Chap 1 : MANAGEMENT AND CONTROL

1) Causes of Management
   - Lack of Direction
   - Motivational Problems
   - Personal Limitation

2) Avoidance
   - Activity elimination: Eliminate what is not working properly
   - Automation
   - Centralization
   - Risk Sharing

Chapter 2 SECTION II

3) Result Control: Preventive type Control
   Helps Mgr to address strategy, org, employees are performing

   - Steps:
     1. Define Performance dimension
     2. Measure Performance
     3. Setting Target
     4. Provide Reward

   - Requirement for Effective Result control:
     - Knowledge of desired result: Org should know what result are desired
     - Ability to influence desired result: Employee have influence on result (Controllable)
     - Ability to measure Controllable result effectively: Org can measure result effectively (Measurable)
     → Result measure should be: Precise, Objective, Timely, Understandable

Chapter 3

4) Action Control: To ensure employees act in org’s best interest
   a. Form of Action control
      - Behavioral constraints – Negative Form (You can’t do this You can’t do that)
      - Pre action Review – Scrutiny (詳查 정밀조사) of action plan (What will they do?)

   b. Action Accountability – (외무義務) Hold employees for action required (You should do this and that)
      → Requires: Define actions acceptable or unacceptable
      Communicate definitions to employees
      Observe what happens (reaction)
      Reward or Punish

   - Redundancy (과잉): Set more Human resource than what they need (Backup)

b. Requirement for effective action control:
   - Knowledge of desired action
   - Ability to ensure that desired actions are taken

5) Personnel Control: Build employees’ natural tendency to control / motivate themselves
   a. Purpose: Make people understand what company is doing
      Ensure people is doing good job
Engage self-monitoring (Naturally present force that want to do good job) (I want A for exam!)

b. Major methods: Selection and Placement (Hire right person and place on right position)
   Training
   Job design and Provision of necessary resources (Interesting job process)

6) Cultural Control: Most effective way to tie members in emotional way
   a. Methods of shaping culture:
      - Code of Conduct (Cultural code / style of group acting)
      - Credos, Vision, Statement, Mission, Philosophy
      - Group Reward: Bonus, Profit-sharing, Ownership of stock
      - Transfer, Rotation: Rotate employees so that culture code can be spread
      - Physical Arrangement: Design, Arrangement of table, costume, words
      - Tone at the TOP: 言行一致 of Leader

Chapter 4

7) Tightness: Tighter MCS provide a higher degree of certainty that employees will act as org wishes
   (Looseness)
   a. Tight Result Control
      - Desired result: Definition of RESULT should be specific, exact based on true
      - Requirement:
      - Congruence: Mgr didn’t understand objective (Is objective of government service? Or cost saving?)
      - Monitoring(Measurement) doesn’t reflect objective (is Success of Museum number of visitor?)
      - Specificity & Timeliness:
        (TARGET: increase satisfaction (X) / Increase 1% (O))
      - Communication & Internalization: Performance target should be communicated & internalized
      - result control can influence
      - Completeness: Result area includes all areas which org desires
        (Cost focused purchasing will forget quality slip)
      - Performance Measurement: Effective measurement
      - Incentive: Reward should be linked to desired result

   b. Tight Action control
      - Behavioral Constraint: Physical Constraint (Lock at the door)
      - Administrative Constraint (Right to decide)
      - Pre action Review: Should be frequent, detailed, performed by diligent and knowledgeable person
        (Don’t buy a pencil without approval of CEO)
      - Action accountability:
        Requirement: - Definition of action: Should be congruent, specific, well communicated, complete
        - Action Tracking: constant direct supervision, detailed audit
        - Action reinforcement: Reward / Punishment

c. Personnel Control: people get satisfaction from good job

d. Cultural Control: Powerful & Stable, Culture involves shared beliefs and employees behavior guideline

e. Multiple Form of control: Use mixed

Chapter 5 CONTROL SYSTEM COST

1) Out of pocket cost: Direct, Monitory Cost / Affect to decision
   - Easy to measure: Cash bonus, internal audit staff, recognition plaque
   - Hard to measure: Time employee spent, effort, …
   - Should consider full cost
   - Excessive Out of Pocket Cost cause MCS fail

2) Behavioral Displacement: Indirect cost, Side effect
   - Behavioral displacement & result control: Occur when MCS produced, encouraged behavior was not consistent with org objective.
     Ex) I ordered to get more patents and they registered many useless patent without useful (profitable) research
     
     - Poor Understanding of desired result: Occur when there is incomplete specification on Result control
ex) didn’t add safety facility on factory management check list and manager didn’t buy any of safety facility
- Over quantification: they use numbers for everything rather than intangible result.

