



**Dr. J. Robert Beyster keynote address
at Employee Ownership Foundation luncheon
ESOP Association's 2007 Las Vegas Conference and Trade Show
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Thank you for the outstanding introduction, Joe. It is a privilege for me to have the opportunity to address the ESOP Association as the keynote speaker here in Las Vegas. My talk today is entitled "**Beyond the ESOP.**"

These are especially trying times for the United States. There is a major war going on in Iraq, the dollar is falling, there are growing environmental concerns, difficulties continue with the sub-prime market, and we have had a string of natural disasters including floods, fires and hurricanes. But through it all we remain optimistic and continue to look for new ways to help our country, including new approaches to organizing our businesses to compete at home and abroad. One of the most potent approaches remains the ESOP.

I believe the ESOP message is loud and clear, especially to those attending here, but let's face it, ESOP's are established either for financial reasons, to allow owners to sell their holdings to their employees and amortize the debt over a period of time; or for succession planning, when company founders want to involve employees in ownership as a part of their legacy. At that point, these owners are adopting employee ownership because they believe it is the right thing to do.

My belief is that in an employee ownership company – in addition to an ESOP – another method of ownership is needed.

As Joe said, I was the Chairman and CEO of SAIC and during my tenure we created an employee ownership culture that was unique among U.S. companies. In addition to operating a traditional ESOP, we chose to award options of company stock to employees involved in the process of satisfying company business goals. In addition, we considered participation in the operating company's management to be essential and rewardable.

This approach requires a different mindset on the part of both management and the employees. Management may fear that involving employees could interfere with some of their decisions or corporate plans. Employees may not want to take the risk of having a part of their net worth invested in company stock. This is not the usual approach for building a growth company. But I always felt it was the fair one.

In an effort to make the case for a meritocracy-based employee ownership system a little clearer, at the urging of my daughter Mary Ann, I wrote a book entitled "*The SAIC Solution.*" The book describes in 14 chapters how we built an employee-owned company starting with just two people,

myself and one programmer, into an 8-billion-dollar, employee-owned technology company with 45,000 employees and 9,000 contracts.

I would like to run through some of the ideas that are included in the book and explain why I feel it will help anyone who is considering implementing an employee stock ownership plan to think beyond that to include direct stock ownership. SAIC demonstrated that hybrid ownership structures can work.

I believe that meaningful employee ownership will help your company recruit smart people and unite and focus everyone's efforts on delivering value for the company. This was my experience at SAIC, where we consistently were able to attract some of the best and brightest minds in the nation.

I learned early on after starting SAIC that it is best for start-up companies to avoid outside investors and to rely on employees, family members, friends and friendly bankers for financial support. This may not be possible for hardware-oriented companies that have large capital investment requirements and are producing a product that has not been tested completely. Each circumstance is different. But I believe that employee owners want their company to succeed and will find a way to finance their efforts.

While SAIC didn't have a long range strategy, we did believe in strict adherence to annual financial plans to make sure we stayed on track with its finances.

At SAIC, with early support coming from the government, we focused on programs and topics important to the national interest. Important contracts came from government as well as commercial sources. With a culture that emphasized being involved in important, high-level programs, we were able to recruit the best employees and do the best job by putting our customers first.

In order to make this model work, each employee was empowered to take action to generate business, market it and perform on that business. This became a culture where people mattered, and where they had the freedom of action (with some constraints) to pursue business opportunities they wanted to work on. In return, they would be awarded options or shares of company stock and be allowed to purchase additional stock for their account. This resulted in the employees being "glued" in by the system. SAIC blended employee ownership with a meritocracy.

We created a company where participation in decision making existed throughout the organization, with modest profit expectations satisfying corporate goals, where resources were provided to finance new growth, where a minimum of effort was spent on corporate planning, and where internal experiments were constantly conducted to make sure the system was working.

Of course, it goes without saying that the corporate management must be top-notch, proven individuals with a high level of technical or administrative skill who sincerely believe in the power of employee ownership.

From a corporate governance standpoint, we created a board of directors with a 50:50 mix of inside directors and outside directors. The inside directors were SAIC senior executives and the outside directors were influential business people, former federal government employees, and military leaders. The inside directors had an intimate knowledge of how the company worked, including its customers, employees, strengths and weaknesses. The outside directors were very helpful in providing a big-picture perspective and a variety of contacts in and out of government. We wanted a board that would protect the company's unique employee ownership culture and help us win business and acquire top-notch senior management. I had a sign over my desk that said "None of us is as smart as all of us" and this extended to the board of directors as well. They were a part of the team and a true working board.

As an example of how this employee ownership system worked, I have chosen building our company's NASA program.

We had tried for years to build a major program area with NASA, trying to gain a foothold in human space flight and other NASA programs, but our success was limited. This changed when we hired Neil Hutchinson, who had a 25-year career at NASA, eventually running mission control at the Johnson Space Center in Houston. We hired him mainly using the attraction of our direct ownership incentive program. This was a compensation package that SAIC could offer that NASA never could.

I decided to assign Hutchinson as a direct report. Success came quickly. Says Neil, "One thing led to another. We found an atmospheric sciences support contract at NASA Langley that was coming up for bid. We immersed ourselves in the competition – pouring our hearts into it – and won the contract in 1991. It was the largest NASA win in SAIC's history up to that time – \$150 million total, 10 years at \$15 million a year. It instantly tripled the size of the company's assistance to NASA."

One key to winning this work away from the incumbent contractors was giving Hutchinson and his team the authority to do things differently than had been done elsewhere and the autonomy to act quickly – surprising the well-entrenched incumbents.

But Hutchinson didn't stop there – he continued to press his advantage, leveraging his original set of small contracts into a very large business area by keeping on top of the fast-moving market. These efforts allowed us to build the NASA business area to over \$500 million. Throughout it all, employee ownership was our primary tool for attracting, retaining and motivating the talented group of employees in the NASA program area. This was SAIC's discriminator.

In conclusion, the approach of blending our ESOP and direct stock ownership compensation programs worked very well for 35 years across all of SAIC's business units.

I would like to thank you for the opportunity to explain how we used employee ownership to produce financial success for SAIC and the people who worked there. I hope you can see that going beyond just an ESOP to include significant equity sharing led to our success and could lead to success for others.

If you would like to learn more about the SAIC story, I suggest you read our new book – *The SAIC Solution* – we have copies of the book for sale in the lobby.

Thank you very much.

NOTE: Visit <http://www.fed.org/page.asp?pagelid=5> to read more about *The SAIC Solution* and our Holiday Special.