Hcc industries analysis essay

HCC industries, a manufacturing company that produces hermetically sealed electronic connection devices along with microelectronic packages, is headquartered in Encino, California. Considering their highly sophisticated product line, one of HCC's main clients was the U. S Military and government funded aerospace programs. HCC is made up of four distinct operating divisions: Hermetic Seal, Sealtron, Glasseal, and Hermetite. The divisions are highly decentralized and completely autonomous of each other.

They all have different customer bases, different product lines and even different accounting systems. The divisions are also profit centers, by definition; each was responsible for their sales, costs, and bottom line. Each division also needed approval for any capital acquisition over $500. Target Setting Each division was evaluated in 7 standard key areas: Profit before Tax, Bookings, Shipments, Returns (as a % of total dollars shipped), Rework Aging, Efficiency (net sales/no. of employees), and Delinquencies, which were measured on dollar volume and % of delinquent orders outstanding.

These evaluations were measured each quarter (with monthly " check-ins") and were highly emphasized, the most of which was Profit before Tax. Until 1987, HCC stressed " stretch" performance targets. Top management felt that these aggressive targets would push managers to produce the very best results, even though they knew that the intended probability of meeting these objectives was around 75-80%. This setup allowed managers to be appraised based on their actual to budgeted figures. However, there were two sides to these appraisals: an objective view and a subjective view.

The objective view looked purely at the numbers. If the divisions Actual Profit before Tax was 60% or greater than Budgeted, the corresponding manager may receive up to 150% of their bonus potential. The subjective view however, was based on top management's assessment of the degree of completion. If a division met all evaluation measures except one and that measure was deemed to be of upmost importance, that manager may not receive a bonus at all. Bonuses under the stretch method are based on annual performances, but payments are made every quarter.

And each quarterly bonus payment is only at 80% actual in order to save management from paying out bonuses that may not be actual. Opponents to this budgeting technique cited that targets were too optimistic, and that rewards were based on complex and subjective measures. And because managers could still receive a small bonus at 60% of budget, bad habits started to form. In late 1986, HCC CEO Andy Goldfarb met with divisional managers and announced a new budgeting philosophy. The Minimum Performance Standard (MPS) was created to let divisional managers set their budgeting goals at a level they felt was 100% attainable.

However, Goldfarb asked each manager to set their targets at levels above what they were currently producing at. The MPS plan was accompanied with a change in incentive plan, in whereby a pool was created that paid 20% of the amount exceeded actual over budgeted PBT (profit before taxes). In addition, 25% of the amount they exceeded the target would be added to the bonus. This allowed managers to see exactly where their bonuses were coming from. If their shipments were at 98% of the budgeted, they would receive close to 100% of the bonus pool set aside for that particular measure.

If a manager met only 4 or 5 measurements, then his/her bonus collection would be directly in proportion to that. However, COO Al Berger did go on to quote: “ I left the details of the plan vague because the importance of the particular targets varies over time- for example, this year delinquencies and quality are even more important than profit…” MPS was viewed by top management as a great way to start HCC off in the first quarter of 1987. For under the stretch method, some of the divisions were meeting their goals, and some were not.

Goal congruence among the divisions was an increasing worry under the stretch methods, and top management hoped that MPS was the answer. When implemented, some divisions thrived inside the MPS budgeting technique. Mike Pelta, GM of Hermetic Seal was able to trim his budget down to not only meet top managements concerns, but also felt a 95-98% probability of success in attaining his goals. Cark Kalish, the manager at the Glasseal division was met with some initial resistance. His numbers came back a little too conservative, and corporate increased his Profit figure by about 2%.

But Kalish still felt 90% as to the accomplishment of the increased figures. Sealtron’s GM, Lou Palamara however was very discouraged in his 1987 budgeted figures. Palamara’s initial proposal was for sales at $6. 4 million and PBT at $900k. Palamara felt he had a 95% chance of matching these figures, Goldfarb through the chain of command increased his PBT to $1 million; downgrading Palamara's felt probability t 60%. Hermetite, the most recent addition to HCC, produces microelectronic packages and is the only division that doesn't produce connectors.

This was an issue for HCC, as Hermetite struggled significantly with production technologies and divisional instability. Mixing production restrictions with a fiercely competitive market, Hermetite had been operating at a loss since before their acquisition by HCC in 1985. Alan Wong, the GM at Hermetite set his goals to astronomical levels, felt the top management. His initial figures included $13 million in sales, and $130k in profit, when his 1987 actuals were closer to $7 million in sales and a net loss of $2. 8 million. After much deliberation, management lowered Wong's estimates to $10. in sales and a PBT of $67k. Alan's felt probability was only 80% in achieving this sales figure, and only a mere 5% in attaining this PBT figure. One aspect to think about in this case study is the blanketing budgeting techniques taken by HCC management. Here we have 4 very different divisions operating in 4 very different markets, and each with its own set of restrictions and limitations. While the MPS was great a budgeting solution for Hermetic Seal, it had the opposite effect on Hermetite. And Alan Wong, Hermetite's GM had only come to the organization 4 months before his operating budgets were due.

Expecting Wong to be able to identify all of Hermetite's strengths and weakness', trends in the market, and ways to cut costs while fixing the complications of their production technologies was overkill. That alone is the perfect Segway into the selected solution that Hermetite, along with others may require not only different budgeting techniques, but may require different target standards. The degree of autonomy is still a comprehensive and healthy business technique; however, certain divisions operate under different conditions and in different markets and therefore need to be evaluated on special and singular measurements.