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SCHOOL OF BUSINESS
INDIANA WESLEYAN UNIVERSITY

MAKING BUSINESS VIRTUOUS

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Jay Hein & Gary Wilkinson, Ph. D.

10/26/2015

Abstract

This paper speaks to the growing disenchantment of capitalism and introduces virtuous business as the only antidote capable of restoring trust in the free market system. What is recognized is that now, more than ever, there is need for a clear distinction between values-neutral capitalism and virtuous business. Two case studies are exampled. The first showcases how The Andersons, Inc. maintains a culture of ethical decision making, even amidst growth through acquisitions. The second case covers Tyco, and how new leadership approached the rebuilding of company culture following massive fraud.

Finally, the paper posits that the objective of becoming or remaining a virtuous business is the overarching goal for a business. It is always a work-in-progress, an aim never totally achieved; but, an organization that steadfastly strives to be virtuous gains the greatest opportunity for longevity and provides the greatest benefit to society.

Making Business Virtuous

Presented by:

Making Business Virtuous

"There is no right way to do the wrong thing." This was a core operating principle for Dayton Molendorp, whose decade as CEO of OneAmerica increased assets from $15 billion to more than $36 billion (Swiatek, 2014).Notably, much of that growth occurred during the 2007-09 recession.

Molendorp's leadership suggests that old-fashioned values can translate into success in the new economy. And he is not alone. Former Pepsico chairman and Wake Forest School of Business Dean, Steve Reinemund, said in an interview with Seattle Pacific University's (SPU) Center for Integrity in Business:

> '…the purpose of business is to provide goods and services for society in an ethical manner that provides a sense of well-being for employees, supports a livelihood for families, enhances the economy of communities, and provides a reasonable return for owners.' (Erisman, n.d.).

Reinemund notes that business education in America does not produce such leaders today (Erisman, n.d.). The modern push for more rigor in business education has fueled a transition from "soft skills," such as leadership, to more technical skills-based curriculum. As described in this DeVoe white paper on business education, Indiana Wesleyan University (IWU) is delivering what Reinemund calls for—a return to a business schools' emphasis on leadership (Erisman, n.d.).

This paper will consider the growing disenchantment to capitalism and introduce virtuous business as the only antidote capable of restoring trust in the free market system. IWU's conference on Adam Smith (London, October 2011) established the intellectual foundation for this section of the paper: the economic order described in Smith's book, Wealth of Nations

(1776), only works when practicing the values described in his other book, The Theory of Moral Sentiments.

Business was Birthed in Virtue

It's worth noting that the modern practice of business was indeed birthed in virtue. In his classic book, The Protestant Ethic and the Spirit of Capitalism, Max Weber (1921) writes that the rise of capitalism is attributable to faith-based ethics. As the Protestants taught individual responsibility, so the market benefitted from honest dealing and a network of trust that serves as glue for the free market.

> "Self-discipline, a sense of justice, honesty, fairness, chivalry, moderation, public spirit, respect for human dignity, firm ethical norms—all of these things which people must possess before they go to market and compete with each other. These are the indispensable supports which preserve both market and competition from degeneration. Family, church, genuine communities, and tradition are their sources" (Ropke, 1960, p. 125).

Catholic philosopher, Michael Novak (1982), picked up the same themes in his book, The Spirit of Democratic Capitalism. Whereas, his book advances our understanding of virtuous business, his other writings have illuminated the virtues of business. Just as Adam Smith (1776) was the first to conceive of a world without poverty, thanks to the rise of wealth creation Novak (1982) contrasts the Asian and African experience over the past several decades as empirical evidence of capitalism's blessings to the poor.

As China and India adopted capitalist economic methods since the early 1980s, they have combined to raise more than a half billion out of poverty. Novak (as cited in Malloch, 2008) exclaims that "never before have so many people emerged out of hopeless lives in so short a time" (p. xx). Africa, on the other hand, remained mired in socialist economic schemes, or simply dictatorships, and its poor has swelled during the same time period. Consider this, in

1970, 76% of the world's poor lived in Asia and only 11% lived in Africa (World Bank, 2010). Today, 15% of the world's poor lives in Asia and 66% lives in Africa (World Bank, 2010).

