

COMPUTING

A TALK WITH SCOTT McNEALY

Sun's chief on the post-Enron economy, HP, and more

Scott G. McNealy co-founded Sun Microsystems Inc. in 1982 at age 27. He has since built an \$18 billion computer giant, amassed a fortune, and become one of the industry's most vocal critics of rival Microsoft Corp. BusinessWeek Editor-in-Chief Stephen B. Shepard spoke with McNealy on Mar. 14 as part of the magazine's Captains of Industry series at Manhattan's 92nd Street Y. Here are excerpts:

Your father was vice-chairman of American Motors. And you grew up in Detroit. Were you a car buff as a kid?

I liked cars. I could tell just by looking at the side taillights what model, what year, what make. I knew every car on the road.

It occurs to me the name of your kids—Maverick, Dakota, Colt, and Scout—are the names of cars. Was that an accident?

That's not an accident. If one was a girl, it was going to be Mustang Sally.

There's still time.

No, we're done. No more Free Willy.

How did you and your wife decide on these names?

They're all vehicles, they're all Native American-kind of connotations, and they all mean something. Maverick has an obvious connotation. Dakota is a Native American word for "friend." Colt is "little horse." Obviously, Scout is running around checking everything out.



So it's kind of fun. They've all got boring middle names: Scott, Barry, William, Paul.

Did you think you

would go into the automobile industry?

My first job out of college was in a UAW shop in Centralia, Ill. I was in the parts-supply industry. But I didn't know what I was going to be when I grew up. I just liked manufacturing because you could make something.

Where did the interest in technology come from?

I was working in the FMC tank plant in San Jose, Calif., but I quit and went to work for a computer company, Onyx Systems. It was the first company to put Unix on a microprocessor. And what the heck, they gave me 5,000 shares of stock. I'd never had stock before. Ten months later, we started Sun.

CAPTAINS OF INDUSTRY

You went on GE's board a couple years ago. How did that happen?

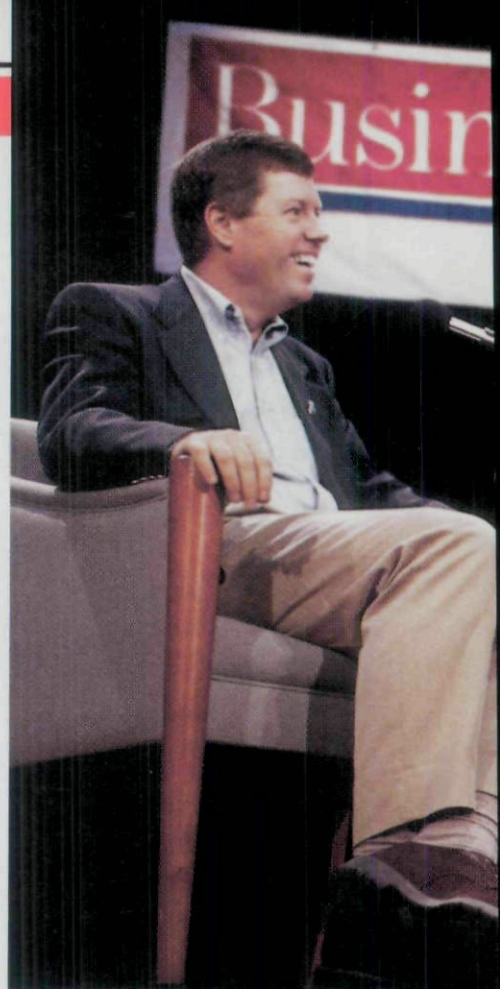
It just so happened that *Golf Digest* searched all these private handicap records of all the CEOs, and they had me ranked as No. 1 and [former General Electric Co. Chairman] Jack Welch as No. 2. They were an interesting customer. And I have been a Jack groupie, professionally. So I really wanted to meet him. I saw this was a great opportunity and I wrote him a note, and I said, "Jack, we're No. 1 and No. 2. Let's settle it *mano a mano*. You name the place, the time, I'll be there. Bring your best game." I knew Jack would bite. It was like chumming.

