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A FAIR DISTRIBUTION OF RESULTS

MENNONITE ECONOMIC DEVELOPMENT ASSOCIATION (MEDA)

HOLIDAY INN, KING OF PRUSSIA, PENNSYLVANIA

FRIDAY, NOVEMBER 3, 1995

C. WILLIAM POLLARD, CHAIRMAN
THE SERVICEMASTER COMPANY
DOWNERS GROVE, ILLINOIS

Introduction

Your convention theme raises some difficult questions. What is a fair or just distribution of results? Or as Ben put it to me as I was seeking some advice in preparing for this talk, how much is too much profit?

Is there an answer to this question? My attempt at responding comes from the perspective of someone who is seeking to lead a public company listed on the New York Stock Exchange with over 50,000 share owners, each with an interest in the profits we earn. And also someone who is seeking to serve the Lord I love and who believes that He not only owns the cattle of a thousand hills, but also owns all I have--my talents and my financial resources. My role is that of a steward, a trustee, to hold and invest these resources for God's purposes and His Kingdom.

How does this influence my decisions as the leader of a public company that makes a lot of money?

Now we all know that economics 101 says that the objective of the business firm is to maximize profits. This is often called the theory of the firm and provides an explanation of how decisions made by many different and independent firms collectively satisfy the needs and wants of consumers. One economist has described this "free market" process as the equivalent of floating on a sea of market relations like lumps in buttermilk.

I am not sure you have ever thought of your business firm as a lump or the markets you serve as mushy buttermilk. But it is a fact that your markets and the needs and wants of your customers do change. The currents move, and your firm must go with the flow if you are to float and survive. But who makes up these floating lumps? It is not your headquarters building, your factory or even a well known brand name. It is people--people who are making conscious decisions about how they will work and who they will serve.

The theory of the firm suggest that maximizing profits provides a sufficient objective--yes, even motivation--for people to make the best decisions to work together to serve the customer. But is this right? Or is it just a fiction told and retold by the capitalist to soothe his conscience? Is business really just a game of manipulation that will accomplish a series of tasks for a profit with a gain going to a few at the top and with an atrophy by the soul of the person producing the results?

Should profit be an end goal or a means goal? Are the demands upon the firm to produce profits or results consistent with the development of the person? In a world of downsizing, reengineering or restructuring, where does the person fit? Can we expect the firm to have a consistent and positive influence upon who people are becoming, not only as managers and producers but as wives and husbands, mothers and fathers, friends and contributors to the community? Or is the work environment only a place where people earn money to survive and try to enjoy the little bit of life that is left over? Is profit to be a measure of human worth?

Some years ago, I purchased a Hummel Christmas plate for my wife Judy. The price was \$21.95. It was the first Christmas plate produced by the famous German firm, and the store clerk assured me it would increase in value. Recently, Judy and I attended an antique auction and were surprised to see a Hummel Christmas plate just like ours being sold for more than \$1,000.

What was it about the plate that caused this remarkable growth in value? Its substance had not changed. It was not more beautiful. It had not changed size. But it was in greater demand. The original mold had been broken. Now there was only a limited number of plates, with no opportunity for replacement. All of these factors had contributed to an increased value.

There is only one mold per person and no opportunity for replacement. Yet does this count for value in our normal way of thinking as we build the business firm and the people within the firm? Publilius Syrus, a famous Roman writer in the first century, concluded, "A thing is worth what someone will pay for it." For him, this was not just a simple truism. It was reality. He had been a slave, brought from Antioch to Rome, where he was purchased by a wealthy philanthropist, who promptly set him free. Perhaps he knew the large sum of money his benefactor had paid for him. "Am I worth that much?" he might have asked. What is any human being worth? A few dollars, which is the combined value of one's chemical substance? The price of a slave? Or a special

compensation package including a sign-on bonus for a star ball player or a highly skilled professional manager?

Few would be satisfied with any one of these answers. You will never be able to pay people what they are really worth, but sometimes we act that way. We pay people wages and incentives, and then make a monetary standard the only measure of their worth. Instead we should consider investing in people. Investing our profits, yes, but also investing our time in their training and development. Our companies have a soul and it is represented by the people who make them up.

