8343 - Performance Measurement

International Management, 2009-2010

Course Outline

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CONTENTS AND AIMS

It is widely acknowledged that the success of any firm depends on its capabilities to generate winning strategic ideas, to motivate its managers to implement strategies, to identify and manage strategic risks and, finally, to create stakeholders' consensus. In these respects, performance measurement systems play a crucial role. On the one hand, through strategic planning, programming and budgeting, performance targets are set, coherently with strategic and organizational choices, and used to evaluate managers' accountability. On the other hand, reporting systems serve to communicate to both managers and stakeholders actual performance in a way that fosters learning from experience, enables redirecting ineffective behaviours and supports the generation of stakeholders' trust.

Starting from such premises, this course aims to explore the role of performance measurement and control systems (PM&CS) in implementing strategy and supporting governance processes. More specifically, adopting the perspective of managers (both functional/business units and corporate ones), we will focus on the design and use of some specific PM&CS and tools, such as the profit plan, the strategic profitability analysis, asset allocation systems, transfer pricing systems, the balanced-scorecard and the value-based reporting. We will explore a broader view of performance measurement and control by presenting situations where accounting controls *per se* are not effective. This will allow discussion about topics such as: the use of non financial performance indicators, the importance of corporate values and value systems, the role of business conduct and strategic boundaries, the link between non-financial incentives and motivation, the role of internal control systems in managing business risks.

INTENDED LEARNING OBJECTIVES

Upon successful completion of the course, it is expected that you gain some technical skills related to:

- The design of performance measurement and control systems consistently with successful strategies and organisational choices
- The preparation of profit plans and their use to control and evaluate organisational performance
- The use of strategic profitability analysis to drive organizational units performance
- The use of transfer prices in managing business units

- The application of techniques that aid making decisions that will maximise financial performance
- The definition and application of non-financial performance measures
- The calculation and application of value-based measures
- The identification of the behavioural and organisational consequences of using performance measurement and performance management techniques

As we use case studies, describing "real-life" situations and showing that there are several possible solutions to multifaceted problems, you will deal with the identification and analysis of complex, open-ended issues. This is expected to enhance your ability to sift through information. To identify the salient issues is a vital skill in business today as managers in practice face the problem of dealing with large volumes of written material. The cases required for this course should thus be seen as important preparation for your career. Besides, to actively participate to case discussion you will need to use your communication and interpersonal skills to present your views and to defend your evaluations and recommendations. Finally, for group assignment preparation, you will work as a member of a team in analysing problems, searching for relevant information and preparing and presenting reports.

REQUIRED COURSE MATERIALS

The main course material is represented by:

- Robert Simons, "*Performance Measurement and Control Systems for Implementing Strategy*" (Text and Cases), Prentice Hall, International Edition.

In addition to Simons' textbook, some readings and other materials will be provided during the course. Students will need to refer to each specific session on the course web site (see "e-learning").The content and availability of these additional materials will be announced in class or on the course web site.

PREREQUISITES

To feel comfortable in this class you should be familiar with **financial accounting** and **financial statement analysis** (basic), **cost accounting** and **managerial accounting** (basic).

LEARNING METHODS

a) In-class activities

In-class activities comprise:

- ***Theory sessions***
  Theory sessions are meant to set out the foundations for performance measurement and control. The aim of these sessions is to present concepts and approaches, i.e. a coherent body of practical theory to be applied to case discussions.
- ***Case discussions (either plenary or in groups)***
  This course emphasizes the case method. Students are encouraged to engage in proficient, in-depth discussions with peers and the professor, using cases as applications of theory sessions material.

b) Extra-class activities

Extra-class activities include:

- ***Individual preparation to case discussion***. Students should read the cases before class. If students do not prepare the case for the day, they will not be able to follow much of the class discussion and will not be able to recoup the lost participation opportunity. This also encourages a smoothing of participants' workload. To guide the preparation for discussion, questions are given on the course web site.
- The preparation of ***group assignments***, as announced in class or on the course web site.
- *OPTIONAL:* ***Additional readings and other materials*** *(see the Business Focus and the Research Hot Topics sections of the course web site).* On the course web site, some materials will be provided for those students interested both in additional references for specific topics and in current, real-life examples of the concepts illustrated throughout the course.

GRADING

Grades for the course will be determined on the basis of the following:

Final exam (written)	Individual grade	70%
Group assignments	Group grade	30%

The *final exam* is written and will consist of questions relating to both class theory sessions and cases.

