

T.J. DERMOT DUNPHY

T.J. Dermot Dunphy, HBS 1956, was recruited by HBS friends Bill Donaldson, Dan Lufkin, and Richard Jenrette, founders of DLJ, to run a business they thought had potential given the right management. The company, Sealed Air, invented the now-popular plastic bubble wrap, but the founders weren't sure how to market it. Dermot took over the company and in the process essentially invented the packaging industry. He also created a first-rate R&D lab as well as a consulting-oriented sales force to continue developing packaging solutions for a wide range of firms. He described his journey as an entrepreneur from his home in New Jersey in March 2002. Interviewer: Amy Blitz, HBS Director of Media Development for Entrepreneurial Management.

The Early Years

I was born in Ireland and my parents were Irish. I spent most of my time growing up in England since my father always worked there. I'm a slightly Anglicized Irishman who is now an American citizen.

I think two things from my early days helped contribute to my entrepreneurial bent. First, I was exposed to a lot of adults when I was very young, so I recall yearning to be a grown-up. You see, when World War II broke out, we were living outside London and my mother took my younger brother and me back to Dublin as refugees from the bombing. During the war years, we lived with my mother's family. I envied my older aunts and uncles and I had a real urge to get on with life.

Second, I met an uncle who became my favorite uncle. He was one of my mother's brothers and was sort of the family star. He was a world-class athlete, a great lawyer, and a good-looking, charming, larger-than-life kind of character. He provided me with a wonderful sense of confidence that I could do anything I wanted to do. I've often thought that it's hard for parents to give their children the kind of unlimited confidence that other relatives can, because parents have to provide cautious constraints. For example, a parent might say, "Well, that's great that you want to be president of Ireland or the United States, but how about doing your homework?" An uncle, on the other hand, can forget about the homework and say, "Gee, that's interesting that you want to do something like that." I think that having my uncle around when I was so young helped point me in the direction I've taken in my life.

As is true with many people, sports was another influential factor from my early days. I wasn't a particularly good athlete, but somehow or other I gravitated towards being the captain of my rugby team. As a matter of fact, I was captain two years in a row while I was at the high school level. In the English system, my captaincy led to me being a prefect and head of the student body. So I sort of fell into so-called "leadership roles."

From there, I went to Oxford to study law. I wasn't much of a lawyer. I was, however, president of the Law Society, which interacted with Harvard Law School. That's how I came to America. I would talk with Harvard Law students who were visiting England to compete with Oxford law students in what were called "moots." During discussions with

the Harvard visitors, I learned about the existence of something called a business school, which didn't yet exist in Europe. I had already figured out that I didn't want to be a lawyer, so I thought that going to business school was a wonderful opportunity.

I think I showed some entrepreneurial determination once I decided to go to business school. Back in the 1950s, when I applied, there were only sixty business schools in America. I applied to all sixty. You must remember, I applied to the schools before word processors and copy machines, so I wrote all my applications on an old-fashioned typewriter. It was a mammoth task. The reason I applied to all sixty schools was that I had no financial backing to go to the United States. I needed a scholarship and I figured that somewhere among those sixty schools there would be one that would say, "He's worth putting a little money behind. We'll add him to our student body."

I don't remember if I was rejected by any of the schools. I didn't care whether or not I was accepted. All I cared about was whether or not I was offered a scholarship. If there wasn't any money offered, I threw the response away. My goal was to go to Harvard Business School, but I thought, "Harvard doesn't need me. They get the best of the bunch. Maybe these little schools will need me." The delightful part of this story, at least from my standpoint, is that Harvard gave me the best financial deal. In fact, the deal from Harvard was the only one that made any sense.

I learned two lessons from the application experience. The first is "Be determined, patient, and persistent." The second is "Always aim for the top, because you may surprise yourself and actually hit it." Anyhow, going to Harvard Business School is what brought me to the cradle of American management.

The HBS Experience

Going into business appealed to me because it was the obvious alternative to being a lawyer. I knew virtually nothing about business. I didn't come from a family with a business background. My father was a British civil servant; he was high up in what is called the Inland Revenue Service, the equivalent of the Internal Revenue Service. The uncle I mentioned earlier was a lawyer. Essentially, I was going into uncharted waters when I went into business.

I learned two things from Harvard Business School right up front. I learned what business was—because I really didn't know what I was getting into—and I learned what kind of place America was. For example, I had my first experience in a supermarket here, because there were no such things as supermarkets in Ireland or England. Beyond that, I think HBS was—to use the currently fashionable term on campus—a "transforming experience" for me. Being there significantly changed my life and, to the extent that I may be described as an entrepreneur, that's where it really all started. What I got out of HBS is a way of thinking, a way of looking at facts and the absence of facts, a way of looking at problems and opportunities, and then having the confidence to act. I remember that when I left the Business School, I left without any notes—no papers, no books, nothing. There weren't any written materials that I thought were relevant. I had developed the tools to go out into the world and do something in business.

The one exception was notes I took during a class with a very remarkable man, General Doriot. General Doriot is the father of venture capital, and he probably did more to develop the whole concept of entrepreneurialism in America than anyone else. He was certainly a huge factor in the development of America's early technology companies. He founded a company called American Research and Development, which financed Digital Equipment Corporation, among others. Doriot was a remarkable man. One of his talks stands out in my mind as being particularly emotional for me. He was describing what his experience of being a CEO was like. He quoted a passage from one of Joseph Conrad's great books about life at sea. It tells the story of a mate on a ship late at night in an incredibly severe storm. The mate is on the bridge and the captain is down below. The mate is out of his area of experience and he's pretty nervous. At some point, the captain comes up and just stands behind the mate; the captain doesn't do anything. Conrad wrote a wonderful phrase to describe what the mate was feeling: "The mate, just knowing that the captain was there, felt confident, and had the confidence that all would be well."

Some people in the class snickered when Doriot gave us this talk. To me...well...it still makes me emotional. I thought, "This is for me. It won't be as dramatic as leading a ship, but I want to be the guy that stands behind people and gives people the confidence to go forward."

