

ORGANIZATION GUIDE

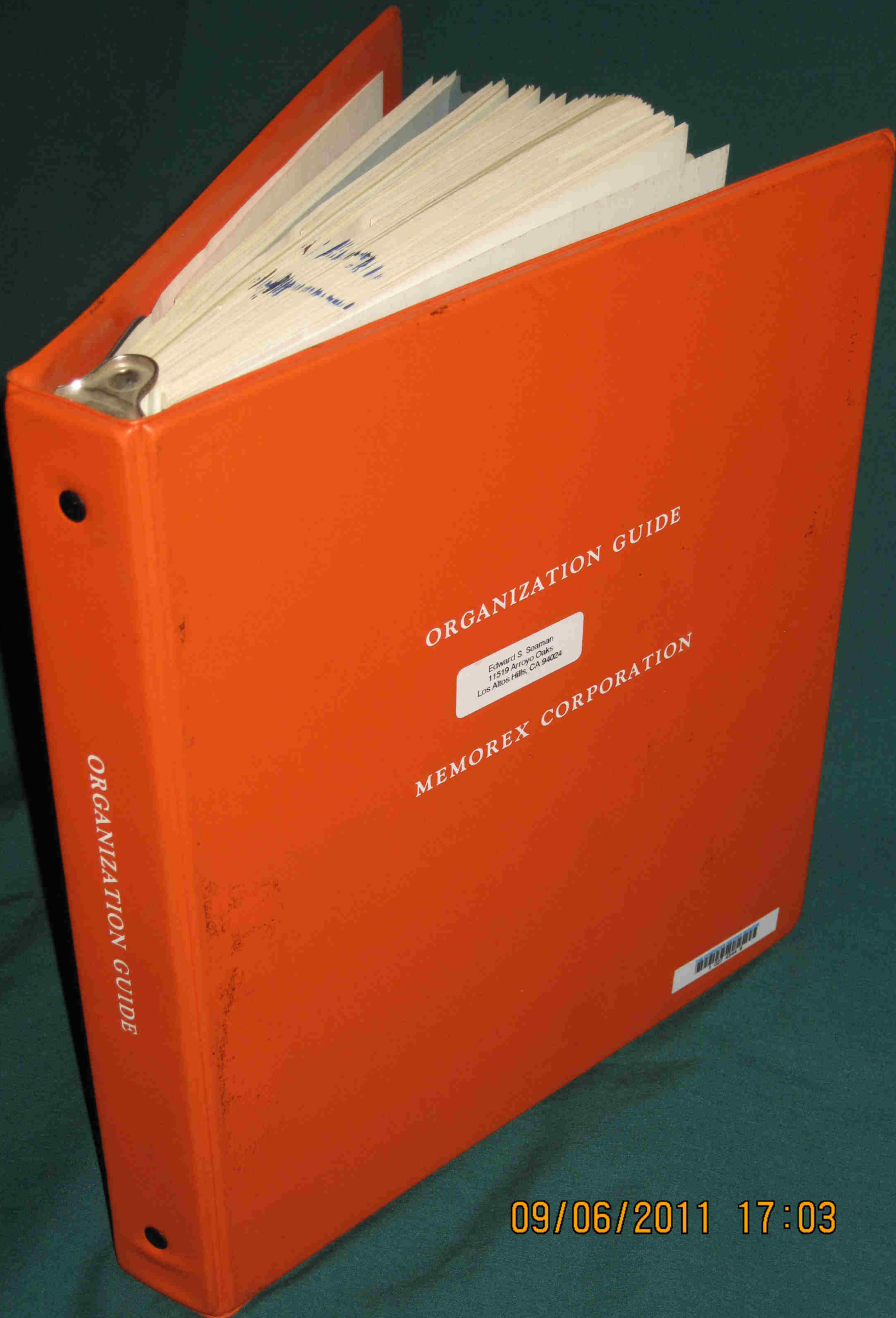
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MEMOREX CORPORATION



