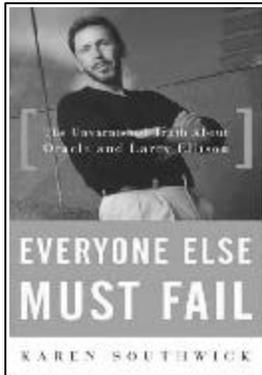


# Everyone Else Must Fail

## The Unvarnished Truth About Oracle and Larry Ellison



*Larry Ellison, the uncrowned monarch of the software industry, rose to the zenith of success through his matchless leadership style. An academic drop-out, by the dint of his profound inclination towards software programming and dynamic leadership skills founded the software giant, Oracle.*

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*“The way to win is not to do what everyone else is doing. The way to win is to figure out where conventional wisdom is wrong and do something completely different.”*

*– Larry Ellison*

Lawrence J Ellison, 59, has been the Chief Executive Officer and one of the directors of Oracle Corp. for more than 25 years. He cofounded the Company together with Bob Miner and Ed Oates in June 1977. Oracle, under the impeccable leadership of Ellison, has emerged as the world's leading supplier of software for information management and the world's second largest independent software company, with revenues of more than \$10 bn. It is considered as one of the most successful companies. As a matter of fact, 99 out of the *Fortune* 100 companies have been depending on Oracle software to manage their information. Oracle Corp's operations are spread across 145 countries. Ellison has been included in the list of the world's richest people for four consecutive years since 2001. He was 4<sup>th</sup> among the richest persons in the world in the year 2001, 5<sup>th</sup> in the year 2002 and 6<sup>th</sup> in 2003. Presently he holds the 12<sup>th</sup> place. Ellison, who is believed to be one of the most intriguing and influential leaders, was referred to by a business psychologist as the “ultimate narcissist”, who refused to acknowledge any part of Oracle's slump in revenue and profitability perhaps due to his inefficacious leadership. He was voted the Entrepreneur of the Year in 1990 by the Harvard School of Business and is the recipient of the US Big Brother Award for the year 2002. In the same year, he won the title of the “Greatest Corporate Invader”, for engineering a National US ID card system. Ellison has been leading more than 43,000 employees, many of whom have become multi-millionaires, due to their stock options. With his versatile personality and multifaceted talents, he has also proved his excellence as a Jet Pilot, Yacht racer etc.

**Author of the Book**

**Karen Southwick**, an Executive Editor at CNET News.com, has been a writer and editor for Forbes ASAP and Upside, as well as metropolitan daily newspapers, including the *San Francisco Chronicle*. She is also the author of three books: *Silicon Gold Rush: The Next Generation of High-Tech Stars Rewrites the Rules of Business*, *The Kingmakers: Venture Capital and the Money Behind the Net*, and *High Noon: The Inside Story of Scott McNealy and the Rise of Sun Microsystems*.

Born in New York, in 1944, Ellison was not interested in academics since his childhood. He did not qualify either of the two Universities he attended. When asked about his interest in studies, he said, "I never had the discipline to do things that I didn't like". Ellison had a special attention and a knack for the application of logic. Hence, Physics was the subject he was interested in and learnt the basic program of computer as part of Physics. He learned the programming on the latest IBM mainframe computer and started earning as a contract programmer. He continued working as an IBM mainframe programmer for a considerable time but kept on changing companies, through late 1960s and early 1970s. In 1973, he got a jolt when he was laid off from a firm called Amdahl. Soon, he got a job in a firm called Ampex, where he happened to meet his future colleagues and cofounders Bob Miner and Ed Oates. Subsequently in 1976, Ellison got an offer

to be the Vice President—R&D at Omex. But the bureaucratic and inflexible set up of the company did not appeal to Ellison and the idea of starting a company of his own cropped up in his mind. This led to the founding of Oracle Corporation, in 1977, when Larry Ellison, along with his two friends—Bob Miner and Ed Oates, founded a small firm called Software Development Laboratories (SDL) and assumed the position of President. The first contract that the Software Development Laboratories earned was from Omex, which was a bid of \$4,00,000. As SDL moved ahead, Ellison started concentrating on database maintenance software and gathered the required literature on the relational database from various sources including IBM Research papers. IBM Research papers were used as the blueprint for constructing the relational database software at SDL. He was meticulous enough in choosing his target clients. In order to avoid the competition from IBM during the start-up stage, Ellison concentrated on the minicomputer market and avoided the mainframes. His decision to concentrate on relational database software and that too on minicomputers, was based on three touchstones:

- It was a general notion that relational database could not run fast enough and hence, he would have to face relatively less competition.
- IBM was already established in IMS (Information Management System) database business; so it had no feasible reason for switching over to relational database software development.
- Even if IBM entered the relational product, its core concentration would be on mainframes.

