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THE QUEST FOR THE
ENTREPRENEURIAL SPIRIT

CLAREMONT COLLEGE ALUMNI DAY
CLAREMONT, CA
MARCH 5, 1994

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THE SERVICEMASTER COMPANY
DOWNERS GROVE, ILLINOIS

I have entitled my talk, "The Quest For the Entrepreneurial Spirit." As I do so, I recognize that entrepreneurship or innovativeness is not just a personality trait or the gift of a few unique people. It is, I believe, as Peter has stated in his classic work on the subject, something that can be managed, that can be both a practice and a discipline, or to put it in his own words, "Anyone who can face up to decision-making can learn to be an entrepreneur and to behave entrepreneurially."

But I also believe it has its own spirit, charisma, and tone, if you will, that can be either nurtured or inhibited based not just on the management of the firm, but more importantly upon its leadership. Peter defines innovation as "change which creates a new dimension of performance." The innovative process can be both artistic and scientific but, in the end, there must be performance!

The potential to create is there within the people of every organization. It is up to the leader to unlock this potential within a framework that provides elbow room for mistakes, but demands results.

It is the entrepreneurial spirit among the many, not just the few gamblers or risk takers, that brings the vitality and flexibility needed for the ongoing growth of the firm.

Two distinguished individuals living more than a 150 years apart had this to say about the creativity of America: The first from an early 19th century viewpoint stated, "What astonishes me about the United States is not so much the marvelous grandeur of some of its undertakings as the innumerable multitude of its small ones," (Alex DeToqueville, 1835). The second from the late 20th century, in fact as recently as 1993 said, "Size is no longer the trump card it once was in today's brutally competitive world. My goal is to get the small company's soul and small company's speed inside our big company," (Jack Welch, General Electric, 1993).

Is the message that small is beautiful? Is the innovation and creativity that we often associate with entrepreneurship inconsistent with size? Don, Phil and I have spent most of our adult lives seeking to lead and grow our companies from the small, insignificant, highly vulnerable firms they once were just fifteen to twenty years ago, to the size, market dominance, and leadership that they have today. Although ServiceMaster is the baby of the group with just under \$4 billion in customer-level revenue, we employ or manage over 200,000 people and have maintained a 20-plus percent compounded growth rate over the last twenty years. This puts us just about forty times larger than we were in 1973. But for what? Are we now at the point where we lose the trump card? Are we heading for a revolution of the reengineering or restructuring of a GE or

IBM? Or is it possible to marry the advantage of size with the vitality of a continuing entrepreneurial spirit?

The answer, I believe, is not just in creating many small companies under the umbrella of one big company. For the most part Wal-Mart, Waste Management and ServiceMaster have built their businesses with a penchant for standard systems providing uniform results as we deliver our services in many different locations under many different types of circumstances. In fact, the customer is increasingly demanding the efficiency and effectiveness of a seamless organization. The customer is not interested in a random, variable, autonomous result produced by a multitude of entrepreneurs each going in their own direction under the same trademark.

Size has provided each of our firms a level of financial stability that was not there when they were small. Our employees now have full benefit plans. We have top credit ratings, strong balance sheets, track records of consistent growth in dividends for our shareholders. We no longer ask our senior officers to pledge their personal assets to meet the payroll. The depth of our financial strengths is a far cry from where it was when we started with that flare and excitement of the entrepreneurial spirit.

Those who suggest size as a criterion for innovation often cite examples of the innovation and creativity of small companies and statistics of how many jobs are being created by these small companies as compared with the downsizing occurring in large companies. But what we don't hear so often is the rate of small company failures, the loss of employment and financial resources resulting from small company dissolutions. Over sixty percent of the small businesses started this year will be gone within ten years. Our balance sheets today can survive a major restructuring charge, but what small company can experience such a charge? They don't downsize; they simply die. The dislocating trauma of unemployment is not limited to the large firm; in fact, it is occurring far more often in the small, so called entrepreneurial firm.

Size then should not be a barrier or the insurmountable problem. Instead, I think it is an opportunity.

