# Case Study
# Cardone Industries: *Chaplain Program*

**Timothy A. O. Redmer**
Regent University
timored@regent.edu

**ABSTRACT**: *Cardone Industries – Chaplain Program presents a decision situation where top management had to choose between cost reduction and preserving a visible representation of corporate culture. Over 20 years ago the company founder, Michael Cardone, had implemented a corporate chaplain program to enhance the "Cardone Factory Family" culture of the organization. Over the years, the chaplain service had expanded with the growth of the business to become much more than a religious support system. While the current staff of seven chaplains plus support staff had established several ethnic churches, they also assisted with basic employee needs including medical, social service support, financial, various governmental services, and domestic issues. The program supported benevolence funds, musical groups, family nights, cultural events, sporting activities, and employee recognition programs and awards. An outside consulting group spent 18 months evaluating the overall operations of Cardone Industries in the interest of making the company more competitive and better able to withstand the pressures of the market, competitors, suppliers, and economy with the objective of improving the financial viability of the organization. One of the first recommendations from the consulting group was for Cardone to save an annual cost of $600,000 by eliminating the Chaplain Program. Members of the top management team were both for and against the consultant's recommendation. Sentiments ran high on both sides and current president Michael Cardone Jr. would have a difficult time reaching a decision.*

## INTRODUCTION

Cardone Industries, a remanufacturer of auto parts, hired a major consulting firm about 18 months ago with expertise in supply chain management to review their supply chain operations, find bottlenecks, and identify other areas of concern. The consultants became very familiar with every operation. Their report recommended improvements to company operations and overall activities.

One of their first recommendations to improve profitability was to eliminate the company chaplain program. Several top managers were somewhat surprised by this. The chaplain program represented the very fiber of the organization and reflected its corporate culture. To some, it was untouchable. Others in top management were more concerned about costs, profitability, building a "new" Cardone Model and generally accepted this recommendation.

Opposing sides formed within management. How far did corporate culture go when measured against costs and profitability to the organization? Should functions like a chaplaincy program, which could have been considered as nice to have, been subject to the same scrutiny or an even higher level of accountability than an operational activity that directly contributes to the bottom line? What decision criteria, if any, should have been applied to a function that could be claimed as part of a corporate culture?

With seven chaplains, support staff, and several outreach ministries, Cardone Industries had an extensive chaplain program. Company founder, Michael Cardone — respectfully referred to as Mr. Cardone — had called his employees "the Cardone Factory Family" and implemented a chaplain program in 1979 with founding leader and now Chief Spiritual Officer Mark Spuler. But "that was then, and this is now." In 1988, Michael Jr. became president, and in 1994, Mr. Cardone passed away. Even so, Michael Jr. had fully embraced the Cardone Factory Family concept and even increased the role and influence of the chaplain program. Mark and Michael, who had worked so closely together for years, saw the value of chaplains. These two founding culture bearers of the integration of faith and work at Cardone Industries viewed chaplains not only as a vital part of their heritage but also good for business and the bottom line. But financial pressures had been mounting and margins declining, which led to the decision in 2001 to hire a consulting firm to provide an objective analysis from outside experts.

Some executives wanted to fight the recommendation. At the same time, Michael, with his more participative style of management, recognized others who viewed spiritual life while at work, and more specifically the chaplaincy program, as not relevant to business. Eliminating the chaplain program with its annual overhead of $600,000 could increase profits. Perhaps the company could still preserve its corporate culture and Factory Family image — just not to its current degree. Furthermore, to gain the maximum efficiencies in overall operational improvements wasn't it necessary to accept the consultants' recommendations in total?

When considered from a cost benefit perspective, it was easy to identify the cost; there was $600,000 of overhead burden that the company was dealing with. However, it was virtually impossible to determine the benefits of the chaplaincy program. When questioned, the chaplain staff could not really put a price tag on the perceived benefits of their program. There were no specific measurements — either financial or otherwise — of the impact of this program on either the company or the corporate culture.

Cardone management had to decide whether or not to accept the recommendation to eliminate the chaplaincy program. Whatever its decision, the strong emotions that quickly developed on both sides were making the process that much more difficult.

