



# Rotman Commerce UNIVERSITY OF TORONTO

**Fall 2019**

**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 WO 30	<b>Section L0201</b> Wednesday, 2pm – 4pm Classroom WO 30  AND <b>Section L0301</b> Wednesday, 4pm – 6pm Classroom WO 30	<b>Section L0401</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/L0301</b>	<b>Section L0401</b>
<b>1</b>	September 10	September 11	September 5
<b>2</b>	September 17	September 18	September 12
<b>3</b>	September 24	September 25	September 19
<b>4</b>	October 1	October 2	September 26
<b>5</b>	October 8	October 9	October 3

6	October 15	October 16	October 10
7	October 22	October 23	October 17
8	October 29	October 30	October 24
9	November 12	November 13	October 31
10	November 19	November 20	November 14
11	November 26	November 27	November 21
12	December 3	December 4	November 28

**→→NOTE: Monday November 4, 2019 to Friday November 8, 2019, 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> Was the company's IPO (initial public offering) in May 2019 a success? What caused the continuing scandals at the huge U.S. financial institution, Wells Fargo? What prompted Abigail Disney to testify harshly before the U.S. Congress about compensation at The Walt Disney Company? 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?<sup>2</sup> 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>3</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*.

<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> At 9:45 pm on April 20, 2010, an explosion rocked the British Petroleum [BP] Deepwater Horizon oil drilling platform anchored about 41 miles off the coast of Louisiana in the Gulf of Mexico. Eleven workers were killed and many others were injured. The resultant oilspill from the ruptured wellhead was described by [then] U.S. President Obama as 'the worst environmental disaster America has ever faced'.

<sup>3</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

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 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, and the roles of social media on MCS.

### **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), 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)

Bisbea and Sivabalan, in their article entitled “Management control and trust in virtual settings: A case study of a virtual new product development team”, *Management Accounting Research* 37 (2017) 12–29, define MCS as follows (the quote is from p. 12):

“Broadly defined, Management Control Systems (MCS) are constituted by procedures, processes, tools and practices that managers use to guide direction and

ensure that their behaviours and decisions as well as those of their employees are consistent with the organization's objectives and strategies...Formal MCS are a subset of MCS whose key characteristics include being consciously designed, officially sanctioned, codified and recurrent (e.g. budgets, metrics-based reports, rules and regulations, mission statements, codes of conduct)..."

William Nixon and John Burns write:

"Management control is fundamentally about supporting the attainment of strategic objectives. Increasingly, however, organizations and managers must pursue dual strategies concurrently; they must compete today while preparing for tomorrow, balancing more operational, financially-oriented objectives with the organizational 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.

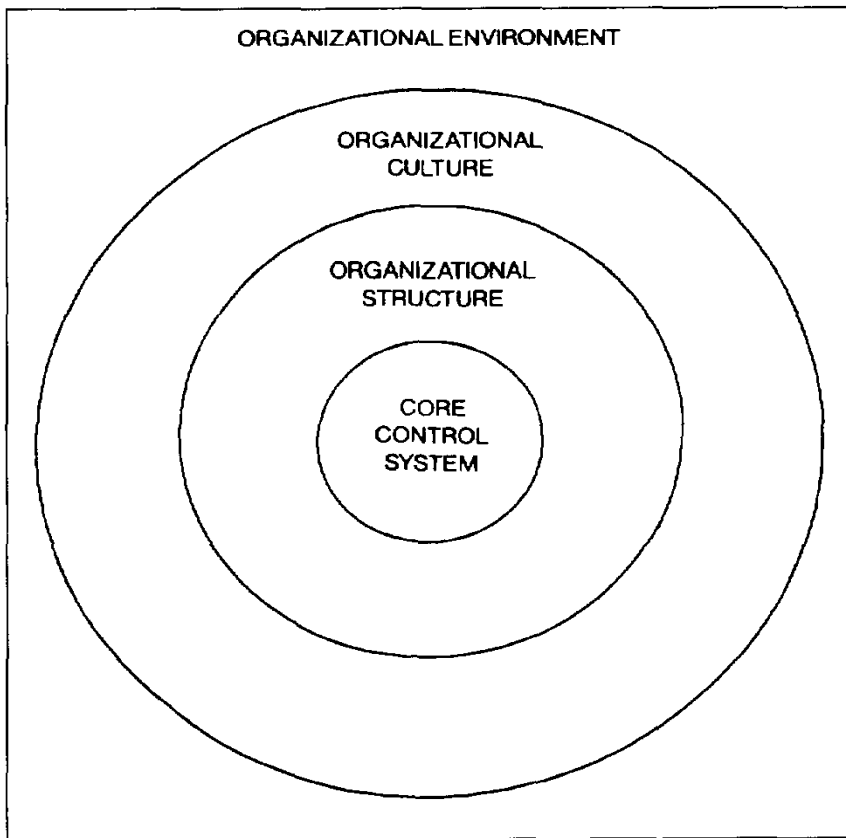
RSM 422 examines *management control*, which may also be broadly defined as policies, tools and procedures that are employed to increase the likelihood that an organization achieves objectives. Management control under this definition involves the motivation, evaluation and rewarding of individuals constituting 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>4</sup>

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<sup>4</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.

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:



**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):

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

Fig. 1. Management control systems package.

