Xinxing Ductile Iron Pipes: Transforming the Management Control System in Time of Crisis

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Description

Xinxing Ductile Iron Pipes Co. is a Chinese state-owned enterprise (SOE) that manufactures cast pipe products and steel products. The company had grown to become a dominant player in the ductile iron pipe industry, holding more than 40% domestic market share and nearly 20% global market share. Historically, Xinxing Pipes' management control system was based on standard costs. This system worked well until the global financial crisis in 2008 where market demand for steel declined rapidly, resulting in intense price fluctuations in both upstream and downstream. The existing management control system failed to respond in a rapid and efficient manner. As a result, Xinxing Pipes reformed its management control system. The reform was based upon two core ideas: (1) keep close watch on the market, increase communication among departments, take coordinated actions, and respond quickly to external market changes; (2) transform the production divisions' cost-centered model into a profit-centered model. These two guiding ideas gave birth to the "Production-Supply-Sales Rapid Linkage" and the "Simulated Legal Entities".

Learning objective:

This case is recommended for use in MBA and/or EMBA level management accounting courses. The case highlights: (1) the role of management control system in achieving corporate strategic goals, (2) the notion of cost center vs. profit center, and (3) the need for continuing improvement of management control system in response to dynamic changes in corporate strategy and external environment.

Subjects Covered:

Control systems; Cost centers; Manufacturing; Profit centers

Setting:

- Geographic: China
- Industry: Iron & steel