

# Performance Management (22E24000)

AUSB 4.9 – 10.10.2023

Venue: T003 & L1012

Time: Monday & Tuesday  
14.15-16.00

There are some exceptions to normal teaching times on 5.9, 12.9 and 25.9, as well as on venue, please check from SISU!

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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**

### **4.9. 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

## 5.9 MANAGEMENT (CONTROL) SYSTEMS

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

**Case:** Private Fitness Inc

**Private Fitness Inc questions:**

1. Describe a solution to Rosemary Worth's control problem that emphasized:
  - a) Results controls
  - b) Action Controls
  - c) Personnel / Cultural controls
2. What should Rosemary do?

(You can choose one of the solutions described in your answer to Q1, or you can combine particular elements of each of those solutions, if appropriate). Explain why your recommendation is the best solution.

**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.

## 11.9. 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: KCC (to be graded)**

**KCC questions:**

1. Identify the most important key recurring decisions that must be made effectively for KCC to be successful. In KCC's functional organization, who had the authority to make these decisions? Who has the authority to make these decisions in KCC's new divisionalized organization?
2. Did KCC top management go too far in decentralizing the corporation? Did they not go far enough? Or did they get it just right? Why?
3. Evaluate KCC's new performance measurement and incentive system. Assuming that KCC will retain its new divisionalized organization structure, what changes would you recommend, if any? Why?

4. Assume that the R&D function is to be decentralized (given to the divisions). Would this necessitate changes to KCC's performance measurement and incentive system? If so, which and why? If not, why not?

## 12.9. FINANCIAL RESULTS CONTROL SYSTEMS

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

### Case: Mainfreight

#### Mainfreight Questions:

1. At the very least, Mainfreight's management systems are nontraditional.
  - a. What are the key elements of Mainfreight's results control systems?
  - b. Why did Mainfreight managers decide to take a nontraditional approach?
  - c. How does Mainfreight perform the functions typically fulfilled by budgets? Or are some of those functions really not that important?
  - d. Does the Mainfreight system address the limitations of traditional budgets? Does it introduce new limitations?
2. Is Mainfreight a well-controlled organization?
3. Should companies that now use an annual budgeting process try to emulate some or all of the management systems used by Mainfreight? Why or why not?

#### Quick Question 1:

Mainfreight's top executives, three of whom are qualified accountants, maintain that their company does not prepare budgets. Is that contention accurate? How should one determine whether a company prepares a budget or not?

#### 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](http://www.bbrt.org)). Read some of the key materials in the sections titled "About" and "Resources"

## 18.9. 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?

## 19.9. 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.

## 25.9. 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

### Case: HCC Industries (to be graded)

#### HCC questions:

1. Evaluate the decision to use "minimum performance standard" (MPS) targets instead of "stretch" targets.
2. Should HCC managers have expected that the MPS target-setting philosophy would be equally effective in all four operating divisions described?

What, if anything, could have been done to improve the implementation of the new philosophy?

### **Quick Question 3:**

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

## **26.9. 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)
- Guest lecture: Director Antti Niemelä, Head of Transaction Banking (Large corporations and institutions), OP Financial Group

### **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)

## **2.10. ISSUES IN PERFORMANCE MEASUREMENT**

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

### **Cases: Beifang Chuang Ye Vehicle Group**

#### **Beifang Question:**

To what extent, if at all, should Mr. Zhou provide incentive compensation for his employees when his company is losing money? Why? What factors did you take into consideration in making your judgment?

#### **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?

## **3.10. ISSUES IN PERFORMANCE MEASUREMENT**

- Ethical issues related to MCS
- Transfer pricing

### **The “Sales Accelerator Program”**

Did the SPD managers act in an ethical manner in deciding to implement the “Sales Acceleration Program”?

### **Readings for week 5:**

M&V Chapters 11, 12 & 15

Malmi, T., Kolehmainen, K. & Granlund, M, 2022. Explaining the unintended consequences of Management Control Systems - Managerial cognitions and inertia in the case of Nokia Mobile Phones, Contemporary Accounting Research.

### **9.10 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 multi-nationality 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)

### **10.10 ALLIGNING CONTROL SYSTEMS TO THE CONTEXT**

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

#### **Case: USC (to be graded)**

##### **USC Questions:**

1. Using the terminology that we used in this course, what would you call USC's responsibility centers? Are they revenue centers? Profit centers? Something else?
2. The RCMS seems to be working reasonably well. USC has used it for over 25 years, and seemingly nobody wants to abandon it. What makes it effective?
3. Consider each of the criticisms of RCMS:
  - a. Does it sound plausible that the RCMS could have been causing, or at least contributing to, the problems if, indeed, there were problems?
  - b. Which of the problems have been solved by the RCMS refinements that were implemented over the years? Which remain?
4. What should be done now? Does the RCMS create "perverse incentives"? If so, how? If not, why not?

##### **E-mail Question:**

Very few colleges and universities use a decentralized responsibility center system like RCMS. If RCMS provides USC with a comparative advantage, why haven't more universities implemented something like it? Conversely, if RCMS is an inferior system, why has USC used it for so long?

## 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 66% 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 4 % of the final grade, i.e. 16%. These four cases are indicated above as “to be graded”.

Class activity is 18 %.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; outstanding=2, and this assessment will be part of your class contribution grade. This makes maximum of 8 points out of 18 for class activity and 8 % of your final grade.

There will be five quick questions. Answering quick questions **on time** gives you either 0 or 1 points each. In total you may receive 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. To allow me to assess your class activity, have your name clearly visible in front of you at the classroom. You are also supposed to self-evaluate your class contribution in MyCourses.

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

By answering the feedback survey at the end of the course you will receive additional two points.

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 66 points and you need to receive a minimum of 26 points to pass. Similarly, you need to collect at minimum 14 points out of 34 available for case assignments and class activity.

Final exam takes place 17.10.2023 and there is only one chance to redo the exam on 11.12. 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.

### **USE OF AI**

Solutions to various HBS cases have been available on various web-sites for long and now there might be a temptation to use AI to construct answers to cases or use AI to modify existing case answers found in the web. This is not acceptable, like it is not acceptable to use answers found in web. You may use AI to improve your own writing and / or to increase your understanding of the topics discussed. For all documents you hand in, you need to indicate how you have used AI (should you have used it). We will analyze all documents handed in with Turnitin. The role of final exam in your final grade is now more remarkable than it used to be in this course to create a dis-incentive to use AI to solve cases. Remember: The only way to learn is to think issues through yourself and this learning will be tested in the exam.