ATH Technologies (A): Making the Numbers

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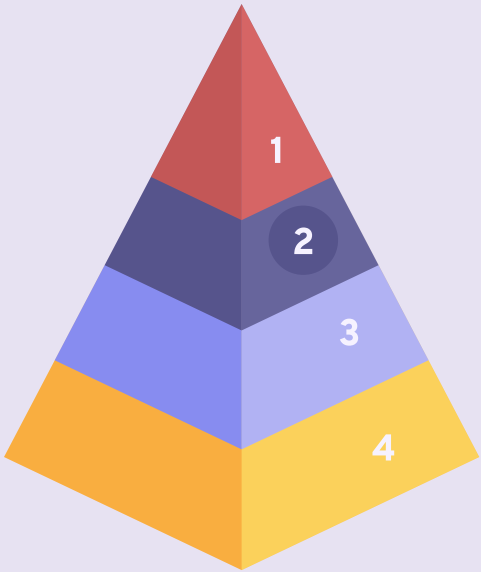
1. Does the Earn-Out Structure Focus on the right performance Goals?

A business strives to set itself apart from its rivals in the market by adding value for its clients. Leadership establishes the performance metrics/goals in line with the company's business plan.

The earn-out system is focused on creating new items and products that are better than those already on the market. Because of this, they are used in company planning to create targets, The earn-out structure correctly places emphasis on performance goals because it also pertains to progress while attaining goals. They could have added some additional qualitative objectives.

The current earn-out arrangement has both advantages and disadvantages. Instead of aiming for a long-term, sustainable increase in corporate revenue and profits, the existing structure is primarily concerned with maximizing short-term income and profit.

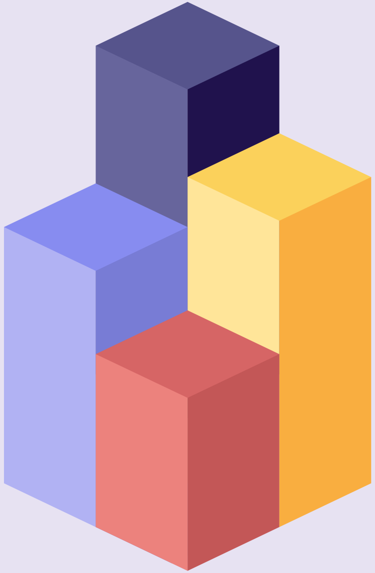
Performance objectives should be centered on other parts of the business, such as customer happiness, internal control, management, and employee innovation, in addition to the financial components.(CONTD.)



1. Does the Earn-Out Structure Focus on the right performance Goals?(CONTD.)

A complete performance measurement should be in line with the corporate goals. As a result, the suggested earn-out structure is insufficient to motivate the business and its workforce toward the latter's long-term objectives. Additionally, I believe that it is a healthy practice for sales and earnings to coexist because it helps ATH maintain control over how their product is sold. Another thing to note is how the structure seems to place an excessive amount of emphasis on short-term objectives, and there is really no motivation for ATH to keep investing in R&D and marketing after the initial earn-out structure's bonuses.

If there is no motivation to invest in more R&D, ATH may focus more on sales, and the advancement of its technologies may become stagnant. It is crucial for ATH to keep improving their product in order to maintain a competitive advantage in a crowded market. Finally, it appears that the earn-out structure places too much emphasis on individual aspirations rather than the long-term objectives of the company. People could behave selfishly in order to obtain the necessary numbers for the bonus.



(A). Should Scepter Pharmaceutical put additional controls on this entrepreneurial firm?

Scepter adding additional controls to ATH seems like the most logical solution. The acquirer company, Scepter, must focus on achieving the proposed synergies that were supposed to be derived from the conglomerate. Scepter Pharmaceuticals should impose effective control for operational efficiency with a focus on the optimum utilisation of the available resources of ATH at its disposal if ATH is to be a successful target company. Furthermore, Scepter must impose additional control on ATH in order to determine the performance achievements on which the earn-outs are based. Close monitoring of the activities and decisions of ATH's Senior staff at regular intervals will allow it to track any deviations from its merger objectives. They should, in particular, implement forms of action controls on ATH in an attempt to limit decision-making authority.

Scepter should have the authority to approve or disapprove major decisions or changes in how ATH spends their money.

A form of results control appears to be in place in the form of the bonus numbers, but another results control in the form of 'quality checks' in the products can be implemented.

2. If you were president of ATH Technologies, how would you communicate and motivate employees to achieve profit and performance goals?

