

WIRRAL FABRICATION PLC AND DEFOE BRANDS

JIE ZUO 2304819



APRIL 26, 2024

UNIVERSITY OF WALES TRINITY SAINT DAVID

Executive Summary

This report provides an assessment of the sector performance of Wirral Fabrication Plc., LTD., and explores possible measures to improve the company's performance. Firstly, the company's segment performance data, including sales revenue, operating cost, profit, etc., are analysed, and then residual income and economic value added (EVA) are proposed as potential segment performance indicators. This is followed by a detailed analysis of the cost structure and business processes of the service sector, and a discussion and evaluation of the internal transfer pricing methodology. Finally, the potential impact of introducing a new executive information system on corporate performance management is assessed. Through the analysis in this report, important insights regarding departmental performance improvement and management decisions have been provided to Wirral Inc.

Defour LTD is a mid-sized footwear designer and retailer founded in London by Ms Jocelyn Jones shortly after the global financial crisis in 2010. The company faces significant growth challenges. Task2 of this report research the issues of supply chain constraints, restricted sales due to Brexit and Covid-19 pandemic, increased competition in the market, and strategic expansion woes. Using a balanced scorecard approach, the paper also assesses the current quantitative and qualitative performance indicators of Defoe Footwear and suggests strategic initiatives to address the current growth crisis and promote sustainable development.

Table of Contents

Executive Summary	1
Introduction	3
Main Findings	4
Task 1 – Wirral Fabrication Plc	4
a. Evaluate the divisional performance at Wirral and discuss the proposed measures of divisional performance	4
1.1 Using ROI to evaluate the divisional performance at Wirral	4
1.2 Using RI and EVA to evaluate the divisional performance at Wirral	5
1.3 Discuss the proposed measures of divisional performance.	6
b. Transfer pricing	6
2.1 The criteria for designing a transfer pricing system	6
2.2 Evaluate the two transfer pricing methods	7
c. The impact of the new executive information system	8
Task 2 – Defoe Brands	9
a) The growth crisis facing the Defoe brand and the company	9
1.1 Supply Chain Challenges	9
1.2 Sales Constraints	9
1.3 Market Competition	10
1.4 Expansion Dilemmas	11
b) Quantitative and qualitative performance	11
2.1 Financial Performance	12
2.2 Customer Performance	13
2.3 Internal Business Process Performance	14
2.4 Learning and Growth Performance	14
c) The need for business process reengineering	15
3.1 Optimization of supply chain	15
3.2 Optimization of distribution channel	16
3.3 Adjustment of target market	16
3.4 Preparation of expansion plans	16
Conclusion	17
Bibliography	18

Introduction

Wirral Fabrication plc, a manufacturer of car buffing machines, operates with two divisions: Manufacturing/Sales (M/S) and Service. The board aims to enhance coordination between these divisions to maximize shareholder wealth. This report critically evaluates divisional performance, proposes measures for evaluation, discusses transfer pricing methods, and evaluates the impact of a new executive information system.

Defoe LTD., as a footwear brand enterprise, has been committed to providing high quality footwear products and accessories to upper middle class customers since its establishment in 2010. However, with the changing market environment and increasing external challenges, the company is facing a crisis of business growth. In order to effectively address this challenge, this report provides a comprehensive analysis of the Company's business development and performance, and puts forward corresponding suggestions and improvement measures. Through the analysis in this report, we will provide Defoe Limited with useful suggestions and guidance to help the company achieve business growth and sustainable development.

Main Findings

Performance management is a comprehensive process that involves planning, monitoring, developing, and evaluating the performance of individuals, teams, and organizations to ensure that they meet their objectives and goals effectively and efficiently (Ferreira, Aldónio, 2009). It encompasses various activities, including setting clear and achievable goals, providing regular feedback and coaching, measuring and assessing performance, identifying areas for improvement, and rewarding or recognizing achievements.

Otley and David (1999) put forward that the key components of performance management include:

1. **Goal Setting:** Establishing specific, measurable, achievable, relevant, and time-bound (SMART) goals that align with organizational objectives.
2. **Performance Monitoring:** Continuously tracking and monitoring progress towards goals, often through regular check-ins, progress reports, and performance reviews.
3. **Feedback and Coaching:** Providing constructive feedback, guidance, and support to employees to help them improve their performance and achieve their goals.
4. **Performance Appraisal:** Conducting formal evaluations of employee performance based on predetermined criteria and performance standards.
5. **Development Planning:** Identifying development needs and creating individualized plans to enhance skills, knowledge, and capabilities.
6. **Rewards and Recognition:** Recognizing and rewarding high performance and achievements through various incentives, bonuses, promotions, or other forms of recognition.
7. **Performance Improvement:** Addressing performance gaps and implementing strategies to enhance overall performance, such as training programs, process improvements, or restructuring roles and responsibilities.