- IMAGE PRODUCTS CORPORATION
- CORPORATION
- INTRODUCTION
- GUIDE MAINTENANCE AND DISTRIBUTION
- BACKGROUN ON ORGANIZATION
- DOCUMENTING ORGANIZATION PLANS
- THE MEMOREX ORGANIZATION
- INTERNATIONAL DIVISION
- SUPPLIES DIVISION
- PERIPHERAL SYSTEMS CORPORATION
- COMMITTEES

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TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	1.01
<u>GUIDE MAINTENANCE AND DISTRIBUTION</u>	
Guide Maintenance	2.01
Top Management	2.01
Persons Within the Organization	2.01
Vice President, Manpower Planning and Development	2.02
Guide Distribution	2.02
<u>BACKGROUND ON ORGANIZATION PLANNING</u>	
Basic Concepts of Organization Planning	3.01
Critical Performance Requirements	3.02
Objectives	3.02
Organization Guidelines	3.03
Line, Functional, and Staff Activities	3.05
Line Activities	3.05
Functional Activities	3.06
Staff Activities	3.08
Overlapping Line, Functional, and Staff Responsibilities	3.09
General Management Duties and Responsibilities	3.10
Exhibit I - An Illustration of the Relationship Between Line and Functional Managers	
Exhibit II - How Decisions Are Made on Discrepant Materials	
<u>DOCUMENTING ORGANIZATION PLANS</u>	
Organization and Position Titles	4.01
Managerial Titles	4.01
Professional Titles	4.01
Specialist Titles	4.02
Organization Charts	4.02
Position Descriptions	4.03
Elements Included in Position Descriptions	4.03
Elements Not Included in Position Descriptions	4.05
Exhibit III - Organizational and Managerial Designations	
Exhibit IV - Professional Titles	
Exhibit V - An Illustrative Position Description - Plywood Mill Manager	

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
 <u>THE MEMOREX CORPORATION</u>	
Background	5.01
Forces at Work	5.01
Critical Performance Requirements	5.03
Organization	5.05
Providing for Growth	5.06
Role of Corporate Staffs	5.08
Role of Operating Groups	5.10
 <u>CORPORATION</u>	
<u>Corporate Organization</u>	
Appointment Guide	6.0100
Organization Chart	6.0200
Position Description	
President and Chief Executive Officer	6.0300
 <u>Corporate Finance</u>	
Appointment Guide	6.0900
Organization Chart	6.1000
Position Description	
Vice President, Finance	6.1100
 <u>Manpower Planning and Development Staff</u>	
Appointment Guide	6.3100
Organization Chart	6.3200
Position Description	
Vice President, Manpower Planning and Development	6.3300
 <u>Corporate Development Staff</u>	
Appointment Guide	6.4200
Organization Chart	6.4300
Position Descriptions	
Vice President, Corporate Development	6.4400
Director, Corporate Marketing Services	6.49
 <u>INTERNATIONAL DIVISION</u>	
<u>International Division</u>	
Appointment Guide	7.0100
Organization Chart	7.0200
Position Description	
Vice President, International Division	7.0300

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
 <u>SUPPLIES DIVISION</u>	
 <u>Supplies Division</u>	
Appointment Guide	8.0100
Organization Chart	8.0200
Position Description	
Executive Vice President, Supplies Division	8.0300
 <u>Manufacturing, Supplies Division</u>	
Appointment Guide	8.0600
Organization Chart	8.0700
Position Description	
Vice President, Manufacturing	8.0800
 <u>Tape Plant, Supplies Division</u>	
Appointment Guide	8.2400
Organization Chart	8.2500
Position Descriptions	
Plant Manager, Tape Plant	8.2600
Manager, Maintenance Engineering	8.41
Manager, Process Control	8.49
 <u>Disc Pack Plant, Supplies Division</u>	
Appointment Guide	8.5600
Organization Chart	8.5700
 <u>Technical Staff, Supplies Division</u>	
Appointment Guide	8.7000
Organization Chart	8.7200
Position Descriptions	
Vice President, Technical Staff	8.73
Director, Research Planning	8.76
Director, Research	8.86
Manager, Technical Service Center	8.95
Manager, Technical Training	8.98
Technical Manager, MEO	8.9902
 <u>Marketing, Supplies Division</u>	
Appointment Guide	8.9908
Organization Chart	8.9910
Position Descriptions	
Vice President, Marketing	8.9911
Manager, Applications Engineering	8.9919

