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Doing well by being rather nice

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SAS

**Jim Goodnight of SAS is reaping the benefits of treating his employees well**

THE ritual of handing out free M&Ms every Wednesday began accidentally, when an assistant collecting supplies accepted a big bag of the chocolate sweets as a substitute from a local grocer who had run short of change. Yet, recalls Jim Goodnight, the co-founder and boss of SAS, probably the world's biggest privately owned software-maker, the M&Ms have come to symbolise the famously employee-friendly culture that he has cultivated at his firm—a culture that seems more valuable with each passing day.

Every aspect of life on the large, leafy SAS campus in Cary, North Carolina, is designed to bring the best out of employees by treating them well. Most SAS employees have their own offices, for example, with the exception of one sales team which wanted to be open-plan, though Mr Goodnight does not expect that experiment to last for long. "You are so much more productive in your own office than when you are being distracted by the people either side," he says—a belief formed when he worked in an open office on the *Apollo* space project. Offices mean bare walls to fill, so he started to buy art to adorn them; the SAS campus now boasts 5,000 pieces. It also has plenty of outdoor sculpture.

Mr Goodnight co-founded SAS (it rhymes with "lass") in 1976 on the campus of North Carolina State University, where he was a faculty member, and where he hated having to pay every time he wanted a cup of coffee. So on the SAS campus, snacks are free and the cafés are subsidised. When Google's human-resources people visited SAS to get ideas for the Googleplex, they found much worth copying—though the internet giant has gone one step further with food, which is free to staff. Mr Goodnight considers that unwise, for tax reasons: "I keep telling Larry and Sergey you shouldn't give away food—the IRS will come in."

The SAS campus also offers magnificent sports facilities, subsidised child-care and early schooling, and the jewel in the crown, its own primary health-care centre, free to staff. The latter is increasingly being studied by other firms as they struggle to contain the growth of health-care

costs (though few firms have the luxury of a large campus on which to build such a facility). SAS estimates that this has reduced its health bills by around \$2.5m a year, about one-third of what it would have to pay in the market. It also has a long-term "wellness" programme, supported by two nutritionists and a "lifestyle education" scheme, which is expected to yield further cost savings. Already, the average SAS worker is off sick for only 2.5 days a year.

The only popular employee benefit that SAS does not offer is a stock-option package, usually mandatory in the software industry. That is because it is a privately owned company. It flirted with going public during the dotcom bubble, but decided against the idea—a decision that Mr Goodnight does not regret in the slightest. "We don't have to deal with Sarbanes-Oxley or minority shareholders suing us every time we turn around, or 25-year-old Wall Street analysts telling us how to run our business," he says enthusiastically. "There are lots of advantages."

Not surprisingly, employees tend to stick around, which means SAS has to be careful whom it recruits and severe in dealing with mistakes: a philosophy that Mr Goodnight calls "Hire hard, manage open, fire hard." The tall Southerner may be soft-spoken, but he is no softy. The purpose of treating his employees well is to succeed in business. The average rate of staff turnover at SAS is around 4% a year, compared with around 20% in the software industry as a whole. A few years ago a business-school professor calculated that this alone saved SAS \$85m a year in recruitment and training costs.

Mr Goodnight points out that it is not just the benefits that keep people at SAS—"it's the challenge of the work". SAS is a leader in the field of "business intelligence", which helps companies use data to understand their own businesses. It has continually increased its annual revenue, to around \$1.9 billion in 2006, has always been profitable and has never borrowed a penny. Its success has made Mr Goodnight, now 64, the richest man in North Carolina, with a net worth of around \$9 billion. SAS's products are used to perform analysis in data-intensive industries such as insurance, health care, banking and retailing. As other software has become increasingly commoditised, business intelligence has become a hot field. It has attracted the attention of giants such as SAP and IBM, both of which have recently acquired business-intelligence firms. (SAP bought Business Objects for \$7 billion, and IBM paid \$5 billion for Cognos.)

Keeping things interesting

SAS has made acquisitions, too, but more cheaply and only to add to its in-house expertise. At the start of this decade Mr Goodnight adopted a strategy of producing "vertical" software to solve particular problems across entire industries, such as banking (fraud detection, money laundering) or retailing (which products to put where, when to restock and with what). His goal is to remain in the more interesting, higher value-added parts of the software business—not least, presumably, to prevent his employees from getting bored.

The philanthropic Mr Goodnight is also interested in working out how to apply computers in education, through the school he has built next to the campus. "This is the most technology-savvy generation of children we have ever had, yet when they go to school, they have to leave this technology behind and watch a teacher at the blackboard," he says. Not at the Cary Academy, however, where each pupil has a tablet computer. "They love it—it is the way ahead," says Mr Goodnight, who will no doubt end up adding many of those "savvy" pupils to his workforce. Provided, that is, that the industry's big beasts do not get the better of him. His philosophy of "managing for creativity", Mr Goodnight reckons, will keep SAS in front. But the real test for his approach will come if the going gets tough.