

CASE STUDY OF TWO COMPANIES

WIRRAL FABRICATION and DEFOE FOOTWEAR BRAND



Contemporary Issues in Performance Management

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Executive Summary

The study of part 1 aims to critically evaluate the divisional performance at Wirral and discuss proposed measures of divisional performance. Additionally, it outlines the criteria for designing a transfer pricing system and evaluates two methods for calculating the transfer price between the service and M/S divisions, with appropriate calculations. Furthermore, the potential impact of introducing a new executive information system at Wirral on performance management will be evaluated. Through these analyses, the study seeks to provide strategic guidance on performance management for Wirral and offer improvement recommendations to foster sustainable growth.

Part 2 's case study of Defoe Footwear Brand examines its strategic management and performance, focusing on organizational status, structural characteristics, management control systems, strategic cost management, and strategic performance management. Through the analysis, the study aims to provide insights into Defoe's operational context, competitive landscape, performance monitoring mechanisms, cost management strategies, and alignment of strategic objectives with performance evaluation processes. The research employs relevant theories and frameworks from strategic management, management control, cost management, and performance management literature to support the discussion and enhance understanding. Overall, the study seeks to offer a comprehensive overview of Defoe Footwear Brand's strategic approach and performance management practices.

Part 1 CASE STUDY OF WIRRAL FABRICATION

1.1 Divisional Performance Evaluation:

In evaluating the divisional performance at Wirral, we start by computing three key metrics: ROI (Return on Investment), RI (Residual Income), and EVA (Economic Value Added). These metrics will aid in assessing the performance of both the M/S (Manufacturing/Sales) division and the Service division, each providing a different perspective.

Calculating ROI helps us understand the relationship between the profitability achieved by each division and the capital invested. Through ROI, we can discern which division has utilized its capital more effectively, and this metric also reflects the financial performance of the divisions.

RI considers the cost of capital, providing information on whether a division's profitability exceeds the required return on capital. Calculating RI informs us whether each division has effectively utilized the company's capital, beyond earning profits.

EVA integrates post-tax net profit and capital cost, offering a comprehensive economic profit metric. Through EVA, we can evaluate each division's economic performance more comprehensively and determine their contribution to the company's value.

By analyzing these metrics comprehensively, we'll be able to assess the performance of both the M/S and Service divisions and identify areas for improvement and optimization.

1.1.1 Return on Investment (ROI):

$ROI = (\text{Net Profit} / \text{Capital Employed}) * 100\%$

Tax Rate: 30%

Net Profit After Tax:

M/S Division: £301 million

Service Division: £5 million

Capital Employed:

M/S Division: £1294 million

Service Division: £38 million

M/S Division:

$\text{Net Profit After Tax} = \text{Operating Profit} - (30\% * \text{Operating Profit})$

$\text{Operating Profit After Tax} = 301 * (1 - 30\%) = 210.7$

$\text{Capital Employed} = £1294 \text{ million}$

$ROI = (\text{Net Profit After Tax} / \text{Capital Employed}) * 100\% = 16.28\%$

Service Division:

$\text{Net Profit After Tax} = \text{Operating Profit} - (30\% * \text{Operating Profit})$

$\text{Operating Profit After Tax} = 5 * (1 - 30\%) = 3.5$

Capital Employed = £38 million

ROI = (Net Profit After Tax / Capital Employed) * 100%=9.2%

1.1.2 Residual Income (RI):

M/S Division:

$$\begin{aligned}\text{RI(M/S)} &= \text{Operating Profit(M/S)} - (\text{Capital Employed(M/S)} * \text{WACC}) \\ &= 396 - (1294 * 0.09) \\ &= 396 - 116.46 \\ &\approx \text{£}279.54\end{aligned}$$

Service Division:

$$\begin{aligned}\text{RI(Service)} &= \text{Operating Profit(Service)} - (\text{Capital Employed(Service)} * \text{WACC}) \\ &= 6 - (38 * 0.09) \\ &= 6 - 3.42 \\ &\approx \text{£}2.58\end{aligned}$$

(WACC as 9%)

If we calculate the Weighted Average Cost of Capital (WACC) based on the given conditions, the calculation would indeed be as follows:

$$\text{WACC} = (\text{Cost of Equity} * \text{Equity/Capital Employed}) + (\text{Cost of Debt} * \text{Debt/Capital Employed})$$

Where:

$$\text{Cost of Equity} = 9\%$$

Cost of Debt = 5.5%

Equity = £1294 million for M/S Division and £38 million for Service Division

Debt = £0 million for M/S Division and £0 million for Service Division

(not mentioned, assuming no debt)

Capital Employed = Equity + Debt

Capital Employed (M/S) = 1294 + 0 = £1294 million

Capital Employed (Service) = 38 + 0 = £38 million

Plugging these values into the formula:

$$\text{WACC (M/S)} = (0.09 \times 1294 / 1294) + (0.055 \times 0 / 1294)$$

$$\text{WACC (Service)} = (0.09 \times 38 / 38) + (0.055 \times 0 / 38)$$

$$\text{WACC (M/S)} = 0.09 + 0 = 0.09$$

$$\text{WACC (Service)} = 0.09 + 0 = 0.09$$

So, if calculated according to the given conditions, the WACC for both the M/S Division and the Service Division would be 9%.

