

PROFIT FROM EXPERIENCE

*The National Semiconductor
Story of Transformation
Management*



Now
Transforming
Apple
Computer
Inc.

CEO, Semiconductor

GIL AMELIO WILLIAM SIMON

Profit from Experience

The National Semiconductor Story
of Transformation Management

Gil Amelio,
CEO, National Semiconductor

William L. Simon



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From Gil Amelio —

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I'm particularly indebted to Charlie Sporck, personally and professionally. As CEO of National for some quarter of a century, Charlie took the company from nearly zero to \$1.7 billion in sales, an achievement matched by few others in American business history. In the process, he created an egalitarian company, where to an amazing degree people are free of playing the destructive games of office politics.

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P R E F A C E

"Few organizations are so weak they can't be saved, few so healthy they can't be improved."

"THIS IS THE STORY..."

In 1991, National Semiconductor was teetering on the brink of bankruptcy, with cash on hand equal to only three days of receivables.

A Fortune 500 company recognized as one of the world's leading chip-makers, National had lately been in severe decline, reeling from ailments it could not diagnose. The company closed its books for fiscal year 1991, showing income a record \$161 million in the red—the worst loss in its thirty-year history. The aggregate loss since the beginning of the downslide in the mid-eighties was soaring toward half a billion dollars.

Three years later, National would report the highest earnings in its history—\$264 million on \$2.3 billion in sales.

By 1995, the Board would acknowledge Amelio's success naming him not just CEO, but Chairman of the Board as well.

This is the story of the transformation at National Semiconductor, and Gil Amelio, the man who led it.

It's also a marching manual on how to revitalize a failing company or strengthen a healthy one. The principles in this book are a guide for managers and for those who are inspired to lead. Gil Amelio's techniques can realign attitudes and behaviors in the ways necessary to transform an organization. At National Semiconductor, by encouraging his people to take responsibility with him for the future of the company, he has succeeded in more than just typical business profit-improvement: he has transformed individuals into a new style of manager and leader.

In Amelio's words, "Our nation and our industries need people who can understand problems and find new solutions. These are the people who will become the new leaders."

REPLACING A LEGEND

At National Semiconductor, Gil Amelio was taking over from a man who had become legendary. A pioneer of the semiconductor industry, Charlie Sporck was one of the most revered men in Silicon Valley. He was immensely popular within National—the door to his office was always open to anyone in the company, from vice president to production-line worker. (In fact, there was no door to close: Sporck worked in a typical doorless office cubicle like any lower-level supervisor.) He was comfortable as a walk-around manager—roaming the halls and plants, asking questions and making small talk while checking up on everything. They called him Charlie, looked forward to his occasional pat on the back, and took pride in knowing him.

In the fall of 1990, over dinner with their wives, Sporck mentioned to Amelio¹ that he had decided to step down as National's CEO and had told the Board to find someone else. He looked at Gil and asked, "Would you be interested?" Gil said, "Yes," and within days the discussions with the Board had begun.

But how could Amelio replace this legendary figure, this immensely popular leader—a man whose management style was to involve himself in every decision and run the company on the instinct gained from many years of hands-on experience? Their styles were so different that the entire culture of the company would need to change.

¹Charlie Sporck had been concerned over the inroads made by the Japanese, supported by their government-sponsored industry cooperation, and had coaxed and cajoled the heads of U.S. semiconductor companies to join in a similar venture. The result was the Semiconductor Industry Association (SIA), and its research arm, Sematech, a consortium financed by the U.S. semiconductor companies and sharing its technology with the sponsoring companies. Sporck has been referred to as "the father of Sematech." Gil Amelio had been a strong early supporter of Sematech, and had served on the Board of Directors of the SIA. He and Sporck had first met when Gil, at Fairchild, was responsible for a collaborative project with National. But the two men came to know and admire each other through the SIA and their shared concerns for the industry.

