



Rotman Commerce
UNIVERSITY OF TORONTO

Fall 2015

RSM422H1F
Management Control

This course considers the processes and systems, many accounting-based, by which key managers allegedly ensure that resources are acquired and used effectively and efficiently in the accomplishment of an organization’s goals.

***Prerequisite:* RSM322H1**

→→ SEE COURSE INFORMATION, INCLUDING SUBMISSION OF ASSIGNMENTS, ON BLACKBOARD

Class time/location →	Section L0101 Tuesday, 12 noon-2pm Classroom WO20	Section L0201 Thursday, 12 noon-2pm ClassroomWO20	Section L0301 Wednesday, 4pm – 6pm Classroom WO35
Instructor:	E. Zuliani, Room 504 Rotman Management Centre	J. Amernic, Room 500 Rotman Management Centre	R. Tassone, Room 532 Rotman Management Centre
Phone:	(416)-946-7529	(416)-978-3796	(416)-978-3986
Email:	ezuliani@rotman.utoronto.ca	amernic@rotman.utoronto.ca	ralph.tassone@rotman.utoronto.ca
Course website:	portal.utoronto.ca	portal.utoronto.ca	portal.utoronto.ca

Class number	Section L0101	Section L0201	Section L0301
1	September 15	September 17	September 16
2	September 22	September 24	September 23
3	September 29	October 1	September 30
4	October 6	October 8	October 7
5	October 13	October 15	October 14
6	October 20	October 22	October 21
7	October 27	October 29	October 28
8	November 3	November 5	November 4
9	November 17*	November 12	November 11

10	November 24*	November 19	November 18
11	December 1*	November 26	November 25
12	December 8*	December 3	December 2

*** NOTE: Tuesday November 10, 2015 is a November Break day; no classes.**

COURSE OVERVIEW AND INTRODUCTORY COMMENTS:

Was the tragedy at Lac Mégantic in the summer of 2013 due in part to deficiencies in the organizational and management control systems in place at Montreal, Maine & Atlantic Railway and its related companies? Why did a report published by the U.S. Army War College complain about dishonesty in the U.S. army profession? Were there, in part, systemic reasons at BP (British Petroleum) and other companies for the 2010 Deepwater Horizon oil spill tragedy in the Gulf of Mexico? For the 2011 TEPCO-Fukushima nuclear crisis? Why did financial giant UBS adopt a radically new compensation model in late 2008? Did it work? How can RIM's (now known as BlackBerry) problems and potential opportunities be understood? How did the RCMP go from being a Balanced Scorecard poster child to requiring its honour restored in 2007? How did steelmaker Nucor sustain its success over decades in the volatile steel industry and how did the crisis of 2009 affect the company? And what happened at Ornge, the province of Ontario's air medical transport service? These and many other pertinent questions can be usefully examined from the perspective of *management control*.

Basically, our job as instructors in this course is to use financial accounting, management accounting, strategy, leadership, economics, marketing and other business disciplines—and also anything else that is useful and practical—to understand how management control systems and processes can be improved. Our home discipline at the Rotman School is Accounting, so that's an important part of our approach to management control analysis, but we're also very interested in Leadership, Governance, Ethics, and Organizational Communication, so they are important too in helping us and participants in this course understand how, for example, 'tone at the top' affects management control, and vice versa, and to design a "better" MCS, or management control system for an organization.

The definition of *management control* provided by Robert Anthony and Vijay Govindarajan (*Management Control Systems*, 12th edition, McGraw-Hill/Irwin, 2007; we will use a custom textbook version of this book in this course) is as follows (like almost all definitions, this one has both strengths and weaknesses):

"Management control is the process by which managers influence other members of the organization to implement the organization's strategies" (p. 6)

All management students can benefit from a Management Control [MC] course, since it focuses on fundamental issues in performance management in organizations, including: the importance of (among other things) the crucial roles of accounting, compensation incentives, leadership, language and communication in making the organization succeed (or, at times, fail!). Risk, culture, and information technology are pervasive influences on

MC, and *vice versa*. Three broad approaches to understanding integrated performance management and measurement systems have emerged (strategic performance measurement systems such as the Balanced Scorecard; levers of control; and performance management and control frameworks), while the need for re-thinking management control continues unabated. The global economic crisis of 2008-2009 appeared to be at least partly a crisis in management control, as shown by Nortel, GM, and many other companies.

RSM 422 examines *management control*, which may also be broadly defined as policies, tools and procedures that are employed to increase the likelihood that an organization achieves objectives. Management control under this definition involves the motivation, evaluation and rewarding of individuals constituting the organization so that they behave in ways consistent with organizational goals, which are themselves often contentious. This course will explore the ways management attempts to motivate, evaluate and reward members of the organization. Thus, RSM 422 is a highly integrative course, drawing upon a wide range of management and allied disciplines, with core courses in managerial and financial accounting being of major importance.