Westinghouse Experience

There are lucky breaks in life. Think about why people choose you for certain advantages, particularly when you're young...like when I was in school and was able to become captain of the rugby team. I was no great athlete. I was no star at HBS either. On the contrary, I think I was in the middle third of the class. Although, at the fifth reunion, we were asked on the registration form to write which third of the class we finished up in and 50 percent of the class wrote that they ended up in the middle third. Who knows? Maybe I'm not a legitimate part of that middle third of the class. In any case, I was an OK student.

Going back to wondering why people might choose you for certain advantages, it happened to me at the Business School. One of the deans arranged for a few students to meet Bruce Henderson, a star Business School alumnus. I don't know why he picked me. Anyway, Bruce was the youngest person to be a vice president of Westinghouse Electric Corporation. He's best known, now, for founding the Boston Consulting Group. He was also the originator of the fundamental concept that market share is all powerful, and that if you can dominate market share, you're going to have a very large-scale production base, which will enable you to be the low-cost producer and perpetuate your market share leadership. He also came up with wonderful strategic concepts.

After meeting us, Bruce hired two other people plus me to go to Westinghouse. I worked for him in Stanton, Virginia, where he was in his new job as general manager of the air conditioning division. I spent an extraordinarily valuable four years there. I took a marketing job and began a fairly rapid promotion schedule. Since MBAs were less common back then, I think it was fairly easy to put people on a fast-track promotion

schedule. While I was there, I developed an ability to listen pretty well and I developed a sense about the rhythms of the business. I became good at knowing how salesmen react to changes and initiatives. Also, distribution was a big factor in that business. Somehow, I became sensitive to the needs of distributors, so that by the time I was twenty-four or twenty-five, I was a pretty good advisor to the head marketing executive in the operation.

One of the big things I learned at Westinghouse was that while strategy is exciting, operations and execution make the big difference. The wonderful, interesting experience for me was not so much what I learned while doing my own job, but what I observed while watching executives fail and succeed. Bruce Henderson, who was a brilliant executive, ended up being a total failure at Westinghouse. He was fired for losing a prodigious amount of money in his operation. Bruce acted according to his fundamental view that if he lowered prices, he would increase market share and benefit from the economic scale of a larger manufacturing facility. It might have worked, but Westinghouse was not prepared to finance losses for a very long period of time, so they cut him off. Bruce was replaced by a very mundane manager, a very normal, everyday kind of guy, with no MBA, no great brains, no great vision, no great strategy, but a good operating person. This man straightened the place out and we made money. This was a powerful lesson, distinguishing between the excitement of great strategic visions and the need to get things done in a practical way on a day-to-day basis.

It's ironic that during the two years I was working for Bruce, he was proving the theories that became the foundation for his company, Boston Consulting Group. He just wasn't able to implement his theories successfully in the Westinghouse environment. Of course, Bruce has gone on to great glory. He founded his now-famous company and has spawned a whole series of other well-known companies such as Bain Consulting.

What I also learned, as background for being an entrepreneur, is that one should always work for a large company first, principally because you will learn all the things you shouldn't do. You will be exposed to things that are not very effective. In my opinion, large organizations tend, by their very nature, to be inefficient. One of the great challenges of large organizations is to avoid inefficiency. I learned too that you should not fall so in love with a strategy that you try to implement it at the expense of operating the business. In other words, you've got to stick to the fundamentals.

Related to this last lesson is another. It's a problem I haven't had to deal with, but it's the danger of getting intellectually too far ahead of the troops so that nothing gets done. I'm a B student. It's advantageous to be a B student. Grade A students have a lot of trouble in business because they are very sharp, but they forget that their strategies and plans have to be implemented by B students, and quite a few C students. As for me, I think I'm just smart enough to understand what the really bright people are talking about so that I can understand how to implement it and explain to other people what they need to do.

First Venture

Custom Made was my first shot at running a business all by myself. The company was small, with about \$3 or \$4 million in sales. Of course, adjusted for inflation, it would be a

little bigger in today's terms. The company was losing money, which is why I got the chance to run it. When you're twenty-eight, not too many people will put you in the CEO post unless there's a problem that more experienced and more successful people would rather not tackle. My job was to turn the business around and straighten it out, which I did over a period of years.

One thing I learned is how difficult it is to bring in new executive managers. Today, it's practically a given in American business that when a company is not doing well, you throw out the whole management team, not just the top person. You throw out the management and you bring in new people. You usually start off by bringing in a new CEO, and the assumption is that the new CEO will bring in his or her own new team. Based on my experience, this strategy does not work as well as it is generally thought to. As CEO, I immediately brought in three new managers. They were clearly talented, and clearly more capable than the existing management. The problem was that the existing employees did not like, trust, or support the new managers.

Another thing I learned at Custom Made related to operating with a heavy load of debt and using what we called "bootstrap financing," which is now known as LBO or Leveraged Buy Out financing. LBO was a means to becoming the business owner and involved all the aspects of motivation and reward associated with ownership. I made a deal with the owners of the business to gradually buy them out based on certain performance standards we set for the firm. Eventually, I ended up being the majority owner. I sold Custom Made in 1968 to a large paper company, and that was the end of my first small-company, entrepreneurial experience.

Finding the Opportunity

After I sold Custom Made, I was at a stage where I was re-evaluating my life. I had made a little money, so I had the option of looking around to see what I might like to do. I thought I might go into government. As a matter of fact, I toyed with the idea of becoming New York City's Sanitation Commissioner. John Lindsay was the mayor and the city was a total mess, as was the Sanitation Commission. I was intrigued with the idea of really *cleaning up* the city.

But an opportunity to run another small business came my way. The opportunity with Sealed Air came about after I gave some money to Donaldson, Lufkin & Jenrette, a young investment banking firm. DLJ put my money into Sealed Air. Unfortunately, Sealed Air didn't do very well. It was 1968 going into 1969, when the market dropped precipitously. I now joke that giving my money to DLJ was a very expensive executive search fee, since it led me to my next job. You see, I decided that I liked this company that DLJ was backing. Sealed Air started off as a technology company with an innovative product, which we now call bubble wrap. The two men who invented the bubbles felt they had this wonderful product and that it would be the new nylon. They had hundreds of ideas. As a matter of fact, they had hired a consulting firm to help them with their ideas and, on my first day as CEO, I found a consulting report that listed 204 product applications for this bubble stuff. Anyway, the company started off with this wonderful idea and with great aspirations. I was invited to take a look at the business and I saw that

although the company was losing money and was in some measure of trouble, it was an absolutely intriguing business. I just couldn't wait to take a shot at running it.

