

**6118**

## **Management Control Systems for Performance Evaluation**

(6 credits)

Accounting Department

### **Course Director**

Gianluca Meloni

### **Instructors**

Gianluca Meloni, Emiliano Galbiati

### **Course Objectives**

Information is essential to all well-managed businesses. The amount and quality of information available to managers is very important to evaluate a business and to manage it. For this reason the use of reporting and performance evaluation system arises as one of the most relevant mechanisms through which it is possible to effectively control a company.

The objective of this course is to cover both the areas of performance evaluation and performance reporting in detail. Through this course it is possible to understand objectives, characteristics, potentialities and limitations of the financial measures. Furthermore the course explains the recent evolutions in the Performance Measurement Models (Value Chain Reporting, Balanced Scorecard, Performance Prism, Risk Assessment). Finally, objective of the course is to understand how to manage the links between measures, responsibilities and incentives.

### **Course Content Summary**

- The role of reporting systems
- The Financial Statement Analysis as the first phase in designing a Reporting Systems
- Designing and Evaluating Reporting Systems: from the understanding of strategic and organizational requirements to the choice of performance measures
- Recent evolutions of reporting systems: the value-based reporting
- Recent evolutions of reporting systems: the use of non-financial indicators (balanced scorecard, performance prism, )
- Linking performance measures to responsibilities
- Aligning performance measures and incentives

## **Texts and supplemental readings**

### Attending Students

- Readings distributed during the course or downloadable using the e-learning platform;
- Slides downloadable using the e-learning platform;
- Cases and exercises downloadable using the e-learning platform.

### Non attending Students

- Merchant K.A., Van der Stede W.A., *Management Control Systems – Performance Measurement, Evaluation and Incentives*, Prentice Hall, Edinburgh, 2007

## **Suggested Bibliography**

- Merchant K.A., Van der Stede W.A., *Management Control Systems – Performance Measurement, Evaluation and Incentives*, Prentice Hall, Edinburgh, 2007
- Palepu K.G., Healy P.M., Bernard V.L., Peek E., *Business Analysis and Evaluation*, Thomson, London, 2007

## **Assessment Methods**

### Attending Students

The assessment is based either on

- two written partial exams

OR

- one general written exam

A group assignment completes the evaluation

### Non Attending Students

Written exam

Data		Contents	Text and cases
		<b>INTRODUCTION</b>	
15/09	1	Introduction to the course The role of management control systems to support an adequate performance evaluation: a framework	<ul style="list-style-type: none"> <li>• Slides</li> </ul>
		<b>THE FIRST PHASE OF PERFORMANCE EVALUATION PROCESS: THE ANALYSIS OF FINANCIAL RESULTS</b>	
18/09	2	The first step in the company evaluation process: strategy analysis <ul style="list-style-type: none"> <li>▪ Industry Analysis;</li> <li>▪ Competitive Strategy Analysis;</li> <li>▪ Corporate Strategy Analysis.</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Strategy Analysis in Palepu (et al), <i>Business Analysis and Evaluation</i>, Thomson, 2007</li> </ul>
22/09	3	The second step in the company evaluation process: financial analysis <ul style="list-style-type: none"> <li>▪ Ratio analysis: an overview</li> <li>▪ Ratio analysis: profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Financial Analysis in Palepu (et al), <i>Business Analysis and Evaluation</i>, Thomson, 2007</li> </ul>
25/09	4	The second step in the company evaluation process: financial analysis <ul style="list-style-type: none"> <li>▪ Ratio analysis: short term liquidity</li> <li>▪ Ratio analysis: long term solvency</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Financial Analysis in Palepu (et al), <i>Business Analysis and Evaluation</i>, Thomson, 2007</li> </ul>
29/09	5	Financial Analysis: an example	<ul style="list-style-type: none"> <li>• Meloni G., Galbiati E., Company (X)</li> </ul>

