine always places us as number one. Sure, you can't work here twenty or thirty years and get an old fashion pension anymore. That was done away with a few years ago right after I started, as a matter of fact. It became a competitive issue because the Dells and others don't have those; they started fresh without those. If you look at our 401k programs and our health insurance benefits, health care costs are going up. Our share of what we have to pay for our dependents has gone up a bit each year. IBM still shoulders most of that burden and we are talking in terms of hundreds of millions and billions of dollars worth of benefits that IBM pays. I will tell you another neat program. This is an example of real innovation and we have something which is in my organization so I know a little bit more about it. It is called a *Personal Learning Account*. This just started about two years ago. I can do a payroll deduction and set money aside. It's not pre-tax like IRAs, but we are working on that in Washington, but for now, it is post-tax. I can save up to one thousand dollars a year I think it is, and this account builds a little interest like a little pension fund if I don't use it. I can go take a course somewhere. I can take a Spanish course at the community college. We are actually offering Spanish right here on site through Berlitz. If I want to do a flower arranging course or an accounting course and it is going to help my skill level and be more productive, I can go do that.

Q: *Is it financed by that savings plan?*

With an IBM 50% match. So I put in some money and IBM matches to 50%, up to $500 per year – that is the IBM maximum. Any regular employee can sign up for one of those.

Q: *How about an executive MBA program? Is there any funding especially for upper level management?*

It depends on who the people are – there people who go to graduate school gratis of the company. It is part of their development plan; they might be in a leadership track or a management track, something like that. I don't know how many. In fact, here is something we did about in November, 2009. The University of Texas (UT) at Austin has an Executive MBA, a Technology Transfer Masters Program. We have a liaison with UT. UT is a very important partner because we hire a lot of people from there; we have a little open house where all those UT departments came to promote themselves, so to speak, during a lunch hour. We invited

everyone on site to come learn about these options that they could take advantage of if they want to get a degree or something like that. We love that; we spend tons of money on education and continuing development. I have access to so many online courses which are free, not necessarily for a degree, but which allows me to do a lot of learning. We deliver tons of training per year.

> **...[A] lot of what we do is stretching the boundaries of knowledge...**

Q: *How would you assess the extent and nature of IBM's research and development occurring now at each one of your major facilities?*

We spend about 6 billion a year on R&D. You could say a lot of what we do is stretching the boundaries of knowledge. We have a strong research division that is based in New York. The "Watson Research Lab" is fabled for its amazing work. We have eight of what we would call "advanced research labs" around the world; one of them is here in Austin. The smallest of the eight is located in this building and employs about 60 people.

Q: *I noticed that towards the end of your corporate report, you have a "sharing plan" with respect to your patents concerning environmentally-friendly practices. Are the patents which are openly shared with the public only related to technologies that, let's say, reduce carbon, create less landfill waste - intellectual property basically restricted to that field?*

No, I wouldn't say it is. We are a big advocate of open source, so a lot of our patents are operating openly because we want the whole world to be an open source. A lot of our patents generated by our lab upstairs – and I don't know if these are shared – have to do with semiconductor design. I can't tell you if those are shared or not, but probably not. Yes, a company needs to protect its intellectual assets and we are big on that. On the other hand, we want other customers and organizations to take up these technologies and to advance the world. This is part of our values statement; we want to be responsive to customers and produce innovation that matters for our company and the world. If more organizations have access to our know-how, then they are likely to buy more of our products. There is a business advantage to that.

Q: *Other companies I have visited maintain different incentive plans for new inventions. They downplay the hierarchy of upper level. Is there something similar in nature here at IBM?*

This company has substantial longevity. I was somewhere the other day and someone said, "Oh, I worked for IBM for 35 years." We have been here for so long; this facility opened in 1967 or so

and there have been generations who have worked here. Now, with respect to younger folks and in light of fewer pensions, the mentality of "Oh, it's my advantage to work 30 years versus 10"— there is less of that now. That is true everywhere; it's partly the millennials and others. We will see how they develop when they get a little older.