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
<u>PERIPHERAL SYSTEMS CORPORATION</u>	
<u>Peripheral Systems Corporation</u>	
Appointment Guide	9.0100
Organization Chart	9.0200
Position Description	
President, Peripheral Systems Corporation	9.03
<u>IMAGE PRODUCTS CORPORATION</u>	
<u>Image Products Corporation</u>	
Appointment Guide	10.0100
Organization Chart	10.0200
<u>COMMITTEES</u>	
Committees Have Limited Authority At Memorex	20.0100
Guidelines For Effective Use Of Committees	20.0101
Committee Descriptions	
Executive Committee of the Board	20.0400
Compensation Committee	20.0600
Finance Committee	20.0800
Manpower Planning and Development Committee	20.0900
Marketing Coordinating Committee	20.1000
Operations Committee	20.1100
Planning Committee	20.1200
Research and Development Committee	20.1300
Exhibit VI - Committee Schedule	

THE MEMOREX ORGANIZATION

This section describes how the Memorex organization structure helps us accomplish our objectives. It is divided into two major subsections. The first of these identifies the major forces at work in our business and relates these forces to five critical performance requirements. The second major subsection describes an organization concept to meet these performance requirements, how we will organize for growth, and the roles of corporate staffs and operating groups. Clearly this description cannot cover all contingencies, but it can map the way our organization is intended to work and guide managers in ironing out specific organizational problems as they arise.

BACKGROUND

Our ability to act quickly and effectively in a rapidly growing and highly competitive new industry has been a major strength of our company since its inception. Our successful growth carries with it the burden of maintaining this flexibility to compete even as we grow larger. Yet, we must recognize that our management problems are becoming increasingly complex as the number of important decisions rises, and as more people necessarily become involved in our decisions. Accordingly, our organization is designed to harness individual efforts in a way that will enhance our ability to respond effectively to the forces at work in our company.

Forces at Work

Specifically, Memorex must deal with these important forces:

1. Increasingly challenging market opportunities: The anticipated rate of growth is attractive for all segments of our business, and our present share of market does not appear to limit the company's growth opportunities. We plan to continue an unusually rapid rate of growth, and overall corporate growth can be achieved best by increases in market share in all our major product lines. Thus, we must not only maintain our present position in the market, but also must obtain a substantial portion of our competitors' market share. This achievement will require carefully conceived and executed marketing strategies that will need the support not only of our sales force but also of technical and manufacturing groups.

2. A growing manpower gap: Memorex's total business will more than triple in size and in the next few years will require an equivalent increase in management. Moreover, much of the growth will come from new business which, with normal start-up problems, will need substantial management and technical attention. The task of recruiting, training, and motivating these managers will take much of our time during this period. Therefore, it is critical that we accomplish this recruiting and training task with a minimum drain on the time of our existing management and technical people.