The man who had been running Sealed Air before me had already laid the groundwork for a great business. Yes, I turned the company around, but I've always said that most good turnaround people are good analysts. They are able to figure out, ahead of taking over a business, that the turnaround either has already started or it's relatively clear what needs to be done to achieve the turnaround. So, sometimes the glory that goes with being a successful turnaround person results from using analysis to determine that the business is already on the right track. Sealed Air was fundamentally on the right track, because they had already figured out that packaging was the right business to go into.

Until Sealed Air came along, there were no engineered products designed as so-called "protective packaging," which are materials that protect packaged products from damage caused by shock, vibration, or abrasion. Fundamentally, protective packaging is something you put in a box to stabilize or hold a product, such as a TV, and absorb any shock during transit. People used to use old newspapers and wadding, just rejected paper materials that wouldn't be any good for tissue. We had a great opportunity to bring genuine technology to a very mundane industry.

Business Strategies for Sealed Air

We immediately decided that what we were going to do was sell *not* a product, but a benefit. We were going to sell *protection*, as opposed to *products*. We started offering services to design the end package so that our customers would have reduced damage. This translated into dollar benefit because the customer's total cost of packaging—materials plus labor—would be less. Our salespeople provided an engineering presentation. They would say, "Here's how we're going to reduce your cost of packaging and here's how we're going to reduce your damage, so you can improve your customer service image and increase your sales." The presentation was geared towards the economic benefit we were delivering to the customer and, frankly, was designed to steer attention away from the cost of our product. That's how you differentiate. You sell a value instead of selling a commodity.

I was passionate about this selling opportunity, because it was so different from what I was used to at Custom Made. Custom Made was a packaging company too, but with them I paid whatever the price of materials was from large suppliers, then I sold my product to large companies who dictated prices they would pay. I was squeezed in the middle. Being at Sealed Air, I thought I'd woken up in Heaven! Here we had a concept and an innovative, patented product. We could establish and maintain a price.

There's an interesting story about how we priced our products at Sealed Air. In fact, there's a terrific HBS case about our pricing strategy, which shows how you can establish and maintain prices that give you good margins. When I took over at Sealed Air, the product pricing had already been set. It wasn't set by a marketing person. Our pricing was determined by one of the founders, who was an engineer. He knew nothing about marketing, but his instincts were right. He priced the product at ten times its raw material

cost, just because it appealed to him. We built a marketing program around that price and it made sense for the customer. So the pricing was win-win. The customer got great economic benefit, and we sold a packaging product for ten times its raw material cost.

Now, thirty-five years later, we've been able to maintain a really high price. The product still sells for about ten times its raw material cost, depending on the price of the resin. Of course, the bubble wrap is only part of Sealed Air's current product offerings. In fact, one of our success factors is our emphasis on R&D. We hit on the concept of high technology in a mundane industry, and we've stuck with it. Today, Sealed Air has about 100 Ph.D.s working in R&D. We probably employ twenty times as many Ph.D.s as anybody else in our industry.

Overall, the drivers behind Sealed Air's success were the serendipitous development of this new product and matching it with a clear-cut need. Even though the bubble wrap was not invented for packaging, people visualized it as an adequate, well-thought-out material that could go inside a box and protect whatever was inside. Also, it turned out to be one of the most customer-friendly products in the world. Until Sealed Air invented bubble wrap, nobody except Jiffy Packaging had ever focused on how to protect items during shipping. And Jiffy Packaging used paper wadding, which is not an economically desirable product. The wadding is much too heavy for protective packaging. We were saying, "We can come up with something that not only reduces breakage, but also reduces cost." We thought that if we designed the right shock-absorbing capabilities, customers could reduce their shipping costs. Then we would be able to go to customers and say, "If you buy our stuff at X price, you can reduce the size of the box and save 3X."

Differentiating the Business

In those days we didn't have any real scientific assessment of our potential market size, but we knew it would be huge, because anything that was shipped in a cardboard box was fair game for us to improve our customers' economics. Our focus on R&D comes from a strategic concept that is a basic military theory of strategy—apply strength against weakness. From the beginning, it just seemed logical to look at this mundane industry, where there weren't a lot of talented people, and then build a company staffed with talented people. Since nobody else was doing much in the way of R&D or technology, we would do it. As a result, we would be totally differentiated from other companies in the industry.

Our consulting sales organization was another extension of differentiation. Every other company in the industry sent people out with catalogs saying, "How many bags do you need? Here's the price." We sent people out with engineering studies saying, "Let us into your back room. Let us into your factory. We'll study how you are packaging your products and we'll present a report that shows you the economic benefits of adopting our thought processes, our designs, and, of course, our products, which enable you to implement our designs."

When it came to hiring for our sales team, we didn't hire anybody from other packaging companies. We started off with the assumption that we wanted our people to be superior. We figured that if we hired somebody from a packaging company, then that person would probably just carry over the same mindset. We only hired people who were just out of school or people who had worked at technical companies such as Hewlett-Packard and superior sales companies such as Procter & Gamble. We took people who weren't in our industry and we taught them packaging. We wanted sophisticated sales people who could handle a customer who said, "The price of resin went down, so are you going to give me a price reduction?"

I think people would agree that Sealed Air defined the protective packaging industry, because there wasn't an industry before us. We invented the phrase "protective packaging," and we defined "protective" as "guarding against damage caused by shock, vibration, or abrasion." We made protective packaging the mission of the company. If people have a need to protect items from shock, abrasion, or vibration, they come to us.

Expanding the Business

The company has grown and now provides a whole host of other products. The bubble material is just the tip of the iceberg. It's a very visible tip, since it's what people recognize about Sealed Air, but it's about only 10 percent of the company's business right now.

We have a variety of polyethylene foam and urethane foam materials that fulfill the same function as bubbles, but have different performance characteristics and different handling characteristics when it comes to automated packaging. Essentially, the products fulfill the same function, but they fit different applications. For example, we got into food packaging in the early 1990s, but we took a major step into that sector in 1997 with the acquisition of Cryovac. When you're in the supermarket, most of the meat in the meat counter is packaged with Cryovac packaging, which is from the Cryovac division of Sealed Air.

