

Family Business

THE GUIDE FOR BUILDING AND MANAGING FAMILY COMPANIES

Gwen Moran on Family Values and the Bottom Line

How Sargento Foods creates principled profit

The Gentine family and their employees run their \$534 million business according to a 50-page code of conduct.

In 1994, when Sargento Foods Inc. was preparing to build a new plant, the family-owned cheese company underwent intense deliberations over the location of the building, which would involve consolidation of two separate facilities. George Hoff, the non-family chief financial officer at the Plymouth, Wis., company, notes that while most other firms would have based the decision on real estate prices, Sargento conducted a regression analysis, literally mapping the home address of every employee. The company decided to build the plant on the site that would offer its workers the shortest possible commute. “We’re in business to create value as a company,” Hoff says, “but our concept of value goes beyond what you might normally think. We also need to focus on our most valuable asset—our employees.”

While this may sound extreme, it’s just another anecdote related by Sargento managers to illustrate the company’s adherence to its core values. Those values, the company asserts, are the secret to Sargento’s success as one of the largest privately held cheese companies in America, with \$534 million in net sales.

“Our values are based on the philosophy that my father had in the beginning,” says 56-year-old Louis (Lou) Gentine Sr., Sargento’s chief executive officer. His father, the late Leonard A. Gentine Sr., founded the business in 1953 with partner Joseph Sartori. (Leonard Sr. bought out Sartori’s stock in 1965, making Sargento a wholly owned family company.) “The company has been consistent in maintaining those values, including our commitment to employees and to customers,” Lou Gentine says.

In fact, Sargento’s core values are such an important part of the company that after Leonard Gentine Sr.’s death in 1996, the second-generation family owners decided to make these principles a formal part of the corporate culture. Realizing that there may come a time when a Gentine is not involved in the day-to-day management, a team of family and non-family members created a document to reflect the founder’s values and ensure that they would continue to shape the company’s future. The result: a 50-page internal publication entitled “Our Corporate Culture: People, Pride and Progress,” distributed to all employees, which outlines how company stakeholders

put the values into practice.

If the connection between Sargento’s values and its success seems unclear, consider this: Turnover at Sargento is “practically zero,” according to CFO Hoff, 48. And more than 30% of the company’s 1,250 employees have been with the company for ten or more years, CEO Lou Gentine reports. In loyalty studies conducted by the Center for Client Retention, an assessment and consulting firm in Springfield, N.J., Sargento was rated highest among consumers when benchmarked against other companies surveyed. Focus group studies have revealed that customers’ appreciation for Sargento’s family ownership and values is a significant factor in their brand loyalty.

Customers and suppliers who tour company facilities take note of “the positive attitude that they see reflected on the faces of our employees,” says Lou Gentine. “That reflects very positively on the work, assuring them that the quality is there.”

Values and profit

In building a profitable values-first business structure, Sargento has



Henry D. Landes, President
DELAWARE VALLEY FAMILY BUSINESS CENTER
215-723-8413 www.dvfambus.com

succeeded in avoiding the pitfalls that many values-based companies have encountered. “Sometimes, adhering to the values is expensive,” cautions Dennis T. Jaffe, Ph.D., a San Francisco-based consultant and a member of the Aspen Family Business Group. Companies can falter if their values fail to recognize the realities of the business world.

At Malden Mills in Lawrence, Mass., for example, third-generation owner Aaron Feuerstein rebuilt his plant on the same site after a devastating 1995 fire—and paid idle employees during the reconstruction. That decision, coupled with declining sales, forced the company into Chapter 11 bankruptcy in November 2001. (Malden Mills has since restructured and emerged from bankruptcy last October. Feuerstein is still trying to raise money to buy back a controlling interest in the company.)

But at Sargento, the values system doesn’t blindly commit to workers above all else. Rather, the company forms an agreement with its employees, clearly outlining what is expected of them and what they can expect of the company in return. The “People, Pride and Progress” document contains a big list of expectations, related to a total of 20 specific values. Some of the points made in the brochure appear in many generic corporate values statements. (For example, employees are expected to act ethically, focus on the customer and be accountable for their actions, while management is expected to offer opportunities for continued learning and training.) But other items on Sargento’s list of expectations differ from standard corporate verbiage. For instance,

employees are expected to have fun and incorporate humor into their workday. For their part, managers are expected to encourage dialogue.

