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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

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TO: See Below

Subject: HOW TO MANAGE A HIGH-TECH COMPANY

Everyone seems to feel that they know how a high-tech company should be managed, and most of those think that they can do a better job than what they see being done. The college student, the reporter from the NEW YORK TIMES the engineer, the janitor all understand how it should be done. However, their theory is usually based on one simple concept. This concept is usually based on what they see missing in the management they've observed. Some would agree that what is needed is stability, and others argue that the secret is quick, rapid and frequent change. Still, others would say what's needed is strong, tough management with firm financial controls. Others say the secret to success is giving freedom to everyone. Some argue that giving P&L responsibility to someone is the magic that automatically creates success. Some believe the secret is to have a very human, sensitive organization, and others feel toughness is the one secret to success.

Few people stop to observe that very few high-tech companies avoid stagnation after reaching a certain level or avoid completely disappearing. When one looks at what has happened to the bright stars in high tech of thirty, twenty, ten, and five years ago, one might come to the conclusion that more thoughtful consideration of the theory of management is in order.

In looking at the history of high tech, one might come to the only sure conclusion that, like raising children, the only ones sure to fail are those who know they have everything figured out and don't have to learn anything. However, a little more thought raises doubt for that simple theory.

Life is filled with paradoxes and conflicts in raising children or managing a high tech company, and integrating them all in a balanced way. Like raising children, love, enthusiasm, enjoyment and fun compensates for a lot of the weaknesses in theory.

THE MAGIC OF P&L RESPONSIBILITY

When we ask someone to pilot our airplane, or we have someone do open heart surgery on us, or if we have someone design a new bridge, we give them complete responsibility. We give them freedom to make choices and judgments, and we give them great trust. However, we do not say they are free to invent their own theories, teach themselves, try out new ideas which they invented themselves that are not commonly accepted by the field. In fact, for these very critical jobs, we are very careful to make sure that their training is in line with the theories we believe in. We expect to have standards which they will follow, and we have checks and balances to make sure they don't do anything way out of line. This in no way limits their freedom, responsibility, capability for creativity, and freedom to make judgments when needed.

However, there is a tendency in running businesses to pick a person for, often irrelevant reasons, and then let him go headlong into the job without any discussion of theory, standards, or measurements, like you would expect a bridge designer, doctor or a pilot to follow.

When people are asked how they manage, they often use words from textbooks, but they don't explain what they mean, or maybe they don't understand what they mean. For example, it is so commonly believed in the circles we move in that giving someone P&L responsibility guarantees success, and the magic of those words makes everything work well. We often point out the failure of communism where entrepreneurs don't have P&L responsibility with freedom to make choices and decisions in investments, and they don't have a reward system for success and failure. So, from this we often, without much thought, conclude that simply saying the words P&L creates magic.

We, indeed, do see magic often when there is a group with one product who feel complete P&L responsibility, who can justify investments by their success, who can control their overhead, their R&D, and their expenditures on irrelevant things such as buildings, flagpoles and airplanes. They are forced to balance their income with their expenditures and forced to make a profit if they are going to grow and if they are going to have a reward.

Not all small groups with P&L responsibility survive. Those who are first interested in the accoutrements of the office, or those who can't add or subtract on the P&L statement, disappear quickly.

The thing that people find hard to understand is that, when you give P&L responsibility to someone running a third of a very large corporation, you do not give the motivation and reward system to those individual products upon which the success of the organization is dependent. In fact, it is much closer to the Russian system. Like the Russians, the top man has P&L responsibility. If this was enough, it would guarantee success

of the Communist system.

When the top man has P&L responsibility and he runs everything himself, the individual group is not motivated by the need to justify future expansion by results. There is no great motivation to cut costs when the expenditures don't balance the income. There is no great need to be creative in doing all the things necessary to make a profit. In an organization like this, it is clear that profit is a very unnatural thing because the pressure on expenditures is much greater than the pressure on income.

In the name of capitalism, we give P&L responsibility to the leader of a large number of groups, but we end up, from the individuals in the groups point of view, being very close to the Communist system. Investments are made by personality, politics and appearance, and no group has a feeling of controller influence on their future, or little upon their success. Unlike the agencies in the state of Massachusetts, the game is to politic for as much expense money as possible, because that is the secret for success and expansion.

My friends in charge of large segments would feel very hurt at this because they are very bright, competent, conscientious and economical, but even if they can't get around to admitting it, they don't have the time or energy to be the leader and take P&L responsibility for each of the multitude of units below them.

#### THE PLACE FOR STAFF

Staff can be very dangerous in an organization. Staff can really set all the goals and make all the decisions. They do so quietly, subtly, and because they are all good people, they do it unobtrusively. They simply don't let anything into the system that they don't approve of, and that means they control everything.

Staff is also not rewarded for getting jobs done, taking risks or normal success. Their only goal is to avoid trouble and mistakes, and it is not uncommon for them to tie the whole organization up with enormous red tape so nothing useful gets done.

However, staff is the secret to managing the Company. Staff is the key to success and staff is the one tool management has to run the organization.

The head of a large company or the head of a sector of a large company can only spend energy on a small number of most important things. There is a normal tendency for staff to do only those things which help the boss, and therefore, they concentrate all their effort on those small number of things which are most important to the boss.

The first thing the staff should do is concentrate on all those things that the boss is not concentrating on to make sure that they get due emphasis and concern.

The boss gets all his financial reports designed around those things he's most interested in, or all his responsibilities as a big glob. He has no tools with which to manage the details. Everything is glommed together or allocated arbitrarily. When he has to pass judgment on the cancellation or expansion of the product, the actual results of the product get lost by averaging and arbitrary allocation.

The people responsible for a product are devastated by the fact that their future is dependent more on averaging and allocations than upon actual result, and their enthusiasm for running their unit in a business-like way is clearly discouraged. The financial person who arbitrarily allocates the expenses has complete power over the success or failure of the project.

#### JANUARY 1990 FIVE-YEAR PLAN

The five-year plan I have asked the Management Sciences Group to collect, from all the units of the Company, during the month of January 1990, will hopefully demonstrate how the staff can be useful in managing the Company. They all must set up a program for collecting from each of the units the plans, results and data about the unit, be they very small or reasonably large. Their goals and plans will be clearly specified. Their measurements will be specified, and the results will be clear. Little or no arbitrary allocations will be used--just what they spend money on will be included.

This collection of plans should be of little burden to the sectors because they will be just recasting the figures they have to separate all the individual units and document them.

When we have all the separate units collected by computer, it would be easy to recast them to look at products and plans and to study questions that need to be answered.

From this, we can also quickly analyze which products have done well and which ones have done poorly. Then analyze which ones have advertised and which ones have done real marketing, and see it as a correlation between advertising and results of products. We can also figure out if there really was a plan to sell a product or if it was just planned to be developed and then got into production.

From this data, we should be able to find out if all the marketers in the Corporation are part of a plan, or if each marketing group does what's right in their own eyes. We also ought to find out if there are marketing groups that work for the "state" who decide which products they will market and which ones they will not, and if the decision is not left to the people who

supposedly have product responsibility.

We also ought to be able to pick out those products which may be good and may be a success as far as completion, but for which we have no plans to sell, and cancel them. Then cancel the development of those projects which don't include the plan to advertise and market.

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