The journal *Management Accounting Research* published a special issue on management control in 2005 which was "motivated by the recurring concerns expressed by academics, managers, stakeholders and corporate regulators that the existing framework of management control may, in fact, be irrelevant, that the control needs of the current environment are significantly different from those developed in an earlier period and that improvements are urgently required..." (Nixon and Burns, 2005, p. 260).¹

COURSE MATERIALS

- Custom Book, available at the textbook store: Robert N. Anthony and Vijay Govindarajan, *Management Control Systems*, McGraw-Hill/Irwin, 12th edition, 2007 (cited as "A&G" in the following detailed course outline);
- Other materials on the instructor's Blackboard website (accessed via Portal) and other websites.

GRADING

Component	Due Date	Weight [%]
Class participation	Ongoing	10
Assignment #1	Friday October 16, 12 noon via the portal	10
Assignment #2	Monday November 23, 12 noon via the portal	15
Team business presentation [maximum of six members per team]	To be arranged	25
Final exam	Open book, 3 hours during Arts and Sciences Final	40

¹ William A.J. Nixon and John Burns, (2005), "Introduction: Management Control in the 21st Century", *Management Accounting Research*, Vol. 16, pp. 260-268.

	Exam Period	
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[See grading details below]

Written assignments:

Please note that spelling and grammar will be considered in the evaluation of the assignments . That is, you may lose points for spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre (www.asc.utoronto.ca) or one of the College Writing Centres (www.writing.utoronto.ca/writing-centres). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support. *All assignments should be submitted electronically on the specified due dates.*

(1) First assignment [due Monday, October 12, 12 noon, via portal]:

Read the following article (available on the course portal):
 -Flamholtz, E. (1996), "Effective Organizational Control: A Framework, Applications, and Implications", *European Management Journal*, Vol. 14, No. 6, pp. 596-611.
QUESTIONS
 1. Briefly identify and explain five strengths and five weaknesses of Flamholtz' conceptual model of management/organizational control from your supported perspective. [20% of assignment grade]
 2. Analyze the Birch Paper Company case (A&G, case 6-2) using the Flamholtz model. [30% of assignment grade]
 3. Access (on the course website) and prepare the following case: "MANAGEMENT CONTROL, CULTURE, AND 'LYING TO OURSELVES' IN THE US ARMY PROFESSION " [50% of assignment grade]
Page guideline: About 12 single-spaced pages in total, TNR 12-point font.

(2) Second assignment [due Monday, November 23, 12 noon, via portal]:

Access and complete the "MANAGEMENT CONTROL AND BERKSHIRE HATHAWAY" case, available on the course website.
Page guideline: About 15 single-spaced pages in total, TNR 12-point font.

Class participation grade:

Everyone is expected to have read the material and to have prepared the assigned case(s) for discussion, prior to class. On the rare occasion that you are unable to participate fully, please let your instructor know in advance. Participants will be called upon for their views of the issues under discussion, and the class participation grade will be based upon the level of preparation and the quality (not necessarily quantity) of comments offered. "Case Presentation Evaluation Forms" should be handed in by each non-presenter after each team business presentation, and the instructor will include these in the class participation grade (blank forms may be downloaded from the course website; a maximum of five case presentation evaluation forms will be accepted).

→To assist the instructor's assessment of class participation, students should bring their name cards to each class.

→End-of-course self-assessment: You should prepare a short (maximum 200 words) self-assessment of your class participation, including a mark, and submit it to the instructor during the last class.

PLEASE SEE ALSO THE NOTE BELOW IN "CLASS 1"

Team business presentation:

The teams, and the assignment of cases, will be arranged in the first class session. Team business presentations should be about 50 minutes in duration, including 10 minutes for Q&A. Handouts should be used, but not necessarily PowerPoint or similar media.²

Teams should meet with the instructor several times to discuss their preparations for the presentation. These sessions will help the instructor in assessing the quality of the team's preparation and this will affect the grade given to the presentation.

Learning to work together in teams is an important aspect of your education and preparation for your future careers. That said, project-based teamwork is often new to students and you are therefore reminded of the following expectations with respect to behaviour and contributions to your team project.

1. Read the document entitled, "Working in Teams: Guidelines for Rotman Commerce Students" which is available on the RC portal under the Academic Services tab.

2. When working in a team, Rotman Commerce students are expected to:

- Treat other members with courtesy and respect;
- Honour the ground rules established by the team;
- Contribute substantially and proportionally to the final project;
- Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
- Meet the project timeline as established by the team.

3. Resolving conflicts:

Conflicts are part of the team's process of learning how to work together effectively and when handled well can generate creativity and bring-multiple perspectives to the solution.

Student teams are collectively expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). In cases where teams are unable to arrive at a solution that works for all members, the team must meet with the Rotman Commerce Team Coach** as soon as possible. The Coach will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, utilize their action plans.

² A business presentation that will develop communication and rhetorical skills is strongly encouraged. See also the following article for more information on some cautions when using PowerPoint and similar presentation media: Russell Craig and Joel Amernic, (2006), "PowerPoint Presentation Technology and the Dynamics of Teaching", *Innovative Higher Education*, Vol. 31, No. 3, pp. 147-160.

