CENTER FOR ENTREPRENEURSHIP

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SAIC (A): From Conception to Succession (1969-2003)

"SAIC was built on the principles of collaboration and teamwork. My premise then and now was that 'none of us are as smart as all of us.'"
- Dr. J. Robert Beyster

SAIC Corporate Overview

Founded in 1969 by Dr. J. Robert Beyster, Science Applications International Corporation (SAIC) is one of the largest companies in the world, with over $10 billion in revenues annually and over 46,000 employees. Headquartered in McLean, VA, the company provides scientific, engineering, IT, and systems integration consulting and support. SAIC's primary client is the U.S. Government, (including all branches of the U.S. Military).

SAIC focuses its efforts in the following six areas:[1]

- **National Security:** SAIC supports the full spectrum of US military operations -- from peacekeeping and humanitarian missions to major conflicts.
- **Energy, Environment, and Infrastructure:** SAIC supports the oil and gas industry, utilities, and government operations. The company delivers services and solutions in environmental and atmospheric sciences, policy analysis, and energy efficient design-build services.
- **Health and Life Sciences:** SAIC is building a better framework for individual and public health through disease surveillance, epidemic and pandemic preparedness.
- **Cybersecurity:** SAIC helps its customers prepare for, protect against, and respond to a wide array of cybersecurity threats.

[1] 2010 SAIC Annual Report

Written by faculty members William Hall and Moses Lee, Center for Entrepreneurship at the University of Michigan College of Engineering.

- **IT-based Services and Solutions:** SAIC helps its customers design and integrate complex information technology networks and infrastructure.
- **Corporate Responsibility:** SAIC has a focused commitment to support its employees, enrich its surrounding communities, and improve the environment.

About The Founder

Born in 1924, Dr. J. Robert Beyster was raised in a middle class family in Grosse Isle, Michigan. Following high school he served in the U. S. Navy on a destroyer during the latter stages of World War II. After the war, Beyster enrolled in the University of Michigan, where he earned a doctoral degree in physics.

Like many of his classmates, after graduation Dr. Beyster took a job at the Los Alamos National Laboratory in New Mexico, working on military contracts designed to alleviate the cold war. He entered the private sector in 1957 to establish a linear particle accelerator facility at the General Atomics Corporation (GAC) in San Diego, California.

In 1968, GAC was sold to Gulf Oil, a large petrochemical and energy company. Under Gulf's ownership, GAC changed its focus to the development of large nuclear reactors, deemphasizing governmental research projects. Dr. Beyster became frustrated in this corporate environment. In 1969, at the age of forty-five, he left GAC to found SAIC, originally named Science Applications Incorporated (SAI).

The History of SAIC

"SAIC was an unexpected happening. There was no grandiose plan for its future. I was a scientist, not an entrepreneur. In fact, I found the word 'entrepreneurship' somewhat distasteful."
- Dr. Beyster

Dr. Beyster started SAIC with $50,000 of his own savings and two small government contracts, one from Los Alamos and one from Brookhaven National Labs. The business model was simple: provide outstanding research, along with technical advice, for research or consulting contracts. Operationally, Dr. Beyster was only interested in making enough money to "run the business, attract outstanding people, and grow."

At the start, Dr. Beyster made the decision that SAIC would be employee owned and that ownership would be based on merit and contribution to the company, not tenure. "This company is not for everybody. We're going to try to share awards in an equitable manner. Working here might be better than working in a large company, but it won't be as good as starting a successful new venture," said Dr. Beyster. Using employee ownership as a selling point to prospective hires, Dr.

Beyster was able to recruit talented employees, including several from his previous employer, GAC.

The first year, SAIC felt like a typical start-up fighting for survival. “We rented small offices with an ocean view at $2.40 per square foot per year. We had the added advantage of having a ballet studio as our next-door neighbor, and the ballerinas would dance by us on their balcony as we did our research," said Dr. Beyster.

