Case Study

R. W. Beckett Corporation: Corporate Culture

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ABSTRACT: *This case introduces strategic, integrity, and lifestyle issues that make it a suitable case in any class featuring strategic management or ethics discussions. It could be a good case for a capstone course such as strategic planning or an introductory management course. The application of this case has relevance for strategic management and business ethics theory and processes. Regarding strategic management organizational culture is the most relevant issue related to this case scenario. In the area of business ethics, this case could also be presented to support corporate culture. Other secondary topics which might be applicable to the case study include competitive advantage, corporate governance, internal and external environment, product strategy, leadership, and social responsibility.*

CASE SYNOPSIS

Kevin Beckett has recently become president and CEO of R. W. Beckett Corporation, a company started by his grandfather almost 70 years ago and effectively and efficiently run by his father, John, for close to 40 years.[1] Kevin will be leading the company into the 21st century with many changes and challenges on the horizon. One of the most immediate dilemmas was a decision to outsource some of the manufacturing activities to China.

The company had never outsourced labor activities to a foreign country before. However, increased competition and decreasing product margins necessitated that all feasible options be considered. Company employees had remained extremely loyal to R. W. Beckett over the years, even preferring to remain non-union in a highly unionized area and industry.

Greatly complicating the decision process was an underlying corporate culture of the organization. John, a devout Christian, had spent years perfecting a biblically based corporate culture that was foundational to all aspects of the business's activities. The thought of transferring some business to China, an atheist nation, with questionable labor practices, seemed to go counter to much of the values that the company stood for.

There were other corporate culture related issues that Kevin would soon have to confront, including new senior leadership, acquisitions, changes in society, and new entrants in the workforce, along with governmental non discriminatory regulations and intervention. Could or should the current corporate culture withstand these changes over time?

Kevin was also aware that a large percentage of family-owned businesses do not survive through the third generation. This added pressure made Kevin realize that decisions he made could be even more critical. Would the company corporate culture help or hinder Kevin's ability to operate effectively in the years ahead?

INTRODUCTION

In the fall of 2004, Kevin Beckett, 37, became president and CEO of R. W. Beckett Corporation, succeeding his father, John Beckett. John Beckett had been president from 1965 through 2003. As the third generation of the company's leadership, Kevin soon realized he would need to make some major decisions. To remain competitive, the company needed to reduce costs. The most feasible option appeared to be outsourcing some of the manufacturing functions to a foreign country — most likely China. Because of R. W. Beckett Corporation's values-based corporate culture, this outsourcing decision was even more complex for Kevin than for many manufacturing executives throughout the United States.

R. W. Beckett Corporation's values-based corporate culture, shaped by R.W. (Reg) from the company's inception almost 70 years earlier, was foundational to everything it did. John added a biblical dimension to this values-based approach after becoming a Christian. Kevin and his five siblings grew up knowing how important this concept was to their dad and how key it was to the company's success.

Now, with the company under his watch, Kevin realized cultural considerations would have to either be set aside or sustained across multiple "thresholds" as the company brought in new senior leadership, established facilities in other locations (including globally), made acquisitions, wrestled with changes occurring in society, and adjusted to the uniqueness of new entrants into the workforce. Decisions and actions in all of these areas would impact or be impacted by the R. W. Beckett corporate culture.

The most immediate dilemma was outsourcing. It would test the corporate culture in ways not previously considered. Kevin wondered how, if at all, Beckett's values-based corporate culture, which incorporated biblical principles like an absolute truthfulness and accountability to a divine authority, could be incorporated into foreign operations. In a country such as China with the government's promotion of atheism and where most of the population followed decidedly different standards and norms, the challenge was even greater.

