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DEGLI STUDI
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Management Accounting, Strategic Control and Corporate Governance

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Looking Ahead

- Financial and Management accounting
- Ensuring Informational Control:
Responding Effectively to Environmental Change.
- Attaining Behavioral Control: Balance Culture, Rewards, and Boundaries.
- The Role of Corporate Governance.

What do you already know?

Accounting.... What is it?

Financial accounting.... What is it?

Managerial accounting....

Needs of Management

Accounting is concerned with recording, estimating, organizing, summarizing and reporting operational and financial data

Financial accounting is...

Managerial accounting is....

Needs of Management

Accounting is concerned with recording, estimating, organizing, summarizing and reporting operational and financial data

Financial accounting is concerned with reporting financial information to external parties, such as stockholders, creditors, and regulators.

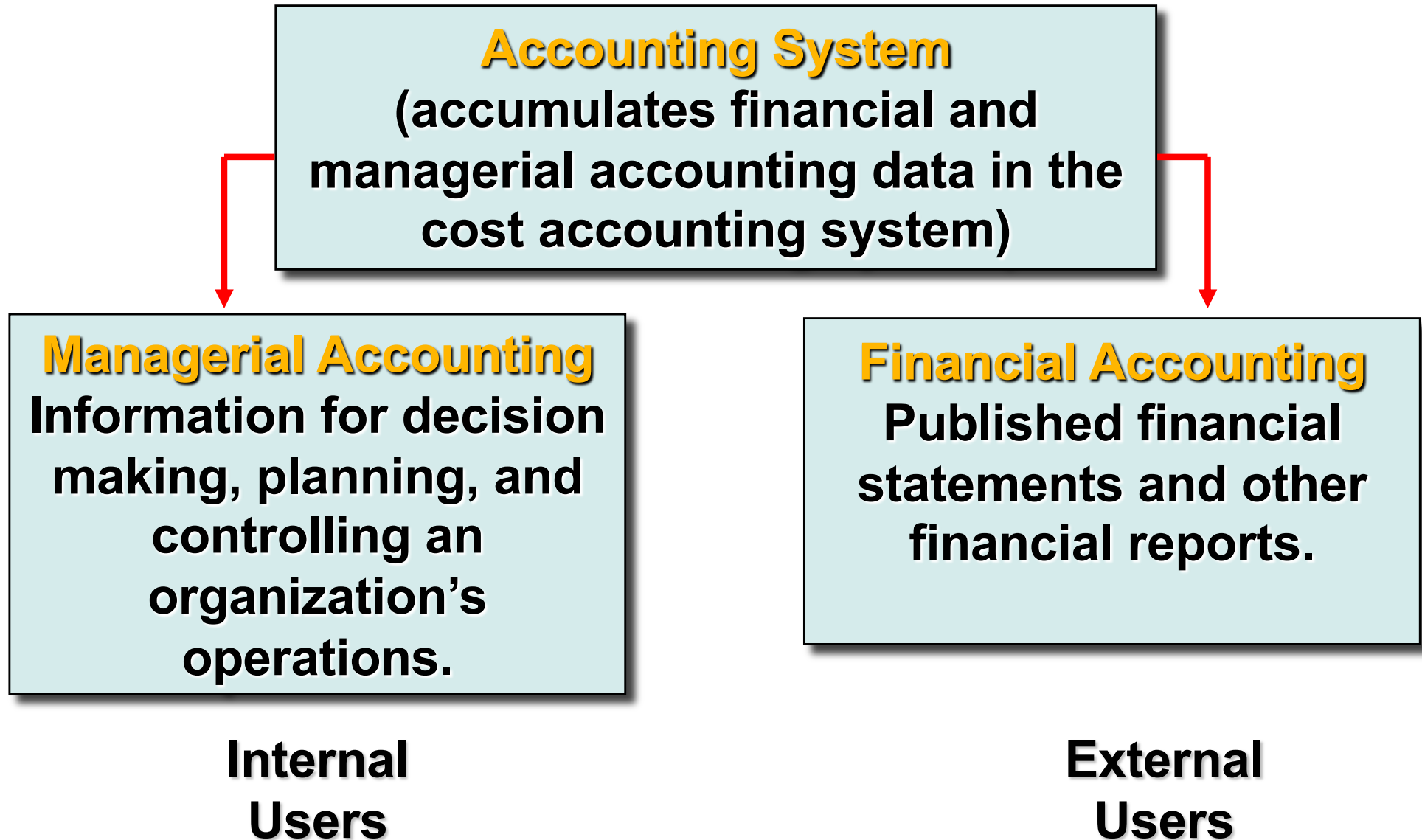
Managerial accounting is....

