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INTEROFFICE MEMORANDUM

Doc. No: 030354
Date: 21-Aug-1992 01:48pm EDT
From: Ken Olsen
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Dept: Administration
Tel No: 223-2301

Bill Stuel
TO: See Below
CC: Win, Bob, Kollars
Subject: THE REVOLUTION

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I am going to jump on you for something you said. I will first apologize, because I am sure you did not mean it, and I am sure you understand these things better than I do.

You said you plan to have the Company evolve into Business Unit management. This, of course, is absolutely ridiculous. You do not evolve into something like this. This takes a revolution with all the pain, the hurt feelings, and the trauma, and it has to be done thoroughly and all at once or you will never have Business Unit management. If the functional managers, who divide the budget today, without any relationship to profit, say they want to sample the opinions of the Business Units and take these samples into account when they lay out their plans for the Company, this is not Business Unit management. Business Unit management is very simple. It cannot be compromised or it will not work.

With Business Unit management, the budget of the Corporation is the sum of all Business Units. Each Business Unit has responsibility for making profit. They have the authority necessary to fulfill their responsibility. They work out the details, order the materials and services that are necessary. Each one runs a part of the Company and the sum of them is the total of the Company.

Each Business Unit orders and pays for specific services from the functions. These are Engineering, Manufacturing, Selling, Corporate marketing, Corporate legal, Corporate finance, etc. These functions do not make profit, they only supply services and get paid for those services which are ordered and paid for by the

Business Units. This is a radical change from functional management with no profit plans. It is a gross change in the power structure. It means those groups, which now run the Company, serve Business Unit managers.

Asking for evolution is like asking Russian bureaucrats to evolve toward democracy. They have all the salary, perks, and power, and it would take a million years to evolve into a democracy.

I believe with today's budget the Business Units would, for a small amount of money, promise to sell \$16 billion in products, but the functions want to spend that money making computers.

KHO:pm
KO:7685
(DICTATED ON 8/20/92, BUT NOT READ)

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