Building Shareholder Value Using Formative Evaluation

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Evaluation in Organizations

- Personnel performance
- Training initiatives
- Human resource development
Lacking Lexical Understanding

• Evaluation is a common business activity
• Terminology is different
• Serious evaluation is misunderstood
Evaluation Case Study

- Purpose
- Methodology
- Value Premises
- Discoveries
Purpose

• Determine the merit of the organization’s value-based management approach

• Use results to improve operating efficiency

• Increase shareholder value
The Evaluand

- Value-based management
  - Manage resources to create value
  - Guides financial planning, monitoring, and managing operations
  - Operationalized as “asset utilization”
Evaluation Questions

1. How does the company’s asset utilization compare to internal and industry standards?

2. How do changes in asset utilization impact company stakeholders?

3. What ripple effects occur with the maximization of asset utilization?

4. How can the company’s asset utilization be improved?
Stakeholders

Upstream Impactees

Downstream Impactees

Direct

Indirect

Customers

Vendors

Employees

EVALUAND
Value-Based Management (asset utilization)

Management Team
Methodology

• Analytic component evaluation
• Multi-method field study
  – Literature review
  – Semi-structured interviews
  – Record review and data analysis
• Sources of information
  – Key financial and operations personnel
  – Company operating data
Methodology (cont.)

• Management-oriented approach
  – Emphasized improvement as the primary purpose
  – Considered from decision-maker’s POV

• Consumer-oriented approach
  – Placed greater emphasis on downstream impactees
  – Considered alternative programs
Value Premises

• Management’s organizational goals
• Industry standards
• Environmental standards
• Ethical and legal standards
<table>
<thead>
<tr>
<th>Dimension</th>
<th>Subdimension</th>
<th>Indicator</th>
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<tbody>
<tr>
<td>Resource Management</td>
<td>Efficiency</td>
<td>• Inventory turnover</td>
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<td></td>
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<td>• Days sales outstanding</td>
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<td>• Sales to fixed assets</td>
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<td>Profitability</td>
<td>• Earnings before taxes</td>
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<td>Sustainability</td>
<td>Value Creation</td>
<td>• Earnings growth</td>
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<td>• RONA</td>
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<td>Side Impacts</td>
<td>Customer Satisfaction</td>
<td>• Market share</td>
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<td>• Revenue growth</td>
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<td>• Warranty claims</td>
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<tr>
<td>Comparative Effectiveness</td>
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<td>• EVA</td>
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<td>• Residual income</td>
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Reporting & Supporting

- Key Evaluation Checklist (Scriven, 2005)
- Drafts submitted for review and comment
- Written and oral reports provided
- Post-evaluation follow-up
Inventory management should be given greater attention to improve inventory turnover within the facility.
Serious Evaluation

• Recognized an expanded group of impactees
• Searched for side impacts
• Considered alternatives
• Synthesized facts with values
Lessons Learned

• Building credibility
• Minimizing political issues
• Client education
• Being assertive and flexible
• Brevity is a virtue
Building Shareholder Value

- Informed decision-making
- Identified areas for improvement
- Stimulated new initiatives
- Improved operating efficiency
- Increased shareholder value
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