



COVALENCE ANALYST PAPERS

Ford, Politics, Customers or Society - Who's to blame?

The Case of Downsizing, Social and Environmental Involvement

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ABOUT

In the current century where it is clear that almost everyone is aware of the important Environmental issues (i.e. Global Warming, Energy Resource Crisis) and Economical issues around the world especially the poorer regions, individuals and large corporations find themselves in a position to pledge their effort using any available means such as cash donations, free use of services, product donations and volunteer works.

However like other experiences within the same nature, many side effects occurred. This unfortunate is to be known as the out come of the improper management and not considering the issues in smaller scales which are critical and as important as caring about the environment and such cases.

In the available essay, you will find the outcome of an analysis taken on two large US based firms with interests to find the relation between the issues happening within the mentioned companies. Ford Motors and General Motors are the studied companies.

The focus in this paper is on Fords move towards the global campaign to protect the environment using sustainable energies while shifting the dependence on energies such as OIL and related products. To make it easy for the reader, similar data is being offered for the Rival Company, General Motors.

Sadly, during the process of supporting the campaign Ford faces noticeable difficulties mostly in the matter of finance and thus downsizing issue. These issues will be discussed in more details in the following parts.

This paper has two main goals, first to expose if Ford should be blamed for its unethical action of downsizing and secondly to distinguish the forces that are putting pressure on weaker areas of this corporation while applying the ethical factors into the study.

Introduction

In this part you will find the general information on both Ford and GM, the introductions are grasped from the valid third party source which will be mentioned in the Reference section. It is important to mention that there is no doubt there are lot more to say about these two established corporations but the material included in this paper shall be enough to support our conclusion.

Ford

Ford Motor Company is an American multinational corporation and one of the largest automobile manufacturers in the world. Based in Dearborn, Michigan, a suburb of Metro Detroit, the automaker was founded by Henry Ford and incorporated in 1903. Ford now encompasses many global brands, including Lincoln and Mercury of the US, Jaguar, Aston Martin and Land Rover of Great Britain, and Volvo of Sweden. Ford also owns a one-third controlling interest of Mazda, and is listed as the world's third largest automaker based on vehicle sales in 2005. Ford has also been one of the world's ten largest corporations by revenue. In 1999, Ford ranked as one of the world's most profitable corporations. However, in recent years, it has not fared as well.

In 2000, under the leadership of the current Ford chairman, William Clay (Bill) Ford, the Company stunned the industry (and pleased environmentalists) with an announcement of a planned 25 percent improvement in the average mileage of its light truck fleet — including its popular SUVs — to be completed by the 2005 calendar year. However, in 2003, Ford announced that competitive market conditions, and technological and cost challenges, would prevent the company from achieving this goal. Ford did achieve significant progress toward improving fuel efficiency during 2005, with the successful introduction of the Hybrid-Electric Escape.

Other Activities (Including Finance Division)

Ford's non-manufacturing operations include organizations such as automotive finance operation Ford Motor Credit Company. Ford also sponsors numerous events and sports facilities around the nation, most notably Ford Center in downtown Oklahoma City and Ford Field in downtown Detroit. It is also notable that both facilities share design aesthetics in addition to their common name and similar downtown location!

Hybrid Initiatives

In 2004, Ford introduced the Ford Escape Hybrid, the first gasoline-electric hybrid SUV. In 2005 Ford announced their plan to produce and sell specific number of hybrid cars by 2010 but in 2006 the announcement was initiated mentioning the failure in the plan.

General Motors

General Motors Corporation, also known as GM, is the world's largest automaker. Founded in 1908, GM today employs about 326,999 people around the world. With global headquarters in Detroit, Michigan, USA, GM manufactures its cars and trucks in 33 countries. In 2005, 9.17 million GM cars and trucks were sold globally under the following brands: Buick, Cadillac, Chevrolet, GMC, GM Daewoo, Holden, Hummer, Oldsmobile (now defunct), Opel, Pontiac, Saab, Saturn, and Vauxhall.

