

IBD[®]

March 19, 2007
(c. 191,846)

MANAGING FOR SUCCESS

LESSONS LEARNED

Make Sure That Growth Doesn't Sap Profitability

Michael Fields criticizes tech firm CEOs who favor growth at the expense of profitability. He argues that they imperil the long-term health of their companies by dwelling on growth.

He should know. He made that mistake.

Fields is chairman and chief executive of **Kana Software**^{KANA} in Menlo Park, Calif. He held the same job at **OpenVision Technologies** in the early 1990s.

After founding OpenVision in 1992, Fields raised capital and set his cross hairs on growth. He admits that profitability wasn't important at the time. But he soon learned to see things differently.

As the firm burned through its capital, Fields didn't worry. Along with his senior management team and outside advisers, he concluded that OpenVision would sell itself out of its dilemma. He also thought, "We'll let our payables increase" and "Let's just get one more quarter and we'll be fine."

By 1995, however, the company was bleeding cash. Fields was forced to revamp his strategy.

"We had accepted the premise that it's OK not to be profitable," he recalled. "But our cash got away from us," placing the firm in an unsustainable position.

Realizing that OpenVision would run out of cash if it continued on its course, Fields cut costs sharply. But he also knew that as the firm's founder, he had resisted the fact that "my baby — this company I started — was ugly and needed someone else to make the necessary changes."

As a result, he asked his chief operating officer to step into the CEO role. Fields remained chairman.

Fields and the new CEO reduced the company's size, abandoned short-term initiatives and accepted lower compensation in exchange for equity in the firm. Within two quarters, OpenVision became profitable. It went public in 1996 and was acquired by **Veritas Software**^{VRTS} in 1997.

Fields, who has also served as president of Oracle USA, joined Kana in 2005. The company had never been profitable, and Fields was determined to change that.



He imposed what he calls "the discipline of profitability," pruning expenses and reducing layers of management.

In 2006, the company was finally profitable. Revenue grew more than 25% to \$54 million, Fields says, and the work force now has a different mind-set.

"It changes everything when employees expect profitability," he said. "With a startup, you can't be profitable at first. But I've learned it's dangerous for a leader to accept that a company can operate with even a very small loss over time."

Morey Stettner