

# 1

## Introduction



In the twentieth century the service industry evolved from representing 10%–20% of the Western European economy (GDP) to being the heartbeat of the industrialized world. In economic importance, service industries have, by far, outgrown manufacturing, raw material extraction and agriculture. By the turn of the millennium the total services sector constituted approximately 65% of the total European Union (EU) GDP and 70% of the total workforce in the European Union. In this book we speak about a large but little publicized part of the services sector: companies that provide organizations and individuals with services such as food services and security service. Over the last century, most food services and security companies stayed small, or disappeared. But four European service companies – Securitas, Group 4 Falck, Compass Group, and Sodexo Alliance – grew on average at an aggregated rate of 25%, and overtopped all others, including their American counterparts. Stern Stewart Europe ranked them at the top for value-creation:

*Group 4 Falck, Securitas and Sodexo all did well in our national value-creation rankings for 2000, which ranked companies according to which ones created the most value for shareholders. Compass Group was not ranked by Stern Stewart for 2000 because of issues surrounding its merger with and subsequent de-merger from Granada.*

*Erik Stern, Managing Director, Stern Stewart Europe*

How do we characterize these four service winners? They're part of the outsourcing industry, including services like cleaning, recruitment, security

and food services. The *Financial Times* lists them as ‘support services’ companies; the *Fortune* 500 classifies them as diversified outsourcing companies. With humble starts in Sweden, Denmark, the United Kingdom, and France, these four grew into large, world-class companies. They have over the last 10–15 years generated remarkable long-term value for shareholders, on a par with or better than ‘best in class’ companies like Hennes&Mauritz, Wal-Mart, GE, Alcoa and other toppers. What’s behind their exceptional and profitable growth?

In the last decades before the turn of the century, many companies prospered from the tremendous opportunities to create value in the service industry. Service companies make up about 70% of the firms that have generated the most shareholder value. They have rewarded their shareholders with value increases of thousands of percent. Over the last five years, many service indexes on the major European stock exchanges have outperformed other industry indexes. Nevertheless, despite the many service success stories, most *food service* and *security* companies failed to ride the upsurge in opportunity. And yet, Compass Group, Group 4 Falck, Securitas and Sodexo did.

You might think that a company managing world operations from the Old Continent would be at a serious disadvantage. The European labour market, unlike its American counterpart, is highly regulated by local legislation and EU directives, and suffused by strong unions. These challenges make the accomplishments of the four service winners all the more noteworthy, for they have managed to turn the European labour market hurdles into building blocks rather than road blocks. How? They spun value from simple credos, among them: you must, on threat of failure, treat your employees and customers with respect; you must never compromise quality of service for short-term monetary gain.

Somehow, these four untouted service companies made much more of unprecedented growth opportunities. Between 1980 and 2002, each of the four surged into higher gear: up went turnover, profit, number of employees and number of countries with operations. They changed into global heavy hitters that – all four combined – operate in more than 90 countries, with a total of more than one million employees and millions of customers. They hold global first and second in their industries: security and food services. They sell services worth about €35 billion per year and, at the end of October

2002, had a combined market value of more than €21 billion. Global institutional investors, including American ones, invest substantial sums in all four. Financial analysts have high expectations for their continued growth. Nevertheless, with the dramatic downturn on all stock exchanges in 2001 and 2002 it is relevant to ask if the shareholder value that outstripped peers and indexes in the 1990s has been significantly eroded. The answer: the 2001/2002 market valuation blindsided our companies, too. But the large drop in their share prices has been on par with peers and indexes. Despite the recent downturn, over five to ten years, the four have still on average, produced returns to their shareholders of several hundred percent.

Pure luck, you say. These four companies could only thrive in low-prestige, labour-intensive businesses where many of their competitors are notorious for shady business ethics, such as keeping wages low or not paying all employee hours. Wrong. We looked at one small Nordic lock manufacturer, Assa Abloy, that was once two separate Nordic companies, Assa and Abloy, that merged and, in a few short years became the world's largest and most accomplished lock-maker. How? Assa brought off the same feat by following, to a large extent, the Securitas path. The CEO had been a Securitas manager, and cut his milk teeth on the guarding services business model and philosophy. Assa's achievement suggests that our four companies didn't win on luck alone: their tools, methods and philosophies may be useful for managing in other industries such as manufacturing and perhaps even in the public sector.

