

Intel case study

Business



Memorandum Andrew Grove, President and CEO To: From: xx Subject:

Recommendation on Various Operational Issues Date: December 31, 1994

This is to highlight few areas of operational issues that were identified during the Intel's crisis over the floating-point problem in the processor and to discuss potential solutions to avoid similar issues in the future.

Summary The following are the key issues covered in this memo: Intel's Product Recall & Media Response Strategies Manufacturing process – Supply Chain Risk Management Accounting Policies o Warranty Liableness Stock-based Compensation Expenses Review of Employee Profit-sharing Program As Intel learned through the crisis over the defected product, the company recall strategy, if poorly managed, could have “ significant impact on firm's reputation, sales, and financial value” 1.

Recommendation: We recommend Intel to review the current supply risk management process and put an effort to move away from “ looking backwards” analysis (I. E. Assess supply chain risks by monitoring historical financial performance) 5. Rather, segmentation of the supply chains per different risk groups and spreading Intel's reliance on supply chain will enhance company's ability to manage the risks associated with the supply chains.

It is also recommended to review and implement a strict internal control process on maintaining the optimal stock level of he critical parts that could potentially disrupt production. Accounting Policies > 0 Warranty Expenses and Liabilities This year, Intel experienced an unexpected product-recall issue, which will need to be accounted properly for financial reporting

purposes. The following are three acceptable ways to account the issue: 1) Recognize revenue for defective product sold & a provision for estimated contingency losses. Also, write-off unsold defective inventory. 2) Defer recognition of revenue until the defective products are actually replaced.

It may require reversal of revenue that has been already recognized.) Take no action, under the assumption that the issue is not material.

Recommendation: We recommend Intel to take the option 1) illustrated above. Under the Abs's " Accounting Standards No. 5, Accounting for Contingencies", corporations are required to record warranty liabilities when warranty claim is probable and the amount can be estimated. Since, Intel can measure the potential number of affected units and estimated replacement costs; it should take a contingent provision this ear.

It is also recommended to write-off UN-sold defective inventory, as it will send good signal out to market that Intel is proactively managing the product defect issue. 0 Stock-based Compensation Expenses By reviewing Intel's previous years' financial statements, it was noticed that the company is not disclosing the fair-value of stock-based compensation expenses, which represents potential dilution of share values upon the exercise of such stock options. Recommendation: Corporations in United States are now getting more and more erasure on disclosing the fair value of stock options on their financial statements.

In fact, Canadian corporations are already required to disclose such values in their financial statements 6 as per the accounting standard adopted by CIA.

It is a matter of time for U. S.

FAST to adopt the similar standard and we recommend Intel to review ten valuation models (e. G. Black-sconces) oval Losses ten value of stock-options. lee Ana prepare to It is becoming quite common for prominent companies like Intel to try to motivate aliened workforce by linking employees' compensation to the firm's performance.

The main idea of such incentive program is to motivate employees to work harder towards the corporate goals, “ while keeping fixed costs loW’7. However, many experts are expressing that corporations may not receive true benefit of having such profit- sharing plan, unless the program is well designed to link the bonus to individuals' actual commitment in the process.

7 That is, if employees continue receiving certain level of bonuses without understanding why they are receiving it (I. E. O direct link teen their action/commitment and the bonus received), “ they will begin to view it as part of their regular compensation” 7. Recommendation: We recommend Intel to revisit current employee profit-sharing program and implement an annual employee review program, which provide each level of employees with an opportunity to set annual goals that can have direct impact on their annual profit-sharing amount. This could bring employees at all level of Intel into day-to-day decision making & long- term profit-generating process, which will bring maxim benefit of bonus program back to the company.

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