

# How to Grow Your Small Business into a Large Corporation: The Story of SAIC and Employee Ownership

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## What is the Beyster Institute?

Now a unit of UC San Diego's Rady School of Management, it began as a non-profit group founded by Dr. J. Robert Beyster, who also founded SAIC. Beyster used employee stock ownership as a competitive edge to grow SAIC into a Fortune 500 company.

Today, the Beyster Institute advises business leaders on the use of employee stock ownership tools and practices.

## Who is Martin Staubus?

A senior consultant with the Beyster Institute, Martin has been working in the employee ownership field for over 25 years.

Trained as an attorney, Martin has also served as a business executive, corporate director, policy advisor to the US Labor Department and deputy director of the ESOP Association. In addition to a law degree, he holds a BA in economics from UC Berkeley and an MBA.

# Once upon a time ...

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Once upon a time in 1969

- A division manager at General Atomics in San Diego
- Corporate suits are making science decisions!
- Wealth created by scientists goes to Wall Street!
- There must be a better way.



# And so was born SAIC

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- Bob Beyster founded Science Applications International Corporation in 1970, with \$20,000 and three colleagues
- When he retired in 2005, SAIC was #245 on the Fortune 500 list
  - Annual revenue: \$7.5 billion
  - Employees: 45,000
- *How did he do it?*



# A novice entrepreneur

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- A smart guy (nuclear physicist), but Beyster had no prior experience as an entrepreneur
- Started out looking for partners – and never stopped
- And so was born the SAIC way of employee ownership



# What is Employee Ownership?

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Any arrangement that:

- Delivers equity ownership interests to employees;
- and
- ***Transforms their orientation from “employees” to “partners in enterprise”***

Stock options

Restricted stock grants

ESOPs

Employee stock purchases

other



# The Employee Stock Plan Universe Today

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How much employee ownership is there?

Type of Plan	Number of Plans (as of early 2009)	Number of Participants (as of the end of 2006)	Value of Plan Assets (as of the end of 2006)
ESOPs and other ERISA plans primarily invested in employer stock	12,500	13.7 million	\$1.2 trillion
Broad-based stock option plans	3,000	9 million	(several hundred billion; not realistic to estimate)
Stock purchase plans	4,000	11 million	(not realistic to estimate)

Data supplied by **National Center for Employee Ownership**

# A Little Background

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- If SAIC were starting today. . .

- The VC route: a wild push  
. . . for what?



- Is getting rich the only thing that matters?

# The Employee Ownership Alternative

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## Building a tech start-up without VC funding

True: some don't want to take this path

True: some *can't* take this path

## The upside of the alternative path:

Gives you the opportunity to

- Create the kind of company you want
- Operate the way you want
- Do the kind of work you want
- Have the kind of professional life you want



# Does it really work?

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## Summary of the Research

- Rutgers University study (2000)
  - Study of 686 firms. Employee ownership increased company sales and sales per employee by 2.3% *per year*.
- University of Maryland study (1986)
  - Companies with employee ownership and employee participation grew 8% to 11% faster than comparables without.
- Washington State study (1989)
  - Companies with employee ownership and employee participation grew sales 6% faster than comparables without.
- City University of New York (2007)
  - Companies with employee ownership and employee had sales per employee 8.8% higher than comparables without.

# What Makes Employee Ownership Work?

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There is more to it than simply handing out some stock options or shares!

