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Question 1

a) The myopia problem arises when managers are too focused on short-term accounting measures. They want to maximize short-term profit and do not care about how this will affect the organization in the long run. These decision may cause harm and lower the long-term value creation in the firm.

There are two different types of myopia
- investment myopia, and
- operating myopia

Investment myopia is when managers do not invest in capital or projects that can create value for the organization in the long run, because it does not look good in the short-run. This problem arises when managers do not invest in positive NPV projects that will have a positive impact on the long-run. The cost of an investment are realized the moment investment are done, while the payoff (which aren't realized until the far future) does not get recognized at that same time. This causes the short-term to look bad, and is the reason for why managers engage in investment myopia.
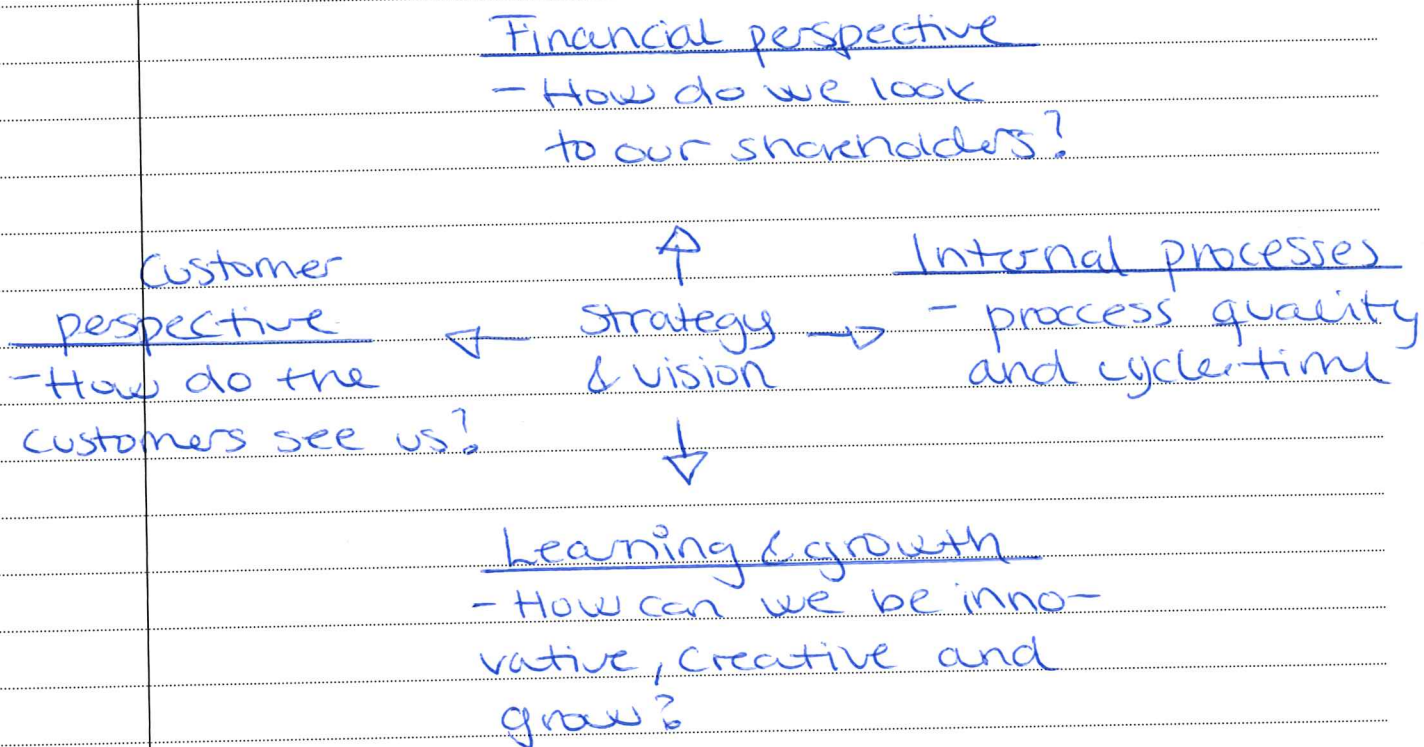
1) contin

Operational myopia is when managers take operating decisions to shift income across periods to make the short-term look good. ~~Th~~ An example is when managers pushes the staff to work over-time to finish a delivery, even though this may lead to bad-quality products. The finishing of the delivery may lead to a higher profit or revenues that period, but if the quality of the products are jeopardized it can cause custumers to be unsatisfied and not wanting to purchase in the future, hence creating no future value for the firm in the long term. It might just even be harmful for the firm instead.

b) There are several remedies to the myopia problem, where one of the solutions may be to measure a set of value drivers for future performance. This is where the Balanced Scorecard comes into place.

