Deles' story on DEC 98

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REFLECTIONS ON EXPERIENCE

Editor's Introduction

BARRY Z. POSNER

Peter S. DeLisi's story about Digital Equipment Company (DEC) is an insightful and poignant firsthand reflection about growing companies, corporate failure, and leadership. However, it is neither the full story nor the last or final story about DEC.[1] Indeed, the title "A Modern-Day Tragedy" is itself something of a misnomer. There is nothing particularly modern-day about the treachery of hubris for organizations or their leaders.

Success can be intoxicating. It's gratifying to be on top and exhilarating to have scores of people cheering your every action, if not your every word. DeLisi writes about this as "arrogance." In more subtle ways than most of us would like to admit, we can be seduced by our own power and importance. Perhaps that's why Intel's Andy Grove focuses on being a "healthy paranoid."

Consider these fundamental contradictions: Promoting innovation and change, taken to extremes, can create needless turmoil, confusion, and uncertainty. The singular focus on one vision of the future can blind us to other possibilities as well as the realities of the present. Exploiting our powers of inspiration can cause others to surrender their will. Overreliance on collaboration and trust may indicate an avoidance of making critical decisions or cause errors in judgment. An obsession with being seen as role models can push us into isolation for fear of losing our privacy or of being found out, or cause us to be more concerned with style than substance. Constantly worrying about who should be recognized and when we should celebrate can turn us into little more than gregarious minstrels. Finding the balance and staying in balance—now there's the trick.

JOURNAL OF MANAGEMENT INQUIRY, Vol. 7 No. 2, June 1998 116-117

DeLisi writes with the passion of a true believer in DEC, and his article becomes a fast read; still, the underlying premise lingers on. For as interesting as the DEC story may be, even more important, in the midst of our striving to be successful is: Could this happen to us? Or, as Edward H. Schein's commentary asks, "Success for what, and when?" These reflections make this a valuable and provocative case study for use with both students and practitioners.

NOTE

1. On January 27, 1998, Compac Computers made a $9.6 billion purchase of the Digital Equipment Company. The second largest computer company in the world during the 1980s no longer exists.

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REFLECTIONS ON EXPERIENCE

A Modern-Day Tragedy

The Digital Equipment Story

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One of the giants of the computer industry is literally faced with the danger of extinction, or at least faced with the prospect that it will never again be the company it once was. Already, the proud symbols of its once glorious past—the bell tower and the Civil War mill—are gone. What happened to Digital Equipment Corporation (DEC)?

Many reasons can be given for the woes of DEC—the wrong products, missed marketplace opportunities, a lack of marketing know-how, political infighting, a lack of leadership, cost inefficiencies, lack of vision—but none of these alone accounts for the dramatic and precipitous decline of one of the great industrial stars of the 20th century. One needs to look more deeply to understand the factors that contributed to the current crisis. I will argue that DEC's failure was the result of the particularly unique intersection of cultural and strategic factors.

There are many lessons to be learned from the DEC case study. Indeed, when I have presented the DEC case to worldwide audiences over the past 2 years, a number of corporate attendees have been visibly shaken by the experience. Reflecting on the similarities to their own current situation, they have commented to me, "My God, that could happen to us."

The major lessons that I will sketch out from the DEC case study are as follows:

1. Failure, just like success, is never the result of any one thing. Failure is usually the result of many things coming together in a particularly unique way. Sometimes, the secret is to unravel first the pattern of one's success, because it may contain the clues to one's potential failure.
2. Paradoxically, we are most vulnerable at the very height of our success. It is at that time that we are most in danger of becoming arrogant and closing ourselves off to outside influences.
3. Seemingly trivial symbols may hold the ultimate clue as to what is happening in a company. In retrospect, the "DEC Nod" (defined later) was an early warning sign that something significant was occuring in the DEC culture.
4. A company must continually redefine itself and absolutely cannot afford to have its identity erode before it has redefined a new core identity for itself. One powerful way to do this is through a formal strategy development process. Strategy is something that everyone can contribute to, but the leadership for the process and the vision must come from the top.
5. Culture, as Ed Schein (1992) reminds us, is a pattern. It can be a source of great internal solidarity, but not as well understood is its role in bringing products and services to markets. Unfortunately, most companies

JOURNAL OF MANAGEMENT INQUIRY, Vol. 7 No. 2, June 1998 118-130

would not be able to adequately describe their culture, much less describe the unique patterning of its core beliefs. Without this understanding, how does a company make sure that it isn't doing things that will destroy this pattern (as DEC did) and, in the process, undermine the very fabric of the organization?

I was a DEC employee for 16 years, from July 1977 through October 1993. During those years, I watched a gangly, unsophisticated company become a dominant force in the computer industry. I also watched as this same great company sowed the seeds that eventually led to its precipitous fall.

In this article, I will describe what it was like to work at DEC during those wonderful growth years, capturing in the process two elements that I believe were integral to DEC's success: its strong, open, balanced culture and its person-centered approach to computing. I will also describe the arrogance that insidiously crept into the DEC culture and that, I believe, ultimately led to its current crisis.

During my 16 years at DEC, I held a number of positions: product line manager, sales training manager, sales manager, regional director of marketing, and most recently, management consultant. I spent 8 years in this last position, helping DEC's large customers deal with issues concerning business strategy, information technology, and organizational culture. Unfortunately, for a lot of reasons that I will detail, I was not able to help DEC deal with these same issues.

I enjoyed a very unique role during my last 8 years at DEC. Although participating in the real-life drama that was unfolding, I was nonetheless a clinical observer of the underlying dynamics. It reminds me of those contemporary stage events in which the audience is also part of the unfolding plot of the play. This article will, therefore, uniquely combine my experience as a DEC employee with the perspective of an outside management consultant skilled in interpreting what he observed during those years as an employee.

MY EARLY YEARS AT DIGITAL

I joined Digital in July 1977, the year when the company achieved two major milestones: $1 billion in sales and the introduction of the VAX computer. My first introduction to the company was the interview process. Although I had been aggressively recruited, it felt strangely like the courtship process in my parents' native Sicily. Everyone got to say whether they liked me—my prospective boss, his boss, his boss's boss, prospective peers, prospective subordinates, administrative support people, and a few others thrown in for good measure. Later in my career, I was to learn the reason behind the extensive interview process: Newcomers weren't just joining another company, they were joining the Digital family and therefore had to be approved by the other significant members of this family.