Theodore Malloch (2008) has taken the baton from Smith (1759), Weber (1921), and Novak (1982). Malloch's recent book, Spiritual Enterprise, builds on their work and takes on the paradoxical realities of capitalism's role in improving society while society remains skeptical of it. This paradox reached its apex in the 1990s when capitalism's triumph over communism seemed to settle the issue once and for all; yet, within a decade, there were widespread protests in such free market capitals as New York City and London over capitalist abuses that led to global recession.

Virtuous Business

Now, more than ever, there is need for a clear distinction between values-neutral capitalism and virtuous business. The former is susceptible to repeating the 2008 crisis and the latter is the means to macro benefits such as combatting global poverty, and micro benefits such as finding meaning and dignity in the workplace.

Spiritual Enterprise makes two big claims in this direction. First, it uses rigorous market analysis to determine that virtuous leadership contributes to business success. Second, it makes the case that free enterprise capitalism is wholly consistent with spiritual depth and moral commitment. Both of these claims rest on the notion of virtue, which Malloch (2008) defines as "a habit of excellence," and his book introduces the following virtues with over 60 real-life business case studies—each evidencing virtuous organizational practice resulting in personal and marketplace success: faith, hope, charity, courage, perseverance, discipline, compassion, humility, and others.

Malloch (2008) begins with a focus on the theological virtues of faith, hope, and love that form the basis of a spiritually attuned life. He then distinguishes between the "hard" virtues (e.g., courage, discipline) that gets things done, with the "soft" virtues (e.g., justice, compassion) that incorrectly get relegated to "stay-at-home" situations (Malloch), although they are vital to virtuous business.

Other contemporary experts help us understand why firms should strive to be virtuous: today's talent demands it. The Aspen Institute surveyed nearly 2,000 MBA students from 15 business schools to discover their attitudes about business and society (Trevina & Nelson, 2011). At the start of the 2008 financial crisis, nearly 80% of students claimed that a well-run company "….operates according to its values and a strong code of ethics" (Trevina & Nelson, 2011, p. 10). In contrast, less than 50% of the students claimed that well-run companies "…adhere to progressive environmental policies" (Trevina & Nelson, 2011, p. 10) and little more than half required "…competitive compensation" (p. 10).

University of Chicago scholar, Amy Kass (2002) asserts that such impulses need to be instructed. She challenges business schools to teach virtues with such content as she gathered in her landmark book, The Perfect Gift. Christian education has a distinct contribution to such teaching given its orientation toward Christ-centered value over material value.

Consider today's debate over the workplace. Gallup CEO, Jim Clifton (2011), recently wrote a book called The Coming Jobs War. He cites Gallup's research of the world's 7 billion people attitudes toward work. Of the 5 billion aged 15 or older, 3 billion need a full-time job, but only 1.2 billion such jobs exist in today's global marketplace (Clifton, 2011, p. 2). Clifton believes that this will lack of good, available jobs will threaten countries' well-being and creating good jobs will be the top leadership challenge in the new century. In other words, tomorrow's power

> "Tomorrow's power brokers will be job creators." ~ Jim Clifton (2011).

brokers will be job creators.

Juxtaposed against this growing demand for good jobs is the danger of placing too much of one's self-worth in our jobs. Work should be everything it was designed to be (glorifying God through the full use of our talents) while not allowing it to be what it was not designed to be (the source of our identity) as John Beckett (2006) has shared in Loving Monday: Succeeding in Business without Selling Your Soul. Tim Keller's (2014) faith and work ministry leaders report that much of the workplace stress reported by congregants is fear of performance reviews. Redeemer's marketplace teaching team addresses this inherent insecurity with Christ's assurances of inherent worth (Keller, 2014).

