

Cresta plating company ltd

[Business](#), [Company](#)



Cresta Plating Company Ltd is one company within a division of the main group, the division being concerned predominantly with metal finishing. The company is located in the London area, where a majority of the companies in the group were also situated in the south east of England. The company carries out plating work for companies within the division and within the group as well as a substantial amount of plating for companies outside the group. The company is in the electro-plating jobbing industry.

Production planning and control is extremely difficult. The company aims at a 48-hour turnaround from the receipt of an order to its dispatch. The company employs about 350 people at two factories in London, one in Newcastle and another in Sheffield. The company uses both barrel plating and vat plating. The company handles a wide variety of work, ranging from small orders of a few kilograms weight, to huge orders where the total weight of the products involved could be as much as one tonne.

The case focuses on the design of a management control system in a company where 'control by observation' is no longer deemed appropriate and where management by objectives is being implemented.

Business Environment and the Management Control System

The current business environment is characterized by fast changes in customers, technologies and competition. Thus, organizations need to continuously renew themselves to survive and prosper (Johannes A. Asel, 2009) Because of globalization, the business environment has become increasingly competitive.

Just following the traditionally management accounting systems will lead to low efficiency and loss of customer loyalty and satisfaction (Ping). Controlling

<https://assignbuster.com/cresta-plating-company-ltd/>

is a major function of the firm, at the center of changes in the last 20 years. Research in this area focuses on the important transformations of the function: starting from the need for economic interpretation and evaluation of corporate activities; control evolves towards the deployment of strategy into operations, the definition of improvement plans, and the understanding of performance drivers.

Owing to such evolutions, research must rethink the traditional tools and methods of control and its practices. (Nicolas Mottis) The business environment is dynamic; competition cuts across product categories and national boundaries, and consumers are well-informed and willing to explore the choices at hand. At all levels and across all functions of the organization, excellence of execution requires 'double-loop learning'- the habit of anticipating changes and adapting to them in a proactive manner.

Often, this adaptation is simultaneously required on multiple aspects such as strategy, structure, systems, and culture. And such adaptation is required both for guarding against possible declines in an organization's performance and for gaining competitive advantage (ICMR Center). In the complex and extremely dynamic modern business environment, management control systems are useful in fulfilling the needs of effectiveness, efficiency, and adaptive learning. Management control is broadly concerned with the attainment of goals and implementation of strategies (ICMR Center).

Cresta Plating Company Ltd had its origins in the early 1960s, and from tin-
shed beginnings it expanded by the time of the purchase in 1980 to a
reasonable size and had gained a sound technical reputation. However,
despite the efforts of the parent company, and a number of recent executive
<https://assignbuster.com/cresta-plating-company-ltd/>

appointments which have been group-inspired, the 'group image' is not well established. The company's system is somewhat centralized and the system is not very well organized. Concentration of decision-making authority in the hands of a few at the top level is known as 'Centralization'.

In decentralization, there is dispersal of decision-making authority at different levels of the organization structure. If the top management wants to have only overall control over the organization and prefers decision-making authority to be dispersed at different levels of the organization, it may prefer the idea of decentralization (Kalaiselvan, 2009) If the size of the concern or the scale of its operations is small, centralization can prove to be effective.

On the other hand, if there are a number of operations to be performed through many departments or divisions, decentralization can be ideal. When a company has more than one division it can be crucial to be able to recognize the performance of each division. One weak division can be dragging the entire company down. Maybe, managers are unable to pinpoint the drag because they were unable to produce financial statements for each division. Through departmentalization financial statements can be easily prepared for each division or a consolidation of two or more divisions.

The power to better manage the company is within grasp. At Cresta, There was vat plating and barrel plating, and there were some less significant sections; further, there were natural subsections in each of which were definite factory locations with directly identifiable sales. . Most of the vats are hand-operated in order to achieve flexibility necessary to cope with the different mixes of products. On the barrel-plating side, there are two large

automatic plants to cope with the steady flow of work from group companies. There are also a few hand-operated barrels.