These three observations prompted Ellison to go ahead with the idea of relational database products. After completing the project for Omex, SDL changed its name to Relational Software, Inc., or RSI. RSI's next client was CIA. With this, RSI was able to finish its first commercial release of Oracle database, which came to be known as Oracle Version 2. Though version 2 had problems with the speed of the software, it was rectified later by implementing a tenfold performance improvement, required for commercial viability.

**Ellison – The Crisis Leader**

Once Ellison was into full-fledged sales, he put an end to the consulting part of the firm and concentrated more on software development. RSI started experiencing cash crunch. As the government was RSI's chief client, the dealings with the government took a lot of time and hence, it caused delay in payment. Ellison had to deal with the crisis by way of stopping the payments to the employees of RSI, starting with himself. Ellison started working harder than ever before, which even led to the end of his second marriage. In order to ensure that their software could run on minicomputers, Ellison banked on

a new equipment called Virtual Address Extension (VAX). The VAX software was a runaway success for Ellison and RSI, as most of RSI's intelligence service clients soon started buying the package. Soon after the successful VAX venture, Ellison took up the charge of developing version 3 of their database software using a programming language called C. This was due to Ellison's observation that the inexpensive C computers were also becoming available for most of the machines, which he needed Oracle to run on. Version 3 of RSI was way ahead of its time. It came into being when the industry was not at all familiar with the C language. Version 3 made its entry into the market in 1983, and in that very same year RSI's name was changed to Oracle Systems. Oracle now was in a pretty stable and financially healthy condition.

Version 3 of Oracle had to be revised in view of bugs and quality problems. Thus, Oracle came up with version 4, with the help of a new recruit, Derry Kabcenell.

### Facing the Competition

Oracle's exposure to competitors was increasing in proportion to the growth in its product base. Sybase was one such competitor, which proved to be formidable for Oracle. It innovated the first database specifically designed for the new pattern of client or server computing. It had an edge over Oracle as it had a programmable server i.e., the ability to write programs called stored procedures that ran inside the database. Thus, Sybase was in a position to advertise two new features in its products, namely the referential integrity and the two-phase commit—that Oracle lacked. Though Sybase was smaller in size, the advantages of its software and the product advertisements were threatening Oracle and thereby Ellison. In order to face the competition from by Sybase, Ellison felt the urgency of developing version 6 of Oracle database. Version 6 was a complete rewrite of the most complex part of the database, which consequently generated severe quality problems and bugs. Due to frustration from the competition and obsolescence of Oracle 5.1 version, Ellison was in a hurry to release version 6. His haste led to the release of Version 6 with poor quality standards.

### Snapshot

- Regardless of what happens to Oracle, the journey through its history and psychology is well worth taking, for Ellison is one of those irresistibly compelling characters whom we are unlikely to see again.
- The "Gospel of Oracle," according to its primary interpreter, Ellison, is that: (1) We have great technology; (2) Our competitors (whom he names and discusses repeatedly) will never catch up; (3) You should be buying from us because we can do it all—give you everything from the database to business applications.
- It's not possible to understand Oracle without understanding Larry Ellison. No other large company is as dominated by a single individual.
- In the 1980s, Oracle was a heady place to be if you were young, bright and eager to make a name for yourself by giving everything you had to the company.
- Were it not for Ellison's grit and intelligence, Oracle would probably have finished its existence as a minor consulting firm installing other people's software; IBM might have had time to perfect the relational database and dominate the market.
- Ellison sees only the end, not the means. The latter can be tedious, and he's not one to concern himself with all the work that has to be done to get to a stated goal. It's like a wagon train leader pointing to lights on a far distant hill; that's our destination, he says, and then leaves the train members on their own to find it.
- Nobody can overshadow Ellison. Anyone who even tries is out of the door. "The people who get closest to Larry the fastest also fall the fastest"...
- Ellison was the product visionary and driver, leading the development team in getting out a much-needed competitive offering. Meanwhile, Lane was fixing the machinery for selling that offering. Neither could have done it without the other.

