

## BE-417 1 Økonomiske styringssystemer

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Starttidspunkt: 08.12.2015 09:00

Sluttidspunkt: 08.12.2015 13:00

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Kristina Andersen

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# BE-417 Management Control Systems

## 1 OPPGAVE

### BE-417, front page

**Course code:** BE-417

**Course name:** Management Control Systems

**Date:** 8th December 2015

**Duration:** 4 hours

**Resources allowed:** Calculator

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Sometimes professors ask for exam answers that can be used for teaching purposes, but in order for this to take place, the university needs your consent.

Do you grant the University of Agder permission to use your exam answer for teaching purposes?

Yes

No

## 2 OPPGAVE

### Question 1

Management control can be described as:

*Select an alternative:*

The process by which management is controlled by the judicial system

The process by which management is making use of accounting systems to generate reports such as income statements, balance sheets and cash flow statements

The process by which management encourages, enables, or, sometimes “forces” employees to act in the organization’s best interests

## Question 2

Ensuring employees perform (or do not perform) certain actions known to be beneficial (or harmful) to the organization is known as:

*Select an alternative:*

- Action controls
- Results controls
- Personnel controls

## Question 3

The concept of redundancy in management control is generally defined as:

*Select an alternative:*

- Holding employees accountable for the actions they take
- Scrutinizing of action plans, investment proposals and budgets
- Assigning more people (or machines) to a task than necessary

## Question 4

A benefit of Results control is that:

*Select an alternative:*

- Behavior can be influenced while allowing significant autonomy
- It tends to lead to documentation of the accumulation of knowledge as to what works best
- It is an efficient way of coordination, i.e. they increase the predictability of actions and reduce the amount of inter-organizational information flows to achieve a coordinated effort

## Question 5

The case of Bellagio discussed in class involved a Blackjack dealer. We identified controls such as licensing, hiring, supervision, and mystery shoppers? What are these controls examples of:

*Select an alternative:*

Results and personnel controls

Personnel and action controls

Results and action controls

## Question 6

From the case used in class, what key elements of Lincoln Electric's management system has made them successful?

*Select an alternative:*

Because almost all aspects of the company's practices reinforce the shared goals of cost reduction and high profits, shared values such as your status and reward in proportion to your contribution, and serve to improve communication and reduce unnecessary barriers to communications and efficiency.

Because the company continually strives to hire the best business students, from leading international business schools, thereby providing for an organizational culture which consistently has created many premium products and services.

Because by using primarily many result controls, the company manages to achieve the targets its sets out: what is measured get's done.

## Question 7

Why would tight control be considered “good control”?

*Select an alternative:*

- Because it provides a high degree of certainty that people will act as the organization wishes (assuming away harmful side-effects)
- Because it increase the predictability of actions and reduce the amount of inter-organizational information flows to achieve a coordinated effort
- Because it involves rewarding individuals for generating good results (or punishing them for poor results).

## Question 8

What are examples harmful side effects (costs of control) of a control system?

*Select an alternative:*

- Behavioral displacement, gamesmanship and negative attitudes
- Cost of cash bonuses, internal audit staff
- Time spent on planning and budgeting activities, on pre-action re-views etc.

## Question 9

What is an example of gamesmanship?

*Select an alternative:*

- Creation of slack resources
- Lengthy review processes
- Negative attitudes

11 OPPGAVE

## Question 10

Regarding action accountability and results control, which statement is true?

*Select an alternative:*

- As firms grow, their controls evolve usually towards decreased formalization of procedures
- As firms grow, their controls evolve usually towards less elaborate information (“accounting”) systems
- As firms grow, their controls evolve usually towards increased formalization of procedures

12 OPPGAVE

## Question 11

What is the difference between a so called engineered expense center (EEC) and a discretionary expense center (DEC)?

*Select an alternative:*

- An engineered expense center have outputs that are difficult to measure with inputs that cannot be measured by monetary terms.
- A engineered expense center, such as a manufacturing department, has a direct causal relationship between inputs and outputs
- A discretionary expense center, such as an R&D center, only makes custom made products.

## Question 12

Lack of goal congruence occur in organizations when

*Select an alternative:*

Self-interested behavior is manifested in laziness.

Individual goals do not coincide with organizational goals

Organizational strategies are not linked to organizational objectives.

## Question 13

Examples of controls which do not focus on measured performance are:

*Select an alternative:*

return on investment, return on equity and revenue generation

results control, action control and personnel control

direct supervision, employee hiring standards and codes of conduct

## Question 14

In the article "Practice Developments in Budgeting: An Overview and Research Perspective" by Hansen et al (2003) we learn about two different views on budgeting:



*Select an alternative:*

One approach advocates improving the budgeting process, and another advocates abandoning the budget and primarily focus on the performance evaluation with budgeting.