The M/S Division demonstrates robust performance, evident from its substantial Residual Income (RI) of approximately £279.54 million. This positive RI indicates that the division is generating profits that exceed the cost of capital, reflecting its ability to create value for the company and its shareholders. With operating profits surpassing the required compensation for the capital employed at a 9% rate, the M/S Division exhibits efficient utilization of resources. This strong performance suggests effective management practices and successful revenue generation strategies within the division. The M/S Division's ability to consistently

generate positive RI underscores its role as a significant contributor to the company's overall shareholder wealth.

Service Division presents a lower RI of approximately £2.58 million. While still positive, this figure is notably lower than that of the M/S Division, indicating a comparatively lower value creation relative to its capital employed. The Service Division may face challenges or inefficiencies in its operations or revenue generation strategies, resulting in a less favorable performance compared to the M/S Division. The lower RI highlights the need for closer scrutiny and strategic interventions within the Service Division to enhance its profitability and contribution to overall shareholder wealth. Addressing operational inefficiencies and implementing targeted improvements could help the Service Division unlock its full potential and align its performance more closely with the company's objectives.

1.1.3 Economic Value Added (EVA):

M/S Division:

Tax Rate: 30%

Net Operating Profit After Taxes (NOPAT) = Operating Profit*(1- Tax Rate)

$$= 396 * (1-0.3) = £277.2m$$

EVA = NOPAT - (Capital Employed*Cost of Capital) = 277.2 - 116.46 ≈ £160.74m

The M/S division's EVA of £160.74m suggests that it generates this amount of

economic profit after considering both the operating profit and the cost of capital. Economic Value Added (EVA) of approximately £160.74m highlights the division's value creation beyond operating profit. Despite considering the cost of capital, the M/S division generates substantial economic profit, indicating effective management and value generation for shareholders.

Service Division:

Tax Rate: 30%

Net Operating Profit After Taxes (NOPAT) = Operating Profit*(1 - Tax Rate)

$$= 6 * (1 - 0.3) = £4.2m$$

EVA = NOPAT - (Capital Employed* Cost of Capital) = 4.2 - 3.42 $\approx$ £0.78m

The Service division's EVA of £0.78m implies that it generates this amount of economic profit after considering both the operating profit and the cost of capital. It indicates limited economic value creation after considering the cost of capital. While positive, this relatively small EVA implies that the division's economic profit is constrained compared to the M/S division.

1.2 Transfer Pricing System Design:

In designing the transfer pricing system, we first calculate the transfer price using the cost-plus method and then attempt to use the market price method.

1.2.1 Cost-Plus Method:

Calculation of Net Profit:

For the M/S division:

Profit before tax (PBT) for M/S division = £301m

Tax rate = 30%

Tax expense = PBT * Tax rate = £301m * 30% = £90.3m

Net Profit for M/S division = Profit before tax - Tax expense = £301m - £90.3m =
£210.7m

For the Service division:

Profit before tax (PBT) for Service division = £5m

Tax rate = 30%

Tax expense = PBT * Tax rate = £5m * 30% = £1.5m

Net Profit for Service division = Profit before tax - Tax expense = £5m - £1.5m =
£3.5m

Profit Margin Calculation:

For the M/S division, the profit margin is 23.41%.

For the Service division, the profit margin is 21.88%.

Calculation for total cost:

The direct cost per repair is £95, and the labor cost is £18 per hour. Additionally,

there are variable divisional overheads at £11 per hour and fixed divisional overheads at £24 per hour.

each repair takes an average of 4 hours to complete.

Therefore, the total cost per repair is:

$$\begin{aligned}\text{Total Cost} &= \text{Direct Cost} + (\text{Labor Cost} \times \text{Repair Hours}) + (\text{Variable Divisional} \\ &\text{Overhead} \times \text{Repair Hours}) + (\text{Fixed Divisional Overhead} \times \text{Repair Hours}) \\ &= £95 + (£18 \times 4) + (£11 \times 4) + (£24 \times 4) \\ &= £95 + £72 + £44 + £96 \\ &= £307\end{aligned}$$

Calculation for M/S Division:

Total Cost: £307m

Profit = Total Cost * Profit Margin = £307m * 23.41% $\approx$ £71.87m

Transfer Price = Total Cost + Profit $\approx$ £307m + £71.87m $\approx$ £378.87m

Calculation for Service Division:

Total Cost: £307m

Profit = Total Cost * Profit Margin = £307m * 21.88% $\approx$ £67.15m

Transfer Price = Total Cost + Profit $\approx$ £307m + £46.15m $\approx$ £374.15m

Therefore, based on the given profit margins, the transfer price for the M/S Division is approximately £378.87m, and for the Service Division is approximately

£374.15m.