TAKE-OFF

On a Thursday afternoon at the end of January, 1991, Gil cleared out the desk of his office in Dallas, where he had been a group president with Rockwell International. Leaving with some misgivings but with the blessings of Rockwell management, Gil and his wife Charlene drove straight to the airport and climbed into the cockpit of his seven-place Piper Cheyenne turboprop. Taking off at dusk, they headed toward the setting sun—toward a future as uncertain in some ways as ever faced by a family of pioneers in a covered wagon.

At 7:30 the next morning, at a hotel in Santa Clara, California, Charlie Sporck was beginning a two-day business review with sixty of his top managers. A low murmur of anticipation electrified the meeting room when Gil walked in. Here was the person hand-picked by Charlie and the Board to lead the company. His reputation as a remarkably successful transformation manager was well known, but what sort of person was he? What could he do for National that Charlie, who had run the company for so long, who had made it into a global, multi-billion-dollar business, had not already tried? And how many of those in the audience might soon be out of a job?

Gil recognized that everyone was waiting for him to ask perceptive questions, or toss out insightful, remarkably cogent observations. Yet the presentations were peppered with indecipherable references—products cited by code name or part number, departments by acronyms, and mysterious, unidentifiable items by cryptic sets of initials. He would later joke that “My greatest challenge in taking over at National was to figure out what all the abbreviations meant.”

After two days of reports and discussions, Amelio left with mixed messages and few conclusions. The executives were clearly “a group of very bright, committed people” who were enthusiastic, and making a real and conscientious effort. But the situation seemed even more dire than he had anticipated.

One example was the approach to accounting—which is not, despite common assumptions, the same at every company. When he was later able to review the financials, Amelio’s suspicions were confirmed: incredi-

bly, the accounting system shed little light on which products were making money and which were losing. Individual product lines were not being routinely monitored in terms of gross profit; in only one of the thirty lines was the manager routinely calculating and reporting the gross product figure. If an item had large sales, everyone smiled, and no one asked whether it was really helping the company's bottom line.

The National executives, Gil said later, "did not adequately understand the business profit equation or what it means to do a strategic plan, were confused about the current meaning of (markets,) or by delivering value to customers." Even worse, they were a management group "without a clear guiding philosophy of management."

Amelio realized that he had underestimated the problems he faced, and would need to completely rethink how to handle the challenges ahead. He had achieved stunning successes in the past. But now he wondered, "What the hell have I gotten myself into?"

THE FIRST FOUR MONTHS

The Board had agreed to give Amelio a four month breaking-in period, during which he would have the title of "co-CEO." While Sporck continued running the company, Amelio would be free to walk, talk, travel, visit, pore through files, and ask probing questions. By the end of the process, he had formulated a picture of what was right with National Semiconductor, and what was wrong with it.

The greatest strength by far, he thought—and looking back he credits this to Charlie Sporck—was a solid work force. National had a lot of gifted, productive people who had stayed with the company through the dark years.

On the down-side, Gil believed the company lacked a clear vision of the future. They were trying to do too many things—striking out in a variety of directions. The attitude was seat-of-the-pants, left over from the company's go-go early days—"If we might be able to make money on this, let's go do it."

Some companies survive, maybe even thrive for a while, on such an approach. But Gil saw that the business practices at National hadn't kept

up with growth nor with changes in the industry, and were fundamentally out of step with the needs.

Facing problems of this magnitude, some new CEOs might have given up on the spot and sent out their resumes.

It was May, 1991. For Silicon Valley, another glorious California summer was just ahead. For National Semiconductor, the weather forecast was “cloudy, conditions uncertain.”

IS THIS BOOK JUST FOR CEOs?

Gil Amelio’s management successes at National and earlier are based on straight-forward tools and principles—not theories, but specific, down-to-earth approaches that any chief executive can apply on a company-wide level... or that managers and supervisors can apply to revitalize their own organizations and improve their own management style.

In these pages you’ll find those techniques spelled out, with an emphasis on the ways of getting employees committed to transformation, and the financial measures that really tell you if your organization is succeeding

Amelio says, “Few organizations are so weak they can’t be saved, few are so healthy they can’t be improved.”

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