- Behavioral displacement & Action control
- Means – ends inversion: Employees pay attention on means(method) and forget end(result)
- Incongruent Action definition: Performance doesn’t contribute org’s objective

- Displacement & Personnel Control
- Wrong person or wrong train

- Displacement & Cultural control
- Cultural Norm is not in line with objective
- Intended in wrong environment (Ineffective and encouraging unintended behavior)

- Solution to displacement problems
- Diagnosing Problem:
  - Gap between employees’ duty and motivation from MCS
  ex) Dept store introduced Incentive and employees tried to steal eachother’s customers → no difference on sales
  → Need change on incentive system or restructure sales floor
- Supplement result control with other control: MIX Action control + result control

3) Gamesmanship(변칙): Improve performance indicator without producing any positive economic effect
- Slack Creation: employee spends unnecessarily much cost or doesn’t reach budget target with same cost.
- Data manipulation(造)
- Falsification: Reporting erroneous data
- Data Management: Action designed to change reported result to look better or to increase stock value
  ex) make sales worse in bad season to make higher increase in good season
  → Accounting Method: change number or depreciate data to manipulate like as sales has been increased
  → Operating Method: delay cost or sell a lot in short period to increase profit
  → Encourage short term performance pressure
  → it can render MCS ineffective
  → Harmful in long-term strategy

4) Operating Delay: Un-avoidable preaction review types of action control (Behavioral Constraint)
- Waiting for approval make delay on process
  ex) Password before using computer, Superior’s signature approval
- Fast action is important

5) Negative attitudes: (Economic condition, Org structure, Admin process and etc) arise employees (conflict, job tension, frustration, resistance, etc)
  → Harmful because it cause (lack of effore, gameplaying, turnover, etc)
  → Indicator of employee welfare
- Negative attitude produced by action control:
  observing purposed action control (not useful purpose) cause negative reaction of employees
- Negative attitude produced by result control:
  employees don’t agree with useless, immoral target

CHAPTER 6 DESIGNING AND EVALUATING MANAGEMENT CONTROL SYSTEMS

1) There is gap between [Desired Result → Likely to happen]
  → Now what should we do? & how tight?
- Desired Result: Identify Key actions that must be performed
- Likely action, result: Investigate potential control problems (Lack of direction, Motivational Problems,…)

2) Choice of Control:
- Personal / Cultural Control: They usually try Cultural control for the first.
  Cuz: less risky, less costly, effective (especially for small company)
- Action Control
  Advantage: Most direct form of control (effective)
  Disadvantage: 1) Feasibility(가능성 可能性) Limitation
  2) Discourage creativity and innovation → Make employees passive
  3) Action accountability cause sloppiness(대충대충 杂乱)
4) Cause Negative Attitude
5) Required preaction review → Costly

- Result Control
  Advantage: 1) Feasibility – effective even without knowledge about specific action
  2) Influence to employees even when it’s autonomy → increase creativity
  3) On-the-Job Program: Employees fix mistakes themselves
  4) Inexpensive

  Disadvantage: 1) Less Perfect indicator: We don’t know whether this is fraud or not with only result
  2) Employee get Risk: We don’t know risk when it didn’t work even though employees tried
  3) Motivation VS Coordination: can’t fulfill both of them
  4) Not all employees like being empowered

3) Control Tightness:
   * we should consider 1) What are benefit? Potential benefit of tight control tend to be higher when performance is poor
  2) What are costs? Some controls are costly to implement (e.g. preaction review)
  3) Any harmful side effect? Consider feasible issue / if there is side effect, action/result control can’t be effective
  ex) tight action control cause [behavioral displacement] & [stifle creativity]
  tight result control needs [select right result measures] & [set adequately challenging target]
  → but both are difficult in rapidly changing environment

   * Simultaneous Tight-Loose control: Company consider MCS as tight in that they [allow, encourage, autonomy entrepreneurship, innovation] but same MCS can be called tight in that they [share a set of rigid values]

4) Adapting Change: Most org emphasize one form of MCS at a point but they often change
5) Keeping Behavior focus: The most hardest part in MCS is the “employees’ reaction”
6) Maintaining good control:
   * MCS failed cuz: 1) Imperfect understanding of the setting / effect of MCS
     2) Mgr’s inclination (傾向 경향) to subjugate (예속 隸屬) the implementation of good MCS to others