Going to Digital after 11 years at IBM was quite a culture shock. Indeed, my immediate Digital manager had warned me that it would take at least a year to get over the shock. The two companies were as different as night from day. IBM was a large, well-managed company; Digital, by comparison, seemed small and very unsophisticated.

My first exposure to Digital executives was no exception. I heard DEC founding father Ken Olsen speak to a group of Digital employees and it was abundantly clear to me that he was no Tom J. Watson, Jr., the former legendary chairman of IBM. My reaction was one of bewilderment as I tried to capture the main points of a talk that seemed to jump all over the place. I remember being seriously distressed that I had made the wrong career decision. I had left one of the world's truly great corporations to join one that showed absolutely no external class. And what's more, its leader talked in parables that I couldn't understand. But as I was to subsequently discover, underneath the apparent simplicity and perhaps rambling style of this engineer from MIT, was an incredible wisdom.

Later, I was to experience the individual autonomy and empowerment that existed in the Digital culture. Once again, I was to contrast this with my IBM experience by making the observation that it seemed to me like a good-news/bad-news story. The good news about IBM was that whatever responsibility you were given, you owned the whole thing; the bad news was that it was extremely small. The good news about Digital was that you could assume whatever responsibility you wished; the bad news was, so could everyone else. And as a result, lots of people ended up doing the same things.

I was to learn that it didn't make any difference where you were in the organization. If you saw an opportunity and believed you had the talent to apply to it, you could make a proposal and be assigned the responsibility to carry it out. "He who proposes, does" was more than an accepted practice; it was a deeply held value of the company.

In those early years, I also learned about "push back." People at Digital seemed to fight a lot with one another. Shouting matches were a frequent occurrence, and I came to conclude that Digital people didn't like one another. I was subsequently told by more senior members that it was okay to disagree with someone, because truth would ultimately prevail. These people didn't dislike one another; they just believed strongly in their point of view. In fact, I was told stories about people who had gone all the way to Ken Olsen and ultimately prevailed because they were so strongly convinced of the merits of their argument.

Over the years, I'm ashamed to admit, I became quite fond of these heated exchanges. After one of these exchanges, one in which I almost came to blows with one of my peers, I was called in by my manager the next morning. Sensing that this time I had really exceeded the bounds of propriety, I thought about updating my résumé. It was with great and pleasant surprise that I was told that my behavior the previous day had been admirable. I had stood up for what I believed in, and as a result, the whole group had benefited from the final conclusions that we had reached.

In those early years, I learned more about the family belief in Digital. In addition to the extensive interviews that I had experienced earlier, I was to learn about team play, consensus decision making, and "buy in." At first it appeared incongruous to me; people would fight like crazy over ideas, and yet really seemed to care about teamwork. It wasn't just words. Teams existed at every level.

I also got my first lesson in the veto power of the Digital culture. Whereas it was true that the people in Digital were tremendously empowered, it was also true that they had to get the buy-in of all those affected by their proposed actions. This could lead to endless rounds of meetings, negotiations, and frustration. I was later to describe this phenomenon by complaining that, "It seems that everyone in Digital can say 'no,' but no one can say 'yes.' "

DIGITAL'S HISTORICAL SUCCESS

Digital was founded in 1957 and enjoyed an unprecedented growth rate in the marketplace. Few, if any, companies had ever previously grown to $1 billion in sales in such a short period of time. From the beginning, its approach to computing and the way it did things internally were very different for a company in the 1950s.

During those early years I was at Digital, no one internally ever seriously questioned the reasons for our meteoric success. Being an engineering company, it was generally accepted that it was because of our superior products. Coming from IBM, I was skeptical that such an upstart could ever build products better than the industry leader, but as I became more exposed to the technology, I remember being truly impressed with the ease of use and the power of the products.

A real turning point for me was a piece of research I conducted in 1986. By now, I had migrated to consulting and had become interested in the very different approach IBM and Digital had taken to network architecture. While at IBM, I had become acquainted with systems network architecture (SNA), and more recently had become acquainted with Digital's network architecture (DNA). These were two very different philosophies: IBM's control philosophy versus Digital's trust philosophy. In fact, I remember one of the individuals at Digital at the time contrasting these approaches by saying that in the former approach, "everything which is not expressly permitted, is prohibited; whereas in the latter approach, everything which is not expressly prohibited, is permitted." I remember this statement having quite an impact on me.

As a result of my research, I was to later conclude that the differences in network architecture between the two companies were not accidental: They reflected the internal cultures of the two respective companies. Systems network architecture reflected IBM's own internal top-down, authority-centered culture, whereas Digital's network architecture reflected its own highly empowered, person-centered culture.

This conclusion led me further to investigate these philosophical differences and to observe how these patterns appeared to be microcosms of the wider societal changes that were occurring at the time. As a result of this research, I came to believe that Digital's success was due to the fact that it introduced a style of computing that anticipated a major societal value shift. This latter shift from authority-centeredness to person-centeredness would eventually influence everything from the way we raise our kids, conduct psychotherapy, and run our organizations to how we compute.

I believe that, in reality, Digital introduced person-centered computing, a philosophy in which the person was the center of the computing universe instead of the organization. This was a major revolution in computing at the time that was not unlike, by analogy, the Copernican revolution centuries earlier. The user would henceforth be the center of subsequent developments, a trend that has prevailed, and indeed grown stronger, to our present day.

In retrospect, it appears now that Digital was in the right place at the right time and never consciously recognized that its core competence was person-centered computing. I remember an exchange in 1990 when a number of internal consultants, myself included, were asked what they thought Digital's core competencies were. The answers included a variety of responses: items such as networking, silicon, minicomputers, software, and so forth. This was the first occasion for me to formally introduce the person-centered label. I was to subsequently use it in memos to Ken Olsen and several other members of the executive committee, but it never stuck. I wonder now what would have happened if we had consciously recognized that our core competence was person-centered computing? Perhaps, for example, we might have seen desktop computing as a natural extension of this philosophy and not missed the desktop market so badly.