Regarding *group assignments*, both the formal and the substantial quality of the works provided will be evaluated. You will have both in-class and extra-class group assignments.

The final grade will be increased up to 2 points by a "bonus" for active class participation. *Class participation* does not mean attendance, which is assumed. Class participation means qualitative contribution to class discussion (i.e. the ability to answer the teacher's questions, to add new dimensions to the discussion, to critically examine cases and theory topics, to provide real-life examples). The bonus will be rewarded only in case of excellent/outstanding class participation. In any case, it is a requirement of this course that all students attempt the assigned reading and cases prior to attending class.

REQUIREMENTS FOR NON-ATTENDING STUDENTS

Non-attendance is intended as the impossibility for inevitable/severe reasons to attend the course and should be notified in advance to the instructor.

For non-attending students, the grade for the course will be entirely based on a final exam (written) on:

- Robert Simons, "*Performance Measurement and Control Systems for Implementing Strategy*", Prentice Hall, International Edition

And

- Robert Kaplan, Anthony A. Atkinson, "*Advanced Management Accounting*" (3rd Edition), Prentice Hall International

The final exam will consist of essay questions and may include exercises.

OFFICE HOURS

Ariela Caglio: Friday, 12.00 p.m. by appointment
Francesca Gasparini: Friday, 9.00 to 10.00 a.m. (but please check the course web site, announcements area, for eventual changes)

Table 1: Detailed Program[1]

Session n.	Date	Time	Topic and type of session	References	Assignments
1	Wed. 23/09	12.30-14.00	**Introduction to the course** **The link between Performance Measurement Systems and Strategy** - Balancing Organizational Tensions - Corporate Strategy and Business Strategy - Competitive Market Dynamics - Resources and Capabilities of a Business - The 4 Ps of Strategy **(THEORY SESSION)**	Simons, Chapter 1 and 2 Learning Space	
2	Wed. 30/09	12.30-14.00	**ATH Technologies** ***- discussion to be continued in session 3*** **(PLENARY CASE DISCUSSION)**	Simons, Part IV: pg. 319	Prepare individually to case discussion See Questions in the Learning Space
3	Fri. 02/10	10.30-12.00	**ATH Technologies** **(PLENARY CASE DISCUSSION)**	Simons, Part IV: pg. 319	Prepare individually to case discussion See Questions in the Learning Space
4	Wed. 07/10	12.30-14.00	**The link between Performance Measurement Systems and Organization Design** - Design of Work Units - Basic Design Choices - Accountability and Span Control - Span of Attention	Simons, Chapter 3 Learning Space	

[1] **Our schedule may be subject to revision. Any appropriate adjustment will be made and will be announced in class. Should you miss class for any reason, please, make sure that you keep track of any announcement regarding course materials, assignments, and clarifications.**

Session n.	Date	Time	Topic and type of session	References	Assignments
			Uses of Information and the Nature of Controls - Organizational Process Model - The Choice of What to Control - Uses of Information and conflicts **(THEORY SESSION)**	Simons, Chapter 4 Learning Space	
5	Fri. 09/10	10.30-12.00	**Roy Rogers Restaurants** **(PLENARY CASE DISCUSSION)**	Simons, Part IV: pg. 397	Prepare individually to case discussion See Questions in the Learning Space
6	Wed. 14/10	12.30-14.00	**Basics of Business Planning** - Three Wheels of Profit Planning - The Profit Wheel - Cash Wheel - ROE Wheel - Using the Wheels to Test Strategy **(THEORY SESSION)**	Simons, Chapter 5 Learning Space	
7	Fri. 16/10	8.45-10.30	**Ofelia** ***- discussion to be continued in session 8*** **(GROUP CASE DISCUSSION: IN-CLASS GROUP ASSIGNMENT)**	Learning Space	Download the case from the Learning Space (see session 7) **This session is in room: INFO N04**
8	Fri. 16/10	10.30-12.00	**Ofelia** **(GROUP CASE DISCUSSION: IN-CLASS GROUP ASSIGNMENT)**	Learning Space	**This session is in room: INFO N04**
9	Wed. 21/10	12.30-14.00	**Evaluating Strategic Profit Performance through Variance Analysis** - Strategic Profitability Analysis	Simons, Chapter 6	**This session is in room: 34**