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

We were far more focused when we were small. We did not have the complexity of multiple services and multiple geographical locations that we have today. 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. Twenty years ago the majority of our business involved carpet and furniture cleaning and a network of franchises. Today this is less than 5 percent of our business, and our business has grown in size and complexity.

There is strength in this diversity. We are 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 spirit and focus in an environment of multiple services, 200,000 service providers located across the U.S. and in 24 countries. The law of entropy is at work in our organization as it is in any 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 the position, maintaining employment, but not making a decision to serve and create worth for the firm. There are too many wealth dissipators 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. The leader must provide a climate that allows elbow room for mistakes but insists on accountability for results. It is the leader who provides the environment for the entrepreneurial spirit within the large organization and brings 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 our 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 the unexpected!

The bulk of our business in 1981 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 strategic market direction, nor had we reviewed the issues with our board.

Rich Williams, then a division manager 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 first came from one of our health care customers who also served on a local school board and 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 hospitals.

As these line officers came back to "corporate" with this new idea, they did not receive encouragement. We were too busy with our own planning. In fact, they were directed by me and others to get back to the job that was before them -- to stick to their knitting -- to continue to develop the health care market we had before us -- to let us get on with this strategic planning process. 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 their ideas and not give up on the process of selling their bosses on something that was good for the organization. The next time around, Rich made a proposal that we could not turn down. He offered to put his entire annual 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. He asked to form his own team, separate from the health care division. 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 not only accomplished his objectives, but today we are serving over five hundred colleges, universities and school districts with an annualized revenue in excess of \$600 million, and it has become one of our major sources of business growth. It is a great example in our company of the entrepreneurial spirit. It even sounds like Rich read Peter's book, but it wasn't published yet, Peter. We simply muddled along in the process and discovered some of what I believe are the essential elements of the entrepreneurial spirit in the firm. We had a champion for the idea that had ownership in the results and was at personal risk. We separated the 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, and we had a clear target for measurable results and accountability.

But not every idea is a good idea. They don't all turn out that way. 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 bury this mistake but take a significant write-off in the process. It's very hard for a successful organization to admit failure. One should never underestimate the discipline necessary to shut something down.

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 market, 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. He simply 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 a much better opportunity for success than innovation that must always paddle upstream.

These are only two of numerous examples of the entrepreneurial spirit in ServiceMaster. It is alive and well and must be constantly encouraged and nurtured by leadership. Two recent examples that are occurring this year include an initiative to launch a new business opportunity in providing drycleaning for employees of our educational and health care customers. The new

technology of drycleaning equipment allows for a small and compact operation on the premises of the customer. It is perceived by our customer as an employee benefit and a business they do not want to manage. Will it be something of value for us in the future? I don't know. In fact, I can tell you more reasons why it won't today than it will. It needs to be nurtured and encouraged. The other is a relatively simple idea but with great potential. In our lawn care business we do much of our selling over the phone on a direct marketing basis. During the spring of the year we will be making over 15 million phone calls for 2 million "yes" decisions. We estimate, however, that of the 13 million "no" decisions, at least 5 million of those customers are buying fertilizer and weed control at the store and applying it themselves. One of our lawncare service representatives came up with the idea that this person could also be a customer of ours. We could sell them the fertilizer and weed control at a price lower than they could buy it at, including purchases from Wal-Mart, and they could have the convenience of delivery as our truck went by their house. Also, a certain percentage of those 5 million potential customers would get tired of doing it themselves, and we would have an opportunity to serve them because we had established an initial relationship. I think it is a natural, and I'm anxious to see how much additional volume it will create this year. A simple but powerful and innovative idea coming from one of our lawn care technicians.

There are some lessons that we have learned as we have sought to encourage and foster the entrepreneurial spirit. They include:

(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 group. If the 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, 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, but also 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 will 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 just 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, but the expected results over a 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

with a 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 can 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. Innovate -- for us this starts with our basic premise that every person has been created in the image of God with value, worth and dignity -- with the potential to create as well as produce.

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