

*This was attached E.C.
to Ken's memo re: Successor
to Ken Olsen*

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: 22-Mar-1989 08:37am EST
From: Ken Olsen
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TO: See Distribution

Subject: HISTORY OF DIGITAL

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Digital has gone through three phases, and it seems to me that we can break Digital's history down into three phases.

The first phase was when we were one small entrepreneurial group with a lot of entrepreneurial drive and all aspects of the business were concentrated in one place. We grew quite well, and we were very, very economical with overhead and expenses.

In this first phase with the entrepreneurial drive to develop, market, sell, innovate, and do the whole job, growth was enormous and limited only by energy and money.

The second phase was the product line phase. At 14 million, we had to break the Company into pieces, and we assigned the entrepreneurial responsibility to many groups. Growth was even faster, each group felt enormously responsible and always kept in mind product development, marketing, and selling. They felt they had control and responsibility for their whole business.

During the product line phase, each product line and each country wanted to grow 50 percent more than what we felt we could afford in energy or money. The entrepreneurial spirit generated more products and more opportunities than we could satisfy.

The third phase was when we went into the traditional, big company division of labor, central control, central planning, and no competition phase, which is where we are today. We have a very obvious, very traditional idea that we will control everything centrally, and that, quite independent of the rest of the Company, engineering will design components that they think will be useful. MSSC will do the marketing and will tell the sales department what to do; but the sales department is really, completely independent and sets their own goals, standards, motivations, and measurements, and, in many places, does their own marketing. The result is that we are now entrenched in the mode of growing a lot faster than technology and automation

improves efficiency. Our plan now is to decrease in size every year as we have eliminated the ambition, motivation, individual courage, drive, and creativity that came with entrepreneurial groups.

The answer is to be more centralized and in control, and, once in a while, give people entrepreneurial titles but to make sure that there is nothing behind it.

It's hard to look at the history of any company of significant size that had the growth rates which we had when we were entrepreneurial or even has the growth rate which we would need to keep up with the increases in efficiency that we expect to incur.

The field tried adding overhead, controls, rules, orders, and more managers to accomplish this without great result.

We are going to have to decide, as a Company, if our primary motivation is to prove that we can do as well with central control, central planning, central committees, and central everything without entrepreneurial spirit in the Company.

KHO:dao

KO:2789

Dictated on 3/20/89, but not read

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Successor memo*

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