

ACCT-537: Performance Measurement, Evaluation, and Incentives
Spring 2018
Monday/Wednesday 9:30 – 10:50am

Instructor: *Shelley Xin Li*
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COURSE DESCRIPTION

At the intersection of accounting and management, this course leads students to learn and discover how managers can design performance evaluation and incentive systems to drive organizational performance. Through case discussions and mini-lectures, students will understand the major topics in management control systems (e.g. financial responsibility centers, setting performance targets, measuring and evaluating performance, assigning performance-dependent rewards) and acquire a framework to think about critical issues related to these organization design choices. Students will be able to use the concepts and skills learned from this course to make better managerial decisions (driving performance), or better investment decisions (analyzing and assessing performance).

COURSE OBJECTIVES

Upon successful completion of this course, students will be able to:

1. Understand what management control systems managers can use for effective strategy implementation and good organizational performance.
2. Understand different ways of implementing financial controls: establish financial responsibility centers, setting performance targets/standards, measuring and evaluating performance, assigning performance-dependent incentives.
3. Assess the advantages and disadvantages of using certain measurement systems (market measures, accounting-based measures, and multi-measure systems such as balanced scorecards) in a given organizational context.
4. Acquire a framework to analyze and make decisions related to an organization's performance evaluation and incentive systems.
5. Understand how choices in management control systems depend on the business environment and the life cycle of a company.

COURSE MATERIALS

Required Text/Readings: Most of the cases discussed in class are included in the required textbook. A few cases go beyond the textbook (listed below).

Textbook:

K. A. Merchant & W. A. Van der Stede (2017), *Management Control Systems* (London: Financial Times/Prentice-Hall), 4th edition.

HBS cases:

Campbell, Dennis, Marshall Meyer, Shelley Xin Li, and Kristin Stack. "Haier: Zero Distance to the Customer (A)." Harvard Business School Case 115-006, April 2015. (Revised June 2015.)

Sandino, Tatiana, Shelley Xin Li, and Nancy Hua Dai. "China Lodging Group (A)." Harvard Business School Case 116-004, July 2015. (Revised October 2016.)

Sandino, Tatiana. "Go Mobile: Aligning District Managers and Store Teams." Harvard Business School Case 114-034, February 2014. (Revised April 2014.)

There may be supplemental materials (or optional resources) for certain classes. These materials will be posted on the Blackboard Course Pages. If you have any questions or need assistance with the Blackboard Course Pages, please contact the Marshall HelpDesk at 213-740-3000 or HelpDesk@marshall.usc.edu.

GRADING

<u>Assignments</u>	<u>Points</u>
<i>Class Participation</i>	40
<i>Quizzes</i>	40
<i>Project 1</i>	40
<i>Project 2</i>	40
<i>Project 3</i>	40
<i>Final Exam</i>	100
TOTAL	300

CLASS PARTICIPATION

I assign a material proportion of the grade based on class participation for several reasons. First, it improves the grading accuracy. I can learn more from hearing you share your ideas in a long series of classes than I can from reading what you write in a few short exam sessions.

Perhaps more important than that, grading class participation motivates class participation, and having highly interactive class sessions helps the learning process. Active class participation encourages students to be well prepared and thus to become *active, rather than passive, learners*. Participation provides students with the opportunity to gain from the experiences and talents of everyone in the class. Class participation also helps students improve their oral communication skills. This is important because research shows that people in business tend to spend very little time reading and even less time writing reports. A great deal of managers' and other professionals' interactions with others are through oral communication.

Class participation evaluation will be based primarily on the quality of the participation in classroom discussions. To be clear on what I am looking for regarding class participation, and to further aid in your preparation, I have listed below some characteristics of effective class participation:

- (1) Does the class member make points that are especially pertinent to the discussion? Do they increase the understanding of the class or are they simply a regurgitation of the problem or case facts?

- (2) Is there continuity in one's contribution from what has been said previously during class, or are the comments disjointed, isolated, or tangential? The best class contributions are those that reflect not only excellent preparation, but also good listening, interpretive and integrative skills.
- (3) Do the comments reflect a willingness to put forth new, challenging ideas or are they always agreeable and "safe"?
- (4) Is the participant able and willing to interact with others by asking questions, providing supportive comments or challenging constructively what has been said?

Participation will be evaluated based on a near-continuous scale, the end points of which can be described as follows:

Outstanding Contributor: This person's contributions reflect exceptional preparation, and the ideas offered are always substantive and provide major insights and direction for the class. If this person were not a member of the class, the quality of the discussions would be diminished significantly.

