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Al Dunlap at Sunbeam

Dunlap v. [after Albert J. Dunlap (1937-)] 1. To turn a company around at lightning speed. 2. To focus on the best: to eliminate what is not the best. 3. To protect and enhance shareholder value.

—Al Dunlap, *Mean Business*

For much of his career before coming to Sunbeam, Al Dunlap was known as the poster child of corporate restructuring. Coming off a highly successful turnaround at Scott Paper, he had recently published a best-selling book, which detailed his career success at his previous jobs and celebrated his latest accomplishment, "rightsizing" the appliance-maker Sunbeam. Dunlap was both famous and infamous for his hard-nosed approach to turnarounds, which typically involved radical restructuring and downsizing. Although he was often criticized in the press, Dunlap was not shy about his "take-no-prisoners" managerial style, which he documented in his aptly titled book, *Mean Business*.[1]

His declared victory at Sunbeam (see **Exhibit 1**), however, may have been premature. Two months after increasing Sunbeam's stock price to its all-time high of $53 per share, and only two weeks after Sunbeam's largest shareholder Michael Price stated that Al Dunlap "is an outstanding executive and Sunbeam is fortunate to have him," Dunlap was fired.[2]

Sunbeam's board had hired Dunlap to turn around the company in 1996, in hopes that he could effect the same increase in shareholder value he had at Scott Paper from 1994 to 1995. As his tenure at Sunbeam carried into the second year, board members watched their stock price fall from a high of $53 to less than $16 the day his firing was announced. His cost-cuttings hadn't panned out, and the companies acquired under his leadership had been much more trouble than the board had anticipated. Given his widely acclaimed history of turning around ailing companies, and the rapidity of his fall, many wondered what had happened. Was he really just a "one trick pony,"[3] overrated and overpaid, or would his restructuring of Sunbeam have worked if he had only been given more time?

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[1] Dunlap, Albert J. *Mean Business: How I Save Bad Companies and Make Good Companies Great.* (New York: Simon & Schuster, 1996).

[2] Business Wire. May 26, 1998.

[3] "Al Dunlap: Exit Bad Guy." Daniel Kadlec. *Time,* June 29, 1998.

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"Rambo in Pinstripes"

The day Sunbeam announced to Wall Street that shareholder-focused Al Dunlap would be its next CEO, the company's stock price jumped 49%, creating almost $500 million of value for the shareholders, including Michael Price and Michael Steinhardt, the two men who controlled almost 42% of Sunbeam's shares.[4] Price and Steinhardt had pulled the appliance maker out of bankruptcy in 1990 when they bought the company from Allegheny International, a corporation that had acquired Sunbeam in 1981 and had done little to improve it.

By the time Dunlap was hired in July of 1996, Sunbeam had been through two other CEOs, an intensive restructuring and a long period of instability.[5] (See **Exhibit 2** for a history of Sunbeam.) Paul Kazarian, one of the partners in the buyout from Allegheny, and the CEO who took Sunbeam public, was fired in 1993 for his highly volatile leadership style. The CEO that followed, Roger Schipke, was a former GE executive focused on growing Sunbeam slowly, over the long term. He resigned in early 1996, noting a change in strategy, dictated by Price and Steinhardt, from long term to short term. The controlling directors wanted to cash out, and had retained Merrill Lynch to shop the company in late 1995. There had not been any takers.

Sunbeam, many believed, was a dying brand. It had failed to keep up the pace with competitors like Black & Decker, and had not succeeded in attracting new customers. Most of the consumers who bought Sunbeam products were older, and had been buying Sunbeam since its heyday in the 1950s and 1960s. Its factories were also aging, as were its machinery and tooling. There were no information systems to connect one department or factory to another. Turnover was high; among factory workers, it was well over 50%. Its board of directors was voted one of the worst boards of 1994 by *Chief Executive* magazine.[6] By the middle of 1996, the stock price had hovered in the teens for close to a year and a half. Sunbeam needed a savior.

Dunlap had a well-established track record for "rescuing" ailing companies. His list of accomplishments ranged from implementing operational improvements in the factory he supervised at Kimberley-Clark (his first civilian job after graduating from West Point), to putting Lily Tulip back in the black for Kohlberg Kravis Roberts & Co. (See **Exhibit 3** for Dunlap's employment history.) A man from the "slums of Hoboken"[7] who worked the factory floor before becoming an executive, Dunlap attributed many of a company's ailments to "ivory tower disease": the inability of business school-educated managers to make decisions about processes occurring layers of management below them.[8] In later years, his restructuring plans carried the trademark of firing from the top down, and he earned a reputation for attacking corporate culture as the source of a company's problems.

He was perhaps hired as much for his reputation as for his skills. His aggressive style offered fodder to those he fired, and to the media, who portrayed him as, in his words, "some kind of serial killer."[9] His nicknames ("Chainsaw Al" and "Rambo in Pinstripes" among the most used) were not self-appointed, but Dunlap acted the part, at one point even dressing up as Rambo and posing on the

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[4] "Chainsaw Al to the Rescue?" Matthew Schifrin. *Forbes*, August 26, 1996.

[5] *OneSource Corporate Overview*. August 10, 1998.

[6] "America's Best and Worst Boards," April 1994.

[7] *Mean Business*, 107.

[8] Ibid., 113.

[9] Ibid., 132.

cover of *USA Today* (see **Exhibit 4**).[10] Although his nicknames were originally meant to be compliments (John Aspinall, a friend of Sir James Goldsmith, said, "Al is like a chainsaw. He goes in and cuts away all the fat and leaves a great sculpture."[11]), they more typically provoked comments like those of Thomas Petzinger, Jr. of the *Wall Street Journal*, who described Dunlap as, "an 80s style liquidator dressed up for the 90s as an angry white guy."[12]

His tough-guy image and record for rapidly increasing his company's share price, however, appealed to an important audience—shareholders. At his first major turnaround, Lily Tulip, Dunlap oversaw a $176 million increase in the company's market value, while firing workers and closing factories. Working for Sir James Goldsmith and Kerry Packer in the late 1980s and early 1990s, he trimmed down large corporations, selling extraneous companies and saving billions of dollars. At Consolidated Press Holdings in Australia, he pared off 273 unrelated companies, generated a $623 million profit from a $25 million loss, and liquidated assets worth over $800 million.[13] At his most famous turnaround, Scott Paper, Dunlap fired 10,500 people—35% of all the employees and 71% of the corporate staff.[14] During his tenure at Scott, he also raised the stock price from $38 a share (pre-split) to $120 (pre-split), and sold the company to Kimberley-Clark for more than a $6 billion shareholder gain (see **Exhibit 5**).[15]

At Scott Paper, as with most of his other companies, the turnaround was executed in rapid fashion. From the day of his arrival at the company to the day the merger closed with Kimberley-Clark, Dunlap's tenure at Scott lasted only 20 months. The merger, which was announced just a year after he signed on, marked the end of the official restructuring in typical Dunlap style. "You look at some of these brand name companies where someone has been there a year and a half or two years and they haven't turned it around," he said. "If you are there that long, you've missed the window. The window shuts and you are trapped in the building."[16] In addition to downsizing quickly, Dunlap also strongly believed that layoffs should only be done once, in order to avoid creating a culture of paranoia among employees. "Do it once, do it severe, and get it over with. If you have to go back a second time, you've made a mistake."[17]

Stakeholder vs. Shareholder

The ultimate goal of Dunlap's restructuring plans was always to create value for the shareholders of the company. He championed himself as the shareholders' savior, likening them to hostages held for ransom. "Sir James and I coined the phrase 'corpocracy'—companies run for the benefit of

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10 *USA Today*, August 30, 1996.

