MCG Corporation is a manufacturer of customized work clothing--uniforms, specialized work and factory clothing, and protective outerwear --for industry and construction. It is headquartered in Baltimore, MD and has annual revenues of about $15,000,000. Up until 3 years ago, this was a family business, but the second generation of the family sold the business to a private equity group and it is now a private corporation. The investors have a medium-term goal to grow the company to about $50,000,000 in annual revenue and then to go public and to be listed on NASDAQ.

Manufacturing is broken down in Table 1 as follows:

About 60% of the manufacturing is done in two factories in Oregon and Maryland. Some manufacturing of oil-field protective clothing is also performed in Texas and Oklahoma, in factories formerly operated by a recently acquired competitor.  Some other fire-protection clothing is manufactured in Minnesota, Louisiana, and Arizona; these factories were acquired from a recently bankrupted supplier and converted to manufacture the MCG brand. Although manufacturing is fairly diversely located throughout the US, MCG otherwise operates a very centralized business model, with all sales, marketing, and business and financial administration conducted out of the Baltimore headquarters. Procurement, however, is operated mostly locally with very little oversight from Headquarters. There is no real centralized purchasing department, and the various factories, all of which operate with different levels of profitability, purchase independently without much thought of economies of scale in purchasing.

Sales breakdown is as follows:

1.    US: 75%

2.    Europe: 15%

3.    Asia: 10%

The headquarters strategic operation understands that the market in the US is heating up and new entrants from Europe and Asia are manufacturing and selling in the US, potentially eroding MCG’s market share.  MCG’s sales outside the US have been steady, as low-cost gear sells well in developing countries. However, one of the attractions of the US market is that there is a perceived quality gap, because MCG does not compete well in high-quality and high-tier markets.

You are the newly promoted Manager of Operations. You have been in the job for a few weeks, and your boss asks you to put together some priorities for future operational guidelines. You are required first to research the internal functions of the organization and then to make recommendations about what should be done and when. You decide that you will focus on procurement first and then concentrate on other areas of the company, such as accounting, sales, etc.

As part of the exercise, you have just returned from a two-week fact-finding tour of all the firm’s business operations. You sensed that the local management of each business unit appreciated that HQ did not impose overbearing requirements on the local offices and that each unit was allowed to “do its own thing”.

However, as you review operations, you see discrepancies in business practices in each location. In addition to the supply chain issues, there is no uniform method of accounting except at the highest levels of corporate reporting. Salaries and responsibilities for different levels of employees are not uniform, nor is the skill level of employees doing similar procurement jobs. Quality is not uniform throughout the company’s products; the brand image is tainted by several substandard products and an embarrassing recall of 10,000 units of a very popular commercial hunting product.

Below in Table 2 are some of your initial findings organized by factory:

You also suspect, but you can’t prove, that some of the business units bend the few rules that are in place and continue to follow practices that have worked in the past, but they may not be optimal to support and sustain growth. You are also worried that some form of bribery may have been in play in a few, very competitive subcontract awards recently. Quality and price do not match up very well.  In several of the factories, you notice that the problems in Missouri are starting to be replicated in other places, suggesting that the suppliers recognize that the MCG market is not a fair one to bid into. In fact, the factories in Louisiana, Oklahoma, and Missouri have been openly resistant to your visit and politely (but unmistakably) suggested that changes to the organization would not be welcome and you might see some mass defections if too many changes and new rules were imposed.

You notice that the supply chain has some unusual characteristics:

Table 3: Number of Major Suppliers (large orders of >$100K or higher)

|  |  |  |  |
| --- | --- | --- | --- |
| Location | 2015 | 2012 | 2009 |
| Maryland | 30 | 26 | 24 |
| Oregon | 21 | 21 | 20 |
| Oklahoma | 15 | 18 | 30 |
| Missouri | 15 | 20 | 33 |
| Minnesota | 9 | 8 | 9 |
| Louisiana | 8 | 9 | 12 |
| Arizona | 10 | 10 | 10 |

You strongly believe that some central control should be established to include an ethical code of conduct and more training and education in professional management of the procurement process.

You also have concerns about the cost of such a set of programs. You don’t want to be seen as a “goody two shoes from corporate” who is taking away the independence that has come with decentralization. In short, you know that “if it ain’t broke, don’t fix it”, but you sense that without some control, MCG may be unprepared for problems when they arise.

What do you prioritize for MCG? How do you make the argument to senior management that it is important to have controls in place and that professionalization and centralization in procurement are beneficial to the overall firm’s performance? On the one hand, you want to move quickly and, on the other hand, you don’t want to be perceived as overbearing.

**In considering your advice, ask (1) how addressing procurement issues may help the business and (2) what ethical issues need to be addressed for the benefit of the business.**