As the SAIC staff expanded, Dr. Beyster's 'founder's equity' was quickly reduced from 100% to 10%. In fact, many employees mortgaged their homes to purchase equity in the fledgling startup company.

Nevertheless, as is typical of most start-ups, SAIC had cash flow challenges. To keep the company going, Dr. Beyster deferred his salary for a year and took out a loan with Bank of America. The investment paid off; after a year, SAIC had 20 employees, $243,000 of revenues and was surprisingly profitable.

However, SAIC still needed funding and turned to a seasoned entrepreneur for advice. This particular advisor was not an avid supporter of widespread employee ownership. Instead, he encouraged granting ownership to a small number of people, using venture capital financing, and eventually taking the company public.

Dr. Beyster considered these suggestions, but knew that opening up a company to significant outside funding could destroy it, and leave only a few senior employees well off. In the end, Dr. Beyster agreed to sell $200,000 of stock to a group of local physicians.[2] This would be the only time SAIC accepted external private equity based funding.

SAIC’s Guiding Principles

To guide SAIC into the future, Dr. Beyster and his colleagues developed and worked hard to implement a set of five formal principles:

1. Put people first.

The company was expected to serve customers and employees, not the other way around. Selling new contracts was an integral part of every technical employee’s work, promoting a “seller-doer” culture within the company. “Companies within the company” were promoted to place employees closer to customers and the “work” that was being done to serve these customers. Divisions were encouraged to “loan” employees to other divisions as contractual work ebbed and flowed.

[2] These outside investors ultimately received $2M for their $200,000 investment, a 10x "cash on cash return".

2. Promote a culture of employee freedom, subject to high ethical standards and uniform policies for contractual bidding.

Communication within the company was facilitated by both formal and informal mechanisms, with key performance metrics based upon hours charged to billable contracts and the profitability of these contracts.

3. Maintain science and engineering as core skills within the corporation.

The company's mission was to deliver high quality scientific and technical products that contributed to the security of the United States and the free world.

The company recruited and retained highly motivated scientists and engineers who believed in transforming 'science to solutions' and were looking for a good place to work.

4. Promote employee ownership at all levels.

Dr. Beyster had founded SAIC as a company where capable and motivated individuals could both receive a fair salary and assume real ownership in the company, receiving not just a fair salary, but real ownership in the company.

Employee ownership was adopted as a key principle in SAIC to:

- Allow focus on long term goals
- Attract and retain a superior workforce to drive decentralized growth
- Facilitate the alignment of key corporate constituencies
- Promote corporate flexibility and adaptability to maintain a strong customer focus

5. Experiment constantly and avoid strict adherence to formal plans.

Dr. Beyster and his colleagues viewed the company as a "large, complex, long-term experiment", requiring a flexible, evolving organizational structure that was reviewed at least annually.

There were no rules on the size of a contract, and divisions of SAIC were encouraged to locate their offices to be near their customers.

Strategic planning was conducted by a committee of senior managers, assisted by prominent outside advisors with expertise in the defense industry. Operational planning was a 'bottoms-up' process based on opportunities and contractual commitments.

Thirty-four years of progress: 1969-2003

During the early years, SAIC capitalized on winning and fulfilling defense contracts with the U. S. Government, and revenues grew from $243K in 1969 to $150M in 1980. Contractual diversification into healthcare (National Institute of Health), space exploration (National Air and Space Administration) and various non-governmental private sector activities (radiation monitoring, telecommunications, and information technology outsourcing) helped the company to grow to $1B and 11,500 employees in 1990. In 1996-97, the company began to aggressively diversify outside of government contracts and into commercial areas. By the end of the 1990's, with the acquisition of Bellcore (later named Telcordia Technologies) and the company's organic growth, SAIC's business was evenly split between government and commercial contracts.