Other Activities (Including Finance Division)

GM operates a finance company, GMAC Financial Services, which offers automotive, residential and commercial financing and insurance. GM's On Star subsidiary is a provider of vehicle safety, security and information services.

Environmental and social policies

General Motors was named one of the 100 Best Companies for Working Mothers in 2004 by *Working Mothers* magazine. For example, GM has given millions of dollars in computers to colleges of Engineering through its PACE Awards program. General Motors has promoted its clean burning Flex Fuel vehicles which can run on either E-85 (ethanol) or gasoline. GM has more vehicles that lead in their class in fuel economy than any other automaker, including large vehicles as exemplified in its redesigned full-sized SUVs in 2006.

Hybrid initiative

GM delivered the first commercial hybrid vehicle and was early innovator in hybrid vehicle development, building Diesel-electric trains since the 1930s (but without stored energy recovery) and buses since the 1990s. In May 2004, GM delivered the world's first full sized hybrid pickups, and introduced a hybrid passenger car. In 2005, the new Opel Astra Diesel Hybrid concept vehicle appears. The 2006 Saturn VUE Green Line will be the first hybrid passenger vehicle from GM, but it too is a mild design. GM has hinted at new hybrid technologies to be employed that will be optimized for higher speeds such as are encountered in freeway driving.

In the next page you will find a graph showing the two companies position in the automobile industry in terms of number of sold cars in 2005

	1,000	2,000	3,000	4,000	5,000	6,000	7,000	8,000	9,000	10,000
General Motors									9,040	
Toyota							7,100			
Ford							6,418			
Volkswagen Group					5,173					
DaimlerChrysler				4,319						
PSA Peugeot Citroën			3,375							
Honda			3,373							
Nissan			3,348							
Hyundai-Kia			2,853							
Renault-Dacia-Samsung			2,617							
Suzuki-Maruti		2,072								
Fiat		1,934								
Mitsubishi		1,327								
BMW		1,323								
Mazda		1,285								

Total global production: 67,265

DISCUSSION

Key Issues – FORD

In the available chapter 4 main factors including sub-issues are to be discussed with regards to Ford Motor Company. These main issues are not-related at the first glance, where we can relate them and argue our case by looking at these issues in more details.

Some of these features are positive in general but some are negative. These issues are as follow:

- Introducing Environmentally Friendly Cars by FORD
- Social Sponsorship
- Information to the Customers
- Downsizing (Closing Factories and Job Cuts Abroad and within the Country)

The principles are the ones worked with, in the Covalence system when analyzing the multinational corporations in terms of ethics.

In order to relate these factors some detailed characteristics are prepared and revealed as follow;

Environmentally friendly cars

During the recent years we heard a lot from different automakers regarding the new technology used in the future cars, allowing them to use green/bio energy, one of which is Ford. But let us add that introducing the new technology if your strategies are different and if your fundamentals are different is not an easy task to touch.

Technology

When we hear the names Ford or GM, we have the image of big GM cars like Hummer or Cadillac with high fuel consumption, or Land Rover, big Ford Trucks and 007 cars from FORD. Some may mention the small cars such as OPEL CORSA with smaller engines, however if you compare the CORSA 1995 with any similar sized engine car from Japan for the same year, you will notice that even the saloon cars from Japan or Korea are much more fuel efficient than small OPEL CORSA. The case states that Companies with this background are way far from the idea of producing a car that is healthier for environment. It is not impossible but it is rather jumping over two steps at once than one by one, which will cause negative results.

Resources

When planning to initiate and launch such a project in large scale, corporations should not forget the very important factor which is the financial aspects. This type of projects requires both short and long term investments in Research and Developments as well as the change in fundamentals and production line to adjust the manufacturing process to be capable of producing such cars. In the meantime we have the case of exit cost, do Ford or GM intend to stop the manufacturing of big SUVs which are running on Fuel? If yes what would be the exit barriers for such an action?