Needs of Management

Financial accounting is concerned with reporting financial information to external parties, such as stockholders, creditors, and regulators.

Managerial accounting is concerned with providing information to managers within an organization so that they can formulate plans, control operations, and make decisions.

Managerial versus Financial Accounting



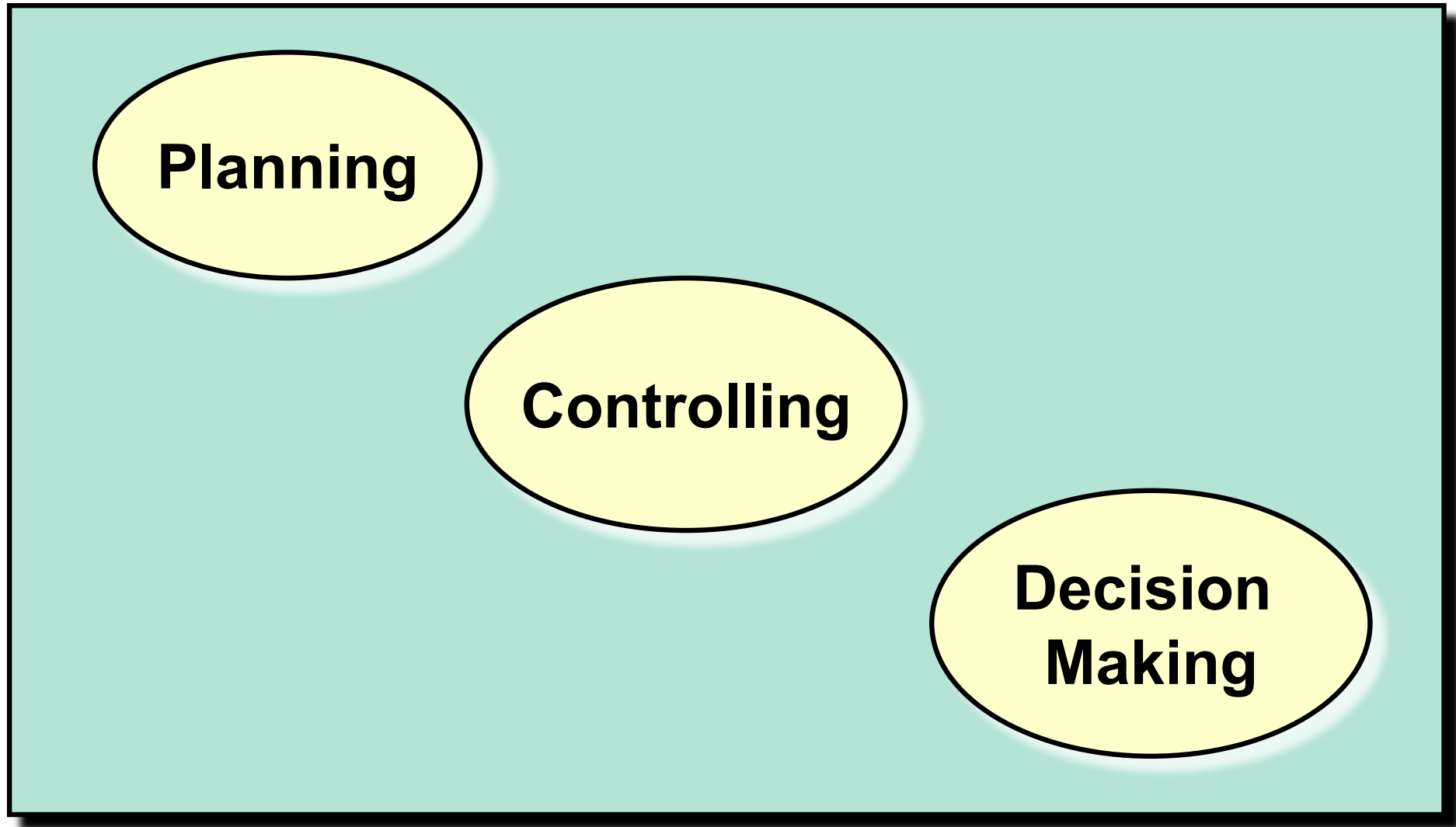
Financial and Managerial Accounting: Seven Key Differences