Unsatisfactory Contributor: This person may be absent from class or someone who rarely participates in class discussion. Alternatively, this person's contribution in class reflects inadequate preparation and/or understanding. Ideas offered are not substantive and provide few, if any, insights and never a constructive direction for the class. Integrative comments and effective arguments are absent. Class comments are either obvious, isolated from the main discussion, or confusing to the class.

QUIZZES AND EXAMS

The quizzes and the final exam will test *individual* (not group) work. The *quizzes* will focus on specific issues in the case being discussed that day in class. The *final exam*, will be a take-home exam in lieu of an exam during the final exam period. It will involve a case analysis. No make-up exams will be given (see LSOA policy on incompletes).

PROJECTS

The projects will involve group analyses of cases that are supported by data provided on Excel spreadsheets. The first project is a capital budgeting exercise. The second is a budget "stress testing" exercise. The third involves comparative performance evaluations of a large number of bank branches. Some groups will be asked to present their analyses and conclusions in class.

Students can form their own working groups, but I will help if needed. The optimum (and maximum) group size is four. I will accept groups as small as three. As part of the grading process, I will ask students to grade each of their fellow group members. This is done to try to reduce the "free-rider" effect.

E-Mail Questions

On the bottom of many of the class assignments, you will see that I have included an "e-mail question." Prior to noon before each of our classes, please send me an e-mail message or private Blackboard posting answering the question(s) for that day's class. *This is not intended to be a time-consuming obligation. Your answers should be brief—three sentences or less for each question.*

Your answers to the e-mail questions serve multiple purposes. First, they help me to get to know you and how you think. Second, these messages open the communication channels between us. Since you have to send me a message, it is easy to append another thought. In the past some students have used this opportunity to ask a question on another topic or to give some feedback about the course. I welcome this. Third, your e-mail answers help me orient the class discussion. For example, they help me both to judge the mindset of the class and to find people with unique perspectives. Finally, the questions are functional because they encourage good advance preparation. The regularity with which you input your e-mail question answers on a timely basis and the quality of your answers will form part of your participation grade.

THE IMPORTANCE OF COURSE EVALUATIONS

The student course evaluations are highly valuable. This course is continuously improved, based on feedback from students and instructor observations.

STATEMENT OF ACADEMIC CONDUCT AND SUPPORT SYSTEMS

USC seeks to maintain an optimal learning environment. Students are expected to submit original work. They have an obligation both to protect their own work from misuse and to avoid using another's work as their own. All students are expected to understand and abide by the principles of academic honesty outlined in the University Student Conduct Code (see University Governance, Section 11.00) of SCampus (www.usc.edu/scampus or <http://scampus.usc.edu>). The recommended sanctions for academic integrity violations can be found in Appendix A of the Student Conduct Code.

Students with Disabilities:

USC is committed to making reasonable accommodations to assist individuals with disabilities in reaching their academic potential. If you have a disability which may impact your performance, attendance, or grades in this course and require accommodations, you must first register with the Office of Disability Services and Programs (www.usc.edu/disability). DSP provides certification for students with disabilities and helps arrange the relevant accommodations. Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to me (or to your TA) as early in the semester as possible. DSP is located in GFS (Grace Ford Salvatori Hall) 120 and is open 8:30 a.m.– 5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. Email: ability@usc.edu.

Support Systems:

Student Counseling Services (SCS) - (213) 740-7711 – 24/7 on call

Free and confidential mental health treatment for students, including short-term psychotherapy, group counseling, stress fitness workshops, and crisis intervention. <https://engemannshc.usc.edu/counseling/>

National Suicide Prevention Lifeline - 1-800-273-8255

Provides free and confidential emotional support to people in suicidal crisis or emotional distress 24 hours a day, 7 days a week. <http://www.suicidepreventionlifeline.org>

Relationship & Sexual Violence Prevention Services (RSVP) - (213) 740-4900 - 24/7 on call

Free and confidential therapy services, workshops, and training for situations related to gender-based harm. <https://engemannshc.usc.edu/rsvp/>

Sexual Assault Resource Center

For more information about how to get help or help a survivor, rights, reporting options, and additional resources, visit the website: <http://sarc.usc.edu/>

Office of Equity and Diversity (OED)/Title IX compliance – (213) 740-5086

Works with faculty, staff, visitors, applicants, and students around issues of protected class.
<https://equity.usc.edu/>

Bias Assessment Response and Support

Incidents of bias, hate crimes and microaggressions need to be reported allowing for appropriate investigation and response. <https://studentaffairs.usc.edu/bias-assessment-response-support/>

Student Support & Advocacy – (213) 821-4710

Assists students and families in resolving complex issues adversely affecting their success as a student EX: personal, financial, and academic. <https://studentaffairs.usc.edu/ssa/>

Diversity at USC – <https://diversity.usc.edu/>

Tab for Events, Programs and Training, Task Force (including representatives for each school), Chronology, Participate, Resources for Students

Emergency Preparations

In case of an emergency if travel to campus is not feasible, the USC Emergency Information web site (<http://emergency.usc.edu/>) will provide relevant information, such as the electronic means the instructors might use to conduct their lectures through a combination of USC's Blackboard learning management system (blackboard.usc.edu), teleconferencing, and other technologies.