** For an appointment with a Rotman Commerce Team Coach, Elaine Zapotoczny at elaine@nikoletaandassociates.com. Elaine is highly skilled at facilitating team dynamics and collaboration. Note that the Team Coach's role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes.

Final exam:

The final exam will be a case, will be open-book and of three hours duration. The best way to prepare for the final examination is to carefully read and prepare for each case before class.

Missed Assignments

Students who miss an assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Program Office within **48 hours** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed test or course deliverable.

Late Assignments

Students who are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments. If no extension is given, a penalty of 15% of the value of the assignment per calendar day will be assessed.

Accessibility Needs

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible: accessibility.services@utoronto.ca or <http://www.accessibility.utoronto.ca/>.

Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

The University of Toronto's Code of Behaviour on Academic Matters

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or not is permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

Email

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Blackboard and the Course Page

The online course page for this course is accessed through Blackboard. To access the course page, go to the UofT Portal login at <https://portal.utoronto.ca/> and log in using your UTORid and password. Once you have logged in, look for the My Courses module where you'll find the link to all your course websites. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours. If the course does not appear, go to the Information Commons Help Desk in Robarts Library, 1st floor, for help, or explore the Portal Information and Help at <http://www.portalinfo.utoronto.ca/content/information-students> and review the Frequently Asked Questions.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

DETAILED COURSE OUTLINE

CLASS 1 - INTRODUCTION TO THE COURSE; AN OVERVIEW LOOK AT MANAGEMENT CONTROL; CASES IN LEARNING ABOUT MANAGEMENT CONTROL

[Teams will be established for the Team Business Presentation]

Read and discuss in class:

- Course outline.
- Management Accounting and Management Control: Review using the "Birch Paper Company" case [some students should already be familiar with this case: it's a "classic". It is A&G, case 6-2, and will be handed out in class]

COMMENTS ON CASES IN RSM 422:

Since various organizations face different environments and have different strategies, different management control systems (MCS) are needed to effectively implement these different strategies. An effectively-functioning MCS "converts strategy into reality". Experience with case studies is an accepted way of developing an understanding of MCS, and the often complex interplay among environment, strategy, and the structure and process of an MCS in a given setting. Of course, the words "environment", "strategy", "structure", and "process" are just convenient ways of talking about the activities and outcomes of human beings in social interaction—these words sometimes mask as much as they reveal.

Current research on MCS emphasizes that management control practices have a "visible" dimension and a "hidden" dimension. The visible dimension consists of "the instruments, procedures and techniques of management control" (such as budgets, the budgeting process, compensation plans, etc) and the hidden dimension "relating to the remote control of behaviours and therefore comprising human and managerial aspects", such as corporate culture and the tone at the top.³

Objectives of using cases in studying MC are:

- (a) To introduce and discuss key issues regarding MC systems in use in organizations;
- (b) To focus on the need for a new kind of "matching", i.e., the "match" - or "fit" between the strategy chosen by an organization and the MCS;
- (c) To emphasize the need for overall consistency and compatibility within the MCS;
- (d) To critically evaluate the ethical implications of the MCS.

THIS COURSE IS BUILT AROUND "THE CASE METHOD". BUT SINCE THERE IS NO UNIVERSALLY-ACCEPTED DEFINITION OF THE TERM "THE CASE METHOD", LET'S BE A BIT MORE SPECIFIC ABOUT HOW WE ARE GOING TO INTERPRET THIS TERM AND OUR EXPECTATIONS REGARDING CASE USE IN THIS COURSE:

The most important requirements for this course are a thorough preparation and analysis of the assigned case(s) and readings, and active, above-board participation in class. LEARNING IN THIS TYPE OF COURSE CENTRES ON THE THOUGHT PROCESS IN ANALYZING MANAGEMENT CONTROL SITUATIONS AND ON THE INTERCHANGE DURING CLASS BETWEEN PARTICIPANTS, AND NOT JUST ON THE (ALLEGED) "SOLUTIONS." AS APPROPRIATE, YOU SHOULD TRY TO MENTALLY, PSYCHOLOGICALLY, AND EMOTIONALLY BECOME A ROLEPLAYER WITHIN

³ S. Chatelain-Ponroy, (2010), "A New Metaphor for Understanding Management Control Practices", accessible at: http://halshs.archives-ouvertes.fr/docs/00/50/24/13/PDF/Chatelain-Ponroy_ifsam_2010.pdf (accessed July 15, 2011).

THE PARTICULAR CASE SETTING. QUALITY IMAGINING AND ROLEPLAYING ARE VERY IMPORTANT ATTRIBUTES OF A MASTERFUL MANAGER.

