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Selesian Manufacturing Company, Inc.

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ABSTRACT

This case describes the near disintegration of a company due to uncontrolled growth, inadequate information systems, and ineffective (or perhaps incompetent) decision-making. Selesian Manufacturing Company, Inc., grew from a small, privately held operation doing business only in the United States, to a publicly held company with operations in several foreign countries. As the company's business expanded, the inadequacies of the founder/president's management's competencies, and the lack of effective corporate information systems, resulted in serious organizational and operational problems. The case illustrates the problems that can develop quickly when an organization does not have defined goals, effective management, and supporting information systems.

PROLOGUE

As a young man Charlie Henderson could often be found in his garage working on the old Ford he bought from an uncle, repairing a radio so that his mother could listen to her favorite soap operas, or building some new contraption that some day might have some practical value. He loved to tinker with things mechanical. And, by his own admission he dreamed of the day when he would start his own company.

His dream came true. Charlie Henderson founded a company to manufacture fish skinning machinery and paint can filling machinery, equipment that he designed; and component parts to specification, such as gears, shafts, conveyors and spar poles, used in logging equipment. Charlie was in charge of the production activities, his wife, Meredith, was the bookkeeper, and his brother, Richie, was the sales manager. Charlie oversaw virtually all of the day-to-day activities.

PHASE ONE

Minimum sales and manufacturing information were obtained from the accounting system. It was a very basic system, although it did provide enough information about the company's operations so that it was able to borrow money for expansion. If the company had an "information system" it was due to Charlie Henderson's intimate knowledge of the production and marketing activities. He believed that he acquired adequate detailed information through his direct involvement with all of the company's operations.

The company's products were well received in the marketplace, and over the years the demand for them increased significantly. In fact, the company became the leading supplier of fish skinning machinery in the fishing industry, and of component parts for logging equipment in the timber industry. It also held a reasonably competitive position for its paint can filling equipment. Meeting the demand for these products required the company to increase its manufacturing and warehousing capacities. In order to do so, the company required expansion capital, and after consultation with friends, members of the financial community, and business associates, Charlie Henderson decided to take the company public. At about that time both Charlie's wife and his brother retired from the day-to-day operations of the company. A new bookkeeper was hired to take on the duties previously carried out by Meredith. Charlie took over Richie's sales activities while continuing his own responsibilities for production.

PHASE TWO

As a publicly held company, Selesian Manufacturing Company, Inc., had to provide information to its stockholders, regulatory agencies and its external auditors. Satisfying external demands for information about the company's operations presented a problem. The existing systems had been developed to meet internal needs only. The new bookkeeper, coming under pressure to provide the required information for external use, soon realized that those demands could not be met with the current accounting system. As a first step in dealing with this problem, Charlie Henderson hired an experienced accountant from the firm serving as the company's external auditors to take care of the reporting requirements. The accountant developed financial accounting procedures that would provide reports that met the company's legal requirements.

In an attempt to capitalize on his products' marketability, Charlie decided to expand into Central and South American markets where his logging equipment was being used by subsidiaries of U.S. companies. His logic was that if those subsidiaries were using his equipment (having purchased them domestically and shipped them to the countries in which their subsidiaries operated), Selesian Manufacturing Company, Inc., could expand its own market (and significantly increase its profits) by selling to companies in those countries. His plan was to market through distributors franchised by his company.

As business continued to expand, Charlie Henderson admittedly began to feel the pressures and strain of overseeing all of the company's operations. Therefore, he delegated the responsibility for the two main functions of sales and production to two long-time employees, naming them as vice presidents, while he retained control over both product development and customer relations. His directives to the two vice presidents were quite specific: the sales vice president was charged with increasing sales volume, and improving the percentage return on sales; the production vice president was charged with increasing production efficiency, and improving the effective use of production facilities.

The vice presidents immediately set out to determine exactly what information they would need in order to meet the goals given to them. Since the goals were not quantified, each vice president set his own objectives, recognizing that valid standards should be established so that performance could be measured against them. Both vice presidents decided that the information they needed was basic to the operation of the company, was not specialized, and was available from within the company. However, they decided that getting that information would require some modifications to the company's current procedures of data collection, processing and reports distribution. To meet the vice presidents' needs in the short-term, considerable clerical effort would be required. Neither vice president had any experience within the international marketplace, and were not certain how they should be dealing with distributors in foreign countries. Their approach to determining their information requirements, therefore, was based on the assumption that what worked for the domestic operations would be appropriate for the foreign operations.

