

# OWNERS AT WORK

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**Minding the Planet - Social Accounting in the ESOP World**

**Plus Ohio's Employee-Owned Top 50 - Robert Beyster and the SAIC Story**



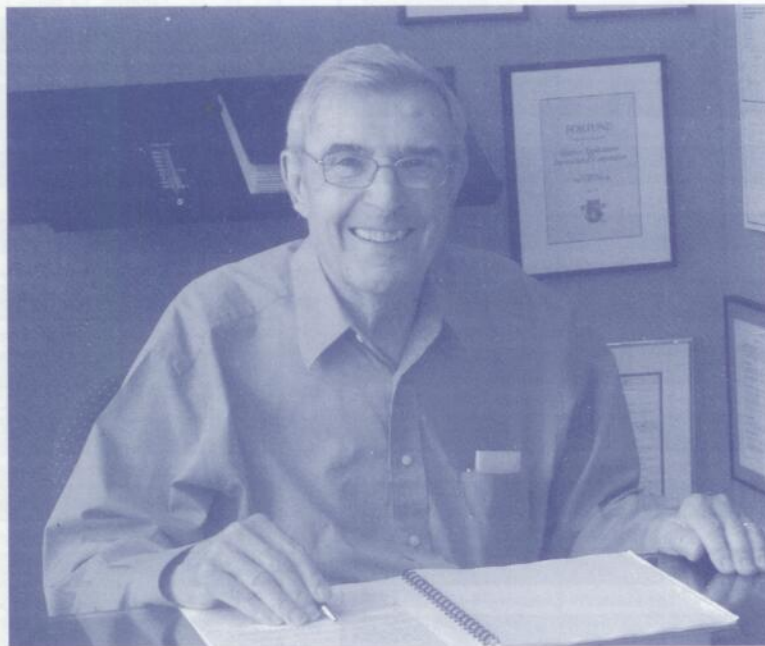
# “I wanted the stock to be shared with the employees who helped build the company. And that’s exactly what we did.”

Interview with Dr. J. Robert Beyster, Founder and Former Chairman and CEO of SAIC.

*Editor’s Note: This interview was conducted by Peter Economy and edited and arranged by Joseph Blasi.*

Many of us have talked about what it would take to build a large and successful employee-ownership company—Dr. J. Robert Beyster did it. In 1969—with just a few thousand dollars in savings, and a handful of scientists and engineers—he started Science Applications International Corporation (now called SAIC). He went on to serve as the company’s Chairman and CEO for over three decades, until his retirement in 2004. Today, SAIC generates more than \$8 billion in annual sales with over 43,000 employees working on more than 9,000 separate contracts in the areas of engineering, national security, health, environment, energy, communications and more.

When Beyster retired in 2004, the company was almost totally employee owned. Today, SAIC is a public company, #298 on the Fortune 500 list. And, despite the fact that it sold 20% of its stock on the public market it is still substantially employee owned. In addition to leading the company for 35 years, Dr. Beyster is also the founder of the Foundation for Enterprise Development (FED) and the Beyster Institute at the Rady School of Management at the University of California, San Diego. The Institute’s programs focus on teaching, research, and public education on employee ownership.



## **Question: SAIC is a technology company—exactly how would you describe it?**

Dr. Beyster: It was more of an engineering company. Specifically, we focused on nuclear engineering for the Defense Nuclear Agency at the beginning, but then we began moving towards broad engineering work.

## **How did your personal history influence what you did?**

I grew up in Grosse Ile, Michigan. Grosse Ile only had about 1000 people on it when I was there. My grandmother Beyster used to save rubber bands—she was a very frugal person. She didn’t have fancy clothes, although she actually was really well off. She liked me and she invented work for me to do in the summers—mowing the grass and other yard work. She was a very strict person, opinionated about people, and quiet. She was the kind of person you’d expect to see in an

Amish community. She was very plain, and she introduced me to the *National Geographic* magazines. She had a huge collection of *National Geographics* going back to the first one. I don’t know when I found the time, but I would spend hours poring through those *National Geographics*, correlating what I read with what I was learning from my friends and at school. My dad was pretty understated and my mother was more outgoing than my dad. I identified with my Dutch heritage. I was a lonely kid. That’s why I got into stamp collecting and other solitary activities like that.

