Winds of Change at Oracle Financial Services Software Ltd[1]

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"Rock-a-bye baby on the tree top
When the Wind blows, the Cradle will rock…
When the bough breaks the cradle will fall,
Down will come baby, cradle and all!"

It was with turmoil of mixed feelings that K. Moorthy drove out of the parking lot of Oracle Financial Services Software Ltd. (OFSS) that evening. After being with the company from its formation, he resigned from his post as Vice President that morning. 'If you occupy a position of responsibility, there is no point hanging onto it if you can't really make a difference.' This thought was what had driven his decision. As he drove through the heavy evening traffic, he reflected back on all the changes that had happened at OFSS in the past five odd years which had finally led him to this drastic decision.

History

In 1991, Citicorp (now, Citigroup) had a wholly owned subsidiary called Citicorp Overseas Software Ltd. (COSL) to cater to its internal IT needs. Ravi Apte was its Founder CEO. Once it was realized that other banking clients also had a growing requirement for IT services, Citicorp Information Technologies Industries Ltd. (CITIL) was carved out of COSL to become a revenue centre by garnering as its clients, major banks other than Citi as its clients. CITIL was headed by its visionary leader Rajesh Hukku.

The first major product of CITIL was MicroBanker, a universal banking product created in the early 90s which achieved great success in countries like South Africa. In mid-90s, Flexcube, a comprehensive banking software product, was developed at their Bangalore location and this went on to become the flagship offering.

CITIL's major clients were BFSIs other than Citibank. But the name CITIL seemed to be a deterrent to these prospective banking clients, because it indicated a close association with Citi, their competitor. Clients were apprehensive about the confidentiality of the information they would need to share with CITIL. Hence, the company's name was changed to i-flex Solutions Ltd. as a tribute to their most successful product "Flexcube". Besides being the promoter, Citigroup continued to be a main customer and one of the primary revenue drivers for i-flex till October 2006 when it sold its stake to Oracle.

The company which began as a software products creator slowly ventured into IT services in 1995 to counterbalance the volatility of revenue in the products space. By 2008, nearly half its employee strength was in the services division. In 1994-95, i-flex pioneered in the use of IT in CMM Level 4 certifications. In an interview with Real CIO World in 2007, the CEO N. R. K. Raman said,

"[We] were the only banking software solutions provider to get a CMM level 4 at that time and the second company after Motorola to get a level 4 assessment. Subsequently, we had level 5 assessments. Today, there are many companies who have followed that model and been very successful."

Strategic Investment by Oracle Corporation

Oracle Corporation headed by Founder-CEO Larry Ellison, is a multi-national enterprise, software products provider, worth US$60 billion. For a long time, the business goal of Oracle has been to become the world leader in all IT verticals. It has increased its share of the software market through organic growth and through a number of high-profile acquisitions of companies such as PeopleSoft, Sun Microsystems and Siebel Systems. By 2007 Oracle had the third-largest software revenue in the world after Microsoft and IBM. Larry Ellison, the Founder CEO is hailed as the face of Oracle Corp. Known for his aggressive and results-driven managerial style, he became the world's top-paid CEO in 2008.

In August 2005, Oracle Corporation started to invest in i-flex as part of its strategy of expanding its database offerings portfolio by acquiring companies with leading applications. Majority of OFSS's clients were using Oracle's database and hence the acquisition was synergistic.

I-flex too had reached a career plateau by 2005 with a strong foothold in its domain but was seeking further avenues for growth. According to K. Moorthy,

"At that time, we had a great relationship with Tier II and Tier III banks, but though we were doing small business with Tier I banks, we could not manage to get their large projects. A Tier I bank would not hand over a $100 million project to a service provider whose turnover was only $200 million. So though we had the capability to handle and deliver such large projects, we needed the backing of a bigger brand name to gain access to such large clients. Oracle was expected to give us just that."