Effective performance management helps organizations optimize employee performance, foster employee engagement and motivation, identify and address performance issues proactively, align individual and team efforts with organizational goals, and ultimately drive business success (Mone, 2018).

Task 1 – Wirral Fabrication Plc

a. Evaluate the divisional performance at Wirral and discuss the proposed measures of divisional performance

1.1 Using ROI to evaluate the divisional performance at Wirral

Currently, the board of directors of Wirral uses ROI as the main relative measure of performance between the two divisions. Return on investment is the most important and widely used indicator in traditional financial indicators (Botchkarev, Peter, 2011). It is the ratio of income to invested capital, which reflects the effectiveness of investment and is an efficiency indicator. (Basu, 1977)

According to the calculation formula of ROI:

$$\text{ROI} = \text{Profit before tax} / \text{Capital employed}$$

By substituting the data given in the topic,

$$\text{ROI of M/S} = 301 / 1294 = 23.26\%$$

ROI of Service=5/38=13.16%

The ROI of the M/S segment is 23.26%. This means that for every 1 unit of capital invested in the sector, it earns a return of 23.26 percent. The M/S sector has a higher ROI than the Service sector, indicating that the M/S sector is better at utilizing capital. The Service sector has an ROI of 13.16%. Although lower than the ROI of the M/S sector, it still indicates that this sector also achieves a return on investment to some extent.

By comparing ROI of the two sectors, it can be judged that the M/S sector performs better than the Service sector. However, ROI as a single indicator may have some limitations, such as ignoring factors such as capital structure and risk level. Moreover, ROI fails to provide enough information to explain the factors behind performance, such as sales growth, cost management, market share, etc.

1.2 Using RI and EVA to evaluate the divisional performance at Wirral

The Board of Directors of the Company considered the improvement of the segment performance measurement with the proposed use of Residual Income(RI) and Economic Value Added (EVATM).

The use of residual income (RI) and economic value added (EVA) to evaluate the sector performance of Wirral companies can provide a more comprehensive perspective(Sharma,2010). The combination of the two evaluation methods, RI and EVA, takes into account the cost of capital and is able to better measure the contribution of departments to the value of the company.

According to the calculation formula of EVA:

$EVA = \text{Net investment} \times (\text{Actual return} - \text{Cost of capital})$

$EVA \text{ of M/S} = 1294 \times (23.26\% - 9\%) = 184.52m$

$EVA \text{ of Service} = 38 \times (13.16\% - 9\%) = 1.58m$

According to the formula:

$RI = \text{Actual Income} - (\text{WACC} \times \text{Capital Employed})$

$EVA = \text{NOPAT} - (\text{WACC} \times \text{Capital Employed})$

Then, $RI = \text{Actual Income} - (\text{NOPAT} - EVA)$; $\text{NOPAT} = \text{Profit before tax} \times (1 - \text{Taxrate})$.

By substituting the data,

$RI_{M/S} = 396 - (301 \times (1 - 30\%) - 184.52) = 369.82m$

$RI_{\text{Service}} = 6.0 - (5 \times (1 - 30\%) - 1.58) = 4.08m$

The RI of the M/S sector is 369.82m. This indicates that the actual income of the M/S sector exceeds the income obtained by the required minimum rate of return on capital, creating a large amount of residual income. However, the RI of the Service sector is 4.08m. Compared to the M/S sector, the Service sector has less residual revenue and may require more improvement measures to improve performance.

The EVA of the M/S sector is 184.52m. This means that the actual profit earned by the M/S division exceeds the profit earned by the minimum return on capital required by the company, which is also a positive value. The EVA of the Service sector is 1.58m. This also indicates that the actual profit earned by the Service sector exceeds the profit earned by the minimum return on capital required by the company, but is relatively low.

Both RI and EVA are higher in the M/S sector than in the Service sector, indicating that the M/S sector performs better in generating residual income. This also highlights the larger contribution of the M/S sector to the overall economic value added of the company.

1.3 Discuss the proposed measures of divisional performance.

RI began to be used in the evaluation of department performance in the 1950s. EVA is a method of investment, performance evaluation and incentive developed on the basis of RI (Subedi, Meena, 2020). Residual income (RI) evaluation of department performance overcomes the sub-optimization problem caused by the inconsistency between the objectives of individual investment centres and the overall objectives of the enterprise by the use of return on investment indicators to pursue a high rate of return and reduce investment, and guides operators to adopt decisions higher than the cost of capital. It is an absolute number index, refers to the profit obtained by the investment centre after deducting its minimum investment income balance. Minimum investment income is the income calculated by the prescribed or expected minimum rate of return on the investment amount of the investment centre. The essence of residual income is a concept of economic profit, which takes into account the entire capital cost of the enterprise, including the compensation of the cost of equity (Yeh, 2024). At the same time, the risks of different departments and industries are different, and the cost of capital is different.

