



University of Alberta
School of Business
Department of Accounting & Management Information
Systems

ACCTG 523-Lec B1

Accounting Information and Internal Decision Making

Instructor:	Roy R. Suddaby	Term:	Winter Term 2007
Office:	2-32E Business Building	Time:	Mon \ Wed 14:00 – 15:20
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A. What's it about

This course examines the use of accounting information for strategic planning, organizational decision making and managerial control. The key objective is for you to recognize the nature of such information and the ways it can be used within organizations to increase the likelihood that an organization achieves its objectives. This course will explore the structures, tools and procedures available to management to help it motivate, evaluate and reward members of the organization. While there will be some calculations, the emphasis is on discussing the various uses of managerial information. The course is purposefully eclectic in nature and synthesizes ideas from accounting, strategic management, organization theory, economics and management science. You will be able, and expected, to bring your own experience to bear on the issues and material presented in class.

B. Career Focus

This course prepares you with analytical frameworks necessary for understanding the various ways in which management information is collected, manipulated and disseminated in complex organizational settings. The course adopts a manager's perspective on strategy and places you in the role of a key decision maker within a firm or an *advisor* to key firm decision makers. My hope is to make you aware of the great potential value of managerial information and to make you aware of its problems.

C. Objectives & Pedagogy

The course combines both theoretical and applied materials. Emphasis is placed upon in class discussion. Visiting speakers supplement the materials. Specific objectives are:

- To provide you with analytical frameworks and tools necessary for linking an organization's mission and strategy with operational objectives.

- To provide students with an appreciation of the informational value of both quantitative and qualitative data.
- To understand how best to procure and manage accounting information within your corporation, department or organization.
- To bridge the gap between highly structured and oversimplified textbook problems and the complex real world where it is often difficult to identify the precise nature of a problem, or its causal source or the *best* solution.

D. Assessment

Participation (individual)	10 %
First assignment (individual) [due January 24]	15 %
Second assignment (individual) [due February 28]	25 %
Third assignment (group) [due April 4]	30 %
Final exam – take home (individual) [due April 20]	20 %

Letter grades will be assigned to the percentage marks in accordance with University Regulations [Section 23.4(4) of the University Calendar]. Grades will be based on a combination of absolute achievement and relative performance.

E. Course Format

The course will be run as a seminar. You will be expected to read and study all required cases, problems or readings in advance of each class. You should be prepared to answer questions regarding the readings if called upon in class by the instructor. Small-group discussion sessions will be used in each class. Cases will typically be discussed during the first part of each class and text chapters, supplemental readings and in-class exercises will be discussed during latter part of each class.

This course confronts numerous issues for which the solutions are sometimes only partial or reflect evolving ideas. Please be prepared to enjoy the material and to integrate it into your own developing expertise.

“Blackboard” will be used to notify you of important information, discussion questions and changes in reading assignments. It is critical that you monitor the class Blackboard site as you prepare for each class.

F. Reading Materials

Cases and supplementary materials are posted on the Blackboard website for viewing and downloading. This will be the primary reading material for the course. The textbook, identified below, is to supplement your reading and to provide you with questions and exercises to enhance your technical skills.

Textbook: C.T. Horngren, G.L. Sundem, W.O Stratton, H.D Teall, G. A. Gekas. 2006. *Management Accounting: 5th Canadian Edition*. Pearson-Prentice Hall (referred to as **HSSTG** below).

G. Quizzes

The quizzes are take home assignments and are outlined in Schedule "A" appended to this syllabus.

H. Final Exam

The final exam will be a take home exam and will presume a high degree of familiarity with the material. This will include material from lectures (including discussions), assigned readings and cases. The best way to prepare for the final exam is to carefully prepare for each case before class. The final exam will be distributed on the last class and is due on April 20th, 2007. The final exam is worth **20%** of your overall grade.

I. Participation

Your participation in class is essential, both to your learning and to that of your peers. Most communications in business are oral. Effective participation is reflected in focused comments, analyses that illustrate your command of the readings, and application of knowledge from other classes and/or prior experience. All cases must be prepared in advance of class. You may be called upon to introduce a case. Please ensure that you are prepared so that we can have useful exchanges of views. Your class participation is worth **10%** of your overall grade. While regular participation in class discussion is a factor, the content, timing and quality of your remarks is most critical. Effective oral contribution includes the ability to incorporate a concept from relevant readings, or support one's position using specific evidence from the case.

