
People Strategy

Lone Star is a company known for awesome people. A strategic pillar of the company is our human capital. This document describes the deliberate approach to preserving, promoting and expanding Lone Star's cadre. This document describes Lone Star's goals and philosophy for our culture, our approach to Managing Human Capital, our approach to Recruiting, and our evolving approach to compensation, which is derived from the first three.

1.0 Lone Star's Cultural Goals and Philosophy

Our culture has its roots in the founders and their professional histories. A number of Lone Star contributors worked for Texas Instruments and the TI culture is one of the factors which positively shaped Lone Star, much as TI influenced other North Texas technology companies.

In the early days, we elected not to work with anyone who had a bad work ethic, a difficult ego, or questionable integrity.

Nearly everyone worked as a contractor, for short projects. The choice of who to put in front of a customer, or put on a team developed into what we call the "ZJF" (Zero Jerk Factor). We do not use troublesome people.

Over time, we've become more deliberate about a culture that helps each of us perform at a higher level, attracts talented people, and delivers value to our customers.

The Zero Jerk Factor is not just a mindless mantra. It's part of a positive, open culture where we can disagree, but still respect each other. Where we can work on difficult, confusing and challenging client problems and know we are focused on the challenge, not on the wounded ego of a co-worker.

1.1 Standards and Culture. -Today, we have stated standards. They reflect our culture, and we think these eight standards are important. These are values that we hold ourselves to:

1. *We deliver Outstanding Results for Our Clients*
2. *We Make a Difference*



3. *We Take Pride in Our Professionalism*
4. *We Manage by Fact and Seek Objectivity*
5. *We Smartly Grow Our Company*
6. *We Treat People with Respect*
7. *Our People Are Empowered*
8. *Our Ethics are Unwavering*

By themselves, the list may not describe our unique culture, but what we mean by these constitutes a unique ethos, or spirit, that is Lone Star.

1.2 We Are Focused on Delivering Outstanding Results for Our Clients. – What do people who “serve and deliver” look like? We value people who are willing to go to great lengths to meet customer requirements. They are willing to be honest about the difference between effort and results, between ‘trying’ and actually ‘doing’ what clients need, and are empathetic to customer needs and the necessity to deliver what they require. “Serve and Deliver” people are good at listening to customers STATED and FELT needs, and are willing to do what customers NEED, even if it’s not exactly what the customer feels they must have.

These people are willing to look out for the interests and welfare of the people they work with, and are not self-absorbed or narcissistic. They put others, and in particular, the customer, first.

Outstanding results means we must SERVE and DELIVER.

- Serve = what customers need (even if the contract doesn’t exactly spell it out)
- Deliver = produce what we promised, when we said, in a way providing tangible benefit

Why Do Results for Our Clients Matter? Because our clients’ interests come FIRST: If we serve them well, our own success will follow.



1.3 We Make a Difference – The work we do matters. – What do people who “make a difference” look like? We value people who celebrate making a difference and see it as important to being a whole person. They make a difference in other aspects of life – not just their professional lives. They celebrate a good result caused by others, not just their own achievements. They think making the world a better place is something that matters in itself, and do not see customer results just as a means to make money.

Our culture celebrates results that matter. It’s a natural consequence of being serious about delivering results for clients, but making a difference also attracts great people. Lone Star wants people who are energized by making a difference. They are attracted by the fact that we address important problems. They love the work we do to solve vexing challenges and find new ways to answer stubborn questions.

Why is “Making a Difference” important? It improves every aspect of our firm.

We believe “results that matter” build long term prosperity for ourselves and our customers. We believe *most* people want work that matters. By striving for it, we make Lone Star a great place to work.

1.4 We Take Pride in Our Professionalism. – What do “professionals” look like? We value people who are “pros” because they focus on the team’s delivery of customer results, more than personal glory (or embarrassment). They do their work in a way that helps others on the team be productive – we help each other because the team is stronger than the individuals. They take initiative to improve their skills and to bring more to the team, who make the team better through their own personal growth. They understand their personal credibility, or lack of it, changes the perceived value of our work, so they take care to project a professional demeanor.

Professionals aren’t flawless. Professionals help each other and know when they are in trouble. The team delivers results, so if one of us is struggling; we owe it to the team to ask for help. Individual “success” that is late or incomplete is not acceptable.

Professionals deliver what customers pay for. Lone Star customers expect us to come through, on schedule, and on budget, but that’s just a start. Professionals communicate in a clear, persuasive manner. They respect the culture of the client, and adapt to the customer.