SECTION III: FINANCIAL CONTROL CENTERs:
   * three core element: 1) Financial Responsibility Center (Chap 7) → Core ☆ 2) Planning & Budgeting (chap 8) 3) Incentive Contract (chap 9)

   * Advantage: 1) Financial objective is paramount in for-profit organization. It is natural
     2) Comparability of effect ↗ Possibility of conflict ↘
     3) Easy to observe and measure
     4) Readily and inexpensively be adapted for internal control uses

CHAPTER 7 FINANCIAL RESPONSIBILITY CENTERS

1) Types of Financial responsibility centers
   1) Investment center: Accounting ROI
      ROI: Return On Investment
      ROE: Return On Equity
      ROCE: Return On Capital Employed
      RONA: Return On Net Asset
      ROTC: Return On Total Capital
      RAROC: Risk Adjusted Return On Capital

   2) Profit center: Accounting Profit
      Types: - Self-focused: Charge standard cost of Product sold → Account Gross Margin
      - Cost-focused: Based on a simple function of cost

   3) Revenue center: Accounting Generating Revenue (output, Profit)

   4) Cost center: Accounting Cost
2) **Transfer-Price**: Supply product or service to another department in the company
Directly affect to revenue and cost \(\rightarrow\) Profit

- **Purpose**: 1) To provide proper economic signal \(\rightarrow\) Mgr will make good decision  
2) Useful to evaluate performance \(\leftarrow\) it affect to profit  
3) Purposely move Profit between firms \(\rightarrow\) Motivate, Tax calculation, etc

- **Types of transfer price**
  1) **Market-based** transfer Price: Competitive external Market exist  
     Straightforward (easy to calculate)  
     transfer price = material + HR cost + profit
  
  2) **Marginal** cost transfer Price:  
     Total contribution generated by final product as whole  
     Final selling price – marginal cost = total contribution  
     transfer price = material only
  
  3) **Full-cost** transfer Price: transfer price = material + HR cost  
     Don’t provide incentive / no profit margin  
     Advantage: 1) it provide long-run measure viability / Economically sustainable  
     2) Easy to implement / easy to calculate  
     3) Not distorting evaluation purpose

  4) Full-cost+Markup transfer Price: transfer price = material + HR cost + small profit

  5) **Negotiated** transfer Price: is effective when Both of Profit centers have bargaining power  
     (external seller and buyer)  
     Disadvantage: 1) Negotiation transaction is costly  
     2) Negotiation Accenture conflict  
     3) Price depends on Negotiating skill, not economic optimal

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**CHAPTER 8 PLANNING AND BUDGETING**

1) **Purpose**: 1) Planning: **Reactive** \(\rightarrow\) **Proactive**  
2) Coordination: P&B forces sharing information  
   everyone involved / consider all perspectives  
3) Facilitate TOP management oversight: Preaction review examine, Discuss  
   Early warning of potential problems  
4) Motivation: Plan \(\rightarrow\) Target \(\rightarrow\) Performance Evaluation \(\rightarrow\) Motivation

2) **Planning Cycle (Steps)**:

   1) **Strategic Planning**: Relatively Broad process of thinking  
      Corporate and Division manager  
      Include Analysis of Past / Forecast of Future

- Steps: 1) Vision, Mission, Objective – Philosophy
  2) SWOT – know present position
  3) Diversification Strategy – Where should be in / when should not be in
  4) Strategy for SBU – Action Plan path for each Strategic Business Unit
  5) Strategic Plan – Qualitative/Quantitative /Action to be taken/Likely Outcome
  6) Monitor & Update

2) Capital Budgeting: Specific Action Plan over next few years (1~5years)
   More detail plan than Strategic plan
   Includes Corporate Strategy for Each Business Unit
   Various levels to cover detail and complex
   Mgr review ongoing program
   Starts with discussion between entity Mgrs
   Financial, Time, HR, etc…

3) Operational Budget: Annual budget (1year till next fiscal year)