## HISTORY

Mr. Cardone had started a business in 1935 remanufacturing vacuum windshield wipers. When they finished high school, his three younger brothers joined the business then named Automotive Unit Exchange (AUE), and they expanded their operations to include the remanufacture of fuel pumps. After World War II, the demand for remanufactured automobile parts increased and included remanufactured foreign-car parts. In the 1950s, the company name was changed to Cardo, and the company prospered.

When Mr. Cardone was 55, he could have easily retired. Although he wanted his son, Michael Jr., to come into the business, a provision in the company bylaws forbade any of its partners' children from assuming company leadership.1 Consequently, Mr. Cardone decided to resign from the presidency of Cardo and start over with a new company with Michael Jr. who had just graduated from Oral Roberts University.

Cardone Industries began as A-1 Remanufacturing in 1970 remanufacturing electric windshield wiper motors. A-1 had six employees: Mr. Cardone; his wife, Frances; his daughter, Ruth; Ruth's husband, Ruben; his son, Michael; and Michael's wife Jacquie. They worked out of a rented row house in a terribly run down section of Philadelphia —their home town. Rats the size of house cats were unwanted occupants of the basement of the three-story structure.[2]

Since his childhood, Mr. Cardone had been a very religious man. He believed that the corporate culture of his business must reflect his strong Christian principles. From the very start, his vision was to have a triple bottom line reflecting financial, social, and spiritual returns. This was the company's "ministry of business." One of their goals was to provide jobs and create a unique working environment that would produce better financial results and satisfied customers, while making a difference in peoples' lives. The company had four corporate objectives.[3]

- Honor God in all we do
- Help people develop
- Pursue excellence
- Grow profitability

Early on, Mr. Cardone made a deal with Chrysler for 20,000 surplus windshield wiper motor cores retuned under warranty for $9,052. The company only had $9,500 in its checking account and no customers looking to buy remanufactured motors. While rebuilts had been successful for vacuum wipers, it seemed there was no market for the newer electric motors. Mr. Cardone took a big risk and offered his remanufactured wiper motors to customers at no cost and no obligation on a consignment basis. He also agreed to advertise the products in automotive journals. Customers would only have to pay for motors sold. Mr. Cardone would have to convince customers that the remanufactured wiper motors were as good as or better than the original equipment at a significantly lower price. His willingness to take a risk proved successful and profitable.4

Disaster struck nine months after starting A-1 Remanufacturing when a fire destroyed the entire inventory, equipment, and records. However, within three days, they found new facilities that were better suited to their operation. Both Mr. Cardone and Michael believed that God was watching out for them and that the business would be successful. It was through trials like these that the company's most valuable resource — people — really came to the rescue and the concept of the Factory Family was born.

Cardone Inc., a global business, had seven major product divisions consisting of 43 product lines and offered a full line of breaks, drive trains, electronics, motors, pumps, and steering. In Philadelphia alone, they had over two million square feet of manufacturing and distribution functions under roof in 12 different factories encompassing eight buildings. The company also had distribution centers in Los Angeles and Canada with additional operations in Chicago, Europe, and Mexico. Cases of raw material and finished goods were stacked up to 20 feet high in some spots. The company had over 22,000 catalogued part numbers with core components servicing cars as far back as the 1960s, as well as the current models.

## REMANUFACTURING

The basic idea of the remanufacturing (RM) process was to rebuild the old car part, thus creating an exact replica of the original equipment (OEM), while repairing the original failure mode. When an automobile part failed to function properly, it needed to be replaced with a similar part in fit and function. The RM business developed to meet that need. Businesses like Cardone take the core (old defective automobile part), disassemble it, clean components (including an anti-corrosion treatment), test components, replace worn parts, perform final testing, and provide accessories.6

Generally, new parts from an automobile manufacturer are quite expensive. They would be even more expensive if the RM industry did not exist. The automobile manufacturer's prime focus was to make new cars; they were not in the primary business of producing and stocking old automobile replacement parts. RM companies evolved to give consumers a choice and filled a market void left by automobile companies more focused on original equipment.