02/10	6	Cash flow analysis: an overview	<ul style="list-style-type: none"> <li>• Slides</li> <li>• The Statement of Cash Flows in Horngren (et. al.) <i>Accounting</i>, PrenticeHall, 2007</li> </ul>
06/10	7	Cash flow analysis: an example	<ul style="list-style-type: none"> <li>• Meloni G., Galbiati E., Company (X)</li> </ul>
09/10	8	Financial Analysis: advantages and disadvantages - some examples	<ul style="list-style-type: none"> <li>• Slides</li> </ul>
13/10	9	Assignment Presentation	
		<b>THE SECOND PHASE OF PERFORMANCE EVALUATION PROCESS: THE ANALYSIS OF THE RESULTS' DRIVERS</b>	
16/10	10	Disaggregating financial results: <ul style="list-style-type: none"> <li>▪ Identifying cost &amp; revenues centres</li> <li>▪ Identifying profit centres</li> <li>▪ Interpreting results</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Performance Evaluation and the Balanced Scorecard in Horngren (et. al.) <i>Accounting</i>, PrenticeHall, 2007</li> <li>• Meloni G., Italcatt</li> </ul>
19/10	11	Disaggregating financial results: the role of transfer prices <ul style="list-style-type: none"> <li>▪ Transfer price: a definition</li> <li>▪ Transfer price: an empirical case</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• The transfer pricing problem, in Merchant K.A., Van der Stede W.A., <i>Management Control Systems</i></li> <li>• Birch Paper</li> </ul>
20/10	12	Disaggregating financial results: <ul style="list-style-type: none"> <li>▪ Identifying Investment Centres</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Performance Evaluation and the Balanced Scorecard in Horngren (et. al.) <i>Accounting</i>, PrenticeHall, 2007</li> </ul>

		<ul style="list-style-type: none"> <li>• ROI and Residual Income</li> <li>• Residual Income and EVA</li> </ul>	
10/11	13	<p>Reinforcing the financial perspectives with strategic / operational perspective: the role of non financial indicators</p> <ul style="list-style-type: none"> <li>• Balanced Scorecard: a definition</li> <li>• Balanced Scorecard: how to design and to implement it</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Performance Evaluation and the Balanced Scorecard in Horngren (et. al.) <i>Accounting</i>, PrenticeHall, 2007</li> </ul>
13/11	14	How a balanced scorecard really work: Nokia case	<ul style="list-style-type: none"> <li>• Slides</li> </ul>
		<b>THE THIRD PHASE OF PERFORMANCE EVALUATION PROCESS: THE MANAGEMENT OF RESULTS AND DRIVERS</b>	
17/11	15	<p>Budget and Budgeting Process:</p> <ul style="list-style-type: none"> <li>• The role and the nature of budget</li> <li>• Budget preparation process</li> <li>• Behavioural aspects</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Budgeting, in Gowthorpe C., <i>Basic Accounting and Finance</i></li> </ul>
17/11	16	Budget preparation process: an example	<ul style="list-style-type: none"> <li>• E. Galbiati, G. Meloni, Company (Y)</li> </ul>
20/11	17	<p>From Budget to reporting: calculating variances</p> <ul style="list-style-type: none"> <li>• Revenue variances (selling price, mix and volume)</li> <li>• Expenses variances (efficiency and price)</li> </ul>	<ul style="list-style-type: none"> <li>• Slides</li> <li>• Standard Costing, flexible budgeting and variance analysis, in Gowthorpe C., <i>Basic Accounting and Finance</i></li> </ul>

24/11	18	Calculating variances in practice: an example	<ul style="list-style-type: none"> <li>E. Galbiati, G. Meloni, Company (X)</li> </ul>
27/11	19	Calculating variances in practice: an example	<ul style="list-style-type: none"> <li>E. Galbiati, G. Meloni, Company (X)</li> </ul>
01/12	20	Linking performance measures to incentives: an overview <ul style="list-style-type: none"> <li>Purposes of incentives</li> <li>Incentives system design</li> </ul>	<ul style="list-style-type: none"> <li>Slides</li> <li>Incentive Compensation Systems, in Merchant K.A., Van der Stede W.A., <i>Management Control Systems</i></li> </ul>
04/12	21	Linking performance measures to incentives: an empirical case	<ul style="list-style-type: none"> <li>Superconductor Technologies Inc.</li> </ul>
11/12	22	Linking performance measures to incentives: the Beiersdorf case	<ul style="list-style-type: none"> <li>Slides</li> </ul>
15/12	23	Exercises	
15/12	24	Assignment presentation	