### Technological change and MCS

According to the late Neil Postman (a famous American educator, media theorist and cultural critic), significant technological change is all-encompassing: “One significant change generates total change...A new technology does not add or subtract something. It changes everything.” (Postman, N. (1992). *Technopoly: The surrender of culture to technology*, New York: Vintage Books. p. 23). Technological change, and the social and cultural changes accompanying it, certainly are having a profound change on MCS. For example, the Executive Summary of a recent MIT Sloan Management Review and McKinsey & Company report critiqued traditional performance measurement systems, a key aspect of MCS, as follows:<sup>5</sup>

**“Executive Summary**

The business value of traditional performance management models is collapsing. While these legacy systems still inform decision-making around compensation, promotions, terminations, and other compliance-mandated functions, they’ve become irrelevant to actually improving performance or its management. They do not measurably add value. Instead of better clarifying expectations and building morale, the traditional annual appraisal aspect of performance management (PM) alienates talented and typical employees alike. Managers dislike it, too. Even as personal and enterprise tools and technologies have radically improved, performance management systems have not. And while the nature of work and the workplace have grown more data-driven and analytical, performance management has not kept pace. Perennial complaints — rigidity, opacity, unfairness, arbitrariness, and an inherent backward-looking bias — persist.

Across industries, serious companies recognize that competing effectively in digital business environments demands a new approach to performance management. Technological innovation, the changing nature of work, and digital transformation all enable and create new demand for novel PM approaches. Getting performance management right is culturally critical to strategic execution in rapidly evolving business environments. The technology-based future of performance management is an essential component of leading successful digital transformation.

Our research offers clear evidence that the future of PM is more data-driven, more flexible, more continuous, and more development-oriented. It’s focused not just on individual employees, but on skills and teams. (Read below about IBM’s move to catalog employee skills, a digital indexing effort that marshals skills, not just roles, to get work done.) It emphasizes technology-enabled, continuous improvement, self-service/DIY skills

<sup>5</sup> M. Schrage, D. Kiron, B. Hancock, and R. Breschi, “Performance Management’s Digital Shift,” MIT Sloan Management Review and McKinsey & Company, February 2019.(Read the report online at <https://sloanreview.mit.edu/performance2019> )

development, and automated coaching tools. The ways that feedback is given, when, and by whom — and how it is both received and acted upon — are changing.

This global executive research study about the future of performance management is based on more than 30 interviews with leading industry experts. The implications of our findings are far-reaching for leaders intent on maintaining their company's competitiveness in modern business environments.

1. Performance management's purpose is shifting, structurally and dramatically. Technology enables and facilitates this change. With the proliferation of digital tools designed to uplift performance, leading companies are using PM to measurably improve performance, develop skills, and retain valued employees. For these companies, the heart of performance management is performance, not compliance. With blurring lines between performance management and talent development, executives will have to consider how to balance the assessment of past performance with the ongoing need to develop employee skills. Performance management becomes a serious, strategically relevant business activity, not a perfunctory end-of-year duty.
2. Performance management's longtime reliance on manager opinion, subjective observation, and intuition is being replaced by a reliance on data. Data is generated, increasingly, from platforms that enable communication and collaboration (e.g., Slack and Asana) and dedicated apps and tools (e.g., automated coaches and sociometric badges). Feedback will be more continuous and sourced from different places and people. Employee engagement will be both an input to and output from performance management activities. This data emphasis empowers more evidence and fact-based performance management appraisals and conversations, with inputs from a variety of sources.
3. Increasingly, interdependencies between people, processes, and technologies are becoming more important to getting work done in the enterprise. As a result, team performance is overtaking individual performance as the workplace's salient unit of analysis. Team performance, coachability, and skills development require heightened attention and specific investment.
4. One-size-fits-all approaches will give way to bespoke efforts that revitalize human capital. Both managers and workers will get individualized perspectives on what works (well) and what doesn't. Digital performance management platforms will make such customization simpler, cheaper, and more scalable, which, in turn, will make performance management an enterprise-wide capability, not just the elite province of the top performers.
5. Without question, the biggest cultural and organizational impact of next-generation PM systems will be feedback time, tempo, and impact. Instead of annual, quarterly, or impromptu reviews, talent- and accountability-oriented enterprises will encourage and enable near-constant feedback. Fundamental insights about human psychology are helping to influence the character and cadence of this feedback."

### 'Culture' and MCS

Notice that "culture" is an important aspect of both the Flamholtz and Malmi/Brown ways of looking at management control, and the complete report from which the above "Performance Management's Digital Shift" Executive Summary was extracted mentions the word "culture" 20 times over its 22 pages. This emphasis on "culture" is pervasive in the management literature and the popular press. This 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>

→ “**What You Can Learn From The Facebook Culture Crisis?**”, *Forbes*, by Bretton Putter, Jan. 16, 2019, <https://www.forbes.com/sites/brettonputter/2019/01/16/what-you-can-learn-from-the-facebook-culture-crisis/#401089254197>

### **COURSE MATERIALS**

- Readings and case material on the course website;
- Other materials on the course website and other websites, including the university’s e-journal collection.

### **GRADING**

<b>Component</b>	<b>Due Date</b>	<b>Weight [%]</b>
Class participation	Ongoing	10
Assignment #1	Sunday, October 6th, 1 pm via Quercus	10
Assignment #2	Friday, November 22nd, 1 pm 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), 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 6th, 1 pm, 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 compare and contrast the Flamholtz model with the Malmi and Brown model. [25% 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.