Based on her prior experiences (which did not include clients with foreign operations), the accountant recommended that the company adopt a standard cost accounting system, revise the financial accounting system, and acquire appropriate computer equipment to maintain these two systems. (The company had purchased relatively "low level" computer equipment for processing accounting data, but had never conducted a feasibility study to identify the company's overall computing needs.) Others within the company who were reluctant to

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accept standards for valuing inventories expressed differing opinions as to what constituted meaningful marketing information. They also expressed concerns over the apparent complexities and costs of expanding the company's computer-based information systems. Because of these concerns, and a reluctance to change an accounting system that had been for years regarded as satisfactory, the recommended action was postponed indefinitely.

As the need for non-accounting information became increasingly critical a sense of desperation began to seize the company. The accountant was confronted daily with mounting requests for operational information, and in spite of almost heroic efforts, fell far short of meeting those requests. The capabilities of the current system simply didn't support the accountant's efforts. Many of these requests were coming from the two vice presidents who, feeling that they were not being served adequately by the company's information system, decided to develop their own systems.

PHASE THREE

Having been unsuccessful in obtaining information they deemed vital to their carrying out the charge given by the president, and sensing that their requests would always take second place behind the processing of accounting reports, the vice presidents became increasingly frustrated. The sales vice president was aware that statistics produced through the accounting system contained significant inaccuracies caused by an array of deficiencies in the system, including the lateness of invoices, the omission of any sales territory designation on key documents and reports, and a lack of basic market information. He also realized that much of the information he did receive did not reflect the results of the foreign operations. As a result, he created his own sales statistics and analysis group.

The production vice president could not understand why the existing system was not able to provide information for assessing operating efficiencies. Therefore, he took what he believed to be an expedient course similar to his counterpart in sales; he developed his own system, assigning attainable efficiency standards with which to monitor the performance of his operation. He decided that the valuation of inventories was an accounting issue and, therefore, he would not be concerned with it. However, he did take some steps to ensure that his system did encompass the distribution operations of the company's product lines, including shipments of equipment to foreign customers.

The creation of separate information systems was rationalized by the vice presidents as providing essential specialized information to the two executives. They did not see their developing separate systems as being either a serious policy issue, or an operational problem. Their position was that the systems did not duplicate each other, and that each system was designed to meet the particular needs of different functional areas. But regardless of their arguments in favor of information specialization, all departments, including theirs, were obtaining their basic data, and some operating information, from the same source - the accounting system.

Charlie Henderson began to feel that the information he was getting from the two vice presidents, information that was derived from the separate systems, was either incomplete or unreliable. He was puzzled that although production costs had been lowered and sales had increased, profits also were lower. He became concerned that perhaps the company was selling in unprofitable markets. He wondered what impact the foreign markets had on the company's costs and income.

He was not able to find answers to these and other operating issues. No single information system in the company was designed to provide them. The several systems were both incomplete for their intended purposes, and incompatible with other related systems throughout the company. The accounting system, although accurately reporting results for financial purposes, was not providing adequate information for operational decisions. While accounting techniques using a marginal or direct costing approach might have provided greater insight into the nature and behavior of the company's manufacturing costs, such improvements had not been made to the accounting system. And, the system was not designed to deal with issues, such as currency exchange rates, that occur in companies doing business in foreign countries.

PHASE FOUR

Selesian Manufacturing Company, Inc., was supporting an environment of multiple information systems - those designed for the specific information requirements of a particular constituency to the exclusion of all other information needs (the two vice presidents), and those designed for the overall corporate (principally accounting) needs of a *national* company. Consequently, Selesian was impacted by rising costs due to the duplication of, or variations in, information as each system processed the same data to suit a particular manager's needs, and because of incomplete information about several areas of its business activities.

Fundamentally identical information was distorted by different interpretations, thereby causing breakdowns in communicating information throughout the company. The decision-making process was complicated by the continual demand on managers to evaluate conflicting information supplied by different sources. Staff members with specialized talents and skills, who were to develop, manufacture or market the company's products, were assigned to administer what amounted to routine accounting activities related to their areas of activity and responsibility. And, in reality nobody at Selesian really understood the complexities of being a "multinational" company.

Concluding that the information systems were inefficient and inadequate, the two vice presidents adjusted their organization's structure and expanded their own systems to provide for their evolving information needs. Neither one took into account that they were dealing in multinational markets which might have a significant impact on their information requirements.

The production division, requiring more accurate estimates of sales demand, organized a planning department. The sales division, charged with the responsibility of moving the inventories generated by the production activities, established an inventory control department. And, since that division was also responsible for improving the return on sales, it set up a department to support selective selling decisions with detailed cost-of-sales studies based on product quality.

