

Introduction



Picture of Marion Wade - SERVICEMASTER

The ServiceMaster Limited Partnership merits study by students of business for two reasons. One is the company's impressive economic performance. Its ability to achieve high levels of productivity and quality in janitorial and related services has been noteworthy. Its large size and market share in its chosen industries attest to its competitive success. And, for the more narrow-minded financial analyst there is the company's amazing profit performance in the 1980s. Twice during that decade Fortune published a study of the most profitable service industry firms. In the 1984 study, ServiceMaster ranked first with a ten-year average annual return on stockholders' equity of 30.1 percent. In the 1989 study ServiceMaster ranked first with a ten year average return on equity of 63.7 percent [13,14].

The second and more important reason for studying ServiceMaster is the company's high ethical standards. ServiceMaster's two end goals are: 1. To honor God in all we do. 2. To help people develop. The company's history represents an impressive effort to live up to those two ideals. The chief executive officers were all devout Christians who believed in using their Christian ethics to manage their daily business lives. All emphasized the Bible as the most important management tool. Prayer and Bible study were central aspects of their business lives.

Four chief executive officers have served the company. Marion Wade was the company founder and CEO from 1947 to 1957. It was he who introduced the Christian emphasis. Ken Hansen was Wade's close business associate from the beginning and was responsible for building the franchise network. He served as CEO from 1957 to 1975. It was during that time that the company entered the field of management services and introduced its second end goal of helping people develop.

Ken Wessner was Hansen's close associate from 1954 to 1975 and CEO from 1975 to 1983. He was the brilliant operating executive who developed the company's management services for hospitals and provided the foundation for further diversification in the 1980's. It was during his term as CEO that ServiceMaster achieved record growth and recognition as the service industry's profit leader.

William Pollard succeeded Wessner as CEO in 1983. Under him the company executed a major strategic change which enabled it to continue its growth and profitability to 1988. Pollard continued to serve as CEO in 1990.

The case study which follows focuses on Wade, Hansen and Wessner.

MARION WADE

Marion Wade was born in Pocahontas, Arkansas in 1898. His father was a part owner of a dry-goods store and his mother was a seamstress. While Wade was quite young, the father's store went bankrupt. The father was unable to find other work, so the family was thereafter supported by Wade's mother.

Marion was the youngest of four brothers. After the three oldest left home to earn their own livings, Marion's mother left the father and took Marion with her to start a new life in Oak Park, Illinois. She and Marion moved into the house where her parents and a brother lived. Marion would later recall that the grandfather and uncle provided his first strong male role models [20].

Wade's primary interest at the time was baseball. He became a devoted fan of the Chicago Cubs and spent most of his free time either watching the Cubs play or playing baseball with other boys in the neighborhood. After completing school in 1912 he went to work as an office boy in a paper company and

became a catcher for an amateur baseball team. Over the next six years he advanced to a sales job with the paper company while continuing to play amateur baseball.

In 1918 Wade was hired by a minor league baseball team in Terre Haute, Indiana. It looked like his dream of a baseball career would come true. For several years he did make a modest living as a minor league player. But during that time he also married a Chicago girl he met at a tennis court. Supporting her then became an important goal. When it became clear that he would never make the major leagues and thus never be able to support her adequately as a baseball player, Wade decided to leave baseball and pursue some other career.

Wade Gains Sales Experiences

He first became an insurance salesman. That experience lasted four years and provided him with a decent living. But it also instilled a cynical attitude in him about business ethics. As he put it many years later, "Customer-stealing, commission-cutting, minimizing the importance of the fine print all these were tricks of the trade I learned after becoming the victim of them several times. I also learned, too, that in most instances, loyalty to the firm was a dollars-and-cents affair, as the firm's loyalty to the salesman usually was. It was a cutthroat racket (and) made me fast on my feet and enjoying the competition more than I despised the double-dealing" [20].

After four years of selling insurance Wade switched to the sale of aluminum pots and pans through demonstrations in the home. At first he did well. Then in 1926, he ran into a period of poor sales. At one point he was broke and living in a sub-standard apartment. And to make matters worse, it was then that his three-year-old daughter became ill and died. He blamed the poor housing environment and was crushed by the thought that his inability to provide for the family had caused the problem. But he still had a wife to support. And so he increased his selling effort and his earnings improved.

Wade's improved sales record was so good that the company made him assistant manager of its St. Louis office. Next he was put in charge of the Cleveland office. Two years later he quit the company on a matter of principle.

The company had introduced an inferior product line for sale by retail stores. Wade thought it unethical to lower the quality and to sell in direct competition with the company's direct sales force. He was also convinced that in the long run company sales would suffer because of the change. And so Wade resigned. (The company which Wade quit was called Club Aluminum. As he predicted, its unethical practices eventually led it to the brink of bankruptcy. It was saved by an ethical new executive named Herbert Taylor. In saving it, Taylor employed a Four-Way Test and a Four-Part Plan which became part of the management philosophy of the new company which Wade would form in 1947).