Along with the conclusion that a company will often introduce products that are an outgrowth of its own culture, my research also revealed that a company can use its own internal culture as a source of competitive advantage. In the case of DECNET, Digital had introduced a peer-to-peer network—a radical departure from IBM's hierarchical network philosophy. This former approach was merely a reflection of the way employees at DEC communicated interpersonally, so it became a natural way to think about communicating electronically. People in Digital understood quite well what it meant to be able to communicate peer to peer with anyone in the organization, regardless of status or position, and therefore could design an electronic network that accomplished this same objective. This cultural learning thus became a tremendous source of strength and differentiation for Digital.

Over the years, I came to attribute Digital's tremendous success more and more to its culture. Additional research affirmed for me the uniqueness and strength of the core beliefs and the role they played in fostering innovation, industriousness, and team play. It is fair to say that in those years, Digital truly had an open, adaptive culture. Ideas came from many sources and found their way to an empowered workforce, who then took the ideas and proposed creative ways that the company could adopt them. It was truly an exciting time to be working at Digital. In the 1970s and 1980s, we already had a culture that would be the envy today of many companies.

It was only during my last 2 years at Digital that I came to the realize the true magic of the Digital culture. Ed Schein and others had always maintained that "culture is a pattern of beliefs." As a result of my work with Ed, the research of others, and 14 years of observation, I had been able to put the following words on the individual core beliefs: (a) People are creative, hard-working, and capable of governing themselves; (b) truth is discovered through conflict; and (c) Digital is a family.[1] But as yet, no pattern had emerged for me.

I searched for the pattern that tied together Digital's individual core beliefs for years. What intrigued me was the fact that I had observed some of the same individual beliefs in other companies that I had consulted with, but none of them had the same cultural intensity or the success that Digital enjoyed. For example, I saw other cultures that had strong family beliefs. Most of these cultures also had participative decision making. But in the case of these latter cultures, the slowness of decision making severely bogged down the whole company. Nothing ever seemed to get done. Consensus decision making took time at Digital, but it was nothing like the time it took at these other companies. In Digital, there seemed to be an imperative to action that overcame the slowness of decision making.

I don't remember exactly when or how the realization finally came to me. My strongest recollection was a meeting with one of our senior vice presidents in which I went to the board and described this cultural pattern for the first time. Perhaps, in a previous moment of insight, I had questioned the assumption that the core beliefs were all of equal importance. In any event, I had come to believe in the primacy of the family belief. The diagram on the board showed a balance beam, with the family belief counterbalancing the two very strongly opposed beliefs that dealt with truth and people empowerment.

Once I discovered this cultural pattern, I looked back at the observations of the previous years and was amazed that I had not seen this balance pattern before. I recalled many heated exchanges in pursuit of the truth but, somehow, always at the bounds of propriety. There was an undrawn line that one dared not cross. I also remembered many entrepreneurial efforts that were initiated by individuals. But again, people who were affected by these entrepreneurial efforts had to buy in to the decision. There was a check and balance that kept things from getting out of control. Left unchecked, the people belief could have led to extreme individualism and to narrow self-interests. The truth belief could have led to incapacitating internal dissension and strife.

In the case of Digital, the check and balance was the family belief. It allowed us to blend uniquely individual empowerment, entrepreneurialism, and a relentless pursuit of the truth with a respect for other members of the Digital family. We learned that even in a highly individualistic, person-centered culture, there was something more important than the person—namely, the Digital family. In a small way, we had learned how to resolve the tension that exists in so many organizations, and indeed American society, between rugged individualism and the greater good of the group. To understand what subsequently happened to Digital, one must understand both the strength of its family belief and the synergy that resulted from the cultural balance.

THE DECLINE OF DEC

Earlier, I observed that, over time, I would develop a profound respect for the wisdom of Ken Olsen. Although his speech was somewhat cryptic, I came to appreciate the incredible depth of this man. Not only had he created one of the most successful start-ups in history and taken it well beyond the point of most founders, he also anticipated by some 30 years a way of working and a set of values whose power we can only appreciate today.

One of Ken's deepest concerns was success. On many occasions, he related his fear that success would sow the seeds of eventual failure. In a speech at MIT in July 1987, Ken conveyed this fear when he said, "Success almost completely destroys entrepreneurial spirit. It stops one from taking risks . . . and one loses the humility necessary to learn" (DEC, personal communication, July 5, 1987). In retrospect, it now appears that Ken was very prophetic, because the stage had already been set for one of the greatest falls in the history of the computer industry.

A major turning point for Digital was the period from 1986 to 1988. Whereas other companies in the computer industry were struggling with a deep recession, Digital was enjoying unprecedented growth and popularity. It seemed like every week a new editorial piece appeared lauding Digital's accomplishments. One example was Ken Olsen, shown on the front cover of *Fortune* magazine, in his canoe. The accompanying article went on to describe Ken as perhaps the greatest entrepreneur of all time.

When I joined Digital, I had always been impressed with its conservative, New England approach to business. I remember quite clearly reading in our corporate philosophy that growth was not a goal of Digital Equipment Corporation. We wanted to be a quality company, and if we were, growth would come as a byproduct.

Abandoning our historical philosophy and our usual cautious, conservative posture, we decided to aggressively go after IBM's market share. The rallying cry of the company became "2004!"—the year when (at our present rate of growth) we would overtake IBM in revenues. The feeling among the troops in those days was one of unbridled confidence; it was almost a feeling of invincibility. Nobody could stop us now.

Plans were put in place to support this aggressive growth posture. Senior people were brought in from outside, many of them from IBM, and investments were made to support this anticipated growth. During the 2 fiscal years from 1986 to 1988, we added 26,800 people to our workforce, a net increase of 28%. But unfortunately, the meteoric growth of the previous years came to a halt. For whatever reason, Digital's growth in the ensuing years leveled off and then began to decline. In retrospect, we can now see in 1988 we were on the leading edge of a major shift in the computer business. The computer industry, which had always enjoyed unprecedented growth rates, was entering maturity and along with this, a new era of intense price competition and resulting cost cutting. And so, Digital was left with the prospects of flat or declining growth at a time when it had just added significant levels of fixed expense.

