BIGGER DOESN’T NECESSARILY MEAN BETTER
A CORPORATE CASE STUDY

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Abstract

This case describes the founding, development, and near demise of a manufacturing company whose products were highly regarded in the marketplace. Begun by immigrants, and based on their individual skills, the company 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 founders’ management 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.

KEY WORDS: information systems, organizational culture, strategy, international operations, entrepreneurial spirit

PROLOGUE

Back in the “old country” Antonio Caravelli was known as a tinkerer. Even before he reached his teens, he would spend hours taking apart any machine that he could get his hands on, and because of all the equipment that had been abandoned after the war by the armies, there was lots of things for him to examine. In 1946, when Antonio was fifteen, he and his family, Mama, Papa, two brothers and a sister, migrated to the United States, settling in the “Little Italy” section of New York. Jobs were hard to come by for his father, and even harder for him to keep. The family was, to say the least, very poor. Ultimately, Antonio quit school and went to work in a machine shop.

Seamus McGuire grew up on a small farm in County Galway. Life was hard, and the family was barely able to grow enough food, after selling enough at market to pay the “land fee,” to feed the family of eight. Seamus’ uncle, Timothy McGuire, emigrated to the United States during the war where he worked in a factory in Queens, New York, that manufactured radios and various communications devices used by the military. After the war the company converted to manufacturing for the commercial market, and Timothy advanced through the ranks to become superintendent of the company’s factory in Jersey City, New Jersey, the largest of the three factories the company operated.

Timothy often had written his brother to join him in America. Now, with his new position he could guarantee his brother a job in his adopted country. Tired of the harsh life, Seamus’ father decided to accept his brother’s offer and in 1948 the family emigrated to the United States. Seamus had recently celebrated his thirteenth birthday. After completing high school, he took a job in the factory where his father and uncle worked.

As the years passed both Antonio Caravelli and Seamus McGuire became master mechanics. They enjoyed working with their hands, and would spend hours, Antonio in his basement, Seamus in his garage,
trying to improve whatever type of mechanical device that held their attention at the moment. In 1982 the two tinkerers met at a trade show when, through one of those serendipitous events of life, they were on the same panel. To both men it became apparent that neither one was content working for others, they had their own ideas regarding new product development, and each was interested in running his own company. Perhaps it was their individual entrepreneurial spirit, or that they both were immigrants (with all the “baggage” and “challenges” that brings with it), but by the time the trade show ended they had agreed to join forces, with each contributing equally to what they determined to be the necessary capital for start-up.

And so, within a year Caraveli and McGuire, Inc., were formed. Drawing on Antonio’s skills in machine shop technology and Seamus’ knowledge of the communications industry, they decided that they would concentrate on the manufacture and distribution of communications devices, including handset radios, walkie-talkies, scanners, sonar and switches. As time went by, virtually all their products were variances or extensions of these devices.

In the new company Antonio was in charge of the production activities; Seamus, whose past experiences included product management, took on the responsibilities of overseeing the marketing activities. His son, Patrick, having recently graduated from the state university where he majored in Marketing, was brought into the company in what would become the sales department. Initially, the company employed ten production, two clerical, and four sales personnel.

GETTING STARTED

Antonio Caravalli and Seamus McGuire, having spent their business life in manufacturing and distribution, quickly realized that they needed someone trained in accounting to oversee the non-production activities of the company. In the early stages of the company’s operations, the partners obtained minimum information regarding sales and manufacturing from the accounting system that a friend who worked in the accounting department of a local company had installed. It was a very basic system. The two partners agreed that Antonio’s daughter, Regina, who had graduated from college with a degree in Accounting and had been employed for four years with a public accounting firm whose principle clients were small manufacturing firms, should be hired as the company’s Controller.

At this point both founders had a child directly involved in the company. As time would tell, they were the only children of either partner who were interested in being involved in the company, although eventually some of their children would develop an interest in it.

If the company had an “information system” it was due to the two founders’ intimate knowledge of the production and marketing activities. They believed that they acquired adequate detailed information through their direct involvement with all of the company’s manufacturing and product distribution operations. And, the system did provide enough information about the company’s operations so that it was able to borrow money for modestly expanding the production facilities.