I came up with a phrase that encapsulates a very important message in our company, which is that products can be differentiated almost indefinitely in small ways. You can always figure out some way to make a product different. Even if we run out of ideas about how to differentiate a product, we can differentiate by how we make the product part of the total service we're selling. It's important to differentiate a product in terms of the service that you're selling, because you don't ever want to sell just a product. After all, customers don't care about a product. They care about the economic impact of their relationship with you. The product is part of a service and you should always be looking for ways to add services. If you ever run out of service ideas, then you should eliminate the product and say "That's not for us." Ultimately, at some point, you may have to say that a product truly is a commodity. If you get to that point, however, you should eliminate the product. That's the message we try to convey across the company.

I think this theory, that there is no such thing as a commodity, is particularly exciting and challenging. Really, it originates from the whole concept of marketing, which is an

American concept. The idea that value can be added beyond the bare bones of some physical product is an American invention. Then, of course, electronic commerce and reverse auction techniques are based, in part, on the idea that transparency ultimately commoditizes everything. Some people argue that the effect of e-commerce will be that everything gets cheaper forever. I would dispute that statement. There will always be room for creative value-add in any kind of product. Sealed Air's experience continues to indicate that superior marketing adds benefits both to the customer and to the supplier, and electronic commerce isn't going to change that fundamental fact.

Motivating Employees

Back in my days at Custom Made, I learned the importance of motivating and rewarding employees independent of money.

Our factory was on Long Island, and construction was booming. Some of my workers said to me, "I can go work on this construction job and make more than I am making here." They were right. In fact, they could be making a lot more money in construction, which turned out to be good for me and my business. You see, I was young and inexperienced, so I might have been tempted to say, "O.K. I'll give you more money." Unfortunately, they could have made so much more in construction that I had no other choice than to point out, "If you want to go work there, that's fine. But you know, construction is a different world. You can work now, but you may not be able to work in the winter. It's also a different lifestyle. You might fall off the scaffolding and get killed. If you want to do that, go and do it." To my great satisfaction, nobody left my company to go into construction. Everyone stayed.

The lesson I learned was that there is something else you can offer people besides what you pay them. Man does not work for bread alone, and if you can make this notion come alive in an organization, you can be effective. If the attitude in your organization is, "I'm here because I can make more money than I would across the street," you have an economic model that's going to fail. The secret to having an effective work force is to have people who work for reasons other than money. By the time I was leading Sealed Air, I was convinced that the real art of being successful in business was in creating an environment where people wanted to work. I came up with an idea that there are two very fundamental things that people want in life— trust and pride. If you create a place where people come into work every day feeling proud to be there and feeling that they trust people and are trusted, that's about as close to the whole game as you can get.

At Sealed Air, I focused on building trust, and I started at the top. First, I outlawed greed. For a public company, you can read a proxy statement and know the salaries of the top guys. Most people get disgusted when they see how well the top people take care of themselves. I determined that we wouldn't do that at Sealed Air. We had no employment contracts for top management. We didn't have "golden parachute arrangements," no special deals. Our executives were well paid, but we were paid less than the industry norm. In addition to keeping management salaries in check, we required management to operate in a lean way. We never used executive jets, we didn't fly first class, and we didn't have special parking spaces or any of that kind of stuff.

Of course, you can't outlaw money all together. People like to get monetary rewards. So we offered ownership to help bolster management salaries. We provided a lot of stock for top managers, including me. Still, most employees are bothered when they see senior people get a lot of stock, because the senior people will promptly sell their shares. So we had an informal rule at Sealed Air. We said, "OK, you get a lot of stock, but you keep it. It'll be good for your children and your grandchildren. Don't sell it." We didn't make this rule legal or binding. We just said, "If you sell, that's it. You're not getting any more stock." Management still became fairly prosperous, because the company did very well.

And it's a virtuous cycle. If the leadership acts decently and behaves in a way where people lower down in the organization think, "The boss is not greedy," then, guess what? Everybody works very well, the company does very well, and the stock goes up. By the way, *that's* the tie-in between the employee and the investor. If you treat the employees well, the investors come out well in the end. And trust is key. Establishing trust depends on what you do. It's not what you say, it's what you do. What you must do is act in a way where you appear to be reasonable, fair, and not greedy. You don't load on a whole bunch of privileges. If nobody else in the company has a contract, then the leadership doesn't have a contract.

Building pride was actually easier than building trust. Think back to what we were talking about in terms of the strategy for Sealed Air. We started off saying "We are going to be not only different, but also the best. We won't even hire anybody from the industry, because we think the industry is below us. We will be the best. We will be the Marine Corps of the industry." In addition, our principles state, "We must be the best at anything we undertake. If we can't be the best, let's figure out something else to do." These principles guided our hiring, they guided what we did, they were repeated in all our publications, and they were what helped build pride among employees. The benefit is that if you come to work feeling proud about being part of a special group, and if you feel you can trust the people in your company, you get the job done.

Particularly in the last ten or fifteen years, virtually every annual report that you read says, "The principal goal of this company is to enhance shareholder value." You'll never find those words in a Sealed Air annual report. We never said that and we never would. It is not our goal to enhance shareholder value. Our goal is to run the company well, build a great company, and be the best at whatever we do. The value of the stock is a byproduct of that; it is not an objective. Stock value is a byproduct of doing the right things.

Creating a Controlled Crisis

There's a good Harvard Business School case about an LBO strategy I used to further motivate the organization to change. Stock was trading at forty-five dollars a share and we figured out that we could borrow enough money to pay forty dollars to every shareholder. We did so and paid out a dividend that was greater than 80 percent of the stock value. Why did we do that? We did it for many reasons.

First, the company was becoming a little complacent. We had been doing too well and we were becoming too complacent about what we were doing. Also, some of our key patents were running out. We realized that we needed to change the company quite a bit. In particular, we needed to make manufacturing a major part of our strategy. Until then, technology and sales had been the main strategic concerns in the company. We honored the inventor types and the sales and marketing types, but the manufacturing people weren't so well honored. We had to change that. Manufacturing had to become a crucial part of the company strategy if we wanted to continue being successful.

