



Question 7.

a) The myopia problem can be described as a condition when managers become short-sighted and focus too much on short-term performance, rather than long-term performance.

We can divide Myopia Problem into two:

- o Investment Myopia
- o Operational Myopia

Investment Myopia when Managers ~~invest~~ do investments which ^{mgr} generate ^{only} profit in the short-run, and not in the long run. Or they take on investments which is only profitable for their entity/business unit and not for the whole firm. ex. based on ROI.

Operational Myopia is when manager become short-sighted in day-to-day operations.

ex. Employees have to work overtime.

Overtime, this will make employees unsatisfied, they can become unmotivated and produce goods/services with lower/reduced quality.

Myopia can be a result of too much focus on financial ~~related~~ performance.

We can measure financial related with two types of measures:

- * Accounting Measures
- * Market Measures



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Question 7 a)

Accounting Measures can be in residual terms and ratio terms.

Residuals can be: Residual Income, EBIT, EBITDA.

Ratios can be ROE, ROA, ROI.

$$\text{ROE} = \frac{\text{Profit}}{\text{Equity base}}$$

$$\text{ROA} = \frac{\text{Profit}}{\text{Asset base}}$$

$$\text{ROI} = \frac{\text{Profit}}{\text{Invest. base}}$$

Limitations of accounting Measures is linked to Myopia. ~~Managers can trust~~ In addition to ROI, Managers can also increase debt/Equity to improve ROE and lease assets (instead of buying) to improve ROA.

Market Measures reflect changes in share price for Shareholders, and do also have limitations:

Congruence: ^{or} Market Expectations, Market Inefficiency and Anomalies.

Feasibility: have to be listed on stock exchange

~~control~~ ^{controllable}: Mostly top-management that can affect it. (and control it)
↳ share price

All this measures and limitations may be a reason for Myopia Problem.

However, it can be solved with 6 remedies, as presented in Question 7b).



Question 7

b) B Myopia can be reduced/solved with 6 remedies:

- Reduce pressure for short term profit
- Lengthening the Measurement Horizon
- Change what is Measured
- Improve / Adjust accounting Measures
- Preaction Reviews
- Combine Financial - with non-financial Measures. - Balance scorecard.

Balance scorecard^(BSC) combine both financial and non-financial Measures. With this combination it focus on ~~leading~~ not only lagging indicator but also leading indicators which are important value drivers for future performance.

Balance scorecard contains 4 Perspectives:

- Financial Perspective (lagging ind.)
- Customer perspective (leading ind.)
- Internal processes persp. (leading ind.)
- Learning and growth persp. (leading ind.)

(*) (explanations on next page)

BSC is a management tool, which clearly, by a clear language, inform and guide the employees for what activities to focus on. Inside each perspective, there is an objective,



Question 1b)

target, strategies and activities to reach the overall target/objective in the firm.

For Managers (depends on organisation structure) can choose how BSC should be implemented in their entity and what to focus on.

To reduce/Remedy the myopia problem Managers have to use a balance of financial and non-financial measures. The "balance" is important. Too much focus on financial measures overperformance can lead to myopia, which may be harmful for the organisation over time. It is also ethical wrong.

- (*) * Financial Perspective is about how the shareholder see us. Do we increase shareholder-value?
- * customer perspective is about how the customer see us. Do we create value? Perceived value? Will they buy from us again?
- * Internal process is about the effectiveness of internal process. Information sharing? Delegation of tasks? Good Management control?
- * Learning and Growth is about how much new information we learn. Focus on training? Focus on Growth? Focus on Innovation? do we learn from each other? expertise?

(How BSC is implemented, and whether or not they put financial perspective on the top.



Question 1b)

might depend on ^{Profit} Financial vs. non-Profit firm)
+ BSC can also be presented as a "Strategy Map" which reflect the cause-effect-relationship between the operations in the perspective. this will give a better understanding to what to focus on & without Myopia - problem.

Question 2

a) Results control is one of four control mechanisms used to make sure desired results occurs. The control mechanisms do "detect" if there ~~is~~ ^{are} any control problems as:

- o Lack of detection
- o Motivational issues
- o Personal limitations.

Results control is also concerned about the consequences and focus on decentralisation, by giving empowerment to the employees, and incentives. Some believe that there is a clear link between "good results" and incentives.

~~The purpose~~ Another purpose is also that incentives increase/enhance the motivation. therefore, incentives is defined as "motivational contract" and is one of three core elements in financial results control.

