

THE GALLAGHER WAY



Arthur J. Gallagher & Co.

**A Corporate History
1927 through 2014**



Arthur J. Gallagher / 1892 - 1985 / Founder, Arthur J. Gallagher & Co.

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By Alison Kittrell



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VOLUME I

When *The Gallagher Way* was first published in 1996, it told the story of a remarkable company. But the story was far from over, and the pace of the tale picked up considerably. The company has dramatically expanded in size and in scope, and it now is one of the world's premier brokerage organizations, with offices and clients around the globe. Perhaps most impressively, Gallagher has accomplished this while staying true to the strategy, culture and values that characterized it from the beginning. This book includes three volumes. Volume I and Volume II are unchanged since their original publication. Volume III continues the story.

Prologue

The story of Arthur J. Gallagher & Co. is, in a very real sense, the story of its people. The people are the engine that drives this company, and each of them is an important part of this story. Only a relatively few people can be mentioned by name, but they represent the contributions and the efforts of all the thousands of Gallagher employees – past, present and future. Arthur J. Gallagher & Co. truly values the commitment of all its people, for this is a company that believes strongly that, “Our most important assets go up and down the elevators every day.”

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The Immigrant Dream

“Give me your tired, your poor, your huddled
masses yearning to breathe free...”

Emma Lazarus, “The New Colossus,” plaque on the Statue of Liberty, New York

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uring the last half of the 19th century, more than 2 million men, women and children fled famine and poverty in Ireland to settle in the United States. Too little is known about most of these travelers, or about immigrants from other countries and in other times. Their individual stories of courage and faith are lost, leaving only the general sense of a country settled by people who were willing to take chances, who believed in themselves, who saw a brighter future and pursued it across oceans and continents. ■ One of these Irish immigrants was a young boy named John James Gallagher, who became the father of Arthur J. Gallagher. John, who was called Jack, made the journey to America all alone, although he was no more than 10. ■ Jack probably came to the United States in the 1860s or 1870s. This was years after the great potato famine of the middle and late 1840s, but Ireland was still a very poor country, with little to offer its younger sons. Many of them decided to take their chances in the brave New World. ■ When Jack said goodbye to his mother in Limerick,

Ireland, both of them knew they would never see each other again. In a drama acted out millions of times in all corners of the world, he turned away from his past and sailed off to what he hoped would be a better future. His grandsons later believed that the courage and self-reliance their grandfather had shown in coming to America became an important part of their characters – and of the character of the company that their father went on to establish.

Little is known about the facts of Jack’s emigration and his early years in his new country. One version of the story says that young Jack made the trip from Ireland to Boston, then traveled on to Chicago in search of his brother. When he arrived in Chicago, though, the brother had died or moved away. The Irish neighbors took in young Jack, but he missed his mother and wanted to go home, so the neighbors gave him money for the return passage. However, when the boy was standing at the harbor in Boston, ready to board a ship for Ireland, he remembered that he had been seasick all the way over. He decided he didn’t want to do that again, and he went back to Chicago.

According to another story, Jack came to live with his brother, who was a police officer in New York. The older brother had left Ireland several years earlier, so when the younger brother walked into the precinct house unannounced, the older brother didn’t recognize him. The youngster piped up, “Don’t ya know me? I’m John James.”

Yet another version is that Jack came to Chicago to live with a cousin who worked in a shoe store on Lake Street. The cousin had written to his relatives in Ireland, telling them of the wonders of his new home, and young Jack decided to see it for himself.

As a young man, Jack became a salesman, beginning a Gallagher tradition of sales. In fact, decades later his grandsons, owners of one of the largest insurance brokerage companies in the world, would refer proudly to themselves as “peddlers.”

Jack Gallagher was an impressive salesman, with a certain amount of wanderlust. A photo shows him in Dallas in the 1870s, for example, and he also spent time in Salt Lake City.

His experience in Salt Lake City showed his keen understanding of the importance of knowing your customer. He was selling zithers, and he discovered that it was very hard for an Irish Catholic immigrant to sell zithers to the largely Mormon population of Salt Lake City. So he became a Mormon – and sold a lot of zithers. Later, when he left Salt Lake City, he converted back to Catholicism.

Eventually, Jack Gallagher settled in the large Irish community on the West Side of Chicago. He married Mary Fitzpatrick, a schoolteacher whose ancestors had come from Virginia to Kentucky to Illinois. Jack and Mary became the parents of Gertrude, Daniel, Alice and their youngest child, born on December 23, 1892, whom they named Arthur James.