Another striking issue is the matter of resources of the green energy which will be used to run these cars. This energy while is on its early years will be expensive to produce and eventually expensive to use. During this period the producers of this energy are assured that they will receive enough money to cover their expenses while sometimes they will not even think of profit. But when we move towards the maturity

stage, the table will turn. More farmers start producing bio-energies therefore the buyers of this energy (i.e. Manufacturers, Car Owners) have more choice as what is called "customers bargain power". This will remind us the case where the coffee farmers are facing the pressure from their customers and they had to start reducing the price of coffee to not to lose them. This is good news for the market but not for the producer of this product. As in most cases they will not receive any subsidies.

This case has a lot to discuss but for now we will not forget that those farmers are also part of the society.

So far we have discussed the issue that is related to the environment including the impact on the smaller society which is the farmer producers.

In the next parts some of the direct involvements to the society and economy are discussed.

Social Sponsorship and Other Involvements

By looking at the positive and negative news from Ford Motors we can notice that it has been quite active working and sponsoring the society including the sport event sponsorships. Whether these involvements are by cash donations or other means of support, it will eventually cost the company. Focusing on these specific criteria, we can observe the case with GM is quite different in terms of social sponsorships even political involvement where GM has less news in both cases.

Ford Motors does try to show good faith to the society and environment; however they are missing the other side of the story, their own employees. This issue however will be discussed under the topic "Downsizing".

Ford Motors, social sponsorship to some extent is contradicting to their mission in positive involvement to the economy. This issue can be related to the case of GM for instance, where we experienced more positive news than negative news were broadcasted while Ford has more negative news than its positive news regarding the economic involvements.

Please refer to the attachments where you will be able to find related graphs for both companies.

Information to the Customers

While looking at the factors that are in both customers and society interest, it is obvious that the consumer are always keen to receive the information (mostly in case of problems/incidents) as soon as it happens, they want to be sure about the validity of the issue, they want to know what actions have already taken and what actions are to be taken by the company.

Unfortunately experience shows Ford over passed in obtaining their customers trust. Recently Ford found the problem in some of the parts in their products including the Hybrid Cars and they had to recall almost 7000 Hybrid SUVs. The news where broadcasted on the news especially under the financial stream, where it was stated more information about the current issue would be available on the internet. It turned to be wrong information by either Ford to the Media or Media to the Audience, there was no exact information on Fords web-site, and even if it was it would not be possible to amateur internet users to find it as I could not find any. This will cause lack of trust in the society specially the car owners.

Financial Crisis - Downsizing

Now it comes the time to discuss one of the most important issues and that would be Downsizing. Companies usually have to take this step in two common occasions:

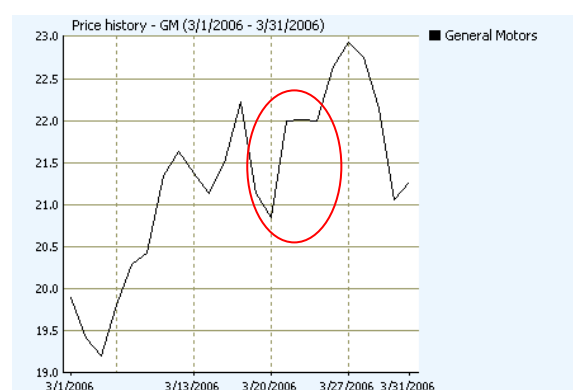
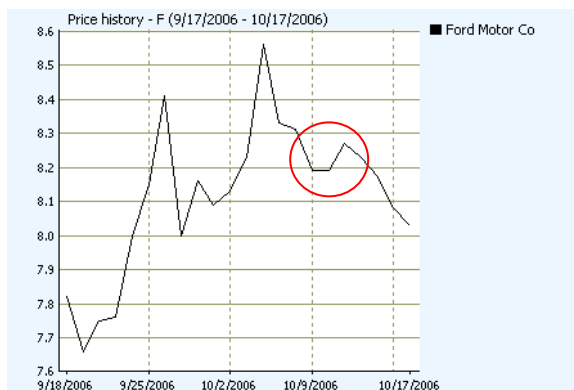
- 1- Investing in new machineries where there will be less need for physical works by humans
- 2- When they face financial difficulties, and they will think of this way to cut some big portion of their expenses to cover their other operating costs, mostly the companies debt.