Q: *If I were to advise my business students about what areas or fields of concentration in undergraduate studies they should pursue if they wanted to work for IBM, would you recommend strictly engineering?*

No, there are two ways to answer that and that is a very good question. We hire a lot of EE (Electrical Engineers) and those in Computer Sciences – those are the two larger ones. But more and more, we are hiring business graduates and MBAs, because remember, we are following a role of consulting. We want people who are "T" shaped. "T" shaped people are the ones that have the technical knowledge, but also have the industrial sector knowledge. So if we win a big contract to do the business consulting or the whole IT and related services for XYZ bank, we want people who are serving that account to understand the technical requirement, but also know about banking. So we will hire people who have been in banking or insurance or education – their knowledge base – and they learn about the technology, not necessarily be able to produce it, but to be able to deal with the client representatives. We need people who are articulate who are going to make presentations and so we want it all.

Q: *Our business school recently implemented a Spanish in Business Certificate program. According to the 2000 U.S. Census Bureau statistics, the Latino population is especially increasing in the Southwestern states. The knowledge of the Spanish language has become a necessary business skill in addition to the articulation needed in dealing with representatives.*

I just came from a meeting with two of our school districts, the Austin School District and another one just north of here, talking about what they do about bilingual education. They are going to teach a language. It is idiotic as a country that we don't teach foreign languages until middle or high school; we should start it on day one like in Europe.

Q: *I reviewed your philanthropic endeavors and your clean water initiatives which are contained in your report and noticed your usage of Global Reporting Initiative metrics. IBM opted for an "A" level of reporting which is self-reporting without an independent audit. As you may or may not know, in order to be audited you can either use one of GRI's teams or an independent third party auditor - typically an accounting or engineering firm – in an attempt to acquire a "+" after the "A." I understand that one of your major facilities in Boulder has been recently retrofitted and subsequently LEED certified. With this progress, has IBM considered an independent audit in its sustainability reporting?*

We will pass that along. Let me mention something about water since you are interested in it. IBM has a nature conservancy project. From a product point of view, we do a lot of work with water systems. We have the knowledge and expertise to improve water systems, learn more

about where their leakages are, and monitor their systems. There is an IBM subsidiary company, a company we bought called "Maximo." In fact we recently issued a news release concerning the Lower Colorado River Authority (LCRA). The LCRA basically says it owns the Colorado River. The lakes that run through Austin are a part of the Colorado River system. There are two Colorado Rivers; this is our version of the one in Arizona. We have a contract with the LCRA so that we can help them monitor their dams and other facilities for less money. It saves them from literally having people driving around visually inspecting; you can have sensors on a lot of your assets. When something goes wrong or something shuts down you learn about it in a control room and you can go out and dispatch someone to fix it. That is an example under IBM's *Smarter Planet* idea where we say that because the world is becoming more interconnected, it should use this knowledge, this technology, this expertise, throughout organizations, institutions, water and energy systems, food supply chains, educational operations, and hospital and medical fields.

Q: *How would you best describe the "corporate philosophy" of IBM?*

We are the corporate responsibility of all of IBM. You don't have to be in my department to practice corporate responsibility.

Q: *Since you are in charge of certain states, doesn't that help you more closely monitor and control any deviations from ethical policies?*

We keep governance uniform; that way we can carefully choose our local partners. So you know a lot of companies write a lot of big checks and that's great. We don't write a lot of checks around here. We determined years ago that we are a technology company and our biggest asset is these really smart people. How do we parlay that knowledge of what we are doing and focus it on community needs? We've always wanted to be responsible and responsive in the communities in which we live and work. So we have *Corporate Service Corps.* People have to apply for this program; there have only been about five hundred to six hundred people accepted so far. It is harder to get into than Oxford at least based upon the percentage of applicants versus acceptances. One of the areas where you would score a couple points in is whether or not you have been a volunteer for the "On-Demand Community Program." The program is our internal portal and an IBMer can get a community grant of up to one thousand dollars or at least the equivalent in technology. While IBM can't pretend to know all the organizations in need or offer support with direct corporate giving, my emphasis and my budget are dedicated to all the non-profits that IBMers are interested in. We are so diverse. You are empowered to go be a volunteer – you are likely one anyway – and if you perform at least eight hours of volunteer work a month for at least five months in a calendar year, you can request one of these grants. There is a form you fill out online and the charity must be a 501(c)(3). So this is our knowledge; our smart people can use some of this information and really help enlighten their organizations while learning themselves. They are gaining expertise.

