Performance Measurement & Control Systems for Implementing Strategy

AMIS 823
Course Syllabus
Spring 2004
Instructor: Prakash R. Mulchandani

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Class: GE 355: Monday/Wednesday: 10:30-12:18 pm

Office Hours: Monday/Wednesday: 12:30-1:30pm and by appointment

Course Objectives

This course is designed to provide the tools for formulating business strategies and monitoring their effective implementation. Rapid innovation, entrepreneurial competitors, and increasingly demanding customers have radically altered competitive dynamics. Thus, new control tools are required to implement strategy in the 21st century. This course integrates the latest performance measurement and control techniques with the new realities of competition, strategy and organizational design.

Focusing on the role of the general manager, the course is divided into three parts. Part I sets out the foundations for implementation of business strategy. In this part, we will review the basics of business strategy, along with its formulation and implementation. Part II teaches quantitative tools for performance measurement and control. Several sessions in this segment will be devoted to planning, strategic profitability analysis, resource allocation, and performance scorecards. Part III illustrates the use of these techniques by managers to attain profit goals and strategies. In this final module, we will focus on implementation techniques for balancing profit, growth and control in highly dynamic environments. We will learn how to identify and manage strategic risk. Finally, we will see how effective managers use the levers of control to take charge of the business and drive profitable growth.

Action-oriented case studies will be used throughout the quarter to illustrate key concepts and management techniques. Using current/real-life examples, the cases will show how these concepts have been implemented in various industries.
Target Audience

The course is primarily geared towards implementation of corporate strategy. In present times, it is imperative that this implementation take place with minimal risk. Thus, we will also look at control systems that are used to safeguard information and assets while implementing strategy.

A basic knowledge of financial and managerial accounting should suffice as a prerequisite for the course. MBA students will find that the course integrates several of the concepts they have learned in their curriculum. MAcc students will welcome the exposure to Strategy, and see how important Management Control Systems are towards its implementation.

Course Materials


Evaluation and Grading

Student performance in the course will be evaluated and graded to the following scale:

1. Group Detailed Case Analysis ...........................................32%
2. Group Short Case Analysis ..............................................16%
3. Guidant Corporation Case Presentation .............................12%
4. Final Exam .....................................................................15%
5. Class Participation ..........................................................25%

Group Case Analyses

After the first class, students will be put into groups. Each group will be required to submit four Detailed Written Case Analyses and four Short (two pages) Case Analysis during the quarter. A list of group memberships and a schedule of when these analyses are due will be distributed as soon as practical.

Detailed Case analysis should be around five pages in length (plus exhibits, if any). They should include a discussion of the situation, key issues, and your interpretation/recommendations as needed. Please remember that we are covering several topics and cases in this course, so it is difficult to generalize all the case analysis into a specific format. With your background and knowledge, I am sure that you will figure out the appropriate write-up for the specific cases that you are analyzing. The questions shown in this syllabus are a good baseline for analysis. The cases will be graded according to the simple system of ‘check-plus’, ‘check’, and ‘check-minus’. The point equivalents will be eight, six and four respectively.
The Short (two pages) Case Analysis should be geared to basically answering the questions indicated in the syllabus. Any other insights into the case would, however, be welcome. These submissions will also be graded according to the simple system of ‘check-plus’, ‘check’, and ‘check-minus’. The point equivalents will be four, three and two respectively.

The final case, Guidant Corporation: Shaping Culture through Systems is comprehensive in nature and provides a good vehicle to summarize key course learning’s. Each group will make a presentation in class on this case.

In general, each member of the group will receive the same grade on a written case analysis. However, there may be times when one or more members of a group will “free ride” on the work of other members. The grades of such free riders will be substantially reduced if consistent evidence of free riding is found. To discover free riding, each member of a group may submit an individual Group Self-Evaluation Form around the time when the group’s paper is submitted. This can be done during class or after class. An example Group Self-Evaluation Form is included with this syllabus. If someone does not submit a Group Self-Evaluation Form, the Instructor will assume that, from this student’s perspective, at least, no free riding problems existed.

**Class Participation**

Class participation is one of the best and most reliable ways to demonstrate understanding of the ideas and concepts discussed in readings and case materials. While my preference is to rely on voluntary participation, I may call on you at any time to open the case with a summary of the key issues, to discuss the required readings, or to answer a specific question on a case. Consequently, you will need to prepare carefully before class, and participate actively during class.

When preparing the case for class, you should do the appropriate financial, analytical and quantitative analyses to arrive at your conclusions. At times, it may be appropriate to visually present these quantitative analyses to the class.

