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The Soul of the Firm as It Moves to the 21st Century

C. William Pollard

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"THE SOUL OF THE FIRM AS IT MOVES
TO THE 21ST CENTURY"
50TH ANNUAL IU BUSINESS CONFERENCE
INDIANAPOLIS, INDIANA
TUESDAY, MARCH 5, 1996

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

What will the firm of the 21st century look like? Will it be the shamrock organization described by Charles Handy in his book *The Age of Unreason*? Will it be the reengineered corporation described by Jack Welch? Or will it be the information-based organization with an orchestra of knowledge workers performing in a post-capitalist world as described by Peter Drucker?

We all know 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 many independent and different consumers. One economist has described this "free market" process as the equivalent of floating on a sea of market relations like lumps in buttermilk.

You may have never 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--are changing all the time. There are varied and different currents, and your firm must go with the flow if you are to float and survive. But what makes up these floating lumps? It is not some legal entity that we call a corporation or a business organization. It is people--people who are making conscious decisions about how and where they will work and who they will serve. People who are bombarded every day by the forces of change and who are yearning for a sense of direction--and stability.

The theory of the firm suggests 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? Is profit 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? Are people a resource or just a cost of doing business?

In a world of downsizing or restructuring, where does the person fit? Can we expect the firm of the future 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? Are the feelings and emotions of the person important as part of achieving the success of the firm? And by the way, where does leadership of the firm fit in? Is a leader responsible for the development of people as well as making money?

[Here give example of telephone answering machine]

Who are we? What do we want? What is the purpose of the firm? The firm of the future must do more than maximize profits or provide paychecks. In a world of accelerated change and choice, the firm has the potential to become the most stable institution of our society. It has a soul that must be nurtured. The track record of my firm, ServiceMaster, confirms that it can 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. Our customer level revenues are now in excess of \$4.5 billion, and our services are provided in the United States, Canada and 27 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 25 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 what I am suggesting here today is that the measure of our success cannot be limited to the calculation of a total return on the 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.

[Here describe Peter Drucker story and definition of business.]

You can't run a business without people. You can't be a healthy company without trained and motivated people. What is your business? What is my business? As we talk together today about what it takes to build a 21st century company, there is a common link among all of our organizations, and that link is people. There are people principles that are universal and also, by the way, cross-cultural. They apply to any organization of people working together, whether that organization is a business earning profit, a hospital serving patients, or a school educating students.

Much of our business may be classified as routine and mundane. We do such things 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. They become the basis for our single-minded focus on people as individuals, not just as a group or classification, and the value of diversity.

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 running a business with the assurance that our common starting point never changes.

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 you are 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 understanding the purpose of the firm.

So our concern is not just what we are doing in our work, but what we are becoming. Is the task as defined, the tools as designed, and the training as provided contributing to or detracting from the work and the worker? These questions force a self-energizing and correcting process that is never over and is the basis for our quest for continuous improvement in how we serve.

So business is not just a game of manipulation that accomplishes a series of tasks for a profit with the gain going to a few and with the atrophy of the soul of the person producing the results. People are not just economic animals or non-personal production units. Every person has their own fingerprint of personality and potential.

Only people--not machines--can respond to the unexpected and surprise the customer with extraordinary performance. Only people can serve. Only people can lead, only people can innovate and create.

Frankly, when you view the person as only a production unit, or something that can be defined solely in economic terms, motivational or even incentive schemes have a tendency to be mechanical and manipulative. In so doing, there is a drive to define a system that will idiot-proof the process which can in turn can make people feel like idiots.

Fortune magazine recently described the soulless company as suffering from an enemy within and cited Henry Ford's quote as descriptive, "Why is it that I always get the whole person when what I really want is just a pair of hands?" The soulless, adversarial or work rights environment should not be the model of the future.

How then do we unlock the potential of people and in the process find the soul of the firm?

It begins, as I have already suggested, with a clearly stated mission that extends beyond the means goal of making money and allows the firm to value each person as an individual with unique skills and talents and so to recognize the benefit and reality of diversity within the firm. It continues to include the notion of celebrating work, productivity, and profit; encouraging empowerment, ownership and accountability; and recognizing learning as a lifelong experience. It becomes effective in its implementation only as leadership demands of itself **service by example**.

Will the leader please stand up? Not the president, but the role model. Not the highest paid person in the firm, but the risk-taker. Not the person with the most perks, but the servant. Not the person who promotes himself, but the promoter of others. Not the administrator, but the initiator. Not the taker, but the giver. Not the talker, but the

listener. People want effective leadership, leadership they can trust, leadership that will nurture their soul.

Samuel Beckett and James Joyce were friends and confidantes. Although the writings of Joyce have received more fame and publicity, Beckett won the Nobel prize for literature in 1969. His essays, short stories, novels, plays and radio and television scripts are generally obscure and esoteric works stressing the absurdity and despair of life. His characters are typically engaged in meaningless habits to occupy their time but have no purpose or mission and accomplish nothing. As he spoke with unflinching honesty about the emptiness of life without purpose, he may well have been describing the modern day worker in an environment where everything around him is changing and where there is no effective leadership.