Q: *This appears to be smart business as well. IBM used to sell computers; now it sells intelligence.*

"Intelligence" and "Innovation" both keep the "I" in there.

Q: *And this intelligence is exhibited by individuals who you believe have experienced different cultures, traveled to many parts of the world?*

That is why we have this program. A lot of people who apply have travelled as part of their business and most of them are more worldly. This is another experience to complement what they have done and enlarge it even more.

Q: *Does IBM have any programs regarding landfill waste? What happens when computers become outdated? How does one dispose of them? Most charities will not accept them unless there is proof that the hard drives have been wiped and since that service is not free, the computer is often discarded. And E-waste is becoming more and more of a problem. Does IBM have any recycling or reclamation centers? I am aware of IBM's incorporation of spent microchips in solar cells.*

My first way of answering that is I don't know exactly what we are doing. Because again, we are not as much of a manufacturing company anymore. It's not that we are not responsible.

Q: *I was wondering if there could be a SMART Landfill where landfills are mined to recover items bearing the IBM logo.*

I can't answer that.

Q: *With all the buildings that IBM owns throughout the country, how many would you say are LEED certified now? Are you dedicated to LEED certification for all new additions, retrofits, and new buildings?*

Again, that is not my area of expertise. I will say that one of the first LEED certified buildings in Austin is ours, the Tivoli Building. That was in 2003. Tivoli is one of the software operating subsidiaries; it was named one of the top 10 green office buildings.

[Jeff Tieszen]: I don't know how many other LEED certified buildings we have; I do know that we just opened up a facility in Dubuque, Iowa. It is a services facility and employs about 1300 people. We moved into a historic downtown building there, the Roshek building, and completely retrofitted it to make it LEED certified.

Q: *Can you explain other "green" projects you are currently pursuing?*

We have a whole sustainability press kit online. Here is something we are doing right here. There is a lab in one of the other buildings called "a green data center" – it's a big deal. We have one –

it's not like the one in Boulder, Colorado, it's a lot smaller, but that lab supports software product demonstrations of IBM presented all over the world. In a year and a half or so, they have expanded the output of this lab, the capacity, and they have reduced power consumption by about 30 to 40 %. Some of the reduction is attributed to the installation of new equipment. They now have software programs that better monitor those servers. So when a cooling system goes out – some of those are water-cooled as well as air-cooled –that machine will automatically shut down. They can monitor the operations. We are doing that for own operations to save money but we are also doing this is as a product/expertise that we sell. That is a sustainability at play. Internally, we developed this technology we use for ourselves. And if it is good enough for us, we want to sell this, we want to share it.

Q: *Let me ask you about smart grids. I understand that you have received commendations from the EPA and also realize that the statistics are amazing in terms of the waste you are saving. American Electric Power (AEP) has a smart grid. Are you familiar with its system?*

They are a customer. They produce energy from waste. They were here about a month ago because we did a demo for some people in Austin about this system called "Maximo" – this asset management product we have.

[Jeff Tieszen]: We also just last month launched a consulting service for sustainable assets for clients.

Q: *In terms of your consulting services, it appears that IBM is expanding into different areas. You've launched the "Smart Traffic" program, partnering with the City of Chicago. Apparently, computer-generated sensors are installed in cameras mounted on traffic lights and have the ability to register shotgun blasts before a 911 call is placed, alerting the nearest police precinct. IBM is lending this innovation and intelligence to crime prevention and now it appears, more recently, to smarter transportation routes and means.*

Let me tell you about something else that is happening here right now. Daimler — another good IBM customer in Germany — has a system that they just set up with the city of Boston, and we are going to be a part. They have the little smart cars, the little two-seaters. If you go downtown, you will see them on the corners. They are loaners, unlike other loaner programs in other cities that I am familiar with. These are one-way loaners. You can take it to your destination and when you are done, you don't have to keep the clock ticking while you are at the doctor's office and come back. So you drop it off you when you have reached your final destination and it is charged to your account. We will volunteer some parking spaces when they expand the program out here, you bet we will. That would be so exciting. And I think that the parking garage here even has some signs reserving parking slots for hybrids.