At the same time, other changes were beginning to happen. Somewhere along the way, I don't know exactly how or when, Digital lost something. Writers, such as John Kotter and James Heskett (1992), talk about arrogance creeping into a successful organization, and maybe that is what I witnessed in those days. My most dramatic recollection of it was something we would subsequently label the "DEC Nod." This referred to the polite acknowledgment of another's inputs, although secretly dismissing these inputs as irrelevant or as inferior to one's own thinking.

The way this would be manifested took many different forms. In its simplest form, it would be a tacit agreement with another's point of view, with no follow-up action or changed behavior resulting from that agreement. In its more complex forms, it would represent a visible commitment to include someone who had a contrasting viewpoint or product approach in subsequent deliberations. But again, these subsequent deliberations never seemed to occur. It would be years later before I would realize that individuals in Digital no longer believed that someone else had the right answer.

I believe that this failure to value someone else's ideas and inputs also translated itself into an unwillingness to value external inputs and to take note of what was happening on the outside. For years, Digital had been known as the minicomputer company, an area Digital dominated in the industry. But as the industry differentiated, Digital had used its product excellence to build respectable businesses in networking, software, and many other lines of business.

As Digital's lines of business proliferated, we reached a point where we were confusing both our sales force and our customers about who we really were. I remember numerous discussions in those days with key customers who would ask, "What business is Digital in?" Unfortunately, we failed to take note of these repeated inputs, but most devastating by far was our failure to note the erosion of our core identity as the minicomputer company. Unnoticed by Digital, the computer market had differentiated and we were no longer dominant in any segment of this differentiated market. At the time, you couldn't name one market segment where Digital would be the first company to come to the minds of our customers. We were in every segment you could imagine: mainframe, network, desktop, workstation, software, fault-tolerant, to name a few—but sadly, were not dominant in any of them.

In those days, it was very difficult and frustrating to try to get our senior management to recognize the need to develop a future vision for the company. Many of us tried but failed. I was told by people I highly respected that Ken believed a formal strategy would limit the creativity and entrepreneurialism of the people. To this day, I sincerely believe that he acted in good faith and truly believed that strategy was not the issue.

In a long memo to Ken Olsen in 1991, I used the example of the Persian Gulf War to illustrate again the need for a new, redefining strategy for the company. In a response to this memo, he replied,

> Strategy is useless without a trained, organized, supplied and motivated military. But the strategists of this war showed two very important characteristics, and they freely adapted these to the conditions as they found them.
>
> They also freely probed, investigated, and tried things, and they adapted to what they learned. The leaders, who depended on many people, got information from everyone. But the strategy was not a participatory activity. It was clear where the responsibility lay, and they needed no meetings, arguments, discussions or red tape to adapt to the conditions. (K. Olsen, personal communication, March 7, 1991)

As with so many Ken Olsen discourses, I knew there was significant meaning here if I could only unravel it. I never had the chance to discuss with him what he really was trying to tell me. Did he mean that we lacked a trained, motivated workforce, and therefore a strategy wouldn't work? Or was he saying that he had a strategy for the company and it was his responsibility to discharge it? Either interpretation does not make sense when you consider that Ken created a culture that highly valued people and a culture in which strategy development would most likely have been a highly participatory activity.

Frustrated by our inability to move the company toward a clearly articulated strategy, some of us attempted creative alternatives. On one occasion, we even discussed bringing one of the geographic management teams together to develop a corporate strategy. We envisioned that someone would then present the resulting corporate strategy to the executive committee. When asked why we were doing this on behalf of the corporation, we were going to reply that, "We needed to make some assumptions to run our business, so if they weren't coming from the top, we would create our own." The problem was that no one wanted to go to the executive committee with this message.

In the meantime, financial woes began to accumulate for the corporation. In 1990, we announced our first-ever quarterly loss, and in fiscal year 1991, we reported an annual loss of $617 million. Profit margins declined and people were scrambling to figure out what to do. In the midst of all this, a seemingly minor move turned out to have a significant impact on the future of the company.

Up to this point, amid mounting cost pressures and a system that was becoming increasingly closed to outside market conditions, its constituencies, and internal input, the culture remained strong and, in my opinion, balanced. A series of events, however, caused it to become unbalanced.

First of all, Digital attempted to implement a form of an internal market economy. The theory, as espoused by Russell Ackoff (1994) and others, is that an internal economy causes internal businesses to operate much as external businesses do, that is, to compete for business based on the value that they provide. This value is objectified in the internal economy by establishing a price that is charged to other internal users for the products and services rendered.

In the application of this theory at Digital, the sales force became the center of operation. Individual account managers were assigned profit-and-loss responsibility for their respective accounts. The idea was that the sales force would buy products and services internally, mark them up with some appropriate margin, and then sell them to their customers. Two flaws appeared early in the implementation: first of all, the sales force could not buy products on the outside. Therefore, market competitive forces did not prevail. Second, because every major function was being measured on profit and loss, each of them would add a markup to their products and services, with the result that by the time the sales force added up all the markups, the price to the customer was prohibitively expensive and therefore noncompetitive.

As a result of this inflated markup, negotiations took place to get the internal functions to lower their price to the sales force, so that we could price the products and services competitively. Much time was spent on this activity, and perhaps this normally would have been a healthy way of learning, except for the pressures on everyone at the time.

Cost pressures and eroding market share made the internal economy more than an exercise in organizational theory. Many times in the past, Digital had adopted a new organizational theory and then promptly discarded it because it didn't work. This was a true measure of Digital's open, adaptive culture. It would often be the first to try a new organizational idea but, at the same time, was adaptive enough that it would go back to the old way of doing things if it didn't work. This time much more was at stake.

The internal market economy provided an accountability that had always been lacking in Digital. Unfortunately, one of the disadvantages of a highly empowered culture is a lack of discipline and accountability. In this regard, Elliott Jaques (1990) is probably correct in saying that we have not been able to find any other organizational form that provides the accountability of the hierarchy. But at least in Digital's case, the internal market economy gave us a way to measure individual achievement that we had not had before.

