



# Rotman Commerce UNIVERSITY OF TORONTO

**Fall 2018**

## **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 QUERCUS

<b>Class time/location</b> →	<b>Section L0101</b> Tuesday, 10am-12 noon Classroom OI 5170	<b>Section L0201</b> Wednesday, 2pm – 4pm Classroom WO 30  AND <b>Section L0401</b> Wednesday, 4pm – 6pm Classroom WO 30	<b>Section L0301</b> Thursday, 12 noon-2pm Classroom WO 20
<b>Instructor:</b>	E. Zuliani, Room 504 Rotman Management Centre	R. Tassone, Room 509 Rotman Management Centre	J. Amernic, Room 500 Rotman Management Centre
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<b>Class number</b>	<b>Section L0101</b>	<b>Section L0201/L0401</b>	<b>Section L0301</b>
<b>1</b>	September 11	September 12	September 6
<b>2</b>	September 18	September 19	September 13
<b>3</b>	September 25	September 26	September 20
<b>4</b>	October 2	October 3	September 27
<b>5</b>	October 9	October 10	October 4
<b>6</b>	October 16	October 17	October 11
<b>7</b>	October 23	October 24	October 18
<b>8</b>	October 30	October 31	October 25

<b>9</b>	November 13	November 14	November 1
<b>10</b>	November 20	November 21	November 15
<b>11</b>	November 27	November 28	November 22
<b>12</b>	December 4	December 5	November 29

**→→NOTE: Monday November 5, 2018 to Friday November 9, 2018, is FALL READING WEEK; no classes.**

### **COURSE OVERVIEW AND INTRODUCTORY COMMENTS:**

What went wrong at Uber, and how could it be fixed? Was the company's culture and management control system at least partly to blame?<sup>1</sup> Ditto for the huge U.S. financial institution, Wells Fargo. Was the tragedy at Lac Mégantic in the province of Québec 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? Why did BHS, the longtime UK retailer, fail in the summer of 2016? 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 in Japan? Why did financial giant UBS adopt a radically new compensation model in late 2008? Did it work? How did the RCMP (Royal Canadian Mounted Police) go from being a Balanced Scorecard "poster child" to requiring its honour restored in 2007, and the ongoing harassment and bullying scandals up to the present?<sup>2</sup> How did steelmaker Nucor sustain its success over decades in the volatile steel industry and how did the crisis of 2009 affect the company? How is the company adapting recently? 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. Of

<sup>1</sup> See: <https://womenintheworld.com/2018/04/13/uber-ceo-dara-khosrowshahi-addresses-absolutely-unacceptable-company-culture/>

Safety first

Uber CEO Dara Khosrowshahi addresses 'absolutely unacceptable' company culture

The new Uber CEO hopes to reform an 'Animal House'-style corporate culture that had consumers rallying to delete the app BY Kate Tedesco 04.13.18

<sup>2</sup> See: <https://www.cbc.ca/news/canada/rcmp-bullying-harassment-claims-lawsuit-1.4720126>

CBC Investigates

RCMP faces \$1.1B lawsuit over bullying, harassment claims dating back decades

Potential class action could represent thousands of officers, civilian employees, students and volunteers

course, technology also has profound impact on MC and management control systems: a current example is the possibilities of Blockchain with respect to impacting the design and implementation of management control systems.

### **What is “Management Control”?**

The definition of *management control* (MC) 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)

[One strength of this definition is that it is short. One weakness is that it is short and glosses over many issues (for example, what does “influence” really mean? Who gets to set the organization's strategies?).]

Merchant and Van der Stede, in the 2017 edition of their book (*Management Control Systems: Performance Measurement, Evaluation and Incentives*, 4<sup>th</sup> edition, Pearson Education Limited, 2017) offer the following comments regarding MC:

“*Management control*” focuses on execution, and it involves the general question: Are our employees likely to behave appropriately? The question can be decomposed into several parts:

- First, do our employees understand what is expected of them?
  - Second, will they work consistently hard and try to do what is expected of them—that is, will they pursue the organization's goals in line with the strategy?
  - Third, are they capable of doing a good job?
- Finally, if the answer to any of these questions is negative, what can be done to solve the management control problems?” (p. 11)

William Nixon and John Burns write:

“Management control is fundamentally about supporting the attainment of strategic objectives. Increasingly, however, organisations and managers must pursue dual strategies concurrently; they must compete today while preparing for tomorrow, balancing more operational, financially-oriented objectives with the organisational demands of long-term strategic objectives...” (“Management Control in the 21st Century”, *Management Accounting Research* 16 (2005), p. 263)

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.

