

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

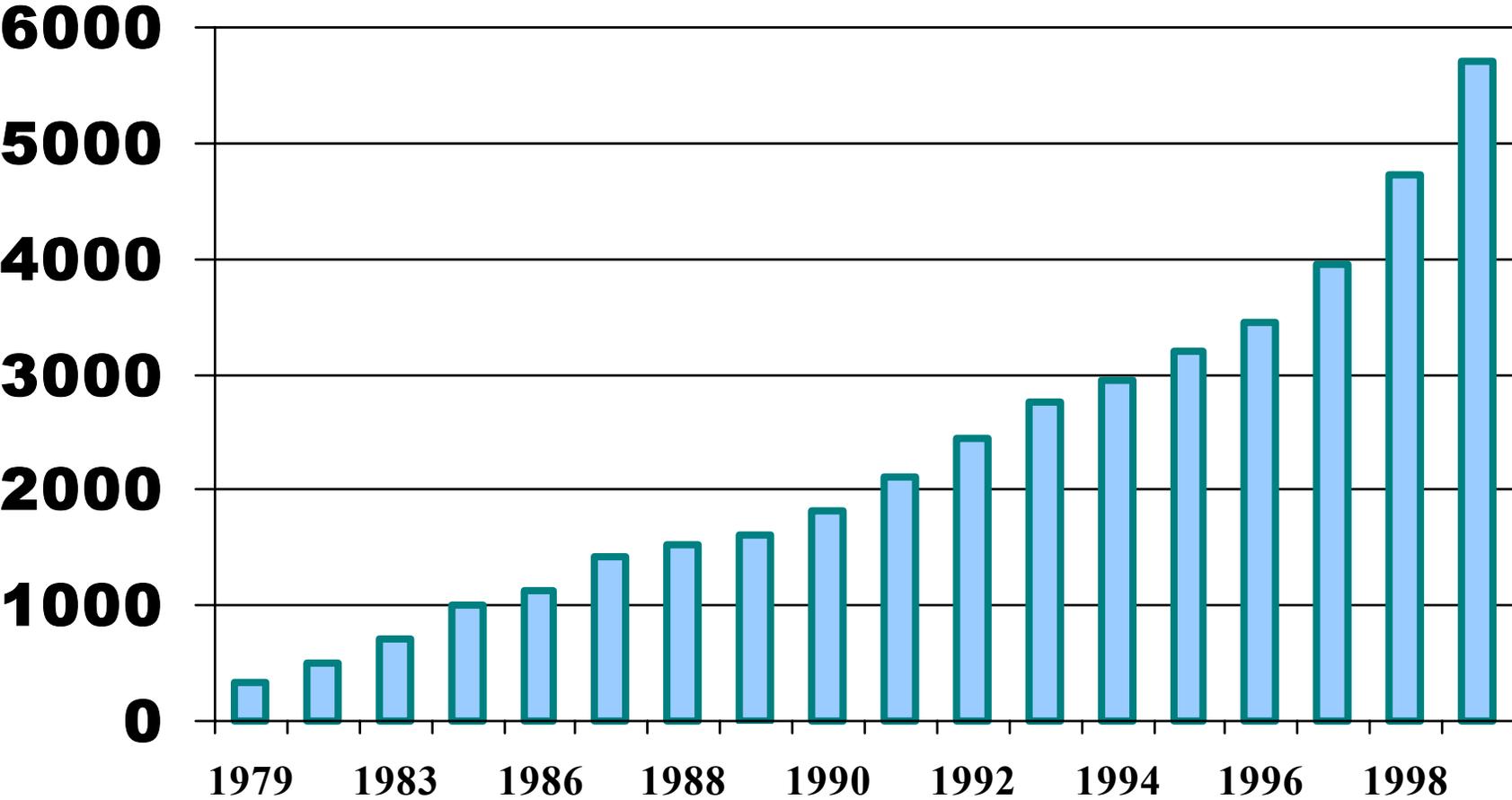


- ❖ Serve over 10 million customers in 41 countries with revenues of \$6.4 billion
- ❖ 50,000 employees who manage a workforce of over 240,000 contract employees.
- ❖ Named most admired outsourcing company in America by *Fortune* in 1999 and 2000.
- ❖ Over 50% of employees are women and minorities.
- ❖ 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***
 - ***Rescue Rooter***
 - ***Furniture Medic***
 - ***Diversified Health Services***
 - ***AmeriSpec***
 - ***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

ServiceMaster Industries



“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 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.”

**C. William Pollard
Chairman, ServiceMaster**

ServiceMaster Industries

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What is your reaction to this?

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Survey of Employees (1990)

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

	<u>Satisfaction</u>	<u>Training</u>	<u>Cleanliness</u>
Higher	52%	59%	48%
No Change	33%	41%	33%
Lower	15%	0%	19%

ServiceMaster Industries

The Wall Washing System

Device

Training

Example:

Wall Washing Wand

Why? Patients respond faster in clean room.

Benefits:

Reduce time required.
Allows washing from erect position

Worker understands why the wall needs to be clean and cares about the result.

Results:

Improved efficiency.
Less strain leads to higher satisfaction and lower turnover

Quality improves. Worker is involved in big picture and is more committed.

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

✦ REMEDIAL

SMALL 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.