CASE STUDY
The Andersons, Inc.: Virtue and Change
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Mr. Thomas Vogel and Dr. Gary Wilkinson

DeVoe School of Business
 Preface

The Andersons is a four billion-dollar agricultural firm based in Maumee, Ohio. It currently has four major groups – Grain, Ethanol, Plant Nutrient, and Rail. It recently decided to close its Retail Group after 65 years of operation. The DeVoe School of Business chose this firm for a case study due to its unique corporate culture, described by some as a “family culture” and by others as a “farm culture.” Recently, the firm has faced challenges by the effects of weather on agricultural production, and thus on the profitability of the firm. They have also focused on the need for improved efficiencies within the organization. The case study presents students the opportunity to examine how a real-world firm attempts to address important management and leadership issues that invariably firms must face in today’s global economy. It also presents an ideal example for a student to observe how this firm built and strives to maintain its unique corporate culture in the midst of both external and internal change. Corporate culture has been described as the glue that holds organizations together. It is the common understanding and collectively striving to achieve goals. Although difficult to measure, it is one of the most important attributes of the firm’s success. In the case of The Andersons, a culture of service to God and people has been a cohesive force throughout its history.

Questions are interspersed within the case study, and students should also examine the firm’s website (andersonsinc.com) and perhaps undertake a web search for other resources on this firm.
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Introduction

Research at the DeVoe School of Business at Indiana Wesleyan University has focused on understanding how businesses achieve and sustain virtuous business leadership and management. As part of that research agenda, the objective of this study is to describe how The Andersons, Inc., which has consistently striven for virtue in their business, has responded to both internal and external changes and draw some implications to overall management practices. The DeVoe School of Business case study team was composed of two faculty members who interviewed key current and former executives of the firm to explore how a virtuous corporate culture has been implemented and maintained and the challenges to maintaining this corporate culture due to market demands and competition. The interviews yielded some practical insights into the challenges of establishing a virtuous corporate culture and maintaining this culture in the midst of global economic change.

Background

The Andersons is a premier firm in the agricultural business. In today’s competitive marketplace, The Andersons Incorporated is widely recognized as a respected Ohio publicly traded company encompassing five distinctive business groups with over four billion dollars in sales revenues. Yet, this large organization with a trade-marked wheat symbol started over 70 years ago as a family’s small agri-business. “With purposeful establishment in 1947, Harold and Margaret Anderson, along with their six children, created the Anderson Truck Terminal (ATT) for faster grain hauling in Maumee, Ohio” (andersonsinc.com). The grain elevator offered nine bays which afforded quick truck turnover and better service to the local farming community.
During the next seven decades, the Anderson Family’s founding beliefs and principled operating philosophy and mission of “serving God by serving others” has been the basis for the business culture as their small company grew to become a premier agricultural firm (andersonsinc.com).

The Andersons’ organizational values and corporate culture originated from a family belief in divine guidance, hard work, and the free enterprise system. Service to others is the foundation of the corporate culture and is the corporate focus on customers and the other key stakeholders. The firm was organized into five groups, but they stress unity of purpose. Their web site states: “Five Groups. One Company. The Andersons focuses on developing enduring relationships through extraordinary service, a deep knowledge of the market, and a knack for finding new ways to add value as we have done for nearly 70 years.” (andersonsinc.com). Based on information from their corporate web site, The Andersons, Inc.’s Five Groups products and services are the following:

- The Grain Group provides merchandising and services to the grain industry, including the storage of commodities, Advantage Crop Insurance, Freedom Pricing Tools, Farm2Market, Grain Market Commentary and Feed.
- The Ethanol Group provides facility operations, risk management, ethanol and distiller dried grains marketing.
- The Plant Nutrient Group’s wholesale facilities formulate, store and distribute nutrient, specialty and industrial inputs.
- The Rail Group provides a variety of services to the rail industry including fleet management, leasing, repair and customer fabrication.
- The Retail Group is committed to honest values, vast selection, brand name quality and friendly service including General Stores, The Market, and Mower Centers.
Current Issues

The Andersons’ involvement in the world of agriculture is challenging. The firm’s pricing and profits are intrinsically linked to agricultural commodity output, largely the grains such as corn, soybeans, and wheat. Hence their financial performance is strongly correlated to the underlying components of the demand and supply characteristics of grain commodities. A smaller grain crop during 2015 reduced earnings for The Andersons due to lower volume owing to climatic challenges (affecting seed, fertilizer, and the grain storage business) in the eastern Corn Belt, and inconsistent performance from several of their business units. However, taking a longer term view, The Andersons has had excellent returns over their history. (In a recent announcement, the firm has decided to close its retail business. The business had sustained loses over the past few years.)
Questions for Discussion

What are some of the unique challenges of leading and managing a firm in the agricultural industry?

