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## SAS Institute: A company of the future?

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### **Case 1: SAS Institute: A company of the future?**

SAS Institute is a world leader in the software industry. Its annual revenues grew from \$98 million in 1986 to \$871 million in 1998 (O'Reilly and Pfeffer, 2000). But what really makes it different from the competitors is its staff turnover rate of only 3 per cent, while average turnover in software is estimated conservatively at more than 20 per cent. The 17 per cent difference multiplied by the size of the workforce means that SAS loses about 925 fewer people per year than other software companies. With replacement costs at one to two times the annual salary, even conservative estimates suggest that SAS Institute is saving more than \$100 million per year from its lower turnover, almost one-eighth of its revenue! Lower turnover also helps build and maintain customer relationships. "In a company with high turnover..., customers soon come to believe they are providing on-the-job training, a comment we often hear about accounting and law firms. It is not a model designed to build customer loyalty" (ibid).

So, why do people stay at SAS? Salaries there are the industry average, and a lot of people actually take pay cuts to work for them. The company does not provide employees with stock options, phantom stock, performance shares, or similar schemes. People stay because they are attracted by SAS values and management ethics. The SAS philosophy is based on four principles:

1. *All people at SAS Institute are treated fairly and equally.* SAS emphasizes egalitarianism. It has a very flat organizational structure; depending on the particular division, there are only 3 or 4 levels in the company. Everybody at SAS (including assistants) has a private office, not a cubicle. Nobody, including SAS co-founder, Dr. James Goodnight, has a reserved parking space. There is no executive dining room. Everybody has the same health plan.
2. *People should be treated with respect and dignity.* SAS Institute believes in the power of reciprocity — if you treat your people well, they will treat the company well by being loyal and dedicated in return. SAS does not create a 'periphery' workforce by outsourcing. Day care workers, on-site health professionals, food service workers, even security guards are all SAS Institute employees. SAS is making extensive efforts to signal to employees that "it sees them as human beings, not just workers" (Prusak and Cohen, 2001).
3. *SAS believes in and relies on intrinsic, internal motivation.* Management trusts people, treats them like responsible adults and relies on them to do a good job. SAS has no formal sick days or sick leave policy; if people are sick, they simply stay at home. Performance appraisal forms have been eliminated. Instead of formal appraisals, managers spend time talking to their people and providing feedback on a regular basis (at least three times a year).
4. *A good work-family environment pays off.* Company headquarters consists of buildings scattered over a 200-acre campus-like setting with a lake, beautiful grounds and forests. Company policy is for people to work about 35 hours a week; if you call after 5 p.m. the voice mail system tells you that the company is closed. This policy is based on the assumption that people don't perform effectively when they are tired. Dr. Goodnight comments: "I've seen some of the code that people produce after these long nights and it's garbage...I'd rather have sharp, focused people that write good code that doesn't need as much testing...COMPANY X has three testers for every programmer" (ibid). The reduced work hours help people to balance work and family commitments. Employees don't have to give up their careers if they want to see their children — as a result, more

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than half of SAS managers are women. SAS has an on-site medical facility with an average waiting time of five minutes. The company even helps with housing: it sells some of the land it owns to employees at discount prices so they can build homes. Some observers describe the SAS campus as akin to a giant plantation (Cappelli, 2002).

SAS Institute is a successful company, and its success could be explained largely by its values and the management practices that follow from these values. SAS shows that even in an era of relentless pressure, a company can differentiate itself from the competition and succeed just by being nice to its people. Is it an anachronism or an enterprise model for the twenty-first century?

SAS Institute operates in an industry with relatively high profit margins, but companies in markets with much slimmer margins can also create a people-centred climate for their employees, as our next case shows.