The cost pressures on the company, together with a way to hold individuals accountable, led to a preoccupation with measurements. The assignment of profit-and-loss responsibility to individual salespeople caused an inordinate amount of time to be spent fighting over who got credit for what and who got charged for what, rather than concentrating on the important aspects of the business. Perhaps more critically, the measurement of individual performance was strongly opposed to a culture that had always emphasized the good of the whole family rather than that of its individual members. I was to learn how very difficult it is to get people to work together as team members when they are rewarded and held accountable for individual achievement.

I spent some time in those days with two members of the executive committee who I greatly respected. I shared with them my concerns over the new management system, as the internal economy was called. I highlighted my concerns that a culture that was so delicately balanced by a family fabric might not do well if this fabric were weakened. An overemphasis on individual entrepreneurialism, along with the conflict over measurements, could destroy that delicate balance.

In retrospect, it appears once again that the movement to an internal economy was well intentioned. I was led to believe by respected sources that Ken Olsen saw the assignment of profit-and-loss responsibility to the sales force as a way to further empower those people closest to our customers. Unfortunately, it instead became an instrument of those who wished greater individual accountability in the corporation.

This individual accountability, in turn, distorted the delicate cultural balance and led to defensive self-interests, short-term behavior, risk aversion, and conflict.

In May 1992, amid continuing financial difficulties, the company offered an optional early-retirement package. I declined the offer and subsequently wrote to Ken Olsen and to other members of the executive committee:

> I watched silently last Friday as each Digital retiree rose to be recognized, and then, quietly slipped away to take their place in Digital history. This was a ceremony not unlike many I had witnessed before on various occasions, yet there was something different about this one. The lump in my throat and the tears in my eyes told me that this was no ordinary parting. As I reflected on it, it occurred to me that these were not employees leaving their corporation; these were people leaving the Digital family.
>
> This experience has left me personally stronger and even more convinced of the strength of the Digital culture. It also affirmed my decision to stay and to work even harder to preserve those fundamental beliefs that have made us the great corporation that we are. I continue to believe that the belief, "Digital is a family," remains primary among those beliefs and holds the key to our future success. (personal communication, June 5, 1992)

Little did I know at the time the painful events that were to follow.

In either the summer or fall of 1992, I don't remember the exact date, Digital announced its first layoff in history. Rumors had been circulating for months that this layoff would occur. Our VAXNotes bulletin boards buzzed with discussion about the events that were occurring. For those of us in Santa Clara, California, the layoffs seemed somehow very distant. Thousands of miles separated us from the painful reality of what was happening. But underneath our apparent calm, many of us worried that the company would never again be the same. The first layoff was painful, but somehow we all hoped it would be the only one and that we could get back to business as usual very quickly. Months later the second layoff occurred, and we knew now that this was no single, isolated event.

As I think back on those days, the events surrounding the layoffs seem like a blur. I remember the rumors preceding each layoff, the anxiety surrounding each one, and then the relief that our group was not affected. But each time, the reality came closer and closer, and it became harder to concentrate on one's work.

Many of us continued our attempts to influence the strategic direction of the company, but now memos were falling on deaf ears. With the exception of a few senior executives in Digital, most of the others had always been poor in acknowledging correspondence. I attributed this to a lack of class in the early days, but now the system was closing down and executives would simply ignore all inputs.

As the layoffs increased and affected more and more people, it became more difficult to find out what was happening. A significant advantage of our peer-to-peer culture had been the ability to get information directly from many sources in our personal network. Digital was truly one of the forerunner networked organizations.

I remember one especially poignant discussion with one of my consulting colleagues. We were discussing how the personal network all of a sudden seemed especially quiet. I thought his subsequent explanation to me was especially insightful, as he observed how a networked organization that all of a sudden loses some of its "nodes" loses the ability to communicate with the wider system. Dynamic reconfiguring of that personal network takes more time than does reconfiguring an electronic network.

The layoffs dealt a death blow to the Digital culture. The strong family fabric, which had held Digital together for more than 30 years and been the ultimate source of its great strength, was devastated by the layoffs. Again, one must understand both the strength of this family fabric and the role it played in balancing other opposing beliefs to understand why the layoffs set off such a dramatic chain of events. One doesn't ask members of a real family to leave without serious, traumatic consequences for the whole family. To make matters worse, the patriarch of the family and the source of its great inspiration was also asked to leave.

In October 1992, we got the word that Ken Olsen had resigned. Many of us who truly loved Ken were in shock. We speculated about his successor and continued to worry about our own personal fates. The word finally came later that month that Bob Palmer had been named the new chief executive officer of DEC. The rumor that he had not been Ken's choice further heightened our anxiety. Our worries didn't lessen when Bob Palmer announced his intentions to change the Digital culture because it was the source of many of our problems.

In the meantime, it was clear to everyone that with Bob's arrival, we had embarked on an even more severe round of cost cutting. Bob announced his intentions to significantly downsize the company. Morale, which was already bad, plummeted even further. People spent hours discussing what was happening to our company and whether there was anything we could do to save it.

The layoffs didn't work and Digital continued to bleed financially. Productivity continued to fall almost in direct correlation as more and more of us, sensing imminent doom, updated résumés and began exploring options on the outside.

New senior management people appeared from other companies. Each brought their own unique ideas and their own style of working. Many of them came from IBM, leading some of us to question why we were bringing in executives who obviously hadn't been able to keep IBM out of trouble.

The layoffs came closer and closer and each day we said good-bye to more and more friends. The same people who had made Digital the great company it once was were being replaced by a management team that had insulated itself from any of our inputs. It was as if they thought we were the cause of the problem.

At 3:00 p.m., on Monday, September 27, 1993, the phone rang in my office. I still remember vividly the ominous nature of that ring. I picked up the phone, and for a moment, time stood still as I realized that the time had finally come for me to take my place in Digital history. The words of my earlier memo on the occasion of Digital's optional retirement ceremony rang in my ears as I put down the phone. "But why the tears? Was I crying because of their loss to me, or because of their loss to the Digital family? Or was I crying for myself, anticipating the day when I too will leave the Digital family?" It had indeed come time for me to leave the corporate family that I had loved very deeply. I took early retirement from Digital in October 1993.

It now appears that a downward death spiral has taken hold of the company, as layoffs have weakened the spirit of the company, the lowered morale has resulted in lowered productivity, the lowered productivity has caused further losses, further losses have led to additional layoffs, and so on. (See Figure 1 for a view of Digital's corresponding market decline.) Tragically, the DEC Nod has become a way of life and is no longer the innocent expression of a once proud company. The company will never again be the company it once was.