John and Kevin Beckett

R. W. Beckett Plant

Kevin questioned whether the company's culture needed to extend globally or if it was sufficient to accept the corporate culture primarily for domestic decisions. However, if R. W. Beckett assumed an international or more global mission, regardless of the countries involved, any venture into foreign operations added new complexity to their corporate culture. Furthermore, was it a deal-breaker if the R. W. Beckett corporate culture didn't fit the norms and practices of an international community or society? Kevin knew that to keep jobs in-house and to serve the best interests of relevant stakeholders, changes such as these, at the very least, had to be seriously considered.

SUCCESSION

The succession of Kevin to CEO in 2003 had gone smoothly. John had focused for years on the character development of all six of his children along with instilling an appreciation for the family business. He often thought that eventually one or more of his children might join or even lead the business. However, for John there were some critical aspects to succession. Chief among these was his desire to preserve a values-based corporate culture rooted in the Bible, for this was indeed foundational to every aspect of his business and his life. Principles such as honesty, integrity, service, and quality were just a few of the concepts practiced under the Beckett corporate culture.

When the time was right, John had handed the company over with no strings attached. He did not set any conditions but had expectations. John realized that Kevin would go through unforeseen challenges. He had high hopes but was also realistic.

As he became the third CEO in the company's history, Kevin was keenly aware of the uniqueness of the company's culture. But practically speaking he had to ask: How much of the culture was "John Beckett"? How much was "R. W. Beckett Corporation"? How much needed to be "Kevin Beckett"? What aspects would be new and different under his leadership? What would be continued from previous generations?

John had led the company for four decades. Times had changed, society had changed, and the business had changed. Now the company was contemplating doing business abroad and it had to grapple with vastly different cultures, religions, and values. Kevin knew it was a basic fact of business success that change must occur as conditions changed, but he needed discernment on the extent to which such changes applied to the corporate culture.

Issues were pressing in, including customer pricing expectations, and the organization needed to respond. Kevin was certain that his next steps would be carefully watched, not just by customers, but by employees, other family members, and the company's board of directors. This was an inflection point. Key decisions now would set the tone for whether the legacy of John Beckett would be honored or dismissed as dated and decreasingly relevant.

COMPANY HISTORY

R. W. Beckett Corporation was founded in 1937 by Reg Beckett just as the conversion from coal furnaces to oil heat was heating up—literally (Leggatt & Beckett, 1987). Cottage industries in basements and garages in the oil heat market had sprung up by the hundreds and almost as many failed for lack of quality products or sustainable cash flow. Reg's commitment to hard work, product excellence, and customer service helped his fledgling company survive those early years.

Reg gained experience in the oil heat industry working at other companies before he ventured out on his own. His first product, the "Model OB" oil burner, was of high quality and superior workmanship—of utmost importance where safety and reliability for the homeowner through the harsh cold of winter were at stake.

The advantages of cleaner burning and fully automatic oil heat over dirtier, more labor-intensive and less efficient coal became readily apparent in the 1920s and the industry prospered, especially after the end of World War II. The company built its first permanent facilities in 1952 in North Ridgeville, Ohio, some 25 miles west of Cleveland.

The introduction of natural gas as an alternative fuel source in the 1950s made a rapid and indelible impact on the oil heating market, causing the first downturn in demand in almost 30 years. Reg Beckett, discouraged by this looming competition, became distracted and let the company fall behind in product innovation. Sales slumped. Reg eventually realized that since he could not change the market, he would have to change. With fresh energy, he developed new, more efficient and smaller oil-burning products. The "Model S" oil burner was created, and slowly but steadily sales began to improve in the early 1960s.

John, who had studied economics and engineering at M.I.T., began his work career in the aerospace industry. In a surprise invitation, his father asked him to join the family business. John made the change in late 1963. After just one year of their working together, John's father suddenly died of a heart attack. At age 26, John was thrust into the leadership of R. W. Beckett Corp. Trying to guide the company under such stressful circumstances caused John to reach out for help in ways that were new to him.

> Perhaps for the first time in my life, I really seriously prayed. After a period of searching, the answer began to emerge in a clear way. I came out of that time with the strong conviction that I was to run the company and that I was to do everything I could to make it succeed.