[25% of assignment grade]

**QUESTION 3.** Some observers of management control may feel that the observations of Schrage, Kiron, Hancock, and Breschi, in "Performance Management's Digital Shift" are too extreme. Do you agree? Support your answer. [15% 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? [35% of assignment grade]

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

**(2) Second assignment [due Friday, November 22<sup>nd</sup>, 1 pm, via Quercus]:**

**ABIGAIL DISNEY TESTIFIES BEFORE THE AMERICAN CONGRESS MAY 15 2019**

On May 15, 2019, Abigail Disney gave testimony before the Financial Services Committee's Subcommittee on Investor Protection, Entrepreneurship and Capital Markets, U.S. House of Representatives, on the subject of "Promoting Economic Growth: A Review of Proposals to Strengthen the Rights and Protections for Workers".

Her written testimony (which she had submitted to the committee earlier) began as follows:

I am here to help shed light on the problem of excessive executive compensation and the injustice of the contrast between that compensation and the low wages and poor conditions of those that work at the bottom of the pay scale. These problems have been growing over the decades and will continue to worsen, and have deeply negative consequences for our great nation.

My mission is to use the voice I have to speak for those whose voices would otherwise not be heard. I hope to enlighten and engage those in powerful positions and inspire them to make change—starting with this committee as well as representatives of various other companies and organizations.

I do not speak for my family but only for myself.

I have no role at the company, nor do I want one.

I hold no personal animus toward Bob Iger nor to anyone else at the Walt Disney Company.

I have repeatedly insisted, in fact, that he and the rest of management at Disney are brilliant and that performance-based compensation for them is totally appropriate.

The questions I am raising are simply “is there such a thing as too much?” “Does what a CEO gets paid have any relationship to how much his janitors and wait staff and hotel workers are paid?” And, “Do the people who spend a lifetime at the lowest end of the wage spectrum deserve what they get, or does every person who works full-time deserve a living wage?”

The link to her complete written testimony before the Subcommittee on Investor Protection, Entrepreneurship and Capital Markets is as follows:

<https://financialservices.house.gov/uploadedfiles/hhrg-116-ba16-wstate-disneyphda-20190515.pdf>

Abigail Disney is the granddaughter of Roy O. Disney, co-founder of The Walt Disney Company with her granduncle Walt Disney. The Walt Disney Company is a diversified multinational mass media and entertainment conglomerate headquartered at the Walt Disney Studios in Burbank, California. The company history goes back to at least its establishment on October 16, 1923 by brothers Walt and Roy O. Disney as the Disney Brothers Cartoon Studio. As of 2018, the company’s revenues were almost US \$60 billion.

The company’s logo is:



FROM PAGE 39 OF WALT DISNEY CO.’S 2019 PROXY STATEMENT AS FILED WITH THE SEC:

**Fiscal 2018 Summary Compensation Table**

The following table provides information concerning the total compensation earned in fiscal 2016, fiscal 2017 (except for Ms. Mucha, who was not a named executive officer in those years) and fiscal 2018 by the chief executive officer, the chief financial officer, three other persons serving as executive officers at the end of fiscal 2018 who were the most highly compensated executive officers of the Company in fiscal 2018, and Mr. Mayer, who served as an executive officer during part of the fiscal year. These six officers are referred to as the named executive officers or NEOs in this proxy statement. Information regarding the amounts in each column follows the table.

Name and Principal Position	Fiscal Year	Salary	Stock Awards <sup>1</sup>	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings <sup>2</sup>	All Other Compensation	Total
<b>Robert A. Iger</b> Chairman and Chief Executive Officer	2018	\$2,875,000	\$35,352,327	\$8,270,976	\$18,000,000	—	\$1,146,911	\$65,645,214
	2017	2,900,000	8,984,191	8,298,322	15,200,000	—	1,301,167	36,263,680
	2016	2,900,000	8,828,117	8,454,674	20,000,000	\$2,893,776	1,205,827	43,882,396
<b>Alan N. Braverman</b> Senior Executive Vice President, General Counsel and Secretary	2018	1,800,213	2,400,090	1,600,004	4,750,000	—	69,233	10,419,530
	2017	1,595,000	1,878,142	1,252,020	3,600,000	56,359	95,938	8,447,459
	2016	1,549,000	1,878,037	1,252,040	5,440,000	931,443	68,431	11,118,951
<b>Christine M. McCarthy</b> Senior Executive Vice President and Chief Financial Officer	2018	1,533,750	2,700,063	1,800,001	5,300,000	434,539	71,367	11,836,750
	2017	1,323,077	1,990,118	1,300,000	3,450,000	852,787	70,600	8,946,582
	2016	1,287,692	1,990,108	1,300,058	4,530,000	1,164,131	36,523	10,198,510
<b>M. Jayne Parker</b> Senior Executive Vice President and Chief Human Resources Officer	2018	998,938	1,990,105	1,300,022	2,100,000	380,524	80,456	6,808,045
	2017	851,154	1,320,171	880,020	1,570,000	392,107	77,112	5,090,564
	2016	826,385	1,320,122	880,052	1,815,000	711,775	51,000	5,804,394
<b>Zenia B. Mucha</b> Senior Executive Vice President and Chief Communications Officer	2018	961,150	1,269,161	846,016	2,000,000	—	24,452	5,100,779
<b>Kevin A. Mayer</b> Chairman, Direct to Consumer and International -1	2018	1,674,000	2,700,063	1,800,001	5,300,000	62,466	63,646	11,620,376
	2017	1,323,077	1,990,118	1,300,000	3,450,000	333,928	77,495	8,434,618
	2016	1,287,692	1,990,108	1,300,058	4,530,000	1,031,418	36,075	10,125,349