EVA is a financial indicator developed on the basis of the concept of RI, and it is the concept of economic profit in economics (Bhasin, Madan, 2013). $EVA > 0$, indicating that the managers of the company have created value for shareholders in the operation, and shareholders have obtained higher value than the minimum risk reward required for investing capital. $EVA = 0$, indicating that the company's managers only create the lowest risk reward required by shareholders. $EVA < 0$, shows that the managers of the company did not create the minimum compensation required for equity capital, although in this case the income statement may show a positive profit.

Both RI and EVA evaluation methods take capital cost into account, and the combination of the two can measure departmental performance more comprehensively (Xie, Hui, 2021). In addition, RI also provides an intuitive display of whether the sector creates surplus value, which is more convenient to calculate and understand. However, RI merely considers the financial performance of each sector and may ignore the impact of other non-financial factors on performance. This approach relies on accurate estimates of the cost of capital and the return on capital and may be subject to estimation errors in real corporate sector assessments. And RI may not adequately account for long-term value creation because it has focused primarily on short-term financial performance. However, EVA takes into account the time value of capital and is therefore able to provide an assessment of long-term value creation, which can thus compensate for the shortcomings of the RI assessment method.

b. Transfer pricing

2.1 The criteria for designing a transfer pricing system

Wirral has established an inter-departmental transfer pricing system to better achieve the strategic goals of the enterprise. To design a transfer pricing system between M/S and the Service sector, the following criteria need to be considered (Rathke, 2020).

Firstly, fairness. The internal transfer pricing of enterprises is closely related to the strategic operation and development goals of enterprises. In Wirral, the transfer pricing system should fully take into account the costs of the service sector, including parts costs, labour costs, repair time, etc.

Secondly, the principle of legitimacy. The internal transfer pricing of enterprises must be reasonably designed to ensure that enterprises cannot violate national laws.

Thirdly, the principle of orientation. With the development of modern enterprises, the commodities they manufacture are more and more varieties and more complicated categories. To this end, enterprises need to reflect a certain orientation when constructing internal transfer pricing, that is, for enterprises with large profit space and main products, they can appropriately increase the price; For those goods that have been abandoned by enterprises and have little profit space, moderate price reduction can be carried out without loss. For example, the transfer price system designed by Wirral could provide incentives for the service sector to improve efficiency and reduce costs in order to increase profit margins.

2.2 Evaluate the two transfer pricing methods

2.2.1 Market price

The method of this transfer pricing is to use the market price as the benchmark, with similar products as the benchmark. (Rossing, Christian and Martine, 2017) Its essence and key is through the analysis of various internal losses and internal transfer prices, so as to price its products according to the market price.

For Wirral, 'A local engineering firm has quoted a flat price of £1800 per warranty service repair', then £1800 per warranty service repair.

Number of repairs required within a year = $580000 \times 6\% = 34800$.

Then transfer price of a year = $1800 \times 34800 = £62.64m > £10m$ (now internal transfer price)

Using the market pricing method, enterprises can better grasp the market situation, so as to better grasp the market information (Young, 2006). Moreover, this method reflects the price of the outsourcing market, reflects the fairness of the transfer pricing standard, and the pricing method is simple and easy to understand. However, the results obtained by directly using the market price are much higher than the current internal transfer price, and there may be a premium phenomenon for outsourcing companies.

2.2.2 Cost plus

The cost-plus pricing method is based on the cost plus a certain profit margin (Guilding, Chris, Colin Drury, and Mike, 2005), such as the cost of each repair (parts cost + labour cost) plus a certain profit margin.

For Wirral's service division, Costs of parts = £95

labour Costs = $(£18 + £11 + £24) \times 4 \text{ hours} = £212$

Assuming that the ROI of the service sector (13.16%) is used as the markup margin,

Then the one-year transfer price = $(95 + 212) \times 34800 \times (1 + 13.16\%) = £12.09m$

The transfer pricing obtained through the cost-plus method takes into account the actual cost of the service sector, which reflects the fairness of this method. But in practice, more calculation and monitoring may be needed to ensure the accuracy of costs and margins.

Taken together, the cost-plus better guarantees the fairness of the internal transfer price because the actual costs of the service sector are taken into account. And market prices may ignore cost

differences in the service sector, leading to unfairness. In addition, the cost-plus method can motivate the service sector to improve efficiency and reduce costs, as higher profit margins can be obtained by reducing costs. Therefore, the cost plus is more in line with Wirral's requirements.

c. The impact of the new executive information system

With the development of information technology and the advancement of enterprise informatization, information system integration plays an increasingly important role in enterprises. A new system based on an integrated, single database. In this way, the operation efficiency and management level of the company can be improved, which has a positive impact on enterprise performance management. Specific analysis is as follows:

First, the new system can optimize the business processes of the enterprise(Trachenko, L., et al,2021). By integrating the information systems of different departments into a new system, enterprises can achieve seamless information transfer and sharing, eliminate information islands, avoid repeated data entry, and improve work efficiency.