So what are the characteristics of a virtuous business? Companies that meet the increasing demands of global competition for market share with an ethical culture and human capital development focus will have a competitive edge in the new economy. Virtuous firms are characterized by having high integrity, a striving for excellence in their provision of products and services to consumers, in addition to excellence in business leadership and management practices, a culture of open communication, cooperation and collaboration, and a system of measurement and accountability throughout the organization.

Leadership and Organizational Challenges to Become or Remain Virtuous

In the previous sections, the characteristics of a virtuous corporation and the reasons why firms should strive to become or to remain a virtuous corporation have been discussed. This section will describe the leadership and organizational challenges in the process. It is not an elusive process, but it does require fortitude. To create a culture of ethical behavior requires an organization committed to ethical decision making, a system of training and mentoring to build ethical character among the employees, and the necessary incentives and checks and balances to make it happen. Of course, no organizational structure ensures ethical decisions. But an organization with leaders—servant leaders—who set an example of ethical conduct, and a structure established to provide proper incentives for ethical decisions with appropriate checks and balances, training, and communication, are key components of a virtuous business.

By example, Jesus taught the disciples about servant leadership by serving them (John 13:1-17). He role-modeled the desired attitude and behavior, and deeper still, he imparted wisdom.

> "The primary perspectives of the servant leader are twofold: When his people achieve their full potential so will his enterprise. When they have all bought-in to a common and shared purpose, a goal that transcends their own functional objectives and which is about serving God, they will work coherently, cohesively and collaboratively towards the achievement of that purpose, for themselves, for the enterprise and for God" (Waddell, 2014, p.10).

This section will first describe some fundamental organizational requirements for promoting ethical decision making, and, secondly, discuss how individual decision makers must correctly frame business problems. Finally, the need for planning, open communication on ethical issues and necessary checks and balances within the organization will be addressed. The objective is to implement an organizational structure which fosters ethical decision making. It is an objective that is within the direct control of the firm's leadership, and one that recognizes that the execution of ethical decision making by individuals within the organization can be influenced by the example of leadership, training and continuous reinforcement, and incentives which reward ethical behavior.

One of the troubling features of many corporations is that they have the goal of being an ethical corporation in their mission statements and a code of conduct to support it, but they never develop a corporate culture of ethical conduct. In a 2012, Wall Street Journal blog post titled "Survey Finds Unethical Business Practice on the Rise," Chris M. Matthews (2012) spotlights one of the findings which claims that "Of the more than 1,700 executives polled by Ernst & Young for its annual fraud survey, 15% said they were prepared to make cash payments to win business, up from 9% in the previous survey" (para. 1). Within this sample, 81% of the business executives knew that their firms had anticorruption practices (Matthews, 2012, para. 4). However, less than half of the respondents could recall if any discussion or training on these practices (Matthews, 2012). With cases of corporation fraud such as Enron and World Com, where thousands of people lost jobs and investments were lost, there is still considerable work to be done within both the areas of improved organization and improved decision making of individuals within the firm.

Organizational Structure to Support an Ethical Culture

As with most management challenges, the organizational structure to support an ethical culture can be easily described but it is difficult to implement and maintain. The firm must purposefully and intensely focus on assuring that an ethical framework influences all decision making within the organization. This requires that the firm's leadership must:

- Set the standard that ethical considerations are part of every major business decision and constantly communicates that decision-making framework to the organization.
- Establish an employee incentive system that clearly demonstrates that ethical behavior is required, valued and rewarded and that unethical behavior (even if this behavior may result in short-term benefits) is not tolerated.

- Ensure the organization has established a system of checks and balances on decisions which bring additional views into the decision-making process.
- Implement a measurement system for measuring how well decisions align with the firm's values.
- Have a planning system in place which provides lead time for major decisions, so that a systematic review of ethical issues is always part of the decision process.