**REQUIRED:**

1. Using concepts from Flamholtz' model, explain how CEO compensation is important in management control. [20% of assignment grade]
2. Is the model of MCS described in the article "Management control systems as a package—Opportunities, challenges and research directions", by Malmi and Brown, a better way to understand the role of CEO compensation in MCS than the Flamholtz model? [20% of assignment grade]
3. Is Abigail Disney justified in her criticism? [20% of assignment grade]
4. Explain how, if at all, "ethics" is involved. [20% of assignment grade]
5. Examine Walt Disney Co.'s 2019 Proxy Statement as filed with the SEC, and critically evaluate the performance measures used to assess top management. [20% of assignment grade]

**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 handwritten, short (maximum 200 words) self-assessment of your class participation, including a suggested 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>6</sup>

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

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<sup>6</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.

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 Professor 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. The Request for Special Consideration Form and supporting documentation must be submitted in a timely manner in order for the request to be reviewed.

In such cases, students must notify the Rotman Commerce Program Office on the date of the course deliverable such as a missed test, or assignment missed class (in the case of participation marks), or due date. They must then complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Office within **2 business days** of the originally scheduled course deliverable. Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed 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**

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

**[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 that will be handed out in class.
- See also the two "toy" case examples, Example 1 and Example 2, below.

**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.<sup>7</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?

<sup>7</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-Ponry\\_ifsam\\_2010.pdf](http://halshs.archives-ouvertes.fr/docs/00/50/24/13/PDF/Chatelain-Ponry_ifsam_2010.pdf) (accessed July 15, 2011).



-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):

"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).

<b>REMEMBER:</b>
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- (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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**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					

**One important takeaway from this "toy" case→→** an organization's MCS (especially for a profit-seeking organization) should ideally facilitate the organization's strategy. In order to fashion an organization's strategy, an understanding of the organization's competitive environment is important. One approach to doing this is based upon "Porter's Five Forces": <https://www.cgma.org/resources/tools/essential-tools/porters-five-forces.html>

**Porter's Five Forces of Competitive Position Analysis, June 11, 2013**

Framework/theory

Porter's Five Forces of Competitive Position Analysis was developed in 1979 by Michael E Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organisation.

This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. Porter's five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organization's current competitive position, and the strength of a position that an organization may look to move into.

Strategic analysts often use Porter's five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

**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:

<b>DIVISION 6 Balance Sheet, End of year 2013 (\$000s)</b>		
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>
<b>DIVISION 6 Income Statement, For the year 2013 (\$000s)</b>			
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.

Assume that the General Manager of Division 6 is compensated so that a significant portion of her/his annual compensation is determined by the division's achieving the following target, which is set at the start of each year by Indal Inc's head office group:

<p><u>Divisional income before income tax</u> Headquarters equity</p>
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**REQUIRED:** 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.<sup>8</sup>

**One important takeaway from this "toy" case**→→ Performance measures must be carefully designed. Suggest some design criteria for performance measures.

<sup>8</sup> Back in 1956, V.F. Ridgway published an article entitled "Dysfunctional Consequences of Performance Measurements", in Vol. 1 Issue 2, of the journal Administrative Science Quarterly (pp. 240-247); on page 240 he wrote:

"There is today a strong tendency to state numerically as many as possible of the variables with which management must deal...foster[s] the idea that if progress toward goals can be measured, efforts and resources can be more rationally managed. This has led to the development of quantitative performance measurements for all levels within organizations, up to and including measurements of the performance of a division manager with profit responsibility in a decentralized company. Measurements at lower levels in the organization may be in terms of amount of work, quality of work, time required, and so on. Quantitative measures of performance are tools, and are undoubtedly useful. But research indicates that indiscriminate use and undue confidence and reliance in them result from insufficient knowledge of the full effects and consequences. Judicious use of a tool requires awareness of possible side effects and reactions. Otherwise, indiscriminate use may result in side effects and reactions outweighing the benefits..."

<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 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?

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

- 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: ARTICLE AVAILABLE ON THE COURSE QUERCUS WEBSITE, Pankagj Hemawat, (1995), "Competitive Advantage and Internal Organization: Nucor Revisited", *Journal of Economics & Management Strategy*, 3(4), pp. 685-717.

**[→→IN CLASS 9, NUCOR'S CONTEMPORARY SITUATION WILL BE EXAMINED]**

**Class Discussion:**

- (1) Comments on the Flamholtz article: the article provides a good first conceptualization of MCS, but MC and MCS are so much richer...explain.
- (2) What was the market condition and competitive environment facing the steel industry at the time of the 1995 Nucor article?
- (3) What was Nucor's strategy in the given market environment at that time? Was Nucor's strategy sensible?
- (4) How did Nucor implement its strategy? What made Nucor so successful in an industry with intensive international competition?
- (5) Why couldn't the competitors copy Nucor's strategy?
- (6) How would you describe Nucor's MCS in the 1995 article? (see Exhibit 1 below)
- (7) Refer to the historical information from Nucor, from 1966 to 2018 (see Exhibit 2 below). Any comments? What picture does the data suggest about Nucor recently?
- (8) Any questions about Assignment #1?