11 Ibid.

12 "Does Al Dunlap Mean Business, or Is He Just Plain Mean?" Thomas Petzinger, Jr. *Wall Street Journal*, August 30, 1996.

13 "CPH Shedding Done About As Pens Poise for Chemplex Deal." *Australian Financial Review*, October 23, 1992.

14 "Can Al Dunlap Do It Again At Sunbeam?" Matt Krantz. *Investor's Business Daily*, July 22, 1996.

15 *Mean Business*, 21.

16 "Who's Chainsawed Now? Dunlap Out As Sunbeam's Losses Mount." Martha M. Hamilton. *Washington Post*, June 16, 1998.

17 *Investment Dealers' Digest, Inc.* January, 1995.

bureaucrats rather than the shareholders," he said. "Scott was a microcosm of that. Its shareholders would have been better off captured by terrorists. They'd have been treated better."[18]

Dunlap was no fan of the stakeholder model of corporate governance, which emphasized a manager's accountability to multiple constituencies besides the shareholder (e.g., the employees, the community). "If you see an annual report with the term 'stakeholders,'" Dunlap wrote, "put it down and *run*, don't walk, away from the company. It means the company has its priorities upside down."[19] Dunlap argued that shareholders were the only ones in a company who had any kind of stake to claim, and that the company should be run for their profit alone. "Stakeholders! Every time I hear the word, I ask, 'How much did they pay for their stake?' Stakeholders don't pay a penny for their stake. There is only one constituency I am concerned about and that is the shareholders."[20]

Dunlap's invocation of the rights of shareholders caused Peter Cappelli, chairman of the management department at Wharton Business School, to comment. "He is persuading others that shareholder value is the be-all and end-all. But Dunlap didn't create value. He redistributed income from the employees and the community to the shareholders."[21] Marjorie Kelly, a co-founder of the publication *Business Ethics*, agreed. "So much for the theory popular among business ethicists that 'In order to serve stockholders well, you have to serve all other stakeholders first,'" she said, in reference to Dunlap's turnarounds. "The theorem at work goes more like this: 'In order to serve stockholders well, you have to squeeze the living daylights out of employees.'"[22] Dunlap, however, accepted responsibility for his management decisions, including their effect on his employees. "I accept the heat because I am my own biggest critic. Every day I'll ask myself, 'Did I really do a good job?' So long as the answer is yes, somebody else's criticism doesn't bother me much."[23]

One of Sunbeam's employees at the company's electric hair clipper manufacturing plant in McMinnville, Tennessee, was Marsha Dunlap (no relation to Al). She was fired in 1997, after having worked at the plant for 34 years. She made $9.30 an hour and provided her family's only form of health insurance. By transferring the hair clipper production to Mexico, Sunbeam would save on wages, insurance and pensions. "They say the wages in Mexico is (sic) a lot less than what they pay us, so that's where their profit is," she said. When she received her termination letter, the effective date for the end of her employment with Sunbeam read 'July 4, 1997.'

"It was very devastating to find out that you're going to lose your job. People don't understand, not unless you've been there. And it affects everyone—the whole community: the car dealership, the real estate, discount stores, everyone."[24]

At Scott Paper, it was more than just the car dealerships and the discount stores that were affected. In Scott's hometown of Philadelphia, Dunlap shuttered the company's 750,000 square-foot headquarters, fired 70% of the headquarters' staff, and moved the operation to a more modest setting in Boca Raton, Florida. He reneged on all of Scott's charitable donations, including the last $50,000 of a $250,000 pledge to the Philadelphia Museum of Art. Just after Dunlap's appointment as CEO, Scott

18 "Scott's Clean Sheet: Tony Jackson Speaks to Al Dunlap." Tony Jackson. *Financial Times*, October 27, 1994.

19 *Mean Business*, 197.

20 Ibid.

21 "Dunlap: I Saved Scott Paper." Marcia H. Pounds. *Sun-Sentinel* (Ft. Lauderdale), January 14, 1996.

22 Marjorie Kelly, *Minneapolis Star Tribune*, December 2, 1996.

23 *Mean Business*, 23.

24 Ibid.

also began breaking off ties with suppliers, in an effort to bring the total number down from 20,000 to 1,000.[25]

Al and others argued that his controversial layoffs were necessary to save the company.

> When I become 'Rambo in Pinstripes' or 'Chainsaw Al,' who sells assets and fires people, I have empathy for those let go. But what I keep uppermost in my mind is not that I cut away 35%, but that I saved 65%. I think that's terribly important. If I don't take action—if I back off as most chief executives do, and fire a nominal 10% of the workforce—that's nothing. It's a tease. I could do less and avoid the criticism. But then I'll have to go back and slash again and again. That is a fraud imposed on employees.[26]

He also remarked that benevolence isn't what gets a company back on track, saying "the harshest critics call me a bastard and say I have no heart. I'm probably a much nicer guy than most people think, but who's going to hire a nice guy to turn around a failing conglomerate?"[27]

For all of the controversy he created, however, one undisputed fact was that shareholders greatly profited while Dunlap was at the helm. And Dunlap was always one of those shareholders. Indeed, one of his core beliefs was that managers should have their compensation linked to shareholder wealth creation. At both Scott and Sunbeam, his compensation was directly tied to the stock performance of the company, in the form of options and grants. As a result of the rise in stock price during his 20-month tenure at Scott Paper, Dunlap increased his own wealth substantially—by almost $100 million, according to his calculations. "Did I earn that? Damn right I did. I'm a superstar in my field, much like Michael Jordan in basketball and Bruce Springsteen in rock 'n' roll. My pay should be compared to other superstars in other fields, not to the average CEO. Only a handful of chief executives are worth the big bucks they are paid. Many are grossly overpaid and should be fired and then replaced by CEOs whose pay is strictly performance-based."[28]

Sunbeam

Because of his apparent success at Scott Paper, Dunlap received a large compensation package upon his arrival at Sunbeam (see **Table 1A** and **1B**). True to his philosophy of aligning compensation with company performance, Dunlap took no bonus, but received a substantial package of stock options and awards. Also believing that CEOs should put their own money into the company they work for, he invested $5 million in Sunbeam stock the first year of his tenure. As Nell Minow, an institutional investor known for her shareholder advocacy, said of Dunlap, "He puts his money where his mouth is."[29] His initial purchase of 244,898 shares from the company came at a price of only $12.25 per share; he bought them just 48 hours before it was announced that he would be the next CEO of Sunbeam.[30] From those shares alone, Dunlap made more than $1.5 million in two days.