The modern basis for the argument that business ethics is essential for the proper functioning of an economy is in the writing of Adam Smith. Prior to writing his famous book The Wealth of Nations (1776), he wrote a book called the Theory of Moral Sentiments (1759) where he argued that an economic system must be based upon moral principles. This formed the basis for Smith's argument that competition and the so called "invisible hand" would provide benefits to society, but only if firms were committed to moral principles in their conduct. Thus, the objective for a business is to craft an organizational structure which responds to the myriad of challenges associated with running a profitable organization, while abiding by ethical principles. Smith (1759) based his view of moral sentiments on Biblical principles and this was the early bridge which merged the need for Christian ethics with sound business management for the benefit of society.

Virtuous Leadership is the Foundation of a Virtuous Corporation

> "Business direction is defined not only by a clear vision but by a set of core values. If well thought out and effectively communicated, such values are a powerful means of focusing the energies of an organization. They become the channel markers guiding the corporate ship toward the fulfillment of its vision" (Beckett, 2006, p. 148).

The foundation of a virtuous corporation is virtuous leadership. This leadership must establish the corporate values of ethical decision making and demonstrate a steadfast commitment to these values by their collective actions. Virtuous leaders recognize that organizations are more than just financial in nature; organizations also have a social and spiritual component. Virtuous leaders are committed to the premise that organizations need to develop, not only financial capital, but social capital as well as spiritual capital.

Financial capital is generally understood by the business community; capital is developed from the excess of financial revenues over expenses; financial capital, therefore, deals with how organizations (and individuals as well) handle their property and profits. Social capital deals the relational aspect of the stakeholders; building social capital requires prioritizing relationships with employees, customers, shareholders, communities, and others. Operationally, building social capital requires acknowledging and supporting the four institutions established by God that provide for the relational needs of people: the church, government, business, and the home.

Building spiritual capital requires acknowledging that there is a higher authority than simply man. For the Christian, this higher power is God and building spiritual capital means that individuals and organizations make decisions and behave in ways consistent with biblical principles with the goal of honoring God. To this end, a clear statement and commitment to the organizational values and objectives are needed. But this is just the first step.

Although business leaders would like to think that all employees will make ethical decisions, the fact is that leadership must continually communicate that ethical decision making is the highest priority for the firm, establish employee conduct standards and incentives which match the values of the firm, put in place the organizational checks and balances on the decision making process, and implement a system of measurement and reporting to evaluate how well the firm is doing. All of these steps are needed to make ethical standards a part of the corporate culture. Unfortunately, many have a clear understanding of financial and operational goals and objectives, but only a vague notion of how ethical considerations must be part of the decision making process. A corporate culture, which has established a vocabulary and process for open discussion and collaboration on issues of ethics, must be established by the leaders and fostered throughout the organization. There have been too many instances of firms with noble mission statements which never guided the day-to-day decision making of the employees.

Perhaps the most egregious example was in the case of Enron. The mission statement of Enron advocated ethical conduct throughout the firm, but the corporate culture not only tolerated, but encouraged, unethical accounting and operational decisions which increased short-run profits. However, this culture without ethical checks and balances eventually destroyed the firm, as well as the accounting firm of Arthur Andersen. Within Enron, the highest-level check for decision making within the firm, the corporate Board of Directors, proved inadequate. Information flow on decisions having vital ethical consequences was restricted, and the independence of their external auditors, Arthur Andersen, was clearly compromised. The Enron collapse was one of the major reasons for the Sarbanes-Oxley legislation, which was intended to bring greater accountability and transparency to corporate decision making (Sims & Brinkmann, 2003).

Implementing an Ethical Organizational Structure

Beyond setting up an organizational structure which encourages ethical decision making, some management research from decision theory can inform business leaders on potential problems with implementing this structure. As Kantor (2011) described, business leaders often fail because they define their business by financial performance and not a higher purpose. This is the issue of framing. Kahneman and Tversky (1980) developed the concept called prospect theory, which espouses that decision makers are often led to a particular solution by the way the problem is framed. Frame a problem in a positive way, and we make one decision; frame the identical problem in a negative way and we make a difference.