## EXHIBIT 1

### Nucor:

One of the striking things about Nucor is how everything seems to work together...it's like an orchestra, with each component of the MCS performing in a fashion which is complementary to every other component, and the totality of which is in turn responsive to Nucor's (highly competitive and cyclical) industry. And this "orchestration" seems also to link the MCS backwards to "key success factors" and "strategy", as well. The "fit" amongst KSF, Strategy, and MCS for this company is quite unique, and perhaps is itself one reason why the Nucor approach might be rather difficult to mimic by another company.

### KSF

Low cost leader (most steel products are commodities; steel industry cyclical...lowest labour cost per ton companies are potential survivors)  
 Technology (non-US companies have better technology record; large integrated companies have been problematic here)  
 Capital (industry cyclical, so access to capital pool when opportunities arise means that positive cash flow from operations generated when at top of cycle – at full capacity – may mean successful company)

### Nucor's Strategy

Grow, even in shrinking overall market (look at Nucor's history!)  
 Focus (but may integrate forwards and backwards); don't diversify broadly  
 Invest in technology (but R&D?) and implement it first and successfully  
 Minimize capital costs (how does Nucor do this?)  
 Operate lean (and how do they do this?)  
 Avoid debt (why, given their industry?) Less covenant constraints, also

### Nucor's MCS

Very lean org structure/anti-bureaucratic  
 Decentralized  
 Uniform, simple quantitative performance evaluations  
 Strict hiring standards  
 Pay-for-performance; everybody is on some sort of incentive plan encouraging "super" performance  
 Strong identification/rapport between workers and management (how do they do this?)  
 Investment in training and cross-training → flexibility  
 "Trust" as an MCS variable

### Strategy and MCS at Nucor

Strategy	MCS
Grow aggressively	Managers have great autonomy
	Operate as profit centres/outstanding performance rewarded
	Promote from inside company
	Other?
Low cost leader	Decentralized structure/minimal corporate overhead
	Minimalist corporate HQ...sets culture for rest of company
	Lean org structure/few meetings, etc.
	Other?
Operate plants efficiently	Pay-for-performance/piece rates → productivity
	Investment in training/cross-functionality
	Share the pain → high employee commitment PLUS enables company to reduce costs during "bad times"
	Selective hiring → self-supervision
	Other?

Can Flamholtz' notions of "Culture", "Structure", and "Core" be applied to Nucor?

