GEC corp. is a large multinational with several divisions. Some of these divisions are well established divisions, primarily with a manufacturing focus, while others are "primarily consulting" divisions with very little investment in plant and equipment and where quality of the consultants employed determines reputation. The manufacturing divisions predominantly fall into two categories – one category where the product is well established and the manufacturing process undergoes very little change. The plant and equipment in these divisions are also relatively old and management is not considering much new investment in these divisions. The other category of manufacturing divisions consists of divisions in the ever changing electronics and communications industry. These divisions have to go in for significant new investments frequently to keep up with technological change and to keep up with the competition.

The firm uses Return on Investment (ROI) in evaluating performance for all these different divisions. Bonuses are awarded based on bonus points calculated using the formula "One bonus point for each 1% that actual ROI was above the average for the previous two years, subject to a division achieving at least 15%" (i.e., no bonus if a division achieves ROI less than 15% even if the ROI this year is more than 1% over the average ROI of the last two years).

Based on the information above, answer the following questions:

1. Is ROI an appropriate measure for performance evaluation for all these divisions? Why or Why not?
2. Which category of divisions is most likely to benefit from the bonus approach used by this firm? Explain.
3. Would you change this system of performance evaluation? How? If you would, how would you evaluate performance in each of these three division categories? .
4. Would Residual Income (or EVA) be better than ROI?

You can answer these questions either individually or in one combined answer. Answer in total for all four questions should not be more than one and a half pages (double spaced).