I've always believed that change can only be implemented when there's some kind of crisis. If you think of all the great leaders in world history, they all performed during times of crisis—Churchill in the war, Roosevelt in the Depression...everybody had a crisis. They inherited a crisis, a crisis arose, or they created a crisis. Anyway, it's very hard to change things when everything is going smoothly. People say, "Don't rock the boat! We're doing OK. I'm all right and everybody else is OK. The company is doing well. Why do we need to change?" That's why I believe you need to create a crisis.

By borrowing a large sum of money, we suddenly put the company at tremendous risk. We created an environment in which people were nervous and asking the company leadership, "Why did you do this?" We needed to explain it to them. If you can get over that hurdle and successfully explain it to them so that they don't think you're crazy, then people *want* to change. They want to change because they know that the world is not going to be the same any more and that they've got to do it. Sealed Air had to change at this point in time, and I thought that taking on this debt was a good way to change it.

I also took this step because I wanted to spread more ownership among employees, since I believe ownership is a powerful motivator. Now, I'm talking about true ownership, not stock options where you get options and sell them the same day. I'm talking about true ownership, which identifies workers with owners. We used this LBO strategy as a way of putting a lot of company stock into a lot of people's hands. We wanted to share stock with people across the board, not just with the chiefs, because we had a vehicle in place called our profit-sharing plan to do that.

Extending employee ownership was particularly important for the younger people in the company, since those of us who were somewhat older had accumulated a fair amount of stock. It was harder for the younger people to acquire stock because the stock price had gone up. With this strategy, we were able to give people more stock at a lower price and then they would have a chance to ride it up. Of course, the stock did rise fantastically, so it worked.

The underlying reason for spreading employee ownership was the classic reason—to put all your employees in the same boat as the owner and managers of the business. In other words, if you're an owner, you will think like an owner. If you're an employee-owner, then you're going to think like an owner and the shareholders who want the business to be profitable. For example, after I made this change, if people at meetings wanted to

spend money for something, I would very often ask, “Would you do this if it were your own money? Just remember, it *is* your own money. Do you still want to do it?”

After I made this change, something else happened. When I would get up to talk to a large group of employees, I was able to say, “Good morning, fellow employees,” pause, “fellow shareholders.” Everybody would applaud like mad because it was like saying, “We’re all in this boat together.”

Sealed Air’s Transformation

When we injected a focus on manufacturing into our strategy, we underwent an enormous change. We introduced a philosophy called World Class Manufacturing, which is a more broad-based version of the old Total Quality Management concept. Essentially, World Class Manufacturing involves a really wrenching change of practices in terms of how manufacturing people do their jobs.

The radical change we wanted to make in manufacturing was to go from making stuff for inventory to make-to-order. This meant we had to dramatically reduce set-up times on machines. It meant we had to get people into the habit of responding to the customer within a really short period of time. Our managing vice president used to say, “Every factory loves to make size 8½ shoes,” because that’s the most commonly worn shoe size. In our factory, everyone loved to do long runs of whatever product they were making. To persuade people to be willing to do fast changeovers without waste and without costs going to hell was a big challenge.

We used video to present studies on the whole process and to teach people how to do it. One of the models we used was how pit crews change wheels on race cars. If you ever watch auto racing, you see that when the race car comes in off the track, the pit crew can change all four tires in something like forty-five seconds. We used the pit crew model to introduce rapid changeovers to the people in our factories. With rapid changeovers, we could fill an order for a different-sized product or different-specification product without saying to the customer, “Sorry, we’re running something else right now and we won’t be able to put what you want into production for two or three weeks.” It was a major conceptual change

One of the great results from our World Class Manufacturing initiative was that we reduced lead time from about three and one-half weeks to two days! It created a big benefit for the customers. Reduced lead time also tied into the financial strategy because we dramatically reduced inventory, which in turn produced other beneficial things for the business. For example, it improved product quality because we don’t have obsolete inventory. We always know that our inventory is good because it’s turning very fast and we don’t get product deterioration.

The changes we made in manufacturing were very difficult on our people because they required them to develop new work habits. And by instigating the crisis through our heavy debt burden, we created a crisis as well around the need to change manufacturing. Implementing the change was much easier to accomplish because we were operating in

an environment of crisis. Essentially, getting people to make such dramatic changes in manufacturing is very difficult and requires employees to develop new work habits. It was much easier to get people to sign up for *that* in an environment of crisis.

We minimized the risk of this whole process by planning for it for several months in advance. We didn't do it suddenly. When you have planned well for something, it doesn't require as much courage as when you just act. It turned out to be lucrative for the shareholders. Of course, we put objectives other than shareholder value first. The first objective was to change the business, the second was to put stock into the employees' hands, and the third objective was to make money for the shareholders. Having said that, I don't think anyone should leverage a company that is in its early stages of growth or is cyclical. There is enough natural crisis built into a start-up situation that you can get people to move quickly. And if you need a crisis in a cyclical business, just wait. The economic cycle will give it to you, and then you can create changes.

I had carefully chosen a company in an industry that was not cyclical, however. You could say that Sealed Air, by choice, was very resistant to cycles. So we had to find another way to introduce a sense of crisis. And this creative use of debt was the strategy we chose. It was a well-calculated gamble. We knew we had a cash-generating machine with a pretty good track record, and the strategy accomplished all we hope it would.

Buying Cryovac

Since Sealed Air was started, we've had a strict set of strategic principles. We first published these strategic principles in our 1980 annual report, but we've had them from the beginning. There are seven principles:

- Patented, proprietary protective products
- Market leadership in whatever market we decided to participate in
- Technology leadership, because it's the main support of market leadership
- Global operations
- High margins
- Relatively low capital expenditures
- Relatively low labor intensity

These principles have always given Sealed Air an economic profile that differentiates it from other packaging companies. Take gross margin, for example. Sealed Air has always had a gross margin in the middle thirties, about 35 percent going up to as high as 38 percent. In contrast, the packaging industry in general has gross margins in the low twenties.

Over the years, we remained determined to stick with our profile and avoid the trap of slipping into commodity-type businesses. Avoiding commodity businesses is a great strategy but it limits your range of acquisition opportunities and it limits your growth potential. You have to focus in very niche-type areas. So, as Sealed Air approached a billion dollars, we started looking around, and we had no clear path to guide our next big step. Meanwhile, I'd been following Cryovac from a distance for maybe twenty years.