## EXHIBIT 2

**NUCOR**  
**HISTORICAL DATA**  
**1966 THROUGH 2018**  
*(in thousands, except per share data)*

YEAR	NET SALES	NET EARNINGS	DILUTED	TOTAL	STOCKHOLDERS' EQUITY		SHARES	COMMON STOCK VALUE	
		ATTRIBUTABLE TO NUCOR	NET EARNINGS		ASSETS	AMOUNT		PER SHARE	OUTSTANDING
1966	21,006	1,334	0.01	8,109	2,240	0.01	237,240	0.06	13,641
1967	23,600	1,703	0.01	11,546	6,582	0.02	267,345	0.16	42,775
1968	35,545	2,239	0.02	16,502	9,289	0.03	272,315	0.20	53,101
1969	46,322	2,335	0.01	24,656	11,938	0.04	275,743	0.11	31,021
1970	50,751	1,141	0.01	28,800	13,101	0.05	276,007	0.07	18,630
1971	64,762	2,741	0.01	33,168	15,892	0.06	276,981	0.10	28,391
1972	83,576	4,668	0.02	47,537	20,930	0.07	281,414	0.14	37,991
1973	113,194	6,009	0.02	67,550	26,620	0.09	281,210	0.10	28,824
1974	160,417	9,680	0.04	82,039	37,104	0.13	294,850	0.08	22,114
1975	121,467	7,582	0.03	92,639	44,550	0.15	300,040	0.10	30,754
1976	175,788	8,697	0.03	119,096	54,085	0.17	311,163	0.19	57,565
1977	212,953	12,453	0.04	128,011	66,295	0.21	315,231	0.26	80,384
1978	306,940	25,849	0.08	193,455	92,129	0.29	321,044	0.44	139,654
1979	428,682	42,265	0.13	243,112	133,258	0.41	324,186	0.83	269,074
1980	482,420	45,060	0.14	291,222	177,604	0.54	328,800	1.46	478,404
1981	544,821	34,729	0.11	384,782	212,376	0.64	334,248	1.25	416,139
1982	486,018	22,192	0.07	371,633	232,281	0.69	335,805	1.30	437,386
1983	542,531	27,864	0.09	425,567	258,130	0.76	338,164	1.78	602,778
1984	660,260	44,548	0.13	482,188	299,603	0.88	339,866	1.35	457,120
1985	758,495	58,478	0.17	560,311	357,502	1.04	343,560	2.25	771,292
1986	755,229	46,439	0.14	571,608	383,699	1.13	338,101	1.93	652,534
1987	851,022	50,534	0.30	654,090	428,009	1.26	339,137	2.48	840,213
1988	1,061,364	109,440	0.44	949,662	532,281	1.56	340,603	2.99	1,016,700
1989	1,269,007	57,836	0.17	1,033,832	584,445	1.71	342,394	3.77	1,289,113
1990	1,481,630	75,065	0.22	1,035,886	652,757	1.90	343,803	3.88	1,332,236
1991	1,465,457	64,716	0.19	1,181,577	711,609	2.06	345,671	5.59	1,930,574
1992	1,619,235	79,226	0.23	1,507,382	784,231	2.26	346,947	9.80	3,399,211
1993	2,253,738	123,510	0.36	1,829,268	902,167	2.59	348,294	13.25	4,614,894
1994	2,975,596	226,633	0.65	2,001,920	1,122,610	3.21	349,333	13.88	4,846,999
1995	3,462,046	274,535	0.79	2,296,141	1,382,112	3.94	350,394	14.28	5,004,503
1996	3,647,030	248,169	0.71	2,619,533	1,609,290	4.58	351,184	12.75	4,477,593
1997	4,339,952	294,482	0.84	2,984,383	1,876,426	5.33	351,986	12.08	4,251,115
1998	4,305,450	263,709	0.75	3,215,626	2,072,552	5.93	349,412	10.81	3,778,013
1999	4,158,293	244,589	0.70	3,718,928	2,262,248	6.49	348,535	13.70	4,775,800
2000	4,756,521	310,908	0.95	3,710,868	2,130,952	6.87	310,332	9.92	3,079,267
2001	4,333,707	112,961	0.37	3,759,348	2,201,461	7.07	311,258	13.24	4,121,057
2002	4,801,777	160,086	0.51	4,394,944	2,349,770	7.51	312,720	10.33	3,228,838
2003	6,265,823	64,797	0.21	4,511,577	2,370,873	7.54	314,361	14.00	4,401,050
2004	11,376,828	1,117,985	3.50	6,140,391	3,481,281	10.91	319,024	26.17	8,348,858
2005	12,700,999	1,317,249	4.15	7,148,845	4,312,049	13.90	310,220	33.36	10,348,939
2006	14,751,270	1,756,782	5.68	7,893,018	4,857,351	16.14	300,949	54.66	16,449,872
2007	16,592,976	1,471,947	4.94	9,826,122	5,112,917	17.75	287,993	59.22	17,054,945
2008	23,663,324	1,830,990	5.98	13,874,443	7,929,204	25.25	313,977	46.20	14,505,737
2009	11,190,296	(293,613)	(0.94)	12,571,904	7,390,526	23.47	314,856	46.65	14,688,032
2010	15,844,627	134,092	0.42	13,921,910	7,120,070	22.55	315,791	43.82	13,837,962
2011	20,023,564	778,188	2.45	14,570,350	7,474,885	23.60	316,749	39.57	12,533,758
2012	19,429,273	409,485	1.28	14,524,972	8,002,692	25.19	317,663	43.16	13,710,335
2013	19,052,046	499,385	1.56	15,578,128	8,018,250	25.19	318,328	53.38	16,992,349
2014	21,105,141	679,337	2.11	15,956,467	8,110,342	25.42	319,033	49.05	15,648,569
2015	16,439,276	80,724	0.25	14,326,969	7,477,816	23.52	317,962	40.30	12,813,869
2016	16,208,122	796,271	2.48	15,223,518	7,879,865	24.72	318,737	59.52	18,971,226
2017	20,252,393	1,318,688	4.10	15,841,258	8,739,036	27.48	317,969	63.58	20,216,469
2018	25,067,279	2,360,767	7.42	17,920,588	9,792,078	32.04	305,592	51.81	15,832,722

NOTE - In 2016, Nucor changed its method of accounting for valuing certain inventories from the last-in, first-out (LIFO) method to the first-in, first-out (FIFO) method. The information in this table for 2012 through the most recent year reflects this change in accounting principle.

<b>CLASS 3 - MANAGEMENT CONTROL: TRADITIONAL FINANCIAL RESPONSIBILITY CENTRES AND THE RISE OF “BIG BANG DISRUPTORS”</b>
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**Read:**

- Robert S. Kaplan, (2006), "The Demise of Cost and Profit Centers", unpublished working paper [in the CLASS 3 folder on Quercus]
- Antonio Dávila, (2019), “Editorial: Emerging Themes in Management Accounting and Control Research”, Spanish Accounting Review 22(1) (2019), pp. 1 – 5.
- Jacob G. Birnberg, (2011), “Memorial: Robert N. Anthony: A Pioneering Thinker in Management Accounting”, Accounting Horizons, 25(3), pp. 593–602.
- John M. Jordan, (2017), “Challenges to large-scale digital organization: the case of Uber”, Journal of Organization Design (2017) 6:11

**Class Discussion:**

1. Finish any discussion remaining from CLASS 2
2. General discussion: Assignment #1
3. Do you agree with the main ideas in Robert S. Kaplan, (2006), "The Demise of Cost and Profit Centers"?
4. Questions for CLASS 3 based upon John M. Jordan, (2017), “Challenges to large-scale digital organization: the case of Uber”, Journal of Organization Design (2017) 6:11:
  - (a) Do you agree with Jordan’s three “key principles underlying traditional organizations”? Explain.
  - (b) Do you agree with the five “technology and demographic trends of the moment” upon which Uber is capitalizing (p. 3 of 12)?
  - (c) Can Flamholtz’ “organizational control” model work at Uber? Explain.
  - (d) Is the role of “CEO-speak” central to Uber? Moderately important? Or peripheral? Explain.
  - (e) Describe, in your own words, “organizational culture”. Why is it important in MCS?
5. Briefly outline the importance of the late Robert Anthony to MCS.

