

BUS400E - Management Control

Course responsible

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Objectives:

When companies reach a certain size it will become difficult for owners or leaders to give all employees detailed instructions on how to perform certain tasks. Instead there will be economic control mechanisms allowing a certain freedom of means when managers try to reach those goals that have been agreed upon.

In this course we deal with the particular problem in controlling large companies. This means that we are going to discuss the organization of the company and also Cost Accounting, Capital budgeting, Profit measurement, Internal transfer pricing, Budgeting, Rolling Forecasts and Balanced Scorecards.

This course is designed for those students who plan to work in Management control, maybe as controllers in large companies. It cannot be combined with the course BUS 400 N "Styring av store foretak", which is basically a very similar course in a Scandinavian language (Norwegian or Swedish).

After completing the course you should:

- Understand the basic ideas behind Management control in large companies
- Be able to design a cost accounting routine in variable costing, full costing or ABC
- Understand the motives of internal transfer pricing and develop an internal pricing structure
- Be able to evaluate methods of performance measurements and the consequences of alternative incentive systems and to select the appropriate ones for a particular company
- Master various planning methods like Regular budgeting, Rolling forecasts and Balanced scorecards
- Understand the main methods of investment analyses and be able to perform a capital budgeting evaluation according to company needs
- Understand the relations between all the tools mentioned in this section and be able to design a Management control system for a large company.

Topics

In the beginning of the course we discuss principles of control in large companies contrasting functional organisation to divisional organisation and the creation of small, more or less independent profit centres. After that, we repeat management cost analysis in order to see how costing methods will influence employee incentives and managerial behaviour.

Traditionally, general budgeting is one of the main methods for creating managerial responsibility and incentives in large organisations. However, in recent years, budgeting has been criticised for being old-fashioned, bureaucratic and inflexible when conditions in society evolve over time to create changing needs during the traditional budget year. To overcome these difficulties we need to

master Rolling Forecasts and Balanced Scorecards as alternative or complement to traditional budgeting.

Next we need to investigate various ratios for profit measurement like Return of Equity, Return on Total Capital or Return on Capital Employed. But the properties of those ratios should be carefully compared to absolute measures like traditional Residual Income or the fairly recently developed improvement called Economic Value Added (EVA).

When working with more or less independent profit centres controlled by ratios or other profit objectives we will have to deal with internal transfer pricing. If profit centre managers feel pressure to make profits they will also feel the need to be paid for internal deliveries of goods or services between profit centres. Now, we shall need to apply our knowledge of various costing methods to find a meaningful internal transfer pricing structure.

To run the profit centres, managers will need an array of capital budgeting methods in order to find the most profitable projects. This section will take us through Net Present Value, Internal Rate of Return and into a little bit of decision analysis, before we are ready for the final synthesis. At the very end of the course, students are asked to create a complete management control system for a large divisionalised company.

Prerequisites

Students are expected to have studied basic courses in Cost accounting, Capital budgeting and Financial accounting.

Literature

The main textbook is

Bergstrand, Jan, Accounting for Management control, Studentlitteratur, Lund 2009

In addition to the textbook, there will be one compendium of articles and one compendium of cases to be published when the course starts. The compendium of articles will have the following preliminary content:

- Besanko et al, Agency and performance measurement in Economics and Strategy, pages 476-509.
- Jensen, Foundations of organisational strategy, pages 345-261
- Alfie Kohn, Why Incentive Plans cannot work, Harvard Business Review, Sept-Oct 1993, pages 54-63
- Olve et al, The Process of building a Balanced Scorecard in Performance Drivers, pages 34-39.
- Young and Byrne, EVA and Value Based Management, The Metric Wars, pages 381-387, 2001
- Mats Öhman, The Discount Rate and the Present Value Method, Research Report 2005

Teaching

There will be 15 regular class sessions. During each session there will be some lectures and one cases discussion. Cases are selected from the compendium of cases mentioned among the literature. A detailed teaching plan will be published when the course starts.

This course cannot be combined with BUS400N, which is a parallel course in Scandinavian languages. It is not possible to get credits for both these courses.

Requirements for course approval

Each student will have to contribute to each of 3-4 submissions of cases to be announced in the detailed teaching plan.

Note: There might be compulsory activities in the course prior to the registration deadline.

Exam

There will be a 4 hour written examination

Grading scale A - F.

Computer tools

Students are expected to be familiar with Excel.