> Frame a problem in a positive way, and we make one decision;
> frame the identical problem in a negative way, and we make a different decision.

The problem of incorrect framing of a decision may also involve narrowing a decision to a simple technical issue, thus avoiding the ethical implications. For example, the large telecommunications firm, World Com narrowed the problem of using unethical accounting practices to increase profits to a narrow technical decision of whether certain costs were expenses or could be capitalized. A small ethical breach of incorrectly accounting for these expenses allowed for greater apparent short-run profits. Unfortunately, this led to the “slippery slope” of continuing the practice until the problem was so large that it destroyed the firm.

Focusing on short-run versus long-run implications of decisions also is framing trap. In decision making, we tend to heavily discount the potential future effects of an action compared with the immediate gratification of benefits. There have been several well publicized instances of firms seizing upon short- term profit opportunities at the expense of their long-run reputation. One of the causes of the 2008 financial crisis was the bundling of complex mortgage bonds along with the rating of these bonds by several of the major bond rating firms. This led to a clear conflict of interest, as the firms were able to increase short run profits by giving these bonds high ratings indicating low risk. However, history showed that these short-run profit motivations contributed to a world-wide crisis in trust for our financial institutions. A familiar quote attributed to investor Warren Buffet summarizes the consequences of a short term profit focus without considering the long term ethical considerations. “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.” (“Warren Buffet,” 2015).

Finally, the individual decisions on behalf of the firm by managers and leaders can be influenced positively or negatively by the formal organizational structure as well as the informal organization. An organization which encourages open dialogue and exchange of information improves overall decision making and specifically the evaluation of ethical questions. It is naïve to think that ethical decisions are easily made. Often, there are multiple possibilities and ambiguity. The literature on decision theory informs us that we all come with biases based upon our backgrounds and knowledge base (Bazerman, 2011, p. 37). Nevertheless, establishing a decision-making model of dialogue and transparency gives the organization the best opportunity to abide by its goal of being (or becoming) a virtuous business.

Case Studies

Two case studies are provided in this section of the paper to illustrate the organizational challenges of being a virtuous business. The first details how The Andersons, Inc. continues to focus on maintaining a culture of ethical decision making, even amidst growth through acquisitions. The second covers the well- known example of Tyco which was rocked by a massive fraud incident. The focus of the case is on how new leadership approached the rebuilding of company culture.

The Andersons, Inc.

The Andersons, Inc. is a five billion dollar diversified agricultural services company based in Maumee, Ohio. The enterprise has five business groups: Grain, Ethanol, Plant Nutrient, Rail, and Retail. The company was begun in 1947 by the Anderson family, and continues driven by the same principles initiated by its founders. “What began as a single grain elevator and one man’s dream has grown into a publicly traded company with diverse interests (The Andersons, Inc. 2015f, History, para.).

The Andersons, Inc. website informs of the company’s values, mission, and objectives, all of which have been institutionalized as part of the company culture:

Values.

Beliefs Customers Employees Shareholders Communities

Beliefs. This company is founded on the belief that all of us are subject to a higher and divine authority, and that we should aspire to goodness, integrity, fairness, respect and those virtues which we think are consistent with divine will. We believe that possession of these qualities develops self-esteem, merits the approval of others and enhances both private and public welfare. (The Andersons, Inc., 2015a, Beliefs, para. 1).

