BIG BLUES: THE UNMAKING OF IBM

Paul Carroll

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reviewed by BRIT HUME

This book is a horror story. Expertly reported and engagingly written by *Wall Street Journal* reporter Paul Carroll, *Big Blues* is the tale of how a great, indeed even a noble corporation went from being the most profitable company in history to a basket case in a decade.

It wasn't easy. In 1981, IBM had not only dominated the world computer industry for decades, but seemed poised to do so well into the twenty-first century. It made more computer chips than any company in the world. It had developed the disk drives that are now a part of every computer system. It spent $8 billion a year on research and development. The company had never laid anyone off and never intended to.

When the microcomputer revolution was born in the garages and basements of hobbyists and hackers in the late 1970s, IBM didn't just sit there. It sent a team off to Boca Raton, Florida, to build what would become the IBM PC, which set a standard for personal computers that nearly every PC in the world would follow.

The Boca group was unusual in that it had a mandate from on high that allowed it to work fast, without clearing everything through IBM's multi-layered decision process. The group made several crucial decisions that would ultimately help the PC succeed and, ironically, help IBM fail. The PC would be an "open system," which meant that most of its basic technology would be non-proprietary. Open architecture made the PC easier for outside software companies to write programs for, and helped outside hardware developers to build modems, memory expansion cards, and other products to enhance it.

But the fact that IBM did not own the PC's basic technology opened the way to competition. IBM would be bested in hardware by a number of smaller, more agile firms that were able to bring more powerful PCs to market at lower prices than IBM could, or would. But as much as other hardware makers hurt IBM, nobody hurt it more than the software giant Microsoft and its nerdy, brilliant founder, Bill Gates. At the outset of their decade-long struggle, Carroll writes, IBM had "340,000 employees, $27 billion of assets, $26 billion of sales and $3.6 billion of profits, while Microsoft began their relationship with 32 people and little else. IBM would still find a way to lose."

Throughout most of their battle for control of the personal computer industry, IBM and Microsoft were ostensibly partners. That's because the Boca team contracted with Microsoft to develop the operating system for the original PC. IBM was in a hurry and getting the job done in-house would have taken forever. (No computer can do much of anything without the operating system, which handles such boiler-room functions as managing memory, keeping track of disk drives, loading software, and copying and deleting data.) IBM was prepared to buy the DOS (disk-operating system) software outright from Microsoft for a million dollars, but Gates had other ideas: he wanted a small royalty on every copy IBM shipped. That was fine with IBM.

Gates's deal allowed Microsoft to sell DOS to any other PC maker it pleased. At the time, of course, there *were* no other PC makers, and IBM, with the insular view of the world that would contribute so much to its future blunders, no doubt thought there never would be. DOS has been a cash cow for Microsoft, fueling the company's rise from scratch to a value of more than $25 billion.

Even before its PC came to market, IBM had made mistakes that would cost the company billions, but it was just getting started. The early success of the PC fostered the illusion that the invincibility the company had enjoyed in mainframe systems would continue in the new world of microcomputers. The company worried not about whether its PCs would be competitive with other microcomputers, but whether they would compete with other IBM systems. When IBM brought out the PCjr in 1984, it deliberately made the machine difficult to enhance so that people couldn't expand it into a cheaper version of the PC.

By then, however, there already *were* cheaper versions of the PC. Other companies' IBM workalikes—the so-called "clones," or "compatibles"—were beginning to flood the market, and people who wanted cheaper PCs bought them. The PCjr was a spectacular, embarrassing flop.

Meanwhile, IBM and Microsoft co-developed a new operating system for more advanced PCs called OS/2. It had some new capabilities but it consumed vast amounts of storage and memory, and nobody wanted it. IBM stuck with it, but Microsoft hedged its bets with "Windows" software, a less piggish alternative to OS/2 which Microsoft owns alone, and which has been a smash hit. IBM is still trying to catch up.

Big Blues recounts in devastating detail other, less-publicized blunders from the same period:

- A small company called Software Publishing came up with a popular set of basic business programs, the "Assistant Series," which were sold under the IBM label. Software Publishing intended to improve the programs, but IBM decided it should knock out certain

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improvements because IBM wanted to reserve those features for some other product it was planning. So Software Publishing went off on its own with what became the highly successful "PFS" programs. IBM got none of the royalties, and the PFS line competed with IBM's—exactly what the company had been trying to avoid.