Remanufactured parts at Cardone were guaranteed to meet or exceed original equipment specifications, which gave consumers a high-quality alternative at a much lower price. Additionally, Cardone provided an environmental alternative to the disposal of extremely corrosive core products in landfills. The RM process saved 80% of the energy and material cost it took to manufacture new parts, which was equivalent to 16 million barrels of crude oil.7

As the industry leader, Cardone's philosophy of remanufacturing emphasized the highest levels of quality and service. Even before parts were remanufactured, the company engineers examined original equipment parts, looked for potential defects and weakness, corrected flaws in the OEM process which made the remanufactured products as good as or better than new.[8]

## THE FACTORY FAMILY

Philadelphia was a melting pot. With the factory located in an economically disadvantaged area and with jobs available to the less-skilled worker, Cardone Industries was a very attractive opportunity to a large labor pool. The cultural diversity of it 4,000+ employees was evident — there were 32 nationalities speaking 24 different languages. The term "family" was a natural classification of the employee population as multiple family members and extended family were often recommended by fellow employees and hired by Cardone.[9] To get the best results from his people, Mr. Cardone believed that he must demonstrate that each employee was a highly valued part of a family. Early on, the words "employees" and "workers" changed to "Factory Family Members."

Cardone executives practiced a "servant-leadership model" of management patterned after the teachings of Jesus before such a concept was generally recognized in business school theoretical discussions. Servant-leadership encourages people to serve others first — be it employees, customers, suppliers, or the community. Cardone believed servant-leadership should apply not only in the work place, but in every aspect of life. Much like the golden rule — "do on to others as you would have them do on to you" — the model builds trust and loyalty.[10]

Factory Family Members were very dedicated to the company, even though the hourly work force was completely union, as would be expected in an industrialized city like Philadelphia. Employee turnover was far below average when compared to other competitors, and most new jobs were filled either by internal promotions or referrals from employees. The company provided ample training and opportunities for job advancement. They started every day with a five-minute session called "Take 5" where section leaders offered a voluntary time of devotion and prayer and looked to serve their employees' needs. This was a part of the corporate culture in Cardone, and it developed both a working and personal relationship between leaders and team members.[11]

#### CHAPLAIN PROGRAM

In 1979, to further strengthen the corporate culture and support the needs of the rapidly growing Factory Family, Mr. Cardone hired the first chaplain. The purpose of the program was to impact the world for Christ. Many of the employees were immigrants from various nations. This was their first job in the United States, and they needed personal help in various areas of their new lives in this country. The chaplain could help. Top management and the chaplains understood that it was important to recognize the whole man — body, mind, and spirit — and strived to meet their physical, emotional, and spiritual needs. Their philosophy was that in meeting all the needs of their employers, these people would be even more dedicated and productive for the company.

To meet the diverse and numerous needs of the staff, additional chaplains were hired who initiated various programs and services. The chaplains:

- established ethnic churches using company facilities on weekends so that various nationalities could develop a sense of community;
- assisted with doctor needs, government registrations, social service support, financial dilemmas, city services, and domestic issues;
- instituted a voluntary chapel, Bible studies, a benevolence fund, musical groups, cultural nights, sporting activities, and recognition programs and awards; and
- served as a confidential source of encouragement and support when an employee felt uncomfortable discussing an issue with his team leader or immediate supervisor.

In addition, the Cardone Foundation was established to use a portion of the corporate profits for specific needs of the Factory Family community. The Foundation primarily supported local social, medical, and educational organizations for the needs of the Philadelphia area community.[12]

At the same time, Cardone was aware of "Title VII" government regulations regarding activities considered legal in the workplace. While employers and employees had the right to religious freedom and practiced their Christian beliefs in the workplace, they knew they could not enforce their beliefs or discriminate against those who chose not to support similar religious practices. Chaplains also had to recognize that activities were voluntary and should not be practiced on company time. While a Christian-based company, Cardone's employees were allowed to practice different religious faiths at different levels of commitment. There was also tolerance for those who did not have or support a particular religious belief.[13]

#### TRANSITION

After Michael Jr. become president of Cardone in 1988, he continued to practice the same values established by his father. Eventually, Michael assumed full control and responsibility for the organization's success. Times changed. Running the business was increasingly complex. As profit margins diminished from increased competitive pressures, the number of competitors actually declined. Some public companies wanted to purchase Cardone, however, Michael decided to keep it a private company. Surviving it all, Cardone became the market leader of remanufactured automotive parts and experienced significant growth.