Oracle enlisted a series of purchases, first buying Citigroup's 44% stake for US$909 million, an additional 7.52% state in 2006, and another 3.2 per cent in an open-market purchase in mid-April 2006. On January 12, 2007, after an open offer price to minority shareholders, Oracle increased its stake in i-flex to around 81%. On April 4, 2008, the Board of Directors of i-flex solutions approved a proposal to change the name of the company to Oracle Financial Services Software Limited (OFSS), subject to regulatory and shareholder approvals. A press release issued by the company said,

"The proposed new name reflects the company's close strategic and operational alignment with its parent, Oracle Corporation, which owns 81 percent of the company."

It added that the current management team under N.R.K. Raman, CEO and Managing Director, would continue to run the operations of the company. Today, OFSS is a majority-owned subsidiary of Oracle Corporation and forms a part of Oracle's Financial Services Global Business Unit (FSGBU).

The name change was followed by an extensive re-branding exercise to align OFSS with its parent company.

The measures taken included the re-naming of i-flex's successful software products to Oracle Flexcube, Oracle Mantas, Oracle Daybreak, Oracle Reveleusetc., and the re-structuring of the company's official website. Oracle also announced the intention to resell i-flex's top selling products such as Reveleus, Basel II and Flexcube.

Internal changes

In a press conference on January 2006, Krishan Dhawan, Managing Director of Oracle India said,

"At present, we have no intention to merge the operations of both the companies, even though we will look at going to market together. We will look at jointly marketing our products and expanding customer and product bases. The Mumbai-headquartered i-flex will function as an independent company and will have Oracle members on its board."

Yet, numerous procedural and policy-level changes took place at i-flex. I-flex had had a close-knit family-like culture for the past 25 years. The top management consisted of only Indians, despite being an MNC; there was a definite Indian thrust to its management with the Corporate Headquarters situated in Mumbai. I-flex was the baby of Rajesh Hukku who had headed it right from the time it was created out of COSL. He along with R. Ravishankar (affectionately known as Shanx) encouraged this close-knit culture between employees and were extremely approachable to any employee at any level. Oracle on the other hand, had a centralized administration and a very professional work environment. There was a definite thrust on employee performance and the practice of internal competition to deliver results was encouraged. The organisation structure of OFSS is provided in Exhibit 1.

Oracle primarily being a product-oriented company tended to focus more on OFSS's Products division. As a result the IT services division was particularly affected. All procedures for decision-making, corporate communication and client interaction had to change to match those of Oracle. For instance, the i-flex philosophy according to Govilkar was 'Customer is King', and many a time, work on renewed contracts with old clients would begin even before the documentation and legal

formalities were completed. But now, to renew an existing contract with a client, the pertinent documents had to be routed to the legal advisors at Oracle for review and approval, delaying the process by as much as three months. This caused the souring of many client relationships. The revenue of OFSS over the year is provided in Exhibit 2.

I-flex also firmly believed in limiting its technological expertise within its employees. Hence, to solve important client issues or meet crucial, sizeable requirement changes, i-flex officials would often travel abroad to their client site. These frequent and rewarding on-site opportunities were a major attraction for young engineers joining the company. Oracle started to question the need for such extensive travel and preferred the alternative of transferring the required functional know-how directly to the client. This was not received well by many employees.

I-flex executives felt that it went against the work policies they had upheld so far.

According to a senior manager who resigned in September 2010,

"Acquisitions are not just about buying the right company it is also about knowing what to do with it. I'd say that i-flex was the right choice for Oracle but our work philosophies are different. Oracle is at heart, a database company-it has a go-sell-walkout business model. It has no need to build and maintain relationships with clients-.most of it works through licensing and maintenance-i-flex is not like that- we are an application services provider- the policies and processes that work for us are different-and Oracle can't or won't understand it. So they have invested billions in us and still not seen an ROI in five years! And we have not really got as much out of the deal as we had hoped for."

