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The Quest for the Entrepreneurial Spirit

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C. William Pollard

I have entitled my talk, "The Quest for the Entrepreneurial Spirit." Entrepreneurship or the ability to innovate is not just a personality trait or the gift of a few unique people. It is, I believe, something that can be both a practice and a discipline. As Peter Drucker said, "Anyone who can face up to the need for change to support growth can learn to be an entrepreneur".

The entrepreneur, however, must be willing to assume the risk of failure in seeking to achieve a result that will bring a new dimension of performance and value. In the

marketplace the ultimate test of value is whether there are customers who are willing to pay for what has been created.

Entrepreneurship within an organization can be either nurtured or inhibited based upon the leadership of the firm. It is up to the leader to unlock the potential using a framework that provides elbow room for mistakes, but demands results. The innovative process can be both artistic and scientific but, in the end, there always must be performance!

An open entrepreneurial spirit among the people of the firm brings the needed vitality and flexibility for the ongoing

growth of the firm.

This is not to underestimate, however, the natural impediment of size in fostering and nourishing the entrepreneurial spirit. The systems that we have designed in big firms for uniformity sometimes discourage creativity. Layers of management, often thought necessary for orderly review and direction, sometimes stifle and limit rapid and flexible response. Commitment authority standards intended for reasonable control often become bureaucratic and in some cases debilitating. Governance of a large firm with its senior management and board review can become out of touch and dysfunctional for the free spirit of an

entrepreneur.

ServiceMaster was a far more focused environment when we were small. We did not have the complexity of multiple services and multiple geographical locations that later developed in our business. There was no question about the fact that the people making the decisions were close to the customers and had their own money at risk. In the early years the majority of our business involved carpet and furniture cleaning with a network of franchises. When I retired this was less than 5 percent of our business. Our business had grown in size and complexity serving over 10 million customers with multiple service lines and operating

in 45 foreign countries.

There was strength in this diversity. We were far less vulnerable and susceptible to any one market cycle or the economic condition of any one group or type of customer. But how does one maintain the entrepreneurial spirit in an environment of multiple services, 200,000 service providers located across the U.S. and in 45 countries.

The law of entropy is at work in every organization of size. Vitality, focus, innovativeness and the entrepreneurial spirit tend to naturally deteriorate with each new major increment of growth.

Too many organizations today are crippled by this cancer of bureaucracy and expanding midriff with people caught up in the activities of the layers of management, but not the results for the customer, defending the status quo, preserving a title or position, maintaining employment, but not making a decision to serve and create worth for the firm. There can become too many wealth dissipaters and not enough wealth generators.

This debilitating indifference curve that organizations by their very nature often foster and encourage must be constantly redefined so that people are enabled and

empowered to succeed in serving. It is the leader who must intercept these natural forces of entropy if people are going to innovate and improve as they become owners of the results. It is the leader's responsibility to provide the environment for the entrepreneurial spirit to flourish and bring the advantage of size and discipline to the creativity of the new.

Now all this sounds good, but how does it really work?
Let me share with you some lessons from my experience in ServiceMaster.

In my first year as President of ServiceMaster, I learned

an important lesson from my colleagues on the need for the leader to listen and then provide the opportunity for people to create the new.

The bulk of our business in at that time came from providing supportive management to health care institutions. Growth was beginning to slow in this major segment, and we knew that we needed to develop new markets. Our planning process was in place, but we had not yet decided on what new strategic market direction we should take.

Rich Williams, then a division manager in our health

care business in Pennsylvania, and his boss, Stew Stambaugh, developed an idea (quite apart from the corporate planning process) to expand our plant operations and cleaning services to schools--K through 12 and colleges and universities. In fact, the idea to do so first came from one of our health care customers who also served on a local school board. He had requested Rich to make a proposal to the school district to provide the same type of quality and results that we were providing in health care.

As these line officers came back to "corporate" with this new idea, they did not receive much encouragement. We were too busy with our own planning. In fact, they were

directed by me and others to get back to their job -- to stick to their knitting -- to continue to develop the health care market we had before us -- to let us get on with the strategic planning process. We had determined that the education market was simply not our business or niche. Profit margins could never be as high as in the health care market, because there was not the same need or demand for intensity of service.

Although they duly followed our directives, they had grown up in an environment which encouraged them to continue to press new ideas and not give up on the process of selling their bosses on something that was good for the

firm.