Michael and Chief Spiritual Officer Mark Spuler often worked in tandem and completely supported the corporate culture at Cardone and the Factory Family mindset. This was the culture they fortified together for over 25 years of their career by their example, continued support, and by the congruent decisions they made. They strengthened programs to enhance cooperation within the company and between suppliers and customers including the establishment of a CARE fund to help employees in financial and personal crisis. Creative new approaches to meet Factory Family Member's needs were adopted into the chaplain program.

Michael believed that Factory Family Members should be allowed to share in the company's growth and profits, so he introduced an employee stock ownership plan. He also established a matching 401(k) program. These incentives were an outcome of the servant leadership model and provided the best service and product to all interested parties.[14]

There was also a transition in many upper management positions as a new generation assumed leadership; many were promoted from within the company along with those hired from the outside as the company continued to grow and prosper. There was a good mixture of book knowledge and on the job experience and these people were familiar with faith at work concepts and the use of chaplains in the work place; however, the consultants were not as aware of this practice.

#### CONSULTANTS

In light of the increased dynamics of running a business, Cardone management hired outside experts to assess the company's operations. They were especially interested in supply chain activities and any recommendations to make operations more efficient and improve company performance and profitability.

In its basic supply chain activities, Cardone annually received millions of used automobile cores from all over the world representing more than 20,000 different sku classifications in various states of disrepair. The cores were quickly identified by sku part number so that customers were properly credited and paid for the returned cores. Cardone stored the parts for future use. Some part numbers from late-model popular cars tended to be in large quantities and in high demand. At the other extreme, there were parts that could only be used for antique or classic cars that might never be made again. To meet the various levels of customer demand, Cardone carried a huge core inventory.

The work in process function followed both a job order and continuous process approach. Parts in high demand were constantly remanufactured. At the same time, there were many parts that might be ordered in small quantities. Some batch processing could be completed with products in less demand, but that might require more finished goods inventory.

In finished goods, many of the final products were boxed under the Cardone name, as well as other company names such as NAPA, Carquest, Autozone, and Advanced Auto. Given the large variety of products and the commitment to rapid customer service, the company maintained a fairly substantial stock of finished goods.

Cardone had a fleet of trucks and employed drivers to cover their biggest customers and routes which provided the fastest possible delivery and superior customer service. Cardone also supplemented their own transportation service with independent carriers and professional delivery like Federal Express and UPS. Some of these carriers left a truck on site and made Cardone the last pick-up of the afternoon so that goods reached customers in the shortest time.

The consulting firm spent 18 months reviewing Cardone's various activities to look for ways to improve the process, cut costs, and increase margins. During these last few years, economic and competitive conditions made it almost impossible to use price as a tool for improved profitability. At the same time, increased labor, energy, and material costs, which could not be totally passed on to the customer, had reduced the profit margin. Foreign competition with its lower labor costs had impacted the domestic market especially on new products. Also, the price of many original equipment items had gone down with production efficiencies. Since Cardone priced their RM products significantly below the OEM market, they faced an ever-decreasing ceiling price.

As the number of remanufacturers declined, so also the number of auto parts customers. Gone were the days of the mom-and-pop auto parts companies. The "Wal-Mart model" had overtaken the retail auto parts industry with only a few major companies like Advance Auto, Auto Zone, Car Quest, O'Reily's, Pep Boys, and NAPA remaining. These customers needed larger and more capable suppliers in more of a one-stop shop arrangement. Like Wal-Mart, since these companies tended to order parts in large quantities, they had a greater say on price. If suppliers did not comply, these large retailers looked elsewhere.

Given the challenges of the industry and company, the consultants reviewed the entire operation, not just supply chain activities, when they made their recommendations. With the overall survival of Cardone possibly in the balance if profit margins could not be improved, all factors needed to be considered.

Eliminating the chaplain program was actually an obvious recommendation for the consulting firm. This program, although nice to have, seemed to be growing without any level of accountability. Some services could easily be incorporated under the human resources department. Additionally, terminating the chaplaincy program would remove many of the potential legal problems when dealing with Title VII issues of religious freedom. The company could still maintain its corporate culture of a "ministry of business" and the "Factory Family" and honor God in all they did even without the chaplain program. In the minds of many, providing a job in a cooperative work environment should be all that was expected or required by a company without these additional "soft services."