While there were efforts at standardizing the processes at i-flex, the pay scale revision was not addressed. There was a vast difference in the pay scales of employees of Oracle Corp. and those of OFSS. For instance, a fresher who joins oracle corp. as a Software Engineer would have a starting salary 2.6 times that of a fresh SE joining OFSS. This stark contrast started to create dissatisfaction among the OFSS employees.

The downturn of 2008

In 2008, the collapse of the enormous global housing bubble led to a plummet in the value of securities tied to real-estate. This triggered a chain of events including a liquidity crunch for major financial institutions, bailout of many banks by the Government and stock markets crash resulting in a global financial crisis. OFSS had already been struggling with the recent structural and cultural changes for nearly two years and before it could fully come to terms with it, the downturn struck.

OFSS was affected adversely by this crisis, especially since their clients were global banking institutions. The number and size of projects coming in started to decrease. This necessitated some severe cost-cutting measures to be taken. True to Oracle culture, performance and results-delivery were re-emphasized and more stringent evaluation measures were enforced throughout the organization to ensure that all the employees were revenue centres and not cost centres. Many existing employees were shifted to part-time mode with a salary half of their previous one. Annual pay hike for all employees across Oracle was stopped in 2008. Employees were also made to undergo International Knowledge Measurement (IKM) tests, a set of online assessment tests for pre-testing job applicants, assessing training effectiveness, evaluating employees etc. Those who did not clear these tests were put on a performance improvement plan for additional training and skills development. Many who showed no improvement were terminated.

Such rigorous performance measures were so far unheard of. Employees started to feel the pressure badly, while at the same time, they had nothing to look forward to as rewards for good performance. Many even started leaving the organization fearing job insecurity.

2009 and later:

The Prime Sourcing division of OFSS historically offers financial domain expertise and targets an elite clientele who pay a premium for services rendered. But with the arrival of other competitors like TCS and Wipro with their low-priced offerings, OFSS started facing stiff competition on the professional front. Since 2008,

Temenos' product T24 has outperformed Flexcube (leader for four consecutive years) in terms of new customer acquisitions. [Exhibit 3] Moreover, domestic players, TCS (Bancs) and Infosys (Finacle), have started gaining traction in the banking products space and have been registering higher growth than OFSS. Furthermore, Forrester awarded higher points to Infosys (Finacle), Temenos (T24) and TCS (Bancs), compared with OFSSL (Flexcube) in its 1Q CY09 report, citing lack of flexibility in selection of application infrastructure and lack of integrated banking solutions.

Despite its expectations of broadening its clientele after the Oracle association, OFSS' growth was half that of the Indian IT services industry over FY06-09 owing to the slowdown in growth of revenue from Citigroup, especially since the acquisition by Oracle. [Exhibit 4]

Besides, OFSS had constraints imposed on it by Oracle in matters related to bids and contracts. According to an Associate Consultant who resigned from OFSS in April 2010,

"Our products are too expensive for the Indian markets and not functionally potent enough to give strong global competition…I've spent far too much of my time here doing pre-sales activity- but very little of it actually materializes into a real deal. We need some serious leadership re-structuring to get things back on track."

Top Management Restructuring

In May 2010, a flurry of new changes took place at OFSS. Rajesh Hukku and Ravishankar resigned from the Board of Directors of OFSS and took over as Chief Strategy Officer and Chief Operating Officer respectively for Oracle's FSGBU. Frank Brienzi, a 25-year veteran of the financial services industry took over as Sr. Vice President and General Manager of OFSS. A degree-holder in mathematics and MIS from the University of Northern Colorado, Brienzi had previously worked with EDS and Accenture.

In an open house meeting with the employees conducted at a regional office of OFSS in the presence of others Hukku, explain that OFSS had historically catered to an elite clientele and charged them premiums and the slackness in business was because those very clients had

not yet recovered. A plan for the next 18 months detailing OFSS' way forward to get back on the growth trajectory would soon be drawn up. He emphasized the need for a change in strategy and pointed out that Brienzi with his vast experience in financial services would be an ideal person to pioneer such a change.