Secondly, information system integration can improve the decision-making ability of enterprises(Ren, Shaomin,2022). By integrating data from different information systems, enterprises can obtain comprehensive and accurate information and provide strong support for decision makers. For example, by integrating the data of the sales system with the financial system, the enterprise can understand the market demand and sales situation in real time, and make accurate sales forecast and financial analysis, helping the enterprise to get the first chance in the fierce market competition.

In addition, information system integration can also improve the level of enterprise customer service (Hutahayan,2020). By integrating customer data from different channels into one CRM system, companies can better understand customer needs and preferences and make personalized recommendations and services.

Finally, the introduction of new systems helped to improve performance evaluation and monitoring.(Chenhall, Robert H., and Kim,2003) The new system can track and record the performance data of various departments more comprehensively, providing managers with a more accurate basis for performance evaluation. Real-time input and update of the database can also help managers find and solve performance problems in a more timely manner, and improve the effect of performance monitoring.

Task 2 – Defoe Brands

a) The growth crisis facing the Defoe brand and the company

Founded by Ms Jocelyn Jones in 2010 in the wake of the global financial crisis, Defoe Footwear Limited has become a well-known player in the footwear industry. However, despite its initial success, the company is now dealing with a myriad of challenges that threaten its growth trajectory. Regarding the various challenges faced by Defoe Footwear Limited, the following will provide a comprehensive analysis of the factors hindering its expansion and development.

1.1 Supply Chain Challenges

According to the information provided, Defoe Footwear Co., Ltd. is facing significant supply chain issues. Between 2010 and 2015, the company's raw materials for insoles and decorative fabrics were sourced entirely from Uzbekistan, then shipped to Bangladesh for processing and eventually to a warehouse in London. However, since 2015, the company has had to look for other suppliers due to the EU's ban on the import of raw materials from Uzbekistan.

Firstly, Defoe Footwear was forced to suspend its partnership with Uzbekistan due to a ban on the import of raw materials from the country. As a result, the company's original supply chain was interrupted and it had to find alternative raw material suppliers at short notice. Such sudden disruptions can lead to supply instability, which in turn affects schedules for production and delivery (Kleindorfer, Paul, and Germaine, 2005).

In addition, firms may be facing higher raw material costs in the search for alternative suppliers. Since the new supplier may not have the cost advantage of the Uzbek supplier, Defoe may have to pay a higher price for the same raw materials. This will directly affect the company's production costs and gross profit margin.

Furthermore, when choosing alternative suppliers, companies also need to pay attention to the quality and sustainability of raw materials. Although there may be other countries that can provide similar raw materials, their quality and sustainability may be different from that of suppliers in Uzbekistan. As a result, the company needs to spend additional time and resources to ensure that the new supply chain meets the company's quality standards and sustainability goals.

A company's supply chain choice can even directly affect its brand reputation and social responsibility image (Lai, Chi-Shiun, 2010). If new suppliers are involved in human rights abuses or environmental damage, Defoe may face public and stakeholder criticism, which could damage its brand image and affect sales.

While addressing current supply chain issues, companies also need to consider long-term strategic planning. This includes finding stable and sustainable supply chain partners and establishing strategic supply chain management mechanisms to cope with possible changes and challenges in the future (Wu, Mark, 2011).

In conclusion, the supply chain problem faced by Defoe Footwear Co., Ltd. is a complex challenge that requires comprehensive consideration by the company and corresponding strategic measures to be taken to solve.

1.2 Sales Constraints

On the sales front, Defoe Footwear LTD faced constrained sales, which was mainly caused by Brexit and the Covid-19 pandemic. Here is a detailed analysis of the issue:

Defoe Footwear faced a significant drop in order volumes due to the impact of Brexit and the Covid-19 pandemic. This could be due to a decrease in consumers' willingness to buy, a decrease in market demand, or a decrease in purchasing power due to economic instability. Whatever the cause, the reduction in order volume directly affects the company's sales and profitability.

Moreover, the depreciation of the pound against the euro had a negative impact on Defoe's reported sales. As the company's main sales locations include continental Europe, mainly Germany, the Netherlands and France, the depreciation of the pound has led to higher prices for products sold in the euro area, which may have reduced European customers' willingness to buy, thus affecting sales.

Customers may be visiting the company's physical stores less because of the pandemic, which could further dent sales. Lockdown measures and travel restrictions could discourage customers from outside London from visiting the company's stores, leading to a reduction in potential sales opportunities. In addition, Brexit and the Covid-19 pandemic may have resulted in a decline in the overall market demand, which has affected not only the UK market, but also the continental European market. Consumers may choose to buy products more carefully, resulting in lower sales.

Faced with constrained sales, Defoe Footwear Co., Ltd. may need to adjust its sales strategies, including increasing online sales channels, launching promotional activities, developing customized marketing strategies for different markets, etc., in order to cope with the current market challenges and find opportunities for growth. In addition to traditional sales channels, the Company can also consider expanding into new markets, such as online sales, cross-border e-commerce, etc., to find new growth opportunities and mitigate the adverse impact of Brexit and the Covid-19 pandemic on the Company's sales.