The companies that do it right create a profoundly different kind of venture

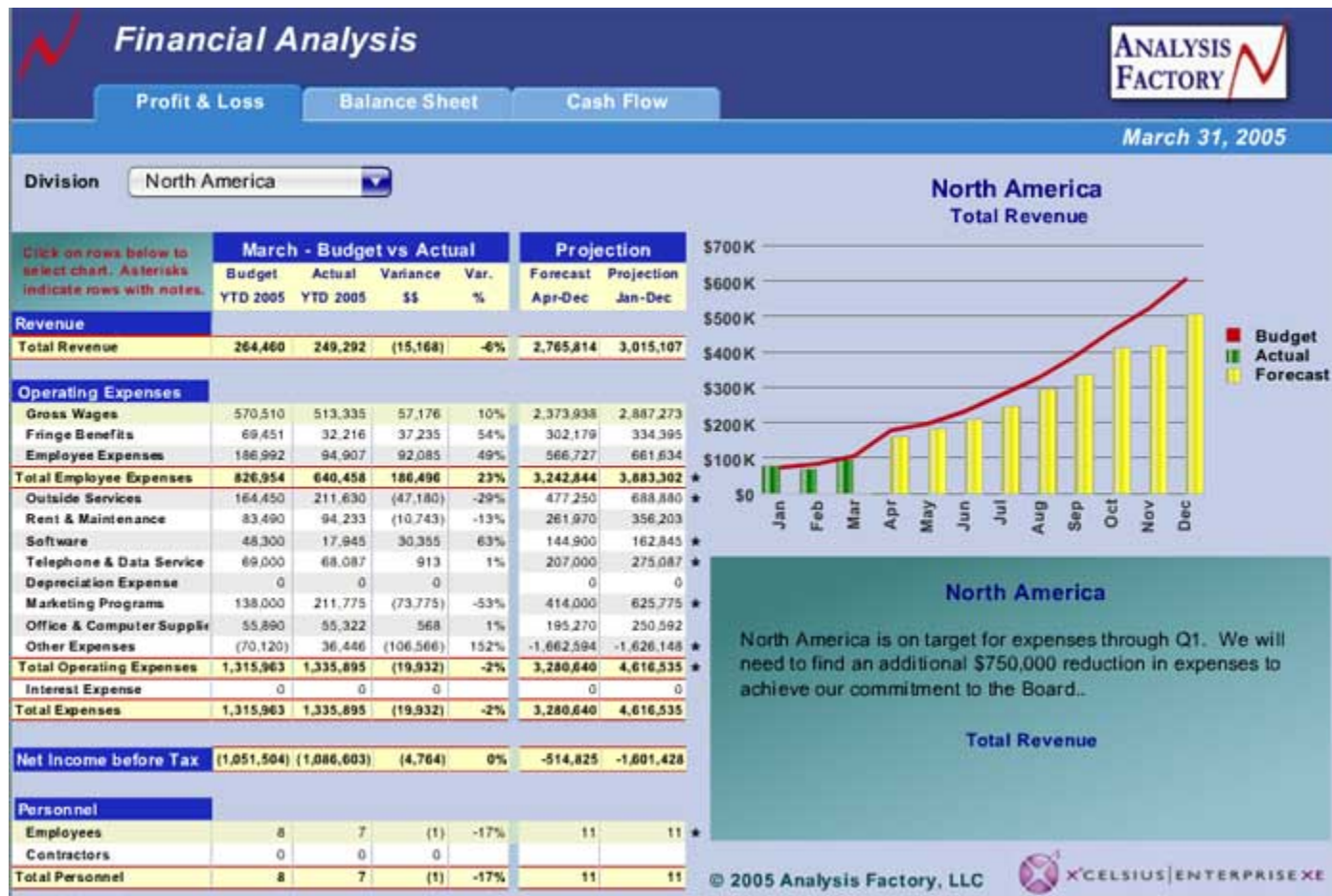
What happens at companies like SAIC that makes employee ownership so successful?

