

Don't Tell Me the Future

Resilience, not Prophecy, is the Greatest Gift

Ralph W. Shrader, Chairman & Chief Executive Officer,

Booz Allen Hamilton

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I've been asked to talk about Booz Allen's journey, and especially the dramatic events of this past year -- and was reflecting back on that in preparing these remarks.

The evening after we closed the transaction with Carlyle, and legally separated our 94-year old firm, Booz Allen Hamilton, into two companies, I was having dinner with my wife Janice talking about the events of the past week... and wondering if it had really happened.

It had taken so long and been so complicated, there were times I was unsure if we'd ever seal the deal. And now that we had, it just didn't seem real.

But, today, nearly three months later, it does feel real - and very good. I'm glad we divided the firm and I'm proud of Booz Allen's association with The Carlyle Group.

At the same time, our legacy partner, now called Booz & Company, is excited and energized about their focus on commercial management consulting.

I'm absolutely convinced that separating our firm was inevitable - and that it was the right thing for our institution, our clients, and our people. But, I certainly never envisioned this path when I became Chairman & CEO in 1999 or when I joined Booz Allen 35 years ago.

There's a well-worn saying that "I wish I knew then, what I know now." But, I beg to differ. I'm glad I didn't know then that we would end up taking this path. That's a key lesson that this experience crystallized for me. It's a lesson that will be important for Booz Allen as we go forward, and I believe will be valuable for you as well.

I know you came to hear the story of our separation and the investment by Carlyle – and I’ll talk about that and will be happy to answer questions at the end. But, I want to place the Booz Allen separation story in a broader context – the context that explains why I *don’t* wish I knew then what I know now.

The lesson is this: *Don’t tell me the future. I’ve learned, unquestionably, that resilience – not prophecy – is the greatest gift.*

Now, that idea runs counter to human nature and desire. Seeking to know the future has been man’s eternal quest – from ancient mythology to the 21st century (and into the 24th century if judged by *Star Trek* episodes).

If we remember back to studies of the classics and mythology, both gods and mortals sought out Tiresias at the gates of Thebes for his gift of prophecy. We haven’t changed much over time. Today, among the storefronts of any city in the world, we find neon signs for psychics who’ll tell our future. And, in video arcades, kids are still fascinated by the Great Zambini and his crystal ball, who will “reveal all” for a quarter.

Astrology aside, modern forecasting techniques are widely employed in science and business. Clearly, it can save lives and fortunes to be able to predict weather patterns, epidemics, and financial markets. (*No question, we have a long way to go in telling the future of financial markets!*)

But, it’s important to recognize the limits of even the most sophisticated models and forecasting methods – and to rely on them as tools, not oracles.

I’m convinced that prophecy would be a curse, not a gift, in our most important human endeavors, from corporate strategy to national destiny to personal relationships.

From a personal standpoint, I feel it’s better that I didn’t know my oldest son would be born with disabilities, or that two of my closest friends and partners, John Newman and Al Picarelli, would die much-too-young from cancer.

I told you I’m glad that I *didn’t know* that Booz Allen would end up splitting into two firms. In the same way, I believe it’s good I didn’t know back in the 1970s that I’d be with Booz Allen for 35 years and become its leader.

I firmly believe knowing the future could severely limit our vision, passion, and potential. It could cause us to take things for granted... or to give up hope.

Much more than prophecy, *resilience* – the ability to rise to the occasion and opportunity, whatever the future may bring – is the far greater gift. And, it's also a gift we can reasonably attain.

Resilience is *optimistic opportunism*. Its power can be seen in the prescient observation that “Things turn out the best for those who make the best of the way things turn out.” Think about that: “Things turn out the best for those who make the best of the way things turn out.”

When rooted in hard work and experience, resilience is better than any crystal ball.

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So, how does this idea play out in the story of Booz Allen's separation?

To understand that, we need to take a brief look back. Our founder, Edwin Booz, is widely credited with creating the management consulting profession nearly 100 years ago. His business model had a few good men providing independent expertise and advice to corporate executives.

In 1940, the Secretary of the Navy asked Ed Booz to help the Navy prepare for World War II. This assignment started Booz Allen's government business, and I'm proud to say that we continue to serve the Navy as one of our largest clients today.

For many decades, Booz Allen's government business was a small part of the firm. Commercial management consulting dominated our business portfolio, culture, people model, and partner corps. (*To be precise, our firm has been a privately-held corporation since the 1970s, not a partnership, but we continue to use the title of partner internally*).

During the 1980s and 1990s, the government business grew steadily until it comprised more than half of the firm's revenues and employees. The economic and people models for the government business were quite different – hourly rates and profit multiples were more cost-constrained, but projects were much larger and longer than commercial assignments, which added stability as well as revenue. These larger, longer projects, if managed well, could be quite profitable. One partner would typically lead a team of more than 100-200 hundred staff members (compared to the commercial business where one partner led a team of about 5 staff members).

After the dot-com crash and September 11 attacks, there was a prolonged downturn in the commercial consulting market. In contrast, Booz Allen was very

well positioned in defense and homeland security, and demand from government clients for management and technology services rose dramatically.

