

Prof. Dr. Aline Grahn

## **Performance Measurement and Incentives**

winter term 2020/21 (Wednesdays: 11 a.m.-2 p.m., online)

**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%). 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 & solutions, other readings (case studies etc.).

**Course organization:**

The class will be taught in English and completely online (except the exam). The class consists of lecture parts and tutorials (with exercises) both of which are offered by Prof. Grahn. Lectures take place Wednesdays from 11 am to 2 pm in a time-bound online class. Tutorials will be offered as asynchronous online classes so that you can work on the exercises whenever you like. The following table provides a more detailed (preliminary!) overview.

	Subject	Lecture notes
<b>Introduction</b>		
Nov 4	Introduction	Chapter 1
<b>Perfect performance measurement</b>		
Nov 4	The NPV rule and CAPM ( <a href="#">Exercises 1, 2, 3</a> )	Chapter 2.1 – 2.2
Nov 11	Corporate finance and management accounting ( <a href="#">Exercises 4</a> )	Chapter 2.3 – 2.4
Nov 11	Performance Measures: An Overview ( <a href="#">Exercise 5</a> )	Slides only
<b>Results from principal-agent theory</b>		
Nov 18	Direct and indirect performance measurement ( <a href="#">Exercises 6, 7</a> )	Chapter 3.1 – 3.2
Nov 18	Multiple performance measurement, Trust ( <a href="#">Exercises 8, 9</a> )	Chapter 3.3 – 3.5
<b>Financial performance measures</b>		
Nov 25	Short-term performance measurement ( <a href="#">Exercises 10, 11</a> )	Chapter 4.1 – 4.2
Nov 25	Residual profits and firm value ( <a href="#">Exercises 12, 13</a> )	Chapter 4.3
Dec 2	EVA, CVA etc. and Long-term performance measurement ( <a href="#">Exercises 14, 15</a> )	Chapter 4.4 - 4.5
<b>Non-financial performance measures</b>		
Dec 2	Balanced Scorecard	Chapter 5
<b>Presentations and Exam Preparation</b>		
Dec 9	Presentations	
Dec 9	Exam Preparation	
<b>Exam:</b> Dec 16, 10 a.m. – 11:30 a.m.		
Exam review (probably): March 22 – March 26, 2021		
Exam, re-take (probably): March 29 - April 9, 2021		