In short, the success of these four companies is a story of their unique strengths, a story with potent human resources, operations and strategy themes. How can we explain it? For one, service industries are generally low-profile, labour-intensive – with up to 100% employee turnover per year – and have low barriers to entry. Service companies generally employ part-time, unskilled local labour. They don't peddle products, they sell services. Most of the time, Compass Group, Group 4 Falck, Securitas and Sodexo sites are working on mundane stuff. They provide guarding. They monitor burglar and fire alarms. They offer and run electronic surveillance systems. They service ATMs, count money, transport your cash and run prisons. They feed people at work, hospital patients and their visitors, and offer fast food, good food and fine drinks. In other words, as Sodexo describes its reason for being: they 'improve the quality of daily life for all'.

Our four companies depend on hundreds of thousands of employees scattered around the world at thousands of sites. Of all things, the success of these four companies comes down to people.

But there's more. Their achievements are inextricably linked, not just to people in general, but to long-standing leaders: Pierre Bellon (Chairman, Sodexo), Thomas Berglund (CEO, Securitas), Francis Mackay (Chairman, Compass Group), Lars Nørby Johansen (CEO, Group 4 Falck) and J. Philip Sørensen (Chairman, Group 4 Falck). Absent these leaders, the four service companies would likely have fallen short of today's results. Admittedly, no one man makes a world class company: more than anything, these five have led great teams. Nevertheless, they have been running 'their' companies for an average of 20 years each. Recall that eight out of 10 companies worldwide changed their top leader at least once during the 1990s, and in the last five years close to two-thirds of all major companies replaced their CEO.<sup>1</sup> So these twenty average year tenures alone set Bellon, Berglund, Mackay, Nørby Johansen and Sørensen apart. More than their tenures, however, it is style, character, knowledge and skill that set them apart. They are mild-mannered, yet powerful, visionary folk who achieve through simplicity and clarity, courage, knowledge, level-headed management and perception; in short, by following a quiet, no-nonsense approach of *just getting on with it*. They have a profound, holistic knowledge of and a clearly-defined vision for the business and the industry, a shared management philosophy based on care and respect for people at all levels. Effective leaders make a difference, and so do effective managers farther down the organization, but make no mistake: in this case, company accomplishment seems to spring, not from shining, larger-than-life evangelical characters so common to leadership literature, but from long-term, humble commitment.

Between 1980 and 2002, we learned, the four companies beat their competition with focus, passion for people, simplicity, long seniority among their top teams, and in-depth knowledge of the industry deeply ingrained in the fibre of the organization from the man at the top and right on out to the last person at the most remote site. And, the five leaders themselves noted,

---

<sup>1</sup> Cambron, Larry. 'The CEO's revolving door', *Far Eastern Economic Review*, 24 January 2002, p. 64.

some measure of luck. The paradox of our discovery is this: the growth of the four companies looks so simple and, in retrospect, obvious, that you might conclude any company could have pulled it off. Not so. Only these four did. What was their secret?

## The investigation

We turned first to the business models the leaders described. We then spoke to the leaders, employees, industry experts, competitors, union leaders, financial analysts and customers, and studied data bases and annual reports. We asked: How have Compass Group, Group 4 Falck, Securitas and Sodexo become world leaders in their industries? We looked for common patterns in applied strategy across the four companies. Did the companies share certain organizational structures? We plumbed their operational models and processes. We asked if they shared or 'lived out' certain values. We hunted for unique tools in the companies' 'management tool boxes' (Securitas, it turns out, has a real wooden 'toolbox' for its 2000 branch managers) and asked how these tools contribute to company profit. Then we pondered: Does the successful business model of the four companies work in another industry?

### *The research*

We grew familiar with the extensive literature and research on these companies and their industries, and considered any material in the public domain published in the last 10 years. But, this is not a theoretical book. It is in no way prescriptive, but rather descriptive. We relied on Waldemar Schmidt's service industry and business expertise. We lay no claims to profound scholarly knowledge or deep, wide academic experience or familiarity. We drew from facts and statistics provided by the IMD (International Institute for Management Development, Lausanne, Switzerland) Information Center, the companies themselves, Egon Zehnder International, in Copenhagen, Denmark, McKinsey & Company's European Service Strategy and Operations Practice based in Brussels, Belgium and Stockholm, Sweden, various data bases like Reuters

Business Briefing, Business Source Premier, and ProQuest, International press like the *Financial Times*, trade press like *Food Management* and the expertise of IMD colleagues. Our findings are further supported by third-party interviews and research conducted across various industries. But gathering exhaustive, incontrovertible data wasn't our aim. We wanted to shed light on four great service providers to reveal what distinguishes them from their more run-of-the-mill peers. And to share what they've done well, so that you, too, might benefit from their experience and success.

