Assessing the Goal of Sports Products, Inc.

Loren Seguara and Dale Johnson both work for Sports Products, Inc., a major producer

of boating equipment and accessories. Loren works as a clerical assistant in the

Accounting Department, and Dale works as a packager in the Shipping Department

During their lunch break one day, they began talking about the company. Dale complained

that he had always worked hard trying not to waste packing materials and

efficiently and cost-effectively performing his job. In spite of his efforts and those of

his co-workers in the department, the firm’s stock price had declined nearly $2 per

share over the past 9 months. Loren indicated that she shared Dale’s frustration, particularly

because the firm’s profits had been rising. Neither could understand why the

firm’s stock price was falling as profits rose.

Loren indicated that she had seen documents describing the firm’s profit-sharing

plan under which all managers were partially compensated on the basis of the firm’s

profits. She suggested that maybe it was profit that was important to management,

because it directly affected their pay. Dale said, “That doesn’t make sense, because

the stockholders own the firm. Shouldn’t management do what’s best for stockholders?

Something’s wrong!” Loren responded, “Well, maybe that explains why the

company hasn’t concerned itself with the stock price. Look, the only profits that

stockholders receive are in the form of cash dividends, and this firm has never paid

dividends during its 20-year history. We as stockholders therefore don’t directly benefit

from profits. The only way we benefit is for the stock price to rise.” Dale chimed

in, “That probably explains why the firm is being sued by state and federal environmental

officials for dumping pollutants in the adjacent stream. Why spend money for

pollution control? It increases costs, lowers profits, and therefore lowers management’s

earnings!”

Loren and Dale realized that the lunch break had ended and they must quickly

return to work. Before leaving, they decided to meet the next day to continue their

discussion.

***To Do***

**a.** What should the management of Sports Products, Inc., pursue as its overriding

goal? Why?

**b.** Does the firm appear to have an *agency problem?* Explain.

**c.** Evaluate the firm’s approach to pollution control. Does it seem to be *ethical?*

Why might incurring the expense to control pollution be in the best interests of

the firm’s owners despite its negative effect on profits?

**d.** Does the firm appear to have an effective *corporate governance structure?*

Explain any shortcomings.

**e.** On the basis of the information provided, what specific recommendations would

you offer the firm?