KEEP IN MIND:

- (a) USUALLY THERE ARE NO PERFECTLY GOOD MCS NOR PERFECTLY BAD MCS.
- (b) STUDYING GOOD SYSTEMS IS USEFUL SINCE WE CAN LEARN WHAT MAKES THEM GOOD.
- (c) STUDYING POOR MC SYSTEMS IS ALSO (PERHAPS EVEN MORE) USEFUL, SINCE WE CAN LEARN A LOT FROM FAILURES.
- (d) WEAKNESSES EXIST IN EVEN A GOOD MCS.
- (e) WEAKNESSES SHOULD BE EVALUATED RELATIVE TO RESOURCES (MONEY; TALENT; ETC.)
- (f) RECOMMENDATIONS FOR CHANGE SHOULD BE ACCOMPANIED BY IMPLEMENTATION RECOMMENDATIONS. COSTS (BOTH EASY-TO-MEASURE AND HARD-TO-MEASURE) AS WELL AS BENEFITS (AGAIN BOTH EASY AND HARD TO MEASURE) SHOULD ACCOMPANY EACH SUGGESTION FOR CHANGE.

EFFECTIVE CLASS PARTICIPATION:

Some characteristics are:

- Are the points that are made relevant to the discussion with respect to increasing understanding, or do they merely restate case facts, but not in support of good, interesting ideas?
- Do the comments take into consideration ideas offered by others earlier in the class, or are they points in isolation? GOOD COMMENTS OFTEN (BUT OF COURSE NOT ALWAYS) TEND TO REFLECT NOT ONLY GOOD PREPARATION, BUT ALSO GOOD LISTENING, INTERPRETATION, AND INTEGRATION SKILLS. In other words, do the comments move the conversation forward?
- Do the comments distinguish among different kinds of data: facts; opinions; assumptions; inferences?
- Do the comments reflect a thorough knowledge of the case and its details?

Some definitions and characteristics of "Management Control Systems":

(a) The definition of *management control* provided by Robert Anthony and Vijay Govindarajan (*Management Control Systems*, 12th edition, McGraw-Hill/Irwin, 2007):

"Management control is the process by which managers influence other members of the organization to implement the organization's strategies" (p. 6)

(b) In their book *Management Control Systems: Performance Measurement, Evaluation and Incentives*, Prentice-Hall, Third Edition, 2012, Kenneth A. Merchant and Wim A. Van der Stede write that "MCSs are defined broadly to include everything managers do to help ensure that their organization's strategies and plans are carried out or, if conditions warrant, that they are modified." (p. xii).

They go on to describe their view of MCSs in more detail on pages 5-6:

"It is widely accepted that good MCSs are important. Comparing the books and articles written on management control is difficult, however, because much of the MCS language is imprecise. The term "control" as it applies to a management function does not have a universally accepted definition. An old, narrow view of a MCS is that of a simple cybernetic or regulating system involving a single feedback loop analogous to a thermostat that measures the temperature, compares the measurement with the desired standard, and, if necessary, takes a corrective action (turn on, or off, a furnace or air conditioner). In a MCS feedback loop, managers measure performance, compare that measurement with a pre-set performance standard, and, if necessary, take corrective actions.

In this book, however, we take a broader view. Many management controls in common use, such as direct supervision, employee selection and retention, and codes of conduct, do not focus on measured performance. They focus instead on encouraging, enabling or, sometimes, forcing employees to act in the organization's best interest. Moreover, some management controls are proactive rather than reactive. Proactive means that the controls are designed to prevent problems before the organization suffers any

adverse effects on performance. Examples of proactive controls include planning processes, required expenditure approvals, segregation of duties, and restricted access. Management control, then, includes all the devices or systems managers use to ensure that the behaviors and decisions of their employees are consistent with the organization's objectives and strategies. The systems themselves are commonly referred to as the management control systems (MCSs).

Designed properly, MCSs influence employees' behaviors in desirable ways and, consequently, increase the probability that the organization will achieve its goals. Thus, the primary function of management control is to influence behaviors in desirable ways. The benefit of management control is the increased probability that the organization's objectives will be achieved."

(c) Norman Macintosh (*Management Accounting and Control Systems: An Organizational and Behavioral Approach*, John Wiley and Sons, 1994), writes that

"...management accounting and control systems...[s]ometimes [are]...referred to as *planning and control systems*; sometimes *management control systems*, and sometimes simply *control systems*... My premise is that management accounting systems are only part, albeit usually a very important part, of the entire spectrum of control mechanisms used to motivate, monitor, measure, and sanction the actions of managers and employees... So, to fully understand the workings of management accounting systems, it is necessary to see them in relation to the entire array of control mechanisms used by organizations... " (p. 2)

(d) Eric Flamholtz, in his article "Effective Organizational Control: A Framework, Applications, and Implications" (*European Management Journal*, Vol. 14, No. 6, 1996, pp. 596-611), offers the following definition of what he terms "organizational control" (p. 597):

"The term 'control' is typically used in a variety of ways...In this article, our concern is with organizational control, which is the process of controlling or influencing the behavior of people as members of a formal organization to increase the probability that they will achieve organizational goals."