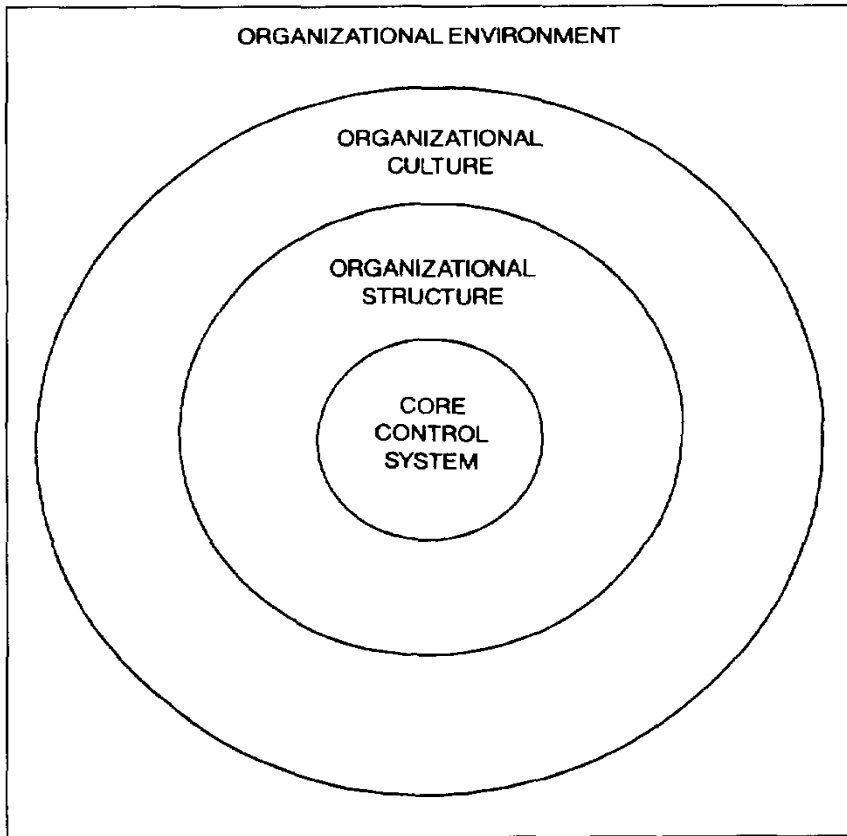
RSM 422 examines *management control*, which may also be broadly defined as policies, tools and procedures that are employed to increase the likelihood that an organization achieves objectives. Management control under this definition involves the motivation, evaluation and rewarding of individuals constituting 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).<sup>3</sup>

In his 1996 article, "Effective Organizational Control: A Framework, Applications, and Implications", *European Management Journal*, 14(6), pp. 596-611, Eric Flamholtz presents the following schematic representation of an organizational or management control system:

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<sup>3</sup> William A.J. Nixon and John Burns, (2005), "Introduction: Management Control in the 21<sup>st</sup> Century", *Management Accounting Research*, Vol. 16, pp. 260-268.



**Figure 1 Schematic Representation of an Organizational Control System**

We will use Flamholtz' representation as we start the course.

Another way of visualizing management control is provided by Teemu Malmi and David Brown ("Management Control Systems as a Package—Opportunities, Challenges and Research Directions", *Management Accounting Research* 19 (2008), p. 291):

Cultural Controls							
Clans		Values			Symbols		
Planning		Cybernetic Controls				Reward and Compensation	
Long range planning	Action planning	Budgets	Financial Measurement Systems	Non Financial Measurement Systems	Hybrid Measurement Systems		
Administrative Controls							
Governance Structure		Organisation Structure			Policies and Procedures		

Fig. 1. Management control systems package.