We have a determination to achieve excellence in our personal conduct and business performance. Lone Star customers deserve to be served in a professional, credible manner even when part of a customer's organization or a few individuals are difficult, disrespectful, or unfair. That is sometimes hard, BUT doing it -not making excuses, or cutting corners - is the difference between pros and non-pros.

Why is Professionalism Important? It bears on the credibility of our work. Without it, we can't make a difference or deliver outstanding results.

1.5 We Manage by Fact and Seek Objectivity – What does an “open, objective, management by fact” person look like? We value people who collaborate and who are able to work in a team environment. They are curious about FACTS, even when it's not yet clear how they fit the client's problem. They can find ways to objectively measure the circumstances the customer faces, and can find new ways to communicate ideas clearly and illustrate facts with credibility. They celebrate and appreciate the value of diverse perspectives and experience within the Lone Star team, even if it requires sorting out disagreements. They can organize information for their own work, for other members of the team, and for customers. They are confident enough to wield the black pen (creator), knowing the red pen (critique) may change everything. When they wield the red pen, they use it objectively. They can take and apply constructive feedback in a non-defensive and respectful manner.

Complex issues are abstract, and imprecise; we are not surprised it can take some debate to get clarity. The first draft is usually wrong – we admire the person who wrote it because it's easier to be a critic than a creator (the red pen is less work than the black pen). A smart team gets better results than a smart person. This is almost always true on hard, complex problems.

So – we don't believe in false agreement, and we don't use or perceive edits/critiques as personal attacks. That squanders good will and violates the ZJF.

Why are facts and objectivity important? We deal with complex, multi-constituent, multi-dimensional issues, and always seek decision neutrality. We can't do this with bias. So, Lone Star's culture values open debate and constructive disagreement.



1.6 We Smartly Grow Our Company – What do people who support “smart growth” look like? We value people who can help prioritize, and can help build consensus for the chosen priorities. They can support the chosen growth targets even when not their own. They find clever ways to drive growth with fewer resources than might seem possible. They help propel their own ideas forward within limited means, and help create the means to accelerate the ideas of others.

Lone Star values people with ideas that can create new offerings and new products in this context of smart growth, and thoughtful use of resources.

Why does smart growth matter? We are a small company; we don’t have the resources to do all the interesting things our smart people can imagine. So, we balance growing our revenue, profitability, and capability to always ensure delivery of exceptional results for our clients. We must plan for growth within our limited means but in keeping with our large opportunities.

As we grow we must ensure we can deliver results, even if that means we must grow at a slower rate – We will NOT fail to deliver.

1.7 We Treat People with Respect – What do collaborative, respectful people look like? We value people who are thoughtful and considerate of one another, openly communicating with each other. They notice, appreciate and acknowledge the contributions and achievements of others. They strive for the “Zero Jerk Factor” meaning the ratio of times when we act like jerks is roughly zero.

We value people who treat ALL of our stakeholders with respect. Not just “us” inside Lone Star, not just customers. We believe respect and compassion are critical to objectivity – we can’t get to the core of tough issues if we make people defensive. Collaboration and transparency are essential to understanding difficult problems and abstract concepts – we can’t succeed if we are overly guarded (but we protect sensitive information).

Collaboration and transparency includes communication; we MUST communicate with each other. Respect is essential to communication – people who feel disrespected, or, who disrespect others can’t hear clearly. Respect lets us leverage our differences and diversity – no respect means no collaboration.



Why does respect and collaboration matter? Customers, employees, partners, shareholders and other constituents who are treated with respect and compassion, collaborate and interact with transparency. This is critical to our culture and success.

1.8 Our People Are Empowered – What do empowered people look like? We value people who are not afraid to take action, and who are worthy of trust and autonomy. They get a second opinion and even a third opinion when they need it, but are still not afraid to take action. They believe they can bring contrary ideas forward, even if it means disagreeing with a more senior person.

They communicate their actions, and their results, including the chance to help others learn from their mistakes. They don't need the security blanket of a permission culture absolving the individual of all blame, and prefer accountability to micromanagement. They are not afraid to fail.

Why do empowered people matter? We believe personal responsibility, accountability and authority are the cornerstones of success in our organization. So, Lone Star's culture values the power of personal initiative.

We believe we are more powerful and agile because we are not bogged down in a web of permissions and petty rules. Our culture depends on people accepting responsibility and accountability along with authority and permission to take initiative. We understand personal initiative does not assure 100% success – but... neither does a command and control culture. Trustworthy empowered people strive to do the right things, the right way to achieve the right answers.