The existing multiple systems were not able individually to meet the information requirements necessary for effective decision-making. Charlie Henderson began to sense this when he could no longer accept information without nagging doubts, and without sending a series of follow-up questions to his managers. Therefore, he took what he thought were decisive actions to resolve the reservations he had about the information being provided to him. He authorized the accountant to hire an analyst whose primary function was to work with the accounting department in identifying company-wide information needs, and in revising the current systems to meet those needs. He also hired a manager of international operations.

Unfortunately, because of the workload in the accounting department the analyst became totally absorbed in the internal operations of that department. Although the financial accounting system was refined, it still operated within the same archaic framework. This was of little help to either the sales or the production vice president.

The manager of international operations quickly determined that none of the computer-based systems throughout the organization were designed to provide the type of information that he needed to carry out his responsibilities - being the "overseer" of Selesian's global activities. He assumed, however, that the systems being maintained by the two vice presidents could be modified to produce that information. He further assumed that since both vice presidents were responsible for activities that certainly were "international," that they would be amenable to his requests for information and would adjust their systems appropriately.

The sales vice president stated that he was not interested in the manager of international operation's problems. He concentrated on

the information generated with his system in order to prove to the president that markets were providing an appropriate return, even though there were contrary indications from information generated by the company's accounting system. This took his attention away from generating new business for the company that, as the vice president responsible for the sales division, was his principal responsibility.

The production vice president took a similar attitude. He maintained his own operating standards, even though there was no assurance of their accuracy. Nobody could tell if the "actual" costs of production, generated by the accounting system that contained prorated costs, allocations, deferments, accruals and certain "accounting adjustments for tax purposes," were any more accurate.

Neither vice president could determine by any quantified measure the impact that the company's international operations had on his division's activities.

Charlie Henderson had long held the opinion that if one understood the accounting reporting within the company she/he would be able to discern what was happening in all phases of the company's operations. To strengthen the accounting department he recruited a controller; to improve external reporting, the accountant was appointed treasurer to handle the task of providing shareholders and tax authorities with appropriate, and hopefully accurate, information.

The controller assessed the company as being in what he believed to be a chaotic state, and hired a systems analyst and a computer specialist. Their hiring was justified to Charlie Henderson on the basis of accounting needs; the intention was that they would improve the accounting operations which, in turn, would provide better information to the operating units throughout the company. The systems analyst directed her attention to streamlining accounting routines, and redesigning forms and reports. As this was being done the computer processes were revised accordingly. An increased level of accuracy in accounting information was achieved, and the computer equipment was upgraded (and used also for some analyses of various operations within the company), but Charlie Henderson was not certain that the benefits were commensurate with the costs.

Some modest attempts were made to develop a corporate business plan against which actual performance could be measured. Comprehensive budgeting procedures were developed, but these potentially useful control tools were weakened significantly by their being "fitted into" the existing accounting information system.

PHASE FIVE

Charlie Henderson was aging rapidly. Analyzing past trends for purposes of short- and long-term planning had become an extremely time-consuming, and almost hopeless task for him. Therefore, he hired an administrative assistant to help with those activities. Then, he hired a planning director, although the duties of that position were not defined.

By this time there was an abundance of operational reports available throughout the company. Five or six separate and independent information systems were in operation. Deciding on the relative accuracy of the information provided by each - separating the wheat from the chaff as it were - took an inordinate amount of time and energy of the president, the vice presidents and managers throughout the company. Obtaining information that was useful in supporting the decision-making process received very little attention. And, too often in staff meetings the company's experiences to this point were minimized as being nothing more than the growing pains expected of a company evolving from a small to large, and domestic to international, enterprise.

EPILOGUE

Selesian Manufacturing Company, Inc., is clearly a company in serious trouble. Management took many actions that individually may have been worthwhile, and undoubtedly were well intended. The divisions and departments that were set up might have improved the operations of the company; they are not atypical of those often found in manufacturing concerns. The personnel that were hired might have been qualified to provide valuable service to the organization; there is no indication that they acted irrationally or without regard for the company's well-being. But, setting up organizational units for parochial reasons, and hiring staff without a rational/coherent/planned approach to the company's needs is costly and unproductive. To assume that a company can expand its operations into the international arena without major corporate changes is short-sighted at best, and foolhardy in the main.

Can the company survive its own foibles?

The case relates to an actual company, although its name and those of individuals have been changed in the case. It has been used effectively in an upper-division undergraduate course and, with some expansion, in a graduate course in information systems.