Wade returned to Chicago and looked for a new job. It was late 1929 and the Depression had begun. Jobs were not plentiful. Nevertheless, he found a job selling home moth-proofing services on a commission basis. That job was short-lived. The company went bankrupt a few months after Wade began selling for it.

Wade Becomes an Entrepreneur and a Christian

By that time Wade had learned that he could sell the moth-proofing service on his own. And he had become friends with another person who could handle production. The two men decided to start a moth-proofing business of their own. The biggest stumbling block was the fact that Wade needed an automobile. The one he drove back from Cleveland had been repossessed and he did not have the money to buy another. In desperation he canvassed homes in his immediate neighborhood in search of moth-proofing sales. He closed one sale for \$90 and used that money to buy a used car. He was back in business. (In 1931 Wade's original partner left him, and Wade brought in a new partner).

It was also in 1930 that Marion became a Christian. He had grown up in a Christian home and had dutifully attended church or Sunday school with his mother. But he did not become a true believer until one Sunday evening in 1930 when he took his mother to church. The sermon dealt with the Bible as a source of inspiration and a source of rules for good living. At the end of the sermon, Wade found himself unexpectedly moved to respond to the altar call. There he made a commitment to Christian living. Immediately thereafter, he began daily

Bible study that was to be part of his daily routine for the rest of his life.

As Wade gained experience in moth-proofing he became convinced that a better chemical compound was needed to destroy moth eggs and larva. Through crude experimentation he developed a new produce he called **◆Fumakill◆** in 1932. He proceeded to use it in his own moth-proofing service and to sell it to others. He later credited it with being a key to his success in that era.

The ServiceMaster Vision is Born

In 1944, Marion Wade experienced a terrible accident which changed his business life. He was temporarily blinded by a chemical explosion while he was moth-proofing a customer's home. For months he was confined to a hospital bed. He had nothing to do but think. What he began to think about was his progress in life. That meditation caused him to feel that something was missing in his life. When his vision returned he began to search for that missing element by reading the Bible.

Finally it became clear to him what was missing. As he put it in his autobiography, **◆I was trying to personally honor God, but I had never tried this with my company because I had been trained in the school of competition which attests that religion and business don't mix◆** [20, p.82].

With that revelation came his momentous decision to change the way the company did business. Henceforth, the company would seek to honor God. It would be a business where, **◆(E)very employee, from top to bottom, did his job for the glory of God◆** [20, p.82].

Returning to work he explained the new philosophy to the half dozen employees. All were practicing Christians and found the idea inspirational. The impact was immediate. As Wade later said [20, p.89]:

Thereafter, we began each day with a prayer and an acknowledgement of our commitment◆ We all felt that influence. We found ourselves undergoing changes in our attitudes toward each other as well as toward the job. We all got along better; there was more willingness to go the extra mile, to work the extra hour; and when disagreement arose, as it inevitably does, we were able to resolve it by a prompt discussion rather than carry grudges and lose tempers◆

The dedication brought new vitality into the group. We developed a new pride in doing a good job. Our own family business began to grow.

The favorable impact of the religious emphasis upon job performance was stressed by Wade on many occasions over the years. One other example in this quotation from his autobiography [20, p.85]:

When you go to work for the Lord you find yourself raising the level of your efforts. Your job becomes more than a job. It becomes a calling. It is now the ministry by which you glorify God. You work harder and you do a better job so that your efforts will please the Lord who is now your silent partner.

The new vision quickly led to the adoption of several policies which became ServiceMaster hallmarks over the years. One was a decision to discourage competition among employees. Wade explained this decision as follows [20, p.130]:

The morale within a company is a basic factor in the firm's conduct toward competitors. I know of some companies that operate on a contest basis, pitting the various departments against each other, with cash bonuses or time off as rewards. This is child psychology and has no place in the business world that is supposed to be populated by mature men and women. An employee is hired at a specific salary to do a specific job, and as the company prospers, so does he, but if he is willing to work a little harder only when he is baited by bonuses he really isn't doing his job in the first place. The boss who thinks that putting his men into competition with each other will get more work out of them is actually creating dissension within his own ranks.

Another policy involved employee selection. Wade depended on his employees to render quality service. Ultimately that meant that the company's employees had to be people of high moral character. And so the company from the very beginning made an extra effort to screen out potential employees who did not have the required morals. As Wade once put it, I now consider it my prerogative and my duty to learn as much as I can about a man before sending him out to represent a company that is dedicated to the Lord [20, p.134].

This emphasis on character remained a ServiceMaster hallmark over the next 40

years. Thus, as Rod Willis reported in 1987 (23, p.29]: ServiceMaster has a stringent screening and patterned interview process with many tests of personality, attitudes and values. All hires must be service oriented, as evidenced by previous community and charitable involvement.

