

Prof. Dr. Jochen Bigus

## **Performance Measurement and Incentives (Leistungsmessung und Managementanreize)**

**winter term 2023/24** (Wednesdays: 8 a.m.-12 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. Students who belong to the best 10% in oral performance, will be awarded a bonus of 4 points in the written exam (maximum total points: 90), the best 5% obtain 7 bonus points.

There is also 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 is taught in English. The class consists of lecture parts and tutorials (with exercises) both of which are offered by Prof. Bigus, Florian Dreyer and Mohamed Amine Timoumi. The following table provides a more detailed overview.

	Subject	Lecture notes
<b>Introduction</b>		
Oct 18	Introduction	Chapter 1
<b>Perfect performance measurement</b>		
Oct 18, 25	The NPV rule and CAPM ( <a href="#">Exercises 1, 2</a> )	Chapter 2.1 – 2.2
Oct 25, Nov 1	Corporate finance and management accounting ( <a href="#">Exercises 3, 4</a> )	Chapter 2.3 – 2.4
Nov 8	Performance Measures: An Overview ( <a href="#">Exercise 5</a> )	Slides only
<b>Results from principal-agent theory</b>		
Nov 15, 22	Direct and indirect performance measurement ( <a href="#">Exercises 6, 7</a> )	Chapter 3.1 – 3.2
Nov 29	Multiple performance measurement, Trust ( <a href="#">Exercises 8, 9</a> )	Chapter 3.3 – 3.5
<b>Financial performance measures</b>		
Dec 6	Short-term performance measurement ( <a href="#">Exercises 10, 11</a> )	Chapter 4.1 – 4.2
Dec 13	EVA, CVA etc. and Long-term performance measurement ( <a href="#">Exercises 14, 15</a> )	Chapter 4.4 - 4.5
<b>Presentations and Exam Preparation</b>		
Dec 13	Exam Preparation	
Dec 20	Presentations (8.30 -10.15 a.m.)	
<b>Exam: Dec 20, 10.30 a.m. -12 p.m.</b>		
Exam review: January 8, 2024, 10-11h		
Exam, re-take: April 8-12, 2024		