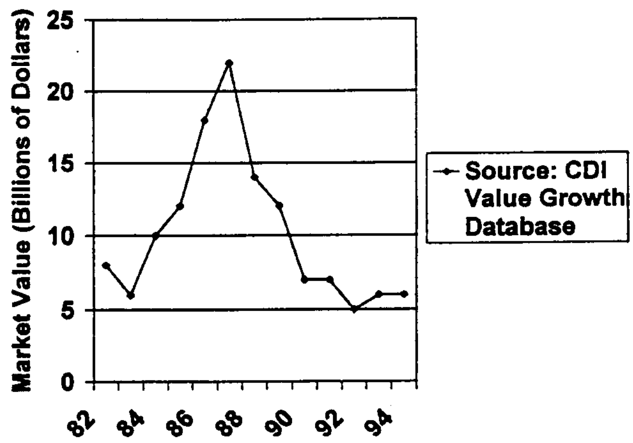

Figure 1: Digital Equipment Corporation value migration

CONCLUSION

The Digital case is complex, and I would be naive to suggest that I could offer a comprehensive model that captures the lessons to be learned and therefore would provide other companies a simple way to avoid a similar fate. As I have argued, the Digital case involved the unique intersection of a number of strategic and cultural factors. Chances are this exact scenario would not be repeated in many other companies. Nonetheless, there are some powerful lessons that can be transferred to others, and it is appropriate to spend a few closing paragraphs summarizing them.

Figure 2 summarizes the progression of events as I have previously described them. In the process, it also attempts to capture some of the causal relationships among these events.

Paradoxically, we see from Figure 2 that the root of Digital's problems was its tremendous success—especially significant because it came at a time when Digital's main competitors were experiencing severe difficulties. This success led to excessive self-confidence,

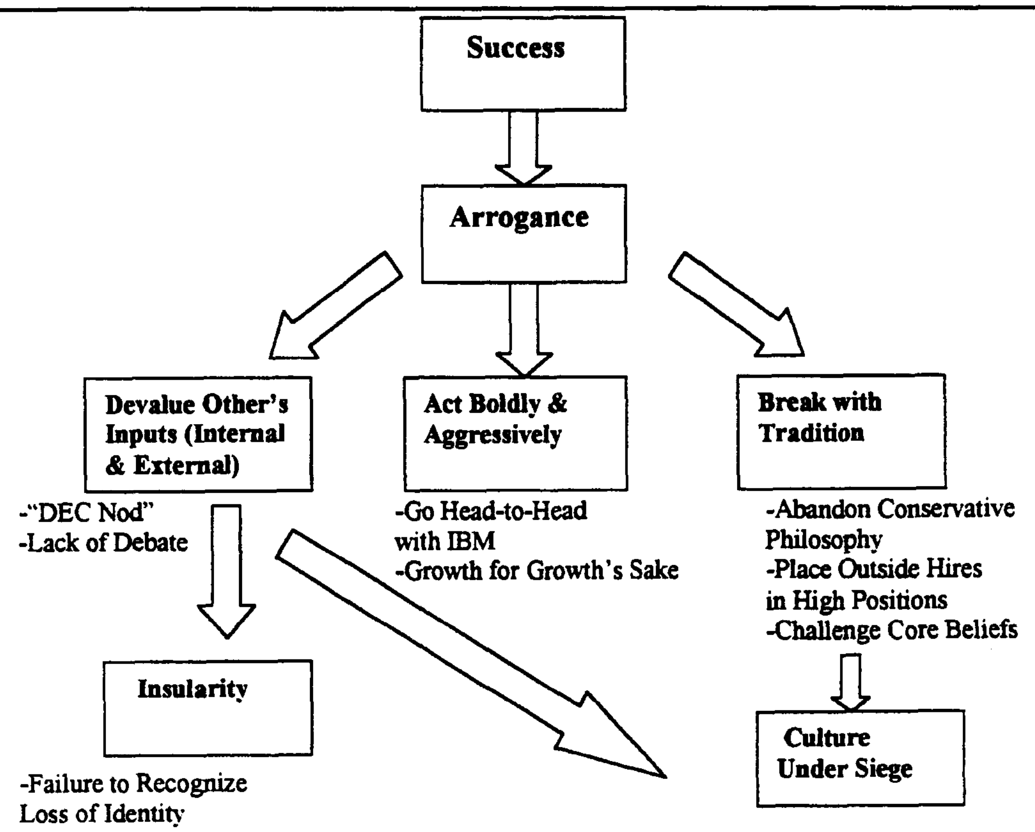

Figure 2: The root of the problem

or what I have labeled arrogance. This arrogance, in turn, led Digital to (a) devalue others' inputs, (b) act boldly and aggressively, and (c) break with tradition. Devaluing others' inputs led, in turn, to Digital's insularity and, ultimately, to its failure to recognize the erosion of its identity in the marketplace.

Acting boldly and aggressively was the second effect of arrogance. This boldness and aggressiveness are evidenced by Digital's resolve to go head-to-head with the industry leader, IBM, and to go after growth for growth's sake. In the process, tens of thousands of people are hired.

The third effect of arrogance was the break with tradition. This shows up in Digital's abandonment of its traditional, conservative New England philosophy, its placement of outside hires in positions of high authority, and its challenge of traditional core beliefs. People brought in from the outside began to question the tenets of the culture, and some actually believed they had been brought in to change the culture. Even more damaging was the synergistic effect that devaluing others' inputs had on the core belief that "truth is discovered through conflict." When one's input isn't valued, sooner or later one stops providing input. And as a result, the strenuous testing and debating of ideas, along with its associated learning, no longer occur. When this started to happen, the Digital culture was no longer the same source of strength that it had been.

Figure 3 shows related occurrences and some of the unintended consequences of Digital's actions. First of all, we see that the significant growth that Digital anticipated never occurred. Because the computer industry was going through a major maturity phase, and perhaps because Digital had lost its brand dominance in the marketplace, growth slowed significantly and Digital was saddled with a tremendous cost overhead. At the same time, the culture had been weakened and had begun to change for the reasons cited above.

