

# LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034



**B.Com. DEGREE EXAMINATION – HONOURS**

**SIXTH SEMESTER – APRIL 2023**

**UBH 6501 – ADVANCED PERFORMANCE MANAGEMENT**

Date: 29-04-2023

Dept. No.

Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

## **PART - A**

**ANSWER THE QUESTION**

**(1 x50 = 50 Marks)**

### **1. Company information and mission**

Sports Event Management (SEM) company was started almost 30 years ago by a small group of friends who were running enthusiasts and identified an opportunity to turn their passion for running and for racing into a successful business.

SEM has grown into a highly successful multinational business, best known for Chip Timing road running races around the world. SEM manufactures a lightweight and cost effective Radio Frequency Identification (RFID) chip which is attached to the runner's shoe and records an accurate race time for the runner.

In addition to running event timing, SEM also provides end to end race entry management services, processing hundreds of thousands of online race entries each year; managing online race registration, race pack mail out and online results provision. This part of the business has grown significantly over recent years due to huge growth in the number of running events taking place all over the globe. SEM's mission is 'to create value for shareholders through the provision of quality products and services. Efficiency, accuracy, innovation and environmental sensitivity are at the centre of this quality provision'. SEM's share price has declined over the last 3 years. The CEO has stated that 'in order to remain profitable in the increasingly competitive market, SEM needs to take immediate action to address any internal weaknesses and build on its strengths so that it can effectively react to the changing external environment. The CEO has developed a performance improvement programme for SEM. You are a performance management expert within SEM and have been tasked with aiding the CEO on some key aspects of this programme.

Critical success factors (CSFs) and key performance indicators (KPIs)

The CEO is concerned that SEM's mission does not fully flow down into the performance management of the business. The following CSFs and KPIs are currently in place:

#### **CSF Associated KPI**

1. Accurate race timing Number of customer complaints regarding timing
2. Efficient online entry registration Average time between customer commencing registration process and making payment
3. Reduction of wastage Proportion of race pack entry information sent online rather than by post
4. Greater innovation of products Number of new products launched

#### **Economic value added (EVATM)**

The CEO has identified that one of its major competitors is using EVATM to measure the financial performance of its business. This competitor has demonstrated impressive share price growth in recent years and therefore, given this, the CEO would like to consider the use of EVATM in SEM.

The CEO has requested your views on the use of EVATM within the company. He has already tasked one of the junior management accountants with drafting an EVATM calculation for the most recent accounting period (see Appendix 1). He would like you to review this calculation evaluating its accuracy and to recalculate the EVATM for any changes required.

## **Improvement projects**

The organisation's reputation for quality has been undermined by a number of recent failings in its race entry management service:

- Website failure has resulted in periods when registration was not possible.
- Some race entrants have not been sent their race chip and race number by post resulting in them having to pick these up on the day of the race. This has resulted in additional stress for the runners concerned and extra expense for SEM.
- Some race results have been made available to race finishers later than promised.
- The event organisers should receive an automatic stage payment from SEM (this is the race entry fee less SEM's agreed margin). However, some event organisers have complained that these payments have not been received in full or on time.

The CEO has stated that the current IT systems are not capable of coping with the relatively recent increase in demand due to the growth in worldwide running events and is concerned that event organisers (and hence race entrants) will turn to SEM's competitors instead.

In an attempt to improve the quality of the race entry management service, the CEO is considering the implementation of six sigma. He would like your advice on how this project could be implemented using the DMAIC methodology.

Finally, he is considering the use of Business Process Re-engineering (BPR) as part of the six sigma project but would like to understand a little more about how it could be used and how it may improve organisational performance.

### **Required:**

**Write a report to the CEO of SEM to:**

**(i) Evaluate whether the current CSFs and KPIs are aligned to SEM's mission and to recommend any changes that could be made to these CSFs and KPIs. (15 marks)**

**(ii) Evaluate the accuracy of the EVATM calculation. Recalculate the EVATM and comment on your result. Evaluate the use of EVATM as a performance measure for SEM. (15 marks)**

**(iii) Advise on how the six sigma project at SEM to reduce the recent failings in its race entry management service could be implemented using the DMAIC methodology. (10 marks)**

**(iv) Advise on how BPR could be used as part of the six sigma project and briefly assess how it may improve organisational performance. (6 marks)**

**Professional marks will be awarded for the format, style and structure of the discussion of your answer. (4 marks)**

## **PART – B**

**ANSWER THE FOLLOWING QUESTIONS (2x 25 = 50 Marks)**

2. Clonyard is a private company which sells shoes to adults and children. Clonyard has several retail shops. The mission of Clonyard is 'to satisfy customers by providing footwear of excellent quality for the modern world.' Clonyard has built its reputation on providing footwear to those who have specialist needs in footwear, such as minor medical issues, and Clonyard's staff excel at spending time with customers to determine customers' correct requirements. Clonyard has achieved modest growth over the past five years.