The Balanced scorecard uses a set of ~~prsp~~ perspectives to measure future performance with different value drivers. It helps in ~~st~~ translating an organization's strategy and vision

1b)cont. into value drivers and measuring the performance. There are four perspectives in the Balanced Scorecard, which is shown in the figure below:

Financial perspective
- How do we look to our shareholders?

Customer perspective
- How do the customers see us?

Strategy & vision

Internal processes
- process quality and cycle-time

Learning & growth
- How can we be inno- vative, creative and grow?

The Balanced Scorecard helps managers in seeing a holistic perspective on performance by measuring both financial and non-financial value drivers. IT helps take the view of only short-term profits and the use of lagging indicators and to focus on the future performance. In this way it can help managers to see the "big picture" and not be to focused on the short-term performance.

If the managers also are measured on
the long-run performance and provided
rewards based on f.eks costumer satis-
faction, it can make them focus more
on the long-run, insted of the short-run.

Question 2

a) Results controls.
Are one of the control forms described
by Merchant and Van der stede.
It is used by organizations to mease the
performance of managers and the organ-
ization itself. Managers are empowered
to take the desired actions they belive
is right for the organization and they
are measured on these ~~results~~ results.

Results controls are only effective if
the organization know the desired
results and outcome they want. To use
results controls they must:
1. ~~xx~~ Decide on performance dimensions
2. Measure on these dimensions
3. Set performance targets
4. Provide rewards

2a) cont.

The organization has to decide on the desired results in order to measure on these. "What you measure, is what you get" is a saying and means that what you choose to measure is what the managers and employees will focus on. Therefore it is important to decide the performance dimensions to mitigate and avoid undesired results and undesirable consequences.

The organization have to set performance targets that are "challenging, but achievable" in order for managers to be able to have a direction towards a goal. Then, it is important to provide rewards for achieving the targets. To provide rewards helps with motivating the managers in actually achieving the targets, to e.g. recieve a bonus or promotion.

2.

b) **Action controls**

This control mechanism is the most direct form of control. It is described by Mercant and Van Der Stede and consist of four types of action controls:

- Behaviour constraints, which can be physical constraints with locks on doors, desks and storages where sensitive information or important material are stored. It can also be administrative constraints with passwords on computers, decision authority or restriced autonomy.

- preaction reviews, which can be that budgets or investment plans are revised and overlooked before granting approval. This is usually done by manager (or top-management) higher up in the hierchy.

- Action accountability, which means holding employees accountable for their actions. To do this, top-management has to:
1. Define what is acceptable/unacceptable
2. Communicate this to the employees held accountable
3. Observe or monitor behavior and action
4. Provide rewards or penalties if actions deviate from what is acceptable/unacceptable

2b) cont.

Employees need to know what they are held accountable for and how they can behave and take correct actions to fullfill this.

- Redundancy, which is assigning extra employees (or machines) to a task to ensure that the action is done. This is crucial in critical operations like e.g. a hospital or in the airline business.

c) Personnel controls

Assumes that people can monitor themselves and the purpose of this control is to make sure employees have the resources and skills needed to perform a certain task and making them do a good job.

There are three ways to implement personnel controls (explained by Merant and van der Stede):

1. Selection and placement
2. Training
3. Job design and to provide resources necessary

The selection and placement are important to get the right people to do the right job. Misplacement can get fatal consequenses for the organization.

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2c) cont. Training has to be provided so people are adequately in position and have the abilities to do a job correctly. It can create a sense of professionalism as the employees are trained successfully.

Job design and to provide resource are important. Job design makes the jobs understandable for employees and describes their job, while providing the resources needed for the employees to be able to do a good job.

d) <u>Cultural controls</u>
This is the last control mechanism described by Mercant and Van der Stede. Culture is a group with a common sense of values, beliefs, norms and emotions and can create a strong sense of control in an organization. It can tap into social pressure and mutual monitoring and peer feedback, so that employees control eachother in a way.

There are five ways to create a good culture in organizations.

• Group rewards, which means providing rewards based on collective achievement. It can be to reward everyone in the org. based on its performance relative to

competitors, such as Statiol uses in their management model. or it can be rewards based on smaller groups in the organization. Group rewards can create a strong organizational culture and create shared values and norms. The employees can get a strong bond to the organization because of this.