The profit margin reflects the percentage of revenue that contributes to profit after covering all expenses. It's a crucial indicator of financial health and efficiency.

By setting profit margins, the company aims to ensure profitability while remaining competitive in the market. Higher profit margins generally indicate better financial performance. The M/S division's higher profit margin suggests that it generates more profit relative to sales revenue compared to the Service division. This may indicate higher efficiency or better cost management in the M/S division's operations. The Service division's slightly lower profit margin may indicate a need for efficiency improvements or cost optimization strategies. However, it's important to consider the nature of the Service division's business, as it may involve different cost structures and revenue streams compared to the M/S division.

1.2.2 Market Price Method:

Market price method, known as market-based pricing, is a transfer pricing approach where the transfer price is determined by the prevailing market price for similar goods or services. In this method, the price charged for interdepartmental transactions is based on the prices observed in the open market. It ensures that the transfer price reflects the true economic value of the goods or services being transferred between the divisions. The advantage of the market price method is that it promotes efficiency and fairness by aligning internal prices with external

market conditions. However, it may not always be feasible if there is a lack of comparable market transactions or if the market is highly volatile.

To determine the average market price per unit, we first calculate the number of units requiring repairs by multiplying the total units sold (580,000 units) by the probability of repairs occurring within the warranty period (6%):

$$\text{Number of Repairs} = 580,000 \times 0.06 = 34,800$$

$$\text{Total Market Price Expense} = 34,800 \times £1,800 = £62,640,000$$

$$\text{Average Market Price per Unit} = £62,640,000 / 580,000 \approx £108 \text{ per unit}$$

1.3 Impact of the New Executive Information System:

1. Realtime Data Accessibility:

The upgraded network infrastructure will enable Wirral's departments to access data in realtime, revolutionizing the speed and efficiency of information flow. For example, the production department can monitor fluctuations in sales orders as they occur, allowing for immediate adjustments to production schedules to meet demand fluctuations. Similarly, the sales team can instantly access inventory levels across warehouses, facilitating accurate sales forecasting and ensuring optimal inventory management. Realtime data accessibility will enhance agility and responsiveness, enabling Wirral to capitalize on emerging opportunities and address challenges promptly.

2. Comprehensive Management Information:

By integrating data from various departments into a centralized platform, the new EIS will provide Wirral's management with a comprehensive overview of the company's operations. Managers will have access to detailed reports and analytics covering sales performance, production efficiency, supply chain dynamics, financial metrics, and more. This holistic view will enable proactive decisionmaking by identifying trends, patterns, and areas of improvement across the organization. For instance, insights gleaned from comprehensive management information may reveal inefficiencies in production processes, prompting targeted interventions to optimize resource allocation and enhance productivity.

3. Highlevel Executive Insights:

The new EIS will offer senior executives at Wirral highlevel summaries and strategic dashboards, distilling complex data into actionable insights. Executives can quickly assess overall performance metrics, track progress towards strategic objectives, and identify potential risks or opportunities requiring attention. For example, executivelevel dashboards may highlight trends in market demand, competitive landscape shifts, or emerging industry regulations, enabling executives to make informed decisions to steer the company in the right direction. These executive insights will foster alignment across departments and ensure strategic initiatives are aligned with organizational goals.

4. Crossdepartmental Collaboration:

Collaboration across departments is vital for Wirral to achieve operational excellence and deliver value to customers. The new EIS will facilitate seamless communication and collaboration by providing a shared platform for data sharing and analysis. Departments such as sales, marketing, production, and logistics can collaborate more effectively, sharing realtime information and coordinating activities to meet customer demands efficiently. For instance, sales forecasts generated by the sales team can be shared with the production department to optimize production schedules and ensure adequate inventory levels to fulfill orders. This crossdepartmental collaboration will streamline workflows, reduce silos, and enhance overall organizational agility.

5. Improved Performance Tracking:

Timely and accurate performance tracking is essential for Wirral to monitor progress towards goals and identify areas for improvement. The new EIS will offer advanced performance tracking capabilities, allowing managers to monitor key performance indicators (KPIs) in realtime and track performance trends over time. For example, managers can monitor sales performance by region, product line, or customer segment, enabling targeted sales strategies and resource allocation. Additionally, realtime performance tracking will enable Wirral to quickly identify deviations from targets and implement corrective actions to stay on course.