In Fords case since we know all about the company's debt and very few and almost zero news about buying machineries we can conclude that this action is a result of financial crisis within the company. Below we will see some quotations that will explain the cause of this matter.

- 9-11; it is quite known for everyone that US market fell down after the attack on the September 11, 2001. Some companies recovered quickly but Ford is in the group of corporations that are still struggling
- Issue of HealthCare-Pension expenditure is another noticeable case. Since 2001 the insurance premium has been increased and that will lead the companies to receive their insurance bill with higher amounts from the service providers
- It is said that Ford Motors had the policy to rely on selling big cars in the US market as well as Sport Utility cars. This policy will eventually fail by the increase in the price of energy.

A Case

Now we are familiar with some of the clear dictators of this scenario, it is suggested that we look at the basic financial chart for both Ford and GM that will enable us to discuss an interesting case for financial market.



These two graphs are indicating the stock performance for both Ford and GM. The reason to choose the specific set of time is the fact that these are the period, Ford and GM announced their Job Cut Scheme. The red circled areas are showing the moves for the day of announcement and few days after the news are broadcasted.

At the first look we can observe that financial market reacted to Ford news differently and opposite to the news from GM. It is however vital to mention that in the period of October, 2006 the US market was in its good position after the big sell off in the prior months. It is also important to state that usually financial market will react positively to the news as it is

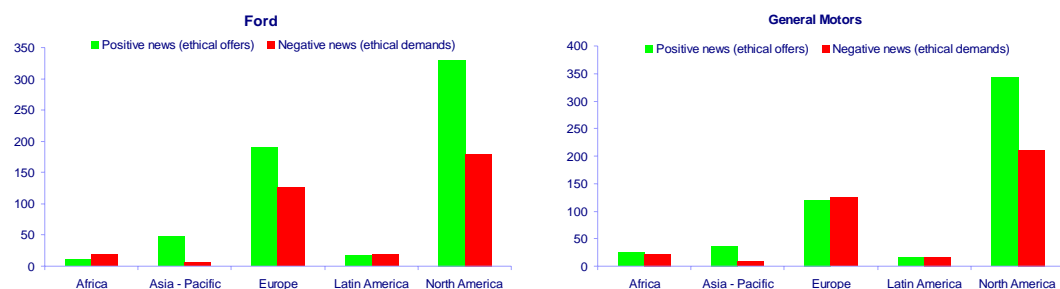
concerned that companies will save money by doing so, therefore they will have more to spend on necessary areas.

By doing so and announcing job cuts companies are willing to save money as well as attract investors to buy their shares which will result the increase in the price of the stock. But in this case Ford might be able to save on some of its expenditure where they did not experience the raise in their stock price and also they now have the unethical label on their name. But it does not end here as there is always a reason for such cases.

As we aim to relate this case with ethical issues, below some ethical issues are discussed.

