BPM1: Profitability of research and development

BPM2: Percentage of passes in quality checks

2a

Yes, Nintendo is a strategy focused organization. Its goal is to “maximize long term corporate value while trying to benefit everyone and everything impacted by their company”. This goal is supported by its organization structure where development heads roll up to general managers who report to President Chief Production Office. This allows new ideas or proposed changes to be highlighted in a systematic manner for implementation.

Another strategic direction by Nintendo is its plan on expansion and early venture. Though it stared out in the playing cards industry, the company perceived a lack of further development and sought opportunities in other industries. It took bold decisions to venture into love hotels, taxi services, toy market and video games. Although some ventures had failed, Nintendo managed to make its mark in the video gaming industry.

2b

The first business performance measure is the profitability of research and development. It measures the net profit from the revenue generated by products and the cost spent on research and development. It relates to the financial perspective of the Balanced Scorecard.

Explain perspective + Propose chart

The first business performance measure is the percentage of passes in quality checks. It measures the percentage passes based on the number of products that clear the quality checks and the number of products sampled. It relates to the internal business process perspective of the Balanced Scorecard.

Explain perspective + Propose chart

2c

A possible target value for the percentage of passes in quality checks would be for every team to achieve at least 85% pass in quality checks for their products. Below are some considerations when setting up this target value.

Easily understood and communicated

The target value is straightforward and can be easily disseminated to the team. To ensure that everyone is aware,, the managers can include this as an agenda item in team meetings.

Clear in established expectations

The target value set is clear in terms of what is to be expected. Example, for every 100 products being sampled for quality checks, there should be less than 15 products that are defects from the sample.

Encouragements given to stretch performance

The target value is standardized across the function used to measure performance. To encourage employees, managers can reward the team that exceeds targets such that they feel motivated.

2d

The following are considerations when designing the two business performance measures.

Impact to organization’s strategic objective

Both measures have a direct impact to Nintendo’s objective of “producing and marketing the best products and support services available”. Research and development is an indication of the products’ customer value while the quality checks ensure that products meet the standards.

Measurability of the business performance measures

Both measures are quantitative in nature hence measureable. Profitability of research and development can be measured by calculating the net profit from revenue generated from the products and amount send on research and development. Percentage passes in quality checks can be measured by taking the ratio of passes to the total sample.

Availability and accessibility of data required to derive the measure

Data required to measure profitability of research and development can be extracted from the Nintendo’s accounting system or from the annual cash flow statement. Data required to measure percentage passes in quality checks can be extracted from the Operations information system where the data on production workflow is available. In terms of accessibility, it is dependent on the role and job scope of the analyst as some data may be classified as restricted.

Frequency of measurement

Frequency of measuring the profitability of research and development can be done quarterly or yearly, depending on business needs. This allows the management to review the budget and cost effectiveness. Frequency of measuring percentage passes in quality checks can be done more regularly, for instance monthly or in sync with production cycle. As quality checks are conducted periodically, it is necessary to ensure that percentage passes are being tracked.

2e

Profitability of research and development is a lagging measure. It can only be measured at the end of a time period, for instance after the first quarter of the year. As it is historical in nature, the data is often easy to identify and extract. However it lacks predictive power. The measurement may not stand true or give a reflection of future occurrence.

Percentage passes in quality checks is a leading measure. It can be used to drive other measures such as customer satisfaction or regulatory compliance. By measuring the intermediate process in product development by checking the quality, it provides a guide as to the number of complaints expected to receive as a result of defects. This allows Nintendo to make interim changes to the current process.