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I N T E R O F F I C E M E M O R A N D U M
C O R M T S A L L - I N - 1 S Y S T E M

Date: 9-Jan-1989 11:47am EST
From: Ken Olsen
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Dept: Administration
Tel No: 223-2301

TO: See Below

Subject: WHY OUR INVESTMENTS DON'T PAY OFF

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I completely disagree with your conclusions presented in your note on why our investments don't pay off.

1. I don't believe it's that we have too many business units.
2. I don't believe that fewer business units will make it work.
3. The budgeting system that I am insisting on at this time I believe is the only thing that will help. We will have one person's name on every proposal, and he will be held responsible for that proposal and if it is accepted, it will be reviewed, and he will, and the whole organization will, understand whether he was right or not.

Today, we have an infinite number of people often proposing things that other people will do, but no one has the feeling of responsibility.

We built an enormous number of buildings with no one responsible for them.

We bought a lot of capital equipment with no one feeling responsible for it.

We had the whole Bob Hughes organization set up to decide what software we should buy but with no return on investment, no measurement made afterwards, and no business plan to show that the investment was justifiable.

In the field, decisions were made like ACTs and all the other overhead without a business plan that would justify the enormous increase in overhead and with someone feeling responsible for it. I don't believe that the managers even understood how large the

overhead grew in the last five years, and I think it would have increased as much in the next five years if we didn't make a change.

I believe the only answer is to have the people who will take the responsibility, who will be measured, and whose job is on the line, make the proposals and then measure them as individuals.

I claim that out of this new budgeting system, there will be accounting that can show who has done what he promised and who has not.

The last few years, Jack Shields has believed the problem was in unused manufacturing, and Jack Smith believed it was overhead in the field, and I believe the problem was that expenditures and capital were spent by staff and not by people with the responsibility to get the return.

KHO:dao
KO:2562
DICTATED ON 1/8/89, BUT NOT READ

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