Eventually, the slowed growth and large cost overhead led to Digital's financial losses. In turn, the response was Digital's first layoff. The combination of Digital's first layoff and the internal market economy decimated the Digital culture. Further losses led to more layoffs and lower morale. The lower morale

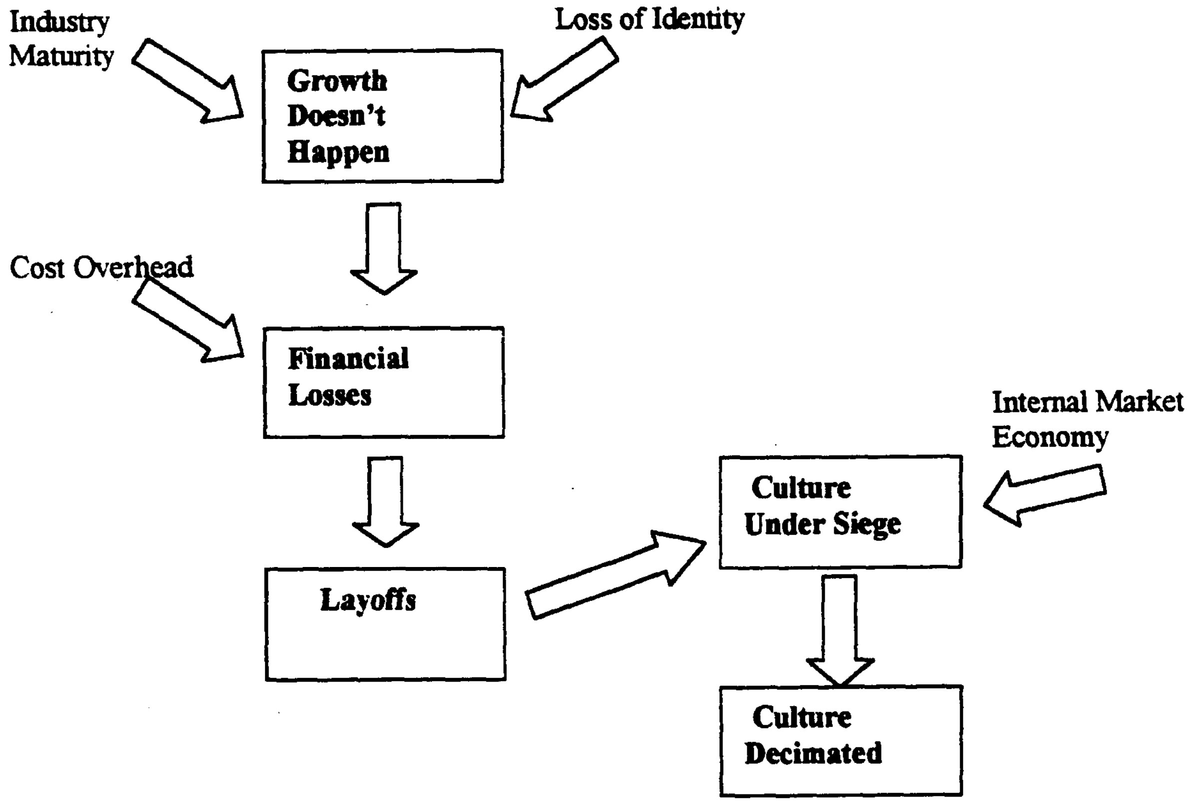

Figure 3: The effects

resulted in lowered productivity, which in turn led to further losses and more layoffs. The Digital death spiral had begun in earnest.

If, as the above progression would suggest, arrogance is the ultimate root cause, how do companies avoid becoming arrogant? First of all, they can become sensitive to the signs of arrogance. I have outlined some of these in Figure 2. Using Figure 2, one could ask, for example, "Are other's inputs truly valued in our company?" In retrospect, the DEC Nod was clearly an indication that others' inputs were no longer valued. Interestingly, this is a fairly common phenomenon and is expressed by different groups in different ways. I was intrigued to read in the *Harvard Business Review* (Heifetz & Laurie, 1997), for example, KPMG's reference to "say yes, do no" as a way for partners to indirectly resist firm-wide change rather than kill it directly. In our own families, children teach us a lot about this same phenomenon. What parent has never experienced their child looking him or her squarely in the eye and saying or nodding "yes," yet knowing full well that the child's resulting action will be "no."

One could also ask if the company is acting unnaturally bold and aggressive and if there are signs that traditional values and beliefs are being questioned and even dispensed with. Being sensitive to the signs and having a formal, open way to communicate feedback to people who can take appropriate action is one way to avoid arrogance.

Other things that companies can do are to create actively an open culture that fosters constructive debate and have humble leaders who constantly remind their employees of the costs of becoming arrogant. But as I have indicated, Digital had exactly that kind of a culture, and Ken Olsen was as humble a man as you will find. On top of it all, he constantly reminded us of the dangers of becoming arrogant. So, apparently something more fundamental is also needed.

The above question needs more research, but I believe at least one clue lies outside the business context and in programs such as that at the West Point Military Academy. Through a structured process of reminding people what they don't know, this program and similar military and religious programs are able to skillfully convert otherwise arrogant individuals into humble, confident members of a team. For further elaboration of this model, I refer interested readers to Colonel Larry Donnithorne's (1993) discussion on leadership at West Point. In this book, Colonel Donnithorne captures the essence of the military academy's position on arrogance: "The Academy does not seek to build egoism in leaders. It doesn't want arrogant leaders who insist they're right at any cost, but rather leaders who have a sense of judgment of when to follow and when to question" (p. 87).

What the subject programs also share that, in my experience, highly empowered organizations tend not to, are a strong sense of discipline and a respect for authority. Digital was terribly undisciplined; it abhorred rules, regulations, policies, and even social conventions, such as courtesy toward others and punctuality.

As I have discussed, the core belief at Digital was that people are creative, hardworking, and capable of governing themselves. Could it be that people at Digital became so over-awed with their own self-importance and their sense of self-governance that they no longer felt they needed anyone or anything to tell them what to do? And without the counterbalancing discipline and controls, there would have been no check on this tendency. Further amplification of this latter argument may lie in another case study example.