1.3 Market Competition

From the perspective of market competition, the luxury market is highly competitive, so Defoe needs to clarify its positioning and develop competitive strategies to stand out among competitors.

If Defoe continues to adopt a luxury brand strategy, it may maintain the company's position and reputation in the high-end market. This strategy can attract high-end customer groups and maintain high prices and profit margins, but may have limited market share expansion. On the contrary, if the penetration pricing strategy is adopted, it may attract a wider range of customers and increase the sales volume and market share. By lowering prices to attract low-end consumers, the company can expand its market share, but it may take a toll on its brand image and profit margin.

Defoe could present growth opportunities if it expands into other market segments where its competitors operate. For example, according to Appendix 2, the market share of footwear is expected to decrease while the market share of handbags is expected to increase. Therefore, the expansion of the retail arm of handbags can be considered, and the company can provide customers with more product choices, attract more consumers, and increase sales. And wallets and retail fashion, which Defoe has not yet covered, so you can also consider exploring new business segments and trying to develop multiple businesses. However, companies still need to carefully evaluate the competition, demand, and potential gains in their target markets to determine whether it is worth committing resources.

In conclusion, Defoe footwear is faced with the challenge of choosing a suitable market competition strategy. Companies need to carefully evaluate the pros and cons of various options and develop strategies accordingly to ensure future success and growth.

1.4 Expansion Dilemmas

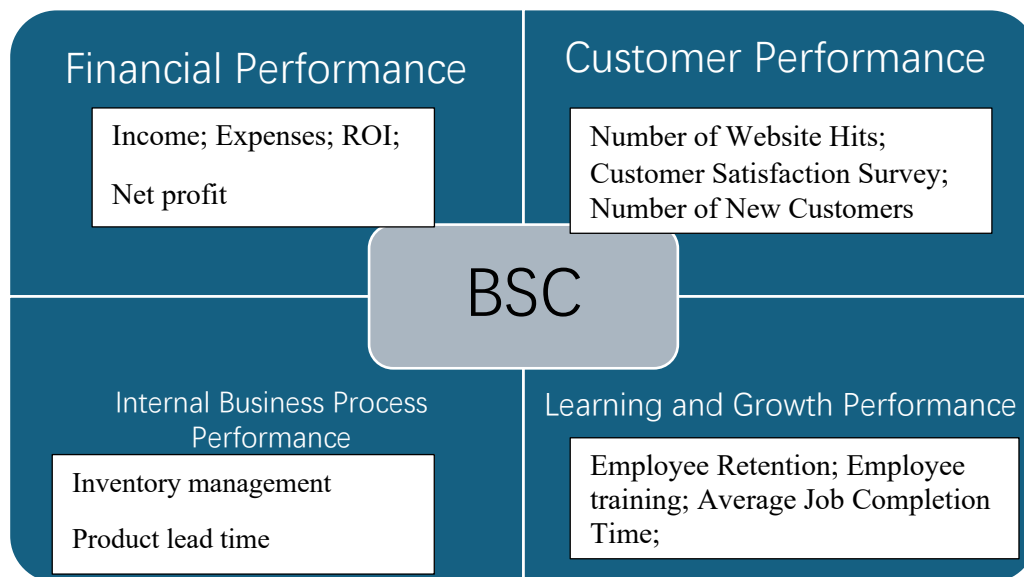
Defoe faces an expansion dilemma and needs to make informed decisions in a highly competitive market environment. Defoe is at the crossroads of strategic choices, considering whether to continue with a luxury brand strategy or adopt a penetration pricing strategy. In addition, there are strategic dilemmas in exploring new markets or diversifying into other areas.

Firms consider expanding their business into other market segments where competitors operate or diversifying into other areas entirely. This requires a careful assessment of market needs, competitive conditions and potential gains to determine the most appropriate direction of expansion. Defoe is also considering a joint venture with Barnaby Holdings Limited, a South African company, where the production of exotic footwear could provide new growth opportunities for the company. Such cooperation may open up new markets and attract customers from China, the US and the Middle East, but it also requires careful assessment of partners and market potential.

However, no matter what expansion plan is chosen, business process reengineering is required. This includes optimizing supply chains, improving production efficiency, improving marketing and sales processes, among others, to support the company's expansion and growth. At the same time, expanding into new markets or fields will face risks such as low market acceptance and fierce competition. Companies need to develop risk management strategies to reduce the impact of potential risks on the business. Defoe's joint venture with Barnaby Holdings Limited to produce luxury goods may face joint venture risks and challenges in partner selection. Companies need to conduct due diligence and contract management to mitigate risk.

b) Quantitative and qualitative performance

Balanced scorecard is a new performance management system that implements the organization's strategy into operational measurement indicators and target values from the perspectives of finance, customers, internal operation, learning and growth(Kaplan, Robert and David,1996). The purpose of designing balanced scorecard is to establish a performance management system to achieve strategic guidance, so as to ensure the effective implementation of enterprise strategy(Martinsons, Maris, Robert, and Dennis,1999). The balanced scorecard reflects the balance between financial and non-financial measurement methods, between long-term and short-term objectives, external and internal, results and processes, quantitative and qualitative aspects(Benková, Eva,2020). Therefore, it can reflect the comprehensive operation status of the organization, make the performance evaluation tend to be balanced and perfect, which is conducive to the long-term development of the organization.