Notice that “culture” is an important aspect of both the Flamholtz and Malmi/Brown ways of looking at management control, and that seems sensible since problems with organizational culture have been widely reported recently, including:

→ **“Ontario’s dentist watchdog plagued by ‘toxic culture,’ lawsuit alleges”**, (<https://www.thestar.com/news/canada/2017/07/05/ontarios-dentist-watchdog-plagued-by-toxic-culture-lawsuit-alleges.html>); referring to the Royal College of Dental Surgeons of Ontario, *Toronto Star*, By Robert Cribb, Wednesday, July 5, 2017

→ **“Uber Fires 20 amid Investigation into Workplace Culture”**, *New York Times*, by Mike Isaac, June 6, 2017, [https://www.nytimes.com/2017/06/06/technology/uber-fired.html?hp&action=click&pgtype=Homepage&clickSource=story-heading&module=first-column-region&region=top-news&WT.nav=top-news&\\_r=0](https://www.nytimes.com/2017/06/06/technology/uber-fired.html?hp&action=click&pgtype=Homepage&clickSource=story-heading&module=first-column-region&region=top-news&WT.nav=top-news&_r=0)

→ **“How Wells Fargo’s Cutthroat Corporate Culture Allegedly Drove Bankers to Fraud”**

(“Most Americans have assumed their bank accounts are sacrosanct. But with the major scandal unfolding at Wells Fargo, angry former employees illuminate the alarming pressure that allegedly led local bankers to defraud perhaps more than a million customers.”), by Bethany McLean, May 31, 2017, <https://www.vanityfair.com/news/2017/05/wells-fargo-corporate-culture-fraud>

→ **“Whatever Police Culture is, It Needs Changing”**, *Toronto Star*, by Rosie DiManno, Thursday, Feb. 23, 2017, <https://www.thestar.com/news/gta/2017/02/23/whatever-police-culture-is-it-needs-changing-dimanno.html>

## **COURSE MATERIALS**

- Custom Book, available at the textbook store: Robert N. Anthony and Vijay Govindarajan, *Management Control Systems*, McGraw-Hill/Irwin, 12<sup>th</sup> edition, 2007 (cited as "A&G" in the following detailed course outline);
- Other materials on the course website and other websites, including the university’s e-journal collection.

**GRADING**

Component	Due Date	Weight [%]
Class participation	Ongoing	10
Assignment #1	Sunday, October 7th, 12 noon via Quercus	10
Assignment #2	Friday, November 23th, 12 noon via Quercus	15
Team business case research presentation [maximum of six members per team]	To be arranged	25
Final exam *	Open book, 3 hours during Arts and Sciences Final Exam Period	40

\* Only RSM 422-related material (hard-copy) may be brought to the exam. Any hard-copy course information (including notes and assigned articles from class, the custom textbook), but no access to electronic information including the Internet.

[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](http://www.asc.utoronto.ca)) or one of the College Writing Centres ([www.writing.utoronto.ca/writing-centres](http://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 Sunday, October 7th, 12 noon, via Quercus]:**

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.

**QUESTION 1.** Critically evaluate the strengths and weaknesses of Flamholtz' conceptual model of management/organizational control from your supported perspective. Briefly analyze the Birch Paper Company case (A&G, case 6-2) using the Flamholtz model. [20% of assignment grade]

**QUESTION 2.** Read the following article posted to the ASSIGNMENT #1 folder and explain the article's importance in the design of an MCS:

Ann E. Tenbrunsel and David M. Messick, "Ethical Fading: The Role of Self-Deception in Unethical Behavior", *Social Justice Research*, Vol. 17, No. 2, June 2004.

[20% of assignment grade]

**QUESTION 3.** Identify several meanings of the word “culture”. What meaning would you give the word “culture” as in “organizational culture” when management control is being considered? [10% of assignment grade]

**QUESTION 4.** Keeping the Flamholtz model (Question 1, above) in mind, view the following presentation by Dennis Tourish:

Prof Dennis Tourish: Dysfunctional leadership in corporations

<https://www.youtube.com/watch?v=I9O5r-2V0s>

Published on Mar 27, 2015

Dennis Tourish, Professor of Leadership and Organisation Studies at Royal Holloway, University of London discusses ‘Dysfunctional leadership in corporations’. Recorded at the Daedalus Trust-RSM conference ‘Leadership; stress and hubris’ in London, November 2014.

