

## DOING YOUR DUTY WHEN PAYABLES COME DUE

### The Situation

Assume you work as a manager for one of the world's best-known conglomerates. As the end of the fiscal year approaches, you are attending an executive committee meeting at which the CEO, the firm's dominant leader, expresses concern that the firm's year-end cash position will be less favorable than projected. The firm has exceeded analysts' performance expectations in each of his eight years at the helm, and he is determined that stockholders will never be disappointed as long as he is CEO. The purpose of the meeting is to find solutions to the cash problem and decide on a course(s) of action.

### The Dilemma

To open the meeting, CEO Charles Z. announces, "We have just two weeks either to reduce expenses or to increase revenues; we need a \$400 million swing to get us where market analysts predicted we'd be on cash flows for the year. Any suggestions?"

Discussion reveals that the firm has outstanding payables, amounting to hundreds of millions of dollars, owed to thousands of firms that supply manufacturing components and operating supplies. The payables are due before year-end. According to the financial officer, "Our cash outflows for the year will be lower if we delay paying suppliers, which will help the bottom line. And, it's like getting a free loan." The procurement director is concerned, however. "Our agreements with suppliers call for faithful payments at designated times, and many of the smaller firms depend on receiving that cash to meet their obligations. Also, we've worked hard for two years to improve relationships with all suppliers, and that effort could go down the drain if we don't meet our financial commitments as promised."

As the meeting drew to a close, Charles Z. announced, "Keep me posted on any unexpected developments, but if nothing helpful comes up in the next few days, let's go ahead and withhold supplier payments for three weeks."

### Questions for Discussion

1. What are the ethical issues in this case?
2. What are the basic arguments for and against Charles Z.'s position on withholding payments?
3. What do you think most managers would do in this situation? What would you do?