STUDENT A

PERFORMANCE MANAGEMENT ISSUES AT EALACH

Prepared by: Consultant

For: CEO

Date: xx/xx/xx

Introduction

This report shares the findings of the cashmere coat target costing exercise, explores ways to reduce the resulting cost gap, and finally assess the problems and benefits of introducing a balanced scorecard approach.

(i) Target Costing

The target cost per unit is $290.29 while the expected cost per unit is $308.59, resulting in a cost gap of 18.30 per unit, which represents 6.3% of the target cost. This is greater than 5% as noted.

(ii) Cost Gap Reduction

Quality Costs Explained

This is an approach where costs are re-classified from traditional headings (like direct materials, labour, overheads) into headings related to the impact of quality activities. These are the categories:

Conformance costs: these are the costs related to avoiding defects and have 2 sub categories.

Prevention: these are any costs related to improving processes to reduce the likelihood of defects happening. This would include training the staff on correct cutting of the cashmere fabric, for example.

Appraisal: this is any inspection or test at any stage in production, from inspection the bolts of fabric for damage when they are received, to quality control checks at every stage of production.

Non-conformance costs: these are the costs related to the defective units being produced and include 2 categories.

Internal failure. These are the costs of defects getting picked up by quality control checks, for example the 3% of the units that need rework.

External failure. These are the defects discovered by customers and have the most impact potentially. These would be warranty claims by the customers and potentially lost sales if customers switched to new vendors because of perceived quality problems.

Kaizen Costs Explained

Traditional costing promotes setting standard costs and then controlling costs againt these standard to ensure no cost overruns. Kaizen costing is a modern approach based on cost reduction. The main idea is that management recognizes that costs can always be reduced, even if by a small amount, with input from the production team who have real understanding of operations.

Commented [SW1]: Good exam technique: The report headings and introduction create an appropriate professional format and support the Communication skill.

Commented [SW2]: Assume 7/10 marks from the spreadsheet plus 2 marks for comments, **9 Marks total.**

Commented [SW3]: The verb is "comment." The student does this by interpreting the result and relating it to the CEO's concern that the cost gap exceeds 5%.

Commented [SW4]: Let's be conservative and assume 4 marks in total for the explanations. There are 4 developed ideas answering the question asked under evaluation, so 4 marks there. Being conservative, let's assume 2 marks for usefulness of the methods with incremental budgeting. Quality costs were not mentioned here. **Total 10 marks.**

Commented [SW5]: Excellent signposting that matches the specific task from the CEO. Signposting before you ensures you stay on track and avoid drifting.

Commented [SW6]: The verb here is "Explain." The student is doing exactly that. 'Answering the question' asked is a critical exam skill. Careful note all the examples. This ensures 'linking to the scenario' and can contribute to Commercial Acumen marks.

So Kaizen costing is based on continuous, regular cost reduction to achieve cost reduction targets, rather than just trying to maintain a standard cost.

Evaluation of Approaches

Quality costs can help reduce the cost gap if costs are re-allocated in a smart way. For example, the reworked costs of 3% of production are an internal failure cost. As long as the costs of reducing this rate don't exceed the cost reduction, then the cost gap will be reduced. Also, the market is very competitive so any external failures have a risk of hurting Ealach's reputation and giving their competitors an advantage.

Kaizen costing might represent a clearer way of reducing the cost gap with the information provided. There are inefficiencies in the process, for example the 4% material wastage, the idle time, and machinery downtime.

With the right bottom up management style, Ealach can encourage the workforce to come up with ideas how to reduce these inefficiencies and close the cost gap. Overall I recommend this approach.

Commented [SW7]: The verb is evaluate here, and the student is doing that. Notice every point is linked to the scenario. The student came to a final recommendation. This is contributing to A&E professional marks.

In conjunction with incremental budgeting

The usefulness of incremental budgeting will depend on the what level of incremental change is applied from either approach, and how accurate the new forecast is. For example, if Ealach is only adjusting the annual budget for some general items, like inflation of direct materials, then the budget will be a less accurate forecast and less useful as a performance target.

However, if the budget is adjusted line-by-line based on realistic cost reduction targets (from Kaizen Costing), with input from the budget owners, and maybe prepared quarterly, it might be a more useful as a performance management tool.

Commented [SW8]: Student is answering the final part of the task and related the approaches to incremental budgeting. Notice they go beyond just a technical definition.

(iii) Balanced Scorecard

BENEFITS

Commented [SW9]: 3 Valid, supported ideas presented under benefits, 4 problems developed—let's be conservative and assume 3 marks, 1 mark for point under commitment. **Total 7 Marks.**

Commented [SW10]: Great signposting. Use headings and subheadings to ensure you stay on track.

Ealach has a range of high-level objectives covering a broad range of performance, including returning value to shareholders, quality, and responsible manufacturing (to name several). BSC approach promotes measuring performance across a range of perspectives, financial and non-financial. This will fit will as Ealach's stated objectives are mostly non-financial.

If shareholders are unhappy, it might mean that the first stated objective is not being met, so balanced scorecard can also ensure that metrics are in place to measure important stakeholders, like financial for shareholders and learning and growth for employees.

Commented [SW11]: Each benefit is connected to Ealach's circumstances. This is effective application, not generic discussion.

PROBLEMS

Selection of measures

There is only one measure for each perspective, which is not enough to measure Ealach's broad objectives. For example, there is no measure of clothing quality or responsible manufacturing, even though these are important objectives.

Commented [SW12]: Developing contra point can earn Scepticism pro. marks.

Some of the measures may also encourage the wrong behaviour. For example, reducing average manufacturing time could lead employees to rush production, increasing defects and damaging quality.

Interpretation of measures

The measures will need targets to be useful. For example, knowing the average number of days deliveries are late does not show whether performance is good or bad without a target or comparison with previous years.

The measures might also be difficult to interpret in isolation. A higher number of new products could indicate successful innovation, but these products might be poor quality or unprofitable, so the measure does not necessarily mean that performance has improved.

Management commitment

Introducing the BSC will require managers to collect new information and review performance differently. Some managers may resist the additional work or continue to focus mainly on operating profit. So they need to be brought on board before its rolled out.

Commented [SW13]: This section is relatively brief, probably because of time pressure. It is adequate, but one further developed consequence would strengthen it.

To perform a full review, it would be useful to see the existing set of KPIS used.

Commented [SW14]: Identifying the additional information needed for a fuller review demonstrates commercial acumen.

MARKING

(Note: the official marking guide was not available at the time of producing this document, so precise marking was not possible. However, following best practice from previous marking guides and examiner's reports, we can give the approximate marks.)

TECHNICAL: ~ 26 Marks

Part i: ~ 9 Marks
Part ii: ~ 10 Marks
Part iii: ~ 7 Marks

PROFESSIONAL: ~ 6 Marks

All guidance is reasonably well followed:

- Report kicks off like a report
- Answer is structured
- Requirements are answered as asked, no drifting
- Arguments are supported with evidence from the business story
- Recommendations are reached
- Many examples from the scenario and all ideas fit in the context of the story
- Contra ideas are developed

We can assume from the above comfortable pass on professional marks. Conservative assumption: 6

INDICATIVE: approximately 30–35 marks — a solid pass on Question 1.

The precise mark cannot be determined without the official marking guide. However, this is an excellent attempt. It addresses all three requirements, applies the points consistently to the scenario, uses an appropriate professional format and demonstrates a range of professional skills.

There are always individual points that could be expanded or refined, but under exam conditions it would be difficult to produce a materially better response.