What are the implications of Professor Tourish’ presentation for the design of management control systems? [30% of assignment grade]

**QUESTION 5.** Access and prepare the following case in the ASSIGNMENT #1 folder: GOVERNANCE AT CORECIVIC, INC. 2018  
[20% of assignment grade]

***Page guideline: About 12-14 single-spaced pages in total, TNR 12-point font.***

**(2) Second assignment [due Friday, November 23<sup>th</sup>, 12 noon, via Quercus]:**

On page 8 of its 2018 Annual Information Form, Canadian National Railway provides the following overview of the company:

“CN is engaged in the rail and related transportation business. CN’s network of approximately 20,000 route miles of track spans Canada and mid-America, uniquely connecting three coasts: the Atlantic, the Pacific and the Gulf of Mexico, and serving the cities and ports of Vancouver, Prince Rupert (British Columbia), Montreal, Halifax, New Orleans, and Mobile (Alabama), and the metropolitan areas of Toronto, Edmonton, Winnipeg, Calgary, Chicago, Memphis, Detroit, Duluth (Minnesota)/Superior (Wisconsin), and Jackson (Mississippi), with connections to all points in North America. CN’s extensive network and efficient connections to all Class I railroads provide CN customers access to Canada, the U.S. and Mexico. A true backbone of the economy, CN handles over \$250 billion worth of goods annually and carries over 300 million tons of cargo, serving exporters, importers, retailers, farmers and manufacturers.

CN’s freight revenues are derived from seven commodity groups representing a diversified and balanced portfolio of goods transported between a wide range of origins and destinations. This product and geographic diversity better positions the Company to face economic fluctuations and enhances its potential for growth opportunities. In 2017, no individual commodity group accounted for more than 25% of total revenues. From a geographic standpoint, 16% of revenues relate to U.S. domestic traffic, 33% transborder traffic, 17% Canadian domestic traffic and 34% overseas traffic. The Company is the originating carrier for over 85%, and the originating and terminating carrier for over 65%,



of traffic moving along its network, which allows it both to capitalize on service advantages and build on opportunities to efficiently use assets.

Revenues generated by the Company during the year are influenced by seasonal weather conditions, general economic conditions, cyclical demand for rail transportation, and competitive forces in the transportation marketplace. Operating expenses reflect the impact of freight volumes, seasonal weather conditions, labor costs, fuel prices, and the Company's productivity initiatives."

**REQUIRED:**

Adopt the role of a consultant engaged by the Board of Directors of CN and critically evaluate the compensation system for Named Executive Officers as described in the company's 2018 Management Information Circular.

*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 case research 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.<sup>4</sup>

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<sup>4</sup> 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.

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; to work well in teams, it helps to follow a set of core expectations to best succeed at your team projects.

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. When handled well, it can generate creativity and bring-multiple perspectives to the solution.

Student teams are expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). When 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.

\*\*For an appointment with a Rotman Commerce Team Coach, please contact Nouman Ashraf at [nouman.ashraf@rotman.utoronto.ca](mailto:nouman.ashraf@rotman.utoronto.ca) Nouman 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 a test or 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 **2 business days** 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.

Documentation submitted in support of petitions for missing tests and assignments must be original; no faxed or scanned copies will be accepted

**Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a later report of illness made by the student to a physician.**

### **Late Assignments**

Students who, for reasons beyond their control 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](mailto:accessibility.services@utoronto.ca) or <http://www.studentlife.utoronto.ca/as..>

### **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.

### **Quercus and the Course Page**

The online course page for this course is accessed through Quercus. To access the course page, go to [q.utoronto.ca](http://q.utoronto.ca) and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the

courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours.