Results control can be done by:

1. Define performance dimension.
the dimensions have to be congruent with the objective and "What you measure, is what you get"



Question 2a)

2. Measure performance.
can be financial or non-financial.

3. set the target.
(It have to be congruent, motivate and direct the employees for where to go and how to get there.)

4. Use incentives.
Incentives can be positive (rewards) for good performance and negative (punishment) for not good performance. It ~~have~~ have to motivate and direct.

In addition, Kresets control will be effective if: Managers know desired kresets in the area being controlled, the employees being controlled need to have an ability to influence the kresets in the area they are controlled (controllability Principle) and the Measures have to be done effectively.

- o Precise - no randomness.
- o Objective - freedom from bias. No subjective judgements.
- o Timely - short time between kresets and performance.
- o Understandable - have to understand what they have measured and how they can affect it.
- o congruence - what you measure need to be congruent with objective.

Question 2a)

◦ cost efficient - the benefits have to exceed the cost of measure.
◦ controllable - Have the ability to control.
Respects control is also often inexpensive, because it normally use data and information already collected.

b) Action control is a preventive and detective type of control and make sure that employees behave as desired and in the best interest of the organisation. For it to be effective, managers have to know DESIREABLE ACTIONS and they need the ability to ~~make~~ MAKE SURE that the actions occur.

4 types of action control:

1) Behavioural constraints, can be physical, administrative constraint and ex. Poka-yokes.

2) Preaction Reviews - something of plans to make action plans for the future.

3) Action accountability - Managers need to know desirable action and communicate it clearly to the employees. Managers can observe/track the actions to see whether or not they do as they should, and in the end give incentive (ex. reward) based on performance. The incentive has to be valuable, activate and direct the ~~employee~~.



Question 2 b)

employees to make them responsible for their actions.

4) Redundancy - have Backup for necessary resources as machines and people.

Action control is commonly used but not always effective. Therefore, it is often combined with ~~(person)~~ People control - personnel- and cultural-control. Action control is also the most direct control.

c) Personnel control focuses on the individuals & and ~~we~~ want them to be self-monitoring and help on the theory 7 principles as seeking-responsibility, self-monitoring, autonomy, be a "part of something" and do^{an} effort.

Personnel control can be influenced by training (improve skills and knowledge), selection and placement, Job design and provision of necessary resources

(types of incentives used reflect type of people you select and retain)

d) Cultural focus on mutual-monitoring and creating a strong culture with common values, beliefs, norms and "language". Mutual monitoring is about motivation, directing, information sharing, learning and "pushing" each other toward



Question 2d)

the same goals/objectives.

the culture can ~~be~~ be shaped by:

- Codes of conduct - Formal written plans which specify values, ethics, norms etc. inside the organisation, and can be used by the employees when there are situations they are unsure for how to behave.

- Group Rewards - can reward the whole group (instead of individually) to create stronger relations and culture. This can be ex. shared by using OBM (open book management)

- Physical or social arrangement - as dress codes, language, design on furniture, work-area etc.

- Tone-at-the-top - the top management have to be clear about how the culture should be and behave as "role models" for managers and employees.

- Intra-organisational transfer - Give the employees the ability to visit and work at different "departments" and with other tasks which other people in the organisation do. This give the employees a sense and knowledge for what the organisation do and what other colleagues do. creates "en forståelse" and a stronger culture.

A strong culture, require often less control because the rules/procedures/values are implemented.



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Question 2a

e) Management Control Package

Management control is about using a set of rules, procedures and processes to control the employees. When we set this in a "system" we get management control systems (MCS).

Malmi and Brown (2008) present MCS as a package. MCS contains of different control mechanisms which are interrelated and therefore can not be seen in isolation:
(*)

In today's world, ~~with~~ with contingencies factors as environmental uncertainty, quick information sharing and ~~technology~~ technology, it might be necessary to combine different MCSs, as budgets and Balance Scorecard.

~~Different~~ Interest organisations do also face different interest groups at different ~~places~~ ^{Places} and at different times which ~~may~~ affect how we use MCS. As we can see, MCSs can be considered as a "Package".

* Malmi and Brown (2008) present these control mechanisms as a part of their package:

culture (norms, values, symbols), Planning (action planning and long-range planning), Cybernetic, Reward + compensation (~~control~~, direction, duration, intensity) and ~~control~~ admin. control (corp. structure, org. structure, processes and procedures)



Question 3

a) Controllability Principles is about not evaluating and measuring employees based on factors they can't control (uncontrollable factors).