## THE DILEMMA

In spite of the corporate culture issue, top management was weighing both sides of the consulting firm's recommendations. Some of their comments were:[15]

> Why couldn't others in the organization be responsible for the activities the chaplains were doing?
>
> Why were other businesses, which do not have chaplaincy programs, successful?
>
> Why did Cardone do the work of the church?

They understood the numbers and realized that the company had to be profitable. Cardone had an obligation to all of its stakeholders. If they could not be profitable, what impact might that have on employees and many others? Any reduction of unnecessary overhead burden that would not compromise the operational mission and core business seemed advantageous to the company.

However, other executives wanted to continue the chaplain program. Their comments included:[16]

> This company was founded on biblical truths; if we eliminated this program from the company, it could fail.

> We promoted a triple bottom line, focusing on spiritual, financial and social returns. It was not just about the money.

> The corporate culture, as reflected in the chaplain program, had benefits far beyond what was typically measured in terms of costs and actually improved the profitability of the company in many ways.

The chaplain department had numerous stories of how they had helped employees. They were often the only hope and only people to come to the aid of employees. In their mind, nothing in the company better represented the Factory Family than the chaplain service. Additionally, having the chaplain program was in full compliance with at least two of the four corporate objectives: 1) honor God in all we do, and 2) help people develop.

Some in leadership believed that the chaplain ministry had a direct and positive impact on at least eight employee issues. The chaplains' work had:

- improved quality
- increased productivity
- enhanced employee morale
- reduced absenteeism and tardiness
- decreased voluntary and involuntary terminations
- reduced workplace injuries
- decreased the need for discipline
- reduced conflicts on the job.

The costs of chaplaincy services could easily be documented, however, it was virtually impossible to determine the value of their benefits in the way of cost reductions, increased efficiencies, or revenue enhancements. The chaplains knew in their hearts what they were doing was right, they just could not quantify their impact and influence on the organization. This failure to report the numbers seemed to really hurt their legitimacy in the eyes of some.

## CASE CONCLUSION

When Mr. Cardone was alive, there would be no question about continuing the chaplain program. However, times had changed and the current challenges seemed much more complicated than when Mr. Cardone was running the company. Michael also recognized the importance of the chaplain program but his management style was more participative; he worked for a consensus on some issues even if it might not be entirely consistent with his own viewpoint. While total agreement might not be possible on the consultant's recommendation, a decision had to be made.

## 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.

1. Identify the reasons to retain the chaplain program.

2. Identify the reasons to eliminate the chaplain program.

3. Should a function like the chaplaincy program, that may be a part of the corporate culture, be subject to the same level of scrutiny or an even higher level of accountability than an operational activity that directly contributes to the bottom line?

4. What types of outcomes related to the chaplain program could possibly be measured? How would you measure their success and impact on the overall corporate profitability?

5. What role does the fact that Cardone is a company that believes in a specific corporate culture have on keeping or eliminating the chaplain program?

6. Should the chaplain program be eliminated or retained? Why?

## ENDNOTES

[1] Never Too Late for a New Beginning, Michael Cardone Sr., Old Tappan, NJ: Fleming H. Revell, 1988, pp. 69-83.

[2] Cardone, pp. 84-96.

[3] Cardone: A Heritage, Eileen Scout editor, Philadelphia, PA: Cardone Industries, 2005, p. 1.

[4] Cardone, pp. 97-112.

[5] Scout, p. 2.

[6] Scout, p. 2.

[7] Scout, p. 29.

[8] Scout, p. 2.

[9] Scout, p. 13.

[10] Scout, p. 6.

[11] Scout, p. 6.

[12] Scout, p. 7.

[13] Christian Rights in the Workplace, Jay Alan Sekulow, The American Center for Law and Justice, 1977, pp. 1-2.

[14] Scout, p. 21.

[15] Cardone Management Meetings, Cardone Inc., 2003.

[16] Cardone Management Meetings, Cardone Inc., 2003.