### **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, Quercus 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**

<p><b>CLASS 1 - INTRODUCTION TO THE COURSE; AN OVERVIEW LOOK AT MANAGEMENT CONTROL; USING CASES IN LEARNING ABOUT MANAGEMENT CONTROL</b></p>
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**[Teams will be established for the Team Business Case Research 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]**

<p><b>COMMENTS ON CASES IN RSM 422:</b></p>
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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.<sup>5</sup>**

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 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*, 12<sup>th</sup> edition, McGraw-Hill/Irwin, 2007):

<sup>5</sup> 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](http://halshs.archives-ouvertes.fr/docs/00/50/24/13/PDF/Chatelain-Ponroy_ifsam_2010.pdf) (accessed July 15, 2011).

"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.
- (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.



**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	<b>1,800</b>	Current liabilities	<b>400</b>
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	<b>\$2,400</b>	Total liabilities and owner's equity	<b>\$2,400</b>
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			<b>\$600</b>

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:

Divisional income before income tax  
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.**

<b>SOME QUESTIONS FOR GENERAL CONSIDERATION:</b>
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- What, in plain, non-technical language, is a *management control system* (MCS)?
- Why does it make 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?

<b>CLASS 2 - AN INTRODUCTION TO MANAGEMENT CONTROL</b>
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**Read:**

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

**APPROXIMATELY FIRST 50 MINUTES:**

**Class Discussion:**

- 1) Overview of the A&G chapter material.
- 2) Comments on the Flamholtz article: the article provides a good first conceptualization of MCS, but MC and MCS are so much richer...explain.
- 3) Review the Nucor questions on pages 29-30 of A&G
- 4) What was the market condition and competitive environment facing the steel industry at the time of the case?
- 5) What was Nucor's strategy in the given market environment? Was Nucor's strategy sensible?
- 6) How did Nucor implement its strategy? What made Nucor so successful in an industry with intensive international competition?
- 7) Why couldn't the competitors copy Nucor's strategy?
- 8) Any questions about Assignment #1?

**APPROXIMATELY LAST 50 MINUTES:**

Access the following case from the CLASS 2 folder on Quercus: “THE WELLS FARGO CEO’S OPENING STATEMENT BEFORE THE SENATE BANKING COMMITTEE’S CONGRESSIONAL HEARING ‘WELLS FARGO: ONEYEAR LATER’”. **There is no need to read this case in advance; the instructor will use it as a teaching device to explore some complexities of management control systems.**

**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 [in the CLASS 3 folder on Quercus]
- William A.J. Nixon and John Burns, (2005), "Introduction: Management Control in the 21<sup>st</sup> 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:**

- Finish any discussion remaining from CLASS 2
- 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 Quercus, CLASS 4 folder). **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. The Pew Research Center's Project for Excellence in Journalism

### →→Newspapers Fact Sheet, June 13, 2018

<http://www.journalism.org/fact-sheet/newspapers/>

### 4. A DIFFICULT BUT NECESSARY TRANSFORMATION: THE CASE OF TORSTAR

#### →→Torstar transformation difficult but necessary CEO says

<https://www.thestar.com/business/2016/05/04/torstar-books-q1-loss-on-a-number-of-unusual-items.html>

Torstar's transformation difficult but necessary, CEO says

Torstar Corp. is moving toward a digital future because the status quo is not an attractive option, shareholders were told Wednesday.

By Sunny Freeman Business Reporter

Wed., May 4, 2016

Torstar Corp. is in the midst of a difficult transition toward a more digital future because the "status quo was not an attractive option," its CEO told shareholders Wednesday.

"There is an imperative within companies to develop a capability to adapt and be decisive in this era of rapid change," David Holland, president and chief executive of the Toronto Star's parent company, said at its annual meeting.

"We do not expect this transaction to be easy, but we do believe it will ultimately be proven to be worthwhile."

In the past two years, the company — which also owns Metroland community newspapers and a suite of digital properties — has been making important decisions to ensure it can compete in an era of technological change, Holland said.

It sold its Harlequin book publishing division to News Corp. for \$455 million and used part of the proceeds to buy a majority stake in high-growth online media company VerticalScope, whose more than 600 online forums and niche content sites make attractive target markets for advertisers.

“These developments mark a significant shift in Torstar’s asset base, a shift intended to orient the company as a whole to a more digital future,” he said.