Session n.	Date	Time	Topic and type of session	References	Assignments
			□ Competitive Effectiveness □ Operating Efficiencies □ Interpreting Strategic Profitability Analysis **Compagnie du Froid** ***- discussion to be continued in session 10*** **(THEORY SESSION + PLENARY CASE DISCUSSION)**	Simons, Part IV: pg. 446	Carefully read the case study
10	Wed. 21/10	14.30-16.00	**Compagnie du Froid** **(PLENARY CASE DISCUSSION)**	Simons, Part IV: pg. 446	**<u>This session is in room: 34</u>**
11	Wed. 04/11	12.30-14.00	**Designing Asset Allocation Systems** □ A Definition of Asset Allocation Systems □ Sorting Assets by Category □ Evaluating Asset Acquisition Proposals **Tennessee Controls** **(THEORY SESSION + PLENARY CASE DISCUSSION)**	Simons, Chapter 7 Learning Space Simons, Part IV: pg. 495	Prepare individually to case discussion See Questions in the Learning Space
12	Fri. 06/11	10.30-12.00	**Measuring Divisional Performance** □ ROI and Residual Income □ Economic Value Added **(THEORY SESSION)**	Simons, Chapter 8 (170-185) Learning Space	
13	Wed. 11/11	12.30-14.00	**Vyaderm Pharmaceuticals** **(PLENARY CASE DISCUSSION)**		<u>Download the case from the Learning Space</u> (see session 13) Prepare individually to case discussion See Questions in the Learning Space

Session n.	Date	Time	Topic and type of session	References	Assignments
14	Fri. 13/11	10.30-12.00	**Building a Balanced Scorecard to Evaluate Performance** □ The four perspectives of the Balanced Scorecard □ Strengths and weaknesses of the model **(THEORY SESSION)**	Simons, Chapter 9 Learning Space	
15	Wed. 18/11	12.30-14.00	**Balancing the Corporate Scorecard** ***- discussion to be continued in session 16*** **(GROUP CASE DISCUSSION)**		Follow the instructions that are posted on the Learning Space **<u>This session is in room: INFO N04</u>**
16	Wed. 18/11	14.30-16.00	**Balancing the Corporate Scorecard** **(GROUP CASE DISCUSSION)**		**<u>This session is in room: INFO N04</u>**
17-18	Fri. 20/11	8.45-10.15 10.30-12.00	**PRESENTATION OF THE GROUP ASSIGNMENTS** (See Assignment in the Learning Space)		
19	Wed. 25/11	12.30-14.00	**Transfer Prices: Managing Markets Inside the Firm** □ Transfer Pricing Alternatives □ Transfer Pricing Trade-Offs **Birch Paper** **(THEORY SESSION + PLENARY CASE DISCUSSION)**	Simons, Chapter 8 (159-170) Learning Space Simons, Part IV: pg. 509	Prepare individually to case discussion See Questions in the Learning Space
20	Fri. 27/11	10.30-12.00	**Aligning Performance Goals and Incentives** □ Critical Performance Variables □ Selecting performance measures □ Setting the performance bar □ Aligning incentives to strategy	Simons, Chapter 11 Learning Space	

Session n.	Date	Time	Topic and type of session	References	Assignments
			Citibank **(THEORY SESSION + PLENARY CASE DISCUSSION)**	Simons, Part IV: pg. 609	Prepare individually to case discussion See Questions in the Learning Space
21	Wed. 02/12	12.30 -14.00	**Identifying and Managing Strategic Risk** □ Sources of Strategic Risks □ Beliefs and Boundaries □ Business Conduct Boundaries □ Internal Controls **(THEORY SESSION)**	Simons, Chapter 12-13 Learning Space	
22	Fri. 04/12	10.30-12.00	**Using Diagnostic and Interactive Control Systems** □ A definition of diagnostic controls □ A definition of interactive controls □ How to use diagnostic and interactive control systems **Nordstrom: Dissension in the Ranks?** **(THEORY SESSION + PLENARY CASE DISCUSSION)**	Simons, Chapter 10 Learning Space Simons, Part IV: pg. 571	
23	Wed. 09/12	12.30 -14.00	**Guidant Corporation** **(PLENARY CASE DISCUSSION)**	Simons, Part IV: pg. 732	Prepare individually to case discussion See Questions in the Learning Space
24	Fri. 11/12	10.30-12.00	**Levers of Control for Implementing Strategy: Some Conclusions** **(THEORY SESSION)**	Simons, Chapter 14 Learning Space	