(e) Otley and Merchant (*Accounting for Management Control*, 2nd ed, Chapman and Hall: London, 1990, p. 1), who use the term *accounting control systems*, caution that:

"Accounting control systems cannot be developed in isolation, but must be designed in conjunction with expectations of how people in organizations will use and react to them"

(f) Comment on the following definition of *management control systems*:

"*Management Control* describes the discourses that organizational leadership deploys overtly and covertly, including formal accounting and accountability systems, to influence the behaviour and attitudes of individuals and groups within the ambit of the organization."

Financial responsibility centres:

THERE ARE FIVE TRADITIONAL TYPES OF FINANCIAL RESPONSIBILITY CENTERS AS OFTEN DESCRIBED IN THE MCS (MANAGEMENT CONTROL SYSTEM) LITERATURE:

- COST CENTRES
- EXPENSE CENTRE ("DISCRETIONARY COST CENTRE")
- REVENUE CENTRE
- PROFIT CENTRE

- INVESTMENT CENTRE

Any given organization may have any or all of the above types of responsibility centres. And the way in which "costs", "expenses", "revenues", "profits", and "investments" are defined and measured must be custom-tailored to the organization's needs, given its economic environment, goals, strategies, and key success factors.

But these traditional ways of conceptualizing and implementing management control have been challenged. For example, Robert S. Kaplan, well-known for his important contributions to the Balanced Scorecard literature, writes that:

"The development of strategy maps and Balanced Scorecards has transformed the foundations of management control systems. The leading paradigm of organizational structure and control of just a generation ago, based upon cost, profit, investment, revenue and discretionary expense centers, has been replaced by a robust, powerful framework in which *every* organizational unit—whether line or staff, whether centralized or decentralized—can be considered a strategic business unit. The management control system is no longer based on the budget—whether for profits, ROI, costs, revenues, or discretionary expenses. Companies now use the more general and powerful strategy management system, built upon the framework of strategy maps and Balanced scorecards, to motivate, align, and evaluate the performance of diverse organizational units." (Robert S. Kaplan, (2006), "The Demise of Cost and Profit Centers", unpublished working paper).

REMEMBER:

- (a) USUALLY THERE ARE NO PERFECTLY GOOD MCS NOR PERFECTLY BAD MCS.
- (b) STUDYING GOOD SYSTEMS IS USEFUL SINCE WE CAN LEARN WHAT MAKES THEM GOOD.
- (c) STUDYING POOR MC SYSTEMS IS ALSO (PERHAPS EVEN MORE) USEFUL, SINCE WE CAN LEARN A LOT FROM FAILURES.
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- (e) WEAKNESSES SHOULD BE EVALUATED RELATIVE TO RESOURCES (MONEY; TALENT; ETC.)
- (f) RECOMMENDATIONS FOR CHANGE SHOULD BE ACCOMPANIED BY IMPLEMENTATION RECOMMENDATIONS. COSTS (BOTH EASY-TO-MEASURE AND HARD-TO-MEASURE) AS WELL AS BENEFITS (AGAIN BOTH EASY AND HARD TO MEASURE) SHOULD ACCOMPANY EACH SUGGESTION FOR CHANGE.

EXAMPLE 1: Suppose a car dealership has the following departments: new car sales; used car sales; service; body shop; and parts. **Suggest (with reasons) the general features of the dealership's MCS:**

RESPONSIBILITY CENTRES

Type of financial responsibility centre	New car sales	Used car sales	Service	Body shop	Parts
Cost					
Expense					
Revenue					
Profit					
Investment					

EXAMPLE 2: Indal Inc, a manufacturing company, has thirty divisions. Financial data was collected for each division; for instance, "Division 6" has the following financial statements:

DIVISION 6 Balance Sheet, End of year 2013 (\$000s)			
Cash	\$100	Accounts payable	\$400
Accounts receivable	800		
Inventory	900		
Current assets	1,800	Current liabilities	400
Plant and equipment, at cost	1,000	Debt	700
Accumulated depreciation, straight line	400	Headquarters equity	1,300
Plant and equipment, net	600		
Total assets	\$2,400	Total liabilities and owner's equity	\$2,400
DIVISION 6 Income Statement, For the year 2013 (\$000s)			
Sales			\$4,000
Costs, other than those listed below			3,200
Depreciation			100
Allocated share of HQ corporate expense			100
Divisional income before income tax			\$600

Accounts receivable are invoiced by the Division, but customers make payments to Indal head office accounts. The "Debt" on the Division's balance sheet is a proportionate part of the overall Indal Inc corporate debt (which carries an average interest rate of 7%). Neither debt interest nor income taxes are charged to the divisions.

REQUIRED: Assuming that you are the General Manager of Division 6, and that a significant portion of your annual compensation is determined by your division's achieving the following target, which is set at the start of each year by Indal Inc's head office group:

<u>Divisional income before income tax</u> Headquarters equity

Suggest some design criteria for measuring the performance of the division manager in relation to the accounting-based short-run compensation incentive plan, given the information available.

