

Management Innovation and Sustainability

Question 1

- a) calculate the payback for each option in years and months.

Year	NET CASH FLOW	Cumulative cash flow
0	(£200,000)	(£200,000)
1	£20,000	(£180,000)
2	£40,000	(£140,000)
3	£60,000	(£80,000)
4	£60,000	(£20,000)
5	£60,000	£40,000

Payback = 4 years and x months

$$£60,000 / 12 = £5,000$$

$$\text{month payback} = £20,000 / £5,000 = 4$$

Project Supernatant = 4 years and 4 months.

Project Fuge 41

Year	NET CASH FLOW	Cumulative cash flow
0	(£200,000)	(£200,000)
1	£80,000	(£120,000)
2	£60,000	(£60,000)
3	£60,000	£0
4	£40,000	£40,000
5	£40,000	~~£80,000~~ £80,000

~~Payback of Fuge 41 =~~

Project Fuge 41 payback = 3 years exactly.

Project Centre 4

Year	NET CASH FLOW	Cumulative cash flow
0	(£200,000)	(£200,000)
1	£60,000	(£140,000)
2	£60,000	(£80,000)
3	£60,000	(£20,000)
4	£60,000	~~£40,000~~
5	£60,000	£100,000

Payback = 3 years and X months

$$£60,000 / 12 = £5,000$$

$$\text{month payback} = £ \overset{20,000}{\cancel{40,000}} / £5,000 = \overset{4}{\cancel{8}} \text{ months}$$

Project centre 4 payback = 3 years and ~~8~~⁴ months

b) Calculate the net present value for each project using a discount factor of 10%

Project Supernatant

Year	CASH FLOW	Discount factor	Present value
0	(£200,000)	1.000	(£200,000)
1	£20,000	0.9091	£18,182
2	£40,000	0.8264	£33,056
3	£60,000	0.7513	£45,078
4	£60,000	0.6830	£40,980
5	£60,000	0.6210	£37,260

Total cash flow = £174,556

NET PRESENT VALUE = TOTAL CASH FLOW - INVESTMENT

NPV = £174,556 - £200,000

NPV = -£25,444

Project Fudge 41

Year	CASH FLOW	Discount factor	Present value
0	(£200,000)	1.000	(£200,000)
1	£80,000	0.9091	£72,728
2	£60,000	0.8264	£49,584
3	£60,000	0.7513	£45,078
4	£40,000	0.6830	£27,320
5	£40,000	0.6210	£24,840

TOTAL CASH FLOW = £219,550

NPV = £219,550 - £200,000 = £19,550

Project Centre 4

Year	CASH FLOW	Discount factor	Present value
0	(£200,000)	1.000	(£200,000)
1	£60,000	0.9091	£54,546
2	£60,000	0.8264	£49,584
3	£60,000	0.7513	£45,078
4	£60,000	0.6830	£40,980
5	£60,000	0.6210	£37,260

TOTAL CASH FLOW = £227,448

$$NPV = £227,448 - £200,000$$

$$NPV = £27,448$$

c) Evaluate which project is the best option for the company to follow.

~~Fuge pro~~

Project Fuge 41 provides the quickest payback and therefore gives the quickest return on the initial investment. However, Project Centre 4 provides a better return on capital overtime and pays back in 3 years and 4 months, only 4 months longer than Project Fuge 41. For this reason I believe that ~~cen~~ Project Centre 4 is the best option for the company to follow.

c) When making capital investment decisions it is important to consider motives.

~~The~~ the company must have a reason to invest. For instance, if a company has old equipment or old programmes it is hard for them to keep competing with companies that are more advanced. This is then a motive to invest in new equipment.

Another important consideration is the return that the initial investment will bring. If the company has decided on a ~~mot~~ reason for investment it is important to consider whether the return will make the investment worthwhile for the company.

Question 2

The installation of a new SAP information system is needed for a number of different reasons that are beneficial to the company and the longevity of it. The installation of this system can ~~lower the amount~~ increase the efficiency of the company with the system limiting the amount of human ~~erro~~ errors that can be made during the tracking of costs.

The system will also improve the financial performance of the company as it provides a means of electronically tracking stock and controlling cost. The algorithms in the system provides costs ~~data~~ to be generated automatically, decreasing the amount of man hours usually required for some tasks.

The changes that the new system will bring will prevent the loss of competitive edge against companies who have already ~~taken on this change~~ adapted to using modern ~~stat~~ programmes and technology. I would therefore recommend that an investment is made in to the installation of this system.

To ensure that the change takes place smoothly it is important to avoid issues that can easily present themselves when making changes to an experienced workforce.

~~At~~ With the workforce being so well established with long serving members it is important to remember that change doesn't always bring joy. The workforce will obviously already have familiarity with the present ways of tracking stock and cost. Therefore, it is important to communicate effectively and continuously with everyone involved being completely honest about the changes and what they will entail.

~~Short~~ Short term advantages, wins and successes should be created with rewards for these milestones being reached. More issues can be created when these rewards are not delivered.

It is important to not allow too much complacency, individuals will not always follow what is proposed whether actively or passively.

It is important to not become side tracked with operational problems and issues. The ~~Management~~ Management should be reasonable in its expectations and timescale.