A third policy was the delegation of responsibility and the freedom needed to exercise it. One of Wade's finest statements on this matter is, "At ServiceMaster, we have learned that a man becomes more sensitive to his accountability to God when we give him the opportunity for more responsibility to the company. We make our plans and set the policy at staff conferences, then each man goes back to his office to do his job, using his own brains and his own skills to make decisions" [20,p.143].

A fourth policy was a determination to dignify every job in the company. This was basically a matter of attitude. As Wade put it, "A job has only as much dignity as the man gives it, and the best way to dignify a job is to dedicate your efforts to the Glory of God" [20, p.146]. At ServiceMaster dignity was a particular challenge because the nature of work was considered menial and demeaning by many, if not most, outsiders.

Initially the business was operated out of Wade's home. Then, immediately after World War II, Wade moved the business office to a store near Belmont Avenue in Chicago.



Picture of Ken Hansen - SERVICEMASTER

Hansen is Hired

At that time Wade also made a major personnel change. He hired as a salesman-financial manager a young man named Ken Hansen. Hansen was raised in the Chicago area. As a teenage in the Great Depression, he had begun working to help his parents support the family. After finishing high school, he went to work full-time while attending college full-time. He completed his college studies with honors in three years.

Hansen graduated from Wheaton College with majors in religion and philosophy. He had been the minister of a church near Wade's home. Wade had visited the church, heard Hansen preaching and became actively involved in the life of the church. Hansen had left the church and became involved in organizing and supporting Christian youth groups. Wade was convinced that Hansen possessed the sales and management skills as well as the service attitude, which Wade's growing company would need. As it turned out, he was right.

A Rug Cleaning Service is Added

It was during this period that Wade decided to add a rug-cleaning service to his business. By accident he had discovered a product that could be used to reduce the amount of water (and therefore shrinkage) used in cleaning rugs. He conducted his own crude experiments to improve the product and then went into the rug cleaning business.

To generate more business Wade contacted the rug departments of local department stores and some of the rug manufacturers representatives. One of those representatives, Bob Wenger, became a friend and business partner. The business partnership resulted from a rug cleaning job which Wade performed at a fire damaged Chicago hotel. Wenger was brought in to determine what could be salvaged. He and Wade worked closely together and developed mutual respect. When Wenger told Wade that he would be leaving Chicago soon thereafter, Wade invited him to become his business partner instead.

Wade, Wenger and Associates is Formed

Wade, Wenger and Hansen spent the rest of 1946 planning the new company. It

was to be called Wade, Wenger and Associates. It would be a company offering moth-proofing and rug cleaning services. It would be a business devoted to honor God in the marketplace as Wade put it. In that respect it would be a continuation of the ethical practices introduced by Wade after his accident.

The new firm began business on January 1, 1947. At that time the new corporation employed 10 or 11 people. Sales revenue was about \$120,000. Wade, Wenger and Hansen were the controlling stockholders. But stock was offered to all employees to make them feel that, they had a piece of the action.

Two weeks after the company was formed Wade and Wenger visited Milwaukee, made a few sales, and decided to open a branch there. Hansen was asked to take charge of the branch. He was given authority to employ two production people there and to launch a sales effort to expand the Milwaukee business. Hansen began to spend two days a week in Milwaukee, leaving his Chicago area home at 5:00 a.m. to make the trip. Most of that time was devoted to selling and Hansen was able to get enough business to employ two crews.

Once the Milwaukee business had been firmly established, Ken Hansen was given the task of opening company-owned branches in other locations. Wade and Wenger helped with this task, but it was Hansen who did most of the traveling and spent the most time on the road.

In the late 1940s the company was visited by representatives of several East Coast carpet retailers that wanted to learn how Wade's company cleaned carpets. Several of the visitors subsequently asked if they could franchise the concept. Wade, Wenger and Hansen agreed. That caused the three men to discuss the idea of expanding through the sale of franchises in addition to establishing branch plants. They decided to do so, and Ken Hansen went to work drawing up a bona fide franchise agreement. By 1950 he was on the road selling franchises in addition to opening branches.

The rapid expansion of the company caused some concern on the part of the wives. They and their husbands would regularly get together in the Wade's screen porch and talk about the business. As Hansen recalls, The girls would

get nervous. Then we would say, "Don't worry, we're both door-to-door salesmen. If this goes bust, we'll go back to the street and support you" [7].

The business environment at the time favored the company. Wall-to-wall carpeting was becoming popular and that meant that more and more homeowners and businesses needed the service of a professional carpet cleaner. Manufacturers of that carpeting sought arrangements with local professionals to have the cleaning available to purchases of their carpets. And that meant that Wade, Wenger and Associates had more demand for its services than it could handle. Clearly the franchise approach was one way of responding.