SOME QUESTIONS FOR GENERAL CONSIDERATION:

- What, in plain, non-technical language, is a *management control system* (MCS)?
- Why does it makes sense to use both financial and nonfinancial measures in the design of an MCS;
- In your opinion, are financial statements (income statements, balance sheets, etc) a part of a company's MCS?;
- Many countries, including Canada, have converted to (or are about to convert to) IFRS. In your supported opinion, does this have implications for Management Control? Explain.
- Does a *profit centre manager* have "status"?
- Assume that you are about 20 years into your professional career. Which one of Cost, Expense, Revenue, Profit, or Investment centre would you prefer to lead? Explain.

- "Organizational segment managers are often evaluated based on their segment's profitability. The trouble is that profitability does not mean the same thing to all people. Is it net income? Income before taxes? Net income percentage based on revenue? Is it an absolute amount? A percentage?...Too often, managers stress net income or income percentages without tying the measure into the investment associated with generating the income...A better test of profitability is the rate of return on investment (ROI)—income or profit divided by the investment required to obtain that income or profit." Would it make sense to hold you accountable for ROI targets in your position? Why or why not?

CLASS 2 - AN INTRODUCTION TO MANAGEMENT CONTROL

Read:

- A&G, chapters 1, 2 and 3.
- Eric Flamholtz, (1996), "Effective Organizational Control: A Framework, Applications, and Implications", *European Management Journal*, Vol. 14, No. 6, pp. 596-611 (see portal, Class 2)
- A&G, case 1-1, "Nucor Corporation (A)", and case 3-2, "Nucor Corporation (B)"

APPROXIMATELY FIRST 80 MINUTES:

Class Discussion:

- 1) Overview of the A&G chapter material.
- 2) Review the Nucor questions on pages 29-30 of A&G
- 3) What was the market condition and competitive environment facing the steel industry at the time of the case?
- 4) What was Nucor's strategy in the given market environment? Was Nucor's strategy sensible?
- 5) How did Nucor implement its strategy? What made Nucor so successful in an industry with intensive international competition?
- 6) Why couldn't the competitors copy Nucor's strategy?
- 7) What is Nucor like today?
- 8) Any questions about Assignment #1?

APPROXIMATELY LAST 430 MINUTES:

Access the following introductory case from the ASSIGNMENT #1 folder: "MANAGEMENT CONTROL AND CONFESSIONS OF A FORMER WALL-STREETER". Read and bring the case to class (be sure to also bring the article by Mr. Polk; the case is posted to the CLASS 2 folder on the portal).

CLASS 3 - MANAGEMENT CONTROL: TRADITIONAL FINANCIAL RESPONSIBILITY CENTRES

Read:

- A&G: chapters 4, 5, and skim 7.

- Robert S. Kaplan, (2006), "The Demise of Cost and Profit Centers", unpublished working paper [Handout]
- William A.J. Nixon and John Burns, (2005), "Introduction: Management Control in the 21st Century", *Management Accounting Research*, Vol. 16, pp. 260-268

Not Required but Useful Background Reading:

- Teemu Malmi and David A. Brown, (2008), "Management Control Systems as a Package—Opportunities, Challenges and Research Directions", *Management Accounting Research*, Vol. 19, pp. 287–300.

Class Discussion:

- A&G case 4-1, "Vershire Company"
- General discussion: Assignment #1

CLASS 4 - MANAGEMENT CONTROL AS A PROCESS; INTERACTION BETWEEN FINANCIAL REPORTING AND MANAGEMENT CONTROL

Read:

- A&G: skim chapter 8; read chapter 9
- Woolworth "Special Report" (download from the course portal, Class 4). **As you read this report, look for evidence of the way management control systems depend upon management accounting systems, and how management control interacts with financial accounting and reporting.**
- A&G: case 9-1, "New York Times" ["traditional" newspapers have been struggling to adapt to an online model for many years, with varying degrees of success]

Class Discussion:

- Woolworth "Special Report"
 1. What is the most critical measure of performance that links profit with the operational efficiency at Woolworth?
 2. What are the key accounting issues and allegations in this case? How did the company report its quarterly results and why?
 3. How do you evaluate the budgeting process at Woolworth in terms of planning and performance evaluation?
 4. What is the culture towards interim financial reporting at Woodworth? Could senior management have influenced what happened?
 5. Finally, what lessons do you learn from this case if you plan to pursue a career as a general manager? An HR manager? A financial manager? An accounting professional?
- A&G: case 9-1, "New York Times"
 1. See the questions on page 407 of A&G.
 2. Search the Internet and, based upon your results, form a preliminary assessment of the New York Times Company overall today.
 3. See also:
 - A COMMENTARY ON NEWSPAPERS IN THE DIGITAL AGE
 - FROM:

<http://www.guardian.co.uk/help/insideguardian/2010/apr/14/journalism-trends-tools-technologies>

"Journalism in the digital age: trends, tools and technologies"

→ "NEWSPAPERS IN THE DIGITAL AGE"

http://www.pbs.org/newshour/thenews/foreducators/story.php?id=17349&package_id=634