John realized he needed to add capable people in leadership, especially to market more broadly the company's strong product offerings. He hired Bob Cook in marketing and Paul Deuble in sales. Both individuals were knowledgeable about the industry and began opening doors to new sales. But after only five months in leadership, John was awakened in the middle of the night to learn of a major fire engulfing the company's manufacturing plant. John led a small band of volunteer firefighters through the pitch black in an all-night battle. Fortunately, the fire was brought under control, and total destruction of the facility was averted.

These challenges — first his father's death, then the fire — had a huge impact on John. He said, "I had always been able to rally my own strength and abilities, but now my confidence was deeply shaken." As a result, he sought spiritual reality as he never had before. "For the first time in my life I let go, yielding to God as fully as I knew how." John's conversion then began to influence his approach to business. He became deeply convinced he could no longer live in two separate worlds but rather would need to integrate the two in every way possible (www.lifesgreatestquestion.com).

Through the late 1960s and into the early 1970s, the company experienced steady growth. The marketing-focused strategy was paying off. Yet challenges were never far from the company's doorstep. Beckett faced a union organization attempt (unsuccessful) in 1972, followed by major disruptions in the oil markets sparked by the Arab oil embargo of 1973.

In the late 1970s, just as a major facility expansion was completed and with the prospect of strong sales growth, a pivotal event happened thousands of miles away: the Shah of Iran was overthrown. This precipitated further oil supply problems—fuel prices skyrocketed, and burner sales for the entire industry plummeted. As a result, a major consolidation of companies in the oil heating business began, with many burner manufacturers going out of business.

John took a different tack than most of his competitors; he stepped up the promotion of oil heating, convinced the oil crisis would be relatively short-term. Beckett continued to improve product quality and capture market share, even though the overall market was dwindling. John's long-term strategic outlook proved successful, and Beckett became the undisputed market leader among just a handful of surviving companies.

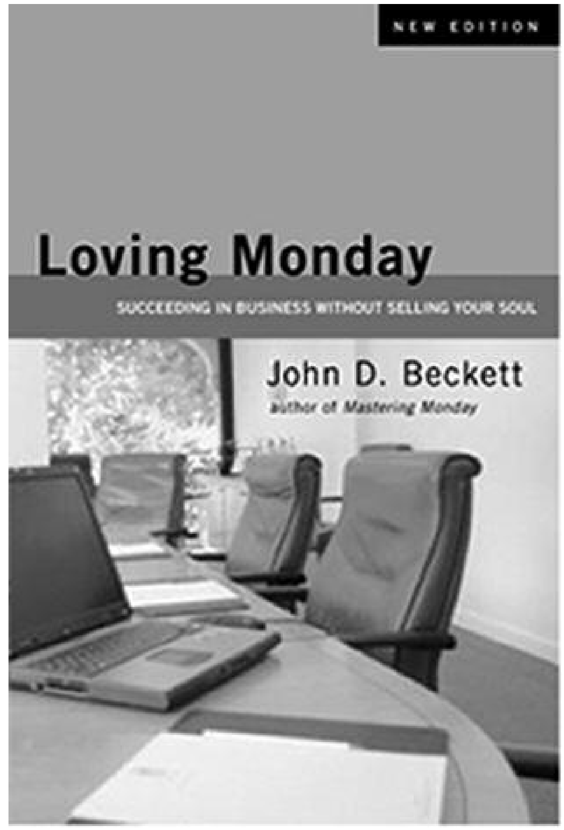
Through this challenging time, John leaned heavily on his growing faith. He concluded that "God was bigger than the Middle East crisis, and that we should take each day one at a time, with our trust in him."

From the early 1980s, and with the industry consolidated, Beckett benefited from continued expansion and growth. Their focus was on operational efficiency, product quality, and customer service. They brought enhanced product technology and innovation into the oil heat industry. The company had also diversified their product lines and ventured into related industries. Morrison, a son-in-law, and Jonathan, Kevin's younger brother, joined the company during this period, bringing solid experience from other businesses.

