Business ethics case study on sunbeam corporation

Business, Company

Abstract

This paper is about the business ethical issues as applied to the Sunbeam Company that enables it to attain greater profits. The processes discussed being the choosing of right management team, making extreme cuts in the operation areas referred to us cost cutting strategy. Then there is focusing on the company's core business through definition of what it deals with. Then finally it touches on the development and implementation of real strategies including the balancing of finances that improves company's production.

Introduction

The sunbeam company is a well known company that deals with designing manufacturing, and marketing of consumer products used for cooking, Healthcare, and personal care. The company applied the four rules of business ethics to maintain their profitability especially during the times of relatively high inflation and interest rates when the corporations were going through acquisitions, mergers, restructurings and closings.

The company has indeed exchanged hands and by the time of Albert Dunlap in 1996 it had more than twelve thousand stock keeping units, or individual variations of its product lines. It had twelve thousand employees, twenty six factories worldwide, sixty-one warehouses, and six headquarters (Sunbeam Corporation, 1998, pp. 370-378).

Dunlap through the application of businessphilosophyand reputation turned businesses around financially. One of the principles was making extreme cuts in all operation areas, including extensive layoffs and stressed the fact

that the most important goal of any business is makingmoneyfor shareholders. The other very important aspect is to get the right management team. Another method as applied by Dunlap is cutting back to the lowest costs by reducing the number of stock keeping units (Sunbeam Corporation, 1998, pp. 370-378).

1. How Sunbeam's financial performance pressure were manipulated to influence investors

After sometime of thereconstructionof Sunbeam by Dunlap and the purchase of the company, Sunbeam faced tough times. Sunbeam had a financialcultureof using the bill-and-hold strategy to attract more shareholders. This strategy caused a lot of financial pressure that contributed to Sunbeam's culture of using quarterly sales to manipulate the way the shareholders were investing in the company's share. The tough times were not caused by excessive costs or lack of strategies but it was caused by increased three purchases that were believed to have been mad to disguise losses through write-offs.

The financial statements and report for every quarter were unusual for some items. It was noted that the sale of electric blankets and grills were unusual in some quarters. Dunlap was using a bill-and-hold strategy with retailers which boosted Sunbeam's revenues. This strategy entails selling products at large discounts to retailers and holding them in third party warehouses to be delivered at a later date.

The strategy shifted sales from future quarters to the current one. Even though the strategy is not illegal because it follows the Generally Accepted Accounting Principles (GAAP), many shareholders filed lawsuits alleging that

the company had made misleading statements about its finances and deceived them into buying the artificially inflated stock (Osemeyer, 2002).

A class-action lawsuit was filed on April 23, 1998 alleging that Sunbeam and Dunlap were violating the Security and Exchange Act of 1934 by misrepresenting and omitting material information concerning business operation. The lawsuit also alleged that themotivationfor artificially inflating the price of the common stock was to enable Sunbeam to complete millions of dollars of dept financing in order to acquire Coleman, First Alert and signature Brands. But still after the lawsuit, Dunlap continued with the strategy like nothing happened trying to reassure two hundred major investors and Wall Street analysts that the mistake will never happen (Osemeyer, 2002).

2. The contributions of Dunlap to the financial and public relations embarrassments at Sunbeam that caused investors and the public to question Sunbeam's Integrity

Dunlaps' governance in many ways tampered with the Integrity of Sunbeam financially. In less than four months after his employment, Dunlap eliminated 60% of the Sunbeam staff. The staff included both from secretarial and organization positions. This raised a big question and concern to the labor secretary in the US who believed that Dunlap was treating employees like parts of equipment which there for the company's' disposal (Byrene, 1998).

Dunlap also trimmed down the number of SKUs from 12, 000 to 1, 500. He also reduced sixty-one factories to eighteen worldwide. Since the number of employees were been drastically cut down, the SKUs, factories and warehouses, the locations of the headquarters needed to be reduced.