→ U.S. SENATE SUBCOMMITTEE HEARING ON THE FUTURE OF JOURNALISM:

http://commerce.senate.gov/public/index.cfm?p=Hearings&ContentRecord_id=7f8df1a5-5504-4f4c-ba34-ba3dc3955c61&ContentType_id=14f995b9-dfa5-407a-9d35-56cc7152a7ed&Group_id=69c8bef3-c6bd-4da8-9058-8678de2a40a6&YearDisplay=2009

→ The Pew Research Center's Project for Excellence in Journalism

"The State of the News Media 2013: An Annual Report on American Journalism"

http://stateofthedia.org/print-chapter/?print_id=14484

CLASS 5 – TRANSFER PRICING AND DECENTRALIZED MANAGEMENT CONTROL
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Read:

- A&G: chapter 6

Class Discussion:

FIRST HOUR

- Handout case: "Management Control and the For-Profit School Business"

Questions for discussion:

1. Based upon the information provided, is Edison doing well financially? Explain.
2. Identify the important drivers of success for Edison Schools Inc. Support your answer.
3. Explain the importance of transfer pricing and decentralized management control at Edison Schools.
4. Identify the important management control issues in Edison Schools Inc. Support your answer. Outline arguments for and against individual schools being classified as profit centres. How should "profit" be defined at the individual school level? Identify important performance measurement issues. Could groups of schools—for example, schools in a particular geographic area—be profit centres?
5. Recommend, with reasons, an effective compensation system for (a) teachers, (b) school principles, and (c) Edison senior management.

SECOND HOUR

- A&G, case 6-4, "Medoc Company" [or self-study, depending on time available in class]

Self-Study:

CLASS 6 - MANAGEMENT CONTROL: DESIGNING AND IMPLEMENTING A BALANCED SCORECARD— BEYOND PERFORMANCE MEASUREMENT TO MANAGEMENT REVOLUTION?

Read:

- A&G: chapter 11
- R.S. Kaplan and D.P Norton, (2001), "Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part I", *Accounting Horizons*, "15(1), pp. 87-104
- R.S. Kaplan and D.P Norton, (2001), "Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part II", *Accounting Horizons*", 15(2), pp. 147-160
- R. S. Kaplan, "The Demise of Cost and Profit Centers", 2006 [handout unpublished article; used with permission]
- **Optional:** Nørreklit, H., (2003), "The Balanced Scorecard: What is the Score? A Rhetorical Analysis of the Balanced Scorecard", *Accounting, Organizations and Society*, 28, pp. 591-619
- **Optional:** K.R. Thompson and N.J. Mathys, (2008), "The Aligned Balanced Scorecard: An Improved Tool for Building High Performance Organizations", *Organizational Dynamics*, 37(4), pp. 378-393
- **Optional:** Z. Hoque, (2014), "20 Years of Studies on the Balanced Scorecard: Trends, Accomplishments, Gaps and Opportunities for Research", *The British Accounting Review*, 46, pp. 33-59
- **Optional:** Z. Lin, Z. Yu and L. Zhang, (2014), "Performance Outcomes of balanced Scorecard Application in Hospital Administration in China", *China Economic Review*, 30, pp. 1-15.

FIRST HOUR:

→→Presentation by Team A: A&G cases 11-1 and 11-2, "Analog Devices, Inc (A) and (B)" [company website: <http://www.analog.com>]

SECOND HOUR:

- 1) What are the limitations of financial performance measures and how would BSC overcome these limitations?
- 2) What are the four perspectives in a BSC and how are they linked? Why is it more difficult to apply BSC to non-profit or government organizations?
- 3) What is "a strategy-focused organization"? How does BSC relate to ABC?
- 4) Do you agree with Robert Kaplan in his 2006 article "The Demise of Cost and Profit Centers"?
- 5) Can the BSC be applied to governments? To NPOs? To universities?

CLASS 7 - ALIGNING PERFORMANCE GOALS AND INCENTIVES- MANAGEMENT CONTROL AND COMPENSATION (I): WAS EVA THE ANSWER? IS FINANCIAL ACCOUNTING THE PROBLEM?

Read:

- A&G: chapter 12 and re-read chapter 7
- See descriptions of EVA at <http://www.investopedia.com/university/EVA/> and at http://en.wikipedia.org/wiki/Economic_Value_Added
- "Eli Lilly is Making Shareholders Rich. How? By Linking Pay to EVA", *FORTUNE*, September 9, 1996, pp. 173-174.
- Young, S.D., (1997), "Economic Value Added: A Primer for European Managers", *European Management Journal*, 15(4), pp. 335-343
- Young, S.D., (1999), "Some Reflections on Accounting Adjustments and Economic Value Added", *Journal of Financial Statement Analysis*, 4(2), Winter 1999, pp. 7-20
- Amernic, J.H., D. Losell, and R.J. Craig, (2000), "'Economic Value Added' as Ideology Through a Critical Lens: Towards a Pedagogy for Management Fashion", *Accounting Education: An International Journal*, 9(4), pp. 343-367

FIRST HOUR

→→Presentation by Team B: Case available from course website, "Eli Lilly and Company EVA® Bonus Plan: A Critical Evaluation over Time"

SECOND HOUR

Critical discussion of articles assigned for today:

- 1) How should the success of a business be assessed? What are the best performance measures? Explain.
- 2) How can the article by Amernic, Losell and Craig assist managers?
- 3) How does EVA differ from "more traditional" accounting and other performance measures? What are the advantages of EVA relative to "more traditional" accounting-based performance measures?
- 4) What are the common adjustments made in order to calculate EVA and why are these adjustments made?
- 5) What are the issues that may have affected the effective use of EVA as a performance measure? Could EVA be useful in all types of companies?