The ServiceMaster Name is Adopted

As the company expanded, however, the three principals became uncomfortable with the company name and began to search for an alternative. Here is how Wade later explained what happened next [20, pp.120-121]:

(W)e wanted a generic name which the franchise holders could use, and we wanted it to be a name which could be applied to the diversified services we were taking on and at the same time indicate the basic philosophy of the company. The name we chose almost evolved by itself. As a company, we were in the business of on-location cleaning and maintenance services. As individuals and as a company we were working for the Lord " we were servants of the Master. The word "ServiceMaster" struck us all as perfect in every area.

Financial Controls are Developed

The key to growing profitably was good financial controls. This was not an area of strength for Marion Wade. Consequently he delegated responsibility to Hansen. As Wade once put it [20, pp.97-98]:

(H)e had talents which the Lord denied me, so between us we had a fine balance and our business grew rapidly. Ken had a real feel for finances, and I was happy to give him plenty of latitude. I told him: "Pay our bills promptly. Give the men the best wages possible. If there's anything left over, you get paid, and if there's anything left over after that, I'll get paid." One difficulty Hansen had in serving as the financial officer was the fact that he was constantly on the

road selling franchises. He solved that problem by devising a simple formula which he could use in the field to keep track of the rest of the business on a daily basis. Once a day he would call the home office and ask for a few numbers from each of the other locations. Using his slide rule and the formula he would then estimate profit for those locations. If the numbers indicated a potential problem, he could then arrange immediate remedial action.

Wessner is Hired

In 1954 Hansen hired Ken Wessner, a Wheaton College graduate who had been working in sales for the Club Aluminum Company in Chicago. Wessner turned out to be a superb operating man and that talent combined with Hansen's thinking on financial controls would subsequently be a significant factor in ServiceMaster's ability to expand profitably. Wessner's initial assignment was to learn the business by actually performing cleaning services in homes. Then he was put in charge of branch and franchise operations in the western United States.

KENNETH HANSEN AS CEO

In 1956 Marion Wade experienced a heart murmur that put him face-to-face with the prospect of death. In fact, he lived until 1973. But the experience caused him to worry about the future of his company and so he elevated Ken Hansen to the position of president and chief executive officer. It was not a momentous change. Wade, Hansen and Wenger had been running the company as a threesome with Hansen providing his full share of initiative. Wenger later left the company to move back East, but Wade continued to serve as chairman of the board, and he continued to do many of the things he had been doing when he was CEO. Foremost among those was speaking before customer and employee groups for purposes of gaining and strengthening commitment. He was by far the company's most effective spokesman. As Hansen once put it, "Marion was a magician on the platform" [7].

Strategic Changes are Made

Hansen's tenure began with two strategic changes which he recommended to Wade and Wenger. One was the decision to phase out company owned branches

and rely strictly on franchises. This was Hansen's idea. It grew from his conviction that in the long run the only effective way to get the service delivered was to use owner-operators. Their ownership would give them extra motivation. At that time the company owned branches were profitable and made a major contribution to covering company overhead. So Hansen worked out a break-even type model showing the number of franchisees needed to cover all of the company's fixed costs. When that number was reached, he argued, the company should sell the branches to independents who would then become franchisees. Wade and Wenger were lukewarm about the idea and the 3 other managers opposed it because the branches were so profitable at that time. But the two senior partners decided to trust Hansen's judgment and the decision to phase out the branches was made.

The second change was the decision to add two new lines of service. One would be housekeeping for hospitals and the other would be cleaning for offices.

The office cleaning idea was not profitable and was abandoned. In retrospect the problem was a strategic error. The service was targeted at small businesses. But they typically didn't realize what the service could do for their productivity and therefore didn't feel they could afford it. Many years later ServiceMaster would try office and industrial cleaning again but would focus on the large customer who could afford the service and who better appreciated the need for it [10].

The hospital opportunity was first identified by Marion Wade. In 1957 he made a speech in which he did his usual good job of conveying the excitement and effectiveness with which ServiceMaster representatives did their cleaning work. After the speech a nun who had been in the audience approached Wade and suggested that his company look into providing cleaning services for the hospital where she worked. Wade asked Hansen to look into the matter and Hansen enlisted Kenneth Wessner to help him. Wessner was not enthusiastic. His initial reply was, "No, Ken, I don't even like hospitals" [5]. But once Wessner got involved he became enthusiastic about the potential.

For two years Hansen and Wessner studied the idea. Much of what they did was to study the potential customer's needs. As recalled by Hansen [12, p.49]:

When we began our hospital housekeeping management business we founded it on the cornerstone of hard listening. From 1957 to 1959 Ken Wessner and I worked in tandem in a series of hearing sessions with hospital managements. As we listened, we thought we heard administrators saying that their time could be better used if they could have professional help for some of the more nonpatient-related functions of their hospitals.