Examples on uncontrollable factors can be:

- Acts of nature
- Economic and competitive forces
- Internal factors as when top-management decide "something" on behalf of your department, which you can't influence or control.

Uncontrollable factors can be both positive and negative and affect the results both positively and negatively. People tend to be risk-averse and may require a compensation for it. In addition, they tend to use "excuses" when uncontrollable factors affect their performance negatively, but use no "excuse" when it affects the performance positively. Managers can also be prepared to make sure that uncontrollable factors be "controllable". It is about "turning the black into the white" ("Black-swan"-principle) and explicit "favorable" uncontrollable ~~condition~~ factors.

to make the evaluation and measurement more concrete ~~and~~ and correcter they can do adjustments as and use tools as: Variance Analysis, TQM, Flexible performance indicators, relative performance evaluations and subjective judgement.



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Question 3a)

The evaluation will also make the evaluation process of the employees more concrete and make them only accountable for result/performance they can control.

b) Reward is an incentive used based on the results produced, normally positive results. Reward (and incentive) is also linked to Motivation. In addition, reward ~~to~~ can be both monetary (bonus, increase salary, travel etc) and non-monetary (promotions, ~~new~~ job assignment, new/better title).

Rewards can also be given individually and in group.

By giving individual rewards may make it easier to understand why you received it, how to ~~effect~~ get it, direct you and therefore more motivating. However, you may also be more focused on your self, "ego-centric", self-monitors, ^{and} ~~st~~ too short-sighted ~~and not~~ (myopic + banemanship).

Group rewards may create a stronger group with emotional ties. However, the link between reward and result + activities may be weaker. It can be difficult to know why and how well you got it. Free riders may also be a problem with group rewards.



Question 3b)

However, what type of reward (group vs. Individ.) that is most effective may vary with different culture. Hofstede has presented 6 different dimensions which may affect:

- Feministic vs. Masculinity
- Individual vs. collectivist
- Power distance
- Uncertainty avoidance
- Indulgence vs. Restraint
- Longterm vs. Shortterm orientation

Individualistic culture contains of people who see themselves as individualistic individuals and not as a part of a group (the degree will of course vary). They may also prefer individualistic rewards based on their performance. By giving them group reward may not be effective, and therefore not motivate them. ~~US~~ An example may be: US. (~~the~~ US do also have ~~not~~ a more masculine culture, with higher power distance).

Collectivistic culture contains of people who see them as a part of a group and may prefer collectivistic group rewards. This may also be the most effective and motivating.

An example may be Norway. In addition, we are more feminine, accept a lower power distance.



~~Q~~ Question 3b)

As we can see type of reward will vary with different types of culture. In some types of culture it may be most efficient with individual rewards (ex. us) and other ^{or} culture it will be most efficient with individual reward (ex. Norway)

Question 4.

a) Beyond Budgeting is a philosophy which focuses on making the corporate more agile and human. ~~to~~ (Move from traditional command/control-budgets). BB emphasize the importance of changing the leadership and management process, ~~because~~ of more dynamic organization environment, internationalization and technology - ~~the~~ the organization has to be able to respond quicker. In addition, ~~we~~ have the employees become more "theory Y".

BB contains of 6 leadership principles (7-8) and 6 management processes principles (9-12):

- o purpose - engage and inspire people around bold and noble causes. Make Intrinsic Motivation.
- o values - Shared values and sound judgement.

- Transparency - Information sharing and openness to focus on innovation, learning/improvement and growth.
- Organisation - Create a strong culture NO hierarchy.
- Autonomy - Trust people with freedom to act. NO test/review rules, procedures.
- Customeress - connect all the activities to customer's need.
- Rhythm - Management process should be dynamic and ~~not~~ be event-driven.
- target - the target should be flexible and relative, direct + motivate
- Planning and Forecast - plan and forecast to be more dynamic and flexible - not use traditional rigid budgets.
- Performance Evaluation - Evaluate holistically.
- Resource allocation - provide resources when necessary and make sure they are available when needed.
- Rewards - reward based on holistically performance / relative performance. Rewards + direct and motivate



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Question 4

b) BB is just a philosophy ^{and} ~~can~~ can be practiced in different way. How it will be implemented ~~with~~ will depend on different nation culture.