J. Criteria for Evaluation of Written Work

All written work will be evaluated on the basis of the following considerations:

THEORY: How well does the written material reflect your understanding and application of the conceptual constructs presented in class? Are you using terminology appropriately?

DATA: How well do you use data to justify your analyses, to make appropriate inferences and to support your arguments?

WRITING: How effectively are you communicating your analyses? Is the writing clear? Are the arguments logical? Is the data presented clearly? Is the communication style appropriate for the intended audience?

CREATIVITY: Is this analysis a routine or generic application of concepts to data or does the analysis *customize* existing knowledge to create a unique solution for this specific firm? Does the analysis integrate knowledge from a variety of different approaches, concepts or analytic tools?

K. Course Policies:

Academic Integrity: “The University of Alberta is committed to the highest standards of academic integrity and honesty. Students are expected to be familiar with these standards regarding academic honesty and to uphold the policies of the University in this respect. Students are particularly urged to familiarize themselves with the provisions of the Code of Student Behaviour (online at www.ualberta.ca/secretariat/appeals.htm) and to avoid any behaviour, which could potentially result in suspicions of cheating, plagiarism, misrepresentation of facts and/or participation in an offence. Academic dishonesty is a serious offence and can result in suspension or expulsion from the University.” (GFC 29 SEP 2003) **Note:** Please read the University’s policy on plagiarism at <http://www.ualberta.ca/SECRETARIAT/chsheet.pdf>

Special Needs: I would like to hear from anyone who has a disability that may require some modification of seating, testing or other class requirements so that appropriate arrangements can be made. Please see me before or after class. Special arrangements must be made before any tests are administered.

LATE ASSIGNMENT POLICY: Any assignment that is late will have ten (10%) per cent of the grade deducted for each day that assignment is late up to a maximum of seven days. No papers will be accepted more than seven days after the deadline.

L. University Policy on Course Outlines:

“Policy about course outlines can be found in Section 23.4(2) of the University Calendar.” (GFC SEP 2003)

COURSE OUTLINE

Week 1 (Jan. 8/10)

INTRODUCTION AND FUNDAMENTAL CONCEPTS

TOPICS COVERED:

- Introductions (to the course and each other)
- Review Syllabus
- Basic concepts in organization and strategy
- How to analyze and present a business case

READINGS:

- HSSTG Chapter 1

CASE: *Leo's Fourplex Theatre Inc.* [Blackboard]

CASE QUESTIONS:

- Where is the theatre's control system lacking?
- Are the problems caused by the lack of discipline in using existing controls, or are new controls needed?
- What control improvements would you suggest?

READINGS QUESTIONS:

- What, in plain English, is a Management Control System?
- Why does it make sense to use both financial and non-financial measures in the design of a Management Control System?
- In your opinion, are financial statements (income statements, balance sheets etc) parts of a Management Control System?
- Does a *profit centre* manager have "status"? Why or why not?

Week 2 (Jan. 15/17)

THE CONTROL FUNCTION OF MANAGEMENT

TOPICS COVERED:

- Management and control
- Organizational tensions to be managed
- Effects of management controls on behavior
- Causes of good management controls
- Control problem avoidance
- Control alternatives
- The relationship between internal controls and external strategy

READINGS:

- HSSTG Chapter 2 & 3

SUPPLEMENTAL READINGS:

- Ouchi, W.G. 1979. "A conceptual framework for the design of organizational control mechanisms", *Management Science* 25(9): 833-849 [Blackboard].

CASE: *Lincoln Electric Company*

CASE QUESTIONS:

- Identify and describe the management control systems in Lincoln Electric? Are they consistent with the firm's strategy?
- What are the key features of the way Lincoln measures performance and compensates employees? Are the performance measurement and employee compensation systems mutually supportive?
- What are the strengths and weaknesses of Lincoln Electric's control system? What type of company or industry would this system work best in?
- If Lincoln has been so successful with this system, why haven't more companies tried to emulate its internal strategy?

Week 3 (Jan. 22/24*)

DESIGNING AND EVALUATING CONTROL SYSTEMS

* First assignment is due

TOPICS COVERED:

- Allocation of costs
- Responsibility Centres
- Activity Based Management (ABM)
- Gamesmanship
- Behavioral Displacement

READINGS:

- R. Cooper & R.S. Kaplan, "Profit Priorities from Activity Based Costing" *Harvard Business Review* (May-June, 1991), 130-135 [Blackboard].
- HSSTG Chapter 4

SUPPLEMENTAL READINGS:

- Kirby, J. 2002. "The cost center that paid its way", *Harvard Business Review* 80(4): 31-39.