2.1 Financial Performance

1. Income:

Defoe Limited's turnover has shown a volatile trend from 2019 to 2021. Turnover grew by 25 per cent between 2019 and 2020, but fell by 17 per cent between 2020 and 2021. This indicates that the company may face intensified market competition or challenges in business strategy.

2. Expenses:

Operating costs as a percentage of turnover increased from 2019 to 2021. This may indicate a challenge in cost containment that requires further review and management.

3. Return on Investment (ROI) :

Return on investment (ROI) = $(\text{PBIT} / \text{investment amount}) \times 100\%$

ROI in 2019 = $(300,000 / 845,000) \times 100\% = 35.50\%$

ROI for 2020 = $(372,000 / 975,000) \times 100\% = 38.15\%$

ROI for 2021 = $(105,000 / 985,000) \times 100\% = 10.66\%$

According to the calculation results, the return on investment of the company shows a downward trend, which reflects the decline of the company's investment efficiency or the change of investment decisions.

4. Net Profit:

Defoe Limited's net profit grew by about 23% between 2019 and 2020, but fell sharply between 2020 and 2021. It expects a loss in 2022. This may indicate that the company is facing increased costs, declining sales, or other operational challenges.

From the four aspects of revenue, expense, ROI and net profit analysis, it can be seen that Defoe Limited has some challenges in terms of financial performance. Unstable turnover, increased costs, declining return on investment and declining net profit all require further review and resolution by the Company. Optimizing marketing strategies, controlling costs, increasing return on investment, and improving business processes may be key measures to improve a company's financial performance.

2.2 Customer Performance

According to Appendix 4, we can carry out the analysis of the customer performance part of the BSC. The customer performance section mainly focuses on customer satisfaction, growth and engagement, etc. The following is an analysis for each indicator:

1. Number of Website Hits:

Quantitative performance indicators:

From 2019 to 2021, website visits increased year over year, from 5,000 to 7,000, indicating growing interest in the company's products and services. The ratio of sales to website visits also increased year over year, from 10% to 18%, indicating that the company has made significant progress in converting website visits into sales.

Qualitative performance evaluation:

Additional website visits reflect the Company's increased market awareness and online visibility, and increased customer interest in the Company's brand and products. Moreover, a high ratio of sales to website visits also indicates the effectiveness of the company's website design and sales strategy, as well as customer satisfaction with the product information provided on the website and the purchase process.

2. Customer Satisfaction Survey

Quantitative performance indicators:

From 2019 to 2021, the customer satisfaction survey score increased year by year, from 69% to 82%, demonstrating the continuous improvement of overall customer satisfaction with the Company's products and services.

Qualitative performance evaluation:

Increases in customer satisfaction may reflect improvements in the company's product quality, customer service, and delivery efficiency, among other things. A higher satisfaction score may increase customer loyalty and prompt them to buy the company's products more frequently, as well as increase word-of-mouth and attract more new customers.

3. Number of New Customers

Quantitative performance indicators:

From 2019 to 2021, the number of new customers increased year by year, from 11 to 18, showing the company's progress in attracting new customers.

Qualitative performance evaluation:

The number of new customers indicates the effectiveness of the company's marketing and sales strategy and the attractiveness of its products and services. And new customers may bring more sales opportunities and revenue growth, but also increase the diversity and stability of the customer base.

Through the above analysis, it can be seen that the company has made positive progress in customer performance, including an increase in website visits, an increase in sales conversion rate, an improvement in customer satisfaction, and an increase in the number of new customers. The

continuous improvement of these indicators helps to strengthen the company's relationship with customers, improve customer loyalty, promote sales growth, and lay a solid foundation for the company's future development.

2.3 Internal Business Process Performance

1. Inventory Management

Inventory level analysis:

According to the data provided, inventories in current assets are on a downward trend, from £328,000 in 2019 to £312,000 in 2022. This indicates that the company is effectively managing its inventory level and avoiding the problem of overstocking.

Inventory turnover analysis:

Inventory turnover = operating cost/average inventory

An increase in inventory turnover indicates that the firm is using its inventory more efficiently, thus reducing the inventory overstocking. However, further data are needed to calculate the average inventory and to understand the company's inventory turnover.