Why do firms in this type of industry often experience cyclical cash flows?

Definition of a Virtuous Business

In a while paper published by the DeVoe School of Business, Hein and Wilkinson (2015) defined a virtuous business as the following:

“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.”

Executive Insights
As mentioned above, a series of interviews with four key executives of The Andersons were conducted. These interviews covered leadership of those who are managing the company today and those who have built and led the company over the course of its evolution and growth. The four interviewees included Richard Anderson, a former CEO and chairman emeritus; Mike Anderson, the previous CEO and current Chairman of the Board; Patrick Bowe, current CEO of the Company and former executive of Cargill; and finally, Patrick Mullin, a financial expert, board member, and Chairman of The Andersons’ Audit Committee.

The case study team interviewed the elder statesman and board member, Richard Anderson, at his home at Anderson Farm in Maumee, Ohio. Richard Anderson provided the historical perspective on the founding of the Company. Richard, son of the company’s founder, Harold Anderson, related some insightful comments regarding his father’s initial failures in the business. The Andersons was not an overnight success. Quite the contrary; Harold Anderson’s initial business ventures were unsuccessful, leading him not only to question his business judgment but also precipitating severe personal challenges. Fortunately, his perseverance paid off. A new venture began as a small grain storage and trading firm, and this was the origin of the present company. That success enabled Harold to restore his personal confidence and the firm began a long period of growth. As the firm grew and expanded beyond the members of the family, the management challenges of establishing a formal organizational structure and formulating the strategic direction and values of the firm needed to be addressed. During this transition, leaders within the company exhibited some disparate views on the direction of the Company. After much internal debate, the Anderson family leaders coalesced on a strategic direction based upon their family’s faith values. The leadership asked the basic question: “Why are we here?” Their collective answer was that “We are here to serve God by serving others.”
That moment became the tipping point for identifying not only the culture of the company, but the direction of the company as well. It was indeed a moment that identified what the firm was intending to be and how it would be defined in the marketplace…an organization driven by faith-based principles.

Richard Anderson indicated that this faith-based culture and virtuous direction for the firm were critical to setting the strategic direction, but there were still critical issues that the growing enterprise had to face. He indicated that the growth of the firm meant that it could no longer be managed like a family business. It had become large agricultural business had to implement a management structure able to deal with the complex organization that it had become. These insights indicate that, at least in the case of The Andersons, a virtuous culture has many facets for the success. In the long run, firms require not only virtue in leadership and strategic direction, but also a professional management and performance accountability to achieve long term sustainability and growth.

Former CEO and current Chairman of the Board, Mike Anderson, provided some unique insights to the case study team since he managed the firm through growth and becoming a public corporation. It was clear from the start of the interview that Mike Anderson was thoroughly committed to servant leadership style. These following statements show this leadership emphasis:

- Blessings that come from work
- Work is not a “chore”
- It’s not always “about you”
- Be grateful for the ability to work
- Do it right
Business is for the “greater good”

Benefits of capitalism when done with virtue

Your word is more important than your thoughts

We are here to “serve”

Serve God by serving others

What was interesting to the case study team was the fact that it was the firm’s values and commitment to service that were the focus of his comments. One would normally think the previous CEO and Chairman of the Board would first talk about things like earnings, capital, growth, or productivity. Those issues were discussed but not until later in the interview. There was also a recognition that not everyone would embrace all of these values. But, an important strength of the culture was and continues to be an openness of the leadership to discuss how the culture needs to respond to market conditions.

One key transition which was described in the interview with Mike Anderson was the questioning of the strategic direction of the firm in the late 1990s. While participating in a corporate retreat at the University of Michigan (Mike prefers to term it an “advance” and not a retreat!), the leadership of the firm had to come to grips with whether the culture of the firm helped or hindered the overall operational and financial performance of the firm. Mike Anderson recognized he was walking a fine line. Organizational performance had to improve, as the cyclicality of the business and competition required greater efficiency. However, he did not want to destroy the culture of virtue that he and his predecessors had inculcated into the organization. Yet he knew that in some key measures of efficiency and competitiveness, the firm needed to rapidly and significantly improve performance. His leadership staff concluded that the corporate culture was a vital part of the firm, but there had not been sufficient focus on
accountability and constant improvement. This focus continued into his final days of his CEO tenure, as he expanded the “pay for performance” model that began under Dick’s leadership to be more in line with other corporate entities the size of his firm. In fact, in his interview he commented on the need for a “more purposeful culture,” with an affirmation of the traditional Andersons’ culture of virtue but a far greater focus on defined performance metrics with accountability for all employees, groups and the firm as a whole.