Covalece Data

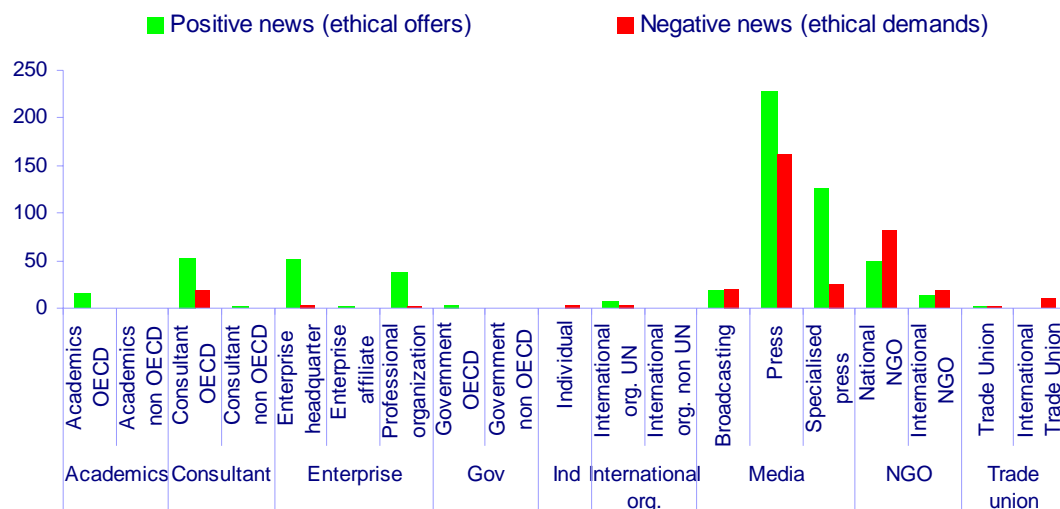
In the available chapter, ethical information for both Ford and GM are extracted from the Covalece database in order to analyze the ethical performance of these two companies.



By looking at the basic graphs as illustrated we can observe that most issues occurred in the US and Europe.

Two points are important to mention, first point is the European case, where we can see Ford has more positive news than its negative news. On the opposite side, GM has almost same number for both negative and positive news. Second point is with regards to Africa; both companies have less involvement in Africa while GM managed to have less negative news than its positive news where it is the opposite case for Ford.

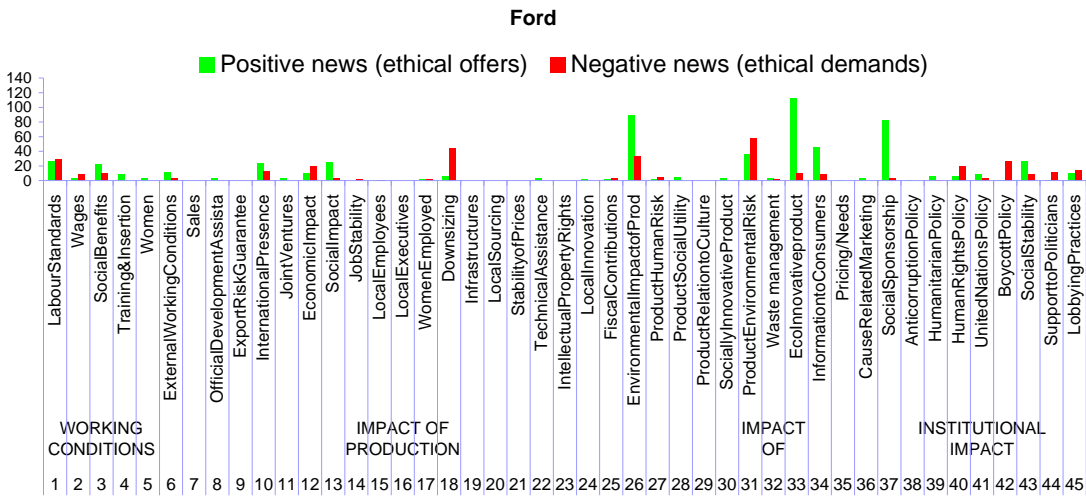
News Sources



Regarding the sources of the news, when talking about Fords issues, most news are provided by media, in general. As it can be seen on the graphs, there are number of news from the Enterprise category but all news are almost positive and very few number of

negative news. This issue can be known as an unethical case where Ford focuses on positive news and let Media handle the news including the Negative news. This also can be harmful to the company as media may not provide the news as accurate as they should.

News Category



Among all the news categories the noticeable ones are as follow:

Labor Standards and *Social Benefits*, in this case GM had more of the negative news, this case might show the less expenditure on this areas by GM.

On the other hand Ford performed weaker in the Economical point of view by having more negative news than its positive news. GM had more positive news in this case.