6. Enhanced Decision Support:

Informed decisionmaking is critical for Wirral to maintain competitiveness and drive sustainable growth. The new EIS will provide enhanced decision support through advanced analytics, predictive modeling, and scenario analysis capabilities. Managers can leverage these tools to evaluate various strategic options, assess potential risks and opportunities, and make datadriven decisions. For example, predictive analytics can help forecast future demand trends, allowing Wirral to adjust production levels and inventory levels accordingly. Similarly, scenario analysis can help evaluate the potential impact of strategic initiatives or market disruptions, enabling proactive risk management and contingency planning.

In summary, the introduction of the new Executive Information System represents a significant leap forward for Wirral in terms of performance management and decisionmaking capabilities. By leveraging realtime data accessibility, comprehensive management information, highlevel executive insights, crossdepartmental collaboration, improved performance tracking, and enhanced decision support, Wirral can position itself for sustained success in a dynamic and competitive business environment.

Part 2 CASE STUDY OF DEFOE FOOTWEAR BRAND

2.1 Growth Crisis Analysis

Defoe Limited is confronted with a multifaceted growth crisis stemming from a complex interplay of internal and external factors. A comprehensive analysis, drawing from a diverse range of theories in performance management, organizational structure, strategic cost management, and strategic performance management, can offer a nuanced understanding of the crisis and guide the formulation of effective strategies for resolution.

2.1.1 Market Challenges and Organizational Structure:

Defoe Limited operates within a volatile market environment characterized by Brexit uncertainties, the lingering effects of the COVID-19 pandemic, and currency fluctuations. These external factors necessitate an organizational structure that is adaptable and resilient. **Contingency theory** suggests that organizational structures should be contingent upon environmental factors (Schoonhoven, 2017). Defoe Limited's current flat organizational structure may lack the flexibility needed to navigate turbulent market conditions effectively. A hybrid structure incorporating elements of both functional and divisional structures could provide

the necessary balance between efficiency and flexibility. **Institutional theory** posits that organizations are influenced by societal norms, values, and institutions (Wright, 2012). Defoe Limited may face pressure to conform to industry standards and expectations, such as sustainability practices or ethical sourcing, which could necessitate changes in its organizational structure and operations to align with prevailing norms and values.

2.1.2 Management Control Systems:

Effective management control systems are essential for guiding organizational activities, ensuring accountability, and facilitating strategic decision-making. **Agency theory** examines the relationship between principals (shareholders) and agents (management) and emphasizes the importance of aligning their interests (French, Bowie and Freeman, 1995). Defoe Limited may need to implement performance-based incentives and monitoring mechanisms to mitigate agency problems and ensure that management actions are aligned with shareholder interests. **Cybernetic control theory** focuses on maintaining system stability through feedback loops (Pisharodi and Langley, 1990). Defoe Limited could leverage this theory by implementing feedback mechanisms to monitor performance, identify deviations from strategic goals, and make timely adjustments to organizational activities and processes.

2.1.3 Strategic Cost Management:

Strategic cost management is critical for enhancing competitiveness and profitability, especially in challenging market conditions. **RBV** suggests that competitive advantage stems from valuable, rare, and difficult-to-imitate resources. Defoe Limited should conduct a thorough analysis of its resources, capabilities, and core competencies to identify areas where it can leverage cost advantages or differentiate itself from competitors. **Lean management** focuses on eliminating waste and maximizing efficiency (Brajer-Marczak and Wiendlocha, 2018). Defoe Limited could adopt lean principles to streamline its operations, reduce costs, and improve overall performance. Techniques such as value stream mapping and just-in-time inventory management can help identify and eliminate non-value-added activities and minimize inventory holding costs.

2.1.4 Strategic Performance Management:

Strategic performance management involves aligning organizational activities with strategic objectives and monitoring performance to ensure the achievement of desired outcomes. **Stakeholder theory** emphasizes the importance of considering the interests of all stakeholders, not just shareholders, in organizational decision-making (Bonnafeus-Boucher and Porcher, 2020c). Defoe Limited should take a holistic approach to performance management, considering the impact of its actions on stakeholders such as customers, employees, suppliers, and the community. **Dynamic capabilities theory** suggests that organizations must

continuously adapt and innovate to maintain competitive advantage(Cabiddu and Pettinao, 2008). Defoe Limited should develop the capability to anticipate and respond effectively to changes in the external environment, continuously improving its processes, products, and services to meet evolving customer needs and market demands.