## **What were your initial impressions of corporations in your young life?**

My dad had a business as a housing contractor and through it had connections with General Motors (GM). I visited the GM Building—and later the Fisher Building—where my dad’s offices were, maybe once a month and I’d see people who were clearly very affluent. I was impressed by the GM Building, and I admired the people who worked there. My mother was press-

ing me to become a lawyer—she really thought it was the right thing to do. But I took some personality tests which indicated that I was more deliberative than intuitive. During this period I also realized just how fragile my dad’s business was—I saw him go from being pretty affluent as a large housing contractor to barely hanging on since the Depression was in full swing. This made me conservative when it came to business.

## **What did you think of the corporations you worked for in your early career?**

After getting my Ph.D. in physics, I worked at the Westinghouse Bettis Nuclear Power Facility in Pittsburgh. I was not impressed with the attitude within that organization. When I worked at Los Alamos, I observed that a lot of people really wanted to be entrepreneurs and have ownership in something that applied the science on which they were working. They were smart people, and many of them eventually drifted away



from there. A guy I was working with said, "Bob, this is leading nowhere—we need to get out of here." I said, "No I like it here." I liked doing my research at a large basic research facility—I felt Los Alamos was a wonderful place to work. But my wife wanted me to leave, so I started looking. I got several job offers and took the job at General Atomic in La Jolla, California. I wanted to be sure that I could always work on projects that interested me and I saw that other scientists at General Atomic wanted the same thing.

**So when you founded SAIC in 1969, what was your vision for the kind of corporation you wanted to build?**

I was worried about recruiting—how do I convince people to come to the company when they already had good jobs and halfway decent futures where they were working? I had to convince them to become entrepreneurs and to want to be in a company that they owned. That is not a terribly easy message to communicate. A lot of prospective recruits had kids and families, and they understandably wanted to be sure that they would be taken care of. And here's a new guy—me—who had never run a company, never started anything.

**You seemed to believe in the need for employees to participate in financing the company—why was this the case?**

In the early days, SAIC was financed by the employees buying stock, along with a line of credit with the bank. It did not appear that we needed much else. However, to please one of my most valued advisors, we found some outside investors who were medical doctors—they kicked in \$200,000. We eventually bought them out for two million dollars. They didn't do a thing to help us, but we did begin to become acquainted with the investment community.

**So how did you come to the idea of being an entrepreneur and introducing employee ownership in 1969?**

I don't remember the words employee ownership being used early in the game. It was really more of a matter of financial survival so we incentivized our employees with bonus and stock options. Over time, I began to feel that the wealth of many entrepreneurial companies was not shared. I didn't want to make SAIC like them because there the stock was usually held by just one or a few entrepreneurs. I instead wanted the stock to be shared with the employees who helped build the company. And that's exactly what we did.

**While your book describes your use of ESOPs, grants of stock, company stock in 401k plans, and stock options, and profit sharing as a shared capitalism package at SAIC in great detail, you say in your book that you used stock options to attract people who would help significantly build the company. How did that work?**

Employees initially were awarded options on stock based on performance, and the granting of these options depended on their bringing in contracts. We also had option rewards for bringing certain capabilities or people into the company. Occasionally the option holders didn't meet their goals. That didn't happen very often, but they were usually in my estimation im-

portant enough people to the future of the company that we could ignore it.

**Did you want to reward just high performers or everyone?**

Employee ownership at SAIC evolved from a notion of stock rewards based on performance to broad-based equity sharing for everybody in the company. We needed everyone pulling in the same direction since we had government workers at every level determining whether our contracts succeeded or not. Sure, there were high performers we also were certain to identify and specially reward. Employees generally want to be part of the stock system and they should have that opportunity. There are always going to be people who are not particularly interested, especially if it costs them any money. And, depending upon the person, that's okay. But we had high participation because employees worked hard and met their goals.

**Was your vision just to create a science company or to have employee ownership?**

My vision at first was to build an attractive company in which employees could work. Employee ownership came later.

**What did employee ownership accomplish for the company and for the employees?**

For the company, employee ownership facilitated retention of both superstar and other key employees.

*"We needed everyone pulling in the same direction..."*

**After all the tweaking and effort, would you do employee ownership again?**

Yes. I think it's still a useful and important thing to do. I guess that most financial people would not say that today, and would advise that we would have to use some venture capital for initial funding.

**I'm curious how tightly you managed employee sales behavior for major contracts with employee ownership?**

Employees were awarded the stock once they helped get in a contract. Either they were awarded stock for what they had done, or they were given an option on stock which had 4-year vesting. And we tried to tie employees' options in with what they were bringing in. It was used as a carrot. We were building a company one contract at a time.