I will take detailed notes on student participation/answers to questions. Some of these notes will be made right after class. These notes will form the basis of the ‘participation’ grade. Also, it goes without saying that attendance is essential during the sessions that we have together, and is necessary for a high score on the participation component of the final grade.
Other input for this grade will come from peer class participation evaluations. A form for this input is attached to this syllabus. On this form, students will be asked to list up to four people in the class who, in their opinion, consistently demonstrated excellent class participation throughout the quarter. Students may not list themselves on this form. For accounting purposes, each student will need to sign their form. Students who fail to turn in this form cannot receive the highest class participation grade. Needless to say, student evaluations will be kept confidential.

**About Your Instructor**

Prakash R. Mulchandani is a Senior Lecturer in the Department of Accounting and MIS at the Fisher College of Business. He has held this position since March 2001, when he joined the AMIS Department in a combined role of teaching and pursuing a Masters of Accounting Degree, which he obtained in June 2002.

Mr. Mulchandani has a graduate degree in Chemical Engineering from Clemson University and worked at Dow Chemical Company for three years. In 1973, he obtained an MBA from the University of Michigan in Ann Arbor, and started working for Rockwell International in their financial organization. After numerous assignments in Finance, Accounting, Materials/Logistics, Manufacturing and General Management, Mr. Mulchandani was named President of the Commercial Vehicles Systems Division from which he retired in December 2000.

During his tenure at Rockwell, Mr. Mulchandani taught both financial and management accounting at the Newark Campus of The Ohio State University, and at Furman University in Greenville, South Carolina, on a part time basis. He continues to teach these subjects at the undergraduate level and in the MBA core (Managerial Accounting), along with an MBA elective (Implementing Corporate Strategy), at the Fisher College of Business.

In September 2002, Mr. Mulchandani was appointed to the additional position of Faculty Advisor for students in the MAcc program. He continues to serve in that role for the current academic year.
Performance Measurement & Control Systems for Implementing Strategy  
AMIS 823 - Spring 2004  
Course Schedule

**Monday, March 29**

**Topic:** Course Introduction

**Objectives:** To introduce the levers of control for balancing profit and growth

**Read:** None

**Case:** None

**Wednesday, March 31**

**Topic:** Levers of Control

**Objectives:** To see how to integrate and use the levers of control analytical framework on a small consulting firm where the founders seem to be losing control as the business grows larger.

**Read:** Chapter 1: Organizational Tensions to be Managed

**Case:** Automation Consulting Services

**Questions**

1. How should the ACS founders deal with the problems they have identified? Be as specific as possible in making recommendations for each of the four offices.

**Monday, April 5**

**Topic:** Basics of formulating and implementing business strategy

**Objectives:** To illustrate how managers of a small entrepreneurial firm can successfully leverage and control their business strategy to create a dominant brand franchise.

**Read:** Chapter 2: Basics for Successful Strategy

**Case:** J Boats, Inc.
Questions

1. How do you think the Johnstone family would describe J Boats' strategy: (a) as a unique perspective, (b) as a specific market position, (c) as a plan to be executed, or (d) as emerging patterns of action as the competitive environment unexpectedly changes?

2. How was this strategy formulated?

3. How has this strategy been implemented?

4. How would you deal with the issues raised on pages 11 and 12 of the case?

Wednesday, April 7

Topic: Balancing profit, growth and control

Read: Chapter 4: Using Information for Performance Measurement and Control

Objectives: To study the problems encountered by managers of a rapidly growing high technology firm as they balance the tension between profit, growth and control. We look at the evolution of the firm from its founding until its original management team is replaced.

Case: ATH Technologies: Making the Numbers (A - C)

Questions

Please answer the questions in the cases.

Monday, April 12

Topic: Balancing profit, growth and control

Read: Chapter 4: Using Information for Performance Measurement and Control

Objectives: Same as above

Case: ATH Technologies (D - E)

Questions

Please answer the questions in the cases. In addition, please answer the following:
1. Assume that you are Charles Casper, President of ATH. Prepare a succinct action plan (no more than seven points) describing what you would do to get the business back on track.

**Wednesday, April 14**

**Topic:** Accountability and profit center design for implementing strategy

**Read:** Chapter 3: Organizing for Performance

**Objectives:** To look at alternate organizational structures for implementing strategy in a global marketplace. We consider the formation of ABB and its matrixed organization – a structure that many believe will be the model for the future.

**Case:** Asea Brown Boveri and Asea Brown Boveri: The ABACUS System

**Questions**

1. What are the most important economic, political and competitive characteristics of the environment in which Asea Brown Boveri (ABB) competes?

