

Giving Ethics the Business

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ABSTRACT. The criminal conviction of Amway Corporation for evasion of Canadian customs duties not only belies the high ethical profession of its president, Richard DeVos, but his reissuing of the book which makes this profession, without mentioning the conviction, supports the view that ultimately ethics and business are pulling in opposite directions.

Its phenomenal success and high ethical ideals suggest that Amway Corporation could provide a classic instance of the compatibility of business and ethics. However, its conviction for evasion of Canadian customs duties undermines this prospect. In particular, the way in which president and co-founder Richard DeVos has responded, or rather failed to respond, to this challenge lends support to the more cynical view which sees business and ethics as inherently incompatible.

I

As the epitome of the rags to riches American dream, Amway Corporation is aptly named. From its inception in the basements of two former high school friends in Grand Rapids, Michigan, to its coveted place on *Forbes'* list of the seventy-five top privately owned companies,¹ Amway gives proof of the feasibility of the American dream.

Richard DeVos and Jay Van Andel have piloted their basement enterprise to the status of the second-largest direct sales company in the world, with one

million distributors purveying some three hundred household cleaning products for a retail sales volume of almost one and a half billion dollars. It employs seven thousand people manufacturing its own products which are transported by its own tractor trailer fleet to its own warehouses, while its own printing presses churn out its promotional literature. A staff of twenty-six attorneys handles its legal affairs, while it takes almost as many to keep the corporate aircraft in operation. In the early years of this decade, the last period covered by the present source,² corporate sales had progressively expanded each year, with growth in markets outside North America being particularly dramatic.

Such conspicuous success may be expected to be due to a variety of factors, but not least among these must be the organizational genius of DeVos and Van Andel. They have constructed an organization on the basis of their free enterprise philosophy which provides incentive and reward for the ambitious. Though an FTC judge ruled in 1979 that Amway did not represent a pyramid scheme, some of its distributors have apparently operated this way.³ The structure itself certainly does not discourage this direction.

In a pyramid scheme income derives from acquiring new distributors more than from product sales. For Amway, direct sales does not mean door-to-door, but person-to-person sales.⁴ Its distributors are discouraged from random selling and are encouraged to promote their products among relatives, friends and neighbours.⁵ This allows more readily for repeat sales than selling to strangers, but it also provides more fertile ground for recruiting new distributors, and there is no doubt that that is where the real money lies. A sponsor receives a percentage for training and supplying a new distributor, since the products are channelled through the sponsor. When

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the new distributor achieves a certain sales volume and sustains this over a three month period, that person becomes a direct distributor. The sponsor is said to have "broken off a direct distributor." The sponsor then receives from the corporation three percent of the new Direct's monthly volume of sales. This person and everyone he or she will sponsor, and everyone they will sponsor, etc., etc., are "legs" in that sponsor's "personal group." Incentive to develop one's personal group is augmented by a series of pin awards with ascending prizes and fanfare ranging from Ruby to Pearl, Emerald, Diamond, Double Diamond, Triple Diamond, Crown, and Crown Ambassador.⁶

Amway may avoid pyramid charges on technicalities more than in substance. It does not pay sponsors directly for recruiting new distributors and it does not allow distributorships to be bought.⁷ However, there is no doubt that the success of Amway owes at least as much to its built-in incentive for expansion, selling its products vertically down the line, as it does to its horizontal sales of the product on its own merits.

However, whatever the structural room for abuse, it is clear that the President of Amway is keenly aware of the importance of the ethical for business.

Over the long haul, businessmen who operate on the basis of greed and manipulation are not successful. Somewhere along the way most of them are done in by their own dishonesty and scheming. There are exceptions, of course, but I still believe that there is a certain justice in the world which rewards goodness and punishes badness.⁸

In fact, DeVos seems to subscribe totally to the goodness-success/badness-sorrow formula.

Consequences are inextricably tied to behaviour. Good behaviour is automatically rewarded. Bad behaviour is automatically punished. In either case, the underlying concept is that every individual is accountable to society — he is answerable for his own behaviour.⁹

The importance of the ethical is thus grounded in a variation on the late Old Testament obedience-prosperity/disobedience-disaster theology. The success of Amway is attributable not only to the shrewdness of its structure, or the ambition and effort of its chains of distributors, but ultimately to obedience to the divine design of life itself.