When the company was founded Antonio and Seamus agreed that as partners they would be co-managers, sharing the decision-making responsibilities. They also agreed on several business goals: to manufacture quality products, to be a good neighbor in the local business community, to inspire loyalty among their employees, and to treat them fairly. They did not quantify these goals and, therefore, did not have clear objectives against which the company’s activities and results could be measured. As long as things were “going right” in their collective estimation, they were satisfied.

One of the basic problems with the partners’ management style was that they never really understood what “going right” meant. They knew that they could meet their payroll, that products were being manufactured, and that orders were being received, but they didn’t have any real comprehension as to the planning necessary to sustain the company’s growth and profitability.

As events turned out, 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 one of the leading suppliers of two-way communication devices for the commercial market, and held a reasonably competitive position for its sonar equipment. Seamus and Antonio firmly believed that this all reflected the reputation for high quality that their company’s products had achieved.
THE PERSONAL TOUCH

The partners had always considered Caravalli & McGuire, Inc., to be a small company. They maintained personal relationships with their employees, remembering such things as their birthdays, and the births and school graduations of their children. However, the increasing demand for its products required the company to increase its personnel. By 1988 there were seventy-seven production workers, an accounting staff that numbered fifteen, and a sales staff of twelve. The partners’ ability to maintain that personal relationship with all of their employees, something that had been very important to them, began to slip away.

Since its founding the company was the epitome of the paternalistic organization. Employees were provided both a health plan and a retirement plan. The partners always looked after what they considered to be their employees’ welfare. For example, if a family was having financial difficulties, they often would add “something special” to the employee’s weekly paycheck. If an employee needed a few days off for personal reasons, the partners invariably would grant her/him the time.

Now, conditions within the company were changing; the old ways of running the business were becoming increasingly archaic. The newer employees, reflecting what was becoming a more prevalent attitude regarding working conditions, and without the history of the company in its formative period, began discussions among themselves about several employment issues, including health insurance coverage being provided, the amount of the company’s contributions to their retirement plan, and the potential advantages of unionization.

TIME TO GROW UP

In order to meet the increasing demand for the company’s products, it required expansion capital. After consultation with members of the financial community, business associates, and friends, the partners decided to take the company public. The Initial Public Offering (IPO), issued in the spring of 1994, was well received, and the company immediately entered into its expansion phase. About forty percent of the authorized stock was held by the public; the remainder was held in equal amounts by the partners. Both Antonio Caravalli and Seamus McGuire then gave a portion of their stock, in differing amounts, to the two children, Regina and Patrick, who worked for the company.

As a publicly held company, Caravalli & McGuire, Inc., was required to provide information to its stockholders, regulatory agencies and auditors. Satisfying these and other external demands for information about the company’s operations presented a problem. The existing systems, operating on low level computing equipment, had been developed to meet internal needs only. Regina Caravalli, 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, she 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.

THE LURE OF EXPANSION

In an attempt to capitalize on the marketability of Caravalli & McGuire’s product lines, Seamus McGuire decided to expand into Central and South American markets where the company’s 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 shipping them to the countries in which their subsidiaries operated), Caravalli & McGuire, Inc., could expand its own markets, and significantly increase its profits, by selling directly to companies in those countries. His plan was to market through distributors franchised by his company. Although Antonio Caravalli had serious doubts about the plan, and this was the first time that he and Seamus disagreed on a major business decision, he agreed to the expansion plan.

As business continued to expand, necessitating the hiring of additional employees in virtually all areas of the company, the two partners realized that they could not continue to operate as they had for so many years: managing the company with a very “hands on” approach, with the support of their children, Patrick and Regina, in key roles. Therefore, they appointed Regina as vice president and chief financial officer, Patrick as vice president for marketing, and a long-time employee, Samuel Anderson, the plant superintendent, as vice president for production. The partners (as Antonio and Seamus continued to consider themselves) and the newly named vice presidents collectively set a series of goals: increase the rate of return on investment,
improve control over operating costs, increase sales volume, improve the percentage return on sales, increase production efficiency, and improve the effective use of production facilities.

Regina, Patrick and Samuel 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 her/his own objectives, recognizing that valid standards should be established so that performance could be measured against them. All three 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 their informational needs in the short-term, each vice president developed variations of the central systems that they implemented in their own division.