CASE:

- *Airtex Aviation*

CASE QUESTIONS:

- Did Airtex need a new control system at the time of the takeover?
- Evaluate the control system that Frank and Ted implemented? Should anything have been done differently?
- Do Ted and Frank's acquisition criteria (listed at the beginning of the case) hold implications for the management control system challenges they will face after the acquisition? If so, what are they?

Week 4 (Jan. 29/31)

**FINANCIAL CONTROL SYSTEMS – PART ONE:
FINANCIAL RESPONSIBILITY CENTERS AND THE
TRANSFER PRICING PROBLEM**

TOPICS COVERED:

- The nature of divisionalized organizations
- Using ROI as a divisional performance measurement
- The transfer pricing problem
- Other indicators of value creation
- EVA: how to calculate and use

READINGS:

- HSSTG Chapter 14
- Kovac, E. & H. Troy. 1989. "Getting transfer prices right: What Bellcore did?" *Harvard Business Review*, 67(5): 148-154.

SUPPLEMENTAL READINGS

- Stern, J.S. & Chew, D. 1996. "EVA: An integrated financial management system", *European Financial Management*, 2(2): 223-246.

CASE: *Toyota Motor Sales USA, Inc.*

CASE QUESTIONS:

- As Doug Friesen, what would you do to address the seat production problem? Where would you focus your attention?
- Where, if at all, does the current routine for handling defective seats deviate from the principles of the Toyota Production System?
- What options exist? What would you recommend? Why?

Week 5 (Feb. 5/7)

FINANCIAL CONTROL SYSTEMS – PART TWO: BUDGETING AND PLANNING SYSTEMS

TOPICS COVERED:

- Purposes of planning and budgeting systems
- Planning cycles
- Forecasting and contingency planning
- Performance review processes and employee motivation
- Variations in practice

READINGS:

- Jensen, M.C. 2003. "Paying people to lie: The truth about the budgeting process" *European Financial Management*, 9(3): 379-406 [Blackboard].
- HSSTG Chapter 11

SUPPLEMENTAL READINGS:

- Bart, C.K. 1988. "Budgeting Gamesmanship" *Academy of Management Executive*, 2(4): 285-294.
- Jensen, M.C. 2001. "Corporate budgeting is broken: Let's fix it" *Harvard Business Review*, 79(10): 94-101.

CASE: *Amgen Inc* [Blackboard]

CASE QUESTIONS:

- What are the key success factors to Amgen's strategy?
- Describe the planning process at Amgen and how it relates to the drug development and resource allocation process. Is this an unplannable process?
- How do you design a budget in such an unpredictable context?
- Describe how different stakeholders within the organization view the budgeting process. Are they the same or different?

Week 6 (Feb. 12/14)

**FINANCIAL CONTROL SYSTEMS – PART THREE:
PERFORMANCE DEPENDENT REWARDS AND
PUNISHMENTS**

TOPICS COVERED:

- Forms of rewards and punishments
- Monetary rewards and designing monetary reward systems
- Group rewards
- Connecting rewards and results

READINGS:

- HSSTG Ch. 12

SUPPLEMENTAL READINGS:

- Riegeway, V. 1956. "Disfunctional consequences of performance measurement", *Administrative Science Quarterly* 1(2): 240-247.

CASE: *HCC Industries*

CASE QUESTIONS:

- Evaluate the decision to use "minimum performance standard" (MPS) targets instead of "stretch" targets.
- Should HCC managers have expected that the MPS target setting philosophy would be equally effective in all four operating divisions described?
- What, if anything, could have been done to improve the implementation of the new philosophy?

Week 7 (Feb 26/28*)

**PERFORMANCE MEASUREMENT – PART ONE:
Designing and Implementing a Balanced Scorecard**

* Second assignment is due

TOPICS COVERED:

- Limitations of financial performance measurement
- Views of the organization: Agency, expectancy & humanist
- Balanced Scorecard
- Limitations of Balanced Scorecard

READINGS:

- HSSTG Chapter 13

SUPPLEMENTAL READINGS:

- Kaplan, R. & D. Norton. 2004. "Measuring the strategic readiness of intangible assets", *Harvard Business Review*, 82(2): 52-63.