The company handles a wide variety of work, ranging from small orders of a few kilograms weight, to huge orders where the total weight of the products involved could be as much as one tonne. A wide variety of finishes is catered for, such as zinc, cadmium, tin, chromium, nickel, copper, precious metals such as gold and silver, and also plastics. Generally, management accounting is responsible in the decision-making process of internal aspects of the organization. By playing this immediate function, it could be considered that the role of management accounting in influencing pricing decision is control.

The business, in order to effectively execute any business strategy or plan, should be able to determine first and identify the resources that are available in the company. Studying and examining the opportunities of the available resources will help in constructing a business plan which will be profitable. The characteristics of the business should be clearly laid out and the ideas that will be made available should be thoroughly researched. This will provide relevant information that the general management can utilize so as to be able to allocate the funds of the company in the most effective way (Morato, 2010).

The company had exerted efforts towards the improvement of their system. The chief accountant had stressed that better financial controls were needed in their management by objectives programme which was in the process of being launched throughout the group. As the company was continuing to expand, control by observation became increasingly difficult. There are two <https://assignbuster.com/cresta-plating-company-ltd/>

points that may prove helpful to the organization. One is the overall financial objective which was to be built into the programme, namely a return on capital employed of 20% before tax and the desire to set objectives and key tasks for individual managers and executives.

To be accountable for performance, managers must have clearly defined areas of responsibility activities they control; in this case, vat plating and barrel plating. In the real world, a company's size, operating characteristics, and the philosophies of its upper level management influence the assignment of responsibility. Generalizing about the specific responsibilities of managers is unwise. The responsibility accounting system must parallel the structure of the organization. The structure of the organization depends on the nature of its operation and on the attitudes of management styles of the managers (Joseph Louderback, 2003).

As far as Cresta was concerned, it seemed to the accountant that departmentalization could logically be carried to profit centres. There was vat plating and barrel plating, and there were some less significant sections; further, there were natural subsections in each of which were definite factory locations with directly identifiable sales. There was already in being a simple sales analysis to these profit centres. To develop the existing records into a departmental system of accounting was only a matter of arranging the necessary cost analysis procedures.

These were partly in existence in a rough-and-ready fashion and were used to facilitate the task of recalculating cost rates annually. The extra work created by a full-scale cost allocation and apportionment exercise carried out each monthly accounting period was performed by two additional cost office

staff especially appointed for the purpose. There were, inevitably, some joint costs and much thought had to be given to them, particularly on the matter of how these should be apportioned between the profit centres.

In addition, there were service department costs, administration expenses and some general fixed costs, and for all of these bases of apportionment had to be determined. It was a hard slog, but it was finally done and it was possible to produce interim profit centre trading statements. A management control system is most effective when it establishes evaluation criteria that encourage goal congruent behaviour and is implemented through a responsibility accounting system that employees trust to report their performance.

The first step was to establish a responsibility center. The managers of the various units or sub-units, or sections of an organization should know not only the objectives of their unit but should also actively participate in setting these objectives and make responsibility for them (Kotelnikov, 2010). In this case, the managers under vat plating and barrel plating and the other subsections must be well informed regarding this matter. Interest in department profitability was something to be cultivated at Cresta; management accounting service had an opportunity.

Thorough planning and careful implementation will improve the current system. References: Departmentalization for Profit Centers. (n. d.). IOA . ICMR Center . Management Control Systems. In An Integral Approach to Performance Compliance. Johannes A. Asel. (2009, July). Risk Management and Management Control - The impact of the financial crisis on the use of

Management Control Systems. 1090 Vienna AUSTRIA. Joseph Louderback, J. H. (2003). Managerial Accounting. Kalaiselvan. (2009, April 12).

Factors Determining the Degree of Decentralization in Business Environment. Bizcovering . Kotelnikov, V. (2010). Management by Objective. Ten 3 Business e-coach . Morato, R. (2010). What is the role of Accounting Information in influencing pricing decisions. Thinking Made Easy . Nicolas Mottis, J. -L. R. (n. d.). Management Control and Strategic Decision Making. Controlling and Performance Management . Ping, Y. (n. d.). Important Contemporary Development in Management Accounting: Balanced Scorecard . IEEE Explore .