2. What is Barnevik's strategy for ABB?

3. How important is the matrix organization to Barnevik's strategy? Why didn't he adopt a simpler form of organization based on geography or products?

4. Why is it so difficult to make a matrix organization work?

5. Why is Barnevik placing so much emphasis on Return on Capital Employed as a measure of a manager's performance? Is Barnevik's method of calculating ROCE fair? Is it effective?

6. Is the process by which budgets are set and received fair? Is it effective?

7. Will Barnevik be successful in turning around the performance at Asea Brown Boveri? Would you want to work with him?

**Monday, April 19**

**Topic:** Building and using effective budgets

**Read:** Chapter 5: Building a Profit Plan
Objectives: To present the profit plan as a tool to quantify strategic objectives. We evaluate two strategic alternatives faced by a coffee manufacturer by analyzing their cash, profit and ROE consequences.

Case: Cafes Monte Bianco: Building a Profit Plan

Questions

1. Use a profit wheel analysis to evaluate the attractiveness of switching all production to private brand coffee. Estimate key accounting variables for the profit wheel, cash wheel, and ROE wheel.

2. Based on your analysis, what recommendations would you make to Giacomo Salvetti?

3. What assumptions did you make to complete your analysis? How critical are these assumptions to your conclusions?

4. Prepare a list of additional information that you would ask for to improve the quality of your analysis.

Clarification:

a. Note that the case uses Marketing expenses and Advertising expenses interchangeably.

b. For interest expense you can either assume that the interest expense for 2001 is the same as it was for 2000 as the borrowings do not change during 2001 or you can assume that the firm maintains a level cash position of 1,121,450 throughout the year and borrows/repays its credit line. In the latter case, assume that the credit line and long-term debt bear an interest of 11% per annum interest (or 11%/12 per month).

c. The fixed cost in Exhibit 3 include depreciation expense.

d. The cost per unit in Exhibit 3 is the sum of the variable costs (called unit cost in Exhibit 3) and fixed costs divided into the volume.

Wednesday, April 21

Topic: Profitability analysis techniques for evaluation purposes

Read: Chapter 6: Evaluating Strategic Performance

Objectives: To learn how to evaluate the strategic profit performance of businesses and managers. We develop variance analysis to evaluate the Italian operation of a European ice-cream company.
Case: Compagnie du Froid

Questions

1. How would you explain the difference between the Italian region’s expected and actual profit?
   a. What was the impact of the change in sales volume?
   b. What was the impact of the change in prices charged for ice-cream and specialties?
   c. What was the impact of the changes in the cost of raw materials, labor, and fixed costs?
   d. How much of the changes in the cost of raw material and labor are due to changes in the prices (of raw material) and wages (of labor), and how much are due to manufacturing efficiencies?

2. How would you evaluate the performance of the manager of the Italian region?

3. How would you evaluate the performance of the French and Spanish managers? How would you account for the ice-cream transfer from France to Spain?

4. What problems is Jacques Trumen facing?

5. What would you recommend to him?

Monday, April 26

Topic: Variance analysis to evaluate performance

Read: Chapter 6: Evaluating Strategic Performance (cont)

Objectives: To use budgets, pre-set standards and ex-post income statements to evaluate performance. We develop an understanding of the relationship between capacity utilization and the absorption of fixed costs through understanding of the volume variance.

Case: Polysar Limited

Questions

1. Prepare a presentation for the Polysar Board of directors to review the performance of the NASA Rubber Division. Pay Particular attention to questions that may be raised concerning the accuracy and meaning of the volume variance.
2. What is the best sales and production strategy for the EROW Division? NASA Division? Rubber Group in total?

3. What changes, if any, would you recommend be made in the management accounting performance system to improve the reporting and evaluation of the Rubber Group's performance?

**Wednesday, April 28**

**Topic:** Techniques for allocating resources to support strategy

**Read:** Chapter 7: Designing Asset Allocation Systems

**Objectives:** To examine analytical techniques for allocating resources to support strategy. We calculate strategic pay-offs and risks for three competing investments proposals.

**Case:** Tennessee Controls: The Strategic Ranking Problem

**Questions**

1. Follow the five steps outlined at the end of the case to rank the three proposals.

2. Summarize your ranking and SRI scores for each of the three proposals.

3. What should Judy Starnes recommend? Why?

4. What are the advantages and disadvantages of the SRI allocation process? Would you change it?

**Monday, May 3**

**Topic:** Designing transfer pricing systems

**Read:** Chapter 8: Linking Performance to Markets

**Objectives:** To analyze and evaluate transfer pricing issues within organizations. The case involves three divisions and offers six potential transfer pricing solutions towards obtaining goal congruency between themselves and the company.

