

How Open Text Leaps Over Growth's Pitfalls

As the eighth column in this series, I examine Open Text to discover what strategies it used to land on the Sustained Success Honor Roll. See "2005 Sustained Success Honor Roll" sidebar.

There is an old adage, "Be careful what you ask for." Growth is like that. We all strive to grow our business. That is one of the reasons we are in business. Yet within the seeds of successful growth lie the



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fruits of future failure. That's why it is so hard to build a business that continues year after year to be successful.

Tom Jenkins, CEO of Open Text, an enterprise content management software company, faced this fickle fate. In July 1994, his company had only thirty employees but now has more than 2,100 employees; it had only a handful of customers, but now has almost twenty million users of its software; and it made only \$1.7 million in revenue but now has recorded \$291.1 million in revenue. Jenkins has overseen Open Text during a period of tremendous growth.

What type of growth challenges did Jenkins face and how did he overcome them? Let's see.

1. Retaining The Creative Spirit That Drives Growth

Here's an irony. The creative folks who help

you initially succeed, by their own success, actually help you create working conditions which force them to leave. What do I mean?

These creative employees — whom Jenkins calls the Vincent van Goghs in his business — love solving new problems and love having the freedom to do it their own way. But they find as a company grows, adding more and more staff, they no longer get the opportunity to work on new ideas, and they become very frustrated with the ever-increasing "shackles" of processes they must follow. So they leave.

Why should you care? These are precisely the individuals who help you create the new product ideas that allow your business to generate further growth.

Unfortunately, for many companies, they don't recognize they have a problem until it is too late. They reach a growth plateau, where revenue stalls, and realize the talent that has helped them in the past is now gone. After-all, it isn't like there is a job title called "Vincent van Gogh," where you can count how many you have in your business.

To retain the van Goghs, Jenkins, as the "number one advocate for creative guys," works in a way that you might think is counter-intuitive. He structures creativity into how his company works.

It is like the statement made by Nobel Laureate James Watson (who along with Francis Crick, discovered the double-helix structure of DNA): "It is necessary to be slightly underemployed if you want to do something significant."

At budget time, Jenkins says, "I meet with a group of very creative engineers. As long as they are not in some budget or

schedule crunch, you tell them that, say, 80 percent of your time really needs to be about bringing in money this year — but 20 percent is for inspiration. Let's agree on those projects." Or for another group, "If twenty people are in the room, eighteen work on feature/function but two work on exotic things."

Continuing, Jenkins makes the point, "If you don't schedule in creativity, you don't give it an opportunity to grow. If you won't schedule it, it won't happen." In other words, Jenkins builds looseness into his processes that provide for creative expression.

As an example of how this works, he said, "Communities of practice, probably the hottest product in content management, started out as a customer project. But then a Van Gogh realized its value and the project was presented to the senior management team and then it got full funding."

In addition, as John Shackleton, President of Open Text, told me they keep their product development groups small. For example, the search engine group in Waterloo, Canada is just fifty employees. By keeping them small, you reduce the need for process and provide more of an opportunity for work on new ideas.

So, as the company has grown, Jenkins has taken care to build into its bedrock foundation a way for creativity to express itself.

2. Upgrading Your Leadership - Tough Love

Just as there is an irony with the van Goghs, there is another irony with leadership. Those leaders who helped you succeed

as a smaller company may no longer be the leaders who can now help you create a larger successful company. Managing this awkward fact is for Jenkins "extremely difficult, both personally and professionally," as we shall see.

Jenkins frames the issue this way: "An excellent manager of ten is not a good manager of one hundred; and conversely, an excellent manager of one hundred is not a good manager of ten."

Why is this? Jenkins continues, "The reason is his personality. A person who is successful at managing ten has his fingers in every pot; a trait that works very well in a smaller company where one person wears many hats. But, as a company grows and that individual manages one hundred the same management style will cause him to fail. This is also why executives at larger companies have such a hard time managing at much smaller companies."

So what did Jenkins do? In the beginning he admitted even though they were successful, he replaced them. "I can think of a room full of faces that are now ghosts of this company."

But these were successful leaders. So, Jenkins said, "Over the years I learned to set expectations when I hired a new executive, I would tell him or her that if you do your job really well, within three years time, you are going to help me hire your successor. But prepare now so you can take a different job inside the company."

In addition, I would make them a promise: in your career you will never manage fewer people and you will never have less compensation. But, I would tell them, your ego had to deal with the fact that you were no longer going to be the VP of whatever."

Jenkins believes that what goes for his staff goes for him as well. He says, "This idea that you have CEOs for life is unhealthy for an organization." In his case, Shackleton, will now become CEO as July 1, 2005. Jenkins observed, "With the current size of the organization, John is the more appropriate CEO, not me."