One approach advocates the use of “Cash Flow Return on Investment” (CFROI) and another the use of “Economic Value Added” (EVA).

One approach advocates the use of traditional bottom-up budgeting, and another the use of a more centralized top-down budgeting process.

16 OPPGAVE

## Question 15

What is a transfer price?

*Select an alternative:*

The price at which products or services are transferred between profit centers between different firms.

The price at which products or services are sold when settling demand and supply in an open market, such as Chicago Mercantile Exchange.

The price at which products or services are transferred between profit centers within the same firm

17 OPPGAVE

## Question 16

What is the purpose of transfer prices within an organization?

*Select an alternative:*

It provides for unprofitable profit centers to be made profitable through the use of subsidized prices  
It provides proper economic signals so that profit center managers make good economic decisions from a corporate standpoint

It provides profitable profit centers to be made even more profitable, as a form of incentive to the profit center manager.

## Question 17

The case on Kranworth Chair corporation discussed in class illustrated the use of a performance measure using operating division income and controllable assets. The controllable assets in this case was defined as

*Select an alternative:*

Fixed assets + Working capital

Accounts receivables + inventories

Machinery and Equipment + Accounts Receivables - Accounts Payable + Inventories

## Question 18

The case on Kranworth Chair Corporation discussed in class illustrated among other things:

*Select an alternative:*

the benefits and costs of decentralization.

the use of action controls and incentives linked to these controls

the benefit of using the same performance measure through out an organization, regardless of form of responsibility center.

## Question 19

Governance in German companies is best described as heavily influenced by:

*Select an alternative:*

national banks, insurance companies, and employee representation  
private banks and institutional investors  
state ownership and social norms

21 OPPGAVE

## Question 20

Which of the following statements is true regarding “good targets”?

*Select an alternative:*

In theory good targets are about 25-40% achievable  
In practice good targets are about 25-40% achievable  
In theory, good targets are about 80-90% achievable

22 OPPGAVE

## Question 21

The case with Citibank Indonesia, where planning and target setting was specifically discussed in class, illustrated among other things what principle about budgeting:

*Select an alternative:*

Budgeting is best carried out when targets are set in a bottom-up fashion.  
Budget targets can be set in a top-down fashion.  
The benefits of long term planning and its effects on target setting.

## Question 22

From our ethics lecture, we discussed amongst other things earnings management. What is earnings management?

*Select an alternative:*

- Actions taken to capture the true economic performance of the firm or division
- Actions taken to make performance look better in the short-run than it otherwise would.
- Actions taken to better smooth earnings by making sure the sales force better brings in more sales when earnings are falling short of budget

## Question 23

What is the meaning of section 404 of Sarbanes-Oxley say?

*Select an alternative:*

- It mandates an internal control by a firm along the principles of good business practice
- It mandates an internal control in the broadest sense as a process, initiated and implemented by the enterprise's directors, management and staff, designed to provide a reasonable level of safety for target achievement within: Targeted and cost-effective operation, Reliable financial reporting, and Compliance with laws and regulations
- It mandates an evaluation of the effectiveness of a firm's internal controls by both management and the firm's external auditor and formal written opinions about the effectiveness of those controls

## Question 24

The Activity-Based Budgeting Approach is best described as:

*Select an alternative:*

a process generating a budget from a series of activities, such as board members engaging in various marketing activities.

a process generating a budget from a traditional product-market, responsibility center, or departmental focus.

a process on generating a budget connected to the underlying operational model of the organization

26 OPPGAVE

## Question 25

An investor has purchased a stock at NOK 100 and after 10 years sells it at NOK 200. S/he has made a profit of NOK 100. Each year the investor received NOK 5 in a dividend. What is the average yearly total shareholder return (IRR)? Hint: deduct the alternatives which are wrong.

*Select an alternative:*

150%

11%

250%

27 OPPGAVE

## Question 26

If the Return on Investment is 18% and the Margins are 15%, the asset turnover is

*Select an alternative:*

1.2

0.03

0.8

## Question 27

Cash Flow Return on Investment (CFROI) is a performance measure which differs from EVA (Economic Value Added) in that:

*Select an alternative:*

CFROI is a measure of the economic value added, whereas EVA measures the share price appreciation

CFROI is a measure of the economic return, whereas EVA is the value of that economic return

CFROI is intended for operating decisions whereas EVA is better suited for strategic decisions

## Question 28

The net book value problem with measures such as ROI and RI is that

*Select an alternative:*

It does not represent a replacement value of the assets, and therefore as time passes decreases over time.