The history of the industrial revolution and the development of our modern free market economy confirms that manipulation has occurred and still does occur. We need only to pick up a newspaper to be reminded that this is not just a problem of the past. *Fortune* magazine recently described the soulless corporation as suffering from an enemy within and cited Henry Ford's quote as descriptive of the attitude of some top managers today: "Why is it that I always get the whole person, when what I really want is a pair of hands?" People are taken advantage of at work. They do need legislation to protect them (maybe not all the legislation we have today, but that could be the subject of another book). And they are forced from time to time to organize and negotiate their terms of employment with management.

But is a soulless, adversarial, or work-rights environment the only model? Can there be a more effective model of the firm at work? The firm does have a soul. The people of the firm are at its heart. They are unique--one of a kind--not just a cost of doing business or the expense of a payroll.

I believe that the firm can do more than maximize profits or provide paychecks, because the firm has a soul. The track record of my firm, ServiceMaster, confirms that it does happen and yes, when it does happen, there is also the potential for profits, growth in market value, and extraordinary service to the customer.

We are the firm that has experienced rapid growth, doubling in size every three-and-a-half years for over 20 years with an average return on equity of over 50 percent. Our customer level revenues are now in excess of \$4.5 billion, and our services are provided in the United States, Canada and 25 foreign countries.

Yes, I live in one of those pressure cooker environments where revenue and profits must be reported quarter by quarter and where revenue and profits have always been up every quarter for the past 24 years. The shareholders that my partner Carlos Cantu and I

are responsible to as leaders vote every day on our leadership. They have the choice to buy, hold, or sell.

But the measure of our success should not be limited to the calculation of the total return value of our shares or the profit we produce. The answer must come from the more than 200,000 people who are making it happen every day as they serve others. They are not listed on our balance sheet, but each one has a special value and worth.

Much of our business may be classified as routine and mundane. We do those things such as clean toilets and floors, maintain boilers and air handling units, serve food, kill bugs, care for lawns and landscapes, clean carpets, provide maid service, and repair home appliances. The task before us is to train and motivate people to serve so that they will do a more effective job, be more productive in their work, and yes even be better people. For us, this is both a management and a leadership challenge. It is more than a job or a means to earn a living. It is in fact our way of life or our mission.

If you would visit the headquarters of our firm, you would find a low, long, tan-colored building located just west of the city of Chicago. When you walk into the large, two-story lobby, on your right is a curving marble wall, 90 feet long and 18 feet tall. Carved in the stone of that wall in letters 8 feet high are four statements that constitute our objectives: To Honor God In All We Do, To Help People Develop, To Pursue Excellence, and To Grow Profitably. If you were to tour the rest of the building, you would notice that nearly all of the work spaces are moveable. Most of the walls do not reach to the ceiling. Practically everything in the building is changeable and adaptable. Just like the marketplace we serve with its changing demands and opportunities. But the marble wall conveys a permanency that does not change. The principles carved in this stone are lasting. The first two objectives are end goals. The second two are means goals. As we seek to implement these objectives in the operations of our business, they provide for us a reference point for seeking to do that which is right and avoiding that which is wrong.

We do not use our first objective as a basis of exclusion. It is, in fact, the reason for the acceptance of the many differences that are among people and the recognition of the potential and worth of every individual.

It does not mean that everything will be done right. We experience our share of mistakes. But because of a stated standard and reason for that standard, we cannot hide our mistakes. They are flushed out in the open for correction and in some cases for forgiveness. Nor is it a standard that can be used as a simplistic reason for our financial success. It cannot be applied like some mathematical formula. It does, however, provide

a foundation and a reference point for action. It is a living set of principles that allows us to confront the difficulties and failures that are all part of life with the assurance that the starting point never changes and provides for us a reason and hope above it all.

In a diverse and pluralistic society, some may question whether our first objective belongs as part of a public company's purpose statement. But regardless of where a person is with respect to this objective, the principle that can be embraced by all is where it leads us and that is the dignity, worth and potential of every person. For us this is fundamental to the understanding of who we are and what we want in our business and why we invest in the training and development of our people .

The best way for me to tell you this story is through the words of others. I want to show you a video tonight, a special feature public TV news show that was aired about two years ago. They were investigating SVM and wanted to know if we were for real. It covers our success--but also some of our failures.

[Here show video.]