As we listened, we seemed to hear administrators saying that the hospital community was ready for the services of a specialist organization one that would blend itself into their needs.

At the same time, other companies heard there was going to be a lot of money spent by hospitals for contract housekeeping. They approached this job as some more buildings to clean. This is not what we heard at all.

After two years of listening, Hansen and Wessner felt they knew what kind of service should be offered. At the time it appeared that they could introduce the service by going into partnership with a New Zealand company named Crothall [18, p.56]. Wessner went to England to observe Crothall's hospital cleaning services in operation there. The proposed joint venture with Crothall did not work out, but Wessner had learned enough to recommend that ServiceMaster enter the business on its own. Hansen and Wade agreed; Wessner was put in charge of making the sales and delivering the service; and in 1962 he secured his first contract.

That initial customer was Lutheran General Hospital in Chicago. Hansen told Wessner that he had to secure five more hospital cleaning contracts in the Chicago area before he tried expanding to other cities.

Wade's role in all of this was interesting. Brilliant a speaker as he was, he was reluctant to speak in front of hospital administrators. Yet he was expected to be a key figure in closing many sales. It was he who was expected to instill confidence in the prospect. Not only did he have the oratorical skills, but he had just the right appearance and business experience. As Hansen admiringly put it, "Nothing beats a gray head who has proved himself" [7]. So with plenty of prodding from Wessner, Wade would make his appearance, impress the

audience, and let Wessner close the sale.

What ServiceMaster developed and sold to the hospitals was a management service. ServiceMaster would place one or more of its own employees in the hospital to manage housekeeping. But individuals actually doing the work would continue to be employees of the hospital. However, they would be trained in ServiceMaster ways; provided with ServiceMaster tools and cleaning products; and motivated by ServiceMaster methods. What the hospital expected to get from the arrangement was a higher quality of employee performance and a lower cost for the total service.

For the next two decades ServiceMaster's rapid growth came largely from the hospital business. In 1979 ServiceMaster derived 95 percent of its revenues from hospital services.

Research and Development Evolves

Both Hansen and Wessner had a zeal for constant improvement of their business. They approached the hospital market with the idea that constant improvement was possible. In the 1980s a Harvard Business School case writer visited the company, interviewed the principals, and concluded that the ServiceMaster approach consisted of the following six-part process [6, pp. 6-7]:

1. Study the job.
2. Design or redesign equipment and materials.
3. Redesign the job.
4. Develop a job hierarchy and incentives.
5. Design education programs.
6. Develop a data base for creation of competitive advantage.

Hansen agreed that the basic idea of that process was used, but he makes it clear that it was done more intuitively than suggested by the Harvard report [7].

Nevertheless, formalization did occur, and one area where that happened was research. In 1963 the research and development department was formally created. Its job was to help the company develop improved procedures, cleaning products and equipment. By 1985 it had grown to 18 staff employees including two Ph.D.s.

A 1987 case study of ServiceMaster nicely illustrates the kinds of contributions subsequently made by this department. The study cites the development of a

cordless vacuum cleaner, specialized cleaning fluids, technical manuals for use by supervisors, and a special system allowing a dry mop to do the work previously requiring both a dry and a wet mop. The study quotes Ken Wessner as follows on the advantages of that mop [6, p.7]:

Most germs are carried by dust. Our new system first removes 80% to 85% of the dust and bacteria from a hospital floor. Then a buffing machine working with the floor finish developed in our laboratories produces a polished, long-lasting shine on the surface and allows the removal of another 10% to 12% of the dust and bacteria leaving the floor 92% to 97% bacteria free. This system cuts down both cleaning time and frequency, and . . . can mean a savings of 30% in hallway labor. The products of the research effort also opened the door to a profitable manufacturing activity for ServiceMaster. As reported by Business Week [19, p. 58]:

With operations in 742 hospitals, ServiceMaster now holds an overwhelming 70%-plus share of the contracts to manage hospital maintenance departments. Its dominance results in part from the company's manufacturing operations. It produces nearly 2,000 items used in its business, from disinfectants to floor polishers.

While research and development were thus formalized after 1963, the idea and origins went back to Marion Wade's earlier experiences and his continued enthusiasm for such exploration. The idea came out of Marion's fertile mind, says Ken Hansen [7]. Milestones prior to 1963 include the hiring of chemist Ray Haas and the employment of mechanical engineer Bob Shallenberg. (A special extra dimension brought to the company by Shallenberg was his understanding of systems). When Haas was hired the company couldn't afford a full time research person, so Haas was a company salesman by day and then conducted company research at night [7].