2. Product Lead Time:

Lead time analysis:

Based on the information provided, the current average delivery time from placing an order to receiving the goods is 60 days. However, without sourcing from Japan, the delivery time may be significantly reduced. This suggests that companies may need to re-evaluate their supply chain and sourcing strategies to reduce lead times, improve customer satisfaction, and ensure timely delivery.

On-time delivery analysis:

The on-time delivery rate is the rate at which the company delivers on time as agreed. If the on-time delivery rate is low, it may affect customer trust and satisfaction. Therefore, Defoe Limited should focus on improving the on-time delivery rate and optimize its production and supply chain processes to meet the delivery requirements of its customers.

In summary, through the analysis of the two aspects of inventory management and product delivery cycle, we can see that Defoe Limited has made some progress in internal business process performance, but there is still room for improvement. Optimizing inventory turnover, shortening product lead times, and improving on-time delivery rates are all measures that companies can take to improve the efficiency and effectiveness of their internal business processes.

2.4 Learning and Growth Performance

Based on the provided learning and growth data, the learning and growth performance of Defoe Company is analysed as follows:

1. Employee Retention:

Quantitative performance indicators:

The retention rate increased year over year, from 82% to 89%, showing that the company has made significant progress in employee retention.

Qualitative performance evaluation:

The increase in employee retention reflects the Company's efforts in creating a good working environment and providing career development opportunities and incentives. Higher retention rates can help reduce employee turnover and recruitment costs, while also enhancing team stability and performance continuity.

3. Average Job Completion Time:

Quantitative performance indicators:

The average job completion time has decreased year over year over the past few years, from 14 days to 7 days, showing an increase in employee productivity.

Qualitative performance evaluation:

The reduction in work completion time indicates the company's improvement in process optimization, skill upgrading and resource allocation, as well as the increased familiarity of employees with work tasks. Faster work completion times can improve customer satisfaction, reduce project delivery cycles, and increase the competitiveness of the company.

4. Employee training:

Quantitative performance indicators:

The number of continuing professional development (CPD) activities per employee per year increased year by year, from 5 to 12, demonstrating an increased willingness of employees to learn and develop.

Qualitative performance evaluation:

The increased number of CPD activities reflects the Company's emphasis on employees' continued learning and upgrading of their vocational skills, as well as employees' investment and commitment to their personal development. More training and development opportunities can help improve the performance and innovation ability of employees, and enhance the competitiveness and sustainable development ability of the company.

Through the above analysis, we can see that the company has made significant progress in learning and growth performance, including reducing work error rate, improving employee retention rate, shortening work completion time and increasing the number of employees participating in training. The improvement of these indicators helps to enhance the quality and ability of employees, enhance the innovation ability and competitiveness of the Company, and lay a good foundation for achieving long-term business goals.

c) The need for business process reengineering

Business process reengineering (BPR) is a modern management thought and method proposed in the 1990s in order to improve the competitiveness, survival ability and development ability of enterprises (O'Neill, Peter, and Amrik, 1999). Combined with the analysis of the current dilemmas and challenges faced by Defoe Footwear Limited in various aspects, business process reengineering is required to improve the current dilemmas.

3.1 Optimization of supply chain

Regarding the issue of supply chain fragmentation in Uzbekistan, the company needs to find new suppliers and optimize the procurement process to ensure cost effectiveness and supply stability. However, for the problem of increased costs that may be brought about by new suppliers, business process reengineering can help companies find more cost-effective solutions. By optimizing production processes, supply chain management, and resource utilization, costs can be reduced and profit margins improved.

3.2 Optimization of distribution channel

To address sales constraints, business processes need to be redesigned to support sales activities that expand to other geographies or market segments. This may involve new sales channels, marketing strategies, and customer service processes. And as sales locations change, supply chains need to adjust accordingly. Business process reengineering can help optimize supply chain management to meet the needs of different regions and markets.

3.3 Adjustment of target market

If Defoe decides to move to penetration pricing, its business processes need to be adapted to the wider market. Everything from supply chain to sales and marketing needs to be repositioned to appeal to lower - and mid-range customers. Defoe's expansion into other market segments where his competitors operated required a reformulation of his market segmentation strategy. Business processes must be able to support the specific needs and positioning of the new target market.

3.4 Preparation of expansion plans

Defoe decided to produce luxury goods and new exotic footwear products in a joint venture with a South African company, then the business process needed to be adjusted to accommodate the production, supply chain management and marketing of the new product line. And business process reengineering can help companies manage the risks of expansion plans more effectively. Risks arising from new business areas and joint ventures can be reduced by establishing more stringent processes and controls.

In conclusion, business process reengineering is essential for Defoe Footwear LTD to adapt to market changes, expansion plans, and cost challenges. By redesigning and optimizing business processes, companies can improve efficiency, reduce risk, and lay a solid foundation for future growth.

Conclusion

Wirral Fabrication plc stands to benefit from adopting RI and EVA for divisional performance evaluation, along with a balanced transfer pricing approach. Additionally, the implementation of a new executive information system promises to enhance performance management and strategic alignment across the organization.