As presented in question 3b, Hofstede has presented 5 different dimensions which reflect a culture. All these dimensions have an impact on a implementation of BB.

Masculine culture focus on performance and prefer keywords based on performance. Focus mostly on financial performance. They have a narrow focus on shareholders ~~and~~.

Feminine culture ^{do not only} focus on performance, ~~and~~ but other also relative factors as quality, satisfaction, value creation etc. They use more relative performance measures and evaluate performance more subjectively (instead of models). They do also have a broader focus on stakeholders.

Individualistic and collectivist - see question 3b.

Power distance - Say countries in what degree they prefer power distance. Norway is an example of a culture with low power distance - we talk to our teachers/top-managers and can call them with the whole name, not only surname. US is another example of a culture with larger power distance (More hierarchy)

Question 4b)

Uncertainty avoidance - in what degree they prefer uncertainty or not. A culture with high uncertainty avoidance may prefer stable surroundings and rules. A culture with low uncertainty avoidance may accept ~~a~~ more dynamic surroundings, changes and less strict rules. They may also prefer more subjective judgements and evaluations and both monetary and non-monetary incentives.

Indulgence culture is culture which allows the people to be free about their feelings, emotions ~~and~~ and ~~expression~~ expression. When they are happy they can smile and laugh. US is an example with a indulgence culture. When you ~~enter~~ visit a coffeshop you meet employees that are happy, smile and say welcome - provide service. Russia/Russia is an opposite culture, which is more restraint.

(*) Short term or Long term orientation (see last page, 20)

(example)
 BB focus on relative performance evaluations, planning, collective culture with focus on information sharing and cooperation, etc. As we can see some of the culture "fits" better with the philosophy than others. Those who will implement / fit best may be: Feminine culture, collectivistic culture and a culture which has low power distance, low uncertainty avoidance ~~and~~ accept indulgence, and long-term orientation.

Question 5

~~a) Corporate Governance has the overall responsibility for the corporate and make sure they follow a set of procedures, rules and processes. Corporate Govern. make sure they do also take care of all the stakeholders, and~~

a) ~~6~~ Corporate Governance use a set of rules, activities, processes, procedures and laws to make sure that the corporate behave in the interest of all the stakeholders.
In addition, they make sure the corporate behave ethical correct, have a Corporate Social Responsibility (CSR) and take care of the environment.
= Sustainability.

Corporate Governance do have a board of directors, which is also divided into a compensation committee and auditing committee.
They are elected by the shareholders and represent them. Board of directors control the managers.
Board of directors should be characteristics with duty of trust, duty of faith^{and}, duty of not waste ~~and~~
~~duty of truth.~~

Management control systems is about the managers controlling the employees. Managers use a set of control mechanisms (Rules, Action, Resources, control) to make sure the employees behave as

Question 5a)

Corporate finance

derived and in the best interest of the
 Organisation

Board of directors



Manages



Employees

(*) look at the last page.

b) "The Sarbanes-Oxley Act" is laws and regulations that came as a result of different financial "crisis" / ~~crisis~~ ^{scandals} as the Enron scandal and Worldcom scandal in 2000. ~~In addition, with~~ the act provides laws about accounting regulations and protect the shareholders from ~~fraud~~ fraud.

~~The most important~~ the act contains of different sections, and the most important is the Section 404. Section 404 is about internal process ^{ex- accounting} which has to be documented and signed, ~~by~~ by managers ~~and~~ ^{and} external auditors. This ensure that all information is correctly and that the internal process ^{provided} _{to shareholders} are done legally.

However, some have argued that these 6 scandals would have happened with the Act too, and therefore have little impact on the accounting professions.

It is difficult to say whether this is true or not, but it might be reasonable to say that a set of rules and laws make the profession more careful and "aware". In addition, you have to

Pay large amount if you don't keep the accounting inside the law. The corporation will also ~~lose~~ get a lot of bad reputation. In addition, those who sign the document, will also be held responsible for ~~the~~ the fraud of that the situation.

(*) question 5a)

if the employees always behave as desired and in the best interest of organization, there would be no need for MCS.

First, have to ask: What is desired result? (by action, by results)

Then, have to ask: What is likely to happen?

If these two questions differ we have to continue and ask:

What control mechanism should we use?

How tight should the control be?

(*) question 4b)

Long-term orientation ~~control~~ vs short-term orientation - is in what degree they prefer to focus on today and short-term (within a year) or prefer to use planning and forecast and use a long-term orientation.