

How to Lead and Build a Company from 30 to 11,00 Employees
Dan Warmenhoven

DAVID STEELE: Good evening, we have uh the pleasure of one of the Global Leadership Advancement Center uh speakers this evening and I will ask Dr. Joyce Osland to introduce the speaker, but as Dean of the College of Business and the Lucas Graduate School of Business I wanted to say a few words of introduction. And in particular we are honored tonight to have Don and Sally Lucas with us and they have been instrumental in forming the Lucas Graduate School of Business and I'd like to ask them to stand and be acknowledged.

The Global Leadership Advancement Center was formed about two and a

prepared yourself for global work.

In his roles as CEO or CEO and President from 1994 to 2005, Dan Warmenhoven grew a company, NetApp, from a start-up to a multibillion dollar global firm. NetApp is a recognized market leader in the field of network storage, if that weren't special enough, NetApp regularly wins awards for its innovative culture and also its organizational culture in general. I want to I want to read something that one of the companies that gave him an award said, "Net App has a unique corporate culture that values creativity, teamwork, open communication, leadership, adaptability and trust." And you know these are all characteristics of global leaders. "This culture drives NetApp's innovative technologies, products, and business strategies, by living these values NetApp employees are

500 company and I never thought at the time I'd build one from the ground up.

Uh a little bit on uh NetApp, I'm going to tell you about the last twenty years, we're going to do it in um kinda stages. This company uh went through a number of different phases of growth and evolution and uh and even personality, I will say however the culture remain remarkably constant during that time. Uh it was always one as uh as Joyce said of collaboration, uh one where where

little strange, but we're in the middle of fiscal year 2012 right which will end in April. Uh so they hired me in mid year and that year we finished at fifteen million i think they quarter where I joined the revenue was three and a half million uh and I only managed to uh go public with that. I joined in October of 94, we went public in November of 95. Not bad, I mean it was pretty quick really and then after that uh we figured out how to become profitable. Think like Groupon you know, it was a good concept and investors actually liked it and we actually did make some money after we got public. And that was it I mean the uh the funding, Don Valentine who led the Series C from Sequoia later characterized this as a contrarian investment. Contrarian because it looked like it was a disc reseller and you can't make any money reselling discs. And uh it was up against established incumbents like Sun Microsystems and Hewlett-Packard, **Ospecks** was right

license plate frames that say, 'I'd rather be shopping at Nordstroms.' You don't see 'I'd rather be shopping at Kmart' you know um, but they really have a model of customer intimacy, from the moment you walk in the store right you're made to feel welcome and uh and uh there's somebody there to help you. And the third is operational excellence and the best example I can give you there is Dell, Dell computer. Uh, Dellville's Dell builds basically the same product as everybody else, they spend almost no money on R&D, if you look at their patent portfolio it's around processes not about technologies and products. And uh, and yet for years they had the most efficient model, they could build you know the most modern PC for lower costs than anybody else and they had a fabulous business model. Uh you guys here in the business school will understand this, their their um receivables were shorter in duration than their payables. They got paid for the product they ship before they paid the suppliers for the components. Wow ya that's a model, that's beautiful, uh so that's really operational excellence right? You can turn the material around so fast you can get it in the stores, get it sold, get it shipped whatever before you actually pay for it. Ours is product leadership, we decided we were going to lead with best product and we wrote this statement in my staff meeting in March of 96, remember we went public in 95 so this is basically about four months later. And just really quickly, the word double is up there, we're going to double every year. Unfortunately I picked net profit, that was pretty stupid, uh uh the base line here we didn't pay any tax and it's really hard to double net when all of a sudden Uncle Sam comes in and takes 30% so we changed that to be double the operating profit. And uh and lead a market shift to the appliance, simple to use devices uh through demonstrated product superiority and create a new market segment known as Network Attached Storage, I mean it didn't exist - nobody knew what Network Attached Storage was so we had to go create the segment and if you can create it you can lead it. Very simple. In fact I remember a guy who ran sales said 'ya it's easy for you guys to do that' he says 'I'm the one that's gotta double every year.' It's true, uh uh it was all a sales issue.