Customers. Our competitive economic system makes it essential that we place constant and primary focus on satisfying the needs of our customers. We should not lose sight of the fact that it is the customer who pays everyone’s salary and who decides whether the business is going to succeed or fail. Everyone in the organization should realize that the customer comes first and that every customer is important. (The Andersons, Inc., 2015c, Customers, Para. 1)

Employees. We believe in the dignity of honest work and that working toward Company goals should provide support and opportunity for each member of the organization to establish and progress toward personal goals. (The Andersons, Inc., 2015d, Employees, para. 1)

Shareholders. If our Company is to continue to thrive, a fair return on investment is essential. We are, therefore, committed to a strong and aggressive pursuit of profit and growth. Growth in total shareholder value should be consistent with our responsibilities to our other stakeholders but, in the final analysis, it must occupy a position of central focus if we are to succeed in our competitive environment. We intend our growth to be focused and disciplined. (The Andersons, Inc., 2015e, Shareholders, para. 1)

Communities. As we have emphasized, the primary focus of our Company is service to our customers. If we are successful in providing our customers with products and services that are of clear value, we have fulfilled an important aspect of meeting our obligations to the communities in which we live and do business. We believe, however, that both individually and collectively, our community obligations extend considerably further.

We feel we should generously share our time, talents and financial resources in pursuit of solutions to our social problems and in support of other worthwhile community endeavors. We also encourage and stimulate others to do the same.

We believe that a reasonable portion of profits should be contributed to charitable causes. The Anderson Foundation has been established as a major recipient of these contributions. It serves as a source of funding for a wide variety of charitable causes. Over the years, the Company has also funded a variety of endowments, such as the Andersons Fund Supporting Organization, which continue to support specific or general causes–hopefully, in perpetuity. As a stimulus to personal giving, the Company has adopted a gift-matching program wherein full-time employees may seek matching of individual contributions which meet established criteria.

As responsible members of our community, we should take appropriate steps to safeguard the health and safety of our employees, customers and neighbors and to protect the quality of the environment in which we work and live.

Finally, as good citizens, we should actively participate in, and provide thoughtful input and support to, our political and legislative processes. (The Andersons, Inc., 2015b, Communities, para. 1-5)

Mission Statement. We firmly believe that our Company is a powerful vehicle through which we channel our time, talent, and energy in pursuit of the fundamental goal of serving God by serving others. Through our collective action, we greatly magnify the impact of our individual efforts to:

- Provide extraordinary service
- Help each other improve
- Support our communities
- Increase the value of our Company

Stakeholders. In both the underlying philosophy and Mission Statement, the firm recognizes responsibilities to four stakeholder groups:

- Customers
- Employees
- Shareholders
- Communities (The Andersons, Inc., 2015g, Values, para. 4)

Objectives. The firm established the following objectives and mission statement:

- Business affairs reflect complete integrity.
- Products and services serve useful, constructive purposes.
- Opportunities are provided for employees to progress toward personal goals and to receive an equitable share of the income generated.
- Shareholders can realize a return on investment which is fair and sufficient to provide for the Company's growth and security.
- We contribute to the welfare of our communities, our nation and our world.
- Business activities reflect a proper concern for the health and safety of our customers, employees and neighbors and for the quality of our environment.
- Employment in the Company enhances, rather than jeopardizes, the proper functioning of the family, which we believe to be the foundation of society.
- The enjoyment of life and happiness of those with whom we are involved is enhanced.
- (The Andersons, Inc., 2015g, Values, para. 7)

The Andersons as an Example of a Focus on a Virtuous Business Culture

Many business organizations tout their mission and values statements as being an integral part of their business operations. However, businesses often do not adequately apply their mission and objectives in the day-to-day operations of the firm. The Andersons is an example of a firm which has created an organizational structure and culture which successfully drives their mission into the day-to-day decision- making process.

One of the major challenges is to maintain the culture of the existing organization while growing through acquisitions. For managing growth, the mission and objectives are a part of the review process of potential acquisitions to ensure a fit with the corporate culture. The decision-making process for potential acquisitions includes cultural components, along with the usual financial and operational criteria (T. Vogel, J. Burmeister, & D. Crow, personal communications, August 2015).

As a publicly-traded company, The Andersons announced an acquisition after the financial markets closed. The Andersons' leadership team immediately met with the employees of the acquired firm. A welcome packet was provided to all new employees along with a letter to their families, and during this initial meeting, the mission statement and guiding principles were presented so clear expectations were quickly established (T. Vogel, J. Burmeister, & D. Crow, personal communications, August 2015).

