

BY GLENN RIFKIN

# Tech's First Great Entrepreneur

Ken Olsen created a giant computer firm but thought PCs were “toys.”

In September 1987, Kenneth H. Olsen, the founder and CEO of Digital Equipment Corporation, stood before several thousand customers, employees, and reporters to bask in the glow of his company's triumph. Known throughout the computer industry as DEC, it was celebrating not only its 30th anniversary but also its emergence as the hottest company in the technology industry. Second only to IBM, DEC was a Fortune 50 company with more than \$12 billion in sales and 120,000 employees around the world.

Having recently been dubbed “America's Most Successful Entrepreneur” by Fortune magazine, Olsen clearly enjoyed this pinnacle moment. He could

hardly have imagined at that instant that in less than five years he'd be ousted in disgrace by the board as the company's fortunes sagged and, six years after that, his company would be subsumed into Compaq Computer and later HP.

Olsen founded DEC with \$70,000 in seed money in 1957, just a few years after graduating with an electrical engineering degree from MIT. He set up shop in an old Civil War-era wool mill in the tiny blue-collar town of Maynard, Mass., 20 miles west of Boston, and there built one of the most admired companies in the burgeoning technology industry.

“He was the first great entrepreneur in the technology business,” says George Colony, the

founder of Forrester Research. Having received funding from Gen. Georges Doriot, the famed venture capital pioneer in Boston, Olsen built “the first great venture-backed technology firm,” Colony adds.

A Calvinist and a scientist, Olsen believed deeply that one did the right thing by selling only the best products to customers and that by building the highest quality computers, buyers would flock to his doors. He had deep disdain for marketing and advertising and focused instead on satisfied customers' word of mouth to sell his wares.

For about 30 years, Olsen's strategy and vision worked to perfection. Olsen's greatest achievement might have been

## Predictions Worth Regretting

Ken Olsen's misjudgment of PCs is one of many prognostications that didn't pan out.

**“Stock prices have reached what looks like a permanently high plateau.”**

—Yale Professor Irving Fisher in 1929, just before the stock market crash and the Great Depression.

**“That's the most expensive phone in the world and**

the open management style he created for the company, providing freedom and responsibility to people and expecting them to exercise it successfully. He fostered an engineering-centric culture in which excellence and quality ruled the day, and top engineers clamored to work for DEC.

Olsen and DEC effectively created the minicomputer industry. Back in the 1960s, high-end computer power resided only in the hands of white-jacketed data-processing high priests who controlled the corporate mainframe computers. Those mainframes were massive, multimillion-dollar machines and usually made by IBM.

So DEC introduced smaller, cheaper, yet still powerful machines. Its PDP and VAX lines of minicomputers became so popular—particularly with engineers and scientists—that the company could barely keep up with demand. DEC's fortunes soared and Olsen became a wealthy corporate patriarch. A big bear of a man, Olsen was intimidating and sometime cruel. He could publicly lash out and humiliate executives. But he was also deeply religious and believed in a fundamental responsibility for his employees, whom he considered a family. DEC became legendary for



**Digital Equipment Corporation's visionary founder, Ken Olsen, with Bill Gates in 1992.**

refusing to lay off employees, even in difficult economic times.

But Olsen, who died at age 84 in 2011, ultimately became a victim of his myopic view of the industry. He made his fortune selling proprietary hardware and software and refused to acknowledge the popularity of the Unix operating system, which could be used by multiple vendors. Olsen referred to Unix as “snake oil.” In the late 1970s, he openly denigrated personal computers, calling them “toys” and saying, “The personal computer will fall flat on its face in business.” DEC eventually built its own PCs, but the market

had already chosen IBM as the de facto standard. Once the industry trendsetter, DEC began to zigzag while trying to fend off new competitors and found itself futilely chasing new markets.

Perhaps most damaging, Olsen refused to identify a successor, believing nobody could run the company but him. As the technology market shifted, this visionary was blinded by his own stubborn hold on the past. DEC couldn't adapt, even after Olsen's ouster. The once great company, the subject of admiring books and articles by organizational behaviorists, ultimately disappeared. ●

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**“In five years’ time unemployment could go to 15 percent without any difficulty at all in America.”**

—Richard Branson in 2010. Five years later unemployment was 5 percent.

**“There is no danger that Titanic will sink.”**

Phillip Franklin, vice president of the company that produced the ship, in 1912.

**it doesn't appeal to business customers.”**

—Microsoft CEO Steve Ballmer on the iPhone, in 2007.