Motivating others is always a difficult task to accomplish with reasonable precision, but without proper motivation,the ATH workforce will be unable to meet the goals that have been set for them, and it is the responsibility of senior management to communicate effective motivation to its employees. This can be accomplished by effectively aligning goals across the organisation to support a well-defined strategy. There are various reasons for implementing goal alignment, as it can

- Improve and accelerate operational execution by smoothly transitioning from strategy planning to strategy execution.
- Employee retention is improved by improving morale, resulting in more engaged employees to achieve a common organisational goal.

It is critical to effectively communicate expectations to employees while also identifying their shortcomings and strengths upon that job to ensure that they are aligned with the company's objectives and are aware of his/her contribution towards the core mission and vision of the organisation. A well-defined scorecard system can be used by the company to communicate on both an organisational and individual departmental level. Furthermore, it is critical to communicate rewards based on performance and achievement of goals in order to promote productivity. Thus, goals and rewards must be communicated concurrently in order to motivate employees.

(A) What are the appropriate performance goals for employees to focus on?

As part of the strategic value creation process, a company tends to set four types of goals with its employees:

- **Job Objectives-** Objectives that clearly outline the tasks that will be required to complete the job. Such objectives must be specifically tailored to each employee and position.
- **Project Goals-** Activities with a clearly defined end and beginning that employees should pursue.
- **Professional Development Goals-** These defined goals focus on improving efficiency and technical skills, which are critical for professional growth. They should also aid in the development of both the employee and the organisation as a whole.
- **Performance Goals-** When we talk about performance goals, we're talking about specific end results that are critical to an organization's success and that a specific employee must also perform and produce results for.Employees can stay focused on achieving results by setting performance goals.
- **Employee motivation**- Employee motivation as a performance goal is carried out by spotting talent, providing high-level tasks and duties, and allowing them to demonstrate their leadership skills during the process.

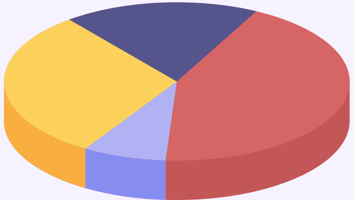
(A) What are the appropriate performance goals for employees to focus on? (contd.)

- **Employee Productivity-** As part of a performance goal, appraisal and evaluation mechanisms are used to measure and increase productivity levels. Hindernesses to high productivity are discovered along the way with employee evaluation during this phase. Training and development, which are integral parts of the goal-setting stage of performance appraisals, can be used to correct them.
- **Employee accountability** - Including employee accountability as a performance goal holds employees accountable for their work. It is achieved performance evaluation whether they are actually doing their work for which they are hired. Employees are typically held accountable through observation and guidance.
- **Employee job satisfaction-** Performance evaluations can actually affect an employee's efficiency/success in other areas of work based on their level of job satisfaction. Employees who receive adequate support from their managers and supervisors and who are satisfied with their jobs are more productive and engaged. Employee recognition is also enhanced by job satisfaction.
- **Employee Efficiency-** Improving employee efficiency as part of a performance goal is similar to increasing productivity, but the output is approached differently.

(B) How would you communicate and control events and employee action that could put business objectives at risk?

It is a well-known fact that the success of any business is constantly threatened by various distracting factors in its micro or macro environment, which are colloquially known as 'Risk.' The likelihood of an event occurring and producing a result.
The risk is the consequences. In a typical business and economic scenario, there are three types of business risks:

- **Preventable Risks:** Internal risks that can be handled, eliminated, or avoided within a company. Such risks included illegal, incorrect, inappropriate, unethical, and unauthorised actions by employees and managers, as well as routine operational process breakdowns. As a result, a firm's short-term profit may be offset by the company's long-term value erosion. This is managed by monitoring operational processes and directing people's behaviours and decision-making toward the defined norms.