Brienzi then greeted the employees, upholding Hukku's mention of a change in strategy and adding that OFSS must adopt Oracle's best practices. He reiterated that competing on cost and cutting down to single digit margins was not the way ahead and a re-focus on products was the need of the hour. He advocated a product-centric approach for OFSS in future as different from the traditional PrSG and PrimeSourcing approaches. OFSS would henceforth meet the clients with the best domain expertise and value propositions.

"What we do in PrimeSourcing is customize our products as per the clients' requirements. Why shouldn't we then use that intellectual capital to create new products?"

The session was followed by a Q&A round where a question was raised about possible lay-offs due to the prospective strategy-change. To this, Hukku responded that with all the developments and plans for the coming year, lay-offs seemed to be the last thing on the agenda. He quipped that OFSS may even need more resources in the near future. To a question on why no pay hikes had been announced yet, Hukku responded that the issue had been routed to Ellison and Charles Philips (then President, Oracle) and was being constantly reminded by K. Moorthy. He added that since Oracle had registered an increase in profitability from last year, there was no reason to believe that a hike would not happen. But neither he nor Brienzi committed to an actual time-frame or figure and this did not go unnoticed by the employees.

As the meeting dispersed, there were a lot of apprehensions in the air-both voiced and unvoiced. What did the resignation of the two visionary leaders from OFSS' BoD spell? How effective would Brienzi be in heading OFSS which so far had been a largely Indian BU? Would he champion the cause of OFSS as Hukku and Shanx had? Would Oracle's ultra-Product-centric

approach spell lay-offs despite Hukku's reassurances? Would there be shifting of employees from PrimeSourcing to Products? What would the future of PrimeSourcing be? When would the promised hikes materialize, if at all? There were a lot of questions left unanswered.

The Aftermath

In late July 2010, Oracle announced a 30% hike in salary for all its employees. But the same did not apply to OFSS. A round of hikes was announced for a small number of middle-level managers at OFSS but it did not extend to the majority of the employees. This caused a lot of dissatisfaction amongst the employees and many software engineers from the bottom tiers and quite a few managers holding key positions resigned. There was a general feeling that office politics played a greater role in getting rewards and recognition rather than merit or tenure of service. As a number of familiar faces started moving out, others started to follow suit. In the words of some ex-employees of OFSS,

"[OFSS gives] a very, very, very poor salary…[there is a] lack of new business especially at PrimeSourcing and no control in the hands of i-flex management post oracle takeover… the senior management needs to control the mass attrition levels by once and for all giving out good salaries to bring all at parity!"

"[At i-flex, there have been] no increments lately and very little bonus… a lot of people have left the organization and the clients are not happy because of the iterations…."

"[At i-flex, there have been] no hikes since many years and no promotions. We can't believe the senior management. Every time, [there are only] false commitments by Sr. Management…. [There is] no clarity about hikes, nobody knows when we will get action letters…and after Oracle has taken over i-flex its situation is at the worst. Seniors having 3 years of experience are still waiting for salary hike so we can't even hope such kind of things…."

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By the end of August, K. Moorthy also handed in his notice of resignation, closely followed by Rajesh Hukku, Ravishankar and N R K Raman. For Moorthy, it was a tough decision to make, but one that was imminent. By the time this news spread through the industry, he already had four job offers. Nevertheless he wondered about the future of OFSS. He felt that it all depended on what Brienzi could accomplish with the Oracle management in the next two years.

Note

The earlier version of this case was presented at International Case Conference, November 2010, Goa, India.