3. Continuing critical profit impact of price and volume changes: These factors in turn are greatly influenced by the speed with which we can introduce new products into the marketplace because of the relatively short life of our products, and the high probability of a significant decline in the average unit price over the products' lifetime. (For example, average unit prices of Type 22F computer tape declined from \$34 at introduction in 1965 to \$26 two years later - nearly a 25 percent reduction in the space of two years.) The introduction of a new product in this business generally finds a market where higher prices prevail, competition is limited, and profit potential is very favorable. Thus, product life cycle management (i. e. , the ability to develop new products and market them quickly in sizable volume) has tremendous profit leverage for us. For example, each month of delay in the market introduction of disc packs in 1966 and early 1967 cost us approximately a quarter million dollars in before-tax earnings - or almost an entire month's expected earnings of the company at that time. In sum, it is critical that our organization be as effective as possible in speeding up the process of new product introduction from the idea stage to actual sales in the marketplace.

4. The need for continuing growth: Growth must remain a way of life at Memorex, and extend beyond our existing magnetic recording media and equipment industry. Challenging as the magnetic recording media market is in itself, we cannot restrict our horizons to the potential of our existing market for three reasons.

First, users of our products in a real sense are indifferent to our technology. The user looks to us to satisfy his needs in terms of ease of service, cost availability, and product performance. When these needs can better be filled by new technologies, e. g. , substitution of photographic for magnetic storage media, then we must be ready to supply the newer technology. In the user's terms, "Memorex is in the user-oriented, information handling systems media and equipment business". By "information systems media" we mean the

magnetic, image, paper, or composite media which are storage and communication vehicles for information handling systems. By "information handling systems equipment", we mean those systems which are used for acquisition, communication, conversion and reduction of data, and data storage, retrieval, and display units. The total business potential afforded by Memorex's larger definition is more than ten times that of its magnetic recording media segment. This immense potential underlies our ambition to make of Memorex in the 1970s a very large company.

Second, we need diversification and growth to provide stability and balance in our earnings. Our business has been characterized by fluctuations in earnings since its inception. Our rapidly growing market opportunities require commitments for facilities and people ahead of the sales level that will support them. In a relatively narrow line business, these advance commitments create major fluctuations in earnings. This fluctuation in earnings restricts our ability to hire consistently, and to take advantage of additional business opportunities. Diversification can stabilize our earnings and provide a foundation for more consistent programs.

Third, growth is essential to providing continued attractive career opportunities for our people. We have always attracted unusually capable people by offering outstanding career opportunities, and we must maintain this strength. Occasionally, too, we will go outside our existing organization to hire special skills. A large, diversified company will better enable us to attract these people.

Critical Performance Requirements

The forces at work will severely test our organization's ability to compete effectively over the next few years. We interpret these forces in terms of five specific tasks, or "critical performance requirements". Specifically, we must be able to:

1. Identify and fill new business opportunities rapidly - in short, innovate. This includes not only identifying new needs and new technologies for filling old needs, but also fixing responsibility for commercial development once we have a new idea. If we can do these things well, we can deal effectively with our expansion opportunities, the continuing technological change, and increasing competition. And we can make the product life cycle work for us in improving our profits.

2. Recruit, train, and motivate additional technical and management talent. Our major expansion opportunities, continuing technological change, and the growing management and technical manpower gap all contribute to the need for this capability within our organization.
3. Allocate technical, management, and financial resources to the best business opportunities. The number of expansion opportunities available, their varying payoffs, and the manpower gap indicate that we should be very careful in the way we allocate our scarce talent and financial resources among the opportunities available to us. The Memorex Guide to Management Planning and Reporting is a major tool in helping us make these allocations effectively.
4. Provide effective operational control of the key profit leverage factors. These include: price, volume, materials cost, and yield. The ability to control these key profit determinants effectively is necessary if we are to maintain an attractive return on investment against increasingly stronger competition in markets with varying characteristics and profitability.
5. Provide a strategy and organization to accommodate growth. Long-term profitable growth is seldom the result of unplanned effort no matter how vigorous. Our growth must be planned carefully in a well-defined strategy if we are to achieve our ambitious goals. In addition, our organization and ways of doing things must be sufficiently flexible to accommodate growth and change. In short, we must have direction, and we must be flexible in our approaches.