3. Retaining CEOs of Acquired Companies

Besides growing by selling to more new

Open Text's Acquisitions

Year	Acquisition
2004	<ul style="list-style-type: none"> Artesia Technology, a provider of digital asset management for \$ 6 million Vista Plus suite of products from Quest Software Acquired 88% stake in Ixos, a provider of document archiving and retrieval software, for \$231.3 million.
2003	<ul style="list-style-type: none"> Acquired 75% stake in Germany-based Gauss Interprise, a developer of Web content and business process management, for \$9.8 million DOMEA eGovernment for \$11.4 million Eloquent, a provider of rich media presentation software, for \$6.7 million Corechange, a provider of portal software, for \$4.3 million
2002	<ul style="list-style-type: none"> Centrinity, a messaging and collaboration firm, for \$20.2 million
2000	<ul style="list-style-type: none"> Open Image Systems for \$2.1 million The product business of LeadingSide, an e-business solutions provider, for \$3 million Bluebird Systems for \$8 million
1999	<ul style="list-style-type: none"> Lava Systems Microstar for \$6 million PSSoftware for \$2 million
1998	<ul style="list-style-type: none"> Information Decisions for \$8.1 million
1997	<ul style="list-style-type: none"> Campbell Systems, a provider of enterprise group scheduling software, for \$6.7 million
1996	<ul style="list-style-type: none"> Acquired 7 companies including InfoDesign, NirvCentre and NSG
1995	<ul style="list-style-type: none"> Intunix Odesta - Livelink Acquires the Internet Anywhere business unit from MKS

(Source: SEC 10-K filings)

John Shackleton's Surprising Job Interview

In 1998, John Shackleton was President of the \$260 million Platinum Technologies solutions division. Heidrick & Struggles, a premier executive search firm, contacted him. They were hired by Open Text to find a new President and COO for Open Text. Shackleton was now to have an interview with Open Text's CEO, Tom Jenkins.



Tom Jenkins



John Shackleton

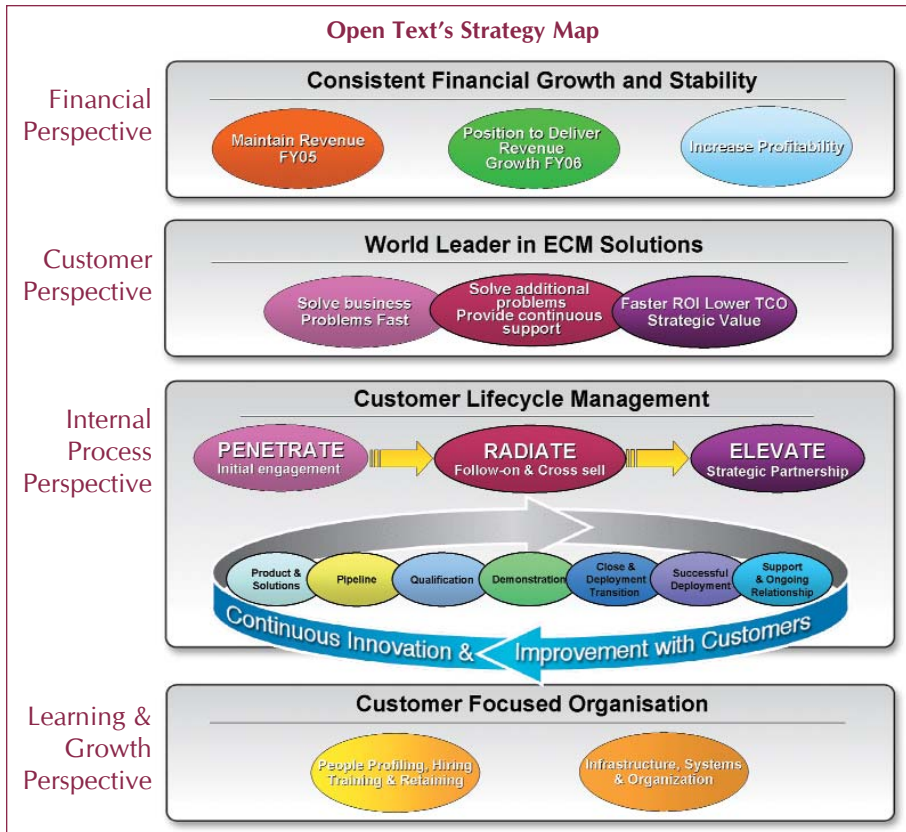
Where did Shackleton meet Jenkins? Not in Waterloo, Canada, just outside of Toronto, Open Text's headquarters. Not in Chicago, Platinum Technologies headquarters. But on a park bench in Hyde Park, London.