It also invested in the digital-first storytelling platform Toronto Star Touch. The tablet app is free and attractive for advertisers because of the level of audience immersion and interactivity.

“While audience progress has been slower than we anticipated, the engagement of the audience that uses the app has met our expectations,” he said. The company also relaunched thestar.com with a mobile-first orientation this week.

Meanwhile, Torstar has undertaken a number of cost-cutting measures related to its print operations. In January, it announced that it would close its Vaughan printing press and outsource printing of the Toronto Star to Transcontinental.

The switch-over, which will take place in July, is expected to save \$10 million on an annual basis, though the savings won’t be fully realized until 2017. The plant is for sale.

Holland also took time during the shareholder meeting to thank outgoing Toronto Star publisher and Star Media Group president John Cruickshank for leading the digital charge in that division for the past seven years. Wednesday was his last day. Holland will assume his duties in the interim.

“The true test of tenure in a role is positive impact and John left his mark making a significant positive impact on the Star and all of Torstar,” Holland said.

Torstar booked a number of charges related to the digital transformation in the first quarter of 2016 that ate into its earnings, but are not expected to continue to hit the bottom line over the rest of the year.

The company reported a net loss of \$53.5 million, or 66 cents per share in the first quarter of 2016. That compared to a loss of \$3.7 million, or five cents per share, in the year-earlier, partially due to a number of unusual items.

Its adjusted loss was 40 cents per share, down from a profit of two cents per share in the same quarter of 2015. The loss included a 52 cent per share impact from amortization and depreciation.

The company booked \$31.8 million in restructuring and other charges, \$22.4 million of which related to the closure of its printing press.

The quarter included a \$5.1 million investment in the Toronto Star Touch, with the remainder of an expected \$10 million spend in 2016 spread over the remaining quarters.

It also included the absence of \$2.9 million from the closure of Olive Media, \$1.4 million in commercial printing contracts at the Toronto Star printing press and a \$6 million digital media tax credit that was claimed in the first quarter of 2015.

Segmented revenue was \$174.8 million in the first quarter, down 9.1 per cent from the opening three months of 2015. Declining print advertising and the lack of revenue from closed operations offset digital gains that included \$8.3 million from the company’s majority stake in VerticalScope.

However, the company said the decline in print advertising moderated in April and digital revenue is expected to grow at thestar.com, Star Touch, and Vertical Scope and in local online advertising.

Digital revenues comprised 17.1 per cent of total revenues in the period ending March 31, compared to 13.2 per cent in the first quarter of 2015.

Segmented earnings before interest, taxes, depreciation and amortization, or EBITDA, amounted to a loss of \$1.1 million.

Holland said he expects EBITDA growth over the rest of 2016 due to efforts to reduce costs and lower net investment in the Toronto Star Touch compared to the 2015 launch.

## **CLASS 5– FIRST HOUR: TRANSFER PRICING AND DECENTRALIZED MANAGEMENT CONTROL; SECOND HOUR: ETHICS AND MANAGEMENT CONTROL IN DECENTRALIZED ORGANIZATIONS**

### **FIRST HOUR:**

#### **Read:**

- A&G: chapter 6

#### **Class Discussion:**

- Case: "Management Control and the For-Profit School Business" (see Quercus)

Questions for discussion:

1. Based upon the information provided, was 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 principals, and (c) Edison senior management.

#### **Self-Study:**

- A&G, case 6-1, "Transfer Pricing Problems"
- A&G, case 6-4, "Medoc Company"

### **SECOND HOUR:**

#### **Read:**

Robert Prentice, (2014), "Teaching Behavioral Ethics", *Journal of Legal Studies Education*, Volume 31, Issue 2, pp. 325–365

#### **Class Discussion:**

Recall the "Birch Paper Company" case from CLASS 1 [it is A&G, case 6-2]. How does "ethics" affect Birch paper's MCS? What, in your supported opinion, are some important design criteria for an ethical MCS?