These critical performance requirements cannot be satisfied by a single, classic organization structure. For example, a market or geographic organization, where line control and decision making are decentralized by geographic area, is an exceptionally good structure for exploiting local market opportunities, but it is not the best type of organization for allocating resources among our several opportunities. A highly centralized functional organization where line control and decision making are located in manufacturing, marketing, and technical organizations, is effective in managing such profit improvement projects as intensive yield improvement, but limits our ability for rapidly identifying and capitalizing on new, attractive business opportunities. Thus, we must seek an organization that can provide the advantages of more than one classic approach.

Moreover, we cannot rely on organization structure alone to satisfy these critical performance requirements. The management process must provide a dimension for innovative thinking and action beyond that provided by an organization structure alone. In fact, a rigid structure of any kind tends to hinder needed interfunctional communications. However, the right kind of management system can solve this problem if it defines clearly specific communications patterns, ensures cross-organizational communications flows, defines responsibility for new idea flows, measures performance against specific goals, and provides flexibility for special problem solving.

In sum, we need the best of all worlds; a hybrid structure and a companion system of management, which can operate our existing business effectively and at the same time be responsive to growth.

ORGANIZATION

Memorex has adopted an organization concept which can provide both operating and innovating effectiveness, as implied by our performance requirements. First, we provide for growth through a combination of organization modes - new ventures, launch groups, and acquisitions - as well as the accelerated internal growth of existing organizations. Second, we have assigned corporate-wide planning, control, and communications responsibilities to provide for product and process innovation, manpower planning and development, and resource allocation. Third, we have decentralized profit center responsibilities in a geographic/product-oriented structure to ensure the most effective performance of ongoing operations. This structure includes two basic group organizations - media and equipment.

We expect these basic concepts to endure over time, although the structure itself will change form as our business grows and changes. For example, the International Division will be called upon to market Peripheral Systems Corporation products, and this in turn will call for a gearing up of International Division Resources. In the recent past, the Supplies Division has undergone a restructuring in the manufacturing organization to absorb one of our first new ventures, the Disc Pack Corporation. We can look for these kinds of structural changes to continue in the future in our operating divisions, together with the formation of wholly new operating divisions. However, the two basic group organizations - media and equipment - will remain relatively firm and the operating divisions will function within that context. In addition, the corporate staff roles will

continue as described in this document. Within this general framework, specific structures must be defined to fit the concept. The following paragraphs describe the role of major organizational units and how they fit into this concept and work together. There are three subsections: (1) providing for growth, (2) role of corporate staffs, and (3) role of operating groups.

Providing for Growth

Continued growth at Memorex will take at least three major avenues, each with a unique combination of profit potential, control requirements, and managerial risk: (1) internal growth, (2) new venture growth, and (3) acquisition growth.

1. Internal growth: We will continue to provide financial resources for extensions to our existing businesses. Most internal growth will be accomplished by the organic growth of the existing organization. Occasionally, where a new project does not fit the existing organization or requires unusual cross-functional cooperation, we will establish a temporary "launch project". It will be normally under the direction of a top-level manager to ensure adequate priority and visibility. As soon as the project becomes operational, it will be folded into our ongoing structure. For example, we have used launch projects to build a European plant and a Santa Clara Disc Pack Plant, both extensions to our existing business.

Increasing competence and improving performance in our existing businesses are essential to our overall business strategy. First, we need to develop additional managers capable of expanding our existing business and moving into new opportunities. The primary source of this talent is our existing business operation. Second, maintenance of consistently attractive earnings growth and consistent performance is essential to maintaining the market valuation of our company necessary to sustain an acquisition program. We recognize that success in our existing businesses, as well as in our new businesses, requires judgment and skill to weigh risks against opportunities. Therefore, outstanding managerial performance in our present businesses holds the continued promise of substantial growth in income and responsibility for managers in those areas.

