# Performance Measurement and Controlling

## Prof. Laura Zoni

**Module I – International Financial Reporting**

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course is designed to provide an understanding of international financial statements in an economic context.

Successful completion of this course results in the ability to read and meaningfully interpret financial statements that are prepared and disseminated by business entities with a special focus on listed companies, competing in global industries. This necessarily requires devoting attention to the basic rules of the accounting language as well as to the issues and to the institutions, which influence and formulate these rules. The course will also provide the basis for the financial analysis and comparative reporting.

In terms of skill objectives the student will:

* consolidate the knowledge of financial statement literacy, in the sense that students should be able to examine an annual report and understand a meaningful portion of information contained therein
* improve the ability to evaluate the financial effectiveness of alternative business models
* develop the capability of conducting a comparative financial analysis of peers in the same industry
* raise his/her awareness about the strengths and limitations of financial communication.

***COURSE CONTENT***

The course will mainly focus on:

* annual report and financial communication
* income statement, balance sheet and cash flow statement: main contents, formats and their links
* assets (selected items) evaluation criteria – impact on key financial indicators
* liabilities (selected items) evaluation criteria – impact on key financial indicators
* ratio analysis: from accounting measures to accounting based measures
* business model and segmental reporting

***READING LIST***

Young D. S. and Cohen J., *Corporate Financial Reporting and Analysis: A Global Perspective*, 4th Edition, 2018, Wiley is a recommended textbook.

Additional background readings are:

Robert N. Anthony, David F. Hawkins, Diego M. Macrì, Kenneth A. Merchant, *Il Bilancio*, McGraw-Hill, 13th edition” - Relevant chapters are: 1,2,3,4,5,6,7 and 11.

C. T. Horngren, G. L. Sundem & J. A. Elliott, D. R. Philbrick, *Introduction to Financial Accounting*, 11th Edition, Pearson – Relevant Chapters are:1, 2, 3, 4, 5 and 12.

***TEACHING METHOD***

# During the course, interactive lectures will be complemented with exercises, problems and case analysis. Practice exercises and problems from the textbook are suggested, and solutions are distributed via Blackboard. Further, to stimulate interaction and experiential learning, group work will be assigned and assessed as an integral part of the course evaluation. Group assignment(s) are described in details in the analytical programme.

# The course assumes full attendance and active participation in and outside class (group work). Should students have problems in attending, they should please contact the instructor.

***ASSESSMENT METHOD AND CRITERIA***

The course assessment is based on class participation (10%), group-work (40%), and exam (50%).

Class participation is based on the quality of the contribution to the class development.

Group assignments will be evaluated base on their completeness, in-depth analysis and consistency of the argumentations expressed.

The exam will be based on a mix of open questions on incidents and mini cases, and multiple-choice questions.

In the case of students not attending classes, the closed book written exam is worth 100%.

The course evaluation is expressed by means of a grade on a 30-point scale.

1. ***NOTES AND PREREQUISITES***
2. Previous knowledge in the area of introductory financial accounting, and management will facilitate the understanding of the main concepts taught in this module.

**Module II – Performance Measurement and Incentives**

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

This course is designed to broaden and deepen your conceptual and technical understanding of performance management and control systems (PMCS). These are considered broadly to include everything that managers do to ensure good performance or, more specifically, to ensure that the company’s strategies get implemented effectively. Management accounting at this level of analysis is an integral part of companies’ PMCS. The emphasis in the course is on *financial controls*, which dominate in importance at managerial levels. Using financial controls requires managers to make decisions about: (1) responsibility structures (e.g., cost centers, profit centers), (2) performance measures (e.g., market, financial, and/or nonfinancial measures, and their combinations), (3) performance evaluations, which take into consideration performance targets or other benchmarks, and (4) rewards (including performance-dependent compensation).

At the end of the module students will be able to :

* recognise the focus of management control
* map the fundamental characteristics of the PMCS
* evaluate the effectiveness of the PMCS in relation to the strategies pursued by the firm
* suggest changes in the design and use of a PMCS to support managerial activity and provide managerial incentives

***COURSE CONTENT***

The course will mainly focus on:

* control alternatives: action, personnel/cultural, financial controls
* financial controls requirements and effectiveness
* financial control responsibility structures and transfer pricing
* planning and targeting of financial results
* financial measures choice and their implications on managerial behavior
* financial control in the presence of uncontrollable factors
* balanced scorecards for performance evaluation and control purposes

1. ***READING LIST***
   * 1. Customised edition of: K. A. Merchant & W. A. Van der Stede, *Management Control Systems – Performance Measurement, Evaluation and Incentives*, 3rd Edition. The book can be purchased at the bookstore (Libreria Internazionale Romagnosi, Piacenza) or online at http://www.scuolabook.it/. Cases and the business simulation can be purchased online <http://hbsp.harvard.edu>. Additional debriefing slides will be uploaded on the elearning platform.

***TEACHING METHOD***

1. The course will be taught through lectures on theory, analyses and discussion of corporate cases. The focus of most of the classes will be on a case that brings the topics “to life” and provides issues for us to discuss. The cases require advance preparation.
2. In the final part of the course students will be asked to participate in a business game by the Harvard Business School, to simulate the design and use of a balanced scorecard in case of a company turnaround. Given a choice of which strategy to apply, students will need to design and use a balanced scorecard to implement the strategy at best. Students will select Key Performance Indicators (KPIs) to be included in the balanced scorecard in the design phase. To implement the selected strategy students will then allocate resources to initiatives based on the feedback from the balanced scorecard (use-phase). The simulation is a “single player” game, however the different teams compete with each other to obtain the best “exit value”, e.g. the private equity valuation at the end of a four-year period.
3. ***ASSESSMENT METHOD CRITERIA***

The course is based on class participation (10%), group-work (40%), and exam (50%).

Class participation is based on the quality of contribution to the class development.

The group work assignment consists of a 5 pages write-up on the balanced scorecard simulation above. Detailed instructions (format, length, etc. of the document) on this will be provided in due course. Group assignments will be evaluated base on their completeness, in-depth analysis and consistency of the argumentations expressed.

The exam consists of o mix of open questions on short case(s) and multiple choice questions.

1. In the case of students not attending classes, the closed book written exam is worth 100%.
2. The course evaluation is expressed by means of a grade on a 30-point scale.
3. ***NOTES AND PREREQUISITES***
4. Previous knowledge in the area of introductory managerial accounting, organization and strategy will facilitate the understanding of the main concepts taught in this module.
5. Information on office hours available on the teacher's personal page at <http://docenti.unicatt.it/>