We knew it was a unique business. It was also the only large business that had a similar economic profile to Sealed Air. Cryovac met six of our seven strategic principles head-on. The only one Cryovac didn't meet was capital expenditures. Their capital expenditures were high but we figured we would do pretty well at reducing that item.

Buying Cryovac was a wonderful opportunity for two reasons. First, we could be true to our basic strategy, which has proven extremely successful. Second, we could achieve the advantages of scale. With Cryovac, we would suddenly go from almost \$1 billion to \$2 1/2 billion dollars. Acquiring Cryovac was a one-time opportunity for Sealed Air to become a substantial player—in terms of business size—and stick with our unique strategy. That, in a nutshell, is why we were determined to go after Cryovac.

We've faced a difficult turn of events during the Cryovac acquisition. Cryovac was a large division of W.R. Grace, which is now in bankruptcy and is dealing with legal problems linked to asbestos. Cryovac had no connection whatsoever with the asbestos problems and, of course, Sealed Air has never had any asbestos problems. Even so, the lawyers for the plaintiffs suing W.R. Grace have a legal theory that Sealed Air could be considered the successor to W.R. Grace since Sealed Air now owns Cryovac, which was such a large part of Grace. As a result, there is a possibility that Sealed Air could be sued for asbestos claims after W.R. Grace has gone through the bankruptcy process.

The legal cloud appears to be clearing now, since there has been a court decision in another case that makes it quite unlikely that Sealed Air could be dragged into this thing. Nevertheless, we've seen an impact on our stock price. I'm not extremely concerned about the hit on our stock price, however, since fundamentally I only worry about the long term. From the long-term view, it was right to put the businesses together. Sealed Air is now truly unique and could even be described as a great company. I think the asbestos issue will go away.

We've also experienced integration issues. Some of the integration issues we encountered after buying Cryovac arose from the expected human problems that can occur when a smaller company acquires a larger one. Integration just takes a little longer. Earlier I mentioned that I put people through change when it's good for the business, but I'm always reluctant to put people through change unless I have to. When we bought Cryovac, we decided that we had to put some of our Sealed Air people into key positions in the Cryovac operation. We also put Sealed Air people into more junior positions. During the transition, we spent a lot of time talking with employees and we acted in the right way. It took a year or so before people from Cryovac realized that they were better off with Sealed Air management than they had been with W.R. Grace. So the Cryovac transition took a little longer than we'd anticipated but it's gone well.

Other issues from the merger related to stock. When we acquired Cryovac, Sealed Air ended up with so-called "poison pills" in its charter. "Poison pills" are conditions that make it impossible for shareholders to vote for certain things. For example, there are rules that make it difficult for shareholders to replace members of the board of directors. There are rules that say that if the company is going to be sold to another company, the

sale requires an 80 percent vote to go forward. There are also rules that say that if any of the foregoing rules are ever going to be changed, you have to get 80 percent of the shareholders to vote for them. As you can see, it's very hard to change these rules. There are arguments about the virtue of these rules in corporate America. Some people believe, as I do, that the rules exist to protect incumbent management and that they reflect the perspective that states, "I take care of myself first and everybody else better stand back."

With the purchase of Cryovac, Sealed Air had these "poison pills" in our charter and they were contrary to our culture. We had never had these rules before. We trust our shareholders. We trust that if we perform and do our jobs right, we'll be OK and the shareholders won't sell the company. We determined to eliminate the poison pills. It turned out to be extraordinarily difficult because of this 80 percent rule. We had to postpone an annual meeting twice because we were trying to get enough proxies to change the rules. The *Wall Street Journal* did a great article on this. The theme of the article was "man bites dog." What we were doing was unheard of. No American company had ever tried to eliminate these kinds of rules. Companies are usually happy to have them. We, on the other hand, decided that we had to be true to our notion of trust. If you don't trust your shareholders, how can you expect them and everybody else to trust you? So we felt that changing the rules was consistent with the culture of the whole corporation.

By the way, there's a wonderful thing one of my fellow employees said to me about what it means to have no employee contracts and no poison pills. He said, "You took the word 'security' out of our vocabulary and replaced it with 'independence.'" I agree. In the end, if you do your job, you're independent. If the company does its job, it's independent.

Summary of Business Success Factors

In business, I think the critical success factors are having the right strategy and having the right culture. Of course, the culture is what makes it possible to implement things, and that's what business is all about. Strategy matters, too, because you have to be going down the right road. You can have a wonderful culture, but if you're going down the wrong road, you're going to end up in a black hole.

You've got to develop a corporate culture. I absolutely believe that culture leads to sustainable competitive advantage. I think this is true historically, too, although people tend eventually to lose competitive advantage. The Greeks had it and lost it. The Romans had it and lost it. Various other people had it and lost it. Culture is the defining competitive advantage. If I had to pick one success factor, I'd say culture is it, because if you've got the right culture, you'll figure out the right strategy. My successor, whom I'm very proud of, is fond of the saying "There's no limit to what you can achieve if you don't care about who gets the credit." That's basically my posture on how our culture made Sealed Air successful.

What I'm going to say next is really grassroots, really down to fundamentals, on success factors. If you want to be successful in business, whether you're an investor or an employee, I think the preferred choice is to enter a mundane industry where technological

change happens slowly, where customer demands change slowly, where there are relatively few competitors, and where management is rational. That last one is particularly interesting, since industries can be destroyed by irrational management. For example, a CEO who has a personal need to prove something other than the success of the business can harm not only a company, but also an entire industry.

In fact, I think this could be an interesting subject for business research—the impact of personalities on industries. For instance, I have a theory that the airline industry was destroyed by World War II fighter pilots. All the CEOs of the big airline companies after World War II were fighter pilots from the war, and they were win-lose guys. They weren't win-win guys. Their attitude was, "I win; you go down." That sort of mentality made the industry unprofitable, essentially from day one. It's a dramatic example, but I think there are many examples where some nut out to prove something has fundamentally destroyed an industry by driving prices down and doing things that weren't rational.