**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

**FIRST HOUR:**

**→→PRESENTATION BY CASE RESEARCH TEAM A: "THE ROYAL CANADIAN MOUNTED POLICE AND THE BALANCED SCORECARD: A PANACEA FOR ALL THE RCMP'S CHALLENGES?"**

**SECOND HOUR:**

- →→Lecture on tracking how the Balanced Scorecard concept evolved over time at Analog Devices, Inc. Bring to class: A&G cases 11-1 and 11-2
- Link to: Arthur M. Schneiderman, "Analog Devices: 1986-1991, The First Balanced Scorecard, The Kaplan Connection": [http://www.schneiderman.com/Concepts/The\\_First\\_Balanced\\_Scorecard/The\\_Kaplan\\_Connection.htm](http://www.schneiderman.com/Concepts/The_First_Balanced_Scorecard/The_Kaplan_Connection.htm)

**FOR YOUR PROFESSIONAL LIBRARY AFTER THE COURSE: DEEPER BACKGROUND READINGS ON THE BALANCED SCORECARD:**

Cristiano Busco and Paolo Quattrone, (2015), "Exploring How the Balanced Scorecard Engages and Unfolds: Articulating the Visual Power of Accounting Inscriptions", *Contemporary Accounting Research*, Vol. 32 No. 3 (Winter 2015) pp. 1236–1262

David J. Cooper, Mahmoud Ezzamel, and Sandy Q. Qu, (2017), "Popularizing a Management Accounting Idea: The Case of the Balanced Scorecard", *Contemporary Accounting Research*, Vol. 34 No. 2 (Summer 2017) pp. 991–1025

Arthur M. Schneiderman, (last modified April 13, 2006), "Analog Devices: 1986-1992 The First Balanced Scorecard©", [http://www.schneiderman.com/Concepts/The\\_First\\_Balanced\\_Scorecard/BSC\\_INTRO\\_AND\\_CONTENTS.htm](http://www.schneiderman.com/Concepts/The_First_Balanced_Scorecard/BSC_INTRO_AND_CONTENTS.htm)

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

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

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.

**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](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 CASE RESEARCH 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 - FIRST HOUR: ALIGNING PERFORMANCE GOALS AND INCENTIVES- MANAGEMENT CONTROL AND COMPENSATION (II): ASSESSING THE EVOLVING ROLE OF PERFORMANCE MEASURES IN COMPENSATION; SECOND HOUR: A BROADER VIEW OF COMPENSATION IN A SMALL ORGANIZATION**

**FIRST HOUR:**

**Read:**

- Re-read chapter 12

**→→PRESENTATION BY CASE RESEARCH TEAM C: CASE AVAILABLE FROM COURSE WEBSITE, "MANAGEMENT CONTROL AT UBS: RISKS, PROFITS, AND EXECUTIVE PAY"**

**SECOND HOUR**

- A&G case 12-2, "Crown Point Cabinetry"

**CLASS 9 - MANAGEMENT CONTROL AND DIFFERENTIATED STRATEGIES**

**Read:**

- A&G, chapter 13

**FIRST HOUR:**

**→→PRESENTATION BY CASE RESEARCH TEAM D: CASE AVAILABLE FROM COURSE WEBSITE, "DREAMWORKS ANIMATION SKG, INC."**

**SECOND HOUR:**

**→→PRESENTATION BY CASE RESEARCH TEAM E: CASE AVAILABLE FROM COURSE WEBSITE, "NUCOR 2016"**

**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**

**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
- **Optional:** 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
- **Optional:** B. Pierce and B. Sweeney, (2005), "Management Control in Audit Firms—Partners’ Perspectives," *Management Accounting Research* 16, pp. 340–370

#### **FIRST HOUR:**

**→→PRESENTATION BY CASE RESEARCH TEAM F: CASE AVAILABLE FROM COURSE WEBSITE: “THE UNIVERSITY OF SASKATCHEWAN AND TRANSFORMUS: A MANAGEMENT CONTROL PERSPECTIVE”**

#### **SECOND HOUR:**

- “Ethics, Whistleblowing, and Business Schools: The Case of UMKC,”
- OR**
- Lecture and discussion on: A&G case 14-2, "Williamson and Oliver"