Jenkins said, "It was bizarre when you think about it. Instead of him flying to Toronto or me flying to Chicago, where we had our headquarters, it turned out, because we both traveled so much, it was just easier to meet in London." Shackleton was in London on business but he was also visiting with his parents.

But the location wasn't the real surprise in the interview. During the interview Shackleton told Jenkins, "I am good at taking a \$100 million company and turning it into a \$1 billion company and I wasn't interested in anything smaller."

Jenkins replied, assuring Shackleton that he would be working for the right company, "No problem. My company has a \$100 million in revenue."

But, as Shackleton realized later, Jenkins neglected to mention one detail. Since Jenkins is Canadian, when he spoke about revenue, it was in Canadian dollars, not U.S. dollars! In actuality, at the end of Open Text's 1998 fiscal year, it had earned \$45.3 million in U. S. dollars, well below Shackleton's \$100 million target.



customers, companies grow by acquisition. And Open Text is no exception, having made, according to Jenkins, 18 acquisitions of substance (See "Open Text's Acquisitions" table on page 10.)

But here too growth presents a challenge. Nineteen CEOs can't manage one company. But, Jenkins says, what we normally see when an acquisition occurs is that "the CEO and others get turfed out of the business. I have always been confused by that. I believe it is very important to keep the senior management. It's certainly not as simple as this, but, generally, I sit down with the senior managers and ask 'what is it you like to do?' and we discuss whether we can fulfill that role. Of course, this doesn't always work, but if you make the effort, you can keep the leadership."

Continuing Jenkins said, "In fact we have about ten ex-CEOs still working at Open Text. For example, our Executive Vice President of Operations, Anik Ganguly, was CEO of Campbell Systems, which we acquired in 1997. Our Executive Vice President of Marketing, Bill Forquer was President of Information Dimensions which we acquired in 1998. And our EVP of Services, Kirk Roberts, was CEO of Nirvcentre, which we acquired in 1996."

And Jenkins, finally, observed, "What's great about retaining senior leadership is their staff sees them staying. So they can take great comfort in that since these are the people who hired them, who have done ten years of employees reviews and whom they trust."

OPEN TEXT'S FINANCIALS

YEAR	REVENUE (Millions)		NET INCOME (Millions)	
2004	\$291.1	64%	\$23.3	8%
2003	\$177.7	15%	\$27.8	16%
2002	\$154.4	3%	\$16.7	11%
2001	\$149.8	33%	\$10.8	7%
2000	\$112.9	22%	\$25.1	22%
1999	\$92.5	104%	\$20.2	22%
1998	\$45.3	70%	-\$6.3	-14%
1997	\$26.7	167%	-\$13.2	-49%
1996	\$10.0	300%	-\$4.2	-432%
1995	\$2.5	47%	-\$1.2	-48%
1994	\$1.7	70%	-\$0.7	-41%

Source: 10-K filings; Open Text's fiscal year ends June 30.

4. Turning An Unprofitable Company Profitable — And Keeping It That Way

From 1991, the year of Open Text's founding, through to 1998, Open Text was unprofitable. Then from 1999 on, six years in a row, it has been profitable. What happened?

Although a proponent of profitability and positive cash-flow, Jenkins ran an unprofitable company, initially because he believes, "There are legitimate times when it is prudent to run at a loss, say in seeking market share in a newly forming market, which is what we did. After-all, you can't be a profitable \$10 million company and aspire to a \$1 billion company, because without the appropriate capital to spend on sales and marketing you can't seek aggressive growth. When you do the numbers it just takes too long to get there."

Jenkins was successful in both capturing market share and in growing revenue but as he discovered, "Getting off the opiate of losses is extremely difficult."

Why is this? Jenkins said, "Because when you are losing money, what's the difference between losing a dollar and ten dollars? You are still losing money. There is no EPS[earnings per share] factor for losing money. But there is a huge difference between one cent and two cents EPS. So when you go negative-so called big-bath accounting-you don't have a metric which expresses deeper negativity. So it becomes an opiate and you wonder whether you are investing or wasting."

To get off the opiate, he hired someone to become his President and Chief Operating Officer who had a history of running profitable businesses, John Shackleton.

In previous jobs, where profitability wasn't exactly the corporate focus, Shackleton was an oasis of financial sanity. For example, At Platinum Technologies, a company that was later sold to Computer Associates for \$3.6 billion, but was known as well for its continuing losses, Shackleton ran one of the few profitable divisions, the \$260 million in revenue Platinum Solutions division.