So the whole idea was how fast can you grow and not have the wheels come off? How fast can you ramp up and uh and continue to build a company.

double every year and you draw this kind of curve and all. The first conclusion you come to is you don't manage that growth. You cannot manage it. You cannot control it because if you control it you'll stifle it, and you'll underperform. So you gotta build some sort of system internally that allows it to essentially grow in a viral manner without getting out of control and so you place a great deal of emphasis not on **rules** and procedures and all the rest, but on building a culture where we hired people who really had terrific uh head room if you will in terms of scalability but also terrific self motivation and uh and we gave them a set of principles to base their behavior on and said okay go do it. And so we try to create a new segment of the business let's say you know we go to Germany, we hire a guy from Germany and we tell him look you're the first employee, you go build NetApp Germany, you're it, uh here's the rule book it's very short, but don't do anything wrong and uh call if you need help. And you do that time and time

values drive a certain set of behaviors and those behaviors when you **aggregate** them are what we think of as culture. Buy that? What you experience in terms of how people work together is what a... is a corporate culture. And uh it comes right back to some very core ingredients, I just want to spend a a moment on ours. Um every company has a set of values, but I'd argue not every company really implements them thoroughly and not every company measures people on a conformance to it. Uh we are more interested in values than we were on people making the schedule or making a sales plan and uh and it's what allows us to grow so rapidly. Um let me just back up before I get into details of the values. Uh this became so self governing that when we hired someone that didn't quite fit in the management team didn't have to do anything about it. There's a uh study that was conducted and published in the Harvard Business Review about uh corporate cultures and really it talked about three different outcomes when a new employee hires into an organization. If the organization you hire into has a weak culture then, and of course you as a new employee if your not...if you've been experienced your expectation of your new employers environment is exactly the same as what you left because you have no framework, no understanding of the difference. So you walk into the new environment and what happens. If it's a weak culture, that culture just morphs to adapt to whatever you do as the new person, if it's a strong culture then generally successful employees change their behavior to adapt to their new environment. The third outcome is when the employee can't make **the** a change, the culture is not going to change and so you build up a tension to such the employee blows out and that's what it was at NetApp. If we hired somebody that didn't really fit in culturally uh the management team like I said didn't have to take any action, the employee was essentially starved of every organizational nutrient: they were not invited to meetings, they were not copied on e-mails, they were just ostracized until they left. I mean they were unproductive and they would get frustrated and leave and uh it was a really self reinforcing kind of model. It wasn't brutal in any way it was just if you didn't fit in, get out and uh it was almost that easy.

The value set we picked actually had a uh an inside and an outside. The outside was all about the five constituents we serve, why do we do what we do. Well, delight customers, produce return to shareholders, provide environment employees would love, have business partners that believe that we were the best of breed, and make sure that we were a good neighbor; that wherever there were NetApp employees that we would get involved in

report and try to get reimbursed we'll settle up and everything would be good. If you went to Tahiti we'll probably have a discussion about well you know who was the customer you were you know helping in Tahiti, but you didn't need to put in a control system to avoid it. So we made it very simple because we believed, we trusted the employees that they would do the right thing. And that kind of behavior becomes so free enforcing. The fewer controls there are the better behavior you get, uh I think that's generally true. **Strong..??** **Strong emphasis on** **Uh** teamwork, **on** ~~um~~ going beyond the basics of your job, uh really an emphasis on uh on performance results and adaptability; be able to change quickly. Alright, so how did we do? Well I said we uh did 87 percent compounded fiscal year 96 recalls the year we went public, that's the baseline. We hit a billion dollars in five years, 87 percent compounded growth.

Then, the world changed. The dot com bubble burst, this is one of my favorite slides coming up. This is our stock price, it was pretty...it performed pretty well and then about here it took off. When this is the bubble right and uh and we hit a peak per share price of 153 dollars roughly and in just a few months it was trading at six. I gotta tell ya if you have a compensation scheme that includes **incentive** ~~instead of~~ stock options, you thought you were rich and then you were poor and that's shocking to a lot of employees right? I mean they were already starting to think oh gee I can buy the new house I can send the kids to college, I mean and then all of a sudden the next day it's just gone. Look how quickly it dropped, I mean it was just absolute ~~catachistic~~ **cataclysmic** decline. Uh that was probably the biggest test for our culture, while you're winning it's pretty easy to have a lot of fun, enjoy the camaraderie and come out every day and play another round. All of a sudden when you go from 153 to 6 it does test your metal so to speak. And uh we didn't keep growing in fact the revenues declined and we went from that billion dollars I showed you down 20 percent the next year and uh it took us three years to get back to uh to the billion dollar mark. In fact the joke was for a while I'm I'm one of the few CEOs in Silicon Valley that's taken a start up to a billion dollars twice, and I did it with the same firm you know. So, it was a tough period I mean uh we had a layoff for the first time in our history, you can see the head count dropped. It wasn't severe, it wasn't you know as deep as some companies uh but this period right here we actually laid off about uh roughly eight percent of the work force. It was really the first test for is this corporate culture really any good or not. I remember I was sitting in my staff meeting with uh my VP of Human Resources, Chris Carlton, and we figured the number we had to cut to break even was 12 percent and she said "no no no studies show that for every two employees you cut one more will self select out because they feel as though opportunities are over or their friends are gone or whatever and they'll go find a different job." We had a lay off in August and a subsequent of three months we didn't lose one employee, not one. There was no place to go, unemployment was high, but none the less uh we really struggled to remain profitable and in fact uh we we went negative a little bit in a gap sense and actually posted a loss one quarter. The recovery was uh it was really complex, it really reinvent the whole company. In the first five years we were really successful selling to two primary customer groups, technology companies