My recent work with a very large, high-tech client may shed additional light on the dynamics between discipline, empowerment, and arrogance. The culture of this client can be described in words such as empowered, chaotic, undisciplined, inefficient, out of control, unstructured, off-the-wall, disrespectful, and irreverent. I might also add that this company is considered arrogant by its customers. Yet this corporation is dominant in its niche, having more revenue than all its competitors combined. How can that be?

It turns out that the subject client is in a growing segment of the computer industry, and its product leadership strategy has worked very well to date. Indeed, the maverick culture that I have described above contributes to this company's innovativeness, adaptability, and entrepreneurialism. As I have advised this client, however, a maturing of their marketplace or a change in competitive dynamics could force this company to shift to a cost leadership strategy. Unfortunately, the arrogance of the company may cloud its ability to see these marketplace changes when they occur, and more critically, its lack of discipline, structure, controls, and efficiencies may make it almost impossible to shift to the required strategy.

In my consulting work, I see many similar examples of highly empowered organizations that lack discipline. I fear that we have created highly empowered organizations and gone too far in the process. In my professional opinion, what is needed is more of a balance between empowerment and discipline. The discipline will counteract the apparent tendency of highly empowered organizations to become arrogant and will also better prepare them for changes in their marketplace when they occur.

Digital was one of the first truly empowered corporations. Could it be that we are seeing only the beginning of what will be many more failures of previously successful, empowered organizations?

Postscript

I was at Digital during a very exciting time in its history. There are lots of things I remember from that period, but I especially remember the leadership and inspiration of Ken Olsen. He not only created an industry, he created a way of life. The closing from his 1987 speech at MIT which follows seems especially poignant to me now as I look back at the years I spent at Digital.

> I would like to say that running a business is not the important thing but making a commitment to do the whole job, making a commitment to improve things, to influence the world is. I'd also suggest that one of the most satisfying things is to pass on to others, to help others to be creative, to take responsibility, to be challenged in their jobs and to be successful in the thing which, if not the most important, is almost the most important.
>
> Sometime, hopefully a long time from now, when I have to tell people that I'm leaving, they will say to me, "Ken, why don't you stay another year, it has been so much fun, so challenging working for you." My ambition is to leave when they are still saying that and I can be remembered as someone who challenged them, who influenced them to be creative and enjoy work and have fun for a long time.

Sadly, only part of Ken's dream came true. When he left, he was not asked to stay another year. But the rest of his dream was fulfilled beyond measure. He left a legacy of people who will always remember the challenge, creativity, and fun that he inspired in all of us.

The Digital story, and others like it, is extremely painful to the participants who go through it. But although the final chapter of the Digital story appears to be in writing, the chapters of other new books are being written by former Digital employees in locations throughout the world. It certainly is sad to see something you have loved deeply dying before your very eyes, but those of us who have lived the Digital experience are strengthened by the memories of what once was and are determined that what we learned shall not be lost on future generations.

NOTE

1. I owe a debt to many people for both their capture and wording of the Digital core beliefs. Unfortunately, many of these references were informal and have since been lost. Two individuals particularly stand out for their particular insight and contribution to my research. One is Gib Dyer, now chair of the department of organizational behavior at Brigham Young University; and the other, Ed Schein, from MIT's Sloan School of Management.

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REFLECTIONS ON EXPERIENCE

Commentary: The Family as a Metaphor for Culture

Some Comments on the DEC Story

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Peter DeLisi is to be congratulated on telling a poignant and tragic story of a culture that built a great company and yet could not sustain it as a mature organization in a mature computer market. I consulted with Ken Olsen and the Operations Committee of Digital Equipment Corporation (DEC) from 1966 to the mid-1990s and have observed the same dynamics that DeLisi describes. I also observed several additional dynamics that should be added. The whole story of DEC is yet to be told, but some beginnings of understanding what happened can be articulated.

Ken Olsen's theory of how to build an organization was to create a family in which everyone was accepted and in which debate and conflict resolution were the primary mechanisms for deciding what to do. Getting "buy-in" from others was the key to making sound decisions and insuring timely implementation of those decisions. This dynamic depended on people knowing each other very well. If someone promised to do his or her part of a project in 6 months, the others who were dependent on that person knew whether that meant 6 months, 9 months, 12 months, or depended on what other projects came along. Not only did the members of this family have to trust each other but even more important, they had to know how to calibrate each other.

As DEC became more successful, it grew at a pace faster than trust and accurate calibration could be maintained. By the 1970s and 1980s, many managers who were, in fact, dependent on each other, did not know each other well enough to tell when a commitment was a real commitment. At the same time, the computing market became more differentiated, complex, and competitive, which meant that DEC had to produce a wider variety of products faster. The family arguing out the best decision now took longer, and many of the siblings had grown in strength to the point where they trusted their own judgment. With success and size, these siblings could marshal their own resources and gamble increasingly on their own judgments.

In my opinion, the loss of identity and the inability to develop a clear and coherent strategy was a direct product of attempting to maintain a high trust conflict-resolution mechanism of decision making in a situation in which too many people did not know each other any longer, did not trust each other, could not

JOURNAL OF MANAGEMENT INQUIRY, Vol. 7 No. 2, June 1998 131-132

calibrate each other, and each had enough personal power to pursue their own agendas. The environment inevitably became political.

If DEC had divisionalized early like some of its competitors (e.g., Hewlett-Packard), other mechanisms of decision making might have evolved. But the effort to maintain a single family of a very large size and in a very competitive environment made DEC vulnerable to missing market windows, because the conflict-resolution process took too long and many of the strong siblings refused to go along with decisions that had been made in the group.

There are many other perspectives from which one could analyze the DEC story, but the family metaphor is useful if describes what kind of family one is talking about. The DEC family was a particular type with a strong founding father who really believed in empowering his children and trusting them to do the right thing. Growing up in such a family was a terrific experience, as DeLisi's article reveals. But the big question is whether such a family, however powerful it is during a growth phase, will become vulnerable as it gets larger, more differentiated, and older. We are fond of looking for cultural metaphors that are associated with successful organizations. What the DEC story teaches us is that we must ask: "Success for what? And when?" A culture that creates growth is not necessarily well-adapted to managing the very success it has created.