	Financial Accounting	Managerial Accounting
1. Users		
2. Time focus		
3. Verifiability versus relevance		
4. Precision versus timeliness		
5. Subject		
6. Rules		
7. Requirement		

Financial and Managerial Accounting: Seven Key Differences

	Financial Accounting	Managerial Accounting
1. Users	External persons who make financial decisions	Managers who plan for and control an organization
2. Time focus	Historical perspective	Future emphasis
3. Verifiability versus relevance	Emphasis on objectivity and verifiability	Emphasis on relevance
4. Precision versus timeliness	Emphasis on precision	Emphasis on timeliness
5. Subject	Primary focus is on companywide reports	Focus on segment reports and specific cost objects
6. Rules	Must follow GAAP/IFRS and prescribed formats	Not bound by GAAP/IFRS or any prescribed format
7. Requirement	Mandatory for external reports	Not mandatory

Work of Management – key terms



Planning

Establish Goals.

Specify How Goals
Will Be Achieved.

A detailed plan for
the future that is usually expressed
in formal quantitative terms.

Develop Budgets.

Planning

GOALS

OBJECTIVES

ARE THEY THE SAME?

Planning: goals and objectives

	GOAL	OBJECTIVE
DEFINITION	The direction and overall destination of your company that helps you realize your vision	The exact actions and steps your company must take to reach its goals
SPECIFICITY	General intention or direction	Specific, precise
PLAN	Broad in scope	Narrow in scope
SIZE	Large in size, the whole	Small chunks, part of the whole
EXAMPLE	Increase international customer base	Acquire 28% more customers from the UK, Australia, and Germany in next 3 months
ACTIONS	A general outcome	Specific actions and measurable steps
MEASUREMENT	Difficult; goals are usually intangible and may not be strictly measurable	Easy; it must be measurable and tangible
TIMEFRAME	Long-term	Medium- to short-term

Exercise 1 - Case: GreenBite Café

GreenBite Café is a small company that sells healthy meals, smoothies, and coffee near a university campus. The founder's vision is to become "the most trusted healthy food option for students and young professionals in the city." The company has grown quickly, but management is facing some problems. Customers like the products, but service is slow during lunch time. Food waste is increasing. Some employees are not sure what the company's priorities are: should they focus on speed, food quality, sustainability, or profitability?

The founder says:

"We want GreenBite Café to become a sustainable and profitable food business that customers love."

The management accountant has been asked to help translate this broad statement into more specific objectives that can guide planning, budgeting, and performance evaluation.

Example - Case: GreenBite Café

“We want GreenBite Café to become a sustainable and profitable food business that customers love.”

Is this a **goal** or an **objective**?

The statement is a **goal**.

It is broad and describes the general direction of the company. It expresses what GreenBite Café wants to become: sustainable, profitable, and loved by customers.

However, it is not precise enough to be directly measured.

It does not specify how much profitability should increase, how sustainability will be measured, or when customer satisfaction should improve.

Example - Case: GreenBite Café

Examples of **objectives**.

