Performance Management (22E24000)

AUSB 9.1 – 15.2.2023
Venue: TBD   Time: Monday & Wednesday
                                              12.15-14.00

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I am available for questions before and after classes. I have no office hours, but should there be a need to meet outside teaching hours, send me an e-mail.

COURSE OBJECTIVE AND APPROACH TO LEARNING

The objective of the course is to develop student's ability to design and implement effective performance management systems. Course reviews various practices to manage organizations performance, and develops understanding when and under what circumstances each of them are effective in dealing with various managerial challenges.

Course gives special emphasis on accounting based controls as part of the organizations management systems. The link between strategy and performance measurement is elaborated, as performance management practices play a key role in strategy implementation. Moreover, various aspects of operational control are discussed. Course allows insights into the current research in this field as well as helps those who plan to do master's thesis in this topic area.

Lectures will follow roughly the Merchant and Van der Stede's text-book. The intent of lectures is not to repeat what is written in the book, but to discuss those topics with the aid of cases and to provide additional insights, practical applications and examples on topics covered. Cases and course readings are essential to learning and student should read them independently and be ready to discuss those during the class. To achieve the learning objectives, students need to work independently in between classes.

SCHEDULE

9.1. MANAGEMENT (CONTROL) SYSTEMS

- Introduction to the course and practicalities
- What is performance management
- The control function of management
- Causes of control problems
- Management control alternatives and their effects

11.1 MANAGEMENT (CONTROL) SYSTEMS

- Accounting as part of the organizational management system – "Control Package"

Case: Atlanta Home Loan

Atlanta questions:

1. Identify the devices (controls) that Al Fiorini used to control his business both before and after he went back to school. Classify each control as results, action, or personnel or cultural type of control.

2. What went wrong? Did Al use the wrong types of controls? Did he use the right types of controls but fail to design or implement them properly? Or was he just unlucky?

Readings for week 1:

M&V (Merchant, K. & Van der Stede, W. (2012), 3rd ed, Management Control Systems - performance measurement, evaluation and incentives. Prentice Hall.) Chapters 1-6

Malmi, T. & Brown, D, 2008. Management Control Systems as a Package – Challenges, Opportunities and Research Directions, Management Accounting Research, 19, 287-300.

Buckingham, M. & Goodall, A., 2015. Reinventing Performance Management, Harvard Business Review, April, 40-50.

16.1. FINANCIAL RESULTS CONTROL SYSTEMS

- Financial responsibility centers
- Financial indicators for measuring performance
- What is EVA and why has it been argued to be superior to ROCE?
- What are the implications of Value Based Management to management system design?

Case: Puente Hills Toyota **(to be graded)**

Puente Hills Toyota questions:

Evaluate the performance measurement and incentive systems used at Puente Hills Toyota. What changes would you recommend, if any? (Note: Establish criteria for evaluation and remember to justify your recommendations!)

18.1. FINANCIAL RESULTS CONTROL SYSTEMS

- Purposes of budgets
- Problems with traditional annual budgeting
- Beyond Budgeting

Case: Statoil

Statoil Questions:

1. Statoil managers claim that their company no longer prepares a budget. What do they mean by that claim?
2. Why did Statoil decide to abandon budgeting?

3. Describe the new process that Statoil implemented to replace the budget. What are its strengths and weaknesses?
4. Is the Statoil "Ambition-to-Action" system just a routine implementation of the Beyond Budgeting approach, or does it include some additional features or fail to uphold some of the Beyond Budgeting principles? (see: www.bbrt.org)
5. The "Beyond Budgeting" approach is still relatively rare outside Europe. Why? Is there something about non-European cultures that limits its applicability, or are other companies just slow to catch on to an innovation that has started in Europe?

Quick Question 1:

Should companies go "beyond budgeting"?

Readings for week 2:

M&V 7, 8 & 10

Koller, T. 1994. What is value-based management? McKinsey Quarterly

Go to the Beyond Budgeting Institute website (www.bbrt.org). Read some of the key materials in the sections titled "About" and "Resources"

23.1. BALANCED SCORECARD & VALUE DRIVERS

- What are the uses of measurement systems? - Different types of Scorecards
- What are the design implications of different uses?
- Strategy as a basis for performance management systems
- How to derive measures from strategy – strategy maps
- How to link measures in different levels of organizational hierarchy

Quick Question 2:

What kinds of companies should implement a basket-of-measures approach, such as balanced scorecard, rather than just monitoring and rewarding their general managers' performances based on a single bottom-line summary performance measure?