**CLASS 8 - ALIGNING PERFORMANCE GOALS AND INCENTIVES-
MANAGEMENT CONTROL AND COMPENSATION (II):
ASSESSING THE EVOLVING ROLE OF PERFORMANCE MEASURES IN
COMPENSATION**

Read:

- Re-read chapter 12

FIRST HOUR

→→Presentation by Team C: Case available from course website, "Management Control At UBS: Risks, Profits, And Executive Pay"

SECOND HOUR

Class discussion:

- A&G case 12-2, "Crown Point Cabinetry"
- A&G case 12-4, "Wayside Inns" [overview only; self-study]

CLASS 9 - MANAGEMENT CONTROL AND DIFFERENTIATED STRATEGIES

Read:

- Herbold, R. J., (2002), "Inside Microsoft: Balancing Creativity and Discipline", *Harvard Business Review*, January, pp. 72-79.
- A&G, chapter 13

FIRST HOUR:

→→Presentation by Team D: Case available from course website, "Dreamworks Animation SKG, Inc."

SECOND HOUR:

→→Presentation by Team E: Case available from course website, "The Bankruptcy of Delphi Corporation and Management Control: The Key Employee Compensation Program"

Self-study:

- A&G case 13-1, "Pelican Instruments, Inc."
- A&G. case 13-2, "3M Corporation"

CLASS 10- MANAGEMENT CONTROL AND SERVICE ORGANIZATIONS: A UNIVERSITY AND A PUBLIC ACCOUNTING FIRM

Read:

- A&G, chapter 14
- R. Craig, J. Amernic and D. Tourish, (2014), "Perverse Audit Culture and Accountability of the Modern Public University", *Financial Accountability and Management*, 30 (1), pp. 1-24
- K.E. (Skip) Hughes II and G.R. Pate, (2013), "Moving Beyond Student Ratings: A Balanced Scorecard Approach for Evaluating Teaching Performance", *Issues in Accounting Education*, Vol. 28, No. 1, pp. 49-75
- B. Pierce and B. Sweeney, (2005), "Management Control in Audit Firms—Partners' Perspectives," *Management Accounting Research* 16, pp. 340–370

FIRST HOUR:

→→Presentation by Team F: Case available from course website: "The University of Saskatchewan and TransformUS: A Management Control Perspective"

SECOND HOUR:

- Read and briefly discuss: A&G case 14-4, "Piedmont University"
- Lecture on: A&G case 14-2, "Williamson and Oliver"

<p>CLASS 11- MANAGEMENT CONTROL AND CULTURE: SAFETY CULTURE, AND THE ROLE OF THE CEO</p>

Read:

- Selected pages (TBA) from A&G
- Klein and Grugan, (2007), "Tone at the Top- Part I", *The Metropolitan Corporate Counsel*, June, p. 5
- Klein and Grugan, (2007), "Tone at the Top- Part II", *The Metropolitan Corporate Counsel*, July, p. 24

FIRST HOUR:

→→**Presentation by Team G: Case available from course website, "Management Control, Safety Culture, and the Role of the CEO: BP and the Deepwater Horizon Explosion in the Gulf of Mexico 2010"**

SECOND HOUR:

Read:

- Tourish, D., and N. Vatcha, (2005), "Charismatic Leadership and Corporate Cultism at Enron: The Elimination of Dissent, the Promotion of Conformity and Organizational Collapse", *Leadership*, 1(4), pp. 455-480
- Amernic, J., and R. Craig, (2013), "CEO Speeches as an Insight into Safety Culture: The Case of British Petroleum before the *Deepwater Horizon* Disaster", working paper (available on the portal, Class 11)

Class Discussion:

1. What are the roles and responsibilities of a corporate CEO? Explain.
2. How challenging is the contest to rise to the CEO position?
3. How should the CEO affect management control? Can the CEO subvert management control?
4. Explain how Enron's top management influenced Enron's management control system.
5. Would Flamholtz' management/organization control model be useful in understanding the flaws apparently induced in Enron's management control system by the CEO and other top management? Explain.
6. Comments on the TEPCO-Fukushima tragedy.

<p>CLASS 12- CEOs AND MANAGEMENT CONTROL: THE INTERACTION BETWEEN MANAGEMENT CONTROL AND THE 'TONE AT THE TOP'; COURSE REVIEW</p>
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FIRST HOUR

→→Presentation by Team H: Case material available from course website, “Ornge: The Saga of Ontario’s Medical Transport Service”

SECOND HOUR

Course Review

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