Case Study 6.1

Science Applications International Corporation (SAIC)

Founded by Bob Beyster, a physicist, in the 1969, SAIC was for a time the largest employee-owned research and engineering firm in the US, with revenue reaching $8bn and 45,000 employee-owners by 2006.[1] Key to the company's success throughout the years was its commitment to granting shares to as many employees as possible (broad-based employee ownership). For large parts of its existence, the company was entirely owned by its employees and over ninety per cent of employees participated in share ownership.[2] The company used a combination of stock options and direct shareholding in its employee ownership structure.[3] The use of cash bonuses, shares and options (shares that can be bought in a number of years time at current prices) were used as a means to engender commitment and promote a long-term outlook amongst employees. Of course, employees who wished to cash in on the value of their shares or purchase additional shares needed a medium to do so. To facilitate trading, the company established an internal share market (managed by a specially created subsidiary) that operated quarterly, offering employees the opportunity to trade. If no other employees wished to purchase available stock, subsidiary would buy them.[4]

Of course, simply handing employees stock does not engender loyalty or a long-term outlook, features that were key to the success of the company. Employees were given ownership training by their peers to get across what it means to be an owner of a company, evidence of the importance of creating an ownership culture to complement financial participation.

The founder, Bob Beyster, was convinced that employee ownership drove the performance of the company, claiming that if he had not given away so much of the stock to employees, he 'would own a much larger percentage of a far less valuable company.'[5]

The story of SAIC also reveals an important point regarding leadership succession in employee-owned companies. A robust leadership succession strategy is crucial in employee-owned companies for the reason that you need someone who is passionate and committed to creating an ownership culture as well as an ownership structure. Unfortunately, upon the retirement of Bob Beyster in 2006, the board appointed someone without any enthusiasm for or knowledge of employee ownership and the company was subsequently floated on the stock exchange, where its share price has remained largely static to the present day (it doubled every five years while the company was employee-owned).[6]

[1] D. Erdal, *Beyond the Corporation: Humanity Working* (London: The Bodley Head, 2011), pp. 38, 48.
[2] Erdal, *Beyond the Corporation: Humanity Working*, p. 49.
[3] J. Blasi, D. Kruse, and A. Bernstein, *In the Company of Owners* (New York: Basic Books, 2003), p. 16.
[4] Erdal, *Beyond the Corporation: Humanity Working*, p. 50.
[5] Blasi, Kruse, and Bernstein. *In the Company of Owners*, p. 148.
[6] Blasi, Kruse, and Bernstein. *In the Company of Owners*, p. 170.