25.1. BALANCED SCORECARD & VALUE DRIVERS

- How to use scorecards as part of management system
- What are value drivers and how do those link to BSC

Case: Johansen's: The New Scorecard System (to be graded)

Johansen's Questions:

1. Why has Johansen's introduced the new scorecard system?
2. What is the company's strategy? What are the key success factors for successfully implementing that strategy?
3. Describe the organizational structure in place at the company.
4. Consider each of the four perspectives of Johansen's new scorecard system. Why are they included? How are they measured?
5. What rating do you advocate awarding Clark? What are the key arguments you use to support that rating?

Readings for week 3:

M&V Ch 11

Kaplan, Robert S., and David P. Norton. "Having Trouble with Your Strategy? Then Map It." Harvard Business Review 78, no. 5 (September–October 2000): 167–176

Robert S. Kaplan and David P. Norton (2001) Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I. Accounting Horizons.

Robert S. Kaplan and David P. Norton (2001) Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part II. Accounting Horizons.

Aranda, C., Arellano, J., 2010. Consensus and Link Structure in Strategic Performance Measurement Systems: A Field Study. J. Man. Account. Res. 22, 271–299.

30.1. INCENTIVE SYSTEMS AND TARGET SETTING

- Purposes of incentives
- Different types of rewards
- Design choices: formula based or not, shape of pay function, size of bonus
- Criteria for evaluating incentive systems
- Pros and cons of group rewards

Quick Question 3:

Do you believe that incentive pay is truly effort-inducing; that is, drive employees to perform at their best?

1.2. INCENTIVE SYSTEMS AND TARGET SETTING

- Targets: where do they come from?
- How challenging targets should be?
- How much influence subordinates should have in setting targets?
- Objectives and key results (OKR)

Case: Dortmunder-Koppel GmbH

Questions: Evaluate the new long-term incentive plan. Would the company have been better off doing something else? Or nothing?

Readings for week 4:

M&V Ch 8 & 9

"Measure what matters", John Doerr, 2018. (This is a book. It is not compulsory course requirement but I encourage you to read it)

6.2. ISSUES IN PERFORMANCE MEASUREMENT

- Remedies to the Myopia Problem
- Performance evaluation in the presence of uncontrollable factors

Case: Zumwald AG (to be graded)

Zumwald AG questions:

1. What sourcing decision for the X73 materials is in the best interest of:
   a. The Imaging Systems Division
   b. The Heidelberg Division?
   c. The Electronic Components Division?
   d. Zumwald AG?

2. What should Mr. Fettinger do?

Quick Question 4:

Some companies make performance evaluation and bonus adjustments to protect managers from the harmful effects of many uncontrollable factors. Other companies make no such adjustments. Is one of these approaches clearly inferior, or is this just a "management style" choice?

8.2. ISSUES IN PERFORMANCE MEASUREMENT

- Ethical issues related to MCS
- Transfer pricing

Case: Ethics@Cisco

Cisco Questions:

1. What is the Ethics@Cisco program trying to achieve? Why does CISCO try to maintain a strong ethics program? How does it benefit the company stakeholders?
2. A recent survey of 1,966 companies in nearly 80 countries, conducted by Chartered Institute of Management Accountants, found that over 80% of the companies provided a code of ethics or similar document to guide their employees about ethical standards in their work. Therefore, the Cisco Code of Business Conduct is not unique. Why, then, is the Cisco ethics program considered one of the best such programs in the world?
3. Here are two examples of ethical issues that Cisco employees might face:
   a. A Cisco employee in China received a box of moon cakes as a gift from a supplier (it is a tradition in China to give moon cake gifts at the time of the mid-autumn festival). The moon cakes were packaged in a carved wooden box. The recipient estimated the value of gift at approximately 600 yuan (€ 80).
   b. Employees at a foreign Cisco location were asked to make a donation to a memorial fund founded by a government official, whose agency was a large Cisco customer, after his daughter died tragically

   What would you do if as a Cisco employee you were faced with each of these situations?
4. Can the Cisco ethics program be improved? If so, how?
5. What, if anything, will have to change as Cisco continues to grow, perhaps doubling its number of employees in the foreseeable future?

Readings for week 5:

M&V Chapters 11, 12 & 15

Malmi, T., Kolehmainen, K. & Granlund, M, forthcoming. Explaining the unintended consequences of Management Control Systems - Managerial cognitions and inertia in the case of Nokia Mobile Phones, Contemporary Accounting Research.

13.2 ALLIGNING CONTROL SYSTEMS TO THE CONTEXT

- The impact of strategy on control system - innovation and ambidexterity as strategic objectives
- Sustainability as an objective
- Do similar controls work in different cultural environments?
- What challenges multinationality creates for control?

