

Midwestern steel division case study

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Midwestern Steel Division rhea case is about the new implementation of the new performance measurement system at Armco Inc, a steel making company.

The old performance measurement system at the company was focused on the cost performance measurement which included the cost added per ton of steel at each production stage. Each month, the operating static reports were issued every month with the most detail of the cost. Bib Nine, the director of finance, was not satisfied with the performance of the firm, e thought there were too many details in the operating static report which cost too much.

It also made the operating managers focus on every aspects of the cost during the operation, and kind of ignore the big picture of the cost saving objective. In his opinion, more profit could be generated when the operating managers focus on five or six big things that cause 80% of the costs than on everything that caused 100%.

Then, the new performance system came up. The new performance measurement system is based on the objective of cost saving during the operating process.

Operation managers are desired to focus on the major cost during the operating process and would not get involved in the detail until the problem in the small factor happened. In addition, the new measurement system would help measure the performance measurement of individual operating managers in terms of what he or she takes charge of. The implementation of

the new performance measurement system met some troubles at the beginning.

The employees who were used to the old system complained about the new system as the new system doesn't provide enough information about where the cost goes.

Bob believes that the implementation of the performance measure would be profitable to the overall performance of the company. In my opinion, it always takes some time to make people change the mindset. It would be difficult in the beginning, but it would be finally profitable at the end if the strategy is towards the right direction. There are some remaining issues need to be solved for Armco Inc.

The first one is how to evaluate managers' performances in situations where distorted by uncontrollable factors. To solve this problem, in my opinion, the employee should report the uncontrollable factor to the per level manager.

Since the factor is uncontrollable, then performance measurement should definitely take the factor into account. The second one is about how to split the compensation between the fixed salary and the flexible salary which is based on the performance of the individual employee. Since it is the at the beginning stage of the new measurement implementation, I would recommend to take 40% of the total salary basing on the performance of the individual employee. As from the case, employees are not willing to make this huge change at the beginning phase.

If 40% of the total salary is based on the performance evaluation, it would help motivate the employees in terms of the quick learning and adapting to the new system for the employees. In addition, since the new performance evaluation system would provide a better view of the employee's performance, the performance would be measured more accurately based on the new system. After everyone gets used to the new system, the portion of 40% on the performance would also encourage the performance to the individual, and increase company. The overall purpose to