None of the three vice president had any experience within the international marketplace; they were not certain how they should be dealing with distributors in foreign countries. Their approach to determining their world-wide information requirements, therefore, was based primarily 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 to the vice presidents of finance and of marketing that the company adopt a standard cost accounting system, revise the financial accounting system, and upgrade the computer equipment to maintain these two systems. (The purchase several years ago of the relatively "low level" computer equipment for processing accounting data, had been done without any feasibility study having been conducted to identify the company's overall computing needs.) Regina and Patrick, who were reluctant to 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 installation of a standard cost system was rejected.

**AN INFORMATION VACUUM**

The vice presidents became increasingly aware that they did not have the information they needed for effective planning and control within their areas of responsibility. They began to criticize those systems in the company that could not provide them with adequate operational information. Since those systems were under the administrative control of the chief financial officer, Regina Caravalli came under increasing criticism from the other vice presidents. Antonio Caravalli, naturally enough, defended his daughter; Seamus McGuire, who held, perhaps unconsciously harboring the old-world belief that women really shouldn't be involved in business matters, was not overly sympathetic to Regina's problems.

Since they were not getting the information they deemed vital to their carrying out the charge given by the partners, and believing that their requests would always take second place behind the information needs of the chief financial officer, the vice presidents for marketing and for production independently decided to develop their own information system. Their decision was driven by what they considered the failures of the current system. For the vice president of marketing this meant late 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. For the vice president of production this meant the inability to provide information for assessing operating efficiencies, optimizing production schedules and inventory levels, and the distribution operations of the company's product lines, including shipments of equipment to foreign customers.

The creation of separate information systems, and the installation of computer work stations, which they purchased with their individual department's budgets, on which the systems were installed, was rationalized by the marketing and production vice presidents as being necessary to provide essential specialized information. 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, they were obtaining their basic data, and some operating information, from the same source, the accounting system.

Antonio Caravalli Seamus McGuire began to feel that the information they were getting from the two vice presidents, information that was derived from the separate systems, was either incomplete or unreliable. They were puzzled that although production costs had been lowered and sales had increased, profits also were
lower. They became concerned that perhaps the company was selling in unprofitable markets. They wondered what impact the foreign markets had on the company’s costs and income. And, Seamus McGuire was concerned that the information the partners were getting that was being prepared by the chief financial officer, who would not want to provide her father with unfavorable information, might not be totally accurate.

The partners were not able to find answers to all of the operating issues that concerned them. There was no single information system in the company designed to provide them with what they wanted to know, and on which they would base their business decisions. The several systems were both incomplete for their intended purposes, and incompatible with other related systems throughout the company.

It became increasingly obvious to Seamus McGuire, and reluctantly to Antonio Caravalli, that the accounting system, although accurately reporting results for financial purposes, was not providing adequate information for operational decisions. The concept of control, and effective feedback on decisions that they made, were not functional components of the systems. And, following discussions with their financial advisors, the partners began to realize that the accounting system was not designed to deal with some of the issues, such as currency exchange rates, that are important to the efficient operation of companies doing business in foreign countries.

**MORE DOESN'T MEAN BETTER**

Caravalli & McGuire, 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 operational vice presidents), and those designed for the overall corporate (principally accounting) needs of a national company. Consequently, the company 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 throughout the company 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 Caravalli & McGuire, Inc., really understood the complexities of being a “multinational” company.

Concluding that the information systems were inefficient and inadequate, the two operational 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. Meanwhile, the vice president and chief financial officer felt that her control over the company was being eroded by the actions of the two other vice presidents. Even though one was her cousin, she questioned the concern that they had for the welfare of the company. She brought her concerns to her father, Antonio Caravalli.

**IDENTIFYING INFORMATION NEEDS**

The production division, requiring more accurate estimates of sales demand, organized a planning department. The marketing 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 to meet the information requirements necessary for effective decision-making. The partners, individually and together, began to sense this when they could no longer accept information without nagging doubts, and without sending a series of follow-up questions to the vice presidents. Therefore, they took what they thought were decisive actions to resolve the reservations they had about the information being provided to them. Perhaps at this point the concept of joint decision-making by the two partners was developing into a significant organizational problem.

