Kranworth chair corporation essay sample

Business, Company

Kranworth Chair Corporation produced a range of high-quality, trendy yet portable folding chairs. The company was protected by patents and had been enjoying sales growth. However, the company started experiencing changes in the environment, such as expiration of patents, having more competitors and even worldwide recession in the 2000s, resulting to a drop in profits.

Kevin Wentworth, CEO and co-founder of KCC, decided to change their strategy from increasing quantity of sales to improving quality of sales. In order to do, he wanted to develop stronger customer focus. He implemented the strategy through changing the organization structure from centralization to divisionalization. From this new structure, he expected to achieve a better understanding of customers, reduction in SKUs as well as enhanced efficiency and asset utilization. Unfortunately, KCC’s early experience with the new structure created additional problems.

Decentralizing the structure was supposed to empower division managers and allow division managers sufficient autonomy in decision-making essential to the achievement of overall goal. However, Kevin seems to disagree with most of the decisions the managers have made. For instances, Customs Division manager, Ed, wanted to reduce costs by purchasing a new machine however Kevin thought that the real issue with his division was with the turnaround time. Another example was when Retail Division manager, Joe, wanted to aggressively advertise retail however the issue lies in the product placement in retail chains.

There were also problems in relationship between functional and divisional structure. Joe was complaining about the late deliveries, missed sales and product returns that he believed were caused by vendor problems under the Supply Chain and Quality. The solution to this problem is to have more communication with the employees of the company. Kevin should convey his overall goal to the company and explain the sudden shift of focus from quantity to quality of sales. The company is at its early stage in adopting an entirely new organizational structure thus, more leadership effort and focus are required from Kevin.

Another issue lies in the measure and incentive system established by Robert, Vice-President of Finance. He developed a measure he referred to as controllable returns, where operating income before tax is divided by controllable assets. The assets deemed controllable by the divisions include are receivables, inventories and assigned cost of facilities they used. Although we believe that his performance-based bonus plan system is reasonable, we believe that further improvements can be added for certain areas. The first issue is with their claim that uncontrollable costs will be incorporated into targeted performance. Robert did not seem to specify how he plans to do so thus, division managers are feeling insecure with their performance measures with additional pressure of not having good relationship with functional areas critical to their performance such as that between Retail Division and Supply Chain and Quality Control.

According to Robert, divisions control 85% of the P/L and believed it to be significant enough. However, we believe that although they do have significant control, the divisions do not have control over the functions that are crucial to their performance. As Retail Division is responsible with high sales volume, it is essential to have good Supply Chain and Quality Control. Custom Division produces customized and more innovative products, which will need R&D resources. With the new organization structure, these key functions are not under their control. Seeing as Robert do not have first-hand experience with the workings of the divisions and their markets, he should seek suggestions from the division managers before setting performance measures. He should also put them at ease by conveying how he plans to build the uncontrollable costs with the performance targets.