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[25] "The Shredder: Did CEO Dunlap Save Scott Paper, or Just Pretty It Up?" John A. Byrne. *Business Week*, January 15, 1996.

[26] *Mean Business*, 23.

[27] Ibid.

[28] Ibid., 22.

[29] "Corporate Blitzkrieg Brings a Rapid Turnaround." James Flanigan. *Los Angeles Times*, March 19, 1995.

[30] Sunbeam Shareholder Proxies 1997 and 1998.

Table 1A Al Dunlap's Compensation at Sunbeam

	1996	1997	Dunlap's New Contract for 1998
Salary	$507,054[a]	$1,115,385	$2,000,000[b]
Bonus	0	0	0
Other Compensation	$68,600	$287,638	N/A
Options (number)	2,500,000[c]	0	3,750,000[d]
Black-Scholes Value on grant date	$16,621,000	0	$75,000,000
Value at peak stock price[e]	$110,724,000	0	$127,406,000
Restricted Stock Awards[f] (number of shares)	1,000,000	0	0
Value on grant date	$12,500,000	0	0
Value at peak stock price[g]	$31,200,000	0	0
Stock Grants (number of shares)	0	0	300,000
Value on grant date	0	0	$11,055,000
Value at peak stock price	0	0	$15,600,000
Stock Purchased (number of shares)	244,898	77,669	0
Value on date of purchase	$3,000,000	$2,000,000	0
Value at peak stock price	$12,734,696	$4,038,788	0

Source: SEC Filings.

[a] Dunlap became CEO of Sunbeam on July 19, and therefore did not receive his full salary for 1996.

[b] Dunlap's contract was renegotiated in February of 1998, but terminated on June 15, when Dunlap was fired.

[c] These options were granted with an exercise price of $12.25. A third of the options were immediately vested, and the remaining two-thirds would vest over two years. The term of the options was ten years.

[d] Under Dunlap's new contract, the options granted in 1996 were fully vested, and Dunlap received 3,750,000 new options (with the same vesting restrictions as his previous agreement) at an exercise price of $36.85.

[e] Sunbeam stock reached a record high of $53 per share in March 1998.

[f] One third of these shares were immediately vested on the grant date, with the remainder vesting in two equal installments on the first and second anniversaries of the grant date.

[g] As per Dunlap's new contract, 40% of his original restricted stock award was cancelled, and the remainder became fully vested.

Table 1B Value of Dunlap's Stocks and Options Upon Departure

	Unvested	Vested
Options held at the time of departure	2,500,000	3,750,000
Black-Scholes value at the time of departure	$7,450,000	$21,225,000
Shares held at the time of departure	1,491,564	
Value on date of departure	$23,492,133	
Company shares outstanding	100,811,194	

Source: SEC Filings.

Upon his arrival at Sunbeam, Dunlap made the board of directors take similar action. He ended monetary compensation for all outside directors, and severely reduced the size of stock grants they received. Previously, board members had received $20,000 annually, in addition to $1,000 for each meeting they attended in person. They had also received 5,000 shares of stock, and options to buy 1,000 shares upon each re-election. Under Dunlap's plan, members of the board of directors were each granted 1,500 shares of stock upon their election to the board, and upon each subsequent election. They were also required to buy and maintain ownership of at least 2,000 shares of Sunbeam stock[31] (see **Exhibit 6**).

Charles Elson, a law professor from Stetson University, was one of the first people Dunlap asked to join the board. The two first met when Dunlap was still at Scott Paper, and Elson had just published a study linking executive overcompensation to a low level of stock ownership by the board. In an article he wrote for the *Wall Street Journal*, Elson proposed that board members be paid only in stock, indicating the findings of his study. The article caught Dunlap's attention, and he asked to meet with Elson, saying that he wanted to institute a similar plan for board members at Scott Paper. When Dunlap then went to Sunbeam, he called Elson and said that he'd like to put a shareholder advocate on the board. "I said, 'great!'—thinking he meant someone like Nell Minow, or another well-known person," said Elson. Dunlap asked Elson if he'd consider becoming a board member, provided he would be willing to buy stock in Sunbeam—$100,000 worth. "That's a lot of money for a law professor," said Elson. "Dunlap said, 'I wanted to make you sweat a little.' I said, 'It worked—I'm drenched!'" He agreed to join the board.

Although applauded by shareholder activists, Dunlap's appointment of a close friend to the board of directors also drew criticism from some in the investment community. Sarah Teslik, executive director of the Council of Institutional Investors maintained that, "(Mr. Dunlap) is closer to Elson than he is to his wife. Mr. Elson is not just a 'yes' man, he's a 'yes' lapdog."[32]

Despite some initial criticisms, the first months of Dunlap's turnaround of Sunbeam were quite successful. By November of 1996, the company's stock was up to $25.37 and Dunlap had announced the first phase of the company's restructuring. It was reminiscent of his previous work—he had plans to cut the 12,000-person workforce in half, reduce the product lines by 87%, close 18 of the company's 26 factories, consolidate the administration, and sell off several divisions. He planned to cut $225 million a year from operating expenses. He also announced that he would double Sunbeam's sales over the next three years, primarily through introducing new products and expanding overseas markets.[33]

The market, however, was already crowded with competitors, and shelf space at retailers was limited. Another problem, thought Ron Graber, a former executive at Black & Decker, was Sunbeam's product development. Dunlap's plan called for a lead time of six months for new products—about a third of the usual 16 to 18 months, and operating with a severely reduced research and development staff. Graber offered the comparison of Black & Decker's "Snakelight" product, which took 22 months to develop, and which had brought in $100 million in sales by 1995. "Sunbeam needs four Snakelight-caliber products each year to double sales by 1999. I doubt those guys have one."[34]

By October of 1997, Sunbeam had hired Morgan Stanley to investigate the possibility of either selling the company or making an acquisition. At first, Black & Decker, Sunbeam's top competitor, was rumored to be targeted. Months of decision-making, however, ended in March 1998 with

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[31] Sunbeam Shareholder Proxy, 1997.