In terms of their day-to-day operations, the objective of safety is a central focus, sending a message to the employees that the firm is absolutely committed to the welfare of its workers and their families. In addition, the firm has periodic training on its "Statement of Principles" in management and employee training sessions. The principles are a component of the management review process and are used in job listing for potential new hires (T. Vogel, J. Burmeister, & D. Crow, personal communications, August 2015).

Interestingly, the principles have only been slightly changed over the years. Recently, there have been some additions to clarify issues of diversity, additional emphasis on safety, and environmental responsibilities.

As mentioned above, no organizational structure provides a guarantee of virtue in decision-making. But this firm has successfully embedded its mission and values throughout its organization. The firm has also recognized that businesses are more than places of employment and they see their firm as having a positive influence on society.

The Tyco Corporation

Tyco International is a world-wide provider of security, fire detection, and safety products. In 2014, they had over $10b in revenues (E. Pillmore, personal communication, September 23, 2015). The history of the firm has been one of significant changes. It has spun off several large segments of its business over the past decade, but the major change has been the need to rebuild the firm from a massive fraud perpetrated by executives of the firm in the early 2000's. The purpose of this review of Tyco is not to trace the history of the fraud which has already been well-documented (see the case study on Tyco by the Harvard Business School); instead, the intent of this section of the paper is to focus on how the firm approached the rebuilding of its culture.

Following the public revelations of the fraud and the resignation of the CEO and CFO, it was essential that both the employees and the other stakeholders in the firm knew that positive change would come quickly. A new board of directors was formed, as was a new executive team. Eric Pillmore was appointed by the new CEO, Ed Breen, as the vice president in charge of governance, and it was his team who was primarily responsible for leading change process of the corporate culture. The change in the corporate culture began with communication of four values for the corporation:

Integrity Excellence Teamwork Accountability

Interestingly, this was not just an internal communication, but a public document available on the company's public web site. This was a start, but, the main task in changing the culture was converting these stated values into specific and measureable behaviors expected of employees. The specific behavioral expectations were defined for executives, managers, and individual contributors.

In addition to the focus on changing the corporate culture, the firm expanded its internal audit staff (which led to a re-statement of some financial reports) and created an ombudsmen office to work with employees to resolve any ethical conflicts and improve communications. (E. Pillmore, personal communication, September 23, 2015). Tyco provides an excellent case study of a firm which had a catastrophic breakdown in ethical leadership. But, it also shows that ethical corporate culture can be restored with strong ethical leadership and a focused approach. The new leadership established corporate values but, importantly, executed these values by specifying appropriate behaviors and measurements. In addition, avenues of communication were established: there were significant personal changes, and the auditing process was significantly strengthened.

Conclusions

What are the lessons learned from this review of a virtuous business? The first is that it is worth doing. A firm that can be trusted has greater value, both to shareholders and society. In the case of Tyco, when trust was re-established, it was estimated that this was worth $8b in market value (E. Pillmore, personal communication, September 23, 2015). Yet, in stark contrast to the compelling research validating that ethical conduct has positive impact on the bottom line and with stakeholders, there continues to be on an almost daily basis a news release telling of unethical corporate practice. Citing one recent example—the German company Volkswagen—

we can conclude that the current ethical problems will easily dwarf the modest benefits the company may have garnered due to use of software intended to circumvent environmental testing on their diesel automobiles.

Reputation does have value—both tangible and intangible—for individuals and organizations. One of the more compelling disclosures found in the KRC and Weber Shandwick report, “The CEO Reputation Premium: Gaining Advantage in the Engagement Era,” is the recurring survey finding that CEO reputation is a fundamental driver of corporate reputation, and is unwavering in its contribution to market value….Global executives estimate that nearly one half of a company’s market value is attributable to its CEO. CEO reputation continues to be a premium form of currency and wealth in an economy where companies trade on their reputations every day. (KRC & Weber Shandwick, n.d., p. 2)

The second major lesson is that it is very easy to fall into decision making which ignores ethics and simply seeks to gain greater short-term profits. Narrow framing of decisions focused solely on technical, operational or financial components is inadequate. Virtually all major decisions have an ethical component which must be considered.