It’s not easy to determine where the company values end and the family values begin. Lou’s son, third-generation manager Louis (Louie) Gentine Jr., 29, says his family recognizes that employees have their own families to consider. “We understand what it’s like to find the balance between the work and family and being a part of the community,” Louie says. “We work to help them perform the best they can and maintain that balance.”

His father, Lou, explains how the “People, Pride and Progress” document was developed. “The initial list of important principles was drafted by the family, added to by officers of the company, and then a survey was done of all employees before the final group of 20 was decided,” he says. The process was lengthy.

First, the family wrote down the principles they felt to be most important and shared that list with the officers of the company, who added other values. The new list was given to all employees. Through a survey, the company received feedback on which values were most important and which were being demonstrated at Sargento. The ideas were then combined and honed down to a list of 20. For a year, the company put up a new poster and distributed a new white paper about each principle on a two- to three-week rotation.

The list of values is made clear before any job applicant is hired, and adherence to those values is measured as part of an employee’s

performance review. Lou Gentine says it’s essential to communicate the company’s values during the recruitment process. He explains, “If you have values and take them seriously, people who don’t share that belief won’t be a good fit for you.”

Consultant Jaffe concurs that assessing how employees are putting the company’s values into practice is one of the keys to building a long-term workforce. For example, he explains, at a team-oriented company, employees should not expect to be rewarded for individual results.

At Sargento, notes CEO Lou Gentine, some employees have been let go because they didn’t fit into the corporate culture. (He declines to elaborate on the circumstances.) But such terminations are rare, he says, because the company is clear about its expectations from the start.

Sometimes, clarification of the company’s values has unexpected consequences. After hearing Sargento staff explain how the business operates, a candidate for a key position left his current employer, a larger company—though he didn’t get the Sargento job. “He let us know that he resigned regardless of whether or not he got the position,” Lou Gentine says. “He just decided that he wanted to find an environment that was more focused on values than what he had been experiencing.”

Addressing the ‘hard’ issues

A common misconception about values-based companies is that values aren’t business-minded, says Jaffe. Corporate values can address “hard” as well as “soft” issues, Jaffe

points out. A values-based company means simply that “the family has taken what it believes and clarifies it in terms of principles for operation that are clear and consistent and embraced at all levels of the organization,” he says.

A big part of Sargento’s pact with its employees deals with attention to bottom-line issues. The company prides itself on innovation; it claims to be the first to introduce naturally shredded and sliced cheeses and resealable packaging. Creativity, risk-taking and innovation are listed among its core values.

“From the customer side, they’re developing a national brand,” says Dean R. Fowler, Ph.D., a family business adviser in Brookfield, Wis., who has worked with the Gentines. “People want to have a commitment to the Sargento brand and know that there’s confidence and trust in that brand.” The company’s values can help ensure customer loyalty, Fowler says.

CFO Hoff calls it stakeholder value. “We have five constituencies: employees, suppliers, customers, the communities in which we do business and the stockholders,” he says. “As a management team, we try to be mindful of and balance these constituencies.”

Because excellence is one of the values emphasized in performance reviews, employees know they can’t afford to rest on their laurels. Jaffe notes that many values-based companies fail to reinforce this message and end up emphasizing employee satisfaction at the expense of high performance.

At Sargento, performance

expectations extend to family as well as non-family employees. To prevent an “us-vs.-them” mentality from taking root among family and non-family members, the company initiated strict rules of entry for relatives. These policies were developed by family as well as non-family employees, with help from consultant Dean Fowler. “If you’re going from generation to generation,” Fowler says, “you need to have guidelines and expectations that are clear.”

Among other stipulations, the rules for family employment state that relatives must work outside the business for three years before seeking long-term employment at the company. The same criteria are used to evaluate family and non-family employees.