Exhibit 1
Organizational structure of OFSS

Figure 1. Partial ogranizational chart of OFSS
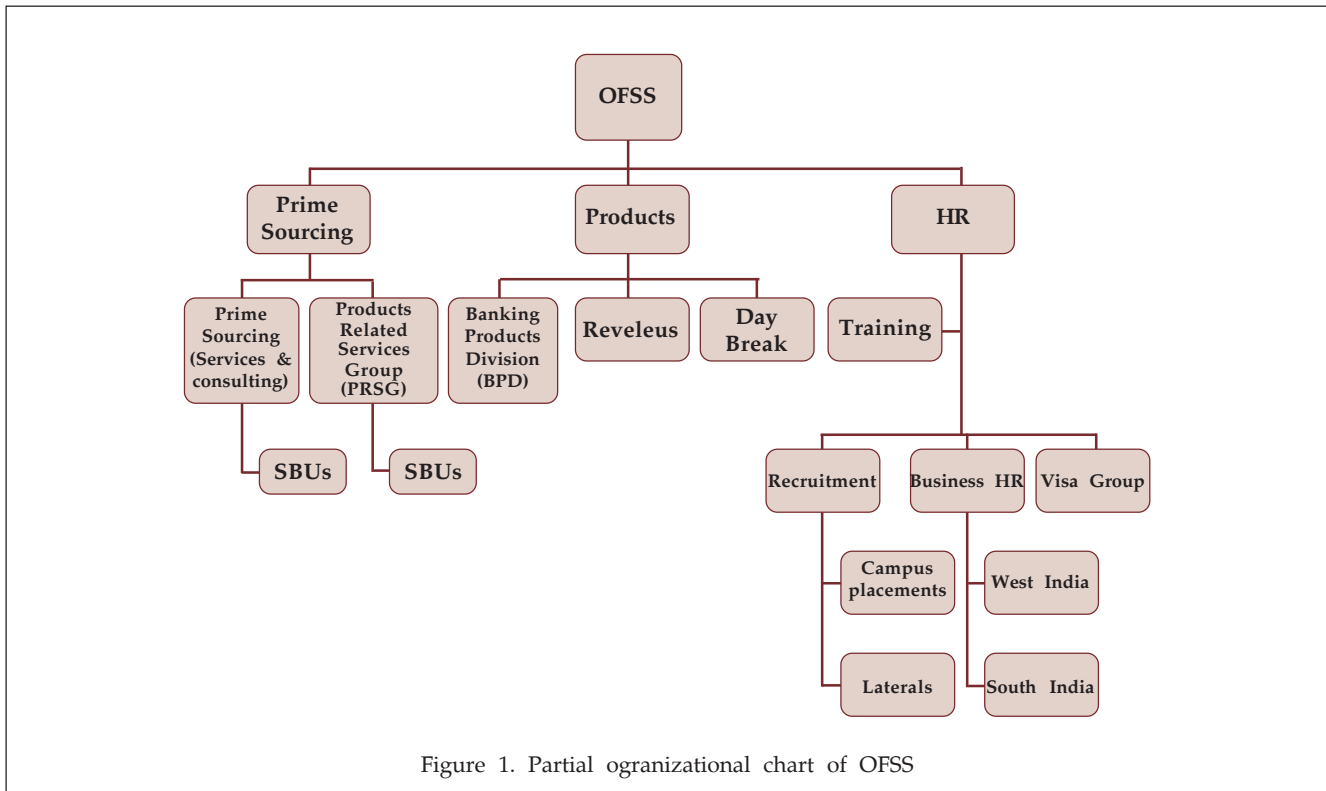
1. PrimeSourcing and Products are Global Business Units (GBUs) of OFSS.

2. HR is a major support function. Others include Finance, IT, Administration etc which are not shown in the diagram. Housekeeping and security are outsourced.