Twelve months ago, Clonyard was the subject of a successful but hostile take-over bid by Elrig, a listed company. Elrig's mission is 'to return value consistently to our shareholders by growing our market share and by offering unrivalled value for money for our customers.' Elrig's primary motivation for the takeover was to enhance its market share by acquiring a niche operator. In addition, Elrig's directors also believe that there is likely to be consolidation in the industry in the near future and the purchase of Clonyard by Elrig is a reaction to that belief. Having acquired Clonyard, Elrig is keen to retain the Clonyard brand and is also keen to ensure that all aspects of Clonyard's business operations are integrated into those of Elrig.

## **Current situation**

Elrig has taken a decision at board level that a similar range of inventory is maintained throughout all Elrig and Clonyard shops. Managers of Clonyard's individual shops are unhappy with this as this is contrary to the individual specialisms which shop managers were encouraged to develop previously. As a result, several managers have left the business.

In order to help with the integration of Clonyard into Elrig's business, Elrig has ensured that each Clonyard shop will have at least one of Elrig's employees working there. Clonyard's staff have complained that the Elrig members of staff are more focused on ensuring a sale is made than spending the required time with customers. Clonyard staff have also expressed concern about the lack of technical product knowledge of Elrig's staff.

Elrig has retained most of Clonyard's directors. These directors have found it challenging to adjust to Elrig's focus on pursuing market share and recently said, 'It's as though they don't measure anything else. Every report we get is about market share and the message is always that we need more of it, as quickly as possible.'

The chief executive officer (CEO) of Elrig was recently told by a management consultant that Elrig should consider using the McKinsey 7S model (Appendix 1) to help with the integration of Clonyard into Elrig's operation. The management consultant indicated that she felt that Elrig should only focus on the four soft elements in this model for now.

## **Introduction of an ERPS**

Elrig and Clonyard are currently utilising different computer systems. It is therefore difficult for staff at all levels of Elrig's operations to obtain access to Clonyard's performance data. The board of Elrig has complained that any information it receives on Clonyard's operations or performance is too late to enable the board to make decisions. The director of operations for the group, for example, has indicated that she does not see any reports on inventory levels at each Clonyard shop until at least three months into the financial year. She has also indicated that Clonyard shops appear to wait too long for goods to be delivered to them from their suppliers.

The group sales director indicated that the data he receives on Clonyard's monthly financial performance is at least three weeks late. This offers no opportunity to introduce discounted products at an appropriate time, which is a very common sales approach for Elrig. Elrig's employees in general have expressed concern that Clonyard's computerized information systems are outdated and that Clonyard's employees do not use the computer system as much as they should. For example, it was reported that it is common practice for a Clonyard employee to place an order for inventory over the telephone and not enter the order onto the computer system until after the order has been delivered.

The board of Elrig has decided that it needs real time access to Elrig's overall business operations, including Clonyard, and is considering the purchase of an enterprise resource planning system (ERPS). Further, a director of Elrig has indicated: 'the use of a shared up-to-date information system such as an ERPS will ensure that the Clonyard operation is completely integrated within the Elrig one. The Clonyard employees will also be delighted with the brand new system.'

## **Required: It is now 1 September 20X5.**

**(a) Using the soft elements of the McKinsey 7S model, evaluate whether Elrig is properly aligned with Clonyard. (15 marks)**

**(b) Evaluate the introduction of an ERPS into Elrig's overall business, including Clonyard. (10 marks)**

3. Tench Cars (Tench) is large national car manufacturing business. It is based in Essland, a country that has recently turned from state communism to democratic capitalism. The car industry had been heavily supported and controlled by the bureaucracy of the old regime. The government had stipulated production and employment targets for the business but had ignored profit as a performance measure. Tench is now run by a new generation of capitalist business people intent on rejuvenating the company's fortunes.

The company has a strong position within Essland, which has a population of 200 million and forms the majority of Tench's market. However, the company has also traditionally achieved a good market share in six neighbouring countries due to historic links and shared culture between them and Essland. All of these markets are experiencing growing car ownership as political and market reforms lead to greater wealth in a

large proportion of the population. Additionally, the new government in Essland is deregulating markets and opening the country to imports of foreign vehicles.

Tench's management recognises that it needs to make fundamental changes to its production approach in order to combat increased competition from foreign manufacturers. Tench's cars are now being seen as ugly, pollutive and with poor safety features in comparison to the foreign competition. Management plans to address this by improving the quality of its cars through the use of quality management techniques. It plans to improve financial performance through the use of Kaizen costing and just-in-time purchasing and production. Tench's existing performance reporting system uses standard costing and budgetary variance analysis in order to monitor and control production activities.

The Chief Financial Officer (CFO) of Tench has commented that he is confused by the terminology associated with quality management and needs a clearer understanding of the different costs associated with quality management. The CFO also wants to know the impact of including quality costs and using the Kaizen costing approach on the traditional standard costing approach at Tench.

**Required:**

**Write to the CFO to:**

- (a) Discuss the impact of collection and use of quality costs on the current costing systems at Tench. (6 marks)**
  
- (b) Discuss and evaluate the impact of the Kaizen costing approach on the costing systems and employee management at Tench. (8 marks)**
  
- (c) Briefly evaluate the effect of moving to just-in-time purchasing and production, noting the impact on performance measures at Tench. (6 marks)**
  
- (d) Briefly discuss any problems that the existing performance reporting system may cause for Tench. (5 marks)**

\*\*\*\*\*