# Team players with a team orientation

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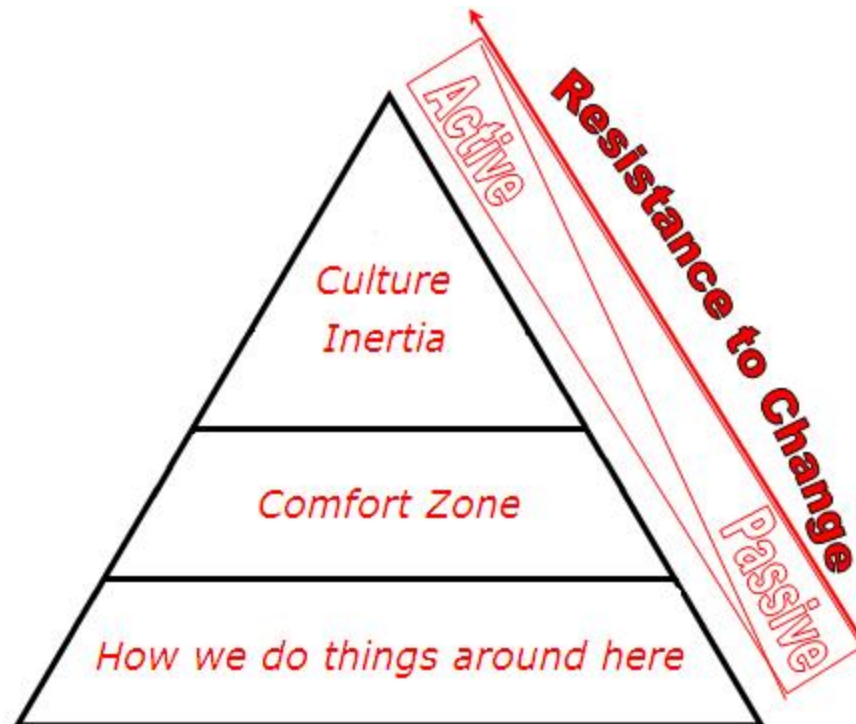


# A business-centered culture



# Embracing Change

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# Commitment and Loyalty

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# Key to Success!

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The foundation: a structure that puts ownership in employee hands.

Step 2: build on the foundation by *engaging people as owners* in the challenge of building a successful enterprise.

The key: keep them fully informed, in real time, on how the company is doing.

- Like athletes in a game



# The tools of Employee Ownership

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## The foundation



Basic tools for putting company equity into  
employee hands

# A Program Framework

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Primary vehicles:

- Stock Options
- Stock Purchase Plans
- Stock Grants
- ESOPs
- Synthetic Equity

# Stock Options

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Definition: a promise to allow the optionee to buy

- a specified number of shares of company stock
- at any time within a specified number of years (5 – 10)
- at today's share price.

- Advantages

- Tax treatment
- Pays for/incentivizes growth
- Company flexibility – choice of who gets them, how many

- Disadvantages

- Tends not to foster sense of real ownership
- short term mentality – options will expire
- Encourages focus on personal financial gain

# Stock Purchase Programs

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Definition: Employees are permitted to buy shares

- from the company
- paying cash (may be payroll deduction system)
- Advantages
  - Brings capital into the company
  - Purchasing employees feel like real co-owners, have their capital at risk
- Disadvantages
  - Few employees can and will buy much stock, so only a modest amount of employee ownership results

# Stock Bonus Grants (Restricted or Not)

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- Definition: Company awards shares to employees
  - Much like a traditional cash bonus
  - if tied to a vesting schedule, it is “restricted” stock
- Advantages
  - Flexible for company – can award selectively as you choose
  - Creates real, long term ownership interest
- Disadvantages
  - Creates a major tax burden for receiving employee

# ESOP (employee stock ownership plan)

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- Definition: qualified retirement plan that holds shares of company stock in individual accounts for employees.
- Advantages
  - Major tax advantages for company, employees and original owners
  - Can buy stock from shareholders using tax subsidy, creating liquidity for all shareholders
  - Creates strong sense of team ownership
- Disadvantages
  - Company has little discretion over who will get shares, and how many.
  - More expensive than other programs to set up.

# Management Practices that Build EO Culture

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1) Keep people informed of plans, goals, performance



2) Provide ongoing opportunities to contribute ideas and be heard



3) Treat employee-owners with respect, as partners and teammates



# Make your company a “We” Company

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- Traditional companies are divided: “us” and “them.”
  - One is management the other is staff.
- Build a “**we**” company!
  - Hear it at the water cooler



# What is a “We” company?

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- Every member of the organization:
  - Supports the vision and mission of the venture
  - Is passionate about seeing the venture succeed
  - Is entrepreneurial in seeking ways to help the venture succeed.
  - Takes it personally!



# The Employee Ownership Alternative

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**“None of us is as smart as all of us.”**

**Bob Beyster, SAIC**

*With employee ownership, you can tap the  
smarts, the energy, the passion, the  
commitment – of “all of us.”*

# Contact Information

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