If we have made progress in breaking the cycle of failure, it is because of our commitment to people and our investment in their learning and development, not just as a production unit but as a whole people. For us this is an important part, a fair distribution of the results so produced?

How the firm compensates those who serve is an important part of that equation. In ServiceMaster, we pay based upon performance and promote based upon potential. We believe that those responsible for producing the profits should share in the profits and those who produce more should share more. It is an aggressive plan that supports our goal of making and beating budgets with a low tolerance if we miss our plan. For the past 20 years the incentives and profit sharing paid by ServiceMaster to its people have averaged 45 to 50 percent of our incremental growth in earnings. Our people have also shared in the ownership of the firm, and they now own more than 20% of the results which has a market value in excess of \$400 million dollars. Our profit sharing plan provides the primary vehicle for this ownership to occur.

But the leader of the business firm must not only determine and distribute a just results but he must also lead in the production of results or no distribution will ever be made. No enterprise can function to its capacity, unless they can rely upon the covenants and commitments of their leaders. This goes beyond the covenants usually contained in a legal document. It extends to the people who day to day are relying upon the leader for

their future. It is fulfilling the leader's campaign promises. It is the leader's obligation. Or, as some have described it, their posture of indebtedness.

One of the best ways I have found to communicate the extent of this obligation is to picture it as a debt, a liability if you will, on the balance sheet of every leader.

Several years ago I was visiting with one of our officers about a new leadership position he had received and the opportunity for him to acquire some ownership in ServiceMaster. It would mean that he would have to borrow a significant amount of money to purchase the stock. He was delighted with the promotion, but he was concerned and questioned the risk of the indebtedness for the purchase of the stock. I asked him to make up a simple T account balance sheet and reviewed with him his assets and liabilities.

The only indebtedness listed was the mortgage on his house. I then asked him about the indebtedness he ensued when he took the responsibility of leading this important unit of ServiceMaster which involved over 500 people. How did he list that on his personal balance sheet? How were the opportunities, jobs, families of these 500 people going to be affected by his leadership? Would there be more or fewer opportunities a year from now, two years from now? And would his leadership make the difference? How did he quantify this obligation? It was a responsibility and obligation of leadership as real as any indebtedness he had ever incurred. In fact, it was larger than what he would have had to borrow to purchase the ServiceMaster shares.

In our business profit is not an afterthought. It is an integral part of our mission. It is how we are measured by our owners. It provides the resources to grow and develop people.

Profit is not bad. Money is not evil nor does it have a dark side. It is amoral. It is a resource to be used and invested or wasted and discarded. Although Karl Marx concluded that profit was the equivalent of robbery and wealth creation always came at the expense of the worker, the state ownership and centrally planned economies that grew out of his view are now bankrupt--both economically and morally. He failed to recognize the importance of production as well as distribution, that wealth can be created, that free people can innovate and produce more--yes, even more profit, and that the people can join in the ownership of the profits they produce.

We make money at ServiceMaster! Our people have produced profits and created value and, as owners of the results, they have participated in the wealth they have created. They are celebrating work, productivity, and profit. But what does it profit a man if he gains the whole world but loses his own soul?

At one of our recent shareholders meetings, a shareholder, while commending us for our profit performance, made the following statement: "While I firmly support the right of an individual to his religious convictions and pursuits, I totally fail to appreciate the concept that ServiceMaster is, in fact, a vehicle for the work of God. The multiple references to this effect, in my opinion, do not belong in the annual business report. To interpret a service for profit (which is what ServiceMaster does) as the work of God is an incredible presumption. Furthermore, to make a profit is not a sin. I urge that next year's business report be confined to just that--business."

How would you answer this shareholder? What would you say in response to the question: What is there in common between God and profit?

I believe there is a link. Profit is a means in God's world to be used and invested, not an end to be worshipped and accumulated. Profit is a measurement of the effectiveness of our effort.

For us at ServiceMaster, the common link between God and profit is people--people who have been created in the image of God. People with a soul and spirit that can be nurtured and developed in the work environment. People who are immortal and who are either choosing or rejecting God. For those of us who know the way, the market place provides a wonderful opportunity to live our faith and not to bury our profits or talents but invest ourselves in others so souls will be won not lost for Christ.

* * *

11/27/95