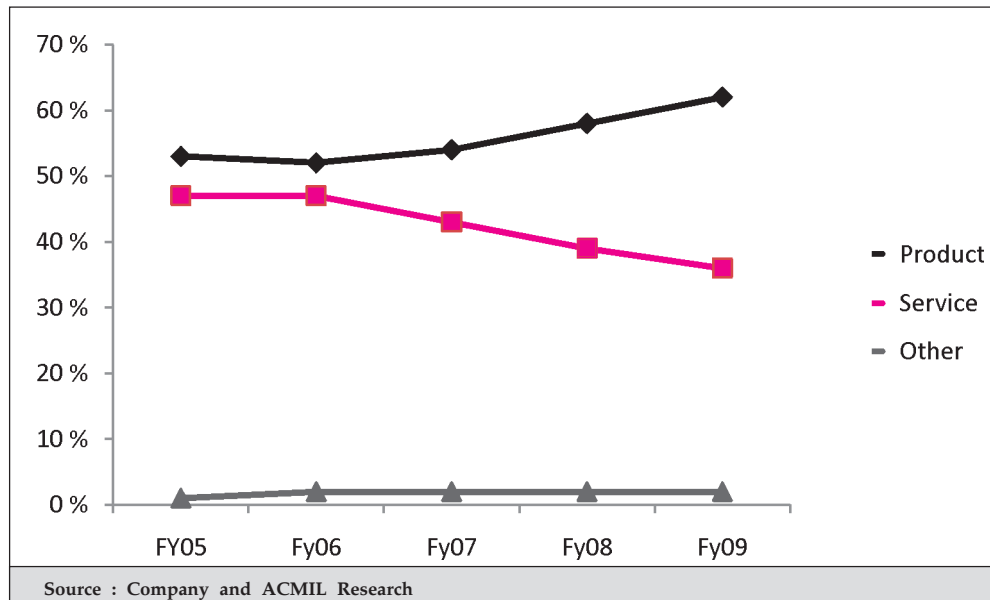3. SBU stands for Strategic Business Unit.

Exhibit 2

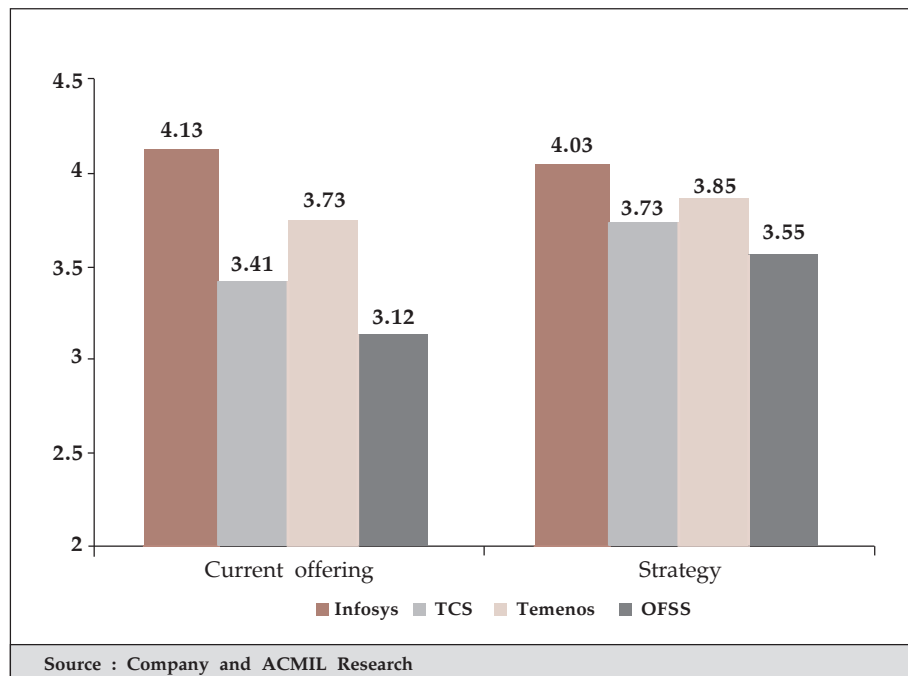Figure 2. Revenue backup of OFSS for the last five years