[32] "Sunbeam's Chief Picks Holder Activist and Close Friend as Outside Director." Joann S. Lublin. *Wall Street Journal*, September 26, 1996.

[33] "Dunlap Puts Sunbeam On a Reducing Plan." Steven Pearlstein. *Washington Post*, November 11, 1996.

[34] "Forget About Sunbeam: You Should Invest Instead In Rival Black & Decker." Junius Ellis. *Money*, January, 1997.

Sunbeam's $2.5 billion purchase of three other appliance companies: Coleman, First Alert and Signature Brands (the makers of "Mr. Coffee").[35]

Immediately after signing on Sunbeam's new acquisitions, Dunlap got a bonus—a three-year contract extension that doubled his salary from $1 million a year to $2 million, and a grant of 300,000 Sunbeam shares.[36] "You can't overpay a great executive," he said. "I'm in the business of creating shareholder value. I intend to create a lot of value for me and for everybody else. Don't you think I'm a bargain?"[37]

Not everyone was convinced that Dunlap's compensation package was in the shareholders' best interest. CEO pay gadfly and compensation consultant Graef "Bud" Crystal led the chorus of those criticizing Dunlap's pay package. "He likes to portray himself as a swashbuckling CEO, but real men don't take $2 million salaries and lots of free stock. He's a pay wimp, when it comes down to it."[38]

"Chainsaw Al Gets the Chop"[39]

Although it was difficult to identify any single move that might have caused Dunlap's downfall at Sunbeam, many pointed to two events in particular: the acquisition of three new, troubled companies, and the institution of a marketing strategy called the "early buy" or "bill and hold" program for gas grills and other seasonal products. The program worked by offering retailers substantially reduced prices on gas grills during the winter months, when grill sales were slow. Sunbeam then stored the grills in warehouses until retailers put them on the shelves. The result was that stores stocked up on grills off-season, and didn't reorder any in the spring.[40] The ordered items were accounted for as sales, even though they had not been shipped or paid for, a practice commonly used by many companies.

One article in *Fortune* noted the increased sales as a sign that Dunlap was making the turnaround work, and that he was succeeding in being more than just a cost-cutter. "Al Dunlap wants to be known as Mr. Growth. It's hard to imagine. Yet when Sunbeam announces year-end results in January, people will see that sales, not just profits, are rising dramatically."[41] However, Andrew Shore, an analyst with Paine Webber who had followed Sunbeam's stock for more than a decade, noticed that with the increased sales, Sunbeam was also building up what he considered an abnormally large inventory. Shore decided to alert his clients, but continued to recommend the stock, as he felt it would continue to be bid up. In March, it reached an all-time high of $53 (see **Exhibit 7**).[42]

By April, however, Sunbeam had begun to search for Dunlap's replacement, someone to take over the CEO position after a year of understudy.[43] The company's stock price had also started to slide—

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35 "Sunbeam Buys 3 Appliance Companies." Steven Pearlstein. *Washington Post*, March 3, 1998.

36 "Sunbeam Doubles Dunlap Pay: 'Bargain' CEO Gets $70M Deal." Bloomberg. *Sun-Sentinel*, March 10, 1998.

37 Ibid.

38 Ibid.

39 "Chainsaw Al Gets the Chop." Daniel Kadlec. *Time*, June 29, 1998.

40 "The Unkindest Cuts." Matthew Schifrin. *Forbes*, May 4, 1998.

41 "Can Chainsaw Al Really Be A Builder?" Patricia Sellers. *Fortune*, January 12, 1998.

42 Ibid.

43 "Exit For Chainsaw? Sunbeam's Investors Draw Their Knives." Patricia Sellers. *Fortune*, June 8, 1998.

partially due to the admission by Sunbeam that its first quarter earnings for 1998 would be below company estimations. On April 3, it was announced that Donald Uzzi, Sunbeam's executive vice-president for consumer products and one of Dunlap's favored employees, had been fired. By the end of the day, Sunbeam had announced a loss for the quarter, and the stock price had fallen 25%.[44]

As stock prices continued to slide, Dunlap announced a new round of layoffs—40% of the workforce. The day the cuts were announced, Sunbeam stock fell an additional 7.5% from $27.81 to $25.75.[45]

The increasing pressure from Wall Street and the media was "enough to keep (Dunlap) looking over his shoulder."[46] At a meeting with analysts in New York in late May, he blew up at Andrew Shore for suggesting that he should give back his stocks and options, and work for a dollar. Dunlap confronted Shore after the meeting and warned, "You son of a bitch. If you want to come after me, I'll come back at you twice as hard."[47]

Media attention on Sunbeam's troubles sharpened when the June 8 edition of *Fortune* was released with the following quote from Michael Price: "Look, this is an interesting stock at $25. It's down in an up market. The company's got a great mix of products. It has two guys who control 30% of the shares. And we're not going to sit around and let Al wreck the company. We're paying a lot of attention."[48]

Although Price claimed the quote had been taken out of context, many in the press interpreted it to mean that Price had lost confidence in Dunlap. Dunlap had further reason for concern on June 8, when *Barron's* published a scathing denouncement of Sunbeam's accounting tactics. The article, which generated enormous publicity, discussed Sunbeam's "inventory stuffing," the bill and hold program, and other, what *Barron's* called, "mother's little helpers" to make the company look more profitable.[49] Perhaps spurred both by Price's statement and by the *Barron's* article, Dunlap called a board meeting for two days later.

Charles Elson received a phone call asking him to attend the board meeting while he and his wife were on a trip to New York. On their way to the airport, Elson stopped by a newsstand to buy a paper and noticed that a few papers had printed stories about his as yet unpublished study on CEO succession. Elson and his co-authors had found a strong correlation between director stock ownership and corporate performance. Perhaps more strikingly, the authors also found that directors with significant stock holdings were more likely to fire a CEO for poor performance. "Little did I know," Elson said, "that I was about to become a guinea pig for my own study."

In the board meeting, Dunlap and Russ Kersh (the CFO) went through the *Barron's* accusations one by one, offering thorough explanations for each and defending their positions. When they were finished, the board members felt assured that the accusations were false. Elson then turned to Dunlap and asked, "So, how's the second quarter shaping up?" Dunlap deferred to Kersh, who said,

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44 "How Al Dunlap Self-Destructed: The Inside Story of What Drove Sunbeam's Board to Act." John A. Byrne. *Business Week*, July 7, 1998.

45 "Sunbeam Shares Fall On Restructuring Plan." James McNair. *Miami Herald*, May 12, 1998.

46 "Exit for Chainsaw," *Fortune*, 1998.

47 Ibid.

48 Ibid.

49 "Dangerous Games: Did 'Chainsaw Al' Dunlap Manufacture Sunbeam's Earnings Last Year?" Jonathan R. Laing. *Barron's*, June 8, 1998.