I believe that before Dad died he had a feeling that Amway would become the success that it has. He told me that the foundation of the company had been honesty and fairness in our dealings; that the people of the company had come to count on Amway and what it stood for, and that I should not let them down. I have never forgotten that.¹⁰

The ultimate source and guarantee of success is integrity. This conviction is particularly significant in light of the direction Amway has actually taken.

II

The denouement of the Amway integrity-success story was reached in 1983, when an Ontario Supreme Court Chief Justice fined Amway 25 million dollars, "the largest sum that a Canadian court has ever levied and one of the heaviest criminal penalties ever imposed against any corporation in the world"¹¹ for evasion of customs duties. Behind this conviction lay an elaborate scheme of dummy invoices, and even a dummy corporation, designed to underprice Amway products for shipment into Canada.

The strain on Amway integrity began in 1965 when DeVos and Van Andel bought the manufacturing operation which supplied their distribution and sales organization. Before this, Canadian Customs based their duties for products shipped into Canada on the price charged to Amway by the manufacturers, because this satisfied the requirement for an "arm's length" selling price. When this condition was destroyed by Amway's purchase of the manufacturing side, Canada Customs began basing their duties on the prices Amway charged its distributors. "In March, 1965, Amway decided to adopt a policy of deceiving the Canadian government into believing that Amway sold products to the warehouses, which, in turn, resold the goods to distributors."¹² Since the warehouses did not really operate this way, this necessitated the production of phoney invoices undervaluing the products for shipment into Canada.

In 1978, this scheme was reinforced by the development of the Hawaii Distribution Corporation. This was supposed to be an independent company which bought goods from Amway for resale to independent distributors in Hawaii. Its reality was an

array of invoices and cheques meant to reinforce the devalued prices that were supposedly charged to Amway Canada. The corporation appeared to be owned by the trust department of a Detroit bank in which Jay Van Andel is a director. But according to the *Detroit Free Press*, profits were to be secretly paid into two funds: the Jay and Betty Van Andel Foundation and the Richard and Helen DeVos Foundation.¹³

Irrespective of this last allegation, there is no doubt that the president and chief executive officer of Amway were deeply involved in these developments. This is indicated not only by the magnitude of the operation, but by the nature of the corporation. "Sole ownership has allowed the two owners to operate the company without being subject to the internal policies of a publicly held corporation."¹⁴ Given this, not simply legal but emotional, proprietorship, there is no reason to doubt that "the two founder-owners stay impressively well-informed about the goings-on at Ada [the corporate headquarters on the outskirts of Grand Rapids] as well as on the field, and the influence of their personal, informal styles affects the entire operation."¹⁵

This is not to say that the idea necessarily originated with DeVos or Van Andel, but it could not have been implemented without their endorsement. Apparently the reaction within the corporation was to blame the legal department.¹⁶ But this hardly absolves DeVos and Van Andel in any way, since their legal department is headed by longtime friend, Bill Halliday, who "remains their chief counsel and the symbol of Amway's legal rectitude."¹⁷ What is more, the corporation ignored the advice of its Canadian brokers, Border Brokers Ltd, to acknowledge that it had submitted fraudulent documents to Canada Customs, and of their Canadian accountants, Arthur Andersen and Co. of Montreal, who advised that HDC did not satisfy arms' length requirements.¹⁸ Both firms ceased to represent Amway. Clearly the corporation chose the advice it would follow.

The immediate public reaction of the Amway leadership was to deny the R. C. M. P. charges "volubly and at length."¹⁹ They threatened to exercise their influence in Washington. "Canada was accused of launching a blatant 'anti-American trade war',"²⁰ The length of the denial extended to the range of the judicial process, until at the last minute

Amway conceded in what the judge called "a deathbed confession of guilt."²¹

The countercharge of anti-Americanism might help explain how the situation arose. The Amway apologist, Charles Paul Conn, co-author of DeVos' *Believe!* and author of several other accounts of Amway Corporation and its distributors, indicates how casually the Amway outlook regards Canada as "Americanized," and hardly an extension of the corporation into foreign territory. With regard to the international expansion of Amway, Conn says:

The obvious starting place is Canada. With Amway businesses thriving in the border areas of upstate New York, Pennsylvania, and Ohio, the spread of the business across the line into Ontario was entirely predictable. It happened almost by osmosis. Before really working toward that end, Amway officials found themselves setting up a Canadian corporation to serve distributors north of the border soon after the small company was launched. There is very little truly foreign about Ontario.²²

The attitude to Quebec is even more revealing. "Though it has never been technically regarded as an international market, Amway's first real excursion into a foreign area was the development of the business in Quebec."²³ Amway was not defrauding a foreign country of customs duties; it was correcting the mistaken notion that Canada is a foreign country.

While the dedication to the American Way makes it plausible that something of this attitude did underlie the customs evasion operations, there is another dimension in the Amway story which suggests that the president of the corporation also counted on the foreignness of Canada. The conviction for defrauding Canada Customs was handed down in 1983. The book, *Believe!*, in which DeVos gives the enthusiastic endorsement of integrity in business and of the unavoidability of ethical claims quoted above, was published in 1975. But this book was reissued in a "New Revised Tenth Anniversary Edition" in 1985, without any reference to the Canada Customs conviction. How can the president of a company which holds the distinction of having been fined "the largest sum that a Canadian court has ever levied and one of the heaviest criminal penalties ever imposed against any corporation in the world" reissue a book two years later insisting on

the indispensability of honesty in business, without acknowledging his own complicity in such blatant dishonesty?

The most obvious explanation is that this was possible because of the foreignness of Canada, that is, because of the lack of awareness of, and interest in, what happens in Canada on the part of the American media and people. Canadians may be inclined to take offense at this lack of concern and understanding, but why should a nation of 225 million people, which is at the forefront of international relations, be interested in a nation of only 25 million people, which is not in the same league on the world stage? The lack of American interest in Canada is readily understandable, as is the usefulness of this situation for DeVos. It would be difficult to imagine his reissuing of his paean to honesty and integrity in business, if the conviction to which his company was subject had been imposed by an American court.

The assumptions of the Americanization of Canada and of the foreignness of Canada are not as antithetical as they might at first appear. The apparent duplicity which allows a defrauding of Canada Customs to be rationalized as an expression of the lack of Canadian distinctiveness and the reissuing of the book extolling honesty in business in the wake of this criminal conviction, without acknowledging the contradiction, on the assumption of the irrelevance of what happens in Canada for Americans, involves a more basic consistency in that both positions are expressions of Americanism. From the point of view of an American corporation, Canadian regulations can be disregarded; from the point of view of the American people, one can count on a lack of interest in, and awareness of, what happens in Canada.

Whatever the significance of this element in Amway's actions, it is clearly not the only, or even the most significant, factor. While giving expression to the American Way, Amway Corporation is first and foremost a business. The motivation behind the events leading to the customs conviction was undoubtedly primarily economic. But this makes the reissuing of the book in the wake of that conviction all the more significant.

III

For a corporation to compromise ethical principles is

by no means unique, or even surprising. But when the president of a corporation which has been subject to the one of the largest criminal penalties in history reissues a book insisting on the indispensability of ethical integrity in business, without acknowledging his complicity in that crime, this confirms the worst barbs of cynics about the antithetical nature of business and ethics. For not only does such profession ring hollow in the light of the unacknowledged violation of these very principles in practice, but that failure of acknowledgement inevitably appears to confirm the suspicion that ethical profession is being used as window dressing in the interests of power and profit. The function of business ethics then is to divert attention from the real lack of concern with ethics in the single-minded pursuit of profit. This is the real challenge of the Amway case. Far from an *ad hominem* castigation of Amway Corporation or any of its representatives, the point of examining its pronouncements and practice is that the blatant discrepancy between the two in this instance raises in a particularly pointed way this question of the possibility of an ultimately generic incompatibility between business and ethics.

DeVos and Amway Corporation represent a strict endorsement of free enterprise.