2. New venture growth: We will use "new venture" organizations (essentially new companies financed by Memorex) to enter businesses significantly different from those now in operation. Often, technical discipline, product nature, required resources, or modus operandi of a new business opportunity will be substantially different from those of our existing operations, and this will call in the long term for an independent profit center or operating division. In addition, the unusual demands upon people in the development phase of a new business and the need for an informal organizational environment call for the establishment of an independent informal organization. Entrepreneur/managers, who choose to resign from secure positions for new ventures on which they stake their reputations, typically must work with unusual intensity and creativity to make their undertaking successful. For this reason, they are deserving of special compensation, including ownership in the new business. If the new enterprise is successful, the promoter/managers have the promise of substantial capital gain, and Memorex has the right to exercise an option to acquire the entire ownership of the affiliate in exchange for Memorex shares, according to a predetermined ratio based on the degree of success. This has been the strategy employed in beginning Disc Pack Corporation and Peripheral Systems Corporation.

3. Acquisition growth: We shall acquire other companies when internal growth or new venture businesses are not feasible means to a specific objective; for example, when a quantum jump is our objective and only a merger will produce a business of the needed size. Such acquisitions will be made within our broadly defined information handling systems media and equipment businesses. While acquisitions may not promise the high return potential of an internally developed project or new business venture, they do provide the means by which we can make a quantum jump in size, stabilize our earnings, and often attract management skills in areas advantageous to our other businesses.

* * *

Each of these three expansion modes will provide a leading edge of our growth. As this growth materializes in new ventures or acquisitions, they will be structured to fit within the organizational definitions we establish for our business, i. e., top-level corporate functional responsibility, and geographic/technological/market-oriented operating divisions within the two broad business groups.

Role of Corporate Staffs

Top-level functional responsibility has been assigned for developing and maintaining overall corporate planning, control, and communications networks. These communications networks focus on three critical performance requirements: (1) rapidly identify and fill new business opportunities, (2) recruit, train, and motivate additional technical and management talent, and (3) allocate technical, management, and financial resources to the best business opportunities. The networks are the responsibilities, respectively, of the Vice Presidents of (1) Corporate Development, (2) Manpower Planning and Development, and (3) Finance.

1. Corporate Development: The Vice President, Corporate Development, has responsibility for rapidly identifying and filling new business opportunities throughout the company - the first critical performance requirement. This task is so important to our future that we cannot allow it just to happen; we must develop programs which will ensure that it does happen, and this is the role of the Vice President, Corporate Development. In carrying out this responsibility, he evaluates new product and process opportunities, manages major launch projects, and stimulates the effective transfer of technology between organizational units.

For example, the Vice President, Corporate Development, will develop technical forecasting methods. He will provide programs for ensuring that our technical people have the opportunity to attend seminars and courses which will give them the ideas that will stimulate these developments. And, he will develop communications networks which will make it easy for any person, regardless of his level or status within the corporation, to communicate a valuable idea to top management and thereby gain the support needed to develop it.

2. Manpower Planning and Development: The Vice President, Manpower Planning and Development, has the responsibility for recruiting, training, and motivating additional management and technical personnel - another critical performance requirement. In carrying out this responsibility, he identifies and plans for the manpower requirements for the company and directs the recruitment, training, and development of personnel.

These parallel the prime responsibilities of every line manager in Memorex as emphasized in a previous section. The role of the Manpower Planning and Development staff is not to usurp the authority of line managers and not to second-guess decisions within policy. Rather, his role is to aid line managers in fulfilling their responsibilities by providing personnel staff support and developing, for the President's approval, corporate-wide personnel and compensation policies and programs. These programs will ensure that individual employees have a clear view of the alternative career opportunities available to them within the corporation. The company, in turn, will have an explicit projection of the needs for certain skills in the coming years, an inventory of the skills on hand or expected to be developed, and a projection of the hiring needs.