A Succession Policy is Adopted

Because of his heart problems and because Ken Hansen also showed signs of a heart problem, Marion Wade became deeply interested in developing a succession policy. He and Hansen talked about the issue at the office and on the

side porch at Wade's home where the two men and their wives would frequently gather. Then Wade happened to read a history of the United Silver Company and there he found a succession policy to his liking. United Silver had a policy of identifying successor chief executives and putting them at the head of the firm long before the incumbent was mentally or physically ready to retire. The predecessor CEO would remain active with the company in a supporting role. Thus, to use a phrase in the book that captured Wade's imagination, leadership at the company overlapped, like shingles on a roof [7].

It was decided that such a policy should be followed at ServiceMaster. Executives throughout the organization should be responsible for finding and training their successors. And a pool of potential future chief executive officers should be identified early, and moved through a series of grooming experiences. Out of that pool the chief executive heir apparent would eventually be selected and groomed.

It was clear to Wade and Hansen that such a long run approach would only work if talented executives could be retained and to them that meant broadening the opportunity to hold stock in the company. They decided to make a public offering of company stock and get the company listed on the New York Stock Exchange. Wade, Wenger and Hansen controlled the company at the time through their ownership of Class B stock.

In 1962 an underwriter was hired and the new ServiceMaster stock offered to the public. When the underwriter had trouble selling the issue, Wade and Hansen decided to make the sales themselves. Within three days they had sold enough stock to employees and friends to make the underwriting a success. The New York underwriting firm was so impressed that it asked Wade and Hansen to sell new issues of other companies. Flattered, they nevertheless refused [7].

The Company's Mission is Clarified

One day in 1958 Ken Hansen arrived at the ServiceMaster office at 2177 North Way, called a meeting of those present, and said [10]:

I'm 40 years old and we have to talk about the kind of company we want to be.

That launched a 15-year search process culminating in the adoption of ServiceMaster's new set of corporate goals in 1973.

During the nineteen-sixties, that search had a significant impact on top management. Here is how Hansen later recalled that experience [5, p. 5]:

The struggle to define and reach our business goals was affecting all segments of our lives. We were changing for the good in our attitudes and actions as husbands, fathers, friends and as businessmen. We were faced with the need for these changes as we wrestled with the apparently but not necessarily, conflicting qualitative and quantitative goals in our business. At the time ServiceMaster was guided by Marion Wade's goal (To honor God in the Marketplace). But Hansen wasn't satisfied with that goal alone. One of Hansen's traits was that he could never be satisfied. He believed that the essence of life was constant growth and change. As he struggled to discover what was missing, he was humbled by the realization that as a manager he had sinned. Here is how he recalls that discovery [5, pp. 9-10]:

As I moved from selling and accounting into managing, I was primarily task oriented as I worked with others. But as I grew in a vital union with Jesus, I came to see that I was viewing people as a means to get work done. I viewed work as the end accomplished. I realized that I was reversing the positions of means and ends which the Bible teaches. It was painful to realize and then acknowledge that this bent is sinful, harmful to others and to myself and dishonoring to God whom I seek to serve. The living relationship with Jesus gave me the motive power to change the way I viewed and treated other people.

Hansen's revelation led to the eventual adoption of ServiceMaster's second goal To help people develop. It also cleared up the problem of an apparent conflict between growth and the quality of work life. As Hansen later put it [5, p. 5]:

Finally we saw that there is no contradiction: the quantitative growth more customers and employees, more franchises and divisions, more revenue and profit was essential in order to fulfill our qualitative goals. We accepted a stewardship responsibility for the men and women who were joining us in

increasing numbers. These men and women expected growth opportunities. Growth in size and profitability of the business was required to provide these opportunities.

These insights led to the adoption of three corporate goals in 1962. The list was expanded to six in 1967. Then, in 1973 Ken Wessner gave a talk to a group of hospital executives with Hansen present. Wessner listed four goals. Afterward Hansen excitedly pulled Wessner aside and said, "That's it! But we'll have to change the order. Those four goals in Hansen's revised order are still ServiceMaster's statement of purpose.

They are: 1. To honor God in all we do. 2. To help people develop. 3. To pursue excellence. 4. To grow profitably. Wessner's original order was 2-3-4-1.

Education, Training and Career Paths Are Emphasized

The emphasis on helping people develop led ServiceMaster to establish some interesting policies and procedures. Willis reports on one example as follows [22, p. 29]:

ServiceMaster has given people whose jobs were considered unimportant — janitors, cleaning women, boiler operators, landscapers — new challenges, respect, responsibilities and career options. Previously there were no real career paths for many line-level service employees (at customer hospitals). When ServiceMaster's managers take over a site's maintenance activities, they bring with them a system of defined career paths, so that supervisors and other employees can move up to fill their spots in time. This adds a new incentive for maintenance employees to change and improve their work.

The policy of constantly promoting people did have one negative side effect. There was rapid turnover among the managers at the individual hospitals. Consequently, the hospitals had to constantly adjust to new ServiceMaster managers. Some objected to the point of threatening not to renew the contract unless ServiceMaster let the incumbent manager stay [6, pp. 13-15].