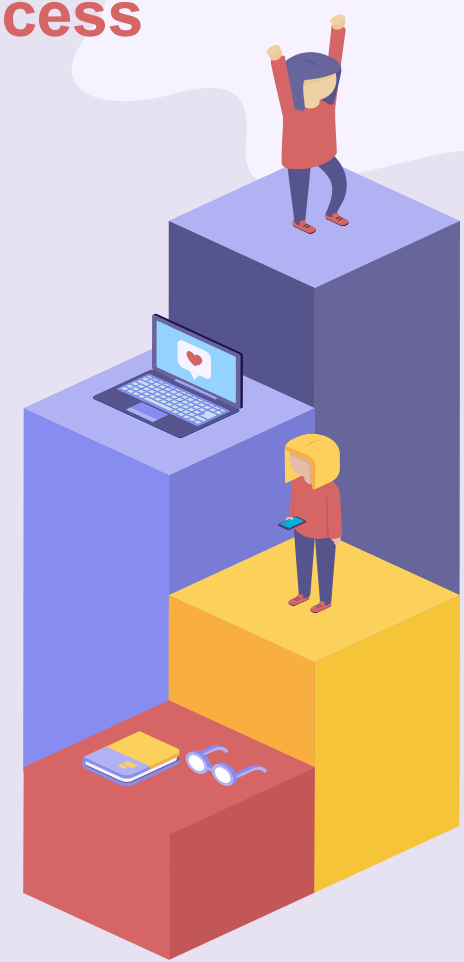
(B) How would you communicate and control events and employee action that could put business objectives at risk?(Contd.)

- **Strategy Risks:** This entails voluntarily accepting a portion of the risk in order to maximise the strategy's returns. Expecting high returns necessitates a company taking significant risks as part of its strategy, and such risks should be well managed for potential gains. Rule-based control cannot control strategy risks; instead, it requires a risk-management system that can ensure that assumed risks are reduced rather than materialising, while also improving the organization's ability to bring risks under control if they occur.
- **External Risks**: These are risks that occur outside of a company's control and are of an external nature. Political unrest, natural disasters, and other major macroeconomic movements are examples of such risks .Because organisations cannot control such risks, they necessitate a different approach and reasoning to contain them. As a result, identifying them ahead of time should be the management's priority in order to mitigate their impact.Risk management is the process of managing and mitigating risks through the use of tools, methods, and processes. It entails identifying potential outcomes, evaluating and assessing their impact, and determining how to address them using strategies. Good communication is an important aspect of risk management.

3. What are the best financial measure to access ATH technologies performance? and why?

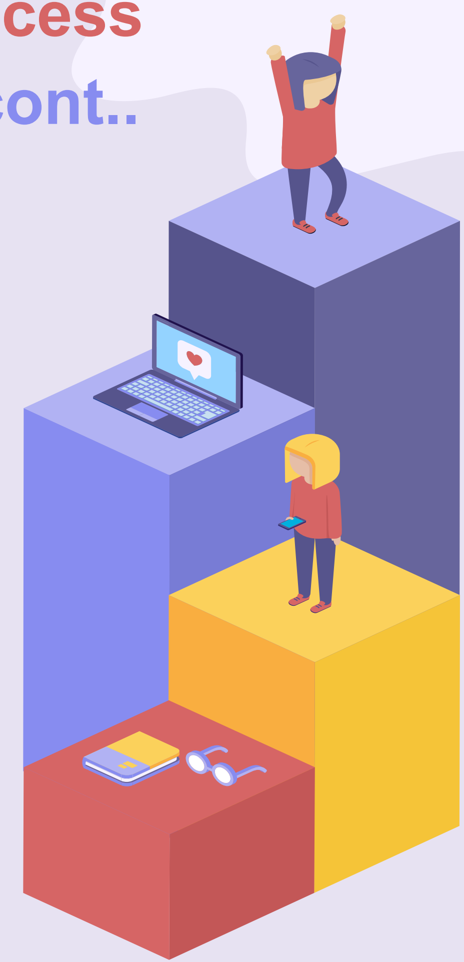
There are many financial measure but broadly there are 4 measure to access the performance of ATH Technologies.

- **Income**- Monitoring how much money you are generating. It is also called Top Line because it comes on top of the income statement
  - We want to monitor how well we are generating sales and revenue by looking at revenue growth rate.
  - When we start measuring this it is useful to look at revenue concentration in a business because we don't want all our revenue coming from just one customer or product.
- **Profitability**- it means how much money is left at the end. Profitability is basically **Sales - Cost we Spend.**
  - Net profit margin means the % of our revenue that is left as profit, it varies from industry to industry. A good benchmark is to aim for about 10% of net profit margin.



3. What are the best financial measure to access ATH technologies performance? and why?cont..

- **Liquidity**- How much money you have available. It is the difference between the current asset and the current liability. This is called the working capital
  - We need to aim for a ratio of about 1.2 - 2 to have healthy business
- **Invest wisely-** we should invest in things that generates a good return for our business, which is called the Return on Investment [ROI].



THANKS!