**Can you talk a little about the extensive committee system you developed to spur participation in management decision making?**

I felt that this was key to making employee ownership work. At one point, we had over 100 committees in addition to our more than 50 line (profit and loss) organizations. We had committees at all levels of the company and we had many scientific teams that delivered on our contracts. It was a team-oriented culture. When somebody felt that we needed a committee so that we could establish company policy, or plan a proposal, or just enlighten ourselves on a new business area, they would propose it to the Management Council and a committee was usually

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established. If it involved only a few people we didn't do it, but if it was 10 or more people we definitely did it. Members of upper management were either invited to talk to the committees or they invited themselves to talk to the committees and it was a very effective way to provide a sanity check on ideas—having to defend them, justify them, or promote them.

The Management Council and Executive Councils were the two most prominent committees. There was a lot of consensus building in the company. Most of the recommendations of the committees were unanimous decisions—we would hear a briefing, and would ask some questions. If we thought a new committee would be useful, some seed money would be offered to get it going. Of course, shutting a committee off was harder to do than you might think. Some of the issues put in the hands of the committees were very important and others were not so important. The not-so-important ones were things like determining the company's paid holidays. That turned out to be a subject of discussion because we wanted to keep the number of holidays to a certain number—around 10—and we didn't want to increase that.

**Were any of SAIC's acquisitions brought into upper management through its committees?**

One of our most important and profitable acquisitions came out of one such committee. A committee recommended that we get into telecommunications in a big way and came up with the recommendation to acquire Network Solutions, the company that was responsible for all domain names on the Internet.

**Would you describe the technical committee that allowed scientists to get more information and give more input on the operation of the company at the board level?**

That would be our Technical Environment Committee, and starting it was a key decision. We established that the employee-owners could have a representative at the board meetings to hear what was going on, but this excluded discussions dealing with legal problems or proprietary data. The representative would tell the board what he or she thought, but would not participate in the board meeting deliberations. The representative would be there taking notes and then would brief the committee after the meeting. It was a very effective process and it promoted I would say a good level of contact between the board members and people at the grassroots level—the technical people of the company. The board members were not isolated and there was contact and cross fertilization as a result. I think to some extent it prevented the board from doing some things that might have been well meaning, but could offend the employees.

**You spend a lot of time in your book talking about freedom and I find this intriguing. Evidently, ownership and participation were not enough, you had some view about the rights of individuals?**

A company misses out if employees don't have freedom to go out and pursue an idea or are restricted from seeing customers. If employees have the opportunity to develop a business in an important area, it is important that they do it. We expected our employees to use good judgment with their freedom—not to misuse it.

*Peter Economy is associate editor of Leader to Leader magazine. Joseph Blasi is a member of the School of Historical Studies, Institute for Advanced Study, Princeton, N.J. and Professor, Rutgers University. For more information on The SAIC Solution and related FED publications, research, and granting programs, see <http://www.fed.org/>. For more information on the Beyster Institute's programs, see <http://beysterinstitute.ucsd.edu/>. OAW*

## Book Review

Robert Beyster with Peter Economy, *The SAIC Solution: How We Built an \$8 Billion Employee-Owned Technology Company* (Hoboken, NJ: John Wiley, 2007), 222 pp. ISBN 978-0-470-09752-6 \$27.95

Bob Beyster founded Science Applications International Corporation (SAIC) in 1969 with an investment of \$20,000, one government contract, and 3 employees. This little volume tells the story of how he grew this unusual company into an \$8 billion corporation with 43,000 employees and, incidentally, one of the largest employee-owned companies in the world.

Today SAIC is a major science and technology company, doing contract work in defense, intelligence, energy, environment, and health and life sciences, primarily for the Federal government. Originally its work was principally in defense and intelligence; after the end of the Cold War, it has reoriented itself to add more energy, environment, and life science contracts.

Unlike most other large employee-owned companies which started with conventional ownership, SAIC was employee-owned from the beginning. The employee ownership structure initially rewarded those who brought in contracts, but, in 1973, it was expanded to all employees. (Note that this was before the Employee Retirement Income Security Act (ERISA) of 1974 formalized ESOPs.) Beyster's goal was to attract and keep talented scientists, and "employee ownership

was the glue that kept them there." (p. 12)

*The SAIC Solution* is about SAIC as a company under Beyster's management (1969-2004) and about Beyster's philosophy. Employee ownership is only one part of that story, but it is unquestionably the part that will interest *OaW's* readers most.

Initial SAIC employee ownership was through direct stock ownership. If this ownership was to be meaningful, there needed to be some avenue for liquidity, and the company established its own internal brokerage (Bull, Inc) in 1973 to provide that. Bull made a quarterly internal market for the company's stock at its valuation price. Over time, this ownership structure grew to include stock awards, stock options with varying vesting

