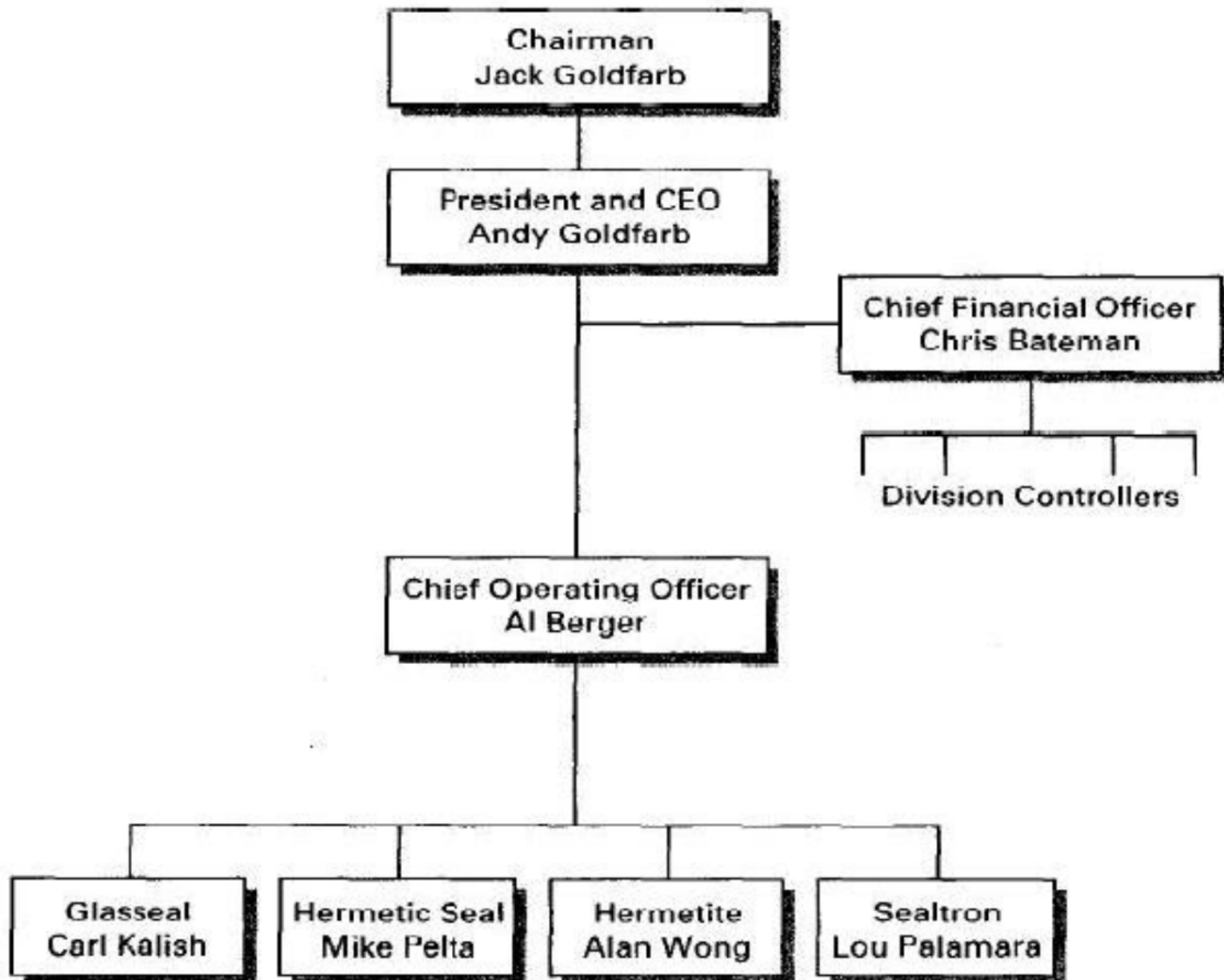






# HCC INDUSTRIES

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# Old system: "STRETCH TARGETS"

## PROCESS

- Each division manager prepares sales forecast □- targets.
- Together with operating manager they prepare budget for expenses, capital expenditures and cash flow.
- Corporate officers conduct thorough review of preliminary targets □ review budget is presented to the board of directors and approved.
- Performance reports are send quarterly to corporate manager.

## FACTS

- Set targets were set were very optimistic and they were mostly reachable.
- 75 to 80% probability of achievement.
- Budget targets affected bonuses, because they based bonuses on division results.



- BONUS: for most division managers 30% of base salary
  - Objective portion: profit before taxes – PBT

ACTUAL DIVISION PBT (% BUDGET)	BONUS PAID (% BONUS POTENTIAL)
<60%	0
60	80
100	100
140	150

- Subjective portion: management's judgement based on accomplishment of the targets in all 7 performance areas.

#### PERFORMANCE EVALUATION DISSATISFACTIONS

- Profit before taxes – PBT
- Bookings
- Shipment
- Returns
- Rework aging
- Efficiency
- Delinquencies
- Feeling corporation is not achieving its plans.
- OK to miss the budget, because stretch targets are too optimistic.
- Lack of communication to division personnel.
- Delay of awards payout.