1.9 Our Ethics are Unwavering – What are ethical people like? We value people whose integrity is not a question, and who assume we mean it when we make a commitment. They quickly and candidly admit mistakes. They can see how something might appear wrong, even if not technically wrong. They speak up when something makes them uncomfortable. They are not afraid to hold teammates, supervisors, or others accountable on ethical matters.

Trust includes being honest about mistakes – it's not honest to claim we are perfect. Mistakes do not improve with age. We disclose problems at once; use the proper channels of communication, but we don't wait. We demand the highest level of honesty and integrity in all things we do.



Why are ethics important? Trust is the core of nearly everything Lone Star does. Customers **MUST** be able to trust Lone Star with sensitive information. Clients **MUST** believe our results are unbiased. Within the firm, we **MUST** be able to trust each other.

1.10 Do We All Measure Up All the Time? No – None of us meet these standards all the time. Our culture strives to improve, but we don't kid ourselves. We are not perfect. We don't expect anyone to be perfect. We do expect honest self-assessments and ongoing self-improvement.

2.0 Managing Human Capital

Our approach to managing people is based on empowerment. We have a flat organization with few layers or distinctions in "pecking order" and we expect our colleagues to largely self-manage.

We don't have a formula for the number of days allowed for various forms of time off. We expect people to have balanced lives, take time for their families, and to serve our customers. We have targets for some of the ratios of how time ought to be used, but we can't expect to put empowered, client focused people into a mold.

2.1 Our Standards - Our approach to managing people is based on the principles of our eight standards. Most of the standards have to do with how we want to behave (see 2.3, below) but some are thresholds that we need to observe.

2.2 Exceptions – We aren't all going to measure up to all aspirations all the time. So, dealing with exceptions is an important part of managing human capital. Generally, these can be described in three categories; coaching, correcting and exiting.

2.2.1 Coaching – Most exceptions are opportunities for coaching, whether the exception is a departure well above the established norm, or falling short. It's critical that we be transparent with each other. One characteristic of professionalism is the constant pursuit of self-improvement. Therefore we expect Lone Star people to desire coaching for improvement.



Coaching is a particular responsibility of Lone Star leaders, and our people should be able to expect their leaders will work to improve their performance and the performance of the company. Coaching is not “discipline” and it’s not intimidation; it’s the pursuit of improvement.

Coaching is not *just* the responsibility of leaders; it is the responsibility of all Lone Star folks. We need to give each other real time feedback when someone teaches us something, displays a great attribute, or fails to meet an expectation. We earn the right to provide a coaching critique by our coaching compliments. Compliments ought to outweigh critiques.

Even when a critique is needed, it’s not enough to express displeasure or disappointment; we need to provide positive goals to each other and provide ideas on improvement; otherwise it’s not coaching.

2.2.2 Correcting – In some cases, we must correct each other. Generally this falls into the “red pen/black pen” category of improvement where we ask each other for an edit, or critique. In this case, it’s important to respect the fact that the “black pen” is much harder to use than the “red pen.”

Occasionally, we need to correct each other. When that happens, the following guidelines are worth considering:

- Questions – It is helpful to ask questions before critiquing (what do you think about... ?).
- Goals – It is helpful to frame correction in terms of what we want, not just what we don’t want.
- Respect – We treat each other with respect, even when we correct each other.

2.2.3 Exits – In a few cases a person may not fit and needs to exit. This can occur in more than one way.

- Zero Tolerance, fast exits; personal conduct which results in loss of a security clearance, physical violence, lewd behavior, ethical breach; these (and other things) can result in immediate termination.
- Repeated Infractions; while no one will meet our high standards all the time, repeated infractions may be cause for termination. Repeated infractions, and lack of change, are likely to be cause for termination. Repeated infractions, lack of change, and defense - rationalization of the infractions - are very likely to result in termination.



2.3 Behaviors – Because we are empowered, we seek to foster behaviors likely to yield positive results for clients and our company. This Behavior Based Management (BBM) approach seeks to:

- Identify the behaviors likely to be predictors and leading indicators of success.
- Identify the expectations for those behaviors for people in different roles.
- Distinguish between minimal expectations (mandatory behavior) and aspiration (targeted behavior).
- Coach, and correct for appropriate behaviors.
- Recognize and reward exceptional behavior.

Focus on behavior is not an alternative to seeking results. Rather, it seeks to foster those things which produce the desired results, or which increase the chances of desired results.

3.0 Recruiting Approach

3.1 Balanced approach – Great people, empowered and able to create great results, do not fit in a single template. Our recruiting strategy seeks to balance three aspects; temporary vs. permanent recruiting, finding the great person vs. seeking a great fit for a specific position, and, staffing at headquarters vs. forward deployment of talent.