#### **CLASS 11- MANAGEMENT CONTROL AND CULTURE: SAFETY CULTURE, AND THE ROLE OF THE CEO**

#### **Read:**

- Selected pages (TBA) from A&G
- J. Amernic and R. Craig, (2017), “CEO speeches and safety culture: British Petroleum before the Deepwater Horizon disaster”, *Critical Perspectives on Accounting*, (available on Quercus in the CLASS 11 folder)
- Deepwater Horizon Study Group 3, Working Paper – January 2011, W.E. Gale, Jr., “Perspectives on Changing Safety Culture and Managing Risk”, (available on Quercus in the CLASS 11 folder)
- Eugene Sadler-Smith, Graham Robinson, Vita Akstinaite, Timothy Wray., “Hubristic leadership: Understanding the hazard and mitigating the risks”, *Organizational Dynamics* (2018, in press).
- Some comments from “What Is Leadership? The CEO’s Role in Large, Complex Organizations”, Michael E. Porter and Nitin Nohria (excerpt from chapter 16 of HANDBOOK OF LEADERSHIP THEORY AND PRACTICE An HBS Centennial Colloquium on Advancing Leadership EDITED BY Nitin Nohria and Rakesh Khurana, Harvard Business Press, BOSTON, MASSACHUSETTS, 2010):

Cataloging all the functions and decisions involved in modern management practice is beyond the scope of this paper. However, these activities can be divided into a number of broad categories that will prove relevant when considering the CEO's role:

1. *Direction*: Setting the *strategy* for the organization, both at the business unit and corporate levels. Closely related to strategy is determining the *specific financial and operating goals* that the organization will seek to achieve. Establishing appropriate *organizational values* and *ethical standards* consistent with the strategy can also be treated as part of setting overall direction.
2. *Organization*: Determining the organization's *structure*, which defines the roles of individuals in the organization, assigns them into units, establishes reporting relationships, and delineates how units will coordinate with each other. An organization's structure should reflect its strategy.
3. *Selection*: Recruiting and developing senior managers and other individuals to perform the various roles in the organization and support the desired direction.
4. *Motivation*: Establishing financial and other *incentives* to encourage ongoing individual and group effort, commitment, and alignment to the organization's objectives.
5. *Systems and processes for implementation*: Establishing *systems* such as planning, budgeting, management development, and performance reviews, and *processes* such as product development and customer service, to ensure the timely and effective implementation of the organization's goals and strategy.

Performing all these functions necessarily involves the collective effort of many people in an organization. The question is: What is the CEO's role?

In each of these broad areas, the CEO's challenge is not only ensuring that the organization collectively makes the right choices and decisions, but also ensuring alignment across them and adaptation over time. *Alignment* means that choices in each area must be consistent with and reinforce others. *Adaptation* implies that these choices need to be reviewed and modified as internal and external conditions change.

- LINK TO "WHAT IS HUBRIS SYNDROME?":  
<http://www.daedalustrust.com/about-hubris/>

#### FIRST HOUR:

→→PRESENTATION BY CASE RESEARCH TEAM G: CASE AVAILABLE FROM COURSE WEBSITE, "BP IN 2018"

#### SECOND HOUR:

**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 BP's top management influenced BP's management control system.
5. Comments on "CEO hubris" (perhaps hard to define and spot).

**CLASS 12- CEOs AND MANAGEMENT CONTROL: THE INTERACTION BETWEEN MANAGEMENT CONTROL AND THE 'TONE AT THE TOP'; COURSE REVIEW**

**Read:**

- Pages 6 to 10 ("What is Tone at the Top?") of *Measuring and Assessing Tone at the Top Using Annual Report CEO Letters*, by Joel Amernic, Russell Craig and Dennis Tourish, 2010, The Institute of Chartered Accountants of Scotland, CA House, 21 Haymarket Yards, Edinburgh EH12 5BH (available in the CLASS 12 folder)

**FIRST HOUR**

**→→PRESENTATION BY CASE RESEARCH TEAM H: CASE MATERIAL AVAILABLE FROM COURSE WEBSITE,"MANAGEMENT CONTROL, TECHNOLOGY, AND CULTURE AT UBER"**

**SECOND HOUR**

Course Review