Oracle went public on March 12, 1986, with Ellison holding 39% of the stock. Version 6 was introduced with a number of added features like row-level locking, multitasking etc. But the quality standards impeded version 6 from being the market leader. Eventually, it couldn't become an enterprise-strength. Ellison's next target was packaged applications to automate businesses that were collectively known as (ERP)Enterprise Resource Planning.

**Ellison had to face huge opposition and humiliation during late 1980s, when Oracle 6 turned out to be a failure**

### The Master's Mistakes

Ellison had to face huge opposition and humiliation during late 1980s, when Oracle 6 turned out to be a failure. By then, Oracle had many new faces in the company, for example, Jeff Walker was appointed the CFO, and Garry Kennedy was responsible for sales. After the sales figures failed to show any improvement, Ellison thought of introducing decentralization throughout the sales operations of Oracle. But Kennedy later felt that none of the recommendations of Nosheen Hashemi were implemented, which led to the failure of the decentralization process. Each department and region of Oracle formulated separate strategies and plans of its own, independent of the plans of the other departments. For example, the sales department offered huge and unreasonable discounts to induce customers to buy software. Various regions took the risk of selling the software to companies, which did not have enough money to pay their bills. To worsen the situation, Kennedy went for expansion of the sales force by adding another 1500 people. Adding to this, Ellison, encouraged the gesture, and Walker supported it. Though in 1990, the company was showing healthy sales figure of \$971 mn, the accounts receivables stood at \$468 mn.

Oracle still did not realize that it was heading towards a disaster. By the end of the fiscal year 1990, Walker's deputy in finance, Steve Imbler, realized that around \$15 mn worth of deals had every possibility of going bad. The blind encouragement of Ellison to the sales team proved costly. The consequences were bitter for him and for Oracle as well. As a result, Oracle lost 30% of its value falling to \$17.5(?). Ellison, instead of realizing the mistake, went on with his grandiloquent promises before the press conference that Oracle would be a \$ 5 bn company within the next five years, without specifying any plan of action or strategy that would lead to the goal.

The sales people under Kennedy continued offering outrageous discounts to buy software licenses, irrespective of their necessity. The delegation model of management by Ellison came to be known as the abdication model of management. On this he said, "Once I was not interested in something, I simply ignore it". Ellison's arrogance and recklessness became his enemies which reduced his competency phenomenally. This resulted in improper accounting procedures, and loose monitoring of the systems and that of the whole organization. The sales figure missed the target by 20% that resulted in the first ever loss for Oracle in 1991. This brought to an end Kennedy's association with Oracle and Geoff Squire replaced him as the Sales head at the international level. The banks and financiers started losing confidence in Oracle's stock price and performance. The size of the credit was scaled down to \$170 mn and the credit period was reduced to November 1992, most of which was already used up. The general impression was that Oracle is nearing an end. It witnessed the exit of the creamy layer of its employees. One of them was Tom Siebel, who later established his own company and became Oracle's rival.

Even after the disastrous results, Ellison did not give up and engaged himself in rejuvenating Oracle. He was clear in his mind about his priorities. The company started meeting the cash crisis, gaining back investor's confidence, and rectifying version 6.

## Mending the Mistakes

Ellison was a great visionary and also an opportunist. He observed that, at that time, the Japanese economy was quite strong and companies there were interested in investing in technology business. He grabbed the opportunity and initiated negotiations with various companies. Nippon Steel was found to be the most favorable and interested in a deal. Ellison assigned the job of striking a deal with the Japanese to Ron Wohl, a product manager at Oracle for several years. His study of the Japanese economy, as well as his choice of the persons to carry out the negotiations spelled success for Oracle. By the end of 1991, with the successful negotiations, recovered economic conditions and controlled expenditure, Oracle got back on the tracks.

**Jeff Hanley brought about a few crucial changes in the hiring policies and introduced cost control mechanisms**

One more important reason for the improvement in Oracle's finances was the appointment of the new CFO, Jeff Hanley. Hanley, other than improving the company's financial status, brought about a few crucial changes in the hiring policies and introduced cost control mechanisms. With these changes, Oracle was clearly out of trouble. Now, Oracle had also come up with its version 7 that was an improved and more efficient product compared to version 6. Ellison's clustering and the multiprocessing technology had resulted in the Oracle version 7 that was claimed to be much faster than any other database in the market. It had an advanced architecture, which was fully programmable with new PL/SQL programming language. This resulted in healthy sales and hence a favorable financial record for the company. At the end of the third quarter of 1992, Oracle had revenues of \$371 mn and a net income of \$29.2 mn, which was double of the previous year's figures.