The third major lesson is that, although organizational structure can never guarantee ethical decision making, identifying and executing on specific behaviors which are expected, and measuring and rewarding on the basis of those measurements sends the proper signals to employees. In addition, it is essential for the organizational structure to have in place checks and balances and confidential outlets for employees to raise ethical issues,

Finally, building a virtuous organization comes down to virtuous leadership. This will only be accomplished when leaders and managers throughout the organization recognize that profits gained through unscrupulous means are empty and will ultimately end in corporate calamity; and, beyond that, erosion of the very system of free enterprise that so richly graces societies practicing this system.

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About the Authors

Jay Hein

President

Sagamore Institute

Jay Hein is president of Sagamore Institute, an Indianapolis-based think tank that he co-founded with US Senator Dan Coats in 2004. He was Deputy Assistant to the President and Director of the White House Office of Faith-Based and Community Initiatives from August 2006 to August 2008. Hein serves as Distinguished Senior Fellow at Baylor University's Institute for the Study of Religion and he directs the ISOKO Institute, an African think tank aimed at enterprise solutions to poverty. Earlier in his career, Hein was a welfare reform policy advisor to Governor Tommy Thompson of Wisconsin from 1994 to 1997 and director of civil society programs at the Hudson Institute from 1997 to 2004. Hein received a Bachelor's of Arts degree from Eureka College and an Honorary Doctor of Laws from Indiana Wesleyan University. He is author of The Quiet Revolution, a book about faith, service and better communities. He is also editor of The New Wisconsin Idea: Reinventing Public Compassion for the 21st Century and he serves as Editor-in-Chief of American Outlook, a public policy journal.

Gary Wilkinson, MA, Ph. D.

DeVoe Endowed Professor

DeVoe School of Business

Indiana Wesleyan University

Dr. Wilkinson lives in the Indianapolis area and is active at St. Marks United Methodist Church. He and his wife have four children and eight grandchildren. Prior to full-time teaching at IWU, he worked for 27 years for the GTE Corporation. He is a past president of the Indiana Economic Forum, and has served IWU as the Faculty Chair for the Non-residential college, Chair of the University Faculty Relations Council, and Chair of the DeVoe School of Business. He was a recipient of the Paul Hoffner Award for contributions to adult education. In 2013, Dr. Wilkinson become Faculty Emeritus.

A Note of Thanks

A note of thanks is extended to Thomas Vogel, IWU Affiliate Professor, who kindly contributed information supporting The Andersons, Inc. case.

An additional thank you goes to DeVoe School of Business Advisory Board members Pete Ochs, Rodney Swope, and Eric Pillmore, who provided input on this paper. And with sincere appreciation we thank Brent Garrison, VP for Education, CEO Forum for his review and feedback.

Pete Ochs

Pete Ochs is the founder of Capital III, a private equity firm committed to creating economic, social, and spiritual capital. Prior to founding Capital III, Mr. Ochs spent 8 years in the commercial banking industry.

Eric Pillmore

Eric Pillmore retired in 2014 as the Senior Advisor to the Deloitte Center for Corporate Governance. Eric now serves on the boards of several companies and non-profits, as well as providing corporate governance best practice leadership in his role as President and CEO of

Pillmore Consulting LLC, and serving as General Partner with the Amore Group Inc., a private multi-family real estate management firm.

Rodney Swope

Rodney Swope serves as Director at the Minority Business Accelerator (MBA). Prior to joining the MBA, Swope worked in supply chain management at P&G and owned and operated consulting and other businesses. He currently serves as board chair for City Gospel Mission in Cincinnati.

Brent Garrison

VP for Education at the CEO Forum

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