COURSE OUTLINE AND ASSIGNMENTS

	Topics/ Daily Activities	Readings and Homework	Deliverables with Due Dates
Jan 8	The Control Function of Management (Go over the syllabus, get to know each other; I will provide a general lecture)	Reading: MV, Chapter 1	
Jan 10	Control System Alternatives and What Can Go Wrong	Case: Atlanta Home Loan Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Jan 17	Evaluating Control System Alternatives	Reading: MV, Chapter 6 Case: Diagnostic Products Corporation (DPC) Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Jan 22	Financial Responsibility Structures	Reading: MV, Chapter 7 Case: Kranworth Chair Corporation Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Jan 24	Interdependence and the Transfer Pricing Problem	Case: Zumwald AG Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Jan 29	Planning and Budgeting	Case: Mainfreight Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Jan 31	Business Models and Resource Allocations (Group Project #1)	The detailed assignment for this group project case will be distributed before class. For this project you will hand in a report. You will analyze the case and prepare the report in class.	No in-class presentations are required. Report due before the next class.
Feb 5	Results Controls (or Not)	Case 1: Puente Hills Toyota Case 2: Kooistra Autogroep Email questions Assignment questions	Answer to the email questions sent to me before class; prepare to discuss the assignment questions.

Feb 7	Summary Financial Performance Measures: Advantages and Limitations	Reading: MV, Chapter 10 Case: Behavioral Implications of Airline Depreciation Accounting Policy Choices Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Feb 12	New “Improved” Summary Financial Measures of Performance	Case: Berkshire Industries, Inc. Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Feb 14	Market Measures of Performance	Case: Superconductor Technologies, Inc. Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Feb 21	Combinations of Measures: KPIs, Dashboards, and Balanced Scorecards	Case: Johansen’s – the New Scorecard System Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Feb 26	The Planning Role of Budgets: Business Stress Testing (Group Project #2)	The detailed assignment for this group project case will be distributed before class. For this project you will hand in a report. You will analyze the case and prepare the report in class.	Report due before the next class. We will hear some of the group presentations and discuss the case in the next class.
Feb 28	The Planning Role of Budgets: Business Stress Testing (Cont.)	We will hear some of the group presentations for group project #2 and discuss the case.	
Mar 5	Performance Evaluations: Adjusting for the Effects of “Uncontrollable”	Reading: MV, Chapter 12 Case 1: Olympic Car Wash Case 2: Beifang Chuang Ye Vehicle Group Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Mar 7	Performance Evaluations (Preparation for Group Project #3)	The detailed assignment for this group project will be distributed before class. For this project you will hand in a report. You will analyze the case and prepare the report in class.	Report due before the next class. We will hear some of the group presentations and discuss the case in the next class.
Mar 19	Performance Evaluations (Presentations of Group Project #3)	We will hear some of the group presentations for group project #3 and discuss the exercise.	

Mar 21	Ethical Issues and Analyses and an Industry Application: Retail Brokerage	Case: Philp Anderson Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Mar 26	Fiduciary Obligations Related to Executive Compensation and Other Governance Issues	Case: Golden Parachutes? Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Mar 28	Enterprise Risk Management	Case: Entropic Communications, Inc. Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Apr 2	Going “Beyond Budgeting”?	Case: Statoil Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Apr 4	Decentralized Structures	Case: Hai’er (A) Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Apr 9	Managing a Growing Company - 1	Case: China Lodging Group (A) Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Apr 11	Managing a Growing Company – 2	Case: Go Mobile Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Apr 16	Industry Application: A Hedge Fund	Case: Raven Capital LLC Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Apr 18	Industry Application: Healthcare	Case: Family Care Specialists Medical Group, Inc. Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.

Apr 23	Management Control in Not-for-Profit Organizations	Reading: MV, Chapter 16 Case: University of Southern California: Responsibility Center Management System Email question Assignment questions	Answer to the email question sent to me before class; prepare to discuss the assignment questions.
Apr 25	Last Day of Class – Review Major Themes of the Course	I will hand out the final exam at the end of the class.	The take-home exam is due by May 4 10am.