"Well, sales are a little soft." Elson, not feeling that his question had been answered, asked again, "That's not what I asked. How is the second quarter shaping up? Are we going to make five to ten cents a share, like we said we would?" Dunlap retorted that the board couldn't judge their performance based on one quarter, that it was a turnaround situation and would take a long time to carry through. For such an innocuous question, the board was surprised by Dunlap's response.[50]

Dunlap then issued an ultimatum to the board: "Either we get the support we should have, or (CFO) Russ and I are prepared to go . . . Just pay us."[51]

"We were shocked. No one had even hinted that he should resign," said Elson.

The directors agreed that they needed to investigate the matter, to find out why Dunlap was so eager to leave. Peter Langerman (Michael Price's representative on the board) and general counsel David Fannin did some research on their own, and spoke with several people who worked closely with Dunlap about the financial situation of the company. They found that Dunlap and Kersh had underestimated the extent of the damage. They believed that Sunbeam was in serious financial trouble.[52]

The board planned to reconvene on Saturday, June 13. On his way to the board meeting, Elson re-read parts of Dunlap's bestseller, *Mean Business*—a book Elson himself had written an endorsement for. He felt that there was a disconnect between the lessons of Dunlap's book and what was happening at Sunbeam.

At the meeting, Langerman presented what he had found, and the board elected unanimously to fire Dunlap. Russ Kersh was fired just a few days later. Peter Langerman, in an official press release, stated that:

> The outside directors have unanimously taken this decisive action because we have lost confidence in Mr. Dunlap's leadership. This action did not result from any concern about the Company's 1997 audited financial statements. Arthur Andersen LLP, Sunbeam's auditor, has assured the Board that Sunbeam's audited financial statements are accurate in all material respects. However, Sunbeam has continued to incur operating losses in the second quarter of 1998 and the Board no longer expects the Company to achieve the earnings and other forecasts announced on May 11, 1998. The Board continues to believe Sunbeam's businesses are fundamentally sound and expects the Company will be successful under new leadership.[53]

Throughout his career, Dunlap had been alternately portrayed in the press as a shareholder savior and the enemy of the working man. The day of his termination was cause for his critics to celebrate, and journalists who had long followed Dunlap's pursuits with distaste opened a forum for those who had ended up at the wrong end of Dunlap's restructurings. "I'm happy the son of a bitch is fired. I was so happy—I was watching CNBC at 8 o'clock, and I've just been happy all day," said Emery Michael Cole, who lost his job under Dunlap's reign at Scott Paper in 1994.[54] "Somebody at that

50 *Business Week,* July 6, 1998

51 Ibid.

52 Ibid.

53 Business Wire, June 15, 1998.

54 "A Veteran Perelman Fireman Sets Out to Resuscitate Sunbeam." James R. Hagerty and Tara Parker-Pope. *Wall Street Journal,* June 6, 1998.

company finally got some sense," commented Archie Worsham, mayor of Coushatta, Louisiana, which lost its Sunbeam factory in 1996.[55]

Despite the accusations and widespread criticism he faced in the media, Dunlap defended his leadership of Sunbeam and the financial statements released by Arthur Andersen. "Everyone said they were correct. I am not an accountant. Why wouldn't I rely on the outside auditors and the audit committee? …I had no involvement with the audits…and I have zero reason to not believe (the numbers), because that's what the accountant said. That's what the outside auditor said. That's what the… directors on the audit committee said."[56]

Dunlap also believed that he was fired too quickly, and that he should have been given more time to make the turnaround work. "I passionately believed in Sunbeam. I believed that we had accomplished the first phase of the turnaround. I believed we'd positioned ourselves for the future… I signed a new three-year contract at the pinnacle of my career… The contract I signed was heavily incentivised with stock. Obviously, if I didn't believe in the ability to do this, I wouldn't have accepted a contract that was so heavily incentivised with stock… I have never sold a share, never exercised an option, and I have taken horrific losses along with other shareholders."[57]

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[55] Ibid.

[56] CNN "Moneyline with Lou Dobbs" July 8, 1998.

[57] Ibid.

Exhibit 1 Sunbeam Corporation 1996 Annual Report

To Our Shareholders

A new Sunbeam is shining—and with it a major American company is being rescued.

Your new management team has laid out a rescue plan, we are implementing that plan and it is working—all in record time.

In July 1996, Sunbeam was flat on its back. Earnings had plunged 83% since July of 1994. Excluding acquisitions, sales were down 4%. The operating margin had shrunk to an almost invisible 2%. The stock price had plummeted 52% since its high in 1994. And even as this once great company headed towards possible bankruptcy, Sunbeam had no strategic plan.

That is why, when your Board asked me to rescue Sunbeam, we had to move fast. I made it clear that creating the levels of return our shareholders have the right to expect was our top priority. I have always believed that if you focus on maximizing shareholder value, you will have the very best people, the very best products and the very best facilities.

The rescue plan for Sunbeam was simple: 1) Recruit a top management team; 2) eliminate waste and make Sunbeam cost competitive again; 3) focus on core businesses, divesting everything else; 4) implement an aggressive strategy for global growth.

With rapid action, the first three steps are complete:

Step 1. An outstanding new management team is in place. Call it the Sunbeam Dream Team. The recipe was simple. We started with talented outsiders who have helped me rescue companies before; experts in areas like finance, international expansion, purchasing and logistics. We added newcomers with great track records, experts in manufacturing, marketing and product development. And we retained the best people from the old Sunbeam.

This is a powerful combination: the best insiders, the best outsiders, and the best leaders from my past teamed together to give Sunbeam great leadership for a great future. Everyone in your company is committed to building that future. As part of its commitment, your Board of Directors has agreed to be compensated solely in Sunbeam stock. Meanwhile, senior executives have invested substantially in Sunbeam stock as well. On my first day on the job, I set the pace with a $3 million purchase and I followed that up with a $2 million open market purchase in February of 1997.

And because membership in this—or any—corporate rescue team must include everyone in the company, we have instituted a highly innovative employee stock option plan, giving all domestic Sunbeam employees a stake in their Company's growth.

From this day forward, everyone on the Sunbeam team—the shareholders, your Board, your senior management and all your Company's workers—are joined together in a common mission: to restore Sunbeam's profitability and deliver the maximum return to the shareholder.

Step 2. We've attacked excessive costs. Our cost saving measures are projected to save Sunbeam $225 million a year. For example: six separate headquarters are now one; a 12,000 employee workforce is now 6,000; 26 production facilities—some operating at 30% to 50% of capacity—are down to nine (soon to be eight); 61 warehouses have been reduced to 18.

