

VOLUME 2

# Lessons **for** Leaders

Daniel R. Denison, Ph.D.  
Lone Jespersen

## IS IT SAFE TO EAT A PEANUT BUTTER SANDWICH?



By Daniel R. Denison, Ph.D.  
and Lone Jespersen



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Daniel Denison

IMD Business School  
Lausanne, Switzerland  
Denison Consulting, LLC  
Ann Arbor, MI 48104  
denison@imd.ch  
+1.734.272.2711

Lone Jespersen

Cultivate Food Safety  
Hauterive, NE, Switzerland  
lone@cultivatefoodsafety.com  
+41.79.246.0807

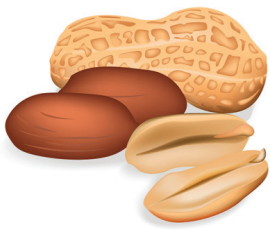
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As a part of our work on safety culture in the food industry, we have been intrigued this past year to watch the incredible case of the Peanut Corporation of America continue to unfold. If you aren't familiar with this story, you should be!



On September 15, 2015, Stewart Parnell, CEO of the Peanut Corporation of America (PCA), was sentenced to 28 years in prison for his role in this food safety crisis. His brother, Michael, the COO, received a sentence of 20 years, and PCA's Quality Assurance Manager, Mary Wilkerson, was jailed for 5 years. This was the first time that an American executive had ever been convicted of a federal felony for food poisoning.

PCA's "King Nut" peanut butter was distributed to schools, hospitals, long-term care facilities, universities, restaurants, bakeries, and the military, as well as major food manufacturers. Their products were not distributed for retail sales in grocery stores. Even though PCA was a relatively small player in the food industry, with only \$30 million in annual revenues, their misdeeds impacted many. The case against PCA was clear. They had continued shipping contaminated product to their customers AFTER repeatedly receiving positive test results for Salmonella Typhimurium. Many of these contaminated products could be traced back to one specific plant in Plainfield, Texas.



Stewart Parnell and his father Hugh had opened the original PCA plant in 1977. They had been cited frequently for sanitation problems since the 1980s. But this time was different: Their failure to meet safety and quality standards had affected 2833 products and led to 714 confirmed illnesses and nine suspected deaths. Experts estimate that PCA's negligence led to over 10,000 illnesses and over 4000 product recalls in the USA. PCA's negligence cost Kellogg alone over \$65 million. (Leighton, 2015; CDC, 2015)

The evidence against PCA was overwhelming. Parnell provided a lot of the evidence himself. After one outbreak, he sent an email to the King Nut VP saying,

"I'm sure it is something that we did. I think I'm going to church tonight." Five days later, he sent a message of denial to everyone at PCA. Another time, when asked what to do about an overdue order because the test results weren't back yet, Parnell replied, "Shit, just ship it. I can't afford to lose another customer." (Newman, 2015)

In February 2008, when Parnell appeared in front of the House Sub-Committee on Oversight and Investigation, Representative Greg Walden (R) of Oregon asked him if he would eat any of the PCA products displayed on the table in front of him. Parnell pled the 5th Amendment! Two days later, PCA declared bankruptcy.

PCA was not only a corporate failure, it was also a regulatory failure. Even President Obama's modest standard of "we should be able to count on our government keeping our kids safe when they eat peanut butter" proved difficult to meet. The regulatory oversight of PCA's compliance record was very minimal. The corporate reviews of PCA's quality from food giants such as Nestle, General Mills, and Kellogg were far more rigorous than anything that the government ever required. And through all of this sordid tale, Stewart Parnell was actually a member of the Department of Agriculture's Peanut Standards Board!



As we reviewed the case against PCA, it also became clear that Stewart Parnell is not in jail because his negligence killed nine people and made over 10,000 people ill. He is in jail primarily because Kellogg lost \$65 million and had to pull all of its Austin and Keebler brand peanut

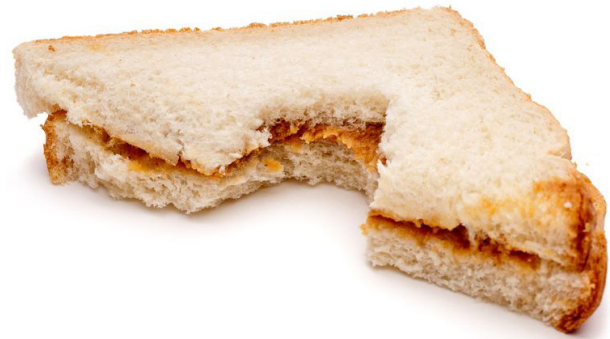
butter crackers off the shelves overnight. Nearly all of the charges brought against PCA were for corporate fraud, not for public liability. Without the outrage of PCA's major corporate customers, this story might have had a very different ending.

