

digital

E.C.

Rec'd 8/5

DIGITAL EQUIPMENT CORPORATION

Kenneth H. Olsen
President

Maynard, Massachusetts
01754-2571

5 August 1992

Mr. Edgar Schein
MIT/Sloan School of Management
50 Memorial Drive
Mail Stop: E52-583
Cambridge, Massachusetts 02139

Dear Ed:

For thirty years, I have preached that the basic principle of Digital's organization is to give people the freedom to take part in setting their own goals, the freedom to contribute, the freedom to take risks, the freedom to pursue contrary approaches and the freedom to have fun, excitement, enthusiasm and to enjoy their work.

This was based largely on my experience at MIT, but formally on the writings of McGregor and Sloan.

This freedom was dependent on a formal, stable budget, which was not to be stolen from at the whim of the boss.

I claim history will show the degree to which we had this, Digital did great. As we moved from this, we did poorly and the Company became very political. People were not happy with their work, and conflict ran supreme. I have given this lecture a thousand times, inside and outside the Company. People inside turn off the switch and do not listen any more. I sometimes think they believe in the theories of Sloan about delegation and freedom, but they believe it stops with them. They believe that for the tens of thousands of people under them, they need no freedom, should not be allowed internal competition, and the boss should make all the decisions. Often this means there should be no real budget because it limits the freedom of the boss to make arbitrary decisions at all times.

Everyone who reads Sloan and McGregor agrees with them. The ideas seem obvious, benign and easy. But, they are so much against human nature that they can almost be called unnatural. We admire the strong managers who are decisive, know what they are doing and gives clear,

concise orders. American businesses believe in democracy, but run their companies like Communists used to run their country. Their argument, of course, is we cannot afford democracy and freedom inside the Company.

Of course, as in Communist countries, the contest with freedom quickly becomes not one of philosophy and theory, but one of power and perks.

In times past, but with sheer logic and some pain, I was able to redirect the Company. These management principles sounds gentile and benign, but they demand a tough manager. I ran out of toughness.

Over the last six years, a small handful of managers dominated the Corporate budget. Budgeting is how you control the Company. They were able to divvy up the budget between themselves, and therefore, were in absolute control of the Company. Each year, I tried to reform the budgeting system, but was frustrated. I received almost no cooperation from anyone.

The foolishness of one individual making all the decisions for tens of thousands of people and having absolute control, and therefore, absolute control of the future of the Company, I always thought was obvious, but it never was to anyone else.

It was arranged that these people had absolute power, but they were not measured or responsible for anything. Little by little, I did get a measurement system for these people, and, as a result, they left the Company. Each year, I was sure I was getting the Company under control but, with no support and because I was not tough enough, I continued to fail.

This year, I was sure I had the Company under control, but the budget ended up not being by Business Units, where decisions could be evaluated for business reasons, but top down, functional budgets which were given to people according to their power, their traditional influence in the Company and their capability of intimidating others.

I have started some ideas that people have promised to complete that I feel will get rid of much of the stupidities of the current dictatorship. These ideas are so obvious, I am embarrassed to put them down.

Mr. Edgar Schein

Page Three

1. Budget by Business Unit, which means making decisions for business reasons and not by the power and influence of functional managers.
2. Introduce Flexible Manufacturing which, if pursued, should eliminate all the nonsense of building products and software just to keep the engineering budgets high.
3. Have a selling department which only sells. This eliminates all the engineering, marketing, order processing, system design and controlling of services, which gives the field enormous power and inefficiency which frustrates the Business Units.

I think the Company may continue these programs and become profitable very quickly. However, it does not solve the problem or even raise the problem of how we run the Company, but it might destroy much of the dictatorial power structure and allow the Company to start over again. On the other hand, it might profligate the dictatorial theory, and I might be partly guilty. If this is a success, as I am convinced it will be if followed, it could be used to prove the effectiveness of a dictatorship. I, indeed, did invent this, did force it and drove it in the sense of a good dictator. I even designed the products in detail.

It would be ironic if I, with the help of the very enthusiastic group of engineers who, with great passion, have worked day and night for months, leave the techniques that make the Company profitable again, but at the same time, leave it all for another round of dictators.

I am passing the story on to you because as a long term consultant to Digital, who has taken part in our discussions of principles and management technology, you should have an insight and you might help the Company recover from my failures.

With best wishes,

Sincerely yours,

KHO:aj

cc: Executive Committee