Giving Back

A successful entrepreneur can very easily do a lot of harm to himself, his family, and his community if he doesn't have balance. I think that having a philanthropic interest is particularly helpful in establishing balance. Personally, I got really excited about helping minorities.

I think there were three things that motivated me to focus on this mission. One might just be that I am an immigrant to America, which is a minority of a kind. I didn't come here through Ellis Island, and I came with an education, but I also came here with no money and no family connections. The really significant thing that happened to motivate me was in 1968. The nearest thing to the national mood in 1968, after Bobby Kennedy and Martin Luther King were assassinated, has been the national mood since September 11, 2001. In that atmosphere in 1968, the country really bonded around a need to help minorities. Of course, it resulted in Johnson getting civil rights legislation passed, which marks a really positive time in our democracy.

I was absolutely fired up about blacks and Hispanics getting a lousy break. I became co-founder of an organization called the Volunteer Urban Consulting Group, which still exists, although it is doing different things today. Its founding mission was to provide consulting assistance for minority-owned businesses in New York. The organization, which was linked to the Harvard Business School, was so successful that we spun it out into a separate entity. We even got some government funding and we brought in people who were not just from Harvard. The enthusiasm for that activity of helping minority businesses stood up for about three or four years. But, like a lot of things in life, other priorities came along and people just weren't as motivated to do the work. As a result, the organization decided to do other good work, but I lost interest. I wasn't interested in what they were doing.

What I did next was put some of my own money plus money from Sealed Air into adopting a class in an inner city school in Patterson, New Jersey. We adopted a sixth-grade class and promised them that we would help them graduate from school and go to

college. We did it under the banner of the “I Have a Dream” Foundation. We hired a full-time coordinator and we had a social worker who stayed with the class for six years. We hired the social worker because the problems these kids have is not in school; it is out of school. The good news is that from our group of thirty-two kids, about twenty actually graduated from high school and six went to college. Of the six who went to college, four have graduated. I’m not sure whether or not the other two will finish. What’s remarkable about this is that our kids were the most at risk in their grade. There were 100 kids in the sixth grade that year and they were divided into three tracks, with one track pegged as the brightest and best-motivated students, another track that fell in the middle, and then the kids from our track, the most at risk.

I had two partners who were adopting the class with me. They were Josh Westin, the CEO of Automatic Data Processing, and Jerry Callahan, a retired Wall Street guy. Call it hubris or stupidity, but I volunteered to take the bottom third of the class. I figured that since I had this wonderful Sealed Air organization and all these volunteers who were going to work with me, I was better equipped to deal with the bottom third. We let Callahan have the top group since he didn’t have an organization; it was just Jerry and his family. ADP took the middle group. And we took the third group. What we at Sealed Air did was really a victory. The harsh reality is that the bottom group is written off in these schools. None of them would have gone to college. So I guess we saved some lives.

I have also been involved in setting up a minority fellowship at Harvard Business School to help minorities go to business school. My most recent project has been helping to start up and fund a really classy supermarket in a pretty crummy inner city. I’m hoping that the supermarket business will ultimately be a Harvard Business School case. I started the business because it always struck me as inherently unfair that in America, poor people get a worse deal than rich people. For example, when you buy food in an inner city, you pay more money, but you get worse-quality food. So I wanted to conquer that situation.

I also wanted to make a contribution to urban economic development. We can’t solve the problems of poverty just by pouring in money. There just isn’t enough money to pour in. Ultimately, the people living in these abject areas have to become self-sufficient. I happen to be a liberal Democrat, so I’m not in favor of the notion that says, “We’ll take all the money away, and that’ll stiffen their characters.” I don’t go for that at all. I think that we need social money. What I’m saying is that you’ve got to do the social stuff and you’ve also got to have some genuine urban economic development.

I wanted a minority to be my partner in this project. I found a terrific guy. He’s a Kellogg School MBA, a retired captain from the Army, a West Point graduate...the whole nine yards. He’s young, in his middle thirties. He and I partnered up to start this really fancy supermarket. It has just completed its second year, and it’s struggling. It’s still losing money but it’s getting better, and we think the business will succeed. We’re going to make it succeed because we’re not going to walk away from the challenge.

The business is struggling for more than one reason. The key reason is that the store is too large for the neighborhood. Obviously, the business controls the walk-in traffic. In

other words, everybody who is within walking range will shop there because it's the best offering in town. Unfortunately, there aren't enough people within walking range for the business to break even. That means we have to pull in people who drive. The problem then is that once people get in their cars, it doesn't make much difference whether they drive two miles or four miles. As a result, the people who have cars—and plenty do in inner cities—often drive outside the perimeter of the inner city and shop at the same supermarkets as everyone else. In effect, we're competing with the big supermarkets for the extra-marginal customers so that we can break even.

Summary Reflections

There are lots of stereotypes and lots of words written about being an entrepreneur. I don't think an entrepreneur has to be the one great person who strikes out and does everything by himself. An entrepreneur can be in charge of something and be part of an organization. To me, an entrepreneur is a person who does new things with limited resources and limited direction. If you can do that, you're an entrepreneur. That's what I've tried to do in my life.

I think an MBA is a powerful tool for anybody who has entrepreneurial aspirations. The MBA provides not so much a knowledge base as a knowledge capability, an ability to think through issues and the confidence that comes with that ability. An MBA does one additional thing for an entrepreneur, which is to expose you to ideas about how to manage different-sized organizations. In other words, an entrepreneur who's growing his business is much more likely to be able to navigate various thresholds of growth without hitting a wall. The entrepreneur with an MBA won't suddenly discover that he can't run a company with 1,000 employees the same way he ran the company when it had 100 employees. He'll be able to cope in new environments as they develop because he already had experience with that through the MBA process.

In addition to getting an MBA, an entrepreneur should work for a large company before launching a venture. To be blunt about it, working at a large company gives you an opportunity to make mistakes at somebody else's expense, and allows you to see people making a lot of mistakes. You will develop an instinctive capacity to dodge bullets in your own entrepreneurial experience later on.

One of the risks of becoming an entrepreneur relates to the strain you put on family. A second risk is character degradation. What I mean is that success, particularly success marked by wealth, can be character-erosive. The real trap is loss of integrity. It requires some effort to maintain your balance. There are many temptations to—well, I won't say there are many temptations to “cross the line,” because that implies that you started off close to the line. I would argue that you shouldn't even be close to the line. In any case, when you're a successful entrepreneur or businessperson making decisions, there are many temptations to do ill or go against your principles.