No business will prosper unless it has a mission larger than itself. . . . There must be a cause; and the cause we have in our business is the preservation of free enterprise and individual freedom.²⁴

DeVos paints a graphic picture of the difference between free enterprise America and socialist Russia.²⁵ The basic explanation for the difference is that in America citizens are free, and what keeps them free is that they own the tools of production themselves, whereas in the Soviet Union the state owns the tools. "The bottom line is this: when the state controls the tools of production, it controls the people."²⁶ The theoretical import of this position is that the hope of the world lies with individual initiative. The role of government is to provide as much scope as possible for individuals to pursue their own interests.

In devaluing their products for shipment into Canada, Amway was not simply recognizing the *de facto* absorption of Canada into America; it was striking a blow for free enterprise in defying the intrusion of government into the affairs of a private business corporation.

Free enterprise is really that simple. It is a system in which the individual has a right to conduct his business in whatever way he chooses, and keep the benefits of his work. That system is threatened whenever government burdens the businessman with rules and regulations, tells him how to operate his business, and generally increases his cost of producing goods.²⁷

One can imagine this conviction providing a rationalization for the way Amway operated. However, even DeVos recognizes, albeit back-handedly, that free enterprise must ultimately be subject to some government control. "Unless that company does something criminal or violates the public interest, the government should leave him [sic] alone to pursue his interests."²⁸ The trick, of course, is to draw the line between the rights of individual persons and corporations to pursue their economic interests and the rights of society at large to protection from deleterious effects of that pursuit.

It is clear that what is at stake in the Amway case is not simply the actions of a particular corporation and its officials, but the most foundational issues regarding the basis and legitimacy of the modern business corporation and the significance of the nascent discipline of business ethics. The DeVos-Amway philosophy-practice bring into particularly sharp focus the perennial issue of the political status of business, the question of the respective merits of free enterprise capitalism and state controlled socialism. In his advocacy of the former, DeVos is conspicuously silent about the concerns which evoke sympathy for the latter. His primary contention, as we have seen, is that individuals must own the tools of production or else they will be controlled by the state which does own them. One of the most graphic ways in which he argues this is through his adoption of the formula of the American Economic Foundation: $MMW = NR + HE \times T$ — Man's Material Wealth = Natural Resources + Human Energy \times Tools.²⁹ While it is the multiplying effect of tools that impresses DeVos, along with a corresponding respect for native ambition (HE), his lack of interest in the other element in the equation, natural resources, is equally significant. For this rugged free enterprise perspective, the environment is there for the taking. There is no hint of awareness of the ecological impact of the depletion of resources and accumulation of pollution. "We are better off in most ways than any generation before us and things are bound to keep on improving."³⁰

Awareness of the direct human cost of free enterprise is only slightly more evident. DeVos recognizes that there is a problem of economic disparity, if not in America itself, at least in the world at large.

I would not be honest if I didn't admit that on occasion I feel a tinge of guilt for the standard of living that we enjoy here in America. Maybe the word "uncasy" is a better choice.³¹

The tinge of guilt is transmuted into unease with the realization that if people are poor, they have only themselves to blame. The cure for poverty lies in individual initiative. America is the great symbol of this, so much so that apparently it does not have the problem itself. In fact, DeVos even rewrites history to include blacks in America's free enterprise origins.

That call of freedom went forth from a rugged wilderness, and Europe and Asia and Africa sent their sons of adventure to hew a new society in a land of forests and savages.³²

American blacks will be interested to learn that their ancestors came to America on the same terms as white Europeans. DeVos's dedication to free enterprise does not permit him to see the structural inequalities which are only aggravated by encouraging the more favoured to claw harder for themselves. His concern for freedom would be more credible if he addressed this question of the importance of structural change which looms so large for those who promote the opposite socialist solution. However, it would seem that DeVos is unable to see this dimension because his horizon is shaped by the free enterprise perspective.

The brings us to the most sobering implication of the Amway phenomenon, the possibility that the elaborate scheme for defrauding Canada Customs was endemic to the staunch free enterprise position itself. Beneath the Americanism and the philosophical commitment to free enterprise, the practical focus of the operation, what makes it go, is the ambition and self-interest of those involved. This is true of the newest distributor and of the president and chief executive officer.