CORPORATE CULTURE

In his best-selling book, *Loving Monday* (1998), John Beckett described how he integrated a biblically based philosophy into the workplace. John was convinced there should be integrity and ethical practices in every phase of the operation and when dealing with all stakeholders. He expected nothing less than excellent products and encouraged every employee to treat others — inside and outside the company — with dignity and respect.

The lifelong principles John believed in were first taught to him by his father. John fine-tuned these basic



Loving Monday by John Beckett

values through his many years in business, bolstering them with a biblical perspective as he grew in his Christian faith. He concluded that using the Bible in business and business success could complement each other. In his book, he documented how a person can succeed in business "without selling his soul."

Featured at the beginning of the book was the story of how ABC's *World News Tonight with Peter Jennings* did a feature story on Beckett Corporation. The story focused on ways the company related faith to their business practices. Jennings noted that the leaders of Beckett Corporation "are using the Bible as a guide to business." There was ample evidence in the nationally televised story of a servant leadership management style where others were put first, both by John and other members of top management. Employee loyalty and devotion to the highest standards of excellence were the norm in company operations. John commented in the television interview, "My main mission in life is to know the will of God and to do it."

John always felt called to business. As he explained in his book, being called to minister through business can be just as high a calling as a call to the "ministry." As long as a person was in harmony — and not in conflict — with God's will, any calling — be it the church, entertainment, business — was equal in the eyes of God. John's call into business gave him the opportunity to create an operation and corporate culture that was consistent with the teachings of the Bible.

From studying the Bible, John saw a strong emphasis on both absolutes and character. Moral boundaries were unambiguous. Character qualities of integrity, humility, and justice were dominant themes in the Scriptures. He realized that vital aspects of one's faith can be transported to the workplace, and the Bible can serve as a dependable and unfailing guide in making that connection. The corporate value statement for R. W. Beckett best illustrated its corporate culture:

> R. W. Beckett is built on a platform of three core values: integrity, excellence, and profound respect for the individual. Beckett works to nurture relationships daily: with employees by creating a work environment that fosters growth and well being; with customers by providing a product that is well-made and priced as a cost-value; and with suppliers and others with whom we conduct business, by treating them with respect and fairness. We strive to serve others, helping meet human needs in the community and beyond.
>
> The character of a company is determined by those in leadership — their values, their competence, their commitment, their ability to work well together, and the example they set. We aspire to the finest possible management at all levels, seeking long-term relationships, internal and external, based on respect and trust.
>
> Our company endeavors to apply a biblically based philosophy throughout every phase of its operations. We've created a corporate atmosphere that is not in opposition to family life, but rather, supports and encourages it through maternity leave and other family centered programs.
>
> Finally, we aspire to be THE company our industry turns to for excellent equipment and technical support.

While Kevin was clear in what the corporate culture should be for R.W. Beckett, he questioned how the specifics would or would not apply in everyday situations. He realized corporate culture was not fully expressed by mere words, however carefully crafted, but were etched over time into an organization's very fabric by people, history, products, services, practices, and even problems.

In fact, he realized there was no guarantee that sustaining the existing corporate culture was a given. This point was driven home by the fall of Enron, which occurred shortly before Kevin became CEO. He had reviewed the Enron Statement of Values (2000) in their annual report and was amazed at how similar their values were to those of Beckett. Both companies focused on the importance of integrity, excellence, and respect as key aspects of corporate culture. The Enron Statement of Values highlighted four areas: communication, respect, integrity, and excellence.