like Semiconductor designers, Software developers, system builders like Cisco,
uh doing all of the uh engineering tool support right, software build libraries, chip

of the business had to change and it had to change fast or we were going to go down and uh and we also had to get the employees to understand that what they used to do isn't what we need to do going forward. There wasn't one person who was going to do the same thing in 2004 that they did in 2001, but you'll have fun none the less right. I mean that was the promise. We can we can do this together and uh and we'll have a lot of fun doing it. Now the way to engage it was we actually wrote a, Dave Hitts, I think many of you heard speak a couple weeks ago actually was the integrator and the editor to pull together a story that we call Future History, now what's a Future History. This is 2011 right? so let's put us in ten years ago 2001, we wrote standing in time three years out or four years out the history of the company for the last four years. So we basically, instead of writing here's what we're going to do going forward we kinda jumped the clock forward four years and said here's what we did to get here. So it starts off with we're a three billion dollar company, we did recover, right. I mean so you gotta you gotta remember this is all theoretical right and it came out really, really good. We became an Enterprise player and uh horizontal infrastructure. What do I mean by that? Uh in a world of IT there's two ways to think about your systems. One is for every application you choose the application, the server, do I want Linux, Sun, or HP or uh and then you pick the storage to go with it and that's a

Everything was running swimmingly, until the famous Lehman ~~Munde~~ Monday, boy was that a shocker. Uh anybody remember those days? One could argue we haven't quite fully recovered. Netapp has but the global economy sure hasn't. So we did it again, we crashed again right? We we ran head long in front of this growth curve right into the wall and boom. Uh but it wasn't quite as dramatic as the prior period uh we got to 3.3 like I said, right we kept growing, this is the down here, this is Lehman ~~Munde~~ Monday. We actually had a growth year. Now any time we grow at seven or eight percent that's a bad year when you put it in context, but like most companies we didn't actually have a down year. We were down in earnings, but not down in revenues. We were down slightly in employees, but as you can see it was minimal, we uh we had to take out this time five percent of the employees. This time we knew it was going to be five percent and it was five percent, it wasn't three uh and uh and we hired them back as soon as we could. Uh we stand here right now in uh ~~five~~ fiscal year 2012 with over 12 thousand employees. So that's kinda the the story, that's the six phases. I went through those pretty quick. I wanted you to understand the background so you can understand uh kinda what we did relative to the uh the culture. I'm going to spend some...a fair amount of time on that because that's where where everybody always goes "well what'd you do? How'd you become a great place to , H a

competitors at all. When you talk about innovation that means you're different, that means ~~their~~ **that your** customers have to be use to something that's different right. I mean they got they got to think differently too. And uh and sure enough I was please to see that even though our market share if you recall was 15 percent, 85 percent of the top 100 companies at the...in the world of innovation are NetApp customers. They're open minded, they're progressive, they see an

be a concept? And this truly was culture by design, we wanted to hit both objectives. And uh, it was done pretty well. This is a summary of the covers from Fortune magazine over the last nine years. Uh we have been ranked in the top 100, in fact top 50 in North America for the last nine years of great places to work. Uh they also do country level and regional rankings, so this particular year in Canada we were number two, USA number five, we slipped from number one in 09. You can read them here in EMEA, Switzerland number two, UK number two, France number four, Netherlands number five, Germany number eight, Australia number three, Japan number eight, and India our only double digit ranking this year was in India. That sucks. We got to pay them a visit. Alright so how? What was this by design. So the premise around building a corporate...corporate culture, people ask me "you know how, is this hard?" Not really, but it takes time. Uh it takes a real premeditation. You recognize this, this Maslow's curve of hierarchy needs? Anybody been to the shrink's you know, seen this kind of stuff. I know it's it's kinda old, I mean you know it's my generation right. Do you still teach this in Business School? Oh great, okay then you understand the premise right? Uh and you gotta remember, you gotta do this thing in layers. Nobody is worried about self actualization if they're starving to death right. You gotta solve the basic needs of life sustaining kind of stuff followed by security and safety, right? followed by then companionship, love, community followed by esteem, I want to feel like I'm valued here followed by then personal growth, and personal fulfillment.