3) Performance Target Setting
   a. Purpose: to motivate
   b. Types: 1) Model-based: Provide prediction of performance
      Historical: Increase sales 10% over last year!
      Negotiated: Information asymmetry (불균형) between superior / subordinates
      Superior: Overall org preference, Resource constraint
      Subordinates: Link, Opportunity, Operating constraint
   2) Fixed: Target is fixed during fiscal year
      Flexible: Target change according to the condition (Price of oil, Currency,…)
      or comparable target like as competitor, colleague,…
   3) Internal: Almost all Mgrs set target internally focused
      Mgr consider targets period by period
      External: consider, benchmark competitors

   c. Issues: 1) How challenging should financial performance target be?
       -For planning purpose : Best guess (specific/exact)
       -For motivational purpose: Little bit higher

       * High achievable target
         Advantage: - Motivation, Planning, Control
         - Increased manager commitment (mgrs works well)
         - Protection against optimistic Projection
         - Higher Manager achievement (result ↗)
         - Reduced cost of intervention (no need to take care – mgrs are effective)
         - Reduced Gaming (they don’t cheat)

2) How much influence subordinate have?
   Top-down? Bottom-up?

   * Advantage when employees participate on decision making:
     - Commitment to achieve target (Active participate, Understand target)
     - Information sharing (employees know operating better)
     - Cognitive (clarify expectation, encourage employee to think about how to achieve target)

   * Situation where Top-down is better?
     1) Top level mgr has knowledge of operating business & operational perspective
     2) Top level mgr has information for evaluating performance
     3) Need effective (low level mgr is not good at budgeting)
     4) Low level mgr think dysfunctionally by historical achievement
     5) Low level mgr is prone to bias into budget (편견)

4) Variation in Practice: - how to set budget system is differ by companies
   - Planning Horizon - Plan period (1yr~5yr)
   - Planning Content - What kind of Content, Information?
   - Length and Timing of Planning Process - length on each cycle
5) Criticism of Planning and Budgeting Process
- Rife (蔓延) with Politics, Gameplaying
- Only incremental thinking
- Centralize Power / Stifle initiative (억압)
- Focus on cost reduction / Not creation
- Separate planner / executor
- Too much cost for too few benefit

CHAPTER 9 INCENTIVE COMPENSATION SYSTEM

a. Purpose /Benefit: 1) Informational: Employees know importance of cost, quality, customer service
   2) Motivational
   3) Personal-related: Performance dependent
   4) Non-control: 1) Decreasing cash outlays when performance is poor
      2) Smoothing earning
      3) Affect to tax payment

b. Monetary Incentive System
   - Salary increase
   - Short term incentives - salary increase is flat!
     - to differentiate payment
     - it provide cash payment based on performance measured over less than 1 year
     - annual incentive = bonus
   - Long term incentives - Based on performance measured over period more than 1 year
     - measure maximizing firm’s long-term value
     - earning per share (EPS)
     - Return on Equity (ROE) ← Usually they use this
     - Changes in the value of the firm’s stock
     - Stock option plan:
       Give employees the right to purchase a set of stock at set price during specific period
       1) Restricted Stock Plan
       Employees don’t need money to buy stock but selling is restricted till certain period
       2) Performance Stock Plan
       - Performance Award: Depends on achievement of stock or nonstock goal
       - Performance Option: Depends on improvement in stock or nonstock goal
         - Premium Option: exercise price > stock price
         - Indexed Option: exercise price = Group Performance
         - Performance-vested Option: Option linked to performance target
       3) Stock appreciation Plan
       Employees don’t need money to get stock and can exercise anytime during term

c. Incentive System Design
   - Incentive Formula
     - Rewards are determined formulaically
     - But sometimes they also use subjectivity
     - All or part of bonus can be based on subjective judgment
     - Quantitative measure can be determined subjectively
     - Why? - to have flexibility
     - to stop employees focusing impossible target
     Disadvantage? - Evaluater evaluated Risk can be different from what employees expected
     - if employees don’t trust evaluator, it cause demotivation
     Requirement? - better evaluation, trust

   - Scope of incentive function
     - lower cutoff - don’t pay for mediocre or worse performance
     - higher cutoff - no extra reward for additional performance
     - why? - 1) avoid unforeseen good luck
       2) avoid mgrs unduly motivated on increasing short term performance
3) desire not to pay low level mgr more than high level mgr
4) keep total compensation system consistent over time
5) fear of fault plan design

- Size of incentive pay – based on performance
- Criteria for evaluating incentive system
  1) Reward should be Valued
  2) Large enough
  3) Understandable
  4) Timely
  5) Reversible
  6) Cost effective
  7) Effective of reward should be durable

→ however sometimes they are not reversible, cost effective, timely, …

- Group Reward
  Advantage: Personnel/cultural control implemented
  Disadvantage: Not effective enough

SECTION IV PERFORMANCE MEASUREMENT ISSUES
CHAPTER 10 FINANCIAL PERFORMANCE MEASURES AND THEIR EFFECTS

Goal of for-profit organization: to maximize the value of the firm
- What you measure is what you get

1) Market measures of Performance: Measurement based on market value or return to shareholders
  - shareholders get paid when managers create equity value
  - Market value measurement Advantage: timely, accurate, precisely, objective, understandable, cost effective.