The Andersons has grown extensively over the last two decades, both through organic means and through acquisitions. During Mike Anderson’s tenure as CEO, the company had total revenue growth of 320 percent, with much of this growth coming from acquisitions. As generally known in the world of leadership, acquisitions can present some daunting cultural challenges to both the acquired and the acquiring firms. Mike Anderson and his team created a methodology or “cadence” that they have used to welcome the acquired firm and its employees to The Andersons team. Immediately after an acquisition deal is consummated, the acquired firm and its employees are introduced to the Company’s culture of virtue. Corporate buy-outs and takeovers are rarely smooth events for the acquired companies. The Andersons’ corporate culture facilitates the process and in most cases the acquired entities adopt the new culture over time.

**Questions for Discussion**

What would be your definition of a virtuous business?

What are the challenges for a firm like The Andersons in maintaining their corporate culture as they acquire firms?

Are firms that seek virtuous management and leadership inherently more efficient or less efficient that competitors? Provide a rationale for your response.
Leadership Change

The Andersons leadership changed for the first time from being a family member when Pat Bowe became CEO, President, and Director of The Andersons. Mr. Bowe was appointed into his roles on November 2, 2015, and is the first CEO of the firm who was not an Anderson family member. Yet it is quite clear that he has been strongly embraced by the Anderson family. Mr. Bowe’s message to the DSB case study team was very clear – in line with Mike Anderson’s “more purposeful culture” concept—he will focus on performance and accountability while maintaining the corporate culture which goes back to the founding of the firm.

An interesting aspect of the change in leadership was the manner in which Mike Anderson managed the transition to Pat Bowe. The transition was quick and complete, and the Anderson family fully and publicly supported the new CEO. Mike Anderson was very purposeful in ensuring full support for Pat Bowe and embracing an advisory role when appropriate.

Pat Bowe was clear that his priority is on performance in the organization, both financial and individual performance, while maintaining the virtues developed by his predecessors. One example he cited were safety measures and objectives. Although safety has not been a glaring issue with the firm, Pat identified certain practices that must be improved to limit safety threats. The very nature of the firm is that the employees deal with large mobile devices and mammoth storage facilities that by nature present potential hazards to them. Focus on safety is also part of the corporate culture of “value for the individual.”

Mr. Bowe is also focused on growing The Andersons’ revenues and earnings. As a seasoned leader in the world of agricultural, he clearly fit the experience profile the firm needed at this time. He has experience in managing very large organizations in the agricultural space
and possesses a highly successful track record for growing agricultural businesses. Perhaps most critically, he knows that he must accomplish his financial and organizational goals while preserving The Andersons’ culture. He clearly recognizes the challenges of managing a large and complex business in a cyclical industry.

The DSB case study team conducted a final interview with Patrick Mullin, a board member of the firm, and the Chairman of the firm’s Audit Committee. Mr. Mullin is a financial expert and has served on several corporate boards as well as senior leadership positions with large auditing firms. As a board member, he provided an interesting perspective on the culture of the company. The DSB team uses the term virtuous culture to describe the manner in which the company operates. Pat Mullin, on the other hand, described it as a “farm culture,” one exemplified by hard work, honesty, and respect for one another.

Patrick Mullin, a respected audit expert, pointed out some financial benefits in regard to the firm’s culture. One item he articulated in his interview was the fact that a culture like The Andersons is “self-auditing.” In other words, people operating within a virtuous culture are far less likely to become involved in fraudulent or otherwise inappropriate financial wrongdoings. The virtuous business, to a large degree, inoculates itself against financial impropriety because of its very nature. Furthermore, he stated in his interview that there are genuine cost savings associated with a company like The Andersons, as the audit and related costs are much lower. So Mr. Mullin highlighted something to the case study team that was not expected – virtue results in business cost savings. This was a very important benefit pointed out by the board audit chair.

Questions for Discussion
What are the advances and disadvantages of being a family led firm in building and maintaining a virtuous culture?

What are the unique challenges of a family led firm when a new leader outside of the family is being considered?

Do you agree virtue in management reduces auditing costs? Can you describe why the auditing process would be affected in a company like TheAndersons. Are there other cost savings or efficiencies that you can describe that are attributable to virtuous leadership and management.

Conclusions

This case study demonstrates an important principle of managing a virtuous business - it is necessary to develop and nurture a corporate culture that values the individual, strives for absolute integrity in dealing with all of their stakeholders, and strives to be good stewards and servants. These attributes tend to be classified as “soft skills” of management and are a necessary condition for running a business for long run success. To deviate from these virtuous principles may provide the temptation for short term benefits, but jeopardizes the long run prospects for the firm (the current example of Volkswagen is an excellent example of the temptation of short run benefits.) But these soft skills are not a sufficient condition for leading and managing a virtuous business. The virtuous business also must include establishing measurement and accountability of productivity and financial objectives for all employees. The executive interviews demonstrated how essential all components of virtuous leadership are for success.