Greg Strehlow, 34—son-in-law of Lou’s brother Larry Gentine, who recently retired as president of Sargento’s food service division—was among the first to be held to the new set of requirements. Strehlow, the new business development manager in the food service division, says the policy helps to level the playing field and reduce ambiguity. “You know where you stand,” he says, “and it’s a very healthy thing to come up with.”

The cost

Of course, like most corporate initiatives, a values-based policy has its costs. When Sargento dismisses an employee who doesn’t fit in with the culture, the company must bear the expense of recruiting and training a replacement. In addition, Sargento has spent thousands of dollars developing and printing its “People,

Pride and Progress” brochure and invests in employee education and professional-development efforts, as well.

As one would expect, Sargento dedicates some of its resources to philanthropic efforts. The company gives employees paid time off to participate in volunteer activities and makes regular charitable donations, including underwriting the cost of building a Habitat for Humanity house each year. And the Gentine family has established a charitable foundation, run by Lou and Larry’s sister Ann Gentine Sturzl.

Strehlow notes that the company’s loyalty to the small local cheese factories that have been its longtime suppliers and “are making cheese the old-fashioned way” also involves some extra costs. Sargento might realize a lower price if it were to ditch these suppliers in favor of larger companies, Strehlow notes. But, he says, “The simple fact is that the small guy has grown up with us.” On the plus side, Strehlow adds, the smaller suppliers provide better service for Sargento, which is likely their biggest customer.

Hoff says the company doesn’t have a formal means of capturing each cost and analyzing the accompanying return on investment. But he believes that these activities affect the bottom line in a positive way.

“If you’re in the food business, it can be ruthlessly competitive,” he says. “Most customers enjoy and value working with our company because of the people in it.”

Benefits and beyond

A values-based corporate philosophy



makes for great stories. But is it smart business?

You bet, says Cornell University economist and social critic Robert Frank, author of *What Price the Moral High Ground?* Frank conducted a study that found employees would accept lower salaries at companies they considered morally superior. “The results were striking and indicated that you can get the same person for a lower salary or a better person for the same salary,” he says.

Strehlow says he incorporates Sargento’s values into his sales approach. “It’s one of the things that I present in meetings with new customers,” he says. “It’s right there in my back pocket at all times.”

To ensure that the company’s values and policies don’t become outdated, they are revisited twice a year, says CEO Lou Gentine. So far, there hasn’t been a need to fine-tune them, he reports.

Such regular assessment is critical, says Jaffe, who has seen companies face significant roadblocks when family members—especially those of different generations—disagree about what the company’s values should be.

“Because we are a family-owned company, we can look at things from a perspective of long-term value,” Lou Gentine explains. “Publicly held companies have to report their success on a financial basis every

quarter and consider everything that has impact on share price. But I think a company that is based more on long-term values is going to be more successful because they’re going to attract the right type of people, and they’re going to have a broader view of what constitutes success. I think their employees are going to feel much better about their accomplishments. And they’re going to put more effort into achieving goals for the company.”

Reprinted by permission of the publisher from Summer 2004, *Family Business*, Philadelphia, www.familybusinessmagazine.com.

Sargento’s 20-point plan

Sargento outlines 20 key principles in a brochure entitled “Our Corporate Culture: People, Pride and Progress.” The publication explains each concept, and in many cases includes discussion points that managers can use to explain their application to employees. Here are some excerpts:

Ethics: “At Sargento, we live by our code of business and personal ethics 24 hours a day. It is our hope—and our expectation—that our employees and business associates will do the same.

You might say everything we believe in is found in the Golden Rule—“Do unto others as you would have them do unto you’.... Our company was built on this type of ethical behavior.”

Humor and fun: “Sure, this is serious business. We all know that. Competing with the competition day in and day out is no laughing matter. And it’s hard to find much humor if a report shows that our market share is down. But does that mean you have to constantly wear a serious look as if you lost your best friend? Why can’t you inject some humor and fun into what you’re doing?”

Risk-taking: “Many of the world’s greatest inventions were developed by people who didn’t play by the rules. People who were told their invention would never fly, or that no one would ever want a computer in their home. Where would we be if all these inventors had played it safe? Fortunately for all of us, they had the courage of their convictions—and a spirit that embraced risk.”