• In 1982, Mitch Kapor, who founded Lotus Development, pleaded with IBM to buy the exclusive rights to a new spreadsheet program called "1-2-3." IBM said no. Lotus 1-2-3 went on to become the single most popular program ever written for the IBM PC, the program that made the PC a bestseller. The decision cost IBM billions.

• IBM owned 20 percent of Intel, the semiconductor company that produces the central processing chips that drive the IBM PC and its successors. In 1986, when Intel had just brought out the 80386 chip that would power a new generation of PCs, IBM started selling its Intel stock, for an eventual profit of $625 million on a $400 million investment. If IBM had held the stock, its shares would be worth more than $5 billion today. IBM made virtually the same mistake when Microsoft wanted to sell it a chunk of its stock in 1986.

• A Georgia company called Hayes Microcomputer products was doing a brisk business selling modems for the IBM PC. The Hayes software commands became the industry standard. When IBM finally got a modem to market, it used a different command set that left it incompatible with the modems people already owned. It bombed.

• When IBM brought out its first laptop, the PC Convertible, in 1986, it didn't have a bright screen, a feature already available in laptops from Toshiba and other competitors. Even more inexplicably, it had no modem, because, as Carroll reports, "the product manager couldn't bring himself to put a Hayes modem in the computer and IBM didn't yet have a modem available." The Convertible became a laughingstock.

• As Compaq and other makers of PC clones seized a growing share of the market, IBM tried to distinguish its products with a new, proprietary standard that the clone-makers could not match. It came out with a new type of internal circuitry it called the "Micro Channel." The trouble was that the effect of this circuitry was not noticeable to users, who were just as happy with the circuitry the clone-makers were using, the same circuitry IBM used in its AT series.

The AT was the most popular PC IBM had ever made, but since IBM wanted to make the "Micro Channel" the new standard, it decided it to kill the AT. Other companies continued making AT-compatibles, and made a fortune on them. IBM eventually reversed itself, sort of, and brought out an AT-class computer called the XT-286. But the XT-286 box was smaller than the AT's, so circuit boards and other products made for the AT wouldn't fit in it. It flopped, naturally.

All along, there were people inside IBM who had good ideas and wanted to see IBM compete. But IBM's bureaucracy consists of a host of baronies that guard their turf ferociously. It was often necessary to get nearly everybody to agree to nearly everything. As Carroll puts it, "IBM had turned into a company where everybody could say no, and no single person could say yes, and IBMers were considered wimpy if they didn't say no at least a few times on each project." Anything major had to be approved by IBM's Management Committee at headquarters in Armonk, New York, where the thinking born of years of IBM dominance in mainframe computers prevailed. Anything that didn't carry the kind of profit potential IBM was accustomed to was regarded with suspicion. The IBM printer division in Lexington, Kentucky, couldn't get anywhere with a line of printers that cost less to make than comparable Japanese models, but which had only an 8 percent profit margin.

The result of such management was that IBM ended up with products nobody wanted to buy at prices nobody wanted to pay. Its share of the PC market declined from more than 80 per cent to less than 20 per cent today. The company remained profitable into the 1990s, thanks to its mainframe sales. But when that business fell off, as it was bound to in an age of smaller systems, Big Blue hit the wall.

The consequences have been crushing. Roughly 140,000 IBM employees have lost their jobs. IBM stock has lost $75 billion in value. "About half of that money," Carroll reports, "was lost by the half-million individual holders of IBM stock, most of whom thought of IBM as a classic 'widows and orphans' stock that they could sock money into and count on for their retirement."

As Carroll notes, "This is a very sad story." And this fine book should be read as a cautionary lesson by Al Gore and the other high-tech enthusiasts in the Clinton administration, eager to "invest" taxpayer money in a data superhighway and other such ventures. If IBM, whose viscous bureaucratic structure resembles nothing so much as the federal government, could make such a hash of things, imagine what Washington will do. It doesn't, of course, have IBM's hidebound Management Committee to deal with.

Instead, it has Congress. ❐

THE LAST BROTHER

Joe McGinniss

Simon & Schuster / 626 pages / $25

reviewed by THEO LIPPMAN, JR.

In 1974, Joe McGinniss arranged an interview with Sen. Edward Kennedy through his press secretary, Dick Drayne. Drayne warned him not to talk about the Kennedy mystique. "He absolutely freezes . . . that muscle on the right side of his face starts to twitch and then it's all over, buddy."