At the corporate headquarters the training and development program revolved around Ken Hansen. He was constantly getting his people to read and discuss management books. He was very active with the American Management

Association and constantly brought fresh ideas from it to ServiceMaster. His fellow executives respected Hansen as a great teacher. He established a tradition of reading by company employees which continued through the 1980s. Here, for example, is the Harvard case writer's report in 1988 [6, p. 9]:

Books on both management and inspirational topics often were assigned reading for all levels in the company's management. Every manager's office observed by the case writer contained a bookcase nearly full of reasonably current books.

The case writer might have added that among the older yet still popular books on those shelves was the Bible. Hansen firmly believed that it was the best single source of managerial guidance and he continued Wade's tradition of emphasizing Bible study (as did his successor, Ken Wessner).

Picture of Ken Wessner - SERVICEMASTER

KEN WESSNER

Wessner's contribution to defining the corporate purpose was a fitting milestone in the career of ServiceMaster's third chief executive officer. Wessner was born in Reading, Pennsylvania in 1922 and grew up in that Pennsylvania Dutch environment. He attended Wheaton College and after graduation went to work as a salesman for Club Aluminum in Chicago.

At that time Club Aluminum was headed by an inspirational leader, Herbert Taylor. Taylor ran the company with a code of ethics which later became the Rotary International Four-Way Test (in a modified version). Taylor also used a simple Four-Way Plan (Get the Facts! Plan with the Facts! Sell the Plan! Follow Through!). Both the Test and the Plan made an impact on young Wessner and became reflected in his way of doing business.

Ken Hansen also knew Herbert Taylor through work the two of them had done with Christian youth groups. Hansen liked and used Taylor's Test and Plan at ServiceMaster. Thus, when Hansen hired Wessner in 1957 he was employing someone already in tune with Hansen's ways of doing things.

As it turned out, Hansen was hiring his replacement. But that was not apparent to Hansen at the time, nor for many years to come. Referring the question of likely candidates to succeed Hansen as late as the early 1960s, Hansen says, "You couldn't tell that Wes would be the next CEO at that point. But he did a towering job and simply outgrew everyone else in the business" [7].

The Hospital Management Services Business is Built

Wessner's big break came when Hansen assigned him the task of building the hospital management business in 1960. The job called for the combined skills of a salesperson and an operations expert. Operations was Wessner's special strength.

As earlier recounted, Wessner studied and planned for two years before making the first sale. During that time he developed the operating procedures that would enable ServiceMaster to take over a hospital's housekeeping function and improve the quality of performance while lowering costs. It was he who wrote all of the original manuals to be used by the on-site managers [9]. It was he who discovered the control technique of dividing all jobs into five minute segments to bring to light opportunities to boost productivity. It was he who drove home the ServiceMaster dignity of work theme by personally doing some of the cleaning on the first day of ServiceMaster's work for the hospital.

Throughout the nineteen-sixties Wessner expanded the hospital management services business through (1) the survey, (2) an organized sales effort, (3) educational and training programs, (4) a constant improvement of operating procedures, and (5) a periodic addition of a new service. As the number of customers expanded, Wessner also introduced organizational changes. He divided the country into geographical divisions with a vice president in charge of each region and divided the work of the division into three categories — sales, operations and control. (In 1987 ServiceMaster and 20 such divisions serving the health care market [16].)

The survey consisted of an in-depth study of the customer's operation prior to ServiceMaster taking over the management. Through the survey the company identified the ways in which it could improve quality and reduce

costs. This was critical because ServiceMaster's contract with the client was set at a fixed price for two years. If ServiceMaster underestimated the opportunities for cost savings there would be a problem.

The education and training programs were designed to create positive attitudes and empathy as well as produce skills. They included experiential learning, learning through listening and classroom instruction. One interesting aspect of the experiential learning is explained by this report from Rod Willis [23, p. 26]:

How many service companies require ALL management employees even the president to learn such basic skills as waxing floors and disinfecting hospital rooms? ServiceMaster does just that. This level of scrutiny, applied to thousands of such mundane tasks as mopping floors, scrubbing bathrooms and oiling robots lies at the heart of ServiceMaster's remarkable success. Business Week adds this insight [19, p. 58]:

The company's managers instruct employees individually on the most efficient cleaning methods, and many remain as worker-supervisors to labor side by side with the hospital's cleaning staff. To encourage employees to see themselves as part of a health care team, ServiceMaster arranges monthly health education meetings, during work time, where even such topics as the hospital's innovations in open-heart surgery are discussed. Before, these people looked at their work as the dirtiest job in the hospital. Now they talk about how their work related to the patient, observes Peter K. Read, Director of Operations at St. Luke's Hospital in Cleveland. One of Wessner's proudest educational accomplishments was his alliance with Dr. Ray Brown, one of America's leading experts on hospital management. Wessner established a personal friendship with Brown and made his teachings an integral part of the training program for ServiceMaster managers. The culmination of the relationship occurred when Wessner was struggling with the problem of providing M.B.A. training for promising young managers. Brown convinced him that ServiceMaster could offer its own program with Brown as academic dean. And that is exactly what was done.