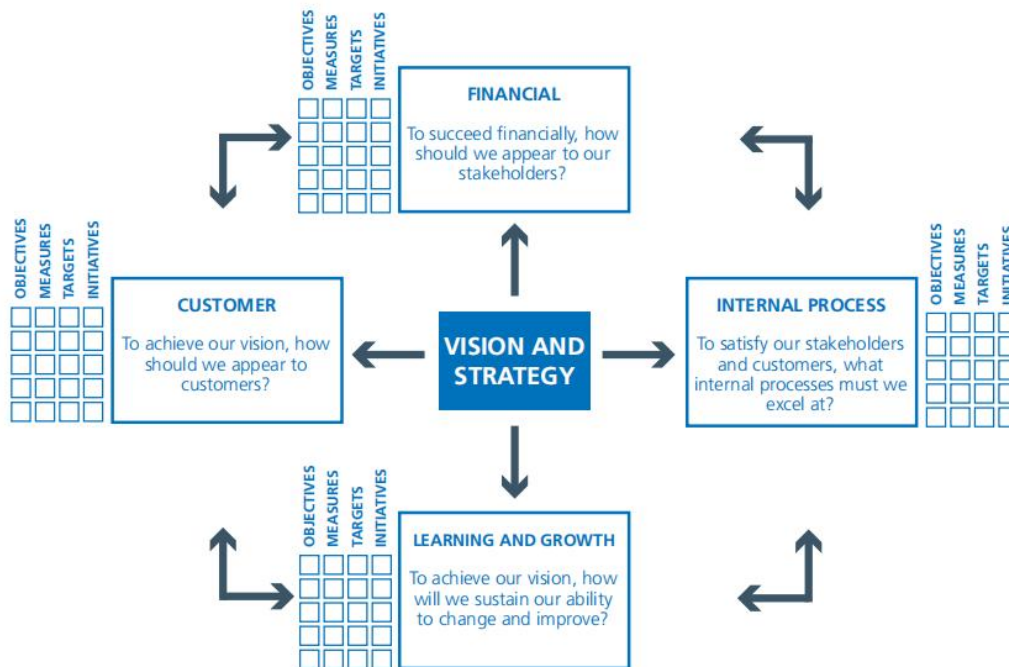
In summary, Defoe Limited's growth crisis is multifaceted and requires a holistic approach to analysis and resolution. By drawing from a diverse array of theories and perspectives, the company can gain a deeper understanding of the underlying issues and develop comprehensive strategies to navigate the challenges and achieve sustainable growth.

2.2 Quantitative and qualitative performance — — based on the Balanced Scorecard

2.2.1 Introduction to the Balanced Scorecard:

The Balanced Scorecard is a management tool designed to help organizations assess their performance from multiple dimensions and translate strategic goals into specific operational actions. It comprises four main dimensions: Financial, Customer, Internal Processes, and Learning & Growth. Through the Balanced Scorecard, organizations can gain better insights into their performance, identify

potential issues and opportunities, and formulate corresponding strategies.



The Financial dimension focuses on the organization's performance in terms of finances, including metrics such as revenue, profit, return on investment (ROI), etc. These indicators help assess the organization's profitability, financial stability, and value creation capability. In the case of Defoe Limited, we can evaluate its financial performance by analyzing metrics such as turnover, gross profit, and pre-tax profit. The declining trend in turnover suggests that the company may face issues related to market share or reduced sales and needs measures to boost sales. Additionally, the decrease in gross profit may indicate issues in cost management, necessitating optimization of production and supply chain processes to reduce costs.

The Customer dimension focuses on how the organization meets customer needs, delivers value, and maintains customer relationships. Key metrics include market share, customer satisfaction, customer retention rate, etc., which help the organization understand customer perceptions and responses to its products or

services. In the customer dimension, we can analyze sales composition, customer satisfaction, etc. Analyzing sales composition helps identify sales trends in different markets and product categories, enabling the formulation of targeted marketing strategies. Improvements in customer satisfaction can enhance customer loyalty, leading to repeat purchases and positive word-of-mouth.

The Internal Processes dimension focuses on the organization's internal operations and efficiency. This includes metrics related to production processes, supply chain management, quality control, etc. By optimizing internal processes, organizations can improve efficiency, reduce costs, and enhance quality. The key in the internal processes dimension is to optimize production and supply chain management processes. By evaluating metrics such as production efficiency, supply chain delays, etc., bottlenecks and issues in the production process can be identified, and measures can be taken to improve efficiency and reduce costs.

The Learning & Growth dimension focuses on the organization's learning capabilities and employee development. This includes metrics related to employee training, knowledge sharing, innovation capabilities, etc. Through continuous learning and growth, organizations can maintain a competitive edge and adapt to changing environments. In the learning & growth dimension, we can focus on employee training and development, organizational innovation capabilities, etc. Strengthening employee training and development enhances employee skills and knowledge, thereby boosting organizational innovation capabilities and competitive advantage.

In conclusion, using the Balanced Scorecard approach, comprehensive assessments of Defoe Limited's performance can be made, providing vital insights for its future strategic planning.