Reserved Parking

Hybrid or
High Efficiency
Vehicles Only
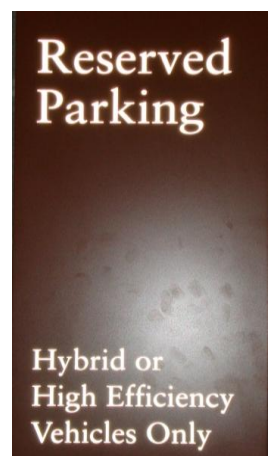
Q: *As I understand, IBM is working with supply chains and is now, apparently, entering into the distribution phase as well. How does IBM make distribution smarter, especially with respect to different chain grocery stores? Is there a way to tract if certain items are grown locally to help stimulate the local economy while saving distribution costs as well?*

[Jeff Tieszen]: Smarter supply chains as they apply to food tracking and direct traceability.

And greater safety.

[Jeff Tieszen]: That is a big deal for IBM.

Q: *Who are your typical customers in IBM's food chain tracking program?*

[Jeff Tieszen]: We are working with the largest food distributors all the way to seafood farms in Vietnam. We help all along the supply chain to help them better track their food supply so that consumers know where to go.

Q: *So when did you start this?*

[Jeff Tieszen]: Radio-frequency identification (RFID) technology has been around for years and we have been involved in that from probably the get go. But we have expanded that out to a lot.

Again this whole *Smarter Planet* theme of ours enables us to expand beyond just marketing. It is a way to really look at our business and how we deliver these services from a thematic point of view. So with the *Smart Grid*, I can tell you we are working with Austin Energy – which is the publicly-owned utility here, very progressive, very green. We are also working with CenterPoint Energy in Houston and a lot of others, including Encore in the Dallas area. We are doing things so in time, when you're at home, you will be able to look at your information and if you turn your thermostat up two degrees, you will be able to determine how much money you will save. You know, it is all about consumer information.

We are working toward a lot of those things with these customers, so that is an example of the smart grid. We are helping manage traffic congestion in Stockholm. And with respect to patents that IBM secures? IBM earns more patents every year and for the last 6 years more than any other company in the world, period. We have been number one for about 15 to 16 years. In 2008, we earned about 3000 or so. We earn more than double the next company. This Austin site produces more patents than any other single IBM site in the world, about 600, something like that.

Q: *That's impressive.*

New York generates more than Texas. With respect to a single site, we are number one; we have the all-time IBM patent champ holder in an ugly building across the street, about 400 patents to

his name. So the point of that is you can't just have a patent; you have to do something with it of course. You got to make it work.

Q: *Well at least you have a twenty-year monopoly.*

You get these patents for these operating systems and these chip designs and all these things that sound very esoteric to you and me, but they find their way into these applications. So that the inventions have happened a year or two or three or four before and then you start integrating and applying them and that is how you come up with these products.

Q: *Do you ever make the decision however, especially with a major discovery or innovation, not to patent it and keep it as a trade secret and possibly get more longevity out of it?*

We are working on patent legislation. That is one of our major legislative priorities. We have patent lawyers all around the country. That is a huge thing in Congress for us to be working on right now. We are working on it; we are waiting for the Senate to bring it up to the floor.

Q: *Does IBM have any lobbyists in Washington? Any position on cap and trade?*

We are not involved; we are neutral on that. We talked about that on conference calls because we talk with our government relations people.

Q: *And healthcare? With the call to computerize a patient's medical records, does or will IBM have a role in this shift of paradigm? Will IBM remain neutral on this?*

No, no, no. We have said some things concerning healthcare legislation and our folks are working on it, and it is changing so much by the day that I can't tell you which version is where. We will respond to whatever system emerges; we have major insurance companies which are major customers and we have government agencies as major customers. We can work with the system they put together. Yes, we have some company preferences, I know we do. Cap and trade is the same thing; cap and trade could be a huge IT (information technology) opportunity, because you have to track all of this stuff. We don't have a dog in that particular hunt (Texas saying) from a policy or a political point of view.