<b>CLASS 4 - MANAGEMENT CONTROL AS A PROCESS; INTERACTION BETWEEN FINANCIAL REPORTING AND MANAGEMENT CONTROL-TWO EXAMPLES</b>
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**Read:**

- 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. Also, and importantly, look for evidence about the company’s “culture” (see the teaching note posted to the CLASS 4 Module entitled “WHAT DOES CULTURE MEAN IN ORGANIZATIONS?”**
- “New York Times and the Digital Challenge”. Vijay Govindarajan and Chris Trimble, “Achieving breakthrough growth: From idea to execution”, Ivey



Business Journal January/February 2006 [“traditional” newspapers have been struggling to adapt to an online model for many years, with varying degrees of success]

**Class Discussion:**

▪ **Woolworth "Special Report", Accounting Measures, and Culture**

1. What is the most critical measure of performance that links profit with 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. 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?
6. “Culture”, mentioned as being important for management control/organizational control by Flamholtz (he writes on page 603 of his article: “Culture is, in fact, the starting point for the design of an organizational control system...”) but not discussed in-depth by him, seems significant at Woolworth. See the teaching note entitled “WHAT DOES CULTURE MEAN IN ORGANIZATIONS?” Do financial accounting performance measures affect an organization’s culture?

▪ **"New York Times and the Digital Challenge"**

1. Search the Internet and, based upon your results, form a preliminary assessment of the New York Times Company overall today.
2. The Pew Research Center’s Project for Excellence in Journalism

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

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

4. Based on the article by Govindarajan and Trimble, identify how financial accounting, management accounting, and similar approaches affected the “digital challenge” facing the New York Times.
5. Identify and describe the key features of the evolving MCS at New York Times digital operations.

**CLASS 5–MANAGEMENT CONTROL, ETHICS, AND THE IMPORTANCE OF “FAIRNESS” IN PRIMARY/SECONDARY AND HIGHER EDUCATION ORGANIZATIONS: A VERY LIMITED SAMPLE**

**Read:**

- Richard J. Arend, (2018), “The Unethical Monetization of Business Schools (and What We Can Do About It)”, *Journal of Management Inquiry*, 2018, 27(1), pp. 96–100.
- Recall the following article from ASSIGNMENT #1: 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.

**Class Discussion:**

**Case: We will examine what MCS ethical issues in "Management Control and the For-Profit School Business" (see the CLASS 5 Module on Quercus and download or read online)**

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.
6. What, in your supported opinion, are some important design criteria for an ethical MCS at Edison?

**Article:** Richard J. Arend, (2018), “The Unethical Monetization of Business Schools (and What We Can Do About It)”, *Journal of Management Inquiry*, 2018, 27(1), pp. 96–100.

An article on the POETS & QUANTS website entitled “Fired Missouri-KC Prof Claims Retaliation” by Marc Ethier, June 16, 2017, began as follows:

“Richard Arend, a tenured professor of strategy and entrepreneurship at the University of Missouri-Kansas City Henry W. Bloch School of Management, was fired in December 2016. Was it a case of “substantial lack of fitness,” as the school claims, or was it retaliation for being a rankings whistleblower, as Arend says in a newly filed lawsuit against the university?” (the complete article is at: <https://poetsandquants.com/2017/06/16/fired-missouri-kc-prof-claims-retaliation/?pq-category=business-school-news>)

Questions for discussion:

1. Do you have any observations on the 32 “Examples of unethical monetization practices (classified by role)” on pages 96-97 of Arend’s article?
2. Can the fraud triangle model described by Arend help explain what he claims are unethical behaviours in business schools? Explain.
3. How are academic freedom and self-governance involved?
4. How might MC systems and processes help reduce the alleged unethical behaviours? Explain.

<p><b>CLASS 6 - MANAGEMENT CONTROL: DESIGNING AND IMPLEMENTING A BALANCED SCORECARD— BEYOND PERFORMANCE MEASUREMENT TO MANAGEMENT REVOLUTION?</b></p>
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**Read:**

- Re-read from CLASS 3: Robert S. Kaplan, (2006), "The Demise of Cost and Profit Centers", unpublished working paper [in the CLASS 3 folder on Quercus]]
- 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:**

<p><b>→→PRESENTATION BY CASE RESEARCH TEAM A: “THE ROYAL CANADIAN MOUNTED POLICE AND THE BALANCED SCORECARD: A PANACEA FOR ALL THE RCMP’S CHALLENGES?”</b></p>
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**SECOND HOUR:**

- →→Lecture on tracking how the Balanced Scorecard concept evolved over time at Analog Devices, Inc.
- 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:**

- 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:

- How should the success of a business be assessed? What are the best performance measures? Explain. Recall footnote 8 in this course outline: Back in 1956, V.F. Ridgway published an article entitled "Dysfunctional Consequences of Performance Measurements", in Vol. 1 Issue 2, of the journal *Administrative Science Quarterly* (pp. 240-247); on page 240 he wrote:

"There is today a strong tendency to state numerically as many as possible of the variables with which management must deal...foster[s] the idea that if progress toward goals can be measured, efforts and resources can be more rationally managed. This has led to the development of quantitative performance measurements for all levels within organizations, up to and including measurements of the performance of a division manager with profit

responsibility in a decentralized company. Measurements at lower levels in the organization may be in terms of amount of work, quality of work, time required, and so on. Quantitative measures of performance are tools, and are undoubtedly useful. But research indicates that indiscriminate use and undue confidence and reliance in them result from insufficient knowledge of the full effects and consequences. Judicious use of a tool requires awareness of possible side effects and reactions. Otherwise, indiscriminate use may result in side effects and reactions outweighing the benefits...”

→→What implications, if any, does Ridgway’s caution have for designing an MCS and the selection of performance measures such as EVA? Explain.

- How can the article by Amernic, Losell and Craig assist managers?
- 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?
- What are the common adjustments made in order to calculate EVA and why are these adjustments made? How “arbitrary” are they? How “fair” are they?
- 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: CROWN POINT CABINTRY**

**FIRST HOUR:**

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

**SECOND HOUR**

- Aligning performance goals and incentives at Crown Point Cabinetry

On its website, Crown Point cabinetry posted the following sales information:

<http://www.crown-point.com/Direct.contact.html>

“Crown Point Cabinetry is the only major custom cabinetmaker that allows you to work and purchase directly from us. Whether you are an architect, a designer, the home builder or home owner, the Crown Point Design and Sales team works directly with you, helping you achieve your dream cabinetry, from design to delivery! This program saves you money, as there is no middleman adding their cost of doing business to the price of your cabinetry.

(Every now and then we get asked: "So where is my nearest dealer?" Crown Point does not have any dealers or a dealer network. Zero. Zip. Nada. We design here, we handcraft the cabinetry here, and we deliver from here. "Here" being Claremont, NH, of course!) So the Direct Program is, in other words, the only way to get Crown Point cabinetry for your home or client."

→→IMPORTANT:

A brief history of the company is provided at:

<https://www.usbuildersreview.com/case-studies/crown-point-cabinetry-reinventing-how-custom-cabinetry-built-and-sold/>, and an analyst's notes on the company are as follows:

**Crown Point Carpentry...a framework for our discussion**

**The Setting**

- the industry?
- where does CP fit in?
- CP competes in the high-end custom cabinet segment→few barriers to entry→shrinking/growing market?-  
->local/regional/national...?
- CP strategy focuses on product quality (means what in this case?) and service (means what?)
- Product quality includes both RM and production
- Both product quality and customer service influenced by CP's MCS

**Pre-93 Situation**

- Describe

**Basic Changes**

- Do you agree that the most basic change (which facilitated later changes over time) was a "profound" alteration of the employee-employer relationship?
- Employees now "empowered"???
- Bottom-up influence replaced previous top-down MCS
- Control by "penalty" replaced largely by MCS that attempted (and more or less did) align employees and management goals
- THE CHANGES WORKED TOGETHER TO PRODUCE WHAT SEEMS TO BE A MOTIVATED WORK FORCE→IT TOOK TIME→WERE GRADUAL

**Specific Actions Taken by New Leaders Over Time**

- change in attitude (drama used)
- Brian's speech really changed nothing...but management's subsequent actions building on the speech did
- poor in-process quality→fire the "evil doers"→strong message also

**Team-based Management**

- an old concept
- how to introduce it in a small manufacturing company that used entrenched top-down control?
- working in teams→message from management is what?→peer pressure (recall Nucor)→was transition to TBM easy? →how was structure provided to TBM?
- co-worker reviews→pros? cons? See sample review sheet...are more "objective" measures needed?
- Hire and fire authority→pros? cons?
- Gainsharing→a key to CP's "success"?→a performance-based bonus? →does TBM help make gainsharing a success at CP? →how is product quality maintained in TBM?
- Wage increases...what is a better incentive, a good wage with a 60% potential bonus or a great wage with a 20% potential bonus?
- Safety issues...safety teams...reduced worker comp premiums...share responsibility for safety...
- Productivity-----Product quality-----Service-----Safety-----  
Productivity-----etc

**-Community Citizenship and Small Towns**

**-Sharing of Confidential Information**

**-Were There Other ways to Get CP's Results?**

- Is the CP Experience Transferable to Other Businesses? →small company; privately held; small town/big employer; MCS must align with company strategy

**REQUIRED:**

Based upon the information provided, outline the main features of an MCS for the company.

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

Every organization, even organizations in the same industry, has a relatively unique strategy. Strategies may be highly formalized or much less formal; they may be relatively rigid or very adaptive. In this class we examine two organizations in quite different industries, in order to see how MCS processes and structures helped or hindered the facilitation of strategy.

**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"**

**CLASS 10- MANAGEMENT CONTROL AND SERVICE ORGANIZATIONS: A UNIVERSITY**

**Read:**

- 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

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

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

**Read:**

- J. Amernic and R. Craig, (2017), "CEO speeches and safety culture: British Petroleum before the Deepwater Horizon disaster", *Critical Perspectives on Accounting*, 47, pp. 61–80 (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