> Communication: We have an obligation to communicate. Here, we take time to talk with one another … and to listen. We believe that information is meant to move and that information moves people.
>
> Respect: We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment.
>
> Integrity: We work with customers and prospects openly, honestly, and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.
>
> Excellence: We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

R. W. BECKETT CORPORATION TODAY

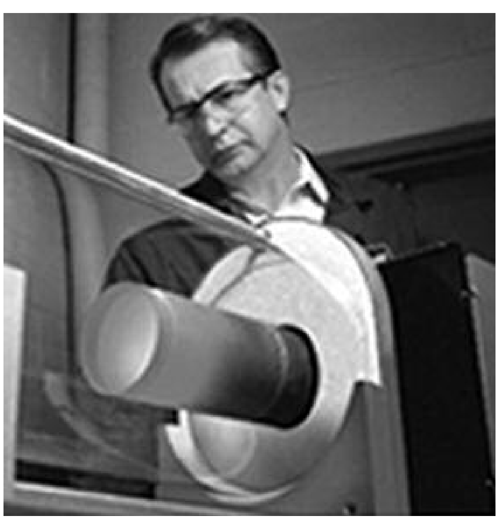
The issue Kevin kept coming back to was how, and to what extent, the company should build and/or retain its distinctive corporate culture as it dealt with critical issues. Within the next five to 10 years, the company expected to make decisions regarding:

- Growth in employment — With an ever-widening mix of personal backgrounds and expectations in new hires, how deliberately and proactively should the company pursue "diversity"?
- Development of people — What was the best way to embed cultural norms as a sustained aspect of that development?
- New business acquisitions and mergers — How would they handle acquisitions and mergers with the reality that merging cultures from different organizations can often become an insurmountable Achilles' heel to successful integration?
- International expansion — How would they work through wide, deep, and long-standing cultural differences?
- Hiring senior leadership — How would they ensure that senior leadership would have full "buy-in" to sustain cultural continuity?

Kevin also recognized that profound cultural changes were taking place in society, affecting employment and business relationships. The historic moral foundation of society enjoyed by our nation was eroding in many ways, and there was increased government regulation supporting many of those changes. There was also a general recognition and acceptance of other forms of religious faith along with government regulations preventing religious discrimination. Even basics such as the work ethic and professionalism seemed to be changing. Would the existing corporate culture remain harmonious with these cultural changes, or would Beckett have to adjust to prevailing culture to remain operationally effective and relevant?

Every entrepreneur understands that companies must change to remain viable. R. W. Beckett had a history of changing when conditions warranted in response to, or even in anticipation of, events. The company remained dynamic and would increasingly need to be adaptable in the future. But the question remained: Do reactive and/or proactive changes apply to the area of corporate culture?

Assembly Process



Low Emissions Technology

OUTSOURCING MANUFACTURING FUNCTIONS

As noted earlier, Kevin had recognized the increased pressures on product margins to remain competitive. The oil heating business was a mature industry with other substitute products, such as natural gas, impacting demand levels. The industry was also subject to the political uncertainties of the supply and demand of foreign oil.

Beckett was the market leader with an established history of quality products and unquestioned integrity. The company took great pride in the workmanship of its products and was very sensitive to the needs of its employees. Employees, in turn, were generally satisfied working at Beckett even at often routine, repetitive jobs. They appreciated the efforts of top management and were highly loyal to the company, choosing to remain non-union, even though many manufacturers in the surrounding area were unionized.

Kevin was limited in his ability to raise prices so product margin improvements had to come through cost reductions, productivity improvements, or increases in volume. The company was constantly working to eliminate waste in terms of the product development process, manufacturing, and assembly. However, eventually incremental improvements reach a point of diminishing returns. Kevin wrestled with the realization that in order to secure domestic jobs, he had to consider outsourcing some jobs to foreign countries.

Once processes are sent to geographically diverse locations, the issue of maintaining intellectual property and quality standards becomes more challenging. Product quality and reliability are essential, and Kevin was aware that the potential for compromise existed.

Kevin also would be dealing with potential employee-relations issues. How might the current workforce respond to certain jobs being performed outside the Untied States? Would Beckett now be considered just like every other manufacturing company — that when costs had to be reduced the simple solution was to search for less expensive foreign labor? What would happen to the morale of loyal company employees? Again, how was the decision process influenced by the consideration of corporate culture?