2.2.2 Financial Perspective:

(1) Turnover and Profitability:

Turnover:

2019: £1,400,000

2020: £1,750,000

2021: £1,455,000

2022 (Projected): £600,000

Gross Profit:

2019: £700,000

2020: £820,000

2021: £600,000

2022 (Projected): £320,000

Turnover increased steadily until 2021 before experiencing a significant decline in 2022. This decline in turnover resulted in a corresponding decrease in gross profit over the years. The turnover increased steadily from £1,400,000 in 2019 to a peak of £1,750,000 in 2020, indicating healthy sales growth. However, there was a significant drop to £600,000 in 2022, suggesting challenges in sustaining sales

momentum.

Gross profit followed a similar trend, rising from £700,000 in 2019 to £820,000 in 2020 before declining to £320,000 in 2022. This decline indicates a decrease in profitability, possibly due to increased costs or decreased sales revenue.

(2) Cost of Sales:

Cost of Sales as a Percentage of Turnover:

$$2019: (£700,000 / £1,400,000) * 100 = 50\%$$

$$2020: (£930,000 / £1,750,000) * 100 = 53.14\%$$

$$2021: (£855,000 / £1,455,000) * 100 = 58.76\%$$

$$2022 \text{ (Projected): } (£280,000 / £600,000) * 100 = 46.67\%$$

The cost of sales as a percentage of turnover increased in 2021 but decreased in 2022, indicating fluctuations in cost management efficiency. The cost of sales as a percentage of turnover increased from 50% in 2019 to 58.76% in 2021 before decreasing to 46.67% in 2022. This fluctuation suggests variations in cost management efficiency over the years.

(3) Profitability Trend:

Profit Before Tax:

$$2019: £300,000$$

$$2020: £372,000$$

$$2021: £105,000$$

2022 (Projected): £175,000

Profit before tax decreased significantly from 2020 to 2022, indicating a declining trend in profitability and financial performance. Profit before tax decreased from £300,000 in 2019 to a projected loss of £175,000 in 2022. This downward trend indicates a declining profitability and financial performance, posing a significant challenge to the company's sustainability.

(4) Return on Investment (ROI) Calculation:

$$\text{ROI} = (\text{Net Profit} / \text{Total Assets}) * 100$$

Net Profit:

2019: £243,000

2020: £301,000

2021: £86,000

2022 (Projected): £160,000

Net Assets:

2019: £845,000

2020: £975,000

2021: £985,000

2022 (Projected): £825,000

For Investment, we'll approximate it using the Total Assets, which is the sum of Net Assets and Working Capital from the Balance Sheet.

$$\text{2019: Investment} = £845,000 + £145,000 = £990,000$$

2020: Investment = £975,000 + £195,000 = £1,170,000

2021: Investment = £985,000 + £205,000 = £1,190,000

2022 (Projected): £825,000 + £45,000 = £870,000

ROI:

2019: $(£243,000 / £990,000) * 100 \approx 24.55\%$

2020: $(£301,000 / £1,170,000) * 100 \approx 25.75\%$

2021: $(£86,000 / £1,190,000) * 100 \approx 7.23\%$

2022 (Projected): $(£160,000 / £870,000) * 100 \approx -18.39\%$

The ROI of Defoe Limited over the period from 2019 to 2022 reveals noteworthy insights into the company's financial performance. In 2019 and 2020, the company exhibited positive ROI figures of 24.55% and 25.75% respectively, indicating efficient utilization of resources to generate profits. These positive returns suggest that Defoe Limited effectively managed its assets and working capital, resulting in favorable financial outcomes. However, in 2021, the ROI decreased to 7.23%, signaling a reduction in profitability relative to the investment made. This decline in ROI implies that the company faced challenges or encountered factors impacting its revenue generation or cost management during the year. Furthermore, the negative ROI of -18.39% in 2022 highlights a concerning downturn in the company's financial performance, indicating that expenses exceeded revenue, resulting in a net loss. This negative ROI underscores the importance for Defoe Limited to conduct a thorough analysis of its financial

operations and identify the root causes contributing to the loss. It underscores the need for strategic adjustments to enhance efficiency, reduce costs, and potentially explore revenue-generating opportunities to restore profitability. Overall, the fluctuating ROI figures across the four years emphasize the significance of effective financial management and strategic decision-making to sustain profitability and navigate challenges in the competitive business landscape.

2.2.3 Customer Perspective:

(1) Sales Composition and Market Share:

London Market Share for Shoe Sales:

2019: 2.00%

2020: 2.75%

2021: 1.20%

2022 (Projected): 0.25%

The decline in market share indicates a loss of competitiveness in the London footwear market, which requires attention to regain market share. The market share in London decreased from 2.00% in 2019 to a projected 0.25% in 2022. This decline suggests a loss of competitiveness in the local market, highlighting the need for strategies to regain market share.

(2) Customer Satisfaction:

Customer satisfaction improved from 69% in 2019 to 82% in 2021, indicating positive feedback and potential for customer loyalty. Customer satisfaction

improved from 69% in 2019 to 82% in 2021. This indicates positive feedback and potential for customer loyalty, despite the challenges faced by the company.