Exhibit 3

Figure 3. Forrester ranking for CY09
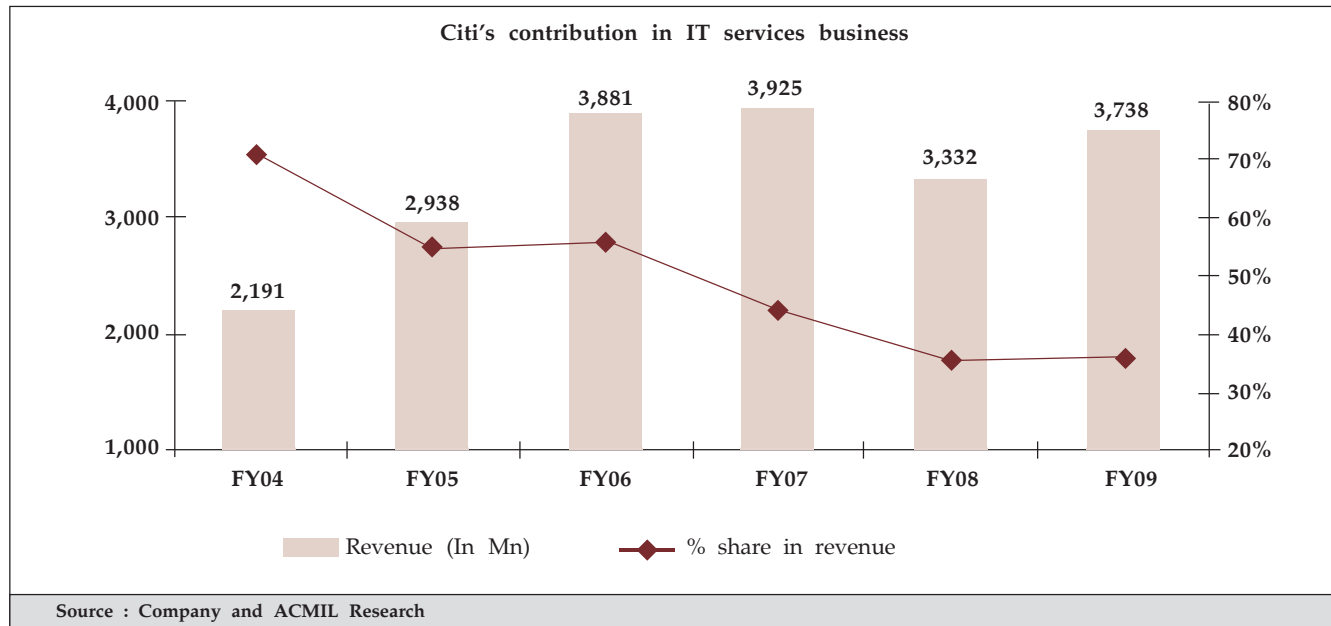
Exhibit 4

Citi's contribution in IT services business

Revenue (In Mn)   % share in revenue

Source : Company and ACMIL Research

Figure 4A. Revenue contributions from Citigroup over last five years

IT services % chg (In US$)