Therefore, the six headquarters were brought down into one (Byrene, 1998). On quarterly basis, Dunlap did some scrutiny on the financial statements for sunbeam. This brought about high quarterly losses to Sunbeam that lead to the reduction of the stock prices.

There was course for worry that the company was using and holding scheme that only applied on the balance sheet. Whereby sales were booked months earlier head of actual consignment. This scheme was because of goods getting sold at large price cuts to retailers and then keeping them held in intermediary warehouses and get late delivery. Due to this, there was a boost in revenue. This created misunderstandings amongst Sunbeams' shareholders due to the misleading financial statements, which they received from the company (Byrene, 1998)

3. Ethical issues by Dunlap's Management

The management of Dunlap could have several ethical issues as they attempted to focus on created by focusing on short term financial performance. The implication here is that the management of the company had laid too much emphasis on the short-term financial performance at the expense of the other ethical business practices. This means therefore that management of the company was not following the correct business practices by focusing only on the short-term financial performance of the corporation rather that putting in place measures aimed at achieving the overall productivity and growth of the business in the long-term (Schifrin, 1998).

The major ethical issues raised by the management of Dunlop concerned the questionable accounting practices. On the surface, the organization was posting high revenues. This was however not the exact situation on the actual sense given the fact that neither the shareholders' wealth grew nor the board of directors became satisfied (Schifrin, 1998).

The implication was that some ethical business practices were not being practiced. Indeed the organization was using the so called *bill-and- hold strategy* in its financial statements preparation. The *bill-and- hold strategy* was a financial practice which involved making company product sales on large discount basis to the retailers. In this case, the bulk sales would be held in third subsidiary warehouses in a bid to make deliveries of the same goods some time in the future (Fortune, 1998).

This was bad ethical business practice. Well, it could be argued that the practice is actually not illegal given that it actually is a GAAP of reporting financial statements. However in this case, Dunlap's management was booking sales in advance before the actual deliveries or even billing were actually made. The result of this unethical practice was that the financial statements presented high revenues more so in the receivables accounts of the organization (Fortune, 1998). The resultant consequences were inflated earnings for each of the quarters of the financial year of the company.

In the final analysis however, all the accounting malpractices were eventually discovered thanks to the analyst Andrew Shore. With the eventual discovery of theses unethical practices, of course the chief executive , Dunlap together with his major management team members were fired and

had to repay the money they had defrauded the corporation (Fortune, 1998). The company equally lost her reputation and not only did it requite a whole new management to turn around the company image, but it equally took a long time. The lesson learned here is that it is a good thing to always practice good business ethics as opposed to engaging in unethical business practices just to gain short-term business gains whose consequences could be detrimental.

Conclusion

Drastic efforts based on the four rules of Dunlap’s business ethics, are sometimes necessary to turn around companies by increasing stock prices and profits. However the reputation for the lay offs as applied by Dunlap leaves many employees insecure. The implementation of the cost cutting strategies makes the company trade on higher profits but at the same time, leaves many jobless.

In addition of the strategies the accounting practices must be of prime concern for any business company to succeed. Also the strategies must focus on delivering quality products and service to the customers. The business companies must always be committed to choose employees and managers based on core values like integrity, community serviceand entrepreneurship. (Sunbeam Corporation, 1998, pp. 375-378)

Reference

Byrene . J . A, (1998)“ How Al Dunlap Self-Destructed,” Business Weekly, July 6, , 58-65

Fortune, (1998). First: Sunbeams Investors Draw Their Knives-Exit for Chainsaw?

Osemeyer, A. (2002, November 27). *Sunbeam’s Bankruptcy Protection Plan Ok’d* . Joplin [Missouri] Globe. Retrieved October 16 th , 2008, from www. joplinglobe. com/archives/2002/021127/regional/story2. html

Schifrin, M. (1998). The Sunbeam Soap Opera: Chapter 6, Forbes, 44-45

Sunbeam Corporation. (1998). Chainsaw Al and the Creed. In chainsaw. New York.