

## Chapter 13 Group Project Solution

Competitive pressures are the norm in business. Lexus automobiles (made in Japan) have cut into the sales of Mercedes-Benz, Jaguar, General Motors' Cadillac Division, and Ford's Lincoln Division. Dell, Gateway, and Compaq computers have siphoned business away from IBM. Foreign steelmakers have reduced the once-massive U.S. and Canadian steel industries to a fraction of their former size.

Indeed, corporate downsizing has occurred on a massive scale. During the past few years, each company or industry mentioned here has pared down plant and equipment, laid off employees, or restructured operations.

### ***Required***

1. Identify all the stakeholders of a corporation and the stake each group has in the company. A *stakeholder* is a person or a group who has an interest (that is, a stake) in the success of the organization.

The stakeholders of a corporation include:

- The *shareholders* who own the company.
- The *creditors* who have lent money to the company.
- The *employees* who work for the company, including the managers, secretaries, factory workers—everyone who draws a pay cheque from the business.
- The suppliers who provide goods and services to the company. The suppliers are also creditors of the business.
- The community in which the company does business and that depends on the company to bolster its economy.
- The federal or provincial governments that granted the company its charter and that collects taxes from the business.
- The people of the province that (a) granted the company its charter and (b) depend upon the company for tax revenue.
- The federal government that represents the people of the nation and that collects taxes from the company.

2. Identify several measures by which a corporation may be considered deficient and which may indicate the need for downsizing. How can downsizing help to solve this problem? Discuss how each measure can indicate the need for downsizing.

Measures by which a company may be considered deficient include:

- Market value of the company common shares is too low to satisfy the common shareholders. The company may be concentrating its efforts on products that are

not profitable, and that may hurt the company's net income or even cause the company to suffer a net loss. To remedy this situation, the company may have to sell off the unprofitable line of its business, resulting in a smaller but, it is hoped, more profitable company.

- Return on common shareholders' equity may be too low to satisfy the common shareholders. The link between this measure and downsizing is similar to the reasoning given for the market value of the company's common shares. In short, the shareholders may not believe they are receiving a high enough return on their investment in the company. This may motivate the shareholders to sell their shares, which drives the market value of the shares down, and that may lead the company's top managers to downsize by selling off unprofitable lines of business.
- Low sales may cause a cash shortage that hurts the company's ability to pay its debts. Creditors may force the company into bankruptcy, which often leads to downsizing as the company sells some of its assets to generate cash in order to pay the bills.
- Net losses may cause a cash shortage if expenses are too high. Expenses require cash, so the company may have to downsize in order to reduce its expenses in a particular part of the organization.
- Lack of competition in an industry may lead the federal government to require a company to downsize by selling off part of its business. The government's goal would be to keep a company from having a monopoly in its industry or from otherwise engaging in unfair trade practices. In this case, too high profits may indicate that the company has a monopoly. The government may believe that the national interest would be served better by more competition within the industry.
- Too high wages paid to employees may lead a company to downsize by laying off employees. Downsizing may help the company control its expenses.

3. Debate the downsizing issue. One group of students takes the perspective of the company and its shareholders, and another group of students takes the perspective of other stakeholders of the company.

The debate pits the company's shareholders against other stakeholders.

The shareholders want high market value of the company's shares in order to increase their personal wealth. This motivation may conflict with the interests of:

- Employees who want higher wages and other employment benefits that cost the company money that can be used for other profit-oriented purposes. This conflict can lead to a lively debate about the fairness of high profits for the company versus high wages for the workers. In this case, the company may decide not to meet the workers' demands and the company may elect to downsize voluntarily.

- The nation represented by the federal government. The debate may centre on the conflict between the company's quest for profits versus the government's need to protect weaker companies from unfair competition by a large corporation. In this case, the government may force the business to downsize.

The debate may take different directions depending upon the particular stakeholders and the measures that the students consider most important.