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What strategies were most key to the kind of growth Network Appliance has achieved?

We've specialized in storage systems for the last 14 years. We don't do servers, we don't do anything else. We've also heavily emphasized product innovation and product leadership. If you read Michael Tracy's *Discipline of Market Leaders*, he talks about three different strategies: product leadership; operational efficiency, or cost leadership; and customer intimacy. We've embraced product leadership from day one, with a high degree of customer intimacy.

How was this strategy different from what the company was doing before?

The company was founded by three engineers. They were very smart people; but they had a "build-it-and-they-would-come" strategy. They believed that their product was so good that they could just put it on the Web, and people would call them. It was a terrifically innovative product, with great price performance, but there were no go-to-market strategies and no plan to put it front of customers.

If you were presenting NetApp's experience to a business school marketing class, what would you want them to learn about developing an effective marketing strategy?

I'd tell them, stay focused on your product and enter one market at a time. In our case, we first went into engineering environments like software development and semiconductor design, and then we went into Internet infrastructure. In semiconductors, we became the standard for Texas Instruments, Intel, and other big chip designers. On the Internet, we became the primary infrastructure provider for dot-coms, service providers, and portals like Yahoo. By focusing on two or three applications at a time, we built strong reference bases and expertise. As a result, we became *de facto* standard for software development infrastructure.

You've noted that you hope to increase revenues from \$2.8 billion to \$6 billion by 2011. What will it take to get there?

The market is constantly changing, but I think it's really about expansion. Our fundamental strategy is still to focus on storage and customer support, but we've expanded from two target markets—tech and the Internet—to eight. We added government, financial services, the energy sector, manufacturing, telecommunications, and the life sciences, which include pharmaceuticals, biotech companies, and patient care systems. Right now, we're focused on what we call the "Storage 5,000"—the 5,000 largest consumers of storage in the

world. We probably are now in about 1,000 of those 5,000 companies. That gives us plenty of opportunity to expand. In addition, our product line has grown from a single product to six different models, with different capacities, price points, and performance. There are more styles in terms of primary storage and secondary storage for data protection, and more storage and management solutions for data security. That kind of expansion will continue to take us to \$6 billion.

You knew early on that you wanted to be a CEO. Why did you choose to study electrical engineering, rather than business?

I wanted to study computer science, but this was in the ancient days when there was no separate department for computer science. At Princeton, it was taught by the electrical engineering department. My degree is in electrical engineering because that's where the computer science specialty was. But I think my degree has helped me to understand the content of what we do, and I've complemented that knowledge with leadership and management training.

Because my goal was to achieve a management career track in the technical disciplines, I always assumed I'd earn an MBA. I thought I'd have an undergraduate technical degree and a graduate business degree. But then I got out of school, got a job, and got married. I went to night school, but I never got back to the MBA program.

Would earning an MBA have made a difference in your career?

There have been several times that I wished I'd completed an MBA program, but I feel as if I've kind of earned one along the way. I feel as if I've established my business credentials, even if I didn't get the formal degree. I've probably taken more business school courses than most MBAs!

You've taken several executive courses at the University of North Carolina. What business course did you find most useful?

Marketing. As an engineer by background, I found it really helpful to understand the go-to-market processes.

What has been one of the most difficult lessons you've learned on the job?

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# The real test of leadership isn't how you lead in the good times, but in the bad times. You lead in the good times by motivating, focusing, and driving the organization forward. It's about how you keep the organization together, motivated, focused, and driven during the bad times.

How did you do it?

I had to paint a new picture. Even though people felt a sense of loss, I had to get them to the point where they were ready to say, "OK, here's what we have to do going forward." We had to lay off about 8 percent of our employees. At an employees' meeting, someone asked me, "Will there be more layoffs?" I said, "I don't know what the future holds, but I can guarantee that this company will never lose money. My advice to you is to go out and do anything you can to drive revenues and get the products to market. That's the best thing you can do to make sure that you have a job tomorrow." They took it to heart. They understood immediately what the ground rules were. And, incidentally, we never lost money.

Life comes in waves: good times followed by bad times. The dot-com bubble was an unusual wave; it was like a tsunami. We couldn't reverse history and undo the crash, but we could go forward and get the company back on track. The real test of leadership isn't how you lead in the good times, but how you lead in the bad times. It's about how you keep the organization together, focused, and motivated.



What do you think is most important for students to know before they assume leadership roles?

It's trite, but it's true: A business is only as good as the people who lead it. And note that I don't mean the *person*, I mean the *people*. You can never have enough leadership in an organization, at all levels, especially one that's growing. But when you want to succeed, you can never have room for a B player on an A team. It's all about the people and the chemistry between them. You have to build a team that's committed and focused on the same objectives, with no divisiveness or politics. It's hard for people to internalize that. It's much easier for them to talk about market and financial strategies, even though the people side of it is really where success is determined.

How do you define an "A player"?

It's a very difficult combination to describe. We look for intellect and personality, but we also look for internal quali-

ties like motivation, creativity, and drive. We want people with a desire to win, who can leverage their own talents as part of a team, not someone who's focused on pursuing individual achievements. It's difficult to list the right combination of adjectives. You can see it in athletes. The best football players aren't necessarily the fastest.

So, you're looking for someone like Jerry Rice, only in business.

That's right! In his early years, Jerry Rice didn't appear to be a world-class football player, and yet he became one of the premier wide receivers of all time. It's difficult to determine

objectively what the characteristics of a great leader are, but it doesn't take much interaction or time to differentiate the strong players from the mediocre ones.

What does it take to get hired at NetApp?

We typically interview a prospective employee ten or 12 times before we extend an offer. It takes that many meetings before we get a sense of who the person is,

from a cultural and personality perspective. We need to know how well candidates will fit in our team before they even start, and we give them the opportunity to get a sense of the place and meet the people they might be working with.