By 2003, SAIC revenues neared $5B, with a compound growth of 33% since the company was founded. SAIC was organized into Business Units, mostly based on scientific expertise. Offices were physically located close to the customer. Each Business Unit 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.[3]

The company was organized into 10-12 groups, with approximately 50 business units (BU) total, and 100 committees, with authority/influence to change policy and practices, that crossed groups and business units. This corporate structure created a lot of leaders in SAIC. However, it also made it challenging for some people within and outside of the company to identify "centers of excellence" and the company's drivers of growth. Summary financial statements for SAIC for the years 2002-2003 can be seen in **Exhibit 1.**

SAIC used a number of innovative management practices to foster this thirty-four year period of rapid growth:

1. Management intentionally created an 'open' organizational structure that heavily emphasized transparency of employee and organizational performance. For instance, SAIC employees were given detailed quarterly reviews and people's names were always listed on projects so that everyone would know who was running what. Potential new employees were interviewed not only by upper management, but also but future subordinates. In addition, management always solicited employee feedback

[3] Singh, Gangaram. "Book Review: The SAIC Solution: How We Built an $8 Billion Employee-Owned Technology Company." May 4, 2007.

on organizational ideas prior to implementation and financial information and variances on contract performance were always openly shared.
2. SAIC operated under a performance based meritocracy. To incentivize employees, the company issued direct equity stock grants and cash awards.
3. The SAIC culture encouraged employees to work in cross functional teams, believing that the company performed best when integrated.
4. The company frequently reorganized groups and business units to ensure that the company operated the most efficiently.
5. Management established strong corporate governance. The board was comprised of SAIC management and outsiders (approximately 10 of each). In addition, one non-voting employee was always invited to the board meetings to listen in and represent the employees.

Despite its success, SAIC was not without its challenges. In fact, the company's direct ownership model, which was often credited for creating SAIC's success, caused several issues. In the early 2000s, there were more sellers than buyers of SAIC stock within the company. This was primarily driven by employees who were at retirement age and wanted to liquidate their stock. Since there was no open market for the shares, the company had to repurchase the stock. See **Exhibit 2** for cash flows from the sale and repurchase of SAIC stock.

Succession

In 2003, at the age of 79, Dr. Beyster was full time and active at SAIC as CEO and Chairman of the Board, and although reluctant to reduce his involvement at SAIC, he recognized the need for a successor. The board of directors formed a search committee to find his successor. However, before doing so, the board wanted to take a look back and determine the factors that had contributed to SAIC's success. Understanding this would help the board better plan for the future.

Case Questions:

1. Given the readings on SAIC and the case study, what factors most contributed to SAIC's success?
2. Do you think SAIC could have achieved the same success if it had not been primarily employee owned? Why or why not?
3. What aspects of SAIC's culture should the new leadership be committed to as the company evolves? Should certain aspects be deemphasized?
4. How should the company handle the stock repurchases that were creating significant cash outflows for SAIC?

Exhibit 1

SAIC (A)		
Summary Financial Statements 2002-2003		
$ in Millions		
	CY 2003	CY 2002
Revenues	$ 4,835.00	$ 4,374.00
Cost of Revenues	$ 4,169.00	$ 3,786.00
Gross Profit	$ 666.00	$ 588.00
Selling & Administrative Expenses	$ 355.00	$ 342.00
Operating Income	$ 311.00	$ 246.00
Total Assets	$ 4,876.00	$ 4,678.00
Shareholder's Equity	$ 2,020.00	$ 2,524.00

Exhibit 2

Cash Flows from Common Stock 2002-2003		
$ in Millions	CY 2003	CY 2002
Repurchase of Common Stock		
Quarterly Stock Trades	$ 482.00	$ 443.00
401(k) and retirement and profit sharing	$ 188.00	$ 338.00
Upon employee terminations	$ 143.00	$ 189.00
Other stock transactions	$ 98.00	$ 107.00
	$ 911.00	**$1,077.00**
Sales of common stock	**$ 26.00**	**$ 35.00**