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The Theory of the Firm

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INTERNATIONAL LEADERSHIP CONFERENCE
BIRMINGHAM, ENGLAND
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'THE THEORY OF THE FIRM'

C. William Pollard, Chairman
The ServiceMaster Company

(Draw the charts)

How does an economy work?

Forces: Macro - Micro

Examples of Macro

Inflation/interest rates

Environmental

Minimum wage or employment

Government - equalize fair distribution, more inefficient, cost burden

Private sector/public sector

Government a major force.

How major - difference - Europe/Soviet/USA/Pacific Rim

But who decides what goods to produce, what services to sell? How are those decisions made? Consumers vote? Government dictate?

Government equalize fair distribution. More inefficient. Cost burden. Freedom to fail. Safety nets.

What is motivating force? Satisfy customers - needs or wants And making money
Profit motive - very important

Example - sell or start business to sell and serve - without profit?

Example of how we first got into health care business:

Identify need or want (Marion - non-customer)

Design service to fit customer

Project performance started - Wes jack of all trades

Some people fail. Some succeed. Who provides the safety net, i.e. employment?

BIG PUBLIC POLICY DEBATE

Not just make profits but maximize profits. That is when the “best” decisions will be made for the economy. What should be produced? What should be consumed? Maximize employment opportunities. Greatest innovation. Greatest wealth or value creation.

This is the theory of the firm. It is at the heart of the “FREE ENTERPRISE SYSTEM.”
Do you believe it?

Where do people fit in?

Warren Buffet story. Buy and then sell. \$50 million.

Six months later he told me why he sold. Too much debt for acquisitions and investing in companies that could maximize profit. Least amount of labor (people problem)

Coca Cola

Did he make a good decision?

So what happens when a firm maximizes profit?

Find a winner and ride it. Do the same thing better and better. When do you get to a point of maximum profitability? How do you measure profit? Profit margin.

As a firm seeks to maximize profit, there is the force of entropy. Unless you introduce a positive new force of change. What has gone up will go down.

Several ways to graph. (sigmoid curve)

Where are your business units on this curve?

Gordon - 5% to 10%

Helmut - How much do you let this go?

Peter - pest, pest and renovation
Pest, preservation and product
Economies of scale - accelerated.
Consistency of growth - preservation

Don - Parts of your business. Past the curve. Exclusive territories. New service

Now when do you get to the point of maximizing profits? (You never know.)

SMIXX process. 90% health care.
50 M spread sheet

1980 - 1981

SMIXX 1981
95 health care 1983
1 billion goal Bob chief financial
1983 Beat the Budget Bonus

1986 price of stock

1985 - Shoe overhead for mix of business.

The only way you continue to maximize profits is change the curve by drawing a whole new curve.

We were drawing the curves but not coming on fast enough.
Education - B& I
But not fast enough

Show overhead of where we were as a firm. 1985

Two important lessons of mine. End of 1985 - 1986,

The firm and I as its leader:

1. I needed to learn how to measure my performance, not just count by activities or action.
2. The firm and I as its leader needed to listen to our non customers.

SMIXX-II - 1 Billion

1. Story of board member's comment. 1985 - board meeting
2. Two wage earner home. Small - Many more services

What followed - partnership
Terminix - acquisitions

Value 1987 - price per share
Bill not _____ 1990

Where are we now on the curve? Mix slides: 1985, 95, 96
What does the mix look like? Where is International? And where should it be?

Sir Gibbie - One word to change him. Did it come

But is this our business

Drucker's definition.

Where do people fit in?

Henry Ford - 25

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What is the theory? Where do people fit? Where does purpose and value fit? Social contract and book. Where does God fit?

Does what we believe affect how we run a business?

Is it important to task, who am I and what am I contributing?

Why is it important to tell the truth? Why is it important not to pay bribes? Why is it important to recognize the value and worth of every person? Not to be biased, preferential.

For me

Judeo-Christian.

My book on God language (page 19, 20) [read portion of book]

Hassan video - difference in faith.

Where is your starting point? Do you start with yourself or is there a higher moral authority? Solzysnetzen at Harvard, Worlds Split Apart.

Profit is a motivation. A measure - goal

Change is a reality. Learn to measure, not count
Learn to listen to the non customer.

But what is it all about? What is happening to you and the people you lead?

Story of Bob Brondyke.

Story of Ken Hansen.

Learn to serve. Learn to live your faith.

- 1 One word to characterize Sir Gibbie.
2. Was it natural? Is it learned behavior?
3. Respect, love, humility

What do you know about service?

When was the last time you served a customer?

When was the last time you served your people?

How do you handle the difficult situation, the difficult person?

When you sit down with a service worker, do you know what to say?

Do you value people on who they are and potential or upon their credentials - status?

The circle of service

Achieve - recognize - serve.

Leadership of a service business. No place for a phony. For me - service - caring for others. Does not come naturally. My faith has been the reason. The driving force. It has forced me to recognize my own inadequacies. Confidence that God will be my help. Has forgiven sin.

How do you bring it together?

Profit people

What does winning look like in ServiceMaster?

Leadership 134 - No place for phony

Mission 49 - People work for a cause.

Ownership 104 - People who buy into it

Growth 137 - Growth is not _____ an added +

Fair distribution of result. 18% SVM value.

40 to 50% of incremental projects

By the way, would Warren Buffet- 20%

SVM - _____ or in 30%

Show slide for 2000

Into 20 % of revenue - 8% of profit

Decisions are commitments to action. What do you believe it?

- a. How will your leadership be characterized?
- b. What is the mission of your and ---
- c. What is your common denominator?
- d. Where are your commitments and growth. Decisions are commitments to action

- a. Have you bought in the mission?
- b. Are you an owner of the result?
- c. Are you committed to grow it?
- d. What do you believe in? 3 to 5 years from now. How will your leadership be characterized?

C. S. Lewis quote, page 156

The story will be told in the changed lives of people. For me this has a learning and new dimension but an eternal decision.

2/14/97