It was Socrates who stated that a person should first understand oneself as a means of making contributions to others. "Know thyself" was his advice. Aristotle counseled his followers that to use one's talents to the utmost, one must have discretion and direction. His advice was to "control thyself." But another great thinker changed history and the hearts of people with His unique approach to a meaningful life. "Give thyself" were the words spoken by Jesus. As an example to all of His disciples, He took a towel and a basin of water and washed the feet of His disciples. In so doing He taught that no leader is greater than the people he leads, and that even the humblest of tasks is worthy for a leader to do.

Does this example fit in today's world, 2000 years later? There is certainly no scarcity of feet to wash, and towels are always available. I suggest that the only limitation, if there is one, involves the ability of each of us as leaders to be on our hands and knees, to compromise our pride, and to be involved, and to have compassion for those we lead and those we serve. When we lead by serving, we are committed to be an example for others to follow, an initiator for change and growth, and an activist for the future.

A servant leader believes in the people he or she leads and is always ready to be surprised by their potential. A colleague of mine tells of an experience that has been a great reminder to me of this point. It is often the custom for firms to hand out service pins in recognition of years of service. As my friend was involved in such an event, he was surprised by the response of one of the recipients. The young man opened the box, took out the beautiful sterling silver tie tack, said thanks, and with a wide grin proudly put the service pin in his ear lobe, not on his lapel.

People are different, and we should never be too quick to judge potential by appearance or lifestyle. The firm at work is a place where diversity should be promoted. It is a leader's responsibility to set the tone; to learn to accept the differences of people and seek to provide an environment where different people can contribute as part of the whole and strengthen the group, achieve unity in diversity.

Servant leaders make themselves available. Their door is open. They are out and about talking and listening to people at all levels of the organization. They should always be willing to do whatever they ask of others. At our headquarters building in Downers Grove we have designed our executive offices as a reminder of this principle of listening, learning, and serving. Nobody works behind closed doors. Glass is everywhere confirming our desire to have an open office and open mind. No executive office captures an outside window. The view to the outside is available to all working in the office.

The servant leader must also be responsible for a fair distribution of the results. How the firm compensates those who serve is an important part of the 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, another important ingredient in motivation. Over 20 percent of ServiceMaster today is owned by our employees.

The servant leader must be committed. Not a bystander or simply a holder of position. She is there for the long term. No enterprise can function to its capacity, nor can its people expect a healthy organizational culture 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, job, 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. And so it is with a servant leader. A responsibility and obligation to people being served.

People, not machines, innovate. Drucker defines innovation as a "change which creates a new dimension of performance." Such change is essential to the life and vitality of the firm. How, then, does a leader foster, encourage, and yes, empower the people of the firm to initiate change that will create a new dimension of performance?

Empowerment in this context is not the freedom for everybody to do what they want to do. Nor is innovation the recognition and acceptance of every new idea. Innovation and empowerment go hand in hand. They can be managed. It is both an art and a science, but in the end there must be performance and results.

Too many large organizations today have been crippled by the cancer of bureaucracy and an expanding midriff of middle management. The structured organizations, often thought necessary for orderly review and direction, sometimes stifle and limit rapid and flexible response. Commitment authority standards that are intended for reasonable control often become bureaucratic, and in some cases, debilitating. A standard governance structure with top-heavy senior management and quarterly reviews by the board of directors can become out of touch and dysfunctional in a fast-changing, entrepreneurial marketplace.

The failure to recognize and respond to these basic questions is the reason why so many firms lose innovation and their life and vitality as they grow in size. Jack Welch, chairman and CEO of General Electric, was recently quoted as saying, "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 the small company's speed inside our big company."

We were far more focused in ServiceMaster 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 and innovations were close to the customer and also had their own money at risk. Thirty years ago, the majority of our business involved carpet and furniture cleaning provided through a network of franchisees. Today this segment of our business is less than five percent of the total. We have added many new services in many different markets and locations.

We have grown from a company that was small and insignificant to one which has market dominance and leadership.

There is strength in our diversity and size. We are far less vulnerable and susceptible to any one market cycle or the economic conditions of any one group or type of customer. We have a level of financial stability today that was not there when we were small. Our employees have full benefit plans. We have top credit ratings, a strong balance sheet, and a track record of consistent growth in dividends for our shareholders. We no longer ask our senior officers to pledge their personal assets to meet the payroll. But how does one maintain a spirit of innovation in this environment? The law of entropy is at work in our organization as it is in any organization of size. Vitality, focus, innovation, and the entrepreneurial spirit tend to naturally deteriorate with each new major increment of growth.

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--for innovation.

The bulk of our business in 1981 came from providing supportive management services to health care institutions. Growth was beginning to slow in this major segment, and we knew that we needed to develop new services and markets. Our planning process was in place, but we had not yet decided on a change or addition of a strategic new market direction; nor had we completed a review of alternatives with our board of directors.