Although we only publicly disclosed revenues and headcount for the entire firm in aggregate, the reality was that our government business had grown to account for three-quarters of revenue, profit, and headcount.

Given an economic model in which there were twice as many commercial partners (one for every 5 commercial staff vs. one to nearly 200 government staff) and in which partners accumulated stock over a long period of time, commercial partners owned a super-majority comprising 70% of the firm's stock. The financial tensions were becoming challenging – and this was compounded by an artificially-low book value for our share price.

On the business side, Booz Allen had become a large defense contractor and subject to increasing regulations, security measures, export controls, and other restrictions regarding access to information and facilities. For a global firm, with numerous offices outside the US and significant stock ownership by partners who were not US citizens, the need to follow regulations imposed on a large defense contractor caused additional strains.

Despite these financial and business tensions, many strong ties bound the businesses together. We had strong common values, shared history, and institutional pride. The combination of our commercial and government experience was a differentiator, especially in areas such as health care, transportation, and energy, in which both public and private sectors intersect.

Booz Allen was uniquely qualified to serve clients in this joint space, and we were so excited about it, that, in 2006, I led a major reorganization to tear down the walls between our government and commercial sectors. We called it the One Firm Evolution – or OFE, given our penchant for acronyms.

I deeply believed in One Firm and the value of managing Booz Allen as a single business entity. Shortly after we announced the One Firm reorganization, I got an e-mail from my predecessor, former CEO Bill Stasior, congratulating us on achieving this dream.

I'm glad I couldn't see the future, because if I had, I wouldn't have thrown my passion and energy – and that of so many others – into the One Firm strategy.

It failed for many reasons, but not for lack of effort. And, it taught us a lot – it certainly taught me a lot. Trying to run very different businesses under a single operating model added tremendous cost and complexity. It made us less agile,

and with a few exceptions, made the differences between our business models more pronounced.

Against this backdrop, Booz Allen's Board of Directors had charged me and our Management team with taking another look at the firm's long-term strategic positioning and addressing the disparity between the book and market value of our stock.

We regularly received expressions of interest from strategic buyers, which we had a fiduciary duty to seriously consider under Delaware corporate law. None of these was the right choice, but, as it became clear that separating our businesses might be the right course, we enlisted the help of Credit Suisse and explored all reasonable options.

An outside financial investor was essential to dividing the firm because the government partners could not afford, or borrow enough, to buy out the commercial partners' ownership interest.

We found that investor in the world's leading private-equity firm, The Carlyle Group. Not only did Carlyle turn out to be a strong financial partner for us, Carlyle is an excellent cultural fit. They understood and appreciated that Booz Allen's culture - our history, lore, core values, and spirit of service - was as important and strong as our balance sheet.

Carlyle was also committed to keeping the elements of the business and culture they viewed as key to past and future success - the Booz Allen Hamilton brand, our current leadership team, and partner ownership model. The Booz Allen government partners reinvested a minimum of 40% of their proceeds from the transaction back into the firm.

We had traveled a long and winding road and ended up at a place that almost no-one anticipated - seeking to divide Booz Allen Hamilton into two companies, with Carlyle investing \$2.54 billion to make it happen.

On May 14, 2008, Booz Allen's Board of Directors voted unanimously in favor of the transaction. We still needed shareholder approval. On June 13, the independent firm of Georgeson Inc. counted the proxies - and 99.76% of shares were voted in favor. We closed with Carlyle on July 31, 2008.

That's a future I could not have predicted in my wildest dreams.

We now have two futures -Booz Allen Hamilton's and Booz & Company's. We continue to collaborate where our joint capabilities benefit clients, but have

become surprisingly independent in just a few months. Non-compete agreements say we will not pursue clients in each other's core markets for a period of three years.

Booz Allen Hamilton retains the brand name and corporate entity. Our contracts with clients remain intact, and our financial performance, stability, and employee retention and benefits are stronger than ever. Today, Booz Allen (alone) has nearly \$4 billion in revenue and 20,000 employees, and our year-over-year revenue growth is over 15%.

So, what now?

We're only human. Our partners and staff are desperate to know the future – the next future: How will things turn out this year, next year, and beyond?... What's going to happen when Carlyle decides it's time to sell its stake in Booz Allen?

I think – I hope – we're coming to understand that we don't need to know the future. We can be confident that our performance and resilience will enable us to succeed and control our destiny.

And, that's the thought I'd like to leave you with: While we can't know our destiny (and I've come to believe we shouldn't want to), we do have a large measure of control over our destiny, as individuals and as institutions.

What gives us this control? Hard work, experience, and resilience.

There's no question that hard work, focused on a goal, is never wasted – even if the destination changes. The experience, expertise, and discipline we gain is invaluable and will lead to success, as long as we have the resilience – the optimistic opportunism – to sense the winds of change and go with them.

There's a Japanese proverb that says, "Even the fortune-tellers do not know their own destiny."

I'm convinced we have more control over our destiny by *not* knowing it – as long as we strive for excellence and have the resilience to make the best of the way things turn out.

Thank you.