- Codes of conduct, which is written documents with rules and guidlinees and values on how to behave in certain situation, such as Statiols book ↗ "the Statoil book".

- Intraorganizational transfer, or employee rotation, which means having people in the organisation work in different parts of the organization, e.g. in different SBU's/entities. This can socialize the employees and make the connect with the organization as a whole. It can deter fraud, due to employees' not getting to know one particular are "too good".

2d) cont.

- Social and physical arrangements, where everything from office plans to dresscode to vocabulary can create a good culture. E.g. in Disneyland they have a special vocabulary; the employees that is at work are "on stage" and their job description are "their script" and so on. Another example is Steve Jobs wearing a turtle neck to work every day and "playing it cool" with his employees. Both of these things can create a strong culture.

- "tone at the top", meaning that the managers must say and do the same thing. If they say one thing and do another it can create confusion among employees and they are not setting themselves as a good example or a "role model" in the organization.

2.

e) "Management control package" was introduced by Malmi and Brown in 2008 in an article explaining how to exercise control in a "package", hence combining the controls to a good control-combination.

The package was designed as shown below:

Cultural controls		
Clans	Values	Symbols

Planning		Cybernetic controls				Rewards and compensation
Long-term Plans	Action Plans	Budgets	Non-financial measure	Financial measures	Hybrid measures	

Administrative controls		
Governance structure	Organizational structure	Policies and Procedures

Question 3

a) The controllability principles means that managers and employees should not be held accountable for factors that they cannot control or influence in a certain extent. People are in general risk averse and will not like being held accountable for uncontrollable factors. If organizations do this, they managers with accountability must be compensated for the risk, which may be expensive for the organization. The managers held accountable for uncontrollables might also spend more time arguing on the risk of the job rather than acctually doing it.

b) "Individual rewards are always more effective than group rewards"

Which rewards one organization should use can depend strongly on the organizational cultures, the employees, the national culture and so on. It is never a single type of rewards that can ~~be~~ always be more effective than others.

Individual rewards can for example create a more competitive environment than group rewards. This can be a good thing cause people might strive to be better

than their peers and performance can be very good. It can also be a negative thing if this competitive environment leads to conflicts and employees in ~~their~~ thinking that they are better than everyone else.

Group rewards can be effective in creating a strong organizational culture. The common achievement of goals can cause strong bonds between employees. It can however also ~~le~~ lead to problems such as the free rider problem. To illustrate this, an example from LEVIS is described. LEVIS tried to implement group rewards that were not so successfull. There were already both effective and not so effective workers, and when these ~~to~~ opposites formed groups and reward was provided upon the groups performance. The effective workers did alot and were frustrated by working with the non-effective employees. ~~The effective workers~~ The effective workers got lower rewards due to the "slow" employees and the "slow" ones got to be free riders and getting a higher reward ~~to~~ due to the ~~effective~~ workers in their group.

In another organization, groups rewards might have worked, but in LEVIS's case

individual rewards were more efficient.

Individual rewards may be more effective in cultures where there is independent work. E.g. a scientist working alone cannot be rewarded based on all the scientist's work if they are not cooperating.

If group ~~rewards~~ rewards do not work it can lead to negativity and demotivation. On the other hand it can create innovation, teamwork and a sense of belonging in a group.

In conclusion I would say it depends on the organizational culture whether individual or group rewards are more efficient. It also depends on the situation and the individuals concerned.

Question 4

a) Beyond Budgeting is an approach introduced as a response to the negativity of the budget as a ~~traditional~~ traditional mean. The approach consist of twelve principles;

1. Purpose - create meaning in peoples work
2. Values - create shared values and sound judgement
3. Transparency - let information be available
4. Autonomy - give employees trust and freedom
5. Organization - decentralize
6. Customes - connect everyones work with customer needs
7. Rythm - operate around events, not calendar year
8. Targets - achievable and challenging targets
9. Plans and forecast - dynamic and non-biased
10. Resource allocation - make resources available
11. Performance evaluation - relative ~~performance evaluation~~
12. Rewards - provide collective rewards

Beyond Budgeting critized budgets and called them to rigid and non-flexible. Budgets are more based on theory x, while Beyond Budgeting relies more on theory y. Theory X is the assumption that ~~pe~~ people are lazy, don't like responsibility, needs monitoring and guidance. Beyond Budgeting relies more on that people can be trusted and self-monitoring, they want responsibility and autonomy, are motivated to do their job, etc. (theory y).