Indian IT industry   IT Services revenue
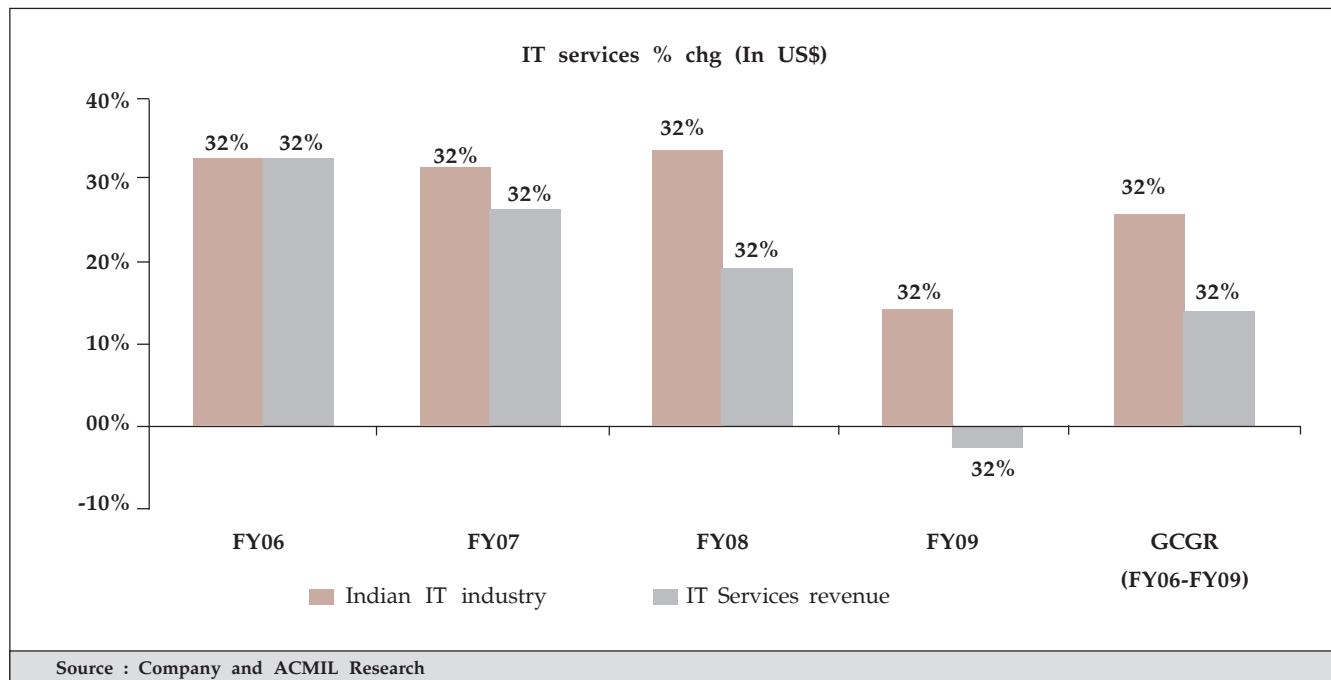
Source : Company and ACMIL Research

Figure 4B. Revenue Growth of OFSS' services segment over last four years

Exhibit 5 - Snapshot of OFSS' Financials from 2000 to 2011

31st March of	1999-00*	2000-01*	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
# of Employees	790	1017	1590	2032	2327	2974	4747	6858	9068	11006	11386	10451
Operating Revenue	1,971.24	3,038.55	4,157.18	6,141.21	7,881.29	11,385.93	14,823.00	20,609.38	23,802.36	29,276.20	28,764.90	29,969.32
Other Income	91.45	172.66	138.09	97.93	136.58	259.28	290.54	367.28	631.16	1,763.89	1668.26	-856.15
Total Revenue	2,062.69	3,211.21	4,295.27	6,239.14	8,017.87	11,645.21	15,113.54	20,976.66	24,433.52	31,040.09	30,433.16	29,113.17
Total Expenses	1,312.30	2,016.85	2,991.95	4,277.53	5,703.26	8,693.82	12,176.60	16,837.91	19,835.95	22,839.30	18,947.38	19,157.16
EBT	750.39	1,194.36	1,303.32	1,961.61	2,314.61	2,951.39	2,936.94	4,138.75	4,597.57	8,200.79	11,485.78	9,956.01
Tax	57.66	94.15	150.33	252.73	526.75	627.06	560.42	415.96	441.69	835.36	1,197.70	1,370.00
EAT	692.73	1,100.21	1,152.99	1,708.88	1,787.86	2,324.33	2,376.53	3,722.80	4,155.89	7,365.43	10,288.08	8,586.01
EPS	8.27	13.13	13.76	20.40	21.34	27.75	28.37	44.44	49.61	87.93	92.33	132.45

* All Values in INR '000s

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