He put you on the board for your golf?

He needs somebody to play with.

What has been your experience on the GE board?

It has been huge. In fact my staff always looks at me and says, "All right, what do we have to do now?" every time I come back from a board meeting. There are some really outstanding



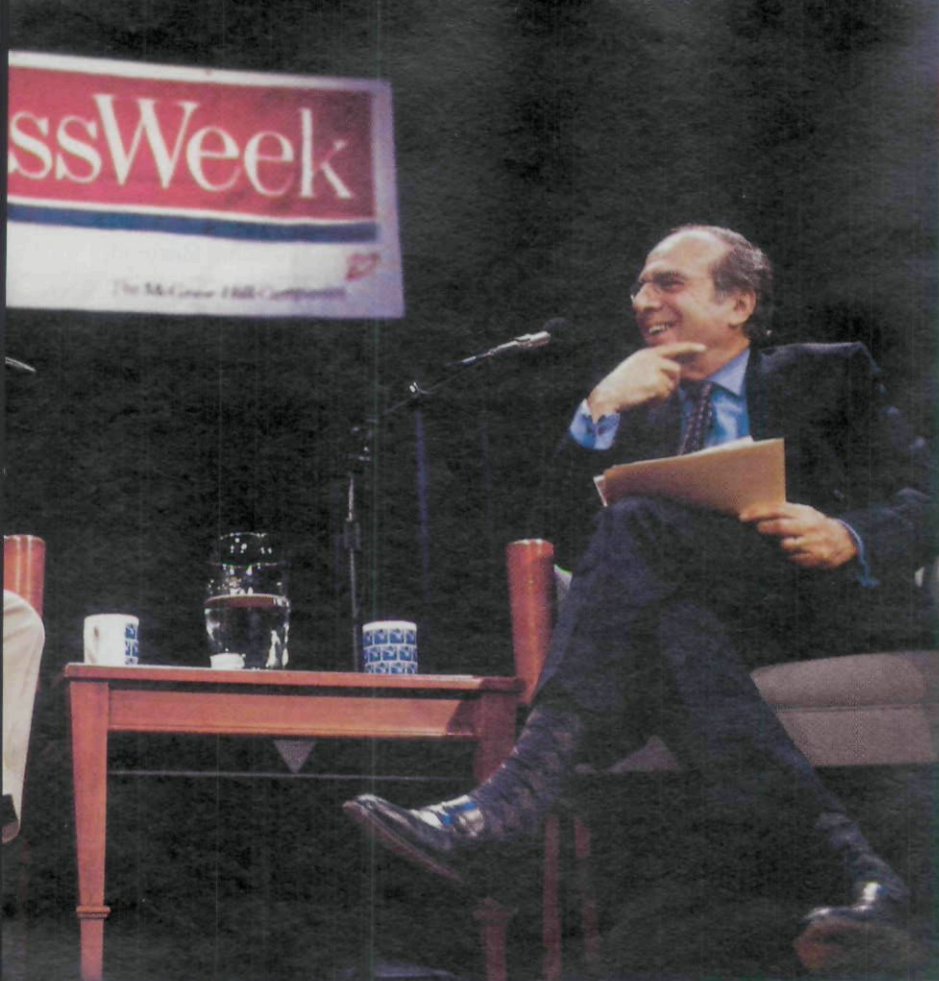
things. We're doing Sun Sigma, or Six Sigma. I really cranked it up big-time.

I've really worked hard on succession planning. I have a depth chart on every one of my executives that goes down at least three or four folks on all the top 150 executives. We've got about 50 executive moves planned out for this year where we know we're going to move people sideways, moving people up, people down, people out. We've already laid it out and have a pretty good strategy. And we're starting our own Leadership Institute, kind of like their Crotonville [N. Y.] Jack Welch program.