## Ellison – An Innovator

Ellison had always been enthusiastic in expanding Oracle's product portfolio. He expected to see much more in Oracle, than just being a database maker. His drive for innovation led him to explore various other interests. His one such interest was Massively Parallel Processing or cluster technology. Being a visionary and an opportunist, Ellison observed that the 1990s witnessed a growing convergence among telecommunication, media, and computing industries. He immediately eyed Video on Demand (VOD) and started working on the project. In 1993, he initiated the task of building the VOD software to solve the technical problems of building a media server that could handle video, audio, and text on n-Cube (a firm that Ellison had acquired in 1988 for \$11 mn) platform, in association with his engineers. VOD technology proved to be a windfall for Oracle as well as Ellison. The company was also in dealings with the entertainment giants, Disney, STAR network etc.

His next venture was the concept of NC (Network Computer). In 1994, Ellison presented his idea of network computer at a conference in Paris, where he offered a computer without a desktop PC, which allowed access to the Internet and other needed applications, for a mere \$500. Unlike a PC, NC would just need to access the network to function. He went to the extent of announcing that PC was a ridiculous device, as it was too expensive and complicated compared to the NC. As soon as Oracle spread its portfolio beyond the database software, it started gaining brand recognition.

## Oracle vs. SAP

SAP was a German software company founded in 1972. It developed R/2 applications that ran on mainframes and was widely recognized as a thoroughly engineered application. Simultaneously, SAP had also been developing R/3, and was aiming to capture the US market, and thus become a major threat to Oracle. SAP entered the American software market with its latest R/3 which proved to be an ambush attack on Oracle. The sales force and the technicians at Oracle were not familiar with

competing against the applications business. Oracle was no match for SAP. It spent a rigorous 4-year-period, from 1993-1997, on building the competent software. SAP started spreading itself in one country after another. It also nurtured its relations with the big five consulting firms including Andersen Consulting. Ron Wohl and his team members had put in a lot of time in their efforts to build better software, but in vain. Lastly, in a presentation to Ellison in 1996, Robert Shaw persuaded him to collaborate with two European energy companies, Apogee and British Petroleum, in developing an ERP system. The plan sounded quite convincing to Larry and he approved it. As a result, Oracle tied up with those two companies. It did very well from the sales point of view. The strategy of supplementing their applications with those of the partners proved to be productive. Though Oracle did well in the applications through ERP, it was impracticable to restrain SAP. Hence, Oracle started focusing on the middle level market, where SAP was not concentrating.

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Other than SAP, IBM and Microsoft were the two prime competitors of Oracle. However, Ellison considered IBM to be the genuine competitor, as he was quoted saying, "Microsoft's software is rarely first rate. They never ever innovate, whereas IBM had many innovations like disk drive, core memory, scanning tunneling microscope, fractal geometry etc. that fetched them laurels like Nobel Prize." So, Ellison considered IBM as Oracle's nearest and real competitor. In 2001, Oracle's flagship database software had more than 40% marketshare, double that of its nearest competitor, IBM. Along with Sun Microsystems, (EMC and Cisco Systems) Oracle was considered to be one of the four pillars of the Internet infrastructure. In the first fiscal quarter of 2001, the profits were up by a whopping 111% to \$501 mn.

Though Ellison's leadership qualities can be credited for the growing empire of Oracle, his style of functioning leaves much to be desired in matters of personnel management. Forbes said, "While Ellison can take credit for shifting Oracle's strategy to the Web and now to applications suites, his autocratic management style is driving away key executives, which has negatively affected the stock and some analyst's price targets." Ray Lane—the COO and Gary Bloom—the Executive Vice President—quit Oracle in 2001, due to the autocratic leadership practices of Larry Ellison. Lane opined "Ellison pushed him out, diminishing his duties and assuming them himself." While Bloom said "since there was no room left to grow at Oracle, since Ellison was not going to cede the top spot anytime soon. This, despite the fact that Lane's COO position was never filled and no one holds the title of president at the company." However, Oracle has named Jeffrey Henley, who has been the company's finance chief under Ellison for 13 years, as Chairman, in 2004. It is an undeniable fact that as an entrepreneur, Ellison's sweeping industry predictions were legendary and had resulted in landmark achievements for Oracle. His prediction that relational databases would be commercially feasible and successful made Oracle an uncrowned king in the industry. His incomparable technical expertise and tremendous skill in acknowledging talent have laid a strong foundation for Oracle. They have taken Ellison to new heights of achievement. ☐

— K B S Kumar

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