CASE: *Chadwick Inc.: The Balanced Scorecard*

CASE QUESTIONS:

- How does the Balanced Scorecard approach differ from other approaches to performance measurement that we have discussed in class or that you have had experience with in the past?
- What does the Balanced Scorecard approach say about the "measure everything -- more measures are always better" philosophy?
- Develop a balanced scorecard for the Norwalk Pharmaceutical division of Chadwick. What parts of the business strategy that John Greenfield sketched out should be included? Are there any parts that should be excluded or that cannot be implemented? What are the scorecard measures you would use? What new measures would need to be developed? How would you go about developing them?
- How would a balanced scorecard for Chadwick, Inc. differ from ones developed in its divisions, such as for Norwalk Pharmaceutical? Do you anticipate there might be any conflicts between divisional scorecards and those of the corporation? If so, how should those conflicts be resolved?

Week 8 (Mar. 5/7)

**PERFORMANCE MEASUREMENT – PART TWO:
COMPENSATION**

TOPICS COVERED:

- Compensation
- Motivation
- Use of financial controls in the presence of uncontrollable factors
- Aligning incentives and performance goals

READINGS:

- R.S. Kaplan and D.P. Norton. 2001. “Transforming the Balanced Scorecard from Performance Measurement to Strategic Measurement: Part 1”, *Accounting Horizons*, 15(2): 147-160.
- R. S. Kaplan and D.P. Norton. 2001. “Transforming the Balanced Scorecard from Performance Measurement to Strategic Management: Part II”, *Accounting Horizons*, 15(2): 147-160 [Blackboard].

SUPPLEMENTAL READINGS:

- Norrelkit, H. 2003. “The Balanced Scorecard: What is the score? A rhetorical analysis of the balanced scorecard”, *Accounting Organizations & Society* 28: 591-619 [Blackboard].

CASE: *Hoffman Discount Drugs Inc.*

CASE QUESTIONS: TBA

Week 9 (Mar. 12/14)

**PERFORMANCE MEASUREMENT – PART THREE:
ALIGNING PERFORMANCE MEASUREMENT WITH
STRATEGY**

TOPICS COVERED:

- Diagnostic and interactive control systems
- Goal setting
- Selecting Performance Measures
- Setting the Performance Bar
- Aligning Incentives
- Cultural controls
- Technology
- EVA revisited

READINGS:

- “Eli Lilly is Making Shareholders Rich. How? By linking pay to EVA”, *Fortune*, September 9, 1996: 173-174 [Blackboard].
- Kohn, A. 1993. “Why incentive plans cannot work” *Harvard Business Review*, 71(5): 54-63.

SUPPLEMENTAL READINGS:

- Young, S.D. 1997. “EVA: A primer for European Managers”, *European Management Journal*, 15(4): 335-343.

CASE:

- *The Internal Revenue Service: Automated Collection System*

CASE QUESTIONS:

- How did the collections process change in the move from COF to ACS?
- How much monitoring and control are necessary to make the new process work?
- What should Tim Brown do next? How should he implement the process he chooses?

Week 10 (Mar. 19/21)

MANAGEMENT CONTROL SYSTEMS IN SERVICE ORGANIZATIONS AND NOT FOR PROFIT FIRMS

TOPICS COVERED:

- Differences between for-profits and not-for-profit organizations
- Goal ambiguity and goal conflict
- Difficulty in measuring performance
- Accounting/Legal differences
- Employee characteristics/Outcome differences

READINGS:

- Bush, P. 2005. "Strategic Performance Management in Government: Using the Balanced Scorecard." *Cost Management*, 19(3): 24

SUPPLEMENTAL READINGS:

- Hofstede, G. 1981. "Management control of public and not-for-profit activities", *Accounting Organizations & Society*, 6(3): 193-211.
- McCoy, L. 1998. "Producing 'What the Deans Know': Cost Accounting and the restructuring of post-secondary education." *Human Studies*, 21: 391-418.
- Grey, C. 2002. "What are business schools for? On silence and voice in management education." *Journal of Management Education*, 26(5): 496-511.

CASE:

- *Piedmont University*

CASE QUESTIONS:

- What are the missions and strategic goals of a post-secondary institution such as Piedmont University? How do they differ from a for-profit organization?
- How would you characterize the operations of a research university in comparison to a traditional manufacturing organization?
- What implications do these differences in objectives and operations between universities and manufacturing firms hold for the management control systems used in each?
- What is program costing and how does it work?
- How does the culture at Piedmont University change the implementation of program costing?