Rich Williams, one of our managers 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 school districts, 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 requested Rich to make a proposal to the school district for ServiceMaster to provide the same type of quality and results that we were providing in his hospital. As these line managers came back to "corporate" with this new

idea, they did not receive much encouragement. We were too busy with our own planning, listening to ourselves and not the customer. In fact, these managers 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 that we had before us, and to let us at corporate get on with the strategic planning process. The education market was just not our business 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 services. We thought we had the answers.

Although Rich and Stew dutifully 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 the customer needed. Their training, their compensation, and their opportunity to participate in the stock ownership of the company all contributed to their willingness to take a risk and press for change.

The next time around, Rich made a proposal that we at corporate 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 for permission to form his own team, separate and distinct from the health care division. He would assume the responsibility of developing the initial training material to focus on the needs of the education customer, and he wanted my personal support and endorsement.

Stew and Rich not only accomplished their objectives, but today we are serving over 400 colleges, universities, and school districts with an annualized revenue in excess of \$600 million. This market has become one of the major sources of our business growth. It is a great example in our company of empowerment and innovation. We had a champion for the new idea, and he took ownership in the results, assuming personal risk for performance. 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 performance and accountability.

But every idea is not a good idea. They don't all turn out that way. Just a few years earlier, we had the painful experience of shutting down an innovative idea 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 unit with equity ownership. We had a champion. We had sponsorship from the top management. We had defined targets for expected results. But we failed. The market provided the final answer. Ego, management or money couldn't keep a dead horse alive. We not only had to bury this mistake but take a significant write-off in the process. It is very hard for a successful organization to admit failure. One should never underestimate the discipline necessary to shut something down or bury the dead. Remember the corpse doesn't smell any better the longer you keep it around.

So what is it that makes a healthy company? Something we have in all of our businesses - people. People who want dignity and pride of accomplishment in what they do, and who deserve regular and periodic recognition for a job well done. People who are looking for leadership--and growth--not just in what they do but in who they are becoming.

Several years ago I was traveling in what was then the Soviet Union. I had been asked to give several talks on the service business and our company objectives. While I was in the city then called Leningrad, now renamed St. Petersburg, I met Olga. She had the job of mopping the lobby floor in a large hotel which, at that time, was occupied mostly by people from the West. I took an interest in her and her task. I engaged her in conversation through the help of an interpreter and noted the tools she had to do her work. Olga had been given a T-frame for a mop, a filthy rag, and a bucket of dirty water to do her job. She really wasn't cleaning the floor. She was just moving dirt from one section to another. The reality of Olga's task was to do the least amount of motions in the

greatest amount of time until the day was over. Olga was not proud of what she was doing. She had no dignity in her work. She was a long way from owning the result.

I knew from our brief conversation that there was a great unlocked potential in Olga. I am sure you could have eaten off the floor in her two-room apartment--but work was something different. No one had taken the time to teach or equip Olga. No one had taken the time to care about her as a person. She was lost in a system that did not care. Work was just a job that had to be done. She was the object of work, not the subject.

I contrast the time spent with Olga with an experience I had just a few days later while visiting a hospital we serve in London, England. As I was introduced to one of the housekeepers, Kamala, as the chairman of ServiceMaster, she put her arms around me, gave me a big hug, and thanked me for the training and tools she had received to do her job. She then showed me all that she had accomplished in cleaning patients' rooms, providing a detailed before-and-after ServiceMaster description. She was proud of her work. She had bought into the result because someone had cared enough to show her the way and recognize her when the task was done. She was looking forward to the next accomplishment. She was thankful.

What was the difference between these two people? Yes, one was born in Moscow and the other in New Delhi, and their race, language, and nationalities were different. But, their basic tasks were the same. They both had to work for a living. They both had modest and limited financial resources. One was very proud of what she was doing. Her work had affected her view of herself and others. The other was not, and had a limited view of her potential and worth.

The difference, I suggest, has something to do with how they were treated and cared for in the work environment. In one case, the mission of the firm involved the development of the person, recognizing their dignity and worth. In the other case, the objective was to provide activity and call it work. The healthy company of the future begins with people, and you find people everywhere. The job now and in the 21st century is one of leadership and direction.

As we have implemented the mission of our firm, people have learned to build upon the individual strengths and cover individual weaknesses, like shingles on a roof. Just as the shingles on the roof of my house overlap and provide coverage and strength, so also can the shingles of people working together, with their individual gifts and talents, provide coverage and strength for the firm. In the process we keep redefining service and value to our customers.

The objectives of our firm are not just carved in stone on the lobby wall. You can see them working every day in the lives of our people. We do not worship these objectives, but use and apply them so that there is evidence of a vital, living soul at work in the soul of each person joining together with others to become The Soul of the Firm.

Unless the day to day implementation of our objectives adds up to more and more customers being served, the market has not placed a value on our mission. It is the customer who must initially and then continually experience value, or it is just a theory, a philosophy, or a plaque that hangs on the wall. The reality of our soul is in fact being tested and proved in an environment that thrives on results. This is the grand experiment of ServiceMaster.

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