The primary inducement for most people who come into Amway is a piece of paper measuring $2\frac{5}{8} \times 6\frac{1}{8}$ inches with a thickness of 0.0043 inches. It has a lifespan of eighteen months; it takes 490 of them to weigh a pound, and 233 stack exactly one inch high. There are over 2 billion in circulation.

It is called a dollar bill. Money. Amway is a business and the purpose of a business is to make a profit.³³

It is in this basic context that the “family” atmosphere of the corporation is to be understood. “The Amway concept includes several key components: a chance for the little man; an unlimited ceiling on income; an emphasis on sharing rather than internal competition; a strictly performance-based reward system; public recognition for each small step of new achievement.”³⁴ The emphasis on sharing is “internal,” an alternative to “internal competition.” The sharing is a domestic constraint in the interest of channeling individual ambition so that it promotes the good of the company rather than being diverted into familial encroachment on each other’s territory. It is not a prized trait in itself. “People don’t come to Amway to express political belief, or to find God, or to become loving, sharing individuals.”³⁵ Put in its most basic terms, the motivation behind Amway is greed.

From the outset the business of Amway was business. DeVos and Van Andel did not start out with a product they wanted to sell. They began with a desire to be successful in business, and they developed products to match that desire. They settled on household cleaning products because these were seen to be most salable.

We tried everything that caught our fancy. If it worked, we made it a part of our product line. If it didn’t we discarded it.³⁶

The attraction was not money *per se*. DeVos does not know when he made his first million. “We were not interested in being called ‘millionaires’; we were just interested in building a big business.”³⁷

However, the relation between money and business success is obviously a close one. One can never have enough of either. This is why Conn strains the bounds of credibility when he suggests that DeVos and Van Andel have stayed with the corporation for the good of their distributors. “The enthusiasm for Van Andel and DeVos issues from an awareness that these two men could have walked away from the pressures of leadership long ago, wealthy and sated — but, instead, have chosen to stay, to work, to lead, and to divert to the distributors the enormous rewards of their system.”³⁸ There is no doubt that they could have walked away wealthy, but to suggest that they could have walked away sated betrays a

naive view of human nature and of what makes entrepreneurs of this calibre tick. Conn himself recognizes that “each is absorbed in the challenge of keeping Amway on track and moving fully ahead.”³⁹ He comes even closer to recognizing the reality of the situation elsewhere.

Both co-founders are still young and active chief executive officers and show no signs of losing their prodigious appetite for corporate leadership. They seem not to be sated by their own enormous personal success and speak convincingly of the challenge they find in putting Amway Corporation into the very top level of American business.⁴⁰

Money is a symbol of what underlies Amway. For the new distributor it is a symbol of freedom, the freedom to acquire what was formerly unaffordable, to go to places that were formerly inaccessible. To the occupants of the top offices in the corporation it is a symbol of power and prestige, power to influence the course of events far beyond the operations of the corporation itself, as indicated by White House associations, and the prestige which goes with this level of influence. It is not difficult to see how this pursuit of power could take the direction it did in Amway.

The ultimate challenge presented by the Amway case is its posing of the possibility that the direction this corporation took was not a contingent matter of failure to follow in practice ideals professed in theory, but a necessary working out of the fundamental vision and allegiance of the founding partners. This is not to say that the result followed purely by logical necessity, or that there was a strict causal determinism at work, but rather that, given the commitment to business for the sake of business, so long as this informed the vision and aspirations of the corporate leadership, the impetus of company policy was pulled in the direction the corporation did take.

DeVos is probably right in his contention that a business must have a mission beyond itself. The question is whether free enterprise can constitute such a mission. By its very nature, free enterprise tends to reduce to the cause of the business at hand, or at most to the promotion of business for its own sake. In their highly acclaimed book, *In Search of Excellence*, Thomas J. Peters and Robert H. Waterman, Jr., contend that excellent companies tend to be characterized by a dedication to product or service

quality.⁴¹ While Amway undoubtedly gives due attention to quality control, its pivotal concern, attested by its president, is the growth of the business itself. The Peters and Waterman survey would seem to indicate that this commitment is not inclusive enough for long term business excellence, without even raising the question of ethical commitment. *Forbes* provides confirmation of this in the suggestion that the Amway dedication to business for business' sake may be its undoing, since, whether or not it qualified technically as a pyramid operation, its continued success depends upon sustained growth, but this becomes subject to the law of diminishing returns as the more the business expands the more difficult future expansion becomes.⁴²