What did Shackleton do when he arrived? He reshaped the operations of Open Text to become and stay profitable. On the financial side, he did the following:

- Initiated a corporate restructuring since not surprisingly when he arrived, he found that Open Text's revenues didn't match the company's expenses.
- Created a business model that set a goal of 20 percent pre-tax profits, which included limitations on spending of 13 percent of revenue for R&D and 8 percent of revenue for G&A.
- Established a worst-case scenario in budgeting expense. If \$100 was budgeted in sales, then only \$80 was budgeted for expense.
- Unified the budgeting process since different groups were setting up their own budgets and changed the reporting cycle from quarterly to monthly. Quarterly is too long to wait to determine if there is a problem, he said.

Getting off an opiate is tough. Shackleton said, "It took about a year for the changes to set in and about two years to be ingrained."

5. Keeping Employees Aligned On The Same Strategy

When Open Text started in 1991, its three founders, Tim Bray, Gaston Gonnet and Frank Tompa worked out of a "tiny, little cheap office" in the Waterloo Town Square in Waterloo, Canada. Today, Open Text has offices in forty-four locations in fifteen different countries.

When you have three people working together it is pretty easy to gain agreement on your company's goals. But, how do you get 2,100 employees, who are dispersed around the globe who live in different cultures, who speak different languages, to act in unison. Isn't this akin to herding cats?

Even though the challenge is indeed difficult, one of the ways Open Text unifies its employee actions is by turning strategy into a much more understandable picture, a strategy map (see Open Text's Strategy Map), and by setting concrete, specific objectives for its employees to achieve.

The strategy map has two fundamental dimensions. One comes from Kaplan/Norton's balanced scorecard approach to translating strategy into action and is on the left side of the chart: There are four categories in which Open Text focuses its strategy: financial, customer, internal and learning & growth.

The other dimension is the customer one, listed under "Customer Lifecycle Management," as penetrate, radiate and elevate. Penetrate means winning a new customer. Radiate means winning additional sales within an account. And Elevate means raising the value of your software in an enterprise to one of strategic importance to your customer.

These two dimensions form a matrix:

	Penetrate	Radiate	Elevate
Financial			
Customer			
Internal			
Learning & Growth			

Into each category on the matrix, you specify an objective. For example, in the Internal/Penetrate box, you can set an objective to "lower the cost of new sales." And for this objective you determine:

- How to measure it. (For our objective, "lower the cost of new sales," an appropriate measure is "average cost of new sales.")
- What is the target. (In our case, we set the average cost per sale to be \$x per sale.)

• How it will be reported. In other words, if the data is available, is there a current report which provides the measure or do we have to create a new one? And if the data is not available, what do we have to put in place to collect it?

By providing a visual display of strategy and by providing concrete specifics which make objectives tangible, it is far easier to communicate to employees and keep them on track.

Concluding Thoughts

At the beginning of the column, I wrote the following: within the seeds of successful growth lie the fruits of future failure. In Open Text's case we saw how growth may cause your van Goghs to leave, how growth may turn your current leaders into the wrong leaders to build your future, how growth by acquisition may force out the CEO of an acquired company, how aggressive growth fueled by aggressive spending may create an "opiate of losses" that prevents future profitability, and how growth may cause a company to lose focus as more and more employees are hired. In each case, Open Text overcame these growth challenges.

What creates sustained success, consecutive year-after-year of profitable growth? It happens, as it did with Open Text, when CEOs recognize, confront and solve the problems they themselves actually create by being, of all things, successful!

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2005 Sustained Success Honor Roll

Out of a total of 552 public software companies—all those on the U.S. exchanges, including ADRs—there are only 17 companies who made this year's 2005 Sustained Success Honor Roll. Each of these companies has the remarkable distinction of achieving profitable growth in each of the past five years, or longer; that is, in each of these years they both grew their revenue and were profitable.

Company	2004 Revenue (in millions)	Consecutive Years Of Profitable Growth	Column Written In Software Business
Microsoft	\$36,835.0	24	
Kronos	\$450.7	17	Sep/Nov 2003
Manhattan Associates	\$214.9	15	Nov/Dec 2003
Business Objects	\$925.6	12	May/June 2003
THQ, Inc	\$640.8	10	
Cognizant	\$586.7	10	
OPNET	\$56.5	10	Nov/Dec 2004
Mercury Interactive	\$685.5	9	July/Aug 2003
ANSYS	\$134.5	9	Mar/Apr 2004
Trend Micro	\$595.5	8	Sep/Oct 2004
EPIQ Systems	\$125.4	7	
Infosys	\$1,062.6	7	
SRA International	\$615.8	7	
Open Text	\$291.1	6	May/June 2005
Quality Systems	\$70.9	6	
ILOG SA	\$102.8	5	
Mantech	\$842.4	5	

Source: Cape Horn Strategies, Inc. Updated 3-19-05