Improve customer satisfaction → increase the average **customer satisfaction score** from 4.1 to 4.5 out of 5 within six months or Reduce monthly **customer complaints** by 20% within three months

Increase profitability → Reduce monthly ingredient costs by 8% without changing product quality

Reduce food waste → Reduce daily unsold food by 25% within four months

Improve service efficiency → Serve at least 90% of lunch orders within 10 minutes

Develop employees' skills → Train all employees on food waste reduction procedures by the end of next month

Controlling

The (traditional) control function gathers feedback to ensure that plans are being followed.

Feedback in the form of performance reports that compare actual results with the budget are an essential part of the control function.

Decision Making

Decision making involves making a selection among competing alternatives.

What should
we be selling?

Who should
we be
serving?

How should
we do?

Decision Making - examples

What should we be selling?	Who should we be serving?	How should we execute?
What products and services should be the focus of our marketing efforts?	Who should be the focus of our marketing efforts?	How should we supply our parts and services?
What new products and services should we offer?	Who should we start serving?	How should we expand our capacity?
What prices should we charge for our products and services?	Who should pay price premiums or receive price discounts?	How should we reduce our capacity?
What products and services should we discontinue?	Who should we stop serving?	How should we improve our efficiency and effectiveness?

Exercise

If you had to decide whether to continue **making** a component part or to begin **buying** the part from an overseas supplier, which factors would influence your decisions?

Exercise

If you had to decide whether to continue making a component part or to begin buying the part from an overseas supplier, which factors would influence your decisions?

- Determining the potential cost savings from buying the part rather than making it.

- Strategy
- Risks
- Corporate social responsibility

If the part is critical to the organization's strategy, it may continue making the part regardless of any potential cost savings from outsourcing

a company may decide against outsourcing if it would result in layoffs at its domestic manufacturing facility

If the overseas supplier might create quality control problems that could threaten the end consumers' welfare, then the risks of outsourcing may swamp any cost savings

Strategic Control

Consider ...

- Once strategy is formulated, it must be implemented, and part of implementation is establishing a mechanism for monitoring and correcting performance.
- This control mechanism must be **consistent** with the strategy the firm is following.
- How does a firm make sure all key stakeholders are moving in the right direction?

Strategic Control Mechanisms

Strategic control involves monitoring performance toward strategic goals and taking corrective action when needed via effective systems.

- Informational-control systems.
- Behavioral-control systems.
- Corporate governance.

Strategic Control: Traditional Approach Model

The **traditional approach to strategic control** is sequential.

1. Strategies are formulated, goals are set.
2. Strategies are implemented.
3. Performance is measured against predetermined goals.



Strategic Control: Traditional Approach

Traditional approach to strategic control = feedback loop from performance measurement to strategy formulation.

Involves lengthy time lags, “single-loop” learning.