3.2 Balancing Temporary Status vs. Permanent for what we think/hope are long term people - There is no single “right” way to bring in talent to Lone Star.

- We have project work that makes contract (1099) use logical and legitimate by the normal tests applied by the DCAA, the IRS, and most states where we operate. When we do this, we need to be clear about the potential of project conclusion or ultimate conversion to employee status.
- In some cases, Temporary Employee (W-2) status makes sense. For example summer interns are usually best hired in this manner, unless their university has a program that provides a better alternative for the intern.



- In all cases, communication to temporary or project labor needs to set clear expectations about any potential for conversion, the timing for consideration, and the differences in compensation and benefits.
- This is a separate issue from initial probationary status (see 4.0).

3.3 Recruiting Strategy – Balancing Great Person vs. Great Fit – Lone Star’s mix of business is project based, and tends to require people who are generalists, or who are specialists who can thrive in more than one setting.

- Most of our successful hires have been “great person” hires – we chose people who seemed to offer a combination of cultural fit and skills, or who had the potential to grow into what we wanted. Historically some turned out to be that kind of person only after we used them on what we really thought to be a temp assignment. So the bias toward “great person” applies to both permanent and temporary labor.
- The great fit model is credible and efficient for clients, in that they perceive more bang for the buck with SMEs who really understand their mission and organization. In some cases it is the right thing to do. “Great Fit” talent is more likely to be for temporary (project) positions because it tends to fit the client; but as we grow, our need for specialists and “great fits” will probably grow as well.

3.4 Recruiting Strategy – Balancing Headquarters vs. Forward Deployed

- Most of our hires have been in North Dallas.
- Customer facing roles, deployed near (or with) the customer have been critical to success, and are likely to be more important as we continue to grow.
- We expect to focus entry level (early career) hires at the headquarters.
- We expect forward deployed roles to be mostly customer facing and, to a large degree, people who can be self-directing.

4.0 Compensation Approach



Lone Star's approach to compensation is driven by our standards, culture, management, and recruiting. It is changing as the company grows, and will continue to change in response to the needs of the company, our people and market conditions. It consists of five elements; benefits, equity, base pay, BBM bonuses, performance/results bonuses.

In each case, these are targeted to be individual. These are not intended as "one size fits all."

We target performance and compensation reviews on an individual basis. We conduct these reviews on an individual cycle – not *en masse*.

4.1 Benefits – Lone Star competes with large corporations for knowledge workers. Our benefits program of health insurance, retirement savings and other benefits is intended to provide us with both a recruiting asset and a retention advantage.

In general, we prefer to have benefits which have the following attributes:

- Better than the typical large corporation, and as good as the better large firms
- Controlled by the employee; "buffet plans" and self-election are preferred when possible, to let employees maximize the value of benefits to their own needs
- Denominated in terms of their cost (i.e., transparent to the employee as a compensation cost) or, if cost is not easy to attribute, at least valued in some manner
 - Benefits should not feel like "free" entitlements
 - Denomination makes the benefit tangible – not abstract

4.2 Equity – We want to expand equity ownership among Lone Star employees. The details are still in progress.

4.3 Base Pay – Over time, we want to migrate our base pay to target paying below median; however, we want to achieve total compensation above median with bonuses.



4.4 BBM Bonuses – A portion of our bonus pool will be targeted at Behavior Based Management. Lone Star seeks to incent the behaviors which enhance the culture, which are predictors of success for clients, and which are predictors of success for the company.

- BBM targets behaviors which are expected to lead to a desired outcome.
- BMM is based both on behavior, and on role. A laudatory, bonus-able behavior for a junior employee may be the minimum expected behavior for a senior contributor.
- BBM is subjective; by definition it is not “proven” because the target behavior happens before the results we hope to achieve with the behavior

4.5 Performance Bonuses – A portion of our bonus pool will be targeted at measured performance. This includes specific events (major milestones, project outcomes) and measurable performance of factors which are leading indicators.

- Performance measures are quantification of history.
- Intermediate measures can be predictive of later events; they can be both measured performance and predictors.
- Performance bonuses recognize attainment of specific goals, events or results.
- Performance bonuses are based both on results, and on role. A laudatory, bonus-able achievement for a junior employee may be below acceptable minimum performance for a senior contributor.

5.0 purpose

The elements of this strategy are designed to attract, cultivate and retain the best and brightest Human Capital available. It is subject to enhancement and amendment as Lone Star’s growth and development continues.