CASE CONCLUSION

Kevin felt mounting pressure to do the right thing — both by customers, employees, suppliers, and the community. He also sensed a special responsibility as the third generation of Becketts in the business, especially as he read the findings of Ernesto Poza (2003), that over 85% of family businesses don't survive to the third generation.[2]

Was business failure a result of too rigid a corporate culture, or in spite of corporate culture, or the failure to define and defend corporate culture? Was the fall of Enron due to a breach in corporate culture or something completely unrelated? Could an Enron situation even occur at Beckett? Was the corporate culture outdated? Can or should practices first established by his grandfather be passed on to the son and grandsons? Kevin felt the business was on solid footing, but what about five to 10 years from now?

How would outsourcing to China impact the corporate culture of R. W. Beckett Corporation? Were concerns regarding corporate culture important enough to influence the decision? Kevin pondered his new responsibilities and decisions.

SUGGESTED TEACHING APPROACHES AND QUESTIONS

This case lends itself to an open-ended or directed discussion format in a classroom setting. Some or all of the suggested questions listed below can be used depending on the issues being addressed. The suggested questions also do not represent an all inclusive list, as many others can be added at the discretion of the instructor. A comprehensive set of teaching notes with suggested answers is available from the author. Additional information is also available at the R.W. Beckett Corporation Web site (2007).

1. What is corporate culture? What are the inputs and outputs with regard to corporate culture?
2. Sometimes U.S. companies (and missionaries) are criticized for "Westernizing" developing countries (with our misguided priorities, e.g., materialism). How might this statement apply to R. W. Beckett Corporation?
3. What "standard practices" in a foreign country might be unacceptable for a values-based company? What should Kevin do if some of those practices impact R. W. Becket Corporation?
4. Do you agree with the statement "every organization has a culture — it is just a question of whether leadership is deliberate about shaping it?
5. Kevin would be facing decisions regarding new senior leadership, establishing facilities in other locations (including globally), acquisitions, societal changes, and new changes in the work force. How, if at all, might the company corporate culture be impacted by any of these areas?
6. Kevin had to make a pretty immediate decision on outsourcing some of the production activities to China. Considering all of the implications of this decision, including the company corporate culture, what should Kevin do?
7. The corporate value statement for R. W. Beckett Corporation is built on a platform of three core values: integrity, excellence, and profound respect for the individual. The statement of values for Enron Corporation highlighted four areas: communication, respect, integrity, and excellence. The value statements for the two companies are almost exactly alike. How do you think Kevin would differentiate between the reported values of Beckett Corporation and Enron Corporation?
8. Within the next five to 10 years, Kevin will be dealing with decisions regarding growth, personnel development, acquisitions, international expansion, and leadership. What role should the company corporate culture play in any of these decision areas?
9. A large percentage of family businesses do not survive the third generation. What role might corporate culture, or the lack thereof, have on the success of a family business?

ENDNOTES

[1] R. W. Beckett Corporation of Elyria, Ohio, is one of the leading privately owned companies in the world in the production of oil burners for residential and commercial heating systems. Affiliates supply air-moving and gas combustion components for heating, cooking, and related application heat products, supplying critical parts from blower motors to fuel economizer components.

[2] Ernesto J. Poza is an internationally recognized, top-rated speaker and consultant to family-owned businesses. He is professor for the Practice of Family Business at Case Western Reserve University. His work has been featured by CNN, NBC, NPR, *Business Week, Family Business Magazine, Inc., Industry Week, El Norte, El Pais, Expansión, Excelsior, Forbes,* and *Fortune.* He is a founding member and fellow of the Family Firm Institute, serves on the editorial review board of *Family Business Review,* and is the 1996 recipient of the prestigious Richard Beckhard Award for contributions to the practice of family business advising. He is the author of *Family Business* (Thomson, 2004) and *Empresas Familiares* (Thomson, 2005).

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