

The SAIC Solution: How We Built an \$8 Billion Employee-Owned Technology Company (Dr Robert Beyster, with Peter Economy)

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Our reason for being here today is to allow Dr Robert Beyster the opportunity to tell us about "The SAIC Solution." In collaboration with Mr Peter Economy, Dr Beyster articulated "The SAIC Solution" in a 12-chapter/222-page book filled with a series of employee testimonials and "turning points" for SAIC. The financial success of SAIC is perhaps the outcome which attracts attention to the ingredients of that outcome. Chapters 1 and 12 are dedicated to the description of the \$8 billion success and the profit objective (reasonable profit with stock price growth). The chapters in between account for the ingredients: culture, vision, mission, glue (employee ownership), system (employee participation), organization, plan, pitch, loop, and wild card. Each chapter is worth reading because it highlights how that aspect of managing the company contributed to its overall success. I was tempted many times to skip the supplementary materials provided in the "boxes," but I am pleased that I did not fall to the temptation. It is in these supplementary materials where some of the details are provided. For example, I wanted to know how pay was tied to performance. Tom Darcy, on Page 155, was very clear on how the F-factor worked.

For a predominantly business-student audience, I have taken the liberty to slightly rearrange the order in which Dr Beyster and Mr Economy presented "The SAIC Solution." Dr Beyster is very proud of the fact that SAIC had no grand plan. "A key obstacle for many entrepreneurs starting their own businesses is the need to develop a business plan. The prevailing wisdom among nascent entrepreneurs is that one should not take any significant action toward starting their own enterprise before developing a detailed, blow-by-blow plan that describes exactly what the business is going to do, who its customers are going to be, what its competitive advantages (and disadvantages) are, where financing will come from, and much more. Many banks and venture capitalists require such detailed business plan as an integral part of the lending or financing process. If there is no plan, there is no money" (Page 105). "It might reasonably be assumed that the now \$8 billion company called SAIC must have had quite a business plan to get where it is today. Actually, that was not the case at all" (Page 105). SAIC's "plan" centered on four key points:

- Recruit smart, inventive people;
- Give them autonomy;
- Prospect for opportunities, both short and long term; and
- Unite and focus everyone's efforts to deliver on the opportunity.

While Dr Beyster had no grand plan, the vision and mission of SAIC were very clear. SAIC was going to be built on the notion that each employee was free to pursue his/her idea, once it was done with high ethical standard. Dr Beyster believed that the best way to enforce this vision was to recruit the right people and provide a clear charter for them to follow (SAIC Credo). SAIC's mission reflected its values: "a long-term dedication to science, national

security, and the national interest.” While SAIC wasn’t sure exactly what its next venture would be, it was quite clear on how it was going to get done. If the venture was related to “national security,” then SAIC was going to unleash its “scientific talent pool” to pursue the opportunity for “a fair profit -- nothing more, nothing less.”

SAIC was organized into groups, mostly based on scientific expertise. Offices were physically located close to the customer. Each group operated as a “separate company” within SAIC. In his own words, Dr Beyster described SAIC as a “constellation of businesses.” SAIC was structured to achieve organic growth – new/improved solutions to existing customers and add new customers with existing technology/talent pool. SAIC maintained a matrix structure, essentially to facilitate flexibility in moving talent to where it was needed.

SAIC’s culture complemented its vision, mission, and structure. Dr Beyster and his team built a culture with four key components: a manager was allowed the freedom to run his/her venture; an individual’s behavior was guided by appropriate incentives and stock ownership; an individual received recognition for his/her outstanding performance; and an individual received psychic rewards from the projects he/she was engaged in (e.g., making a difference to the nation as a company and individual). With such a culture, SAIC was able to recruit and retain the best workforce possible. Employees freely verified the lure of the SAIC culture.

A values-based mission and a flexible organizational structure provided the framework for the workforce to pursue entrepreneurial opportunities in the scientific arena. But it was employee ownership that “glued” SAIC together. “This wasn’t a get-rich-quick scheme; we planned to share the ownership with all employees” (Page 55). The mechanism to broker ownership was SAIC’s Bull Market. Dr Beyster reiterated how employee ownership can result in competitive advantage:

- Focus on long-term goals;
- Attract and retain superior workforce for decentralized growth;
- Facilitate alignment of key corporate constituencies; and
- Promote corporate flexibility and adaptation to focus on the customer.

SAIC viewed employee participation as an important element of employee ownership. This was especially true in a research-oriented environment. Each individual played a role in the team and that individual must be allowed to participate in the decisions of that team.