Downsizing is the topic that shows bad performance for both companies, with large number of negative news.

In terms of social sponsorship Ford offers better performance. But when looking at the cases such as Product environmental risk we can see the bad performance for Ford and positive moves from GM. Thus we can say that Ford does have indirect and direct negative impact on the society.

Now we looked at the Ford case from both Ethical and Financial eyes, it is now possible to summarize and offer the author recommendations

Summary

Unfortunately in most cases companies are being attacked for their unethical behavior, experience shows less individuals or even institutional buddies seek the cause of this category of actions. The Fords downsizing case is just one of the simple and common cases where the company is blamed for its negative impact on the society. In some cases it might not be improper to criticize the company's negative intention, which results the bad impact on the society, environment, economy etc. But we all know cutting jobs and downsizing is not very favorable for companies' especially large corporations such as FORD. The company had put too much effort to reach the position where it is standing now and even for those whose objectives are leading by the idea of making more profit, making the company smaller would not be a strategic action in short-run. So what is behind the scenario?

Earlier in this paper some factors are mentioned, those which have been causing trouble for Ford. To have better understand and summarize the case, the factors are categorized into two categories;

- **External Forces**

The dynamics that are fitted in this category occur due to many facts that Ford can not stop them from happening. Such factors are Natural Disasters, Geopolitical Issues any many more. Even these issues arise from different nature; some of the results are similar. Increase in Oil Price is one of these results. Such cases happen in the region where giants like Ford have their base operation in, the United States. For the past months and years, the country hit by hurricanes especially to those areas that oil production is in process, and many of these fields were destroyed, resulting many loses including the negative economical impacts. In other hand, since the country is quite involved in all geopolitical matters, obviously having trouble with oil producer countries will also result the higher oil price. But what all these have to do with Ford and its downsizing case?

Fuel Price and Interest Rate

Clearly it is cheaper to fill in your tank in the US than Europe, BUT, policy makers of automobile manufacturers should also take into the account the position and the profile of the target market for the product. People have less debt to pay in Europe than the US, where buying on Credit is popular but facing a critical period. Also fuel price is increasing due to the **political issues** as one of the factors.

Let's focus on the case of Ford Motor and Car Owners and find out the impact of this factor on these two parties.

In the case of increase in the energy price, automakers normally face two problems;

- i. One is that their production cost increases, as a results they have two options when reacting and these options are not involved in any unethical case, first approach is to not increase the price of their products and take less profit, second approach is less expenditure on unnecessary areas in order to cover their costs. First approach will not be the case , as in the competitive market we can assume that Ford and similar companies already keeping the prices down by taking less profit , no profit , and sometimes accept losses where they are not able to cover their production costs (Labor , Materials etc.) .

Second approach however would be an option, where as we learned some of the Fords expenditures are mostly involved with social involvements and sponsorships, which if they start cutting this expenditure some would call it as an unethical move. But it seems you will find more voices to ask less social sponsorship but also less cut jobs.

- ii. On the other hand from the customers' point of view, they have to pay more to fill up their big Ford trucks. Eventually they will be less interested in that category of cars and they will be willing to shift their energy sources. This case does not only concern with car ownership, as increase in energy price means, increase in day to day life. For example Transportation will cost more; therefore there will be change in price of food. People then have to concern about their expenditure, as their disposable income will disappear. So as we mentioned there will be less demand for Ford. In economic less production means increase in cost per unit and this is the second force to make Ford suffer.

So far we read about the energy price factor, yet we have not discussed the matter of interest rate. Increase in the energy price along with other factors will cause inflation. There is variety of theories regarding the inflation rate.

One of the most influential schools of economic thinking rests on a quantity theory of money, namely monetarism.