The West Side neighborhood where the Gallaghers lived centered around St. Columbkille Parish, at 1648 W. Grand. Like most Catholic immigrant neighborhoods, the West Side produced its share of priests. It also was the childhood home of several men who became very influential in the business and sports history of Chicago, including Arthur J. Gallagher, George “Papa Bear” Halas and Jim Hannah, owner of Hannah Trucking Co. and Hannah Inland Waterways and grandfather of actress Daryl Hannah.

But St. Columbkille’s Parish and its environs was a very tough neighborhood, the home of Roger “the Terrible” Touhy and his brothers, the sons of an alcoholic Chicago policeman. All of the Touhy boys turned to crime, and all died violently.

The Gallaghers learned early how to stand up for themselves against bullies like the Touhys. One of the Touhy brothers had a long scar across his cheek, courtesy of Gertrude Gallagher. He had tried to steal her ice skates, and she had retaliated by hitting him across the face, slashing him with the blade.

Incidents like these made the Touhys less than anxious to tangle with the Gallaghers. As a young man, Art was returning on the trolley from a date with his future wife, Katherine Madden, who lived on the North Side. He was walking home from the trolley stop under a darkened viaduct when he heard the sound of the distinctive walk of “Tit” Touhy, who had a clubfoot, following him. Tit had been hiding under the viaduct, waiting to relieve some wee-hours stroller of his wallet.

When Art realized that he was being followed – and by whom – he said loudly, “Tit, it’s Art Gallagher.” Tit came out of the shadows – holding a huge gun. “Art,” he said cheerily, “what are you doing out this late?”

Young Art grew up with a passion for sports. He was a gangly kid, thin and wiry with big Irish hands, and he was an excellent pool player. In fact, when he was in his early teens, the family lived upstairs from Kelly’s Saloon and Pool Emporium, and Art sometimes played “for the house.”

He also was an accomplished bowler. As an adult, he bowled in the Classic League, made up of the best bowlers in the city of Chicago.

But his special love was baseball. As a boy, he got a job cleaning up at the old Chicago Cubs baseball park on the West Side for \$5 a week. The job not only gave him an income, but it allowed him to hang out with the ballplayers. He picked up a lot about baseball – and no doubt a fair amount about life – from his new friends, and he developed into an impressive young ballplayer. In fact, he had hopes of signing a professional contract with the Chicago Cubs.

These baseball dreams were unpopular with his parents, Jack and Mary, however. They had higher ambitions for their youngest son than a life spent in the company of ballplayers, whom they felt were a bad influence. So, after his graduation from grammar school, they sent Art to high school.

Art went to DePaul to study bookkeeping. After earning his three-year

bookkeeping degree, he started work at the Prussian National Insurance Co., beginning a lifelong relationship with the insurance industry.

About this time, also, he met Katherine Madden. Katherine, the oldest of four children of Patrick and Katherine Garvey Madden, was a schoolteacher.

When Art began dating Katherine, the Maddens were North Side Irish, with a big house, a comfortable income and an elevated social status. The Gallaghers were from “the wrong side of the tracks.” The Maddens were uncertain about the future prospects of Art. They liked him personally, and they respected his intelligence and ambition. But, at least in Art’s view, they would have preferred that he be of a slightly higher social class.

Patrick Madden came to Chicago from Rochester, New York, where he owned a plumbing supply business that had a huge sign. During a storm, the sign blew down on a man and killed him. This accident so devastated Patrick Madden that he sold his business in Rochester and moved to Chicago.

In Chicago, he became a vice president of James B. Clow and Sons, a plumbing supply house and cast-iron pipe manufacturer on Chicago’s West Side. He also was an inventor who developed many innovations in the plumbing industry. He invented the first gravity flushing toilet, and he invented the bubbling water fountain after he saw people coughing with tuberculosis using the public drinking glasses on a train.

He also was a leader in the development of sanitation methods. After disease began to devastate crews working to build the Panama Canal, he was recruited to go to Panama to set up a sanitation system. He also was called to Cuba on a similar mission.

Despite the differences in family status, though, Katherine’s affection for Art grew. Soon, however, the young couple’s courtship ran into opposition from another, larger source. World War I broke out, and in 1917, Art enlisted in the

Army's Illinois 33rd Division, 108th Engineers.

Art was sent to Texas to train, and then went to France to serve under the legendary John J. "Black Jack" Pershing. Art served as a combat engineer in the trenches with his childhood buddy, Eddie Daly, who later became superintendent of detectives in Chicago. According to stories the two told later, they won the war together.