Each employee was empowered and expected to sell the services of SAIC. This focus energized the entrepreneurial mindset of the carefully selected workforce. SAIC’s role in regaining the America’s Cup from Australia helped SAIC’s public image. SAIC used its scientific expertise to help build a vessel which put America back on top of the world. If you think about this accomplishment, then you would see its relevance to SAIC’s mission. It was a matter of using science to regain national pride.

SAIC was relentless in seeking the best scientific solution to a problem. Experiments were a natural tool for the workforce. Often, the answers required a very decentralized solution (e.g., in different locations). SAIC created many opportunities for “feedback.” A critical element of SAIC’s success was to learn from success and failure. The autonomous structure

of SAIC necessitated formal sessions to highlight what worked and did not work. Successful elements of winning a contract or delivering on the contract were then institutionalized.

By all counts, SAIC was a very successful employee-owned entrepreneurial company. But it also had challenges and failures. Dr Beyster readily highlighted some of SAIC's failures. He provided a detailed account of the "culture clash" between SAIC and Telcordia. While SAIC stressed an entrepreneurial spirit, and rewarded success with ownership, Telcordia relied on a culture of entitlement. Telcordia did not survive within the SAIC constellation and was sold off. Another failure was the attempt to extend into Latin America. "I constantly worried about international work because of the sometimes questionable business ethics practiced in many countries. We kept trying to do business in Latin America but we had to be very careful to operate with all the complex international rules and regulations and Foreign Corrupt Practices Act. As it turned out, we never were very successful" (Page 124).

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Dr Beyster is very eager to spread the gospel of employee ownership. Rutgers University has assembled some of the best researchers in the area of employee ownership and employee ownership is a critical component of its curriculum. With Dr Beyster's support, the Beyster Institute and the Foundation for Enterprise Development at University of California, San Diego are dedicated to the employee-ownership cause. It is a worthwhile message and more universities and institutes should take on this cause.

We are very pleased that Dr Beyster has brought his message to us at San Diego State University. We can learn from Dr Beyster in many ways, but I think that Dr Beyster would be proud of our efforts too. At the College of Business Administration, we have decided to focus our efforts on three areas: entrepreneurship; international business; and corporate governance.

In the entrepreneurship area, we have much to learn from Dr Beyster. Our entrepreneurship program is rooted in the traditional model - concept, plan, venture funding, and exit. Dr Beyster promotes entrepreneurship, with a different flavor. "From the beginning, SAIC was an employee-owned firm. In previous jobs with a national laboratory and then at a large corporation, I saw many people leave, taking ideas generated there to start their own companies. These entrepreneurs were quite interested in starting a company for financial rewards based on a new idea or product they had developed. They planned to start a company, grow it, and then sell it or take it public, and go on to the next business venture. That was hardly the optimal environment for research people, and it was not my intention in founding SAIC" (Page 3). "Our goal was to grow a company that would be stable - where the staff stayed with the company, even in hard times. In this company, creative research would be considered important, regardless of the size of the contract. Rewards would be fair. Everyone would share in the ownership of the company based on their contributions to our success" (Page 4). We need to diversify our entrepreneurship curriculum to cement the idea that an entrepreneurial venture can serve and be a continuing entity (and make a profit - a fair one).

In IB, I think Dr Beyster will be proud of our initiatives and achievements given the challenges (and failures) of SAIC in the international arena (with the exception of Saudi Arabia). Both our undergraduate and undergraduate programs are ranked in the top-25

nationwide. We are currently building an MBA in International Entrepreneurship, which will take graduate students to three regions of the world (China, the Middle East, and India). Our objective is to prepare our students to function in an international economy – Leadership for the Global Marketplace.

At the core of SAIC's being was high ethical value. SAIC can teach us a few things about corporate governance. Current models of corporate governance are built on the relationship between the board, managers, and shareholders. Employees are a missing element in such models. SAIC did not have this omission. Shareholders were employees!

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If employee ownership (and employee participation) is such a good thing, how come it is not widely adopted and diffused into organizations worldwide? I am not going to speculate for an answer. But I would suggest a system's view. I am sure the culprits are the government, employers, and employees. Our laws can inhibit employee ownership and participation.

Many employers are not willing to share ownership. Dr Beyster told us that the traditional model is the winner takes it all. Dr Ghorpade, Dr Lackritz and I have been baffled by the lack of widespread employee participation. Our research indicates that many employees do not "prefer" to participate. We are very grateful to Dr Beyster and SAIC for showing us how to build an employee-owned entrepreneurial company.