Step 3. We have focused on our core businesses. Companies succeed by achieving excellence in a core business, not mediocrity everywhere.

We have redefined Sunbeam's core product categories: Kitchen Appliances, Health Care Products, Personal Care and Comfort, Outdoor Cooking, and Away From Home.

We are eliminating product lines that do not fit these categories. For example, since December we have sold our outdoor furniture division, our time and temperature product line and our decorative bedding line. We have also signed an agreement to sell our Biddeford textile factory to an investment group which includes the employees of that facility.

All this has been substantially completed in just six months. But the final step is the most important of all, and it's just getting started:

Step 4. Execute an aggressive growth plan, making Sunbeam a global leader once again. Our goals for the next three years are: double annual revenues to $2 billion; raise operating margins to 20% of sales; triple international sales to $600 million; realize a 25% return on equity; and generate approximately $600 million of free cash flow.

How?

1) Strong advertising support. We will rebuild consumer awareness of our powerful Sunbeam® and Oster® brands behind unprecedented levels of media advertising. The advertising program started in the fourth quarter of 1996 with a $12 million campaign that has already increased Sunbeam's brand relevance by 25%. In connection with our new advertising campaign, we are introducing new packaging to make our brands more attractive, distinctive and appealing.

2) Fast product development. We are committed to becoming the industry leader in new product development. To introduce 30 new domestic products a year, we have cut new product development time from two-and-a-half years to six months. We are bringing out innovative products that will satisfy the wants and needs of our consumers and that are truly differentiated from any products in the marketplace today.

3) Go global. Soon, Sunbeam products will be reaching consumers throughout the world. In December 1996, we completed the successful launch of 42 new 220-volt products into 10 international regions. Additionally, in late 1996, we set a goal of signing 15 new international distribution and licensing agreements by April 15th of this year and many more throughout the year. Through mid-March, 13 such agreements were in place, giving Sunbeam access to fast-growing markets in Asia, Latin America an Africa.

4) New channels of distribution. We are expanding our distribution into new channels that offer tremendous new opportunities for Sunbeam. We have a focused "Away From Home" team dedicated to broadening Sunbeam's presence with commercial customers such as hotels, motels, restaurants and universities. We also have a team dedicated to exploring new opportunities in other non-traditional channels of distribution such as catalogs, the Internet and our own Sunbeam factory outlet stores. We have already opened six factory outlet stores since November and plan to open 18 more this year.

This is the Sunbeam growth plan. It is simple. It is powerful. And it is working, after just six months. A talented, innovative new management team transforming a leaner, more competitive, more focused Sunbeam into the dominant global leader in the industry.

Yes, a new Sunbeam is shining—and the best is yet to come.

Albert J. Dunlap

Chairman and Chief Executive Officer

Exhibit 2 Sunbeam Company History

1897	John Stewart and Thomas Clark found the Chicago Flexible Shaft Company. Early products include agricultural tools, sheep-shearing machines and hand clippers, and the flexible shafts used to balance or propel them
1910	The original company moves into production of electrical appliances, like the Princess iron. Stewart and Clark adopt the Sunbeam name in advertising.
1930-1946	The Sunbeam Mixmaster, the first automatic coffeemaker and the first pop-up electric toaster give Sunbeam widespread household recognition, and in 1946, the company officially changes its name to Sunbeam Corporation.
1960	After a decade of innovating new products and increasing growth, Sunbeam acquires rival appliance-maker Oster.
1981	Sunbeam is acquired by Allegheny International. Product development expands to include two of Allegheny's divisions, John Zink (air-pollution control devices) and Hanson Scale (maker of bathroom scales).
1988	Decreased revenues in other divisions forces Allegheny into bankruptcy.
1990	Michael Price, Michael Steinhardt and Paul Kazarian buy Sunbeam from Allegheny's creditors, re-naming it the Sunbeam-Oster Company. Kazarian becomes Chairman and CEO.
1992	Sunbeam-Oster goes public.
1993	Kazarian is forced out, and Roger Schipke replaces him as CEO. Sunbeam relocates to Florida, acquires the consumer products division of DeVilbiss Health Care.
1994	Sunbeam board of directors is voted one of the top five worst boards in America by *Chief Executive* magazine. Among Sunbeam's negative aspects listed were its lack of independent directors, and excessive control by Price and Steinhardt.
1994-1995	Sunbeam acquires Rubbermaid's outdoor furniture business. The company changes its name back to Sunbeam Corporation.
1996-1997	Al Dunlap replaces Schipke as CEO, lays off half the workforce and closes or sells 80 of the company's 114 factories.
1998	The stock price reaches an all-time high of $53 per share. Sunbeam acquires First Alert, Signature Brands and Coleman. The stock price falls dramatically, and Dunlap is fired after disappointing first quarter results and growing concern about his leadership.

Source: Compiled by case-writer.

Exhibit 3 Employment History of Al Dunlap

1963-1967 Kimberley-Clark (factory superintendent)

1967-1977 Sterling Pulp and Paper (general superintendent of a manufacturing plant in Eau Claire, Wisconsin)

1977-1982 American Can (executive vice-president of Performance Plastics division)

1982 (March) - 1982 (November) Manville Forest Products Corporation

Dunlap became president of Manville in early 1982, presumably to attempt a restructuring. He left the company only months later, after Manville Corporation filed for Chapter 11 bankruptcy (as a result of asbestos-related lawsuits).

1983-1986 Lily Tulip (CEO)

Dunlap's first turnaround of an entire company. In late 1982, he was recruited by KKR, which had bought Lily-Tulip for $150 million in an LBO in 1981. When Dunlap was hired, Lily-Tulip was near bankruptcy, with a debt-to-equity ratio of 9-to-1. Dunlap fired 20% of the salaried workers, 50% of the headquarters staff, sold two plants, consolidated manufacturing facilities, and grounded the company airplane. Lily Tulip went public in 1984 with an IPO of $9.50 per share (with 17,572,800 shares outstanding by year-end). It was sold to Fort Howard Paper Company in 1986 for $18.50 a share.

1986-1989 General Oriental Securities Limited Acquisition Group (CEO)

Working with Sir James Goldsmith, Dunlap had some part in restructuring Diamond International and Cavenham Forest Industries (previously part of Crown-Zellerbach). During this time period, he also worked with Kerry Packer, an Australian billionaire and owner of ConsPress, to help restructure Australian National Industries (1989).

1989-1990 Anglo Group, PLC. (CEO)

1991 Greystar, Inc. (CEO)

1991-1993 Consolidated Press Holdings Limited (CEO)

After helping Packer restructure ANI, Dunlap became managing director of ConsPress in September of 1991. Dunlap's mission was to slim down ConsPress from a corporation of unrelated businesses (ranging from chemical manufacturing to ski resorts) to its core of media-related industries. By the end of 1992, he had reduced ConsPress holdings from 413 business to just 140. He left ConsPress in February of 1993.

