

# Three Lessons of Ownership

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## Can your company truly build and sustain that early founding feeling, in which everyone continues to feel vested as the scale of the organization changes?

In a study funded by the Foundation for Enterprise Development, I focused on government contractor Science Applications International Corporation, known as SAIC, from its founding in 1969 to its IPO in 2006, providing 37 years of continuous and comparable data. SAIC's founder, J. Robert Beyster, spoke candidly about his early vision, and several employees who worked at SAIC during its formative years or played a significant role in the formation of the company's ownership culture shared their experiences with me.

SAIC created its own private Silicon Valley—where every employee acted as a founder, focuses on growth, and shares in the rewards of ownership. Other organizations can adopt three big lessons from SAIC in order to bring the wealth-generating power of Silicon Valley inside their own walls.

### LESSON 1: Treat Employees as Entrepreneurs

Before his retirement from SAIC in 2004, Beyster described his employees as entrepreneurs: "SAIC has over 500 divisions operating somewhat like their own companies, although quite often they must act in unison to perform on large contracts." His teams often joked that SAIC was really "a thousand small businesses that shared the same stationery."

Throughout its history, SAIC employees felt fully empowered to find and take advantage of opportunities. Similar to Silicon Valley start-ups, scientists and engineers were hired to imagine and build entirely new divisions or expertise areas at SAIC. These employees were willing to step up to learn on the job, and, more importantly, they had actual ownership stakes in their mini-enterprises, driving them to do more.

One example stands out. In 1970, barely two years into operations, SAIC's revenues were \$243,000. Beyster recruited Bill Layson to establish the company's first satellite office in Washington, D.C. Layson acted as a start-up founder. He knew he needed to attract talented staff quickly, which meant he needed meaningful incentives to hire the best.

Layson negotiated a deal with Beyster: If his employees could generate \$1 million worth of new business in 18 months, then all of the new employees would receive stock options. Beyster thought it was a great idea.

With the support of senior management, Layson fostered a start-up culture of ownership, in which everyone was financially and emotionally tied to the new venture. The team met its bold goal and delivered a big revenue boost for SAIC, also benefiting personally from their hard work. Layson laughed about it later, "The culture was very ambitious!"

Even when management views and treats employees as entrepreneurs, they do not force all staff to be entrepreneurial. Employees chose to embrace their role as employee-owners.

### LESSON 2: Create Opportunities for Ownership

At SAIC, the value of the various employee ownership programs for the average employee was nearly 1.5 times his or her salary, and executives who led bigger or higher risk initiatives averaged closer to 3.5–4 times their salaries. The language at SAIC reflected shareholder values and actions common to start-up founders in Silicon Valley. Beyond the financial stake, there was also strong personal identification with the founder role, and managers often spoke about the rewards and responsibilities of ownership. One employee said, "SAIC motivated workers to become salesmen of their own work."

### LESSON 3: Renew the Stake of Ownership

Silicon Valley start-ups are notorious for creating "golden handcuffs" with stock options that the employees will forfeit if they leave the company. By contrast, SAIC prevented the escape of its talent through cycles of continuous rewards and feedback. SAIC regularly renewed each employee's ownership stake, so that it did not feel like a one-time pledge at the time of hire. Employees received stock options, for example, when they met certain performance milestones.

SAIC employees were not only rewarded financially at regular intervals, but also heard regularly from their managers about the rewards of ownership—all of which reinforced the foundation for a culture of ownership. In order to build

a lasting and healthy culture, studies show that the values of employee ownership must be embedded in a company from the start. Even as staff priorities change over time, senior management must make a continued commitment to communicating the importance of employee ownership, so that it becomes a perpetual message across all channels from company meetings to internal newsletters. In my study, employees averaged 27 years of employment—demonstrating their enduring commitment to the company.

It is simple psychology: The more people feel that they will personally benefit, the more they will do to achieve the company's vision, including working longer hours and single-mindedly for results. Comments from SAIC managers and employees were remarkably similar to comments I've heard from Silicon Valley entrepreneurs.

### Where Is SAIC Today?

Management changed the company's ownership model in the early 2000s, responding to the growing number of retiring employees, and it ultimately took the company public in 2006. By 2009, shareholders voted to convert all preferred stock, which had 10 times the voting rights of the common shares and was primarily held by employees, into all common stock. Practically, this change allowed easier stock trades and helped improve the company's corporate governance for institutional investors. Symbolically, the change ended SAIC's formal legacy of employee ownership.

Many say that SAIC has maintained its entrepreneurial spirit, even as the company has adopted a more centralized structure and brought in outside investors. Others criticize the strategy, pointing to dropping stock prices and profits. Most recently, SAIC has announced that it will split into two separate companies to better respond to customer needs.

Ownership cultures change over time, and SAIC provides a good example of how management can downplay the importance of cultivating a lasting ownership culture. In the spirit of learning from failure, SAIC's management may do well to revisit what made it great for 37 years—and hopefully could once again. Other companies can use these durable lessons from SAIC to create a self-sustaining culture of ownership and innovation in their own organizations. ■