4a) cont.

Beyond Budgeting has a more dynamic view on planning and forecast. It focuses on decentralization and giving people autonomy and trust. Performance are measured relative to others (peers or competitors) and rewards are based on collective achievement.

b) To shed light on the national differences in culture and the implementation of Beyond Budgeting, Geert Hofstede's four cultural dimension can be used. The four dimensions are as follows:

1. Individualism vs. collectivism
2. Power distance
3. Uncertainty avoidance
4. Masculinity vs. Feminism
(5. Long-term vs. short-term horizon)

Individualism vs. collectivisme reflects the differences in a individual and collective culture. Nations that score high on collectivism have a sense of a group-related function to one another, they are more likely to work in groups and teams. Individualistic countries like the self-work and regulation and might not like to dependent on others in. eq reciuling rewards.

4b) cont.

Power distance is related to the acceptance of hierchy and centralization of power. Countries that score high on power distance are likely to have more hierarchy and bureaucrathy than countries with low power distance. High power distance also means a more formal approach between managers and subordinates, while low power distance means dicentralization and autonomy.

Uncertainty avoidance reflects the level of risk cultures are willing to take. ~~Culture~~ Cultures that have a high uncertainty avoidance do not care for ambiguity in actions or risk. Low uncertainty avoidance means more risky culture and the ability to create innovation and creativity and growth.

Masculinity vs. feminism is the degree of winning and performance based (masculine) culture versus a caring, equality and peerfocused culture (feminism). Cultures that scores high in masculinity are more based on achievement and bonuses, while feminist cultures are more focused on how to achieve and treat ~~by~~ everyone equally.

These cultural differences are all important to consider when implementing Beyond Budgeting (BB).

In national cultures where collectivism are high, it might be easier to implement BB than in individual cultures, due to the collective rewards and shared values that BB principles states).

In countries where the power distance are low, BB will might be easier to implement due to the focus on decentralization and autonomy and freedom in the BB principles. In countries with high power distance this migh be as easy to implement.

BB can be easier and more throughouly implemented in cultures with low uncertainty avoidance than in cultures with high uncertainty avoidance. This is because when people dislike ambiguity there is a high need for control, and this is not aligned with the BB principles of autonomy and decentralisation

In cultures where there is high masculinity there might be harder to implement BB, due to the winning, competitive ~~to~~ environment this creates. It might be easier to implement in more feminine cultures with shared values and group rewards that BB approachs says.

Question 5

a) Corporate governance has a more broader perspective on control than Management control systems. Corporate governance has the control over top-managements behaviour and through ~~this~~ this, directing the rest of the organization in creating value. Management control systems has the focus from a top-mangers perspective and directs the employees behavior in the organisation. MCSs are provided to provoke the desired behaviors and to eliminate the undesireable behaviors of employees.

Corporate governance and MCSs are inextricaby linked, meaning that the governance structure affects the MCSs.

5 b) "The Sarbanes-Oxley Act has had little impact on corporations and the accounting profession"

The Sarbanes Oxley (SOX) Act is a legislation signed by G.W. Bush and the US congress in 2002. It was a response to ~~the~~ some big corporate scandals, such as enron or worldcom, and was imposed to improve transparancy and internal control in organizations in addition to ~~regulate~~ regulate the external auditing industry heavily.

Corporations ~~was~~ had now legal requirements to meet accounting standards and provide internal controls correctly.

Section 404 was the main section on the internal control and imposed several things on corporations for intval control.
- wisthebbower programs
- tone at the top → set a good example in ethical behaviour
- ethical behavior programs
- policies and procedures

The penalte for fraud were much higher, so that the people engaging in fraudulent behaviour should get punished more severe

There are experts saying that it has had a little impact on corporations controls and that there have been scandals even though the Sarbanes-Oxley Act were introduced to control fraud.

The ~~implementation~~ implementation of the act has been costly for corporations and internal and external control has been highly regulated. We cannot check if there had been several scandales if the Sarbanes-Oxley Act hadn't been implemented, there can only be assumption.

One can assume that higher penalties give some type of motivation to not committ fraud. There is also a reason to assume that when it is ~~easier~~ easier to get ~~caught~~ caught in ~~fraud~~ fraud, less people will do it. The etchical behaviour programs that were imposed by section 404 should have had an impact on the employees in doing ethical actions and not unlegal ones.

~~text crossed out~~

In conclusion, one can assume that there has been several impacts from SOX, but one cannot say if there are less scandals with it than it would have been present days without the Act.