What type of candidate wouldn't make it past the interview?

To be hired, candidates have to demonstrate creative and collaborative thinking styles. When they talk about their careers, they'll talk about working on teams, not just list individual accomplishments. People who are self-centered and talk only about themselves probably won't make it.

We're also a very verbal culture—we pride ourselves on the fact that we don't write a lot down. I don't even have minutes taken at my staff meetings. People who don't communicate effectively also probably aren't going to make it.

This year, NetApp ranked No. 6 on **Fortune** magazine's "Best Places to Work for" list. You've made that list for the last five years. What choices have you made to create a positive work environment?

## Innovation is not something you can legislate or mandate.

You have to build an environment on fertile soil and hope that good ideas take root.

In 1995, we wrote down what we wanted to do: build a model company. As part of that, we wanted to make this a great place to work for employees and provide an environment where they feel challenged and supported. We give employees sizable objectives and then ask them to outperform them, but we also give them the freedom to pursue those objectives in the ways they think are best. Employees feel they have the opportunity to make a difference, work with high-quality people, and demonstrate that they are special. They feel that the management team and the company are behind them.

When we ask new hires why they come here, they most frequently mention the culture. So that's what we try to nourish and sustain. Being a great place to work isn't about buildings and perks—this company definitely isn't a country club, and there are no executive parking spots. Everyone works in a cube, including me. It's an egalitarian culture here, not hierarchical. Everyone has a role to play, and all roles are viewed as important.

The high ranking aside, are there areas in NetApp's culture that you'd like to improve?

There's always room for improvement. For example, this year we started NTAP radio—NTAP is our stock symbol—which is a pre-recorded program delivered quarterly by Webcast and podcast. In each program, I interview three or four people in the company in a radio talk show format. We talk about topical issues. Employees also have the opportunity to submit questions to me, and I'll answer them. We average about 2,000 downloads, so it's quite popular.

Every year, we try out new methods of communicating with our employees to make them feel fully informed and show that we care for them. The nature of things is entropy, and the same is true with corporate cultures. They'll decay unless you keep injecting the energy to keep them in repair.

How do you drive innovation at Network Appliance?

We believe innovation is the hallmark of who we are, and it's been at the core of our success. Our heroes are our innovators, the ones we put on stage at employee meetings and say, "Here's your role model." We give awards for patents, and we now have a fairly substantial patent portfolio, especially for a company of our size. We've also set money aside for engineers, so if they have good ideas, they can petition the company's technology leadership to get a project funded. These projects aren't part of a committed product program; there's no schedule. But it's a way for our engineers to refine their ideas. It fosters the notion

that engineering isn't about building. It's about conceiving new things.

Innovation is not something you can legislate or mandate. You have to build an environment on fertile soil and hope that good ideas take root.

With public companies under so much scrutiny—from the SEC and their own stockholders—how difficult is it to keep your business innovative and entrepreneurial?

When Sarbanes-Oxley came out, my first reaction was, "Oh, no. This is going to change our corporate culture." And it has made things more challenging, taxing a company in terms of time and money. But it doesn't necessarily stifle creativity and innovation.

In the long term, I do think that the attitudes of the SEC and government in general are going to drive entrepreneurship out of North America and into Asia. If you look at the talent pool in Silicon Valley, half the people here who are the bright innovators weren't born in California, or even in North America. They're from China, India, and Europe. They came here because the U.S. is the center of entrepreneurship. But current policies are making it too hard for entrepreneurs. We're essentially encouraging them to go elsewhere.

On the other hand, some would argue that companies in regions like China and India will be in trouble if they don't improve their corporate governance.

I'd agree with that. I've got a friend there who's the vice chairman of a bank in China, and we've had this discussion several times. Business in China is growing so quickly that it's hard to put governance systems in place. It's like the gold rush in California when there was no law—things were happening too fast.

What challenges has NetApp faced in Asia?

I don't view them as challenges—more as differences. We have extensive sales and marketing operations in Dalian, China, and we do have concerns. For instance, people in China don't view intellectual property rights in the same way as we do, so we have to do more to protect our intellectual property. We don't let people take home PCs. We don't let them plug in USB jump drives. Everything is very controlled—the work stations are basically diskless. It's not that they're bad people; they just have a different value system.

Business schools want to thoroughly understand the needs of their corporate customers. What does your company need most from business schools in terms of

talent and resources?

Keep the core curriculum current and germane—that's key. Beyond that, develop leadership skills, not only as an intellectual conceptualization, but as applied skills.

Also, help students build an ethical framework. Have them ask the important questions: What is the point of business? Is it just to make money, or is there a grander objective? How do you balance profits and concern for employees? Students need to build ethical frameworks to be successful in business, especially as leaders.

You're especially active with the Leavey School of Business at Santa Clara University, sitting on its advisory board, giving guest lectures, and providing an endowment to support its undergraduate Senior Leadership Academy. What do you think are the best incentives a business school can offer other business leaders to become similarly involved in its programs?

Our relationship with Santa Clara has included a number of student internships. We've had many of our full-time employees attend its MBA program, and we've developed several consulting relationships with members of the faculty. Those kinds of opportunities provide an excellent win-win for the company and the school.

What's next on your agenda, in the CEO's role and beyond?

I don't have a plan. I don't know how long I'm going to do this. I don't do it now for any other reason except that it's fun. If the fun turned to burden, I'd stop. I've found that it's not necessary to pursue money and reputation, if you love the job and people you work with. You know those three engineers who started the company? Two of them still work here, and they are two of the most intelligent, creative, and supportive people I've ever met. They've been incredible in allowing me to lead them. [Z](#)

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