**Case:** Birch Paper
Questions

1. Birch Paper’s president (not named in the case) is concerned that using divisional profits for performance evaluation is not maximizing the overall profit of the firm. Write a 1 to 2 page memo explaining the strengths and weaknesses of this method of evaluation.

2. Recommend policies that Birch Paper could adopt to improve corporate profits when transfer pricing issues arise. Justify your recommendations using (analyzing) the bids received by Mr. Kenton.

Wednesday, May 5

Topic: Calculating Economic Value Added using standard accounting adjustments

Read: Chapter 8: Linking Performance to Markets (cont)

Objectives: To practice the mechanics of calculating EVA using standard accounting adjustments. A bonus payout for a divisional manager challenges the applicability of an EVA incentive program.

Case: Vyaderm Pharmaceuticals

Questions

Using data from Case Exhibit 8, calculate the following items:

1. 2000 EVA for the North American Dermatology Division.

2. 2000 EVA bonus payout for a manager earning $200,000, assuming that the manager’s bonus is based 100% on the division’s EVA.

3. 2001 EVA and estimated bonus payout for the same manager, assuming that Vyaderm’s profits fall back to historical levels and the EVA improvement goal remains constant.

Based on your analysis, what would you recommend to Mr. Vedrine?

Monday, May 10

Topic: Effectively using performance reports to implement strategy

Read: Chapter 9: Building a Balanced Scorecard
Objectives: To consider the costs and benefits of using multiple performance measures to evaluate performance. A Citibank manager must decide how to interpret performance reports that are favorable with one significant exception.

Case: Citibank: Performance Evaluation

Questions

1. Why has Citibank introduced a Performance Scorecard?

2. Assume that you are Lisa Johnson. Complete Exhibit 1 to evaluate James McGaran performance.

3. What would you say to McGaran in his performance review meeting?

4. Would you roll-out this performance scorecard to other regions at Citibank? What changes, if any, would you make?

Wednesday, May 12

Topic: Using control systems diagnostically

Read: Chapter 10: Using Diagnostic and Interactive Control Systems

Objective: To analyze the relationship between business strategy, critical performance variables and diagnostic control systems. Nordstrom management must decide if their measure of customer service introduces the potential of dysfunctional behavior into their organization.

Case: Nordstrom: Dissent in the Ranks? (A)

Questions

1. What is the cause of the problems described in the case? How serious are these problems?

2. Are the Nordstrom employees pressured inappropriately by the sales-per-hour system?

3. How effective is the memo reproduced as Exhibit A in clarifying the distinction between “sell” and “nonsell” time?

4. How would you change the management systems at Nordstrom?
Monday, May 17

Topic: Using control systems interactively

Read: Chapter 10: Using Diagnostic and Interactive Control Systems (cont)

Objectives: To illustrate the use of a comprehensive formal planning and control system in formulating and implementing strategy in a large decentralized company.

Case: Codman & Shurtleff, Inc.: Planning and Control System

Questions

1. Complete the Codman and Shurtleff flow chart for all planning and control processes described in the case.

2. Evaluate the planning and control system in use at Johnson & Johnson. What are its strengths and weaknesses?

3. Over the last several years, Fortune magazine has polled the CEO's of the 250 largest U.S. companies to gather data on the management quality of major U.S. corporations. CEO's responding to the survey have repeatedly ranked Johnson & Johnson as one of the most innovative and well-managed firms in its industry. What role, if any, do you believe that J&J's management planning and control systems play in achieving (or hindering) this innovation?

4. From information provided in the case, suggest how you would design a reward/incentive system for Roy Black and the Codman & Shurtleff Board to capture maximum benefit from planning and control procedures. How would you deal with relating pay to performance in rapidly changing environments?

5. Roy Black states that decentralized management is "unequivocal accountability for what you do" (last paragraph, p. 14). Do you agree with his statement?

Wednesday, May 19

Topic: Designing goals, measures and incentives

Read: Chapter 11: Aligning Performance Goals and Incentives

Objectives: To understand the multi-dimensional aspects of incentives and rewards. The case examines the formal incentive systems in use at Mary Kay Cosmetics to motivate a large independent sales force who comprise the firm's only distribution channel.
Case: Mary Kay Cosmetics: Sales Force Incentives (A)

Questions

1. Calculate the annual income of:

   a. a beauty consultant who sells an average of $150 (at wholesale value) of product per month;

   b. a VIP team leader with 15 recruits who averages monthly personal sales of $650 and team sales of $3,200 (Assume she receives a 12% commission on recruits' sales;

   c. a director with 50 active unit members, who averages monthly personal sales of $500, personal recruits' sales of $5,000, and total unit sales of $9,500. Assume she recruits three new consultants every third month, which entitles her to a recruiting bonus of $200 per quarter. (Apply a 12% commission to recruits' sales and an 11% commission to total unit sales. Also add in a monthly production bonus of $700).