### *The interviews*

The findings in this book are largely based on in-depth interviews with employees at all levels of the companies, from the people at the helm, including the CEO and/or Chairman of the Board, to the people at the front line. We started with a set list of interview questions, but we let our interview partners take us wherever their comments led. At times, we followed digressions that strayed from our questions, but seemed to be leading to an important insight or experience (the questions we asked are shown in the Appendix). The interviews covered a wide range of subjects. We called on members of the four companies to share with us the awesome challenges they faced, their gains and losses, explanations for their success and personal management approaches. So this book is, in large measure, about listening to five top-notch leaders and members of their extensive teams talk about their companies. It is about sharing stories. Imagine, if you will, meeting our five leaders and members of their long-tenured teams and asking them how they ran the show. Imagine an extended conversation with each (something they otherwise rarely do), chats in their company corridors with staff, and interviews with financial analysts, key union leaders and peers.

### The framework

During the interviews, research done and discussions among the members of the book team we developed a framework that describes how these companies excelled. Here are the basics:

1. Pick Your Game and Play It
2. Leadership At the Heart
3. Passion for People
4. Keep It Simple

Let's consider this framework in some depth. The four companies have, at critical junctures, decided what they needed to do to succeed, what they wanted to do, and stuck to it. Regardless of setbacks and challenges. Hence: **Pick Your Game and Play It**. In the last 10–20 years, they have developed and applied, in every part of their widely distributed networks, a *replicable business model*. To guarantee compliance to the extent needed, each *applies transparent and relatively simple performance measurement systems*.

The four companies have all had one *leader at the heart* since the onset of their strong growth. These five men have been trying to reshape their industries for decades – each is a *visionary industry shaper*. Passionate and inspirational, they lead teams of other leaders, who are equally inspired and passionate about the company and the industry. Our five care deeply for their people, and believe that one of the best ways to lead is to set the example for their employees and live out the company values whenever they can. They've been working in their industries and their particular businesses for decades, and so they have, not surprisingly, *an intimate business knowledge* and seem to play all the roles required of a CEO with ease. By **Leadership at the Heart**, we also mean leadership *from* the heart, for Bellon, Berglund, Mackay, Nørby Johansen and Sørensen are working with teams of managers and employees who model heartfelt, value-oriented leadership.

Winning at service is about winning with people, and our four companies have a **Passion for People**. They face startlingly high rates of employee turnover, and out of this need have found ways to effectively *recruit and integrate, develop, and retain* staff. But they also look beyond the company walls, developing partnerships with unions and works councils so they can increase the standard pay in their industries and add respectability to their professions.

To put into practice their passion for people, vesting them with responsibility and independence, the four companies maintain flat,

decentralized organizations, with small head offices and relatively few hierarchical layers between the employee on the street or in the restaurant and the top management team. In order to let the people at the front line make decisions and to allow for diverse practices in each of their many local companies – for this is the only way to win at labour-intensive services – they strip their bureaucracies down to the bones and streamline their internal processes. They **Keep It Simple**.

## How this book is organized

Chapter 2 is a sort of ‘key everything’ basket with snapshots of the companies, short histories of their ‘journeys to leadership’, the special service challenges they face, a look at the growth they’ve generated, and the lessons learned. The rest of the book devotes a chapter to each of the four main findings of our research, with more detail and qualitative evidence. The final chapter, a wrap-up and brief retrospective, describes the most important challenges any service organization faces in its ‘journey to success’, looks briefly at how Assa Abloy applied many of the tools and ideas in the book to win in the lock industry, and ends with some provocative questions about the potential for further growth of our four companies.

You can learn from the stories of Compass Group, Group 4 Falck, Securitas and Sodexo. But *Winning at Service: Lessons from Service Leaders* is anything but a quick-fix book. And it is decidedly not a dump of quantitative data. It is a simple guide with practical insights and stimulating thoughts that can help others succeed in service. The concepts are straightforward enough for any manager to use, and the language and presentation, we hope, will make for an easy read. In the spirit of simplicity we picked up from the four companies, we offer plain lessons, not easy tricks. As our four companies illustrate, excelling at service is about sticking to the ‘secrets’ for 5, 10, 15 or 20 years. If there is one lesson the hundreds of thousands of people in these four companies can teach us, it is this: the way is the goal. *Winning at Service* offers not a destination, but a journey.