Week 11 (Mar. 26/28)

THE CONTROL FUNCTION IN ORGANIZATIONS

TOPICS COVERED:

- Governance
- Auditors & audit committees
- Boards of Directors
- Fraud

READINGS:

- Merchant, K. 1982 "The control function of management", *Sloan Management Review*. 23(4): 43-55.

SUPPLEMENTAL READINGS:

- Simons, R. 1994. "How new top managers use control systems as levers of strategic renewal" *Strategic Management Journal* 15(3): 169-189.

CASE: *Don Russell: Experiences of a Controller/CFO*

CASE QUESTIONS:

- Was Don Russell a good controller for Cook and Spector Inc.? Why or why not?
- Does Don Russell have the power to force ETI top management to make a correcting accounting entry? If not, what should he do? If so, should he force the entry to be made and how large should it be?
- Are earnings management practices, such as those that took place at ETI smart? Are they ethical? Are they legal?

Week 12 (April 2/4*)

ETHICAL ISSUES IN MANAGEMENT ACCOUNTING

* Third assignment is due

TOPICS COVERED:

- Analyzing ethical issues
- Common management control related ethical issues
- Monitoring employees/privacy issues
- Whistle blowing
- Designing control systems to facilitate ethical behavior

READINGS:

- J.C. Gaa & R.G. Ruland. 1997. "Ethics in accounting: An overview of issues, concepts and principles" in J.C. Gaa and R.G. Ruland (editors), *Ethical Issues in Accounting*, Sarasota, FL: American Accounting Association [Blackboard].

SUPPLEMENTAL READINGS:

CASE: *Sears Auto Centers*

CASE QUESTIONS:

- What are the origins of Sears problems? Who is responsible?
- How important is the compensation system? Do you agree with the California attorney general who said that the management control system structure "made it totally inevitable that the consumer would be oversold"?
- How well has management handled the situation?
- How would you modify the existing compensation scheme for service advisors and mechanics?

GUEST SPEAKER – APRIL 4th: **CORPORATE FRAUD DETECTION**
EDWIN RYAN, B.Comm., CFE, DIFA
Office of the Auditor General

Week 13 (April 11) REVIEW

Case and readings TBA

nation's largest source of funds for mortgage lenders,"² and which is regulated primarily by OFHEO.

Subsequently, the U.S. House of Representatives held hearings (entitled "The OFHEO Report: Allegations of Accounting and Management Failure at Fannie Mae") on Wednesday, October 6, 2004,³ to examine the potential failure in management control and corporate governance at Fannie Mae. At these hearings Mr. Roger Barnes, a former manager at Fannie Mae, presented written testimony which concluded as follows:

"As a result of Fannie Mae's refusals to take the concerns I had raised about financial and accounting practices seriously, and the retaliation I faced for raising these concerns, I had no choice but to separate from the Company in October 2003." (p. 25)

Mr. Franklin D. Raines, Chairman and CEO of Fannie Mae, also provided written testimony at the hearings.

Based upon your analysis of the interim OFHEO report on Fannie Mae⁴, the documents presented at the October 6, 2004 House of Representatives' hearings, Fannie Mae's 2003 10-K report, and any other sources that are pertinent, answer the following questions:

1. Describe the business of Fannie Mae, and the impact of its business on its financial statements.
2. Explain the major managerial accounting issues involved.
3. On page i of the OFHEO interim report, the following comments are made regarding what is called in the report Fannie Mae's "culture":

"Characteristics of this culture include:

- management's desire to portray Fannie Mae as a consistent generator of stable and growing earnings;
- a dysfunctional and ineffective process for developing accounting policies;
- an operating environment that tolerated weak or non-existent internal controls;
- key person dependencies and poor segregation of duties;
- incomplete and ineffective reviews by the Office of Auditing;
- an inordinate concentration of responsibility vested with the Chief Financial Officer; and
- an executive compensation structure that rewarded management for meeting goals tied to earnings-per-share, a metric subject to manipulation by management."

Do you agree with this assessment? Why or why not?

² Fannie Mae's 10-K report for the fiscal year ended December 31, 2003, p. 1.

³ All documentation presented at the hearings is available on website of the Committee on Financial Services' Subcommittee on Capital markets, Insurance and Government Sponsored Entities (accessed through www.house.gov).

⁴ The OFHEO report is posted on Blackboard and additional copies have been placed on reserve in Winspear.

4. Describe Mr. Roger Barnes' role. Should management control systems contemplate whistleblower processes and procedures? Explain.
5. Describe and critically evaluate the role of Fannie Mae's board of directors.
6. What recommendations do you have?