The Andersons case study has helped the DSB case study team identify the following seven key points that are integral to the operation of a virtuous business:
1. The concept of the virtuous business is applicable and effective in a broad range of businesses and other organizations.

2. Incorporating virtue into a firm’s culture does not constitute just the soft skills such as integrity, stewardship and value of the individual. Virtuous businesses must also focus on the measurement and accountability for business performance.

3. “Leadership humility,” as demonstrated by Mike Anderson in his transfer of leadership to Patrick Bowe, is a key component of virtuous leadership.

4. The concept of the virtuous business reaches far beyond the walls of the firm itself. Virtue and stewardship extend to the firm’s role in addressing broad societal issues for which it is affecting. Specifically, in the case of The Andersons, the DSB case study team discussed the stewardship challenges associated with the agricultural industry. This could be addressed by developing innovative technologies that inhibit nutrient runoff at the farm, or alternatively, “recapturing” the nutrients at their point of final deposition. The case study team not only views this as a means of addressing a crucial stewardship issue, but also could create a business opportunity.

**Questions for Discussion**

One of the important policy discussions is the effect of agriculture practices on land management and pollution. Are there ways a firm like The Andersons can help in reducing pollution and improve stewardship of resources?

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Special thanks to the executives of the Andersons and especially to Debbie Crow for her assistance throughout this project.
Epilogue

The Andersons Case Study represents an ideal opportunity for students think deeply about the real-world challenges that firms face in the midst of uncertainty and change. Students should focus on understanding the characteristics of a virtuous firm, how a firm establishes a virtuous culture, how it must adjust to changing demographics and market conditions, while maintaining the fundamental essence of that culture. In the case of The Andersons, students should address how its virtuous culture helped propel the firm to become a multi-billion-dollar business, while coping with business challenges of weather, domestic and international pricing change, internal production efficiency and competition. Firms in agriculture face considerable challenges, with weather (of course, this has been case since early records were kept—a prime example being the account of Joseph and the seven good and seven lean years in the Old Testament—see below), wise stewardship of resources, and operational excellence. By its nature, firms in agricultural businesses will have variable cash flows. This firm has tried to build some diversification but also some financial reserves to cope with the realities of this business. One of the key discussion points should be the global nature of agriculture, since international commodity trade has been growing. The Case Study should challenge the students to better understand how external forces drive internal changes within an organization and how this may require some changes, but that the leadership in this example has steadfast in building on their the foundation of virtuous leadership-integrity, value for the individual, excellence in management processes, open communication, and accountability.

The management and leadership of The Andersons purposefully chose to maintain the corporate culture built by their commitment to serve. But, to do this better, leadership has focused on greater efficiency and specific and measureable objectives for all employees and
work groups. So, the leadership chose to respond to market conditions by building greater accountability but not diminishing their service to employees. This indeed presents a delicate challenge to their leadership. But, there will always be management challenges and possibly temptations for improving profits (the case of Volkswagen implementing software to deceive consumers and regulators on engine performance is a prime example.) However, wise leaders understand that virtuous leadership is the path for long-term success. Strong financial performance is an outcome of a mindset of service and wise stewardship.

**Agricultural example from the Old Testament**

“And Joseph was thirty years old when he stood before Pharaoh king of Egypt. And Joseph went out from the presence of Pharaoh, and went throughout all the land of Egypt. And in the seven plenteous years the earth brought forth by handfuls. And he gathered up all the food of the seven years, which were in the land of Egypt, and laid up the food in the cities: the food of the field, which was round about every city, laid he up in the same. And Joseph gathered corn as the sand of the sea, very much, until he left numbering; for it was without number.” (Genesis: Chapter 41, Verses 46-49)

“And the seven years of plenteousness, that was in the land of Egypt, were ended. And the seven years of dearth began to come, according as Joseph had said: and the dearth was in all lands; but in all the land of Egypt there was bread. And when all the land of Egypt was famished, the people cried to Pharaoh for bread: and Pharaoh said unto all the Egyptians, Go unto Joseph; what he saith to you, do. And the famine was over all the face of the earth: And Joseph opened all the storehouses, and sold unto the Egyptians; and the famine waxed sore in the land of Egypt. And all countries came into Egypt to Joseph for to buy corn; because that the famine was so sore in all lands.” (Genesis: Chapter 41, Verses 53-57)
References