We have ample quantities of most resources; our financial position is excellent and should not in any way limit our opportunities. But a lack of people can hurt us. Our scarcest resource in the next few years is likely to be our skilled technical and managerial people; this corporate position provides for managing, developing, and allocating this resource in the best way possible.

3. Finance: The Vice President, Finance, is responsible for acquiring and controlling the financial resources of the company. In addition, he maintains the planning and control system whereby the President and other top line executives allocate technical, management, and financial resources to the best market opportunities - our third critical performance requirement.

In assisting the Vice President, Finance, in carrying out these responsibilities, the Finance staff develops and documents steps in the corporate planning process, maintains the Guide to Management Planning and Reporting, and develops economic and cost assumptions as a basis for major capital investment decisions, budget preparation, and corporate development programs. In addition, the Finance staff coordinates the preparation of overall corporate objectives, and division and corporate staff long-term and current supporting programs and operating plans. Finally, as the profit center concept is developed for operating divisions, the Finance staff will set intracompany transfer prices.

Role of Operating Groups

Our operating groups contain profit centers responsible for providing effective operational control of the key profit leverage factors - the fourth critical performance requirement. This includes controlling price and volume to optimal levels and improving operating efficiencies in manufacturing, engineering, and marketing activities. Since the operating groups are relatively independent, they can, within the resources committed to them and guidelines established, respond quickly to our opportunities.

Our operations responsibilities fall into two broad business groups: (a) information handling systems media and (b) information handling systems equipment businesses. Each group probably will contain a number of technology related manufacturing and engineering centers, and market- (not product-) related marketing organizations. In some instances, these may be linked as they are in our existing divisions, i. e., the Supplies Division links marketing and technology in one division. But, this need not be the case. As mentioned previously, the two basic group organizations will remain over time, but the organization of centers within those groups will very likely change as our business changes and grows.

Currently, these centers take the form of operating divisions, with manufacturing, marketing, and engineering development responsibilities. We have three of these divisions now: the Supplies Division, Peripheral Systems Corporation, and the International Division.

1. Supplies Division: The Executive Vice President, Supplies Division, has responsibility for all activities in North America concerning magnetic recording media products. In carrying out this responsibility, he manages the manufacturing and marketing of precision magnetic tape and disc pack recording media and directs the development and engineering of products and processes for those products. In addition, he develops and manufactures supplies products for sale in Europe in accordance with product plans formulated in conjunction with product managers in the International Division.

In general, the Supplies Division will function as an independent operating unit, except that it will receive assistance, counsel, and functional direction from corporate staffs in matters pertaining to finance, research, and manpower planning and development.

2. Peripheral Systems Corporation: The President, Peripheral Systems Corporation, has responsibility for all activities in North America concerning disc-related systems equipment products. In carrying out

this responsibility, he manages manufacturing and marketing of recording hardware and also directs the development and engineering of products and processes for those products. In addition, he manages the development and manufacturing of hardware products for sale in Europe in accordance with hardware product plans developed in conjunction with product managers in the International Division.

In general, the Peripheral Systems Corporation, like the Supplies Division, will function as an independent operating unit, except that it will receive assistance, counsel, and direction from corporate staffs in matters of finance, research, and manpower planning and development.

3. International Division: The Vice President, International Division, has responsibility for directing international operations for all the company's products. In carrying out this responsibility, he develops and implements plans for capitalizing on international market opportunities; recommends corporate strategy and policies for the company's international operations; acts as liaison between the company's international and domestic operations; and coordinates export operations of domestic operating divisions.

Major technical efforts for continuing product and process development will take place in the domestic media and equipment groups. Therefore, one of the major responsibilities of the Vice President, International Division, working with the Vice President, Corporate Development, is to ensure appropriate communications between marketing and manufacturing areas of responsibility in international operations and their counterparts in domestic operating divisions. This communication is essential to take advantage of the company's total resources for capitalizing on international opportunities.