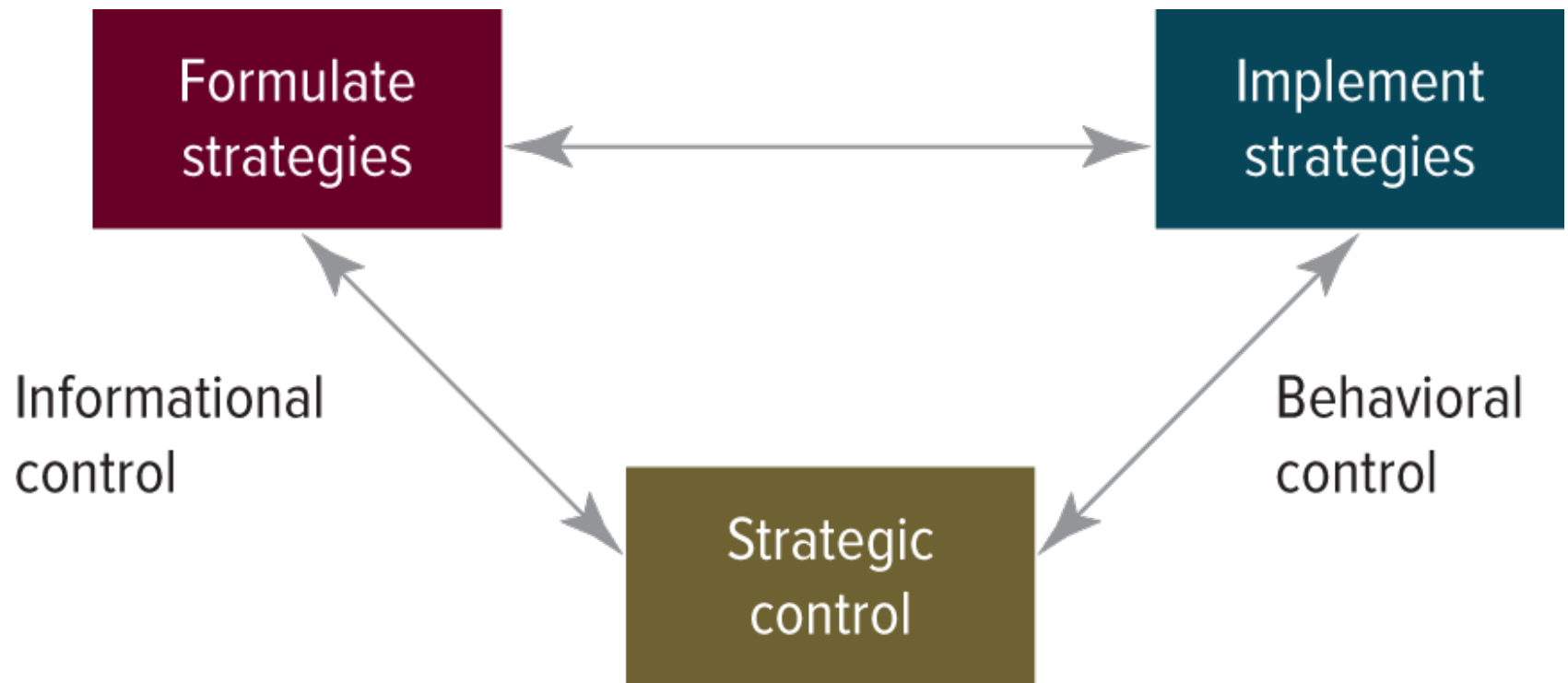
Most appropriate when:

- Environment is stable and relatively simple.
- Objectives can be measured with certainty.
- There is little need for complex measures of performance.

Strategic Control: Contemporary Approach Model

Relationships between strategy formulation, implementation, and control are highly interactive:

- **Informational control.**
- **Behavioral control.**



Strategic Control: Contemporary Approach

Informational control = Is the organization “doing the right things”?

Behavioral control = Is the organization “doing things right” in the implementation of its strategy?

Both types of control are necessary

Informational Control: Issues

Informational control deals with both the internal and external environment.

Is the organization “doing the right things”?

Do the organization’s goals and strategies still “fit” within the context of the current strategic environment?

Two key issues:

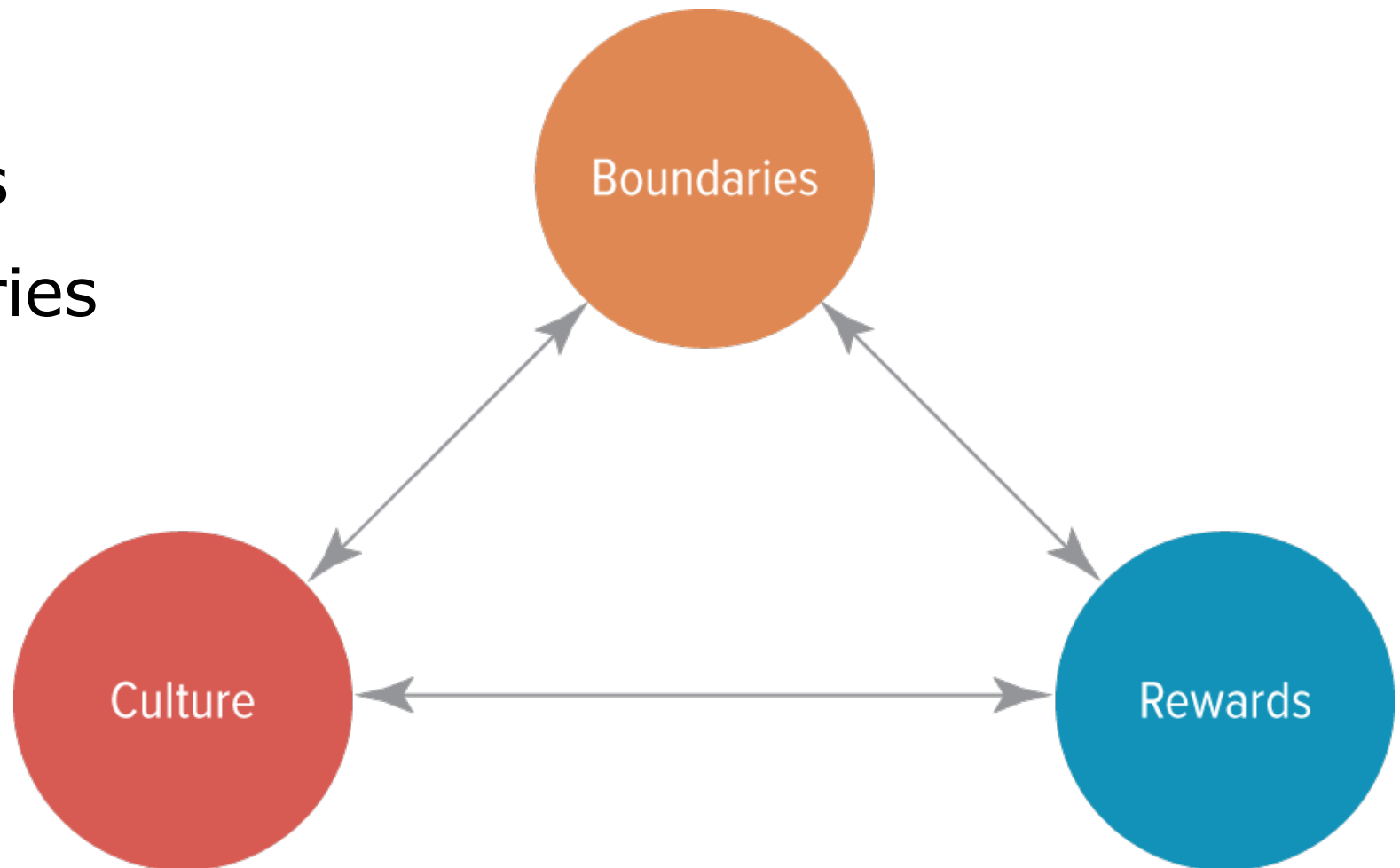
- Scan and monitor the external environment.
- Continuously monitor the internal environment.

Behavioral Control Model

Behavioral control = focused on implementation
— “doing things right.”

Influences the actions of employees via:

- Culture
- Rewards
- Boundaries



Behavioral Control: Culture

Organizational culture is a system of:

- Shared values (what is important).
- Beliefs (how things work).

Organizational culture shapes a firm's people, organizational structures, and control systems.

Organizational culture produces behavioral norms (the way we do things around here).

Behavioral Control: Role of Culture

Organizational culture sets implicit boundaries regarding:

- Dress.
- Ethical matters.
- The way an organization conducts its business.

A strong culture:

- Leads to greater employee engagement.
- Provides a common purpose and identity.
- But can also introduce core rigidities.

Behavioral Control: Rewards

Reward systems and incentive programs:

- Powerful means of influencing an organization's culture.
- Focusing efforts on high-priority tasks.
- Motivating individual and collective task performance.
- Can be an effective motivator and control mechanism.

Effective Reward Systems Characteristics

- Objectives are clear, well understood, and broadly accepted.
- Rewards are clearly linked to performance and desired behaviors.
- Performance measures are clear and highly visible.
- Feedback is prompt, clear, and unambiguous.
- The compensation “system” is perceived as fair and equitable.
- The structure is flexible; it can adapt to changing circumstances.