The humorous anecdotes, though, masked the realities of war that the two experienced in France. The 33rd Division saw action in nine major engagements. The division's final count was 798 killed, 7,527 wounded, 18 captured and four missing. Its members went home laden with medals, including 118 awarded by the United States, 52 awarded by England, 47 by France, and one by Belgium. Art's whole battalion was decorated for bravery by the French government. Art, who had risen through the ranks to sergeant major, was notified that he had been selected for officers training just before the armistice of November 11, 1918.

Art came home an officer and a gentleman in 1919. During the war, the Prussian National had been confiscated, so Art went to work for Moore Case Lyman & Hubbard, again as a bookkeeper. At that time there were no major national brokers; insurance was sold by small agents, many of whom also worked at other jobs. Moore Case Lyman & Hubbard was the largest insurance agency in the city, located in the Insurance Exchange building in the Loop.

On April 22, 1920, Art and Katherine Madden were married. Their union would last 65 years, until Art's death in 1985, and produce four children.

Art's love for baseball also continued. He played in semi-professional leagues for many years. His playing days finally ended in the mid-1920s in Three Lakes, Wisconsin.

Art had been asked to play as a ringer in a baseball tournament in Three Lakes.

In those days, towns had their own teams, and a lot of betting was done at tournaments such as this one. For his efforts, Art was to be paid \$20 a game, or a total of \$60 – not an insignificant amount of money for a weekend of games.

He was playing third base in a close game, with runners on base. The batter hit a sharp ground ball to Art, who fielded it cleanly and turned to start the double play. The runner coming in from second base had no chance of being safe, so he opted instead to break up the play, coming in spikes high and slamming into Art's knees. The resulting injury ended Art's playing career, and left him with permanent damage to his knees.

Even before the injury, though, baseball was only a passionate diversion. Business became the focus of Art's life. His experience at Moore Case confirmed something that Art had come to realize at Prussian National: The people making the real money in insurance were the people selling it. Arthur J. Gallagher was confident that he could sell insurance, too.

He made a deal with his new employers. If he could get his regular bookkeeping work done, either by coming in early or by staying late, he could try his hand at selling insurance. Moore Case had nothing to lose from the agreement. They got a commission on every piece of business their enterprising young bookkeeper sold, and they got their clerical work done, too. And, since Art was paid on commission, Moore Case only paid him if he made money.

And make money he did. He just went out and rang doorbells, developing the cold-calling expertise that would serve him so well several years later. Soon he was the top producer at Moore Case, and hung up his bookkeeper's pencil forever.

Patrick Madden had died while Art was in France. Madden was a dandy, changing his suits several times a day, and he also was a generous man. Every day when he got off the train, panhandlers were waiting for him because they knew he would drop a quarter in their cups – a princely sum in those days.

One of these panhandlers made Patrick Madden his heir, and when the man died, he left some property in a place called Smackover, Arkansas. Years later the property turned out to be in the middle of an oil field, and Art Gallagher went to Smackover and negotiated a lucrative mineral rights agreement. Katherine Garvey Madden rewarded her son-in-law for his negotiating skills with a pat on the back and some used furniture.

By this time, Art and Katherine were living in Hubbard Woods, in the northern suburbs of Chicago, with their growing family. They welcomed all four of their children during the 1920s: A. James (Jim) on July 9, 1921; Robert E. (Bob) on January 1, 1923; Katherine (Kate) on December 11, 1925; and John P. on August 9, 1927.

The family grew, and Art continued to sell insurance. But he increasingly was troubled by the realization that he was seen at the agency as its only “street guy,” while the rest of the producers were perceived as having higher social status, being more upscale. The final straw came when he discovered that, despite his position as top producer, he was being paid less than the “fancy Dans.”

Art was outraged. He was the best salesman the agency had, and he was not being compensated for that. He had developed a close working and personal relationship with the Hartford Accident and Indemnity insurance company and George H. Maloney Sr., who headed the Chicago office of Hartford A&I. So, with the blessing of Maloney and with Hartford A&I as his first insurer, Arthur J. Gallagher wrote the following letter, and Arthur J. Gallagher & Co. was born:

August 25, 1927.

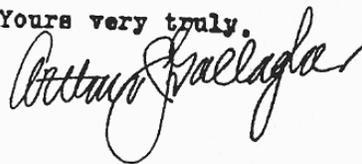
Moore Case Lyman & Hubbard,
Insurance Exchange,
Chicago Ill.,

Attention of Mr. F. W. Moore,
Personal & Confidential.

Gentlemen:

After due consideration, I wish to terminate
my association with the firm of Moore Case Lyman &
Hubbard, my resignation to take effect October 1, 1927.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Arthur J. Gallagher".

