Freie Universität Berlin

School of Business & Economics
**Chair of Managerial Accounting**

Prof. Dr. Jochen Bigus

# Performance Measurement and Incentives

**winter term 2019**  (Fridays: 9 a.m.-1 p.m., room 106, Garystrasse 21)

**ECTS credits:** 6

**Purpose and content of the Course**:

This course aims at equipping master students (you) with the necessary background to critically assess different problems of the measurement of value creation in firms. These skills will help you to decide, when and which instruments of performance measurements are useful and when they are not. Measurement is crucial for value creation and thus, for the firm's success. The class starts with insights from both capital market theory and principal-agent theory and then introduces modern performance measurement systems and management incentive systems such as residual income, Economic Value Added, Cash Value Added, bonus banks and the balanced scorecard. This course is rather theory-based. The course also discusses empirical evidence.

**Course prerequisites**:

There are no formal prerequisites because it is a compulsory class in the first semester. However, students with a sound microeconomic or game-theoretic background will have an advantage. The course is a pre-requisite for the seminar in Controlling.

**Overview examinations**: Written examination (100%). Attendance is compulsory. There is an option for up to three groups of two students to present results on performance measures and management compensation in European listed firms of a certain industry. The presentation is 15 minutes, the follow-up discussion on the presentation another 15 minutes. The presentation slots will be distributed in the first class. In case of excess demand, there will be a lottery. The contents of the presentations and discussions are relevant for the exam. The grade on the presentation/discussion performance will account for 30% of the overall grade given that it is better than the grade in the exam. Otherwise, the exam grade counts 100%.

**Competencies developed:**

You will learn which factors determine whether a performance measure is useful or not. This will help you in managerial decision making. You will learn about modern performance measures and when and why they might be more useful than traditional performance measures such as return on assets or return on equity.

**Course literature:**

The relevant course material will be distributed via Blackboard: lecture notes, exercises, other readings (case studies etc.).

**Course organization:**

The class will be taught in English. The class consists of lecture parts and tutorials (with exercises) both of which are offered by Prof. Bigus. There will an additional class with exercises on Wednesdays 2-4 p.m. starting October 23 (room 108) performed by a Ph.D. student, Dongfeng Xie. The following table provides a more detailed overview.

| | Subject | Lecture notes |
|---|---|---|
| **Introduction** | | |
| Oct 18 | Introduction | Chapter 1 |
| **Perfect performance measurement** | | |
| Oct 18, 25 | The NPV rule and CAPM (Exercises 1, 2) | Chapter 2.1 – 2.2 |
| Oct 25 | Corporate finance and management accounting (Exercises 3, 4) | Chapter 2.3 – 2.4 |
| Nov 1 | Performance Measures: An Overview (Exercise 5) | Slides only |
| **Results from principal-agent theory** | | |
| Nov 8 | Direct and indirect performance measurement (Exercises 6, 7) | Chapter 3.1 – 3.2 |
| Nov 15 | Multiple performance measurement, Trust (Exercises 8, 9) | Chapter 3.3 – 3.5 |
| **Financial performance measures** | | |
| Nov 22 | Short-term performance measurement (Exercises 10, 11) | Chapter 4.1 – 4.2 |
| Nov 29 | Residual profits and firm value (Exercises 12, 13) | Chapter 4.3 |
| Dec 6 | EVA, CVA etc. and Long-term performance measurement (Exercises 14, 15) | Chapter 4.4 - 4.5 |
| **Presentations and Exam Preparation** | | |
| Dec 13 | Presentations | |
| Dec 13 | Exam Preparation | |
| **Exam:** Dec 20, 9-11 a.m. | | |
| Exam review: March 30 - April 3, 2020 | | |
| Exam, re-take: April 6-10, 2020 | | |