They were owners of the firm as was all of our employees. The next time around, Rich made a proposal that we could not turn down. He offered to put his entire incentive compensation at risk if at the end of one year he couldn't sell and start at least four school districts, with all of them running on a profitable basis by year end. He asked to form his own team, separate from the health care team. He would assume the responsibility of developing the initial training materials to focus on the needs of the education customer, and he wanted my personal support and endorsement.

He got it and within four years we were serving over five hundred colleges, universities and school districts with an annualized revenue in excess of \$600 million. It was a great example in our company of what can happen when the entrepreneurial spirit is encouraged. In the process we discovered some of what I believe are the essential elements of the entrepreneurial spirit within the firm. We had a champion for the idea that had ownership in the results and was at personal risk. We separated the entrepreneurial activity from being crushed by the reporting and performance requirements of the big wheel of health care. We had sponsorship and involvement of top

management. We had a clear target for measurable results and accountability.

But not every idea is a good idea. Just a few years later we had the painful experience of shutting down an entrepreneurial initiative that failed. The business involved a heavy-duty industrial cleaning process, and we had decided to use the franchising method to develop our channels of distribution. We had organized the business as a separate, nonconsolidated subsidiary with equity ownership participation from those in charge. We had a champion, we had sponsorship from top management, and we had defined targets for expected results -- but we failed.

We not only had to shut it down but also take a significant write-off in the process. We had failed to understand the capital requirement for growth and the difficulty of developing a channel of sale and distribution to the customer. It's always hard for a successful organization to admit failure.

One was a success, the other a failure. What made the difference? The entrepreneurial spirit? No. The opportunity to express the entrepreneurial spirit? No. The desire and motivation of the people involved? No. The difference was simply that one was a good idea with market acceptance and one was not.

When the entrepreneurial spirit is working in an organization, the customer, not the size or other limits of organization, will become the final litmus test.

I'm reminded of a visit I had several years ago with one of our investors, Warren Buffett, during which we discussed our various business units including our expectations of growth rates. One of our units was not growing very fast and I was pressing the leadership of this unit to look at higher growth rates. He discouraged this and said, "Bill, sometimes it's not how hard you row the boat; it's how fast the stream is moving." Innovation in a fast-moving stream

has often a much better opportunity for success than innovation that must always paddle upstream.

These are only two of numerous examples of the entrepreneurial spirit working within ServiceMaster.

-- Review the work of Ken Hooten.

The lessons we learned as we sought to encourage and foster the entrepreneurial spirit included:

(1) The potential for new always requires testing and piloting. Successful new businesses are rarely developed on the drawing board or by a market analysis or focus study groups. If a thing is worth doing, it is worth doing poorly to

begin with. In other words, get started. Get your hands in the bucket. Understanding the theory and practical application is important in every new venture to get it off the drawing board, but don't wait too long before you get hands-on experience and start serving the first few customers. Too many times ideas are studied and analyzed until they are suffocated.

(2) The entrepreneurs must have elbow room for mistakes and be accountable and at risk for the results. No firm can afford entrepreneurial bystanders. The involvement of innovating and creating must also carry some of the risks of failure as well as the reward for success.

It will not fit the standard compensation patterns of the firm, and unique and different ownership methods may have to be considered and implemented. This has been one of our strong points at ServiceMaster, where we have developed a variety of different ownership plans that not only cover the performance of the company as a whole, but also individual units and in some cases individual projects.

(3) There must be an organizational structure that separates the entrepreneurial initiative from the main business and protects the new venture from the crushing big wheel of the operations of the firm. New ventures and new businesses don't start with a regular monthly or

quarterly track record. No matter how much thought is given to the business plan, there are always variations that are not on the mark. However, the expected results over a longer period of time must be established at the front end of the venture or the ship will be rudderless.

(4) There must be supportive senior leadership that is ready to serve and listen, but also have the discipline to bury the dead. Not every idea will work; not every innovation will produce. It is extremely hard for the successful firm to give up or recognize failure and bury an idea. But in Peter Drucker's own words, "The corpse doesn't smell any better the longer you keep it around."

Leadership does make a difference. It can provide the glue between the science and the art of developing and encouraging the entrepreneurial spirit within the firm. The leader creates the environment. Innovation for us starts with the basic premise that every person has been created in the image of God with value, worth and dignity and with the potential to create as well as to produce.

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