So, the answer to the question posed in the title of this article is

“YES.”

It is probably safe to eat a peanut butter sandwich.

Especially now that PCA is gone and the Parnell brothers are behind bars. But it might also be a bit safer if you made your PBJ yourself with a well-known retail brand you bought at the grocery store than it would be if



you got it at your local school, hospital, or military base where it was made from a large tub of wholesale peanut butter provided by an anonymous supplier!

## Lessons for Leaders

This unusual case made us stop and think. Leaders bear a lot of responsibility. The culture that they create reflects their character and puts their values into action. When we fall short as leaders, the consequences can have a real impact.



Here are **four lessons** for leaders that we think are especially important.

1

### Responsibility

Responsibility is not always the first thing that we seek when we plan our careers. Power, status, wealth, innovation, and freedom are usually much higher on the list of our ambitions and goals. But responsibility is often what we get along the way. The road to success almost always leads through the realm of responsibility. It might be possible to create great value without taking on much responsibility, but it is probably a futile quest.

Stewart Parnell lost everything by convincing himself that money came first and justified all of the compromises PCA made. He was wrong – his greed

didn't justify fraud at all. But it is sometimes easy for “successful” leaders to convince themselves that “rules are for fools,” and that they are so smart that they will be able to get away with this.

Real leaders embrace their fundamental responsibilities and recognize that those are essential to creating value and delivering it. And they inspire others around them by their positive example.

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## 2

### Character and Compliance

These past few years, we have taken on an intriguing project with a well-known engineering company, Parker-Hannifin. This effort is led by CFO Jon Marten and VP of Integrity & Ethics, Peter Rea. Their focus is on “creating virtue” among the people in Parker’s organization around the world. As their framework, they use the **seven classic virtues** that have been around for over two thousand years – trust, wisdom, hope, courage, compassion, temperance, and justice – and they have created a process for developing virtue throughout their organization. And it’s been our pleasure at Denison Consulting to work with them to support this effort.

But one of the most interesting learning points for me was listening to CFO Jon Marten talk about why they were taking this approach in a global engineering company. One sentence in particular has stuck in my mind. Jon said he believed that “you can’t spend enough



“You can’t spend enough money on compliance to make up for a lack of character.”

money on compliance to make up for a lack of character.” As a Corporate Officer, he is responsible for compliance, but as a leader he clearly sees how important character and culture are to meeting that goal.

You can bet Stewart Parnell would still be a free man if one of his customers was Parker-Hannifin! They wouldn’t have given him any choice about character and compliance.

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## 3

### Leading in a Complex and Evolving Industry

The food industry is a complex business with suppliers such as PCA providing ingredients for hundreds of thousands of consumer products on a global scale. The final product we eat relies on the quality and safety levels of many suppliers. The industry also has a relatively low level of “process maturity” where quality and safety decisions are often driven primarily by regulatory compliance rather than business competition. Key

players can often be blind to the risks introduced by suppliers and unaware of the impact that they may have on consumer health and safety. Safety and quality processes need to be frequently challenged to ensure that they are effective, rather than relying on top executives or the quality manager to “save the day.”

Many organizations outsource the audit process due to the sheer scale of the effort required to audit their supply chain. But outsourcing does nothing to relieve them from their ultimate responsibilities to protect consumers.

As quality guru W. Edwards Deming said years ago, “A process left unchecked is doomed to fail.” And beyond just the technical aspects of safety, it may also help to take a look at the organization and its culture to make sure that an adequate safety culture is in place.



## Your Culture is Your Business

We sometimes encounter leaders who are reluctant to take “culture” seriously. They often want to focus their attention on “the business” and assume that if they get the business in good shape, a positive culture will follow. Our perspective is that it is hard to do it this way – the organization’s people, their mindset, their behavior as leaders, and the operating system that they create together are an integral part of “the business.” It’s hard to get the business right without paying attention to the culture.

In our experience, lapses in compliance or ethical behavior aren’t really that hard to find – if you want to find them. The people who are watching usually see things quite clearly and will often be glad



to tell you about it, especially if they feel that they will be free from retribution. Trust, transparency, and strong core values are easy to see when they are present and very conspicuous when they are not.

Organizations can also protect themselves from suppliers who are out of compliance by holding these high standards themselves, and by requiring that their suppliers respect these standards. PCA had some customers, notably Nestle, who would not approve them as a supplier because they didn’t meet their standards.

**When you don’t compromise your own purpose, you can often inspire others to that purpose.**

And even if you don’t inspire them, at least you are protected from them!

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