As time passes, the capital charge and the return both increase.

With the passage of time, aging assets increases both values

## Question 29

The myopia problem occur when

*Select an alternative:*

financial measures create pressures for short-term performance potentially at the expense of long-term value creation

financial measures create pressures for long-term performance, potentially at the expense of employee retention

financial measures create situations when from a corporate perspective things are not valuable, but from a socioeconomic perspective they are

31 OPPGAVE

## insert q 30 here

In Norway, who keeps a register of approved auditors and audit firms?

*Select an alternative:*

The Financial Supervisory Authority of Norway

The Brønnøysund Register Centre

The National Center for Auditors in Norway

32 OPPGAVE

## Question 31

Management at Statoil were influenced by the theories of Douglas McGregor from 1960 on Theory X and Y as key assumptions about people working for Statoil. Theory X can best be described as viewing employees as:

*Select an alternative:*

being self-directed if they are committed to organizational objectives and accepting of responsibility

inherently lazy, unambitious, averse to taking responsibility, and valuing security above all else.

disloyal, manipulating potentially harmful to the organization

## Question 31

When measuring performance, firms are susceptible to various uncontrollable factors. One of these is economic factors, which can be described as:

*Select an alternative:*

microeconomic effects such as loss of income due to a poor marketing campaign  
act of nature, so called (forced majeure), i.e. for instance acts of man or government  
business cycles, competitor actions, changing laws, or foreign exchange rate movements

## Question 33

What is beyond-budgeting?

*Select an alternative:*

A management control system which is more than just command-and-control, and strives towards a management model that is more empowered and adaptive.  
A management control system which in addition to budgeting also typically emphasizes more command-and-control from the top.  
A management control system which in addition to an accounting based budgeting approach, also typically implement a cash flow based performance measurement approach, such as Economic Value Added or CFROI.

## Question 34

In the case with Catalytic Solutions, discussed in class, why were bonuses based mostly on non-financial measurements?



*Select an alternative:*

They believed accounting data to lag the actual economic development of the firm, and therefore made use of quicker softer measures of performance.

The non-financial measures communicate to employees how top management wants the company to create long-term value (no need to be short term focused since they are not publicly listed)

Since the salaries were based on financial measurements, they felt the bonuses complemented the salaries and captured other dimensions important to the performance during the year

36 OPPGAVE

## Question 35

What is an example of a non-monetary punishment?

*Select an alternative:*

- Promotion
- No promotion
- Vacation trip

37 OPPGAVE

## Question 36

What is the benefit of a lower cut-off in performance pay?

*Select an alternative:*

- To maintain vertical compensation equity
- To avoid undeserved bonuses due to “windfall” gains
- To avoid paying bonuses for performance which is considered mediocre or worse

## Question 37

In the case of Houston Fearless, discussed in class, an interesting feature of the case illustrated what important challenge in a budget:

*Select an alternative:*

- Making accurate forecasts
- Avoiding the classic hockey-stick
- Creating a balanced budget

## Question 38

In the article “Designing Effective Reward Systems” by Van der Stede (2009), what is being proposed?

*Select an alternative:*

- Disproportionate incentives - Give more emphasis to certain dimensions rather than other
- Weaker incentives - If what is measured is not what is intended, strong incentives will only get the organization faster to the undesired result
- More short term focus - Formula bonus plans often induce long term focus which need to be balanced with a shorter risk-adjusted focus.

## Question 39

In the article “The Pitfalls of Pay-for-Performance” by Van der Stede (2007), what is the key message?

*Select an alternative:*

Cash is king - When Warren Buffet recently sought after a “new Buffet” to help run his investment empire, he looked specifically for money focused individuals, so called “money grubbers”.

If performance is measured using traditional accounting data, it may be misleading. Therefore, a cash based measure (“cash is king”) will better help link an incentive plan to the economic performance of the firm.

Complement monetary incentives with non-monetary awards, thus challenging one of the most widely-held beliefs about human behavior is that monetary incentives are the most powerful drivers of performance.

41 OPPGAVE

## Question 40

What is the benefit of a subjective bonus determination approach?

*Select an alternative:*

The performance-reward link is explicit

Alleviates bias or favoritism in assessing and rewarding performance

Allows performance to be evaluated more “completely” considering any of a number of hard-to-quantify, but important, performance areas