15.660
Strategic Human Resource Management

MIT Sloan School of Management
ServiceMaster Industries

- How have ServiceMaster’s values and goals contributed to their success?
- Why haven’t other firms successfully copied this approach?
- How important is training and development in the ServiceMaster system? How does training and development affect their continued growth?
- Why has ServiceMaster been willing to spend the resources it has on training and development for a set of low-skilled, high-turnover positions?
ServiceMaster Industries

- Serve over 10 million customers in 41 countries with revenues of $6.4 billion
- 50,000 employees who manage a workforce of over 240,000 contract employees.
- Named most admired outsourcing company in America by *Fortune* in 1999 and 2000.
- Over 50% of employees are women and minorities.
- 29th consecutive year of growth in revenues and profit with a compounded growth rate of over 24% over the last 20 years.
- From 1987-1998 average of 68.5% return on shareholders’ equity.
ServiceMaster Industries  (1-800 WE SERVE)

• Residential and Commercial Cleaning Services
• Terminix (Pest control - 1986)
• Merry Maids (Residential maid service - 1988)
• American Home Shield (Home warranty service - 1989)
• TruGreen (Lawn and tree service - 1990)

• Since 1991:
  • ChemLawn  Diversified Health Services
  • Rescue Rooter  AmeriSpec
  • Furniture Medic  American Residential Services
**ServiceMaster Revenues ($M)**

Note: excludes income from franchisees and international partners
ServiceMaster Industries

Peter Drucker addressing ServiceMaster’s Board of Directors about their strategic intent:

“Gentlemen, you do not understand your business. Your business is to train the least skilled people and make them functional.”
ServiceMaster Industries

“When people come in for an interview and see quotations from the Bible and our objectives on the wall, and when they talk to us and see how we try to implement our corporate objectives in a day-to-day manner, they either warm up to the way we do things or they are immediately turned off.”

Lifetime Employee

What do you think of this approach?
ServiceMaster Industries

Basic Goals

1. To honor God in all we do.
2. To help people develop.
3. To pursue excellence.
4. To grow profitably.
ServiceMaster Values and Creed

“Providing opportunity for people to become all they were created to be.”
ServiceMaster Annual Report

“We want to help people be something before we ask them to do something.”

“We don’t fire people for lack of skill. We fire people for attitude problems.”
Kenneth Wessner
Former Chairman
“Frankly, when you view the person as only a production unit, or something than can be defined solely in economic terms, motivational or even incentive schemes have a tendency to be mechanistic and manipulative. In so doing, there is a drive to define a system that will idiot-proof the process, and one can in turn make people feel like idiots.”

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Chairman, ServiceMaster
ServiceMaster Industries

Survey of Employees (1990)

Since ServiceMaster has taken over this facility, how would you compare the following:

<table>
<thead>
<tr>
<th></th>
<th>Satisfaction</th>
<th>Training</th>
<th>Cleanliness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher</td>
<td>52%</td>
<td>59%</td>
<td>48%</td>
</tr>
<tr>
<td>No Change</td>
<td>33%</td>
<td>41%</td>
<td>33%</td>
</tr>
<tr>
<td>Lower</td>
<td>15%</td>
<td>0%</td>
<td>19%</td>
</tr>
</tbody>
</table>
# ServiceMaster Industries

## The Wall Washing System

<table>
<thead>
<tr>
<th>Device</th>
<th>Training</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Example:</strong> Wall Washing Wand</td>
<td>Why? Patients respond faster in clean room.</td>
</tr>
<tr>
<td><strong>Benefits:</strong></td>
<td><strong>Results:</strong></td>
</tr>
<tr>
<td>Reduce time required. Allows washing from erect position</td>
<td>Improved efficiency. Less strain leads to higher satisfaction and lower turnover</td>
</tr>
<tr>
<td></td>
<td>Quality improves. Worker is involved in big picture and is more committed.</td>
</tr>
</tbody>
</table>
ServiceMaster: HR Practices

Can this approach work elsewhere?

- Other countries? What types?
- Other industries? What characteristics?
Why Would a Firm Pay to Train?

Because its managers are stupid?

According to neoclassical economics, the worker must pay for general on-the-job, either literally or through foregone earnings. Firm and employees must split the costs (and benefits) of firm-specific human capital in order to continue their mutually beneficial relationship and prevent “hold up” problems.
Are there other reasons to pay for training?

- No choice (labor scarcity or deficient educational system)
- Specific human capital presumes general skills
- To give itself an incentive to use workers productively and efficiently
- Gift exchange and symbolism
  - Employees reciprocate gift with loyalty and effort
  - Focuses employee attention on strategic and developmental objectives
  - “Training” presupposes “Caring”
Why Pay to Train?

“Optimal” investment in training can be a competitive game

If your competitors are underinvesting in general training, you will be more reluctant to provide extensive training for fear of their “cream skimming” your workforce, unless you can otherwise bind the employees to the organization.
Preserving Training Investments

- Bonding
- Training institutes
- Other HR practices
  - Screening (based on “trainability” and “stability”)
  - Career pathing
  - Broad job design; empowerment
  - Pay for knowledge and/or seniority
  - Benefits
    - To safeguard investment (e.g., health care)
    - To promote loyalty (e.g., dependent care)
  - Dress it up as “gift”
  - Train people in groups
Jobs are Increasing in their Complexity

How would you characterize the change in skill requirements in your establishment?

- NO CHANGE: 38%
- LESS COMPLEX: 3%
- MORE COMPLEX: 40%
- SAME/DIFFERENT SKILL: 18%

source: Osterman, 1992
CHARACTERISTICS OF NATIONAL TRAINING SYSTEMS

- Amount of Training
- Opportunity for Mind Changing
- Mobility Level in the Labor Market
- Equality With Respect to Sex/Race/Immigrant Status
- Location of Training: School or Firm
CHARACTERISTICS OF U.S. SYSTEM

ENTRY

- DIVERSE AND DIFFUSE, NUMEROUS PATHS
- WEAK HIGH SCHOOL TRAINING
- COMMUNITY COLLEGES STRONG

FURTHER

- FIRM BASED
- PRIVATE TRAINING INFRASTRUCTURE
- STATE PROGRAMS WORK WITH FIRMS

REMEDIALSEL AND INCOME STRATIFIED
U.S. TRAINING PATTERNS, 1995

AVERAGE HOURS OF TRAINING PER EMPLOYEE IN SIX MONTH PERIOD

FORMAL 10.7
INFORMAL 31.1

AVERAGE PER EMPLOYEE TRAINING COSTS

WAGES OF IN-HOUSE TRAINERS $139
PAYMENTS TO OUTSIDE TRAINERS 98
TUITION REIMBURSEMENT 51
TYPES OF TRAINING

Remedial

Upgrade
  “Hard”
  “Soft”

Displacement/Transition
TRAINING DECISIONS FOR FIRMS

Level of Training/Resources

Occupational Distribution

Type of Training

Make/Buy
THE MAKE/BUY DECISION

- How Specific/General Is the Skill?
- How Important Is Socialization/Culture?
- How Important Is It That Supply Be Certain?
- What Is The Quality of External Providers?
Takeaways

- Don’t underestimate non-monetary rewards. These can be especially powerful when they are congruent with employee values.
- Being clear about the organization’s values can help attract (and reject) people who “fit.”
- Training and development efforts need to be aligned and support job-relevant as well as value-relevant attitudes and behaviors.
- Training is an important means of signaling what’s important and valued in the organization.