Western chemical corporation: divisional performance measurement

Business, Company

Western Chemical Corporation is one of the largest businesses that sell chemicals and chemical program products for water and waste treatment. The corporation has 4, 900 employees, and gets its profits from its network of 35 plants in 19 countries. Out of the many different countries that Western Chemical Corporation has plants in three countries (Prague, Poland, and Malaysia) were chosen for discussion between the President, Vice President, and the director of Investor Relations.

Samantha Chu, the director of Investor Relations had received an email from a well known chemical industry that wanted to know specific answers about the corporation. The discussion was to help Miss Chu on how to answer these questions carefully and based on the problems using the three countries that best laid out the critical areas. The main area in this case is that the President and Vice President haven’t figured out the best measures to show the financial analysis in the most truthful way.

Each of these three countries uses a different ownership arrangement with the use of local financial analysis combined with the company’s predictable accounting principles and basic standards will most likely produce financial reports that include misleading statements that are deceptive. The first situation is the city of Prague. The best way to interpret the differences between the ownership structures is to focus on the differences in the income of Prague and Poland. There is interest on external debt because the company has the ability to control the joint ventures fairly high being between 60% - 80%.

Looking at the net income, this country has a loss of $646, 000 which makes WCC look bad. So the company has to put a limit on the interest in order to get to a net income for WCC. That would be the actual income that would be shown on the financial papers that everyone can look at. Compared to the other businesses in this corporation, the losses and income is generally accounted for before any interest charges and fees. Based on Prague's financial report it seems to appear that the corporation is at a loss of barely under $1. 2 million, $532, 000 of the $1. 2 million for joint venture partner, and the WCC share being $646, 000.

A good way that can be used to look at this company is to look at its cash flows to WCC, and cash return on investment to WCC. This is because even though there is an expense of $867, 000 which is paid to WCC, there is somewhat a return on investment. Since the company is in a stage of new business development, the return being small is something good to say about this part of the corporation. Using data from Prague's report, back a few years, management accomplished their work based on a single data foundation with both managerial groups finalizing the external financial reports and the management reports for internal usage.

Supportive deliberation in the past to an extent, but the moral of this case relied on the fact that the external reporters had nomotivationor skillfulness in order to lay out what really was happening in the network affiliates. Second situation is the country of Poland's plant being 100% owned by the WCC, WCC doesn't give an account on any interest or fees. Unlike Prague, there is no external debt since it is 100% owned but the total capital

invested in this branch was supported by the WCC of about $40- $45 million which included working capital.

Sales costs included some of the business profits from materials that were bought from other organizations within the WCC network. The prices that were paid out were in pretty good standing compared to the other plants. This is a reason within this plant that caused problems that WCC had to struggle with. The profits of $2 mil - about $3 mil are most likely being reported somewhere else because of these purchases. If this company did their measuring like the Prague plant and deducted interest of about $30 mil in debt, and fees of about 8% of revenues it would have shown a loss of about $3 mil for the country of Poland’s plant.

The accountants, who did the financial reporting, didn’t put this into consideration which misleads the society and other companies as if this company was doing splendid which it really wasn’t. The third plant is located in the country of Malaysia which is a third problem arising in the WCC corporation. Malaysia’s plant was intended to be built for supplying a high margin branch of this corporation. This component of WCC is factual a global business that was entitled to essentially ship out the products from any of the plants within the WCC network to anywhere internationally.

WCC usually didn’t extend their network with a separated plant intent ally for global usage. The volume of the sales and shipping and handling was inclined at a small rate. On top of that the techno structure of technical services and laboratories within this branch made the economic standards look to some extent unfavorable unless there was another part of the WCC

network with a high volume rate that was able to help out with carrying out the costs of these needed profit add ons. Focusing on the Malaysia financial report, “ Region of Manufacture” you could tell from the sales and profitability of how the manufacturing facility was doing.

These plant markets of about $12 million value in products, which you could see with the expense amounts, the plant was obviously losing a whole lot of cash. Unlike the case with Poland, Malaysia’s analysis didn’t involve any interests on the investment as a whole of about $35 million or any fees. The management in this part of the network is starting to focus on the region of sale not just the region of manufacture , because this would this would have helped the company to see if this segment was putting thumbs up or thumbs down on the market as a whole.

The region of sale emphasized all the product sales in Southeast Asia even if it was manufactured elsewhere , which meant that the manufacturing, shipping and delivering of the product to customer costs were all included in this part of thefinancial statement. When Malaysia’s plant was built, it was low on capacity which meant now they were on the verge of losing all the capacity they had left which was causing complied problems for WCC.

The shipments only would have showed up in the region of manufacture not in the region of sales. So a good measurement would not be too look at its income statements but to look at the whole system’s financial data regardless of the difference in the amount on the budget based on materiality. Costs being overly budgeted asks the question why they weren’t

controlled and under budgeted costs deserve investigation to ask if these expenses are significant to profitability are being reduced.

The company was working at a solution to these problems with keeping in mind on using the EVA – economic value added measurement , which used a 12% capital rate focused on the assets utilized comprised with working capital , accounts payable , and fixed capital. Depreciation was added under the cost of sales section. Also as said earlier how the two groups containing the managerial reports and external reporting worked together should be separated even if they were to work from the same databases.

A detached unit with in the business was needed to avoid having to use external reporting standards and bases when it was required to report to the external public relations and chairmen departments about the WCC Corporation's performance. The EVA was a type of measurement to help people understand the main issues of the company. A single financial measure usually causes problems to be dealt with but at this time since the company couldn't fit within its schedule to fix all the critical issues, it would had to rely on the usage of the EVA being the most effective single integer.

When you expand the network of this corporation, EVA goes down, so if you come up with an answer saying you don't want to follow that path, it would be an incorrect solution. The president and vice president had already pointed out that issue in the company, though they said the EVA helped by getting people to concentrate on the expenses of the capital allied with the profits , and explains the cash flow truthfully and understandably but not a

good measurement to depend on. Based on what I have read, this plant network should form a betterresponsibilityreporting system.

The RRS contains the preparation of a lay out form for each section of authority on the company's organization chart. The employees for each of the plants in the WCC network should be signed to report D. The managers of each plant should get a report from class C. Report B the third level of authority would be for Cynthia Sheldon the vice president and Report A for the president, in this case Stan Rogers. The RRS basically allows for example if one of the plants is over or under budget or something looks suspicious, the president from report A can request a report from report C to get a better understanding why that is happening.

In conclusion, the Poland network was draining cash rapidly, with an unknown solution yet to come on how to stop it. Comparing the business as a whole to its original business plan, WCC had not been able to produce a good sum of its revenues that were forecasted and the costs had been unaffordable higher than its revenues which a good sign isn't. Cash flows, since they weren't reported to the company's managers, these assumptions were done all in the minds of the comptrollers. Using the EVA, materiality, and laying out the responsibility reporting system may help with the massive income deductions.