1994-1996 Scott Paper, Inc. (CEO)

1996-1998 Sunbeam (CEO)

Source: Compiled by case-writer.

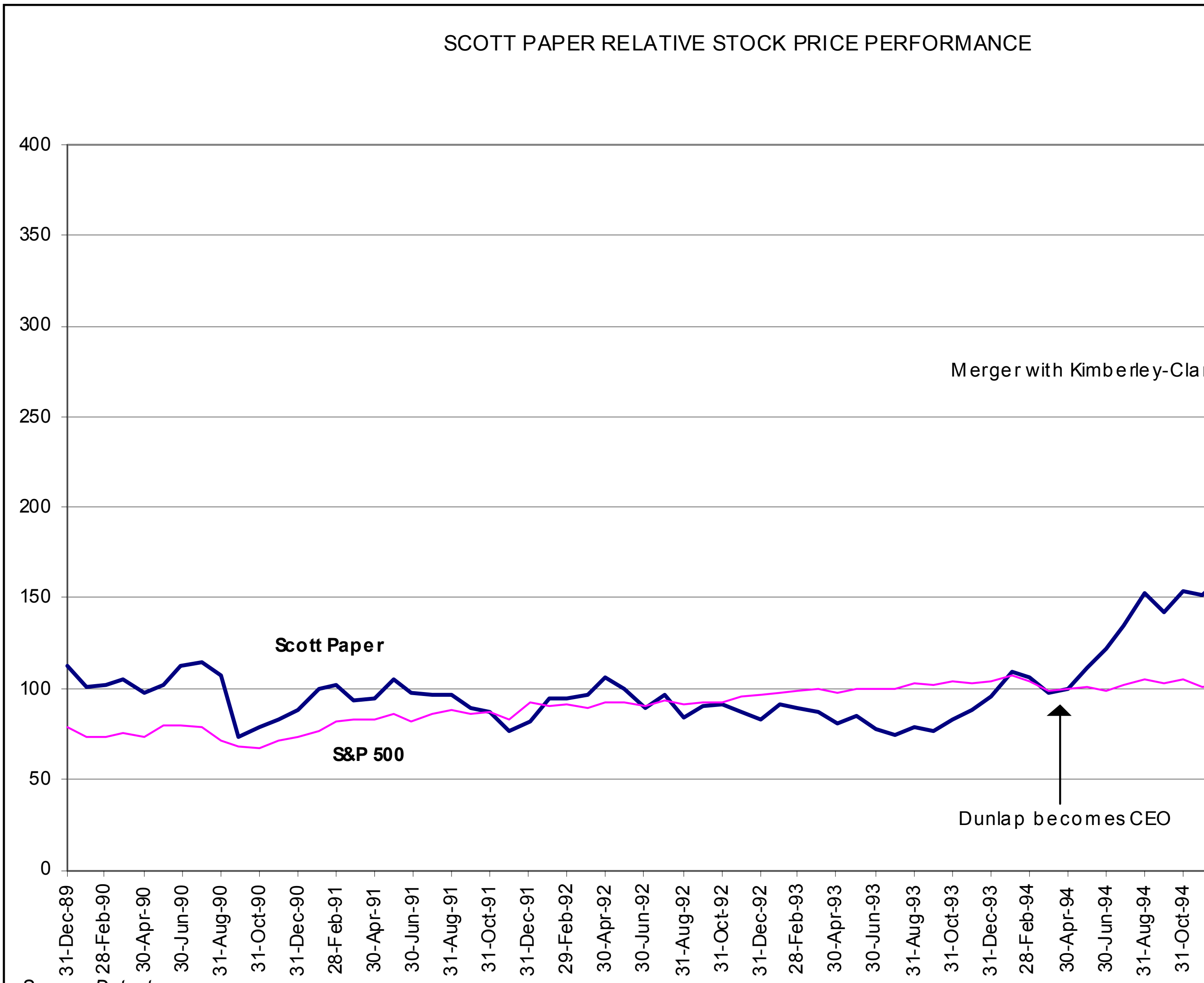
Exhibit 4 Rambo in Pinstripes

Photo by Andrew Itkoff

"The meek will not inherit the earth, and for sure they won't get the mineral rights."

—Al Dunlap, *Washington Post*, June16, 1995

Exhibit 5 Scott Paper Stock Performance, Relative to the S&P 500



Source: Datastream

Exhibit 6 Directors of the Sunbeam Board: Before, During and Following Dunlap's Tenure

Sunbeam Board of Directors, 1995

Roderick M. Hills, age 64, has been a Director of the Company since 1990. Mr. Hills is currently a partner in the Washington office of Mudge, Rose, Guthrie, Alexander & Ferdon, a law firm, and Counselor, Hills & Company, international consultants. Amount of Ownership: 8,000 shares.

Peter A. Langerman, age 39, has been a Director of the Company since 1990. Mr. Langerman has been Executive Vice President and a Director of Mutual Series Fund Inc., a no-load, diversified, open-end management investment company, since 1988. He has been a Director of Hexcel Corporation, a manufacturing company, since 1995. Mr. Langerman has been a Financial Analyst for Heine Securities Corporation, an investment advisory service company, since 1986. Amount of Ownership: 0 shares.

Daniel J. Meyer, age 58, was nominated to become a Director of the Company at the February 1995 meeting of the Board of Directors. He has been the Chairman of the Board and Chief Executive Officer, of Cincinnati Milacron Inc., a manufacturer of processing equipment and systems for the metal working and plastic industries, since 1991. Amount of Ownership: 0 shares.

Roger W. Schipke, age 58, has been Chairman of the Board, a Director, and Chief Executive Officer ("CEO") of Sunbeam-Oster since August 1993. From December 1990 to August 1993, he was Chairman, Chief Executive Officer and President of Ryland Group, Inc., a mortgage banking and home building company. Prior to joining Ryland, Mr. Schipke spent 29 years with General Electric Corporation, most recently as Senior Vice President in charge of the Appliances Division. Mr. Schipke is a member of the Boards of Directors of each of the Brunswick Corporation, Legg Mason Inc., Mohawk Industries, Inc. and The Rouse Company. Amount of Ownership: 479, 337shares.

Charles J. Thayer, age 51, has been a Director of the Company since 1990. He served as Chairman of the Board of Directors from January 1993 until August 1993. Mr. Thayer also served as Interim Chief Executive Officer of the Company from June 1993 until August 1993 and as Vice Chairman from August 1993 until December 1993. He has been Managing Director of Chartwell Capital, Ltd., a financial advisory services company, since 1989. Mr. Thayer was Executive Vice President of PNC Financial Corp., a multi-bank holding company, from 1987 until 1989. Amount of Ownership: 42,000 shares.