Let's talk about the mood in Silicon Valley. Does the tech slump feel anywhere near over to you?

There are still a lot of bright people working on a lot of bright ideas. The money actually isn't free and easy like it used to be, which is a good thing. We got started on \$285,000. We went profitable in our first year. That's a good thing. [Sun Chief Scientist] Bill Joy likes to say there's never been a successful well-funded startup. **If you have too much money, you're not going to find a new and different and more efficient and effective way.** You're just going to try

FREE TRADER **“If you don't have failures, you don't**



and overpower the current players with the same strategy. You can't win a sailboat race if you're behind by tacking behind the boat in front of you. You've got to go out and find different water and find better air.

Sun's stock hit a high of \$64. Did you think what tech stocks were doing two years ago was too good to be true?

When I married my wife seven years ago, Sun's stock was at an equivalent of about a buck. It's about \$9.50 now—\$9.50 from \$1 over seven years. She thinks she's a pretty good CEO wife.

She married well.

No, she trained me well, and the stock made a nice move since we got married. But two years ago we were selling at 10 times revenues when we were at \$64. At 10 times revenues, to give you a 10-year payback, I have to pay you 100% of revenues for 10 straight years in dividends. That assumes I can get that by my shareholders. That assumes I have zero cost of goods sold, which is very hard for a computer company. That assumes zero

CENTER STAGE
McNealy, whose kids have cars' names, shares a light moment with Shepard

expenses, which is really hard with 39,000 employees. That assumes I pay no taxes, which is very hard. And that assumes you pay no taxes on your dividends, which is kind of illegal. And that assumes with zero R&D for the next 10 years, I can maintain the current revenue run rate. Now, having done that, would any of you like to buy my stock at \$64? Do you realize how ridiculous those basic assumptions are? You don't need any transparency. You don't need any footnotes. What were you thinking?

What were you thinking?

I was thinking it was at \$64, what do I do? I'm here to represent the shareholders. Do I stand up and say, "Sell"? I'd get sued if I said that. Do I stand up and say, "Buy"? Then they say you're [Enron Chairman] Ken Lay. So you just sit there and go, "I'm going to be a bum for the next two years. I'm just going to keep my mouth shut, and I'm not going to predict anything." And that's what I did.

Are there lessons from Enron?

In general, the system is working. Enron is Darwinian toast. It's gone. The system works. You are a crook, your company is gone. Andersen is facing the Darwinian music big-time also. They can't even sell the thing right now. If [former Enron CEO Jeff] Skilling or anybody else broke the law, they should be wearing stripes.

So how many new rules do you need? I think Enron says, "Hey, if you're going to invest in a company that's going like crazy, maybe it's too good to be true. Maybe you ought to read the income statement, the balance sheet, and the footnotes." How many Enron investors actually read the footnotes? If they had, they wouldn't have been able to understand them. Why invest in something you can't understand?

Ultimately, we've got to take personal responsibility. It isn't the government's responsibility in a market economy to protect me from wins and losses in the market. Every time there is a failure in the market economy, the government wants to step in and protect us from failure, to get votes. But if you don't have failures, you don't have winners. If you don't have winners, you don't have a market economy. It's what makes America great.

What's the outlook at Sun for the rest of the year?

I think our chief enemy is still the chief financial officer, not Microsoft or IBM. Tech investments are always discretionary in the short run, optional in the midrange, and mandatory in the long term. When will they come out of it? Nobody can predict. But at some point, if you're going to be competitive, people are going to have to buy. Defense is going to have to buy more computers. Airlines are going to have to. The INS is going to have to.

How would you describe the strategy for Sun over the longer term?

The strategy is: The network is the computer. We believe that you shouldn't do computing on your local PC. You should do it out over the network on a very powerful network server. And you shouldn't have any information or data local to your PC. Why? Because it could blow up. You could drop it. It could get stolen. Somebody could crack into your PC. Put it in the server, where it's safe.