2.2.4 Internal Business Processes Perspective:

(1) Procurement and Supply Chain:

The current lead time of 60 days could be reduced by 30 days if sourcing from suppliers offering 30 days credit, potentially improving efficiency and reducing costs. The current lead time of 60 days could be reduced by 30 days if sourcing from suppliers offering 30 days credit. This would improve efficiency and reduce costs, contributing to enhanced operational performance.

(2) Production Efficiency:

Average Job Completion Time Improved from 14 days in 2019 to 7 days in 2021, indicating enhanced production efficiency and potentially shorter lead times. The average job completion time improved from 14 days in 2019 to 7 days in 2021, indicating enhanced production efficiency and potentially shorter lead times. This improvement suggests operational enhancements and increased productivity.

Error Rate in Jobs Done Decreased from 111% in 2019 to 4% in 2021, indicating improved quality control and potentially reduced rework. The error rate in jobs done decreased from 111% in 2019 to 4% in 2021, indicating improved quality control and potentially reduced rework. This suggests better adherence to quality standards and enhanced customer satisfaction.

2.2.5 Learning and Growth Perspective:

Employee retention rates increased from 82% in 2019 to 95% in 2021, indicating a positive work environment and potential for knowledge retention. Employee retention rates increased from 82% in 2019 to 95% in 2021, indicating a positive work environment and potential for knowledge retention. This suggests that the company is successful in retaining talent and fostering a supportive workplace culture.

CPD sessions per employee per year increased from 5 in 2019 to 12 in 2021, indicating a commitment to employee growth and skill enhancement. CPD sessions per employee per year increased from 5 in 2019 to 12 in 2021, indicating a commitment to employee growth and skill enhancement. This investment in employee development contributes to the company's longterm success by fostering a skilled workforce and promoting innovation.

It's recommended that Defoe Footwear Limited focuses on improving financial stability, regaining market share, enhancing production efficiency, and investing in employee development to address the growth crisis effectively.

Strategies such as cost optimization, market expansion, quality improvement, and targeted marketing should be implemented to achieve sustainable growth and longterm success. By leveraging the Balanced Scorecard perspectives and implementing these recommendations, Defoe Footwear Limited can address its growth crisis effectively and achieve longterm success.

2.3 The Need for Business Process Reengineering: A Comprehensive Approach

Business Process Reengineering (BPR) is a strategic initiative aimed at fundamentally redesigning organizational processes to achieve dramatic improvements in performance, efficiency, and competitiveness. Defoe Footwear Limited, facing a growth crisis amid declining profitability and market share, must embark on a thorough BPR effort to address its challenges effectively. This entails a detailed analysis of current processes, identification of bottlenecks and inefficiencies, and the implementation of innovative solutions informed by both theoretical frameworks and the specific circumstances outlined in the case study.

2.3.1 Procurement and Supply Chain Management:

Defoe Footwear faces challenges in sourcing raw materials efficiently and cost-effectively due to limited supplier options and lengthy lead times. The ban on sourcing from Uzbekistan has further exacerbated this issue, necessitating the exploration of alternative suppliers and regions.

Applying principles from Supply Chain Management (SCM) theories, Defoe can conduct a comprehensive analysis of its supply chain to identify opportunities for optimization. This may involve leveraging digital platforms for supplier discovery, negotiating favorable terms with new suppliers, and implementing Just-In-Time (JIT) inventory management practices to minimize holding costs and reduce lead times. Additionally, adopting Total Quality Management (TQM) principles can ensure that

supplier relationships are built on a foundation of trust and collaboration, leading to improved supply chain resilience and responsiveness to market changes.

2.3.2 Production Processes:

While there have been improvements in production efficiency, there remain opportunities to further streamline processes and reduce turnaround times. The company's flat organizational structure may hinder decision-making and collaboration across departments, leading to delays and inefficiencies in the production process.

Drawing from Lean Manufacturing principles, Defoe can implement Value Stream Mapping (VSM) techniques to identify and eliminate non-value-added activities in its production processes. Cross-functional teams can be formed to facilitate collaboration and communication across departments, enabling faster decision-making and problem-solving. Additionally, investing in automation technologies such as robotics and AI-powered analytics can enhance productivity and reduce labor costs while ensuring consistent quality standards.

2.3.3 Sales and Marketing Strategies:

Declining market share in key regions, such as London, underscores the need for a reassessment of the company's sales and marketing strategies. The shift towards online shopping and digital channels necessitates a more agile and customer-centric approach to marketing.

Utilizing concepts from Strategic Marketing Management, Defoe can conduct market segmentation analysis to identify specific customer segments with unmet needs and preferences. Tailoring product offerings and marketing messages to these segments can enhance customer engagement and loyalty. Embracing digital marketing channels such as social media, email marketing, and influencer partnerships can broaden the company's reach and attract new customers. Furthermore, implementing Customer Relationship Management (CRM) systems can enable personalized communication and targeted marketing campaigns, driving customer satisfaction and retention.