Shimon Topor, age 51, was appointed by the Board of Directors to fill a vacancy on the Board in February 1995. He has been a General Partner of Steinhardt Management Co., Inc., an investment partnership, since 1985 and is currently a General Partner of several other investment partnerships. Amount of Ownership: 0 shares.

Paul W. Van Orden, age 68, has been a Director of the Company since 1993. He is Executive Director of each of the Chazen Institute of International Business at Columbia University Business School and the Columbia University Center for International Business Education. Amount of Ownership: 6,000 shares.

Source: Sunbeam Proxy, April 7, 1995.

Exhibit 6 (continued)

Sunbeam Board of Directors, 1997

Albert J. Dunlap, age 59, has been Chairman of the Board of Directors and Chief Executive Officer of Sunbeam Corporation since July 18, 1996. From April 1994 to December 1995 he was Chairman and Chief Executive Officer of Scott Paper Company. From 1991 to 1993, Mr. Dunlap was the Managing Director and Chief Executive Officer of Consolidated Press Holdings Limited (an Australian media, chemicals and agricultural operation). Mr. Dunlap is a Director of General Oriental Investments Limited. Amount of Ownership: 1,324,898 shares.

Charles M. Elson, age 37, has been a Director since his appointment to the Board on September 25, 1996. Mr. Elson has been a Professor of Law at Stetson University College of Law since 1990 and serves as Of Counsel to the law firm of Holland & Knight (since May 1995). He is also a member of the American Law Institute and the Advisory Council and Commissions on Director Compensation and Director Professionalism of the National Association of Corporate Directors. Mr. Elson is Trustee of Talledega College and a Salvatori Fellow of the Heritage Foundation. Amount of Ownership: 7,500 shares.

Russell A. Kersh, age 43, has been Executive Vice President, Finance and Administration of Sunbeam Corporation since July 22, 1996, and has been a Director since August 6, 1996. From June 1994 to December 1995 he was Executive Vice President, Finance and Administration of Scott Paper Company. Amount of Ownership: 140,817 shares.

Howard G. Kristol, age 59, has been a Director since his appointment on August 6, 1996. He has been a partner in the law firm of Reboul, MacMurray, Hewitt, Maynard & Kristol since 1976. Amount of Ownership: 7,500 shares.

Peter A. Langerman, age 41, has been a Director of the Company since 1990 and served as Chairman of the Board from May 22, 1996 until July 18, 1996. Amount of Ownership: 0 shares.

William T. Rutter, age 66, has been a Director since his appointment on April 8, 1997. He is a Senior Vice President/Managing Director, Private Banking, First Union National Bank of Florida, a position he has held since 1986. Amount of Ownership: 2,000 shares.

Faith Whittlesley, age 58, has been a member of the Board of Directors since her appointment in December 1996. Mrs. Whittlesey has served as the Chief Executive Officer of the American Swiss Foundation, a charitable and educational foundation, since 1991. She is a member of the Board of Directors of Valassis Communications, Inc. Amount of Ownership: 3,500 shares.

Source: Sunbeam Proxy, June 11, 1997.

Exhibit 6 (continued)

Sunbeam Board of Directors, 1999

Jerry W. Levin, age 55, was appointed Chief Executive Officer, President and a Director of Sunbeam in June 1998 and was elected as Chairman of the Board of Directors in March 1999. Mr. Levin was also appointed to serve as Chief Executive Officer and a Director of The Coleman Company, Inc. ("Coleman") and Camper Acquisition Corp. ("CAC"), a wholly-owned subsidiary of Sunbeam, in June 1998. Coleman is a publicly held company of which approximately 79% of its stock is owned by the Company. Mr. Levin previously held the position of Chairman and Chief Executive Officer of Coleman from February 1997 until its acquisition by Sunbeam in March 1998. Mr. Levin was also the Chairman of Coleman from 1989 to 1991. Mr. Levin was Chairman of the Board of Revlon, Inc. from November 1995 until June 1998, Chief Executive Officer of Revlon, Inc. from 1992 until January 1997, and President of Revlon, Inc. from 1992 to 1995. Mr. Levin has been Executive Vice President of MacAndrews & Forbes Holdings, Inc. since March 1989. Amount of Ownership: 0 shares.

Philip E. Beekman, age 67, is a nominee for election as a Director of Sunbeam. Mr. Beekman is President of Owl Hollow Enterprises Inc., a position he has held since July 1994. From December 1986 to July 1994, he was Chairman and Chief Executive Officer of Hook SUPERX, a retail drug store chain. Amount of Ownership: 5,000 shares.

Charles M. Elson, age 39, has been a Director of Sunbeam since his appointment to the Board of Directors in September 1996. Mr. Elson was a Director of Coleman from March 30, 1998 until June 24, 1998. Amount of Ownership: 10,500 shares.

Howard Gittis, age 65, was appointed to the Board of Directors of Sunbeam in June 1998. Mr. Gittis has been a Director, Vice Chairman and Chief Administrative Officer of MacAndrews & Forbes and certain of its affiliates since 1985. Mr. Gittis also is a member of the Boards of Directors of Golden State Bancorp Inc., Golden State Holdings Inc., Jones Apparel Group, Inc., Loral Space & Communications Ltd., M & F Worldwide Corp., Panavision Inc., Revlon Consumer Products Corporation, Revlon, Inc., REV Holdings Inc. and Rutherford-Moran Oil Corporation. Amount of Ownership: 0 shares.

John H. Klein, age 53, was appointed to the Board of Directors in February 1999. Mr. Klein is Chairman and Chief Executive Officer of BiLogix, Inc. and Strategic Business and Technology Solutions LLC and Chairman of CyBear, positions he has held since mid-1998. From April 1996 to May 1998, he was Chairman and Chief Executive Officer of MIM Corporation, a provider of pharmacy benefit services to medical groups. Amount of Ownership: 415 shares.

Howard G. Kristol, age 61, has been a Director of Sunbeam since his appointment to the Board of Directors in August 1996. Mr. Kristol has been a partner in the law firm of Reboul, MacMurray, Hewitt, Maynard & Kristol since 1976. Amount of Ownership: 10,500 shares.

Peter A. Langerman, age 45, has been a Director of Sunbeam since 1990 and served as the Chairman of the Board of Directors from May 1996 until July 1996 and from June 1998 until March 1999. Amount of Ownership: 0 shares.

Faith Whittlesley, age 60, has been a Director of Sunbeam since her appointment to the Board of Directors in December 1996. Amount of Ownership: 6,890 shares.

Source: Sunbeam Proxy, May 11, 1999.

Exhibit 7 Sunbeam Stock Performance Relative to the S&P 500