

Using the Balanced Scorecard to Assess and Enhance Magna PC's Performance

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INTRODUCTION

You have just been hired as the corporate controller at Magna PC to help investigate its performance issues. Magna PC designs, manufactures, and sells private-label PCs. In an attempt to gain scale advantages, Magna merged with its main competitor two years ago. Since the merger, Magna is one of the largest private-label PC manufacturers with more than 6,400 employees at four PC factories of similar size.

MAGNA'S PRODUCTION PROCESSES AND CUSTOMERS

Magna manufactures a high volume of PCs on its production lines. The majority of the parts used in Magna's assembly process, such as the chips, processors, memory drives, screens, power supply components, and cases, are purchased from foreign and domestic suppliers. Prior to being used, samples of the parts are tested by Magna's quality assurance department. If Magna's quality assurance staff finds more than one faulty part in every 20 tested, the batch is rejected and returned to the supplier.

Assembling PCs is a relatively labor-intensive process. The factory employees are largely semiskilled and have been trained by Magna to perform simple, repetitive steps. After the PCs are assembled, staff from Magna's quality assurance department test each PC, and any that are found faulty are returned to the production line and reworked.

The customers for Magna's private-label PCs are large electronic retailers, such as Best Buy, who place their in-store brands on the PCs and then sell them in their stores. Magna competes with DataMax and other private-label PC manufacturers for orders from electronic retailers to sell reliable PCs with middle-of-the-road technology at low prices.

EMERGENCY MEETING OF MAGNA'S EXECUTIVE TEAM

The CEO called an emergency meeting of Magna's executive team to review Magna's prior-year performance (see Table 1). Visibly stressed because of an upcoming meeting with investors planned for the next week, Magna's CEO angrily asked the CFO to explain why the company was unable to effectively execute its strategy as evidenced by its poor performance relative to its budget: Was the budget poorly done, or does Magna have operational issues that need to be addressed? The CFO confidently replied that the prior year's budget was well done, noting it was reasonable and fully reflected Magna's strategy. The CFO added that Magna's inability to execute its strategy must have been caused by operational issues. The CFO then quickly explained to the CEO that she had been so busy dealing with the auditors to finalize Magna's year-end financial statements that she had not had time to investigate what may have caused the failure to reach the budgeted numbers.

After the CEO’s angry outburst, the CFO calls you into her office and directs you, the newly hired corporate controller, to use a balanced scorecard (BSC) and the performance data for Magna and DataMax to deduce the cause of Magna’s failure to successfully implement its strategy. Although you do not have enough information or time to confirm your deductions, your report to the CFO should outline the information you would collect to verify your findings.

Table 1. Select Financial and Operating Information from Magna’s Prior Fiscal Year

Magna PC: Select Financial Information (in millions)		
	Actual	Budget
Net Sales	\$1,424.8	\$1,539.9
Cost of Goods Sold	\$923.1	\$918.8
Net Operating Profit After Tax	\$240.8	\$298.9
Average Invested Capital	\$4,176.0	\$4,080.0
Magna PC: Select Operating Information		
Number of employees	6,492	6,094
PCs Produced and Sold (in millions)	2.59	2.59
Percentage of Total Working Days Lost to Employee Absenteeism	2.2%	2.1%
Number of Finished PCs Reworked Prior to Sale	32,000	25,000
Percentage of Supplier Parts Magna Rejects	4.5%	3.0%
Average Score from Annual Customer Satisfaction Survey (5=Excellent)	3.4	4.0
Percentage of Employee Turnover	10.3%	5.2%
Number of PC Patents Granted to Magna During Fiscal Year	8	6
Number of New PC Models Successfully Launched During Fiscal Year	1	4
Percentage of Faulty PCs Returned by Consumers	2.8%	2.0%
Percentage of Returned PCs Covered by Warranty	5.6%	3.0%
Number of Working Days Lost to Strikes	2,500	3,200

Note: All monetary values are represented in U.S. dollars.

DATAMAX PC

DataMax PC, one of Magna’s largest and strongest competitors, also manufactures and sells private-label PCs to the same markets as Magna. It has one manufacturing plant in the same country as Magna’s factories and uses production techniques and processes similar to those used by Magna. The information in Table 2 was obtained from DataMax’s prior fiscal year financial statements and from a PC manufacturers’ trade association of which Magna and DataMax are members.

Table 2. Select Financial and Operating Information from DataMax’s Prior Fiscal Year

DataMax: Select Financial Information (in millions)	
	Actual
Net Sales	\$462.2
Cost of Goods Sold	\$268.8
Net Operating Profit After Tax	\$89.2
Average Invested Capital	\$815.6

DataMax: Select Operating Information	
Number of Employees	1,900
PCs Produced and Sold	780,000
Percentage of Warranty Claims for PCs Sold	2.5%

Note: All monetary values are represented in U.S. dollars.

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