2.3.4 Financial Management:

Declining profitability and ROI highlight the need for improved financial management practices. Inefficient cost management and limited visibility into financial performance may hinder the company's ability to allocate resources effectively.

Applying principles from Managerial Accounting, Defoe can implement Activity-Based Costing (ABC) systems to accurately allocate costs to products and processes, enabling better decision-making and cost control. Implementing robust financial controls and budgeting processes can ensure adherence to financial targets and mitigate risks. Additionally, leveraging Financial Performance Measurement frameworks such as Balanced Scorecard (BSC) can provide a holistic view of financial and non-financial performance metrics, facilitating strategic

decision-making and performance evaluation.

2.3.5 Organizational Structure and Culture:

The flat organizational structure may hinder communication and collaboration, while a lack of innovation culture may stifle creativity and problem-solving capabilities among employees.

Incorporating principles from Organizational Theory, Defoe can consider adopting a more hierarchical organizational structure with clear lines of authority and accountability. This can facilitate faster decision-making and streamline communication channels, improving responsiveness to market changes. Fostering an innovation culture through initiatives such as idea generation workshops, cross-functional innovation teams, and recognition programs can empower employees to contribute ideas for process improvements and product innovations, driving continuous improvement and competitive advantage.

2.3.6 Technology Integration:

Limited adoption of technology may hinder operational efficiency and inhibit the company's ability to adapt to changing market dynamics.

Applying principles from Information Systems Management, Defoe can invest in Enterprise Resource Planning (ERP) systems to integrate and streamline core business processes such as procurement, production, and sales. Implementing Customer Relationship Management (CRM) software can enhance customer

engagement and enable data-driven marketing strategies. Furthermore, leveraging Business Intelligence (BI) tools for data analysis and reporting can provide actionable insights into market trends, customer behavior, and operational performance, facilitating informed decision-making and strategic planning.

In conclusion, by adopting a comprehensive approach to business process reengineering informed by theoretical frameworks and tailored to the specific circumstances outlined in the case study, Defoe Footwear Limited can address its growth crisis effectively and position itself for sustainable growth and long-term success. By streamlining processes, enhancing operational efficiency, and fostering a culture of innovation, the company can regain competitiveness in the market and achieve its strategic objectives.

Defoe Footwear Limited is facing a critical growth crisis marked by declining profitability, diminishing market share, and operational inefficiencies. To address these challenges effectively, the company must undertake a comprehensive approach that integrates business process reengineering (BPR) strategies across key functional areas. Strategic Alignment is paramount for Defoe Footwear. Aligning its business processes with strategic objectives is essential to regain competitiveness and ensure long-term sustainability. Process Optimization is crucial. Through BPR, the company should optimize its procurement and supply chain management processes to reduce lead times, minimize costs, and enhance supplier relationships. Streamlining production processes using Lean Manufacturing

principles can improve efficiency, reduce turnaround times, and ensure consistent quality standards. Additionally, implementing data-driven sales and marketing strategies will help Defoe tailor offerings to customer preferences, expand its market reach, and drive customer satisfaction. In terms of Financial Management, strengthening financial practices is imperative. Robust cost control measures and accurate performance measurement using tools like the Balanced Scorecard are crucial for enhancing profitability and ensuring sound financial health. Organizational Structure and Culture play a vital role. Reassessing the organizational structure to enable clearer communication, faster decision-making, and fostering an innovation culture will empower employees to contribute to process improvements and drive growth. Technology Integration is essential. Leveraging technology solutions such as ERP systems, CRM software, and BI tools will enhance operational efficiency, provide better insights for decision-making, and enable Defoe to adapt to changing market dynamics effectively.

Continuous Improvement is key. Continuous monitoring and evaluation of processes, coupled with a commitment to ongoing learning and development, will enable Defoe Footwear to adapt to evolving market trends and maintain its competitive edge. By implementing these recommendations in a coordinated manner, Defoe Footwear Limited can overcome its growth crisis, achieve operational excellence, and position itself for sustained success in the dynamic footwear market.

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Appendix

$ROI = (\text{Net Profit} / \text{Capital Employed}) * 100\%$

$RI = \text{Operating Profit} - (\text{Capital Employed} * WACC)$

$WACC = (\text{Cost of Equity} * \text{Equity} / \text{Capital Employed}) + (\text{Cost of Debt} * \text{Debt} / \text{Capital Employed})$

$EVA = \text{NOPAT} - (\text{Capital Employed} * \text{Cost of Capital})$

$\text{Profit} = \text{Total Cost} * \text{Profit Margin}$

$\text{Transfer Price} = \text{Total Cost} + \text{Profit}$