[Jeff Tieszen]: We have been focusing on making more efficient in terms of technology the organization and collection of patient records. The Obama transition team came to IBM before he took office and said, "Here are three areas we want to look at investing $30 billion in stimulus funding. We are interested in smart grid, smart healthcare, IT, and broadband technology. They came to us and asked us to do a synopsis of how that can best be spent.

Q: *Are you currently working with some of this stimulus money in those particular areas?*

IBM Offices – Austin, Texas

Oh, we are trying to bid on it like everyone else. Oh yea, it is a big thing.

Q: *Has IBM received any stimulus money?*

Uh... I can't tell you.

Q: *Purdue University, as one of the largest engineering schools in the country, was awarded $50 million.*

Well, a lot of how this works, is a Purdue University will receive stimulus money and if they need to update their whole IT system because it helps them with energy efficiency or something like that they will put out a Request for Proposal (RFP) and if we are smart, we will be working with Purdue. Our client reps will show them what our capacities are and the extent of our capabilities.

[Jeff Tieszen]: The same thing occurs with state governments. They are all vying for stimulus funds and we would go ahead and take bids for transportation, healthcare, or whatever needs are present.

Q: *Do you apply your philosophy with respect to determining who your customers will be? For instance, would you ever turn down a prospective customer due to its poor performance socially, environmentally, or financially, or one whose unfavorable reputation in the public might compromise your own reputation?*

I don't know that we do, but again I can tell you that there are companies now that are wonderful that didn't used to be as wonderful. There are companies now that are wonderful now perhaps because they have had a leadership change or whatever.

Q: *Applying one's business philosophy to customers could mean that either you are raising yourself up in the public eye by refusing to deal with the new customer until that business demonstrates its worthiness. Or maybe what you could do for them will improve their reputation and perhaps, change public opinion.*

Well, a lot of times when a customer needs something, what we are able to provide is going to make them a more efficiently-run place which can affect other outcomes. A utility company is a good example. What you are saying is reminding me of another project we have. It really does have something to do with what we have been talking about: the "World Community Grid." So grid computing is analogous to an electrical grid, where IBM doesn't have our own power generator. Instead, we buy from the city's grid. World Community Grid is where you or anyone else can put a little piece of software on your computer, and so that when it is running like mine is now and I am not operating it, I am actually crunching data that is going through this project that IBM supports and I am helping six or seven different researchers right now with data crunching without doing a thing. This is a project we have had for five years. It is on a low

protocol key, so it is not interrupting anything I am doing as soon as I start typing it is my computer. When this is idle time, we have almost 500,000 members signed up for this on more than 1.4 million computing devices around the world. We are real close in the next week or so to 300,000 years of computing run time. A lot of IT people know about this; this is not the first there has ever been, there are other ones, but this is one of the most public.

We have six active projects right now, but there are others that will come back. Here is one on muscular dystrophy and this is a childhood cancer one from the University of Japan. This is a project from the University of Washington and this is an AIDS project from the Scripps Institute. So this is all basic research; this is not creating medicines for tomorrow. It is doing data crunching and chemical reactions to look how to fight the antibodies.

Q: *Are your membership fees uniform or based upon usage?*

This is free, it's free. This is corporate responsibility.

Q: *It's good marketing too.*

Again, this is parlaying our technology into doing things that are good for the world, making the world run better. That is what we are trying to do. So I can sign up to participate in this and if I am a researcher; there is an application on here where I can apply to benefit from these things.

Q: *Do you have a system of vetting users before they become members?*

It's an internal system. We also have an advisory committee of outsiders – people from national labs or universities – and they convene by conference call. This is good science. It has to be in the public domain, so it is not proprietary. These people have to publish papers and have to do things that researchers do.

While you can join as an individual, we recommend that a team does this so that it is measured. Also you can have challenges with other organizations. For instance, New Jersey's Marist College is and small. It is close to Vassar, close to the Culinary Institute. Just to show you, Marist College is at 289 members; they got started pretty early and they have done all kinds of things. They have 2700 years of run time. They have a marketing class where they assign students who market this to other college students. This would be a great business class project.