McGinniss told the senator he would like to spend some time with him, get to know him. He wanted to put him in a book he was writing. The senator turned him down. That may have been because Kennedy knew McGinniss's reputation. McGinniss had come to the fore a few years back by writing a funny, popular book about Richard Nixon's advertising and p.r. campaign in 1968. The word around Washington was that McGinniss had misrepresented himself to get an insider's view of the campaign, then had misrepresented some of what he saw and heard. On the other hand, maybe Kennedy just regarded the McGinniss project as belittling.

The book, McGinniss explained, was to be about why there used to be "heroes" in America, like "your brother Bobby," but weren't anymore. McGinniss writes, "He remained silent. And then the muscle on the right side of his face began to twitch. The meeting ended. I did not see him again for almost fifteen years."

In the pages that follow, McGinniss often presents Ted Kennedy's thoughts in dramatic moments. For example, Kennedy was caught in a traffic jam in the moments after he learned his brother Jack had been shot. McGinniss writes, "There was construction going on outside the State Department. It was a useless goddam organization anyway, in Teddy's opinion, and to be caught in a construction delay right there seemed somehow more than he should have been expected to tolerate."

The reader might assume McGinniss knows what Kennedy thought because, almost fifteen years after that botched interview in 1974, as he prepared for a new book just about Ted Kennedy, they talked and Kennedy told him. But when you ultimately get to 1988 and the reunion of McGinniss and Kennedy, you learn that Kennedy still wouldn't give him the time of day. There are no interviews.

Sometimes McGinniss merely speculates on Kennedy's thoughts, as when he writes of the disappearance from home (to an institution, without explanation) of Kennedy's retarded sister Rosemary, "It might well have begun to seem that could be the price of failure within the family. . . ." But most of the time, McGinniss writes with the certitude of a man who knows what was in his subject's mind: "he didn't know," "he could scarcely believe," "he could not help but harbor," "the lessons were not lost on Teddy . . ." "to Teddy's dismay . . ." etc. Not much of it is credible.

This kind of imagining precipitated the first wave of criticism of the book. If I am right and McGinniss hoped to fool the reader, he was foiled by his own publisher. Simon & Schuster prepared for the copyright page a disclaimer to the effect that McGinniss made up some of the material for his biography. This became public knowledge. McGinniss protested, and the disclaimer was removed, but the author was forced to admit in an afterword, "I have, as is apparent, written certain scenes and described certain events from what I have inferred to be his point of view."

That McGinniss set out to write fiction based on fact rather than traditional journalism (or even traditional New Journalism) was "apparent" in a sense before he began this book. In 1988, he signed a two-book contract with Simon & Schuster, subjects undetermined. That's rare for non-fiction. "But I wanted to sell books like novelists," McGinniss told *Publishers Weekly*. "You don't ask Philip Roth for an outline of his next book."

This book was suggested to him by Simon & Schuster's editor in chief, he continued. "Michael Korda had been struck during the 1988 Democratic convention by the fact that Ted Kennedy was only a bit player. Kennedy had become obsolescent in the blink of an eye." Korda suggested McGinniss write a book showing or explaining how Kennedy got to that point.

Korda himself was about to write his own imaginative Kennedy opus—about love affairs between John Kennedy and Marilyn Monroe and Bobby and Marilyn. It's fiction, presented in pure novel form, but labeled "faction" by its author. One reviewer described it as a compilation of "every . . . factoid, rumor and lie that has ever been circulated about the Kennedys."

McGinniss's book is not nearly that bad. Most of what he writes is factual. But the facts are not ones that he himself gathered, which brings me to the second wave of criticism. After the publishers' excerpts were distributed, John Taylor compared the first eleven chapters—about a third of the book—to William Manchester's 1967 narrative on John Kennedy's assassination, *The Death of a President*. Taylor reported in *New York* magazine, "The similarity between some of [McGinniss's] passages and Manchester's is really quite remarkable. Cynics might be tempted to say that McGinniss lifted his material from Manchester. Moralists might go so far as to call it plagiarism."

McGinniss replied in a letter to the editor that he was "appalled and outraged at the allegation that I plagiarized from William Manchester. . . I cannot allow it to stand." To which Taylor replied, "Legally the real issue at hand is not plagiarism but copyright infringement." He said he thought McGinniss may have behaved improperly not only by using Manchester's language or very close approximations of it, but also by using

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