

Dodge v. ford motor
co. 170 n.w. 668



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The Ford Motor Company is an American multinational automaker that was incorporated on June 16, 1903 by Henry Ford. In today's world Ford is the second largest automaker in the U. S. and the fifth-largest in the world based on annual vehicle sales in 2010. Henry Ford became famous for his methods of large scale manufacturing, management and the use of the assembly lines in his factories. Another very important event in the history of Ford Motor Company, and also a very important case in legal terms, was Dodge v.

Ford Motor Company, 170 N. W. 668, Michigan Supreme Court 1919. This case was very important to the legal system because it reinforced the idea that corporations are accountable to making a profit for the stockholders. On November 2, 1916, a day after his son Edsel's wedding, Henry Ford received notice of a complaint that would eventually lead to one of the most famous lawsuits in the history of American corporate law (Henderson). The plaintiffs were John and Horace Dodge and they owned ten percent of common shares of Ford Motor Company.

At the time Henry Ford owned 58 percent of the outstanding shares and controlled the company and board of directors. This at the time most likely was strange to Ford, because in fact John and Horace Dodge were business partners with Ford and also on the board of directors of the Ford Motor Company. Beginning in 1911, Ford started paying an annual dividend of \$1.2 million. At that time it was 60 percent of its capital stock of \$2 million, but only around 1 percent of its total equity of \$114 million. Between 1911 and 1915 Ford paid special dividends totaling \$41 million.

It was the policy of Ford Motor Company to reduce the selling price of its cars each year. Later in 1915, they increased production by constructing new plants worth \$10 million, buying land for \$3 million, and erecting an \$11 million smelter. To finance these expenditures, Ford did not reduce the selling price. A year later, Ford's board reduced the selling price of cars by \$80 per car. Ford Motor Company was able to produce 600, 000 cars annually, doing this they would forfeit \$48 million by lowering the price by \$80.

At the same time the board decided not to pay a special dividend and would reinvest instead, however they did pay the regular dividend of \$1. 2 million. John and Horace Dodge, who were also brothers, were upset about the decision by the board to withhold special dividends and spend the millions of dollars to build new plants, land, and a smelter. Their claim was that the decision was based on Henry Ford's idiosyncratic preferences about doing social good for workers and customers as opposed to making the most money for shareholders (Henderson).

Around this time the Dodge brothers had founded their own competing automobile manufacturing company. At the time Fords founder, Henry Ford, owned 58 percent of the outstanding common shares and controlled the corporation and the board of directors. In defense of the new dividend policy Henry Ford said, " My ambition is to employ still more men to spread the benefits of this industrial system to the greatest possible number, to help them build up their lives and their homes. In 1916, Ford only distributed 5 percent of profits, whereas in the previous year 66 percent had been distributed, so you can see where the Dodge brothers and other

shareholders might have had a problem. As the case finally got to court, it asked the trial court for two things. First, the Dodge brothers wanted to require the Ford Motor Company to establish a dividend policy that would require them to distribute all of the earnings of the company, except funds required for regular business expenditures and emergencies, to the company's shareholders.

The Dodge brothers also wanted Ford to issue dividends totaling 75 percent of retained earnings, at that time Ford's cash balance was over \$50 million. Secondly, the Dodge brothers wanted to stop the proposed construction of a new manufacturing facility on the River Rouge near Detroit. As you can see the two were very related, Henry Ford wanted to eliminate the dividend so he could fund the construction of the factory.