The new services were logical extensions of ServiceMaster's original management service. In 1967 a laundry and linen service was begun after

Wessner had spent two years studying the feasibility of such a service. He put a person in a hospital laundry operation to learn how to do it. In 1971 a plant operations and maintenance service was begun. An experienced operations person was hired to get that service started. Other new services added in the following years were:

1975 ♦ Clinical Equipment Maintenance Management 1977 ♦ Materials Management 1981 ♦ Food Service Management 1983 ♦ Hospital Based Home Health Care Wessner Become CEO

In 1975 Ken Wessner became chief executive officer. Hansen could have continued in that position for another decade. But in keeping with the succession policy, he handed leadership over to Wessner early.

Wessner's biggest challenge was to cope with the explosive growth of ServiceMaster's management services businesses. Company annual sales volume was at \$200 million in 1974; it grew to \$1 billion over the next ten years. Most of that occurred in the hospital services area. But franchising also expanded and the company expanded into two new management services markets ♦ education and industry. It was also during this time that the company made an entry into Japan.

The story behind the new educational services is instructive. The initial impetus came from a ServiceMaster hospital client which asked the company if it could provide similar services for the university in which the hospital was located. Then a board member suggested including secondary schools. After much study it was decided to offer a combined plant maintenance and cleaning management service to educational institutions at all levels. The first such service was installed in 1980. Grounds care management was later added to the school offerings. For a while the service did not do well until a leader took charge. As related by William Pollard [6, p. 4]:

At the outset of our effort, we had only a few managers who had experience with schools, since most of our business was with hospitals. Most of our people didn't understand the new business. The development process languished until one of our younger managers came forward, told us he wanted to take on the

responsibility, and sold about \$6 million in agreements the first year. Planning Evolves

It was during Wessner's tenure as CEO that ServiceMaster adopted a 20-year long range plan. Called SMIXX (ServiceMaster in 2000), the plan covered the 20-year period 1980-2000. It identified a slowing of growth in the hospital market as a major environmental threat to the company's continued rapid growth; it reiterated the goal of growing rapidly in order to provide personal growth opportunities for employees; and it consequently called for the development of new service markets as the means of maintaining momentum.

SMIXX was the next step in the planning process which began in 1958 with Ken Hansen announced that the company had to clarify its goals. And just as Hansen had made his search a team effort, so Wessner made planning a group affair. As he described it [22, p. 6]:

Our current planning process in ServiceMaster looks forward over the next 20 years. There are hundreds of people participating in the process. They represent every segment of the company and every level of management. The effect of this enlarged planning process is a sense of teamwork, a shared interest pervading our plans for the future. Once the new 20-yr plan was completed, Wessner presided over its initial implementation in 1980. In the fourth year of the plan, 1983, the company reached the billion dollar revenue milestone. In that year Wessner handed the CEO's job to his carefully selected successor, William Pollard.

Since 1983 the company has continued its growth and diversified by adding multiple consumer services including pest control, lawn care, maid service and appliance maintenance and repair. By 1990 sales volume had reached the level of \$2.5 billion at the customer level.

CONCLUSION

What are the lessons to be learned from the ServiceMaster experience?

Here is what Professor Lee Graf of Illinois State University had to say after studying the company [3]:

Through high moral and ethical standards, courage to withstand failure, the insight to seek new and expanded opportunities in the service industry, and the ability to build on the successes of preceding company leadership, ServiceMaster evolved into THE service firm of the 20th century.

Southern Illinois University management professor Harold Wilson studied the company's history and concluded that the following five points need to be emphasized [24]:

1. The idea of providing an excellent service in routine maintenance fields where it normally would receive low management priority.
2. The idea of creating an organization where the employees are respected and encouraged to grow.
3. The research approach of analyzing a job and then figuring out how it can be done better and more cheaply.
4. The idea of developing equipment and products to make the jobs easier than with alternative commercial equipment and products.
5. The management technique of developing detailed training and procedure manuals to improve the quality of the service provided.


University of Illinois marketing and small business professor David Gardner suggests that the role of the Christian faith needs emphasis. As he puts it, "While some may downplay that contribution, it is important to indicate that some, if not many, business people do dedicate their personal and business lives to serving God: [2].

But perhaps the final word should be given to William Pollard, the current CEO of ServiceMaster, who said [17]:

Wade, Hanson and Wessner each left a lasting mark on the business and . . . set the example for others to follow as they trained and developed their successors. They gave of themselves not holding on to positions of power and prestige as they served to create opportunities for others.

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