Quick Question 5:

As a first approximation, which of the following statements do you believe is most correct, and why:

1. People are people. They respond approximately equally to many things, including pay-for-performance systems
2. To work well, management and incentive systems must be tailored to fit the specific employee group (e.g. nationality, role, age and gender)

15.2 ALLIGNING CONTROL SYSTEMS TO THE CONTEXT

- Controls at not-for profit organisations
- Summary / Wrap-up

Case: SCI Ontario (to be graded)

SCI Questions:

1. How would you deal with the problems facing Lynne-Davies as senior manager, marketing and communications?
2. Prepare a dashboard of measures for internal reporting to be used for the 2014/15 year. One approach to this is to adopt a specific month and use fictitious data for that month. The aim of the dashboard is to allow the new CEO to manage the organization using the data it contains. Use more than one measure but avoid putting too many measures on the dashboard.
3. Prepare a plan to develop the leadership role for SCI Ontario. Critically, how would you plan to monitor your success?

Readings for week 6:

M&V 16 & 17

Melnyk et al., 2014. Is performance measurement and management fit for the future? Management Accounting Research, 25, 173-186.

Bedford, D., Malmi, T. & Sandelin, M, 2016. Management control effectiveness and strategy: An empirical analysis of packages and systems. Accounting, Organizations & Society, Vol. 51., 12-28

Malmi, T. et al., 2020. Culture and management control interdependence: An analysis of control choices that complement the delegation of authority in Western cultural regions. Accounting, Organizations & Society (available online March 19, 2020).

ASSINGMENTS AND GRADING

Course grading is based on case reports and class activity as well as final exam. Final exam accounts for 50% of the final grade.

Course includes eight case studies students need to prepare prior to class. Four out of these eight cases will be graded separately and each of those four cases makes 7 % of the final grade, i.e. 28%. These four cases are indicated above as "to be graded". Class activity is 22 %.

The evaluation of class activity is based on answering to remaining 4 cases, answering on quick questions, and active participation on class discussion.

I will assess these 4 cases on three-point scale: inferior = 0; fair=1,5; outstanding=2,5, and this assessment will be part of your class contribution grade. This makes maximum of 10 points out of 22 for class activity and 10% of your final grade.

There will be five quick questions. Answering quick questions **on time** gives you either 0,5 or 1,5 points each. In total you may receive 7,5 points for your final grade from quick question answers.

The participation on class discussions may give you 5 points, or 5% of your final grade.

In total you can collect 100,5 points from final exam, cases and class activity.

The class is divided into groups of four, which is also the maximum size of a group. The minimum group size is three. You can form groups by yourself and those of you who wish not do so, I will form groups. You need to agree among group members how you would like to work on cases. Grading of cases is based on group performance. Group can split points unevenly within the group to reflect individual contributions, if wished. If you wish to do so, please indicate that in the cover sheet of the case you hand in.

Final exam, quick question answers as well as participation on class discussion is evaluated on individual basis.

Final exam will account for 50 points and you need to receive a minimum of 20 points to pass. Similarly, you need to collect at minimum 20 points out of 50,5 available for case assignments and class activity.

Final exam takes place 21.2.2023 and there is only one chance to redo the exam on 31.3. 2023.

CASES

All cases are due at the beginning of the class they are discussed. Upload your answer to MyCourses. All cases are group assignments, and no single submissions are permitted. It is enough that one member of the group hands in the case in MyCourses.

One group will be selected to present each of the four cases that are graded. You are encouraged to volunteer for presentation as presentations contribute to your class activity. The presentation should answer the questions assigned, but should not be merely a presentation of the answers one by one. Instead, an overall presentation should be comprehensive enough that the answers to the questions are included. The group presenting will lead and guide the discussion and make sure that everyone participates.

Remaining 4 cases will be discussed during the class, but no student presentations are required.

QUICK QUESTIONS

On the bottom of many of the class assignments, you will see that I have included a "quick question." **Prior to midnight** before our class pertaining to that assignment, please answer the question(s) for that day's class in MyCourses. This is not intended to be a time-consuming obligation. Your answers should be brief — three sentences or less for each question.

Your answers to the quick questions serve multiple purposes. First, they help me to get to know you and to see how you think. Second, these messages open the communication channels between us. Since you have to provide me an answer, it is easy to append another thought. You may use this opportunity to ask a question on another topic or to give me some feedback about the course. I welcome this. Third, your answers help me orient the class discussion. For example, they help me both to judge the mindset of the class and to find people with unique perspectives. Finally, the questions are functional because they encourage good advance preparation.

NOTE: To receive points from these quick questions they need to arrive on time. Make sure you press the send button!

WORKLOAD

Our lectures will start at 12.15. We will have one break and I expect sessions to end around 14.00. Should the class vote for no break, we will end sessions around 13.45. Attendance is not mandatory, but absence will have an impact on your learning as well as participation grade.

Some of the cases are relatively short, some require more work. You should read relevant chapters from text-book as well as additional readings materials before preparing cases. The four case assignments that you hand in will likely take some 5 to 8 hours each, including the time spent on readings. The four other case assignments should take from 2 to 5 hours each.