Behavioral Control: Boundaries

- **Boundaries** refer to the limits communicated to employees and constrain them from pursuing not acceptable projects.
- In some ways it describes what employees are not allowed to do in searching innovations and new development patterns (risks to be avoided).
- They “delineate the acceptable domain of activity for organizational participants”.
- In the empirical studies they are usually describe as code of conduct, ethical behaviours and policies.

Behavioral Control Systems: Situational Factors

Approach	Some Situational Factors
Culture: A system of unwritten rules that forms an internalized influence over behavior.	• Often found in professional organizations. • Associated with high autonomy. • Norms are the basis for behavior.
Rules: Written and explicit guidelines that provide external constraints on behavior.	• Associated with standardized output. • Most appropriate when tasks are generally repetitive and routine. • Little need for innovation or creative activity.
Rewards: The use of performance-base incentive systems to motivate.	• Measurement of output and performance is rather straightforward. • Most appropriate in organizations pursuing unrelated diversification. • Rewards may be used to reinforce other means of control.

Corporate Governance: what do we already know?



Corporate System: Corporate Governance

The strategic control mechanism **corporate governance** focuses on relationships among:

- Shareholders.
- Management (led by the CEO).
- Board of Directors.

Assumes the separation of owners (shareholders) and management in a modern **corporation**.

Asks how corporations can succeed (or fail) in aligning managerial motives with:

- Interests of the shareholders.
- Interests of the board of directors.

Corporate Governance Mechanisms

Corporate governance mechanisms — aligning the interests of owners and managers through:

- A committed and involved **Board of Directors.**
- **Shareholder activism** and active engagement.
- Managerial rewards and incentives.
 - Contract-based outcomes — reward and compensation agreements that align management and stockholder interests.
- Making a decision about CEO duality — should the CEO also be chairman of the board of directors?

Corporate Governance Mechanisms: Board of Directors Effectiveness

An effective **Board of Directors** should:

- Become active, critical participants.
- Discuss forward-looking strategic issues.
- Evaluate CEOs against high performance standards.
- Practice director independence.
 - Benefits of outsider dominance include broader access to knowledge, independent oversight of strategy.
 - Disadvantages include less direct operational information, less opportunity to build relationships with non-board member executives who then lack access to this strategic insight.

Corporate Governance Mechanisms: Shareholder Activism

Shareholder activism assumes the following:

Individual shareholders have rights.

- To sell stock, vote the proxy, bring suit for damages, get information, receive residual rights following the company's liquidation.

Collectively, shareholders have power.

- To direct the course of corporations, file shareholder action suits, demand key issues be brought up for proxy votes.

Institutional investors can be aggressive.

- By pressuring the firm to change leadership or undertake strategic actions such as stock buy-back or selloff.

Corporate Governance Mechanisms: Managerial Rewards and Incentives

Boards are responsible for **managerial rewards and incentives.**

- Boards can require that CEOs become substantial owners of company stock.
- Salaries, bonuses, and stock options can be structured so as to provide rewards for superior performance and penalties for poor performance.
- Dismissal for poor performance should be a realistic threat.

Corporate Governance Mechanisms: CEO Duality?

Unity of command: (in favor of) duality:

- Provides clear focus.
- Eliminates confusion and conflict.
- Enhances a firm's responsiveness.
- Enables quick decisions based on first-hand knowledge

Agency theory: (in favor of) separation.

- Safeguards against corruption or incompetence.
- Removes conflict of interest, especially regarding CEO succession.

External Corporate Governance Mechanisms

EXTERNAL governance control mechanisms:

- The **market for corporate control**: if shareholders sell, stock value declines, increases possibility of takeover.
 - **Takeover constraint**: fear of acquisition by hostile raider.
- Auditors who verify the firm's books.
- Banks and analysts who conduct in-depth studies of firms.
- Governmental regulatory bodies that require disclosure of financial information.
- Media and public activists who influence public perception.

International Corporate Governance

In countries other than the United States and the UK, there is another perspective.

Principal – principal conflicts (as opposed to principal – agent conflicts) involve:

- Concentrated ownership, or family ownership.
 - Motivation to expropriate **minority shareholders** for personal gain.
- Few external regulatory constraints.