If making business the goal of business is precarious from a business point of view, how much more must this be the case from the perspective of ethics? The dedication to business leaves little scope for the concerns of wider society, as DeVos' lack of interest in the environment and his cavalier attitude to social imbalance indicates, much less for openness to concerns which transcend social interests as the most distinctively ethical claims do. While the discrepancy between the criminal conviction of Amway and the high ethical profession of its president may be dismissed as merely another contingent instance of the human weakness with which we are all too familiar, the republication of this ethical profession without acknowledging this discrepancy suggests a more essential connection between the dedication to business and the demeaning of ethics. This has important implications for the prospects for relating business and ethics. Despite the widespread alliance effected by advocates of various versions of business ethics, the Amway phenomenon stands as a warning that ultimately business and ethics may be pulling in opposite directions.

Notes

¹ Charles Paul Conn, *The Possible Dream, a Candid Look at Amway* (New York: Berkley Books, 1978), p. 37.

² Charles Paul Conn, *An Uncommon Freedom, the Amway Experience and Why It Grows* (New York: Berkley Books, 1982), pp. 10ff.

³ Richard Behar, 'Cleaning Up?', *Forbes*, Mar. 25, 1985, p. 98.

⁴ Conn, *The Possible Dream*, p. 12.

⁵ Conn, *An Uncommon Freedom*, p. 12.

⁶ Charles Paul Conn, *The Winner's Circle, the Amway Americans* (New York: Berkley Books, 1979), 'Glossary', pp. 139ff.

⁷ Conn, *The Possible Dream*, p. 43.

⁸ Richard M. DeVos, with Charles Paul Conn, *Believe!*, New and Revised Tenth Anniversary Edition (New York: Berkley Books, 1985), p. 143.

⁹ *Ibid.*, p. 40.

¹⁰ *Ibid.*, p. 155.

¹¹ Ian Austen, 'Amway Cracks — and Pays', *Macleans*, Nov. 21, 1983, p. 44.

¹² *Ibid.*

¹³ Ian Austen, 'Looking into Amway's Empire', *Macleans*, Sept. 6, 1982, p. 28.

¹⁴ Conn, *The Possible Dream*, p. 37.

¹⁵ Conn, *The Winner's Circle*, p. 52.

¹⁶ Austen, 'Amway Cracks — and Pays', p. 45.

¹⁷ Conn, *An Uncommon Freedom*, pp. 25f.

¹⁸ Austen, 'Looking into Amway's Empire', p. 28.

¹⁹ Bill Schiller, 'Trouble for the Amway Family', *Macleans*, Nov. 29, 1982, p. 24.

²⁰ *Ibid.*

²¹ Austen, 'Amway Cracks — and Pays', p. 44.

²² Conn, *The Possible Dream*, p. 94.

²³ *Ibid.*

²⁴ DeVos, *Believe!*, p. 15.

²⁵ *Ibid.*, p. 112.

²⁶ *Ibid.*, p. 86.

²⁷ *Ibid.*, p. 85.

²⁸ *Ibid.*, pp. 73f.

²⁹ *Ibid.*, p. 82.

³⁰ *Ibid.*, p. 65.

³¹ *Ibid.*, pp. 140f.

³² *Ibid.*, p. 115.

³³ Conn, *The Possible Dream*, p. 156.

³⁴ Conn, *The Winner's Circle*, p. 110.

³⁵ Conn, *The Possible Dream*, p. 156.

³⁶ DeVos, *Believe!*, p. 131.

³⁷ Conn, *The Possible Dream*, p. 58.

³⁸ Conn, *The Winner's Circle*, p. 17.

³⁹ *Ibid.*, p. 18.

⁴⁰ Conn, *An Uncommon Freedom*, p. 28.

⁴¹ Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence, Lessons from America's Best-Run Companies* (New York: Warner Books, 1982), pp. 284ff.

⁴² Richard Behar, 'Cleaning Up?', p. 98.

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