2. Based on these calculations, what components of the financial incentives program appear to be the primary motivators for the sales force?

3. Describe a typical VIP Consultant in terms of:
   a. Demographics
   b. Income
   c. Management Responsibilities

4. Recommend a set of changes to the VIP car program that will improve overall sales force effectiveness at Mary Kay. Consider the motivational risks and cost effectiveness of your proposals as well as how they could be implemented. Be as specific as possible.

Monday, May 24

Topic: Types of strategic risks that can imperil the firm

Read: Chapter 12: Identifying Strategic Risk

Objective: To see how firm’s can determine their exposure to risk through the use of a Risk Exposure Calculator. The case describes what Joseph Jett did at Kidder, Peabody and how he did it.

Case: Kidder Peabody & Co.; Creating Elusive Profits

Questions

1. What were the organizational factors that led to problems at Kidder, Peabody & Co.?
2. Complete the Risk Matrix for Kidder Peabody (APGS Chapter 12, p. 265). Based on your analysis, should senior managers have been able to anticipate the problems described in the case?

3. Prepare a journal entry (i.e., accounting debits and credits) to illustrate how to account for a $1,000,000 recon to be settled on the transaction date. What is the effect of this transaction on the balance sheet and profit & loss statement?

4. Prepare a journal entry to illustrate how to account for a $1,000,000 recon to be settled one month in the future. Assume a market discount rate of 1% per month. What is the effect of this transaction on the balance sheet and profit & loss statement?

5. How difficult was it to understand the accounting for strips and recons? Why was the nature of these profits not understood earlier?

6. Who was to blame?

Wednesday, May 26

Topic: Managing strategic risks while achieving profit goals

Read: Chapter 13: Managing Strategic Risks

Objective: To illustrate the concepts and operation of a strategic boundary system. We study the process used by ADP managers to screen investment opportunities and divestitures. Should ADP really shed a highly profitable business?

Case: Automatic Data Processing: The EFS Decision

Questions

1. Evaluate the strengths and weaknesses of each of EFS's four Lines of Business.

2. Which requirements on the "List" (Exhibit 3) should concern Lynn Mangum? Why?

3. What should Lynn Mangum recommend?

4. To what extent should he be bound by the criteria on the "List"?

Monday, May 31 (HOLIDAY)
Wednesday, June 2

Topic: APGS course summary

Read: Chapter 14: Levers of Control for Implementing Strategy

Objective: To discuss the use of formal management systems as a key lever to communicate and guide strategy implementation. The detailed description of the strategy, structure and management systems of Guidant Corporation provides a vehicle to summarize key course learning’s.

Case: Guidant Corporation: Shaping Culture through Systems

Questions

1. Use concepts covered in the course to critique the approach followed by managers at Guidant as they attempt to achieve profit goals & strategies. What are the main strengths and shortcomings of their approach? (To be as inclusive as possible in your analysis, review Chapters 1-14).

2. Would you introduce the long-range planning system advocated by Brauer?

Monday, June 7

Topic: Final Exam
Group Self-Evaluation Form

You have 100 group participation points to allocate to members of your group. If you believe that each member of your group participated equally in this group project, then you should assign each member of the group the same number of points. If one or more members of the group did not contribute equally, you should assign fewer points to them and more points to members of the group who contributed more to this project. In any case, the total number of points you allocate to members of your group must sum to 100. PLEASE PRINT NEATLY.

1. Your Name:

2. The Name of the Case:

3. List the names of the people in your group (besides yourself), and the group participation points you would assign to each. Remember, total Group Participation Points must sum to 100.

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<thead>
<tr>
<th>Members of Your Group</th>
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100 points
Peer Class Participation Evaluation Form

Your name: ________________________________________________
(Print)

Please list up to four people in the course who, in your opinion, demonstrated consistent excellent class participation throughout the quarter. Do not list your own name. Please sign your name at the bottom of this form.

As a reminder, excellent class participation is defined as: a student consistently attends class, consistently and appropriately contributes to case discussions, and occasionally contributes unusually insightful comments in these discussions. Please print legibly!

1. __________________________________________

2. __________________________________________

3. __________________________________________

4. __________________________________________

Sign here: ________________________________