And so I basically took this as a model and said alright if we're going to be a great place to work we gotta we gotta deal with the same layers. So we took each one of the layers and tried to figure out what does that mean in business environment?

So the the bottom was pretty straight forward, right(?) living wages and and basic benefits: salary, healthcare, insurance, childcare, right(?) I mean that's, that's the ..????????????? ante.

The second was job security and enhance benefits: protection, security, code of conduct, stability of the company, job security right things of that nature. And that became an area where we spent a great deal of time it's the, gee that's pretty straight forward, but it's really not. We did some really innovative things around uh innovative benefits, for instance a volunteer time off program this is a very simple concept. Every employee gets 40 hours a year to use uh in non-profit activities. Could be your kid's school, could be ..??????the March of Dimes, could be anything you want right, but please go get involved in the community and we will pay you 40 hours a year, one week, right(?) salary to go get involved in non-profits. Employees loved it, they absolutely loved it, it gave them personal freedom to get involved in the things they wanted to do without feeling guilty about not being at work. And you know what, I don't believe I lost one hour of productivity, 96 percent of our employees are college graduates, they are professionals, they understand the nature of long-term goals, deliverables on projects, all those other kinds of things. The fact they took eight hours to go be at their kid's school means they probably made it up at night or on the weekend right(?). But they had the freedom to do what they wanted.

Benefits for special needs, we're the first I think to have an Autism benefit. It's both support for the parents, uh refunds uh ohh uh tuition assistance for the children, uh collectives etcetera. Adoption assistance, disaster...personal disaster assistance. So really unique stuff. Uh but that only gets you to level two right(?).

The third was all around collaboration and communication: being part of a group, part of a team, and being on a winning team and really liking who you work with. And uh and part I was trying to build uh an organization for thousands of people around the globe that speak different languages across 150 countries, how do you communicate with them so that they all feel like they're a part of the same family? And we did everything you know, videos and I mean you name it. It was ...???? everything. Roving reporter was a good one. We had a couple people that just went from site to site to site and did on the spot interviews and posted them on the web. We had our own version of YouTube before there was a YouTube. And uh published all these kinds of things you know. Uh the great places to work website. I mean you name it was I mean I don't know how many we got up there. The program has changed a little bit over the last couple of years, it's probably got twice as many things. All new formats you know and communications was uh was actually the backbone of that whole culture.

The next one up was responsibility and recognition and that's achievement, status, rewards, etcetera. Um and we had a lot of different programs that recognized people uh if Silicon Valley is guilty of one shortcoming it is individual recognition. You know it it the companies around here just not very good at that. About saying 'you did a great thing' and doing it all the time. My favorite up here is 'catch someone doing something right.' So, the President, Tom Mendoza, who's worked there a little longer than I have. He's now Vice Chairman, he's no longer... an active role. He came up with a great idea. he came up with the idea when he was running worldwide sales in his organization running with 300 people, and uh basically the notion was if you see anybody, anywhere doing something special, help with a customer you know, doing something really know note worthy, please send me a note and I'll call that person and tell them how much we appreciate it. And when you get a call from the President that's a big deal. That worked fine at 300, he now spends most of his time just doing that. Uh first he moved to the President role right, and then he moved, it's like 11,000 employees, but that is something he does personally. He sends e-mails, he's now got a couple people to help him with it uh kinda filter through it, but uh it still has a huge impact on employees when uh when they get a message from Tom.

And last one's on the personal development and uh self actualization right. And again, there's a number of things there that start off with the day you arrive. Cultural assimilation, a new2netApp is uh is a website there that once you get uh an offer letter we give you a uh basically a link to a website that is outside the firewall - you're not yet an employee and it's all about you know new things at NetApp, I mean you as a new employee. And it's got everything from benefits packages to what you're going to be working on and whose at the company and anything you want to know. And then when you start every employee goes through this thing we call T.O.A.S.T., the name was actually picked by one of our

engineers, uh it stands for Training On All Special Things. You get toasted you know, bot