To establish a better understanding of this school lets discuss the basic formula;

$$P = \frac{D_C}{S_C}$$

P is the general price level of consumers' goods, D_C is the aggregate demand for consumers' goods and S_C is the aggregate supply of consumers' goods. The idea behind this formula is that the general price level of consumers' goods will rise only if the aggregate supply of consumers' goods goes down relative to the aggregate demand for consumers' goods, or if the aggregate demand increases relative to the aggregate supply of consumers' goods. Based on the idea that total spending is based primarily on the total amount of money in existence, the economists calculate aggregate demand for consumers' goods based on the total quantity of money. Therefore, they posit that as the quantity of money increases, total spending increases and the aggregate demand for consumers' goods increases as well. For this reason the economists who believe in the Quantity Theory of Money also believe that the only cause for rising prices in a growing economy.

To summarize, one of the causes for inflation is a very fast growing economy, where large amount of money is available to spend. In this case when the interest rate is low, companies and individuals start borrowing, spending on credit and putting themselves into debt. The monetary policy makers take different actions toward this occasion. In the US, Federal Reserve is in charge of this economical phenomenon. What they have been doing for the past years was to start increasing interest rates to what is called "cool down the out of control growth in the economy". By increasing the interest rate governments will achieve several goals. Consumers and public in general as well as the companies will stop borrowing for unnecessary cases. People will start invest in governmental bonds which is known as a safe investment instrument. This will make the investors to take their money from the stock market table and put it either on other investment instruments or simply not to invest till the financial market feels more secure and stable.

Let's now see what would be the problem for Ford Motors? First of all the value of the corporations decreases as for those who know that for companies like Ford with lots of debt to pay it means they will face financial crises at the time of hike in the interest rates and increase in the production costs. This will lead the stock price of the company to go down due to less interest in buying the companies shares. This is another negative point for Ford.

Ford also offers buying cars on installments. The division has its own running costs; employees etc. when the market faces increase in the interest rates, simply people will not be very comfortable to pay more and more to buy on interest, the commodities that they do not really need as much as they need basic living elements such as food and shelter. As an example housing market will slow down as a result we can expect much downward move in the car market in general.

- **Internal Forces**

It is true the forces that are mentioned above are external and Ford might just be the sufferer party, however by taking the right strategies, it could reduce the negative outcomes. Improper managing of the resources which are known to be very limited is one arguable case. Ford might be able to value its image by social sponsorship type of activities but by doing so in the current situation they will miss other important elements of their corporate responsibility, one of which is their employees.

The only case which can be focused from Ford's point of view is the managing financial resources as well as the strategy on Hybrid initiatives.

By bringing the recommendation part we may clarify this issue about the internal forces.

Recommendations

For a company in the position of Ford and according to the existing data it is recommended:

In Short-Term

- 1- Liquid the financial division, and outsource the car financing service by partnership program
- 2- Focus on cars with less fuel consumption rather than jumping to Hybrid production
 - a. This will stop spending on R&D for Hybrid Technology
 - b. This will prevent huge exiting costs (shifting from one product to another)
 - i. Less expenditure on manufacturing establishments for the new line
 - ii. Less problem liquidating the parts for cars that are not using Hybrid Technology
- 3- Less social sponsorship involvement as well as political supports

Long-Term

- 1- Once the company starts saving money by stop the cash out of the system, then they will be enabled to continue downsizing in smaller numbers or even bring it down to zero. It will cause both Economical and Ethical issues for the society as well Ford.
 - a. I.e. by downsizing in the US, they will contribute to the negative numbers in the employment numbers. These numbers are very important for policy makers when deciding the interest rate. Basically it will hit the company back.
- 2- Dividend to shareholders is another issue. It might be attractive for some investors but most professionals would prefer the company to invest in fundamentals of the company. Ford's dividend is quite high in compare to other corporations, and of course considering the stock price, EPS (earning per share) and P/E ratio. It needs to be decreased by large.

References:

To prepare this paper two sources of information have been looked into. Covalence data base, as a source for company's ethical performance and 3 internet sources for the financial aspects.

- Internet Recourses
 - o Yahoo, Finance
 - o MoneyCentral , Stock Quote
 - o WIKIPEDIA, Information on both Ford and GM

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