  - Marker measurement have limitation:
    1) Feasibility constraint: available for only publicly-traded firm / not for private or wholly-owned firm
    2) Controllability: far from controllable except few top managers who make a major decision
    3) not always reflective of realized performance: it is risky to base incentive on future expectation
    4) Potential Congruence failure: markets are not well informed about company’s plan, prospect

2) Accounting measures of Performance: Measurement based on accounting/financial
  - Types: 1) Residual measure (accounting profit measure) - net income, operating profit, earning before interest
  2) Ratio measure (accounting return measure) – ROI, ROE, RONA, RAROC
  - Advantage: Timely, Precisely, Objectively, controllable, understandable, inexpensive
  - However accounting measures of performance are far from perfect indicator
  - Limitation: 1) Transaction oriented – doesn’t count potential value
  2) Ignore risk and changes in risk
  3) Highly dependent on the choice of measurement method
  4) Conservatively biased – slow recognition of gains & quick recognition of loss → doesn’t match
  5) Ignore some value or value change that accountant can’t measure accurately and objectively
  6) Ignore cost of investment – mgr made bad investment → invisible cost?
  7) Ignore cost of equity capital – cost of equity capital is more expensive than borrowed capital
  8) Focus on past

  - Myopia:
    - Investment Myopia: Mgr postpone investment that promise payoff in future measurement period
    - Operating Myopia: Mgr boost current period profit, destroying goodwill built up at large

3) ROI measures of Performance
  - Division managers are responsible for Return On Investment
    - Decentralization: authority is pushed down to lower level manager
    - Divisionalization: mgr become expert decision come our quickly
- Advantage: 1) provide single, comprehensive measure (revenue, cost, investment)
  2) provide common denominator can be used for comparing on dissimilar businesses
  3) All managers understand, cuz it has been used for so long time

- Problems: 1) Based on accounting profit \(\rightarrow\) same limit as profit measure (myopia, …)
  2) Suboptimization \(\rightarrow\) mgr choose decision to increase ROI even though they know it is not best
  3) Misleading performance signal \(\rightarrow\) asset value on balance sheet do not represent real value
     \(\rightarrow\) ROI increases itself by asset value decreasing
     \(\rightarrow\) Leasing asset is not countable \(\rightarrow\) ROI increase

4) Residual income measures as possible solution to the ROI measurement problem

  - ROI = revenue – invested asset
  - RI = revenue – invested asset – my asset – tax
  \(\rightarrow\) Actual Profit
  \(\rightarrow\) Solve suboptimization problem:
  - EVA(Economic Value Added) = after tax operating profit – (total capital \(\times\) weighted average cost of capital)
  \(\rightarrow\) Has all advantage of residual income type method
  \(\rightarrow\) Limitation: accuracy problem, can’t solve controllability problem, create understandability problem

CHAPTER 11 COMBINATIONS OF MEASURES AND OTHER REMEDIES TO THE MYOPIA PROBLEM

- Stock value depends on long term value / not short term profit

* 6 Remedies to the Myopia problem

1) Value driver of performance – focus on future oriented market value such as market share, R&D, new product development, product quality, customer satisfaction

   - Balanced Score Card (Kaplan)
     - Financial perspective: How do we look to shareholders? Operating income and ROE
     - Customer perspective: How do we look to customers? On-time delivery and % of sales from new product
     - Internal perspective: What must we excel at? Cycle time, yield, efficiency
     - Innovation and learning perspective: Can we continue improving and creating value?
       Develop next generation, introducing new product, competition

2) Shareholder value directly – estimate future cash flow and discount to the present value
   Negative - how do you know your future? Who should forecast? Is it accurate?

3) Use preaction review – using result control, Distinguish operating expenses / developmental expenses

4) Improved accounting measure – change rule to have more congruent with economic income
   - divide accounting income and economic income (shareholder return)

5) Extend measurement horizon(Long term incentive plan) – