Enager industries case 22-4

Business

ASSIGN BUSTER

Enager Industries, Inc. 1. McNeil’s project was rejected because it only provides a 13% return and does not meet the minimum return of 15% mandated by Henry Hubbard. Although the project does create some increase in earning per share, it does not provide the required return to keep up with the interest rates the corporation had been paying on the recent borrowings. 2.

Randall and Hubbard seem to have disregarded that each of the divisions are very different. As a result, the return on assets will be different.

This will create tension among the division managers as some will be able to easily meet the minimum and for others it will be merely impossible. Some other managers will be puzzled when their projects are rejected even if it is a very good project for their specific division. 3. Instead of requiring the same return for all projects across the divisions, I would suggest to Randall to set the required return for each division by looking at the interest rates each division is paying on their own borrowings.

In other words, customize the required rate of return to the operating activities of each division. I would also suggest Randall to follow Karen’s idea and have a meeting with all the division and explain what is currently happening with the corporation and what will be the next steps in regards to “ return on investments”. By doing this, everybody will be on the same page and the corporation will be able to improve as a whole.