The partners authorized the vice president and chief financial officer, working with 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. As may have been predicted,
because of the workload in the accounting department the analyst became totally absorbed in the internal operations of that department.

The partners also hired a manager for international operations, Jeff Cobey. The manager 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 Caravalli & McGuire, Inc.’s global activities. He assumed, however, that the systems being maintained by the two operational 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.

Patrick McGuire, the vice president for marketing, stated very bluntly 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 partners 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 marketing division, was his principal responsibility.

Similarly, Samuel Anderson, the vice president for production, took a similar attitude. He maintained his own operating standards, even though there was no real 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. But, whenever there were questions regarding the performance of their divisions the vice presidents separately indicated that the international operations, and the manager in charge of those operations, were somehow responsible for causing any negative business activities and financial results. Together Patrick McGuire and Samuel Anderson made a case to the partners that the manager of international operations should be replaced. And, as circumstances would have it, there was a reasonable, if not totally logical, replacement to be had.

Patrick’s son, Kevin, who had graduated from college with an undergraduate degree in management, earned a graduate degree in international relations, and worked in the international division of a major manufacturing concern, was very interested in joining the “family” business. Perhaps unwisely, the partners, who had frequently discussed taking the company private (and back to that “family” business), decided to bring Kevin into the company as the assistant manager for international operations. Understandably, Jeff Cobey was not enamored by having the son of one of the company vice president and grandson one of the partner’s, as his assistant. And, as the discussions about taking the company private became known, Jeff Cobey became convinced that his future within the company would be limited by family relationships.

A STEP IN SOME DIRECTION

In an attempt to improve the systems for which she was responsible, and probably to protect herself from increasing criticism from the other vice presidents, Regina Caravalli hired a systems analyst and a computer specialist. Their hiring was justified to the partners on the basis of accounting needs; the intention was that they would improve the accounting operations that, 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 the partners soon became concerned 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.

WHAT OF THE FUTURE

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 partners, 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.

Antonio Caravalli and Seamus McGuire, both of whom were in their sixties, were rapidly tiring of dealing
with the increasingly complex business problems with which they were being confronted. They still wanted to
take the company private, and then retire with the company given over to their children and grandchildren.
And, the company may have had the financial resources to buy back the outstanding stock. But before doing
so they wanted to “straighten out” the company’s operating problems. On the advice of their long-time legal
counsel, the partners he hired a planning director, although the duties of that position were not defined.

EPILOGUE

Caravalli & McGuire, Inc., is an international company that enjoys strong market demand for its products.
However, the company consistently has been managed as if it was still the entrepreneurship of its origins. The
two founders and partners, Antonio Caravalli and Seamus McGuire, have made decisions, and taken actions
that, by themselves, may have been worthwhile, and undoubtedly were well intended, but the fact is that the
company’s internal operations, including planning and decision-making, is deteriorating. Clearly, the company
needs to change its method of operations, institute effective short- and long-range planning, and bring its
multiple information systems under control. The question is: does management have the will to control
effectively and appropriately its operations, and if so, what steps need to be taken, and how?

ENDNOTE

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

TEACHING OBJECTIVES

This case was developed for use in courses in information analysis and systems design and, with some
expanded materials, a graduate course in global information systems. It also can be used in courses in
strategic management. Caravalli & McGuire, Inc.’s experiences illustrate the problems that can (and probably
will) occur when management practices are not adjusted to changing internal and external conditions, and
when systems do not provide adequate information on which to base decisions and to evaluate the results of
those decisions.

The teaching objectives of this case are to provide students with an opportunity to examine the profile of
an organization for the purpose of understanding

• the types of problems that confront entrepreneurial companies as they expand their
operations, particularly if done so without a cohesive plan of action,
• the importance of mechanisms for maintaining and disseminating relevant and effective
information throughout an organization,
• business and other issues that impact a company when it enters the international
marketplace, and
• personnel issues that may arise within an organization that, although publicly held, is perceived
by the founders as a “family” company.

Students are asked to assume the role of consultant to the company, thereby providing them with an
opportunity to analyze the company’s growth and development, and to identify actions that might provide
stability within the company, improve its operations, and ensure its long-term success.