Defoe Footwear LTD faces significant growth challenges, but there are also strategic opportunities. By evaluating quantitative and qualitative performance using a balanced scorecard framework and implementing strategic initiatives, companies can address current challenges and lay the foundation for sustainable long-term growth. Strategic planning based on these initiatives can drive Defoe to achieve its growth targets.

Bibliography

- Ferreira, Aldónio, and David Otley. "The design and use of performance management systems: An extended framework for analysis." *Management accounting research* 20.4 (2009): 263-282.
- Otley, David. "Performance management: a framework for management control systems research." *Management accounting research* 10.4 (1999): 363-382.
- Mone, Edward, Manuel London, and Edward M. Mone. *Employee engagement through effective performance management: A practical guide for managers*. Routledge, 2018.
- Botchkarev, Alexei, Peter Andru, and Raymond Chiong. "A return on investment as a metric for evaluating information systems: taxonomy and application." *Interdisciplinary Journal of Information, Knowledge, and Management* 6.6 (2011): 245-269.
- Basu, Sanjoy. "Investment performance of common stocks in relation to their price-earnings ratios: A test of the efficient market hypothesis." *The journal of Finance* 32.3 (1977): 663-682.
- Sharma, Anil K., and Satish Kumar. "Economic value added (EVA)-literature review and relevant issues." *International journal of economics and finance* 2.2 (2010): 200-220.
- Subedi, Meena, and Ali Farazmand. "Economic value added (EVA) for performance evaluation of public organizations." *Public Organization Review* 20 (2020): 613-630.
- Yeh, I-Cheng. "Comparisons of residual income model and growth value model." *Applied Economics* 56.11 (2024): 1327-1345.
- Bhasin, Madan Lal, and Junaid M. Shaikh. "Economic value added and shareholders' wealth creation: the portrait of a developing Asian country." *International Journal of Managerial and Financial Accounting* 5.2 (2013): 107-137.
- Xie, Dongwen, and Hui Deng. "Practice of EVA-based balanced scorecard in the construction of performance evaluation system." *Mobile Information Systems* 2021 (2021).
- Rathke, Alex AT, Amaury J. Rezende, and Christoph Watrin. "Classification of transfer pricing systems across countries." *International Economics* 164 (2020): 151-167.
- Rossing, Christian Plesner, Martine Cools, and Carsten Rohde. "International transfer pricing in multinational enterprises." *Journal of Accounting Education* 39 (2017): 55-67.
- Grondona, Veronica. "Transfer pricing: concepts and practices of the "sixth method" in transfer pricing." *Perspectives from the Global South* 53 (2019): 978-8131771662.
- Young, Roy A., Allen M. Weiss, and David W. Stewart. *Marketing champions: practical strategies for improving marketing's power, influence, and business impact*. John Wiley & Sons, 2006.
- Guilding, Chris, Colin Drury, and Mike Tayles. "An empirical investigation of the importance of cost-plus pricing." *Managerial Auditing Journal* 20.2 (2005): 125-137.
- Trachenko, L., et al. "Optimization modeling of business processes of engineering service enterprises in the national economy." *Natsional'nyi Hirnychyi Universytet. Naukovyi Visnyk* 4 (2021): 165-171.
- Chenhall, Robert H., and Kim Langfield-Smith. "Performance measurement and reward systems, trust, and strategic change." *Journal of management accounting research* 15.1 (2003): 117-143.
- Hutahayan, Benny. "The mediating role of human capital and management accounting information system in the relationship between innovation strategy and internal process performance and the impact on corporate financial performance." *Benchmarking: An International Journal* 27.4 (2020): 1289-1318.
- Ren, Shaomin. "Optimization of enterprise financial management and decision-making systems based on big data." *Journal of Mathematics* 2022 (2022): 1-11.

Kleindorfer, Paul R., and Germaine H. Saad. "Managing disruption risks in supply chains." *Production and operations management* 14.1 (2005): 53-68.

Lai, Chi-Shiun, et al. "The effects of corporate social responsibility on brand performance: The mediating effect of industrial brand equity and corporate reputation." *Journal of business ethics* 95 (2010): 457-469.

Wu, Zhaohui, and Mark Pagell. "Balancing priorities: Decision-making in sustainable supply chain management." *Journal of operations management* 29.6 (2011): 577-590.

Kaplan, Robert S., and David P. Norton. "Using the balanced scorecard as a strategic management system." (1996): 75-85.

Martinsons, Maris, Robert Davison, and Dennis Tse. "The balanced scorecard: a foundation for the strategic management of information systems." *Decision support systems* 25.1 (1999): 71-88.

Benková, Eva, et al. "Factors affecting the use of balanced scorecard in measuring company performance." *Sustainability* 12.3 (2020): 1178.

O'Neill, Peter, and Amrik S. Sohal. "Business Process Reengineering A review of recent literature." *Technovation* 19.9 (1999): 571-581.