One of my favorite quotes is “All power corrupts, and absolute power corrupts absolutely.” It's just natural that if you have the ability to control other people's behavior, particularly when you can do so to ensure your own comfort or satisfy your

own needs and whims, then what suffers is your perspective, balance, standards, humility, and recognition of your obvious limitations and relative unimportance in the total scheme of things. One of an entrepreneur's big challenges is to keep perspective. At the end of the day, even the most successful entrepreneurs are a very small part of the grand picture of life. I think it can be hard to keep that balanced perspective.

To deal with risks to your character, entrepreneurs can start by redefining their personal standards of success. I tend to think of success in terms of three points. The first is that to love and be loved is most important. The second is to be respected. The third is to possess a sense of honor. It's how you really feel about yourself early in the morning when you're getting up and you first look at yourself in the mirror. You have to redefine how you perceive your own success.

Another way to define success and protect your character relates to philanthropy. I think that having a meaningful commitment to a philanthropic mission is a very healthy antidote to some of the temptations I have mentioned. And I'm talking about a meaningful commitment, not just giving money to people who are going to fete you at dinners and treat you to other perks.

There was recently a fascinating article in the *Harvard Business Review* related to this topic. The article is about a new level of success that researchers have identified with leadership. The fundamental thesis is that humility is the key element of successful leadership. I would recommend that every entrepreneur read it. There was a famous baseball coach who said, "Nice guys don't win ball games," and I've always turned that around to say, "Nice guys really do win ball games." This article's a good example of the fact that you can be a decent person and still be successful.

Rationality is another important characteristic for entrepreneurs. Warren Buffet, whom I know and whom I know to be a humble guy, says, "There are a lot of people who are smarter than I am, and there are a lot of people who work longer hours than I do, but my advantage is that I'm rational. I don't get emotionally distracted. I make rational decisions." I think that if you're a rational person, you're also a humble person. After all, if you're rational, you know you're no big deal! At the end of the day, we all put our pants on one leg at a time. So, I think rationality and humility go together.

The beauty of my wife Joan's career is that she has always been able to plan her own time. Joan is very focused and works hard on what she does, but she has never been a workaholic. She's a very balanced person and leaves plenty of time for personal life—her relationships with our children and with me. She and I aren't one of those couples who meet in New York on weekends and take off Monday morning in different directions. In fact, I've never liked to travel for work. That's one of the big myths about being a successful businessperson, that you've got to be in airplanes all the time. Ever since Joan and I married, I've kept an informal understanding with her that I won't be away more than thirty nights a year. At this stage in my life, I'm down to being away less than twenty nights a year. The point is, I never felt it was necessary to be everywhere and to be at every meeting.

Another myth, more closely tied to entrepreneurialism than business in general, is that you're operating under high pressure. Yes, you have to be changing things all the time, and if people don't work out you've got to replace them. At the same time, you have to be patient. You have to slow down to think and, as Buffet says, be rational. Many years ago, an English businessman said to me, "You know, you Yankees always need to be making decisions. You have this macho need for action. Frequently, you overlook the wisdom of doing nothing." First of all, it was amusing that he called me a Yank since, at the time, I'd only been an American for a short while. But many times since he said that, I have asked myself, "Is this one of those times when the wisdom of doing nothing is really something I should be thinking about? I don't have to prove that I'm a man of action. Maybe I'll just go to the beach and think about it. Maybe even not think about it! By Monday morning, maybe somebody else will have solved the problem anyway."

I give a speech called "Get Rich and Sleep Well." It's really a summation of all the things I've been talking about, such as pick the right industry and develop the right basic strategy. Picking an industry and developing a strategy doesn't have to be an act of brilliance. Essentially, put better people to work than an industry already has and establish an atmosphere of legal and ethical high standards so that you foster trust and pride. With this successful formula, you'll sleep well because you won't worry about going broke or being indicted or needing bodyguards to fend off attacks.

Building something that lasts is also gratifying. I'm particularly proud of spending the last thirty years building a company that has grown from a few hundred employees to 17,000 employees, and from a couple of million dollars to over \$3 billion. I'm a little sad that more Harvard Business School graduates haven't had experiences similar to mine. People have a difficult time when they graduate from Harvard Business School because they typically owe a lot of money and so they have built-in needs or expectations for compensation levels. Those needs make it difficult for them to choose a job with a manufacturing company. I'm particularly saddened that so many go into consulting or investment banking. Some of them find their way into a manufacturing business. It's hugely important to make things and, in my opinion, we have too many lawyers, too many consultants, too many investment bankers, and not enough business builders. We have lots of people in business services, but not enough people building businesses. Harvard Business School trains people to build businesses. It trains leaders. I was very lucky that I didn't get lost in an investment banking firm somewhere along the line. I hope that in the future, others will have the satisfaction of saying, "I really contributed to building something significant that will have a consistent, long-term influence," rather than, "I held seven or eight jobs that landed big investment banking fees."

The second thing I'm proud of is that in the process of building Sealed Air I have had tremendous impact on thousands and thousands of people's lives, all over the world. Employees and their families have benefited. I'm particularly proud of that. And I'm still doing the same kind of work through a private equity investment and management business. I started doing this kind of work in my spare time back in the early 1980s. Soon, some friends and I will be expanding this business beyond its quite modest levels.

We already own about five or six small companies and we are acquiring other businesses. All the businesses are falling in line with this concept of mundane business, which is what Sealed Air was founded on. We're unlike the Wall Street type of leveraged buyout firms, where you buy a business and you flip it. We buy a business and keep it for much longer as we attempt to improve it and build upon it.

I left Sealed Air because I thought it was time to leave and because my successor, who is terrific, needed a chance, while he was still young, to make a real impact on the company. I really enjoyed what I was doing at Sealed Air, and with the private equity investment business, I'm trying to build some little Sealed Airs. I don't expect these smaller companies to grow quite as big as Sealed Air has, at least not within my lifetime, but I hope they'll do some of the good stuff that Sealed Air has done.

My advice to future entrepreneurs can be summed up in a well-known Latin phrase:
Carpe diem.