Will the merger of Hewlett-Packard

have winners.... It's what makes America great 77

and Compaq happen?

The visual I see is a slow-motion collision of two garbage trucks—and they are just about to meet bumpers. Anybody who wanted to vote no should have gotten out of the stock. Why would you play a game of chicken with a bad answer? Get out. Jump out of the truck now. All right? So I have very little sympathy for the shareholder who votes no and then gets in a collision.

Does it make any difference to Sun?

No, because fundamentally both companies have decided to get out of the computing-server business and get into the Intel-Microsoft reseller business. We look longer term, and there are really three players left: There's General and

owned where the brake pedal went. You could go from a Ford to a Chevy to a Toyota, and you wouldn't have to redo your garage. You had choice. It was open architecture, if you will. And the sales people had to work hard. They couldn't just jack up prices or people would just walk down the street.

So I got into the computer industry, and I saw that there were literally hundreds of different architectures. Some people had brakes to the right of the accelerator, others didn't have brakes. And you needed a Masters degree to be able to operate any one architecture, and it was not at all transferable to the next.

Then, all of a sudden, we watched Microsoft grab control of all of the in-

off all over the place. The invisible hand just sorts it all out.

You have filed suit against Microsoft. The appeals court ruling was about the browser and the PC. You are talking about the network and server world now. Do you think that what Microsoft was found guilty of by the appeals court applies to this new world?

What's interesting is they went into the case looking at the browser, and collateral discovery was that of the 11 different instances of anticompetitive behavior that are documented in the 150 pages that were ruled on, 3 out of the 11 findings dealt with [Sun Microsystems'] Java—even though they didn't go in to see if Sun had been harmed. But it was blatant.

How important is this? If Java isn't included in Windows XP and the whole Net server strategy of Microsoft, how crippling is that to Sun?

It could be very crippling because they're tying [Microsoft's Net identification service] Passport and [Microsoft's Web services platform] .Net and XP to the server. They're tying it to the cell phone. They're tying it to the set-top box. They're tying it to the game machine. They're tying it to every device, and they want to create choke points everywhere on the Internet.

What do you see as the next great technological advance, and will it be a profitable business?

People are always asking me to be a visionary. I'm not. I'm spending all my time just trying to get enterprises and service providers and users to take advantage of all the technology that we do have. Name one Web site you can't access from a Java browser. There are none. Name one Web site you access from Windows. The answer is none. We just answered, it's the browser.

But we still have so much work around the world just getting people to be Java browser-enabled. We don't need to get them smart Web services, we need to get them to the browser, first. Then we'll get the little services talking to each other so that my gas station app talks to my auto app to my airplane app. All of these silly little examples of Web services. Let's get people so that they can at least access their information. ■



AT WORK “People are always asking me to be a visionary. I'm not. I'm spending all my time just trying to get [people]...to take advantage of all the technology that we do have”

Motors, which are Intel and Microsoft. I call us Ford. And then I call IBM the dealers, you know, Global Services—they're kind of the dealership group.

Some speculate that your feelings about Microsoft were conditioned by growing up and seeing your father, as vice-chairman of American Motors, operating in the shadow of GM. Any truth to that?

No, actually that's not exactly what I took away from the auto industry. My first job was washing cars for \$1.75 an hour for Penske Chevrolet. And I'd be shining cars in the showroom, and I'd see that consumers had choice. Nobody

interfaces and hide the workings and the interfaces to their environment. That's just not how I grew up.

How would the standards have emerged if Microsoft hadn't been there?

They did emerge. It's called the Internet, and Microsoft had zero to do with the Internet. They didn't even discover it until after it was already done. So those standards will evolve. It'll be crazy. It'll be chaotic. The beauty of a market economy is you can't figure it out. There are winners, there are losers, there are crashes. There are explosions, there are fireworks. There is stuff going

BusinessWeek online

For a video of the entire interview go to the Apr. 1 issue online at www.businessweek.com.