Q: *With many business schools implementing SAP in its business classes, including Valparaiso University, I am just wondering how we can merge SAP with this World Community Grid. There has got to be a way.*

We would love to work with you all on this.

Q: *With respect to risk management, do you believe that IBM has adopted a transparent reporting system? It's just all a part of corporate responsibility.*

Sure. What you are pointing out to me is how fast this whole function is evolving and our folks have made speeches about it, but there are different ways to look at this function. It used to be that we would do something because it was an alternative to a regulation. Or, if we were made to do something, we decided we might as well do it right. We do things because we want to be leaders; we want to be ahead of regulations. There are so many examples of this, be it anti-discrimination...

Q: *Let's go back to the 1930s and the 40s. I referred to this before, but during World War II, a number of American-based companies continued to make profits in Europe. The way that Coca-Cola continued to make profits during World War II is that they made a new drink to sell, Fanta Orange. The same thing happened with GM when they produced the Opel. And in a computer-less world, the Third Reich needed some way to manage the flow and location of people. They needed to produce different codes for gas chambers, suicides, and shootings. I've read Edwin Black's book, IBM and the Holocaust, which tells the story of IBM's strategic alliance with Nazi Germany when Hitler first came to power, continuing well into World War II. Evidence is provided that IBM and its subsidiaries helped create these types of identification and cataloging programs. To the best of your knowledge, does IBM categorically deny this involvement? I am just wondering if IBM has ever simply admitted to this and declared that its actions were wrong, but that this is now a thing of its past and it now concentrates on making people its business.*

It's been awhile I don't remember what our public statements were on that.

Q: *I don't want to bring it up, but when you say IBM's corporate philosophy goes back to the twenties, I'm wondering what happened to it for the duration of the German occupation. I have done at least cursory research and cannot establish whether IBM has ever formally responded. There is evidence that none of the IBM punch card systems were ever sold to the Germans; instead, they were leased and serviced on site. Tylenol, on the other hand, did the right thing 22+ years ago when it removed all of its products from store shelves around the world within 48 hours of learning of several freakish, cyanide-laced gel cap deaths in both Seattle and Chicago. They took a multi-million dollar hit and paved the way for protective seals and packaging. But what's important is that they accepted the need for quick, immediate action.*

In contrast, Ford's now infamous internal cost-benefit analysis in the mid-1970s involved Ford's economists who presented their findings as to how much it would cost the company to recall its Pinto as opposed to continuing to settle personal injury and wrongful death claims due to Ford's placement of its fuel tank filler neck behind the rear bumper, resulting in deadly rear-end, fiery collisions. Ford decided to pursue the latter option, ignoring the safety concerns. This memo was ultimately revealed to the world. Many would say that Ford never recovered from this accusation of placing profits over people.

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So it would appear that a genuine corporate policy of public citizenship would include admitting fallibility when appropriate and being completely transparent with the public. That would appear to produce good PR. The philosophy behind true corporate responsibility is to accept critique and to undergo continuous assessment to determine what could be done differently in the company to make it better.

There is no doubt that currently, you guys are at the top of your game. I am just curious about the past and any unresolved accountability.

Absolutely, our function has changed so much in the last few years. It is really interesting.

Q: *But being at the top of your game, I would not be doing my job if I didn't say you could be doing better. You are leading the world in so many aspects, but I am just wondering with more and more emphasis on transparency as an integral part of CSR if those things in the past are ever going to be addressed.*

I am going to research that.

Q: *Is IBM involved with education advocacy?*

We are very involved in education. We helped start an organization called the *Texas Business and Education Coalition*, and I could spend a whole half day talking about that. Our school districts are being run in *dual* language now as opposed to *bi* lingual. The kids learn both languages.

Q: *Has Texas voted on any propositions similar to Arizona?*

We don't have initiatives in referendum, thank goodness. So if a kid is even a non-legal immigrant, the state law says that we have to educate them, we are responsible to them. Because the border is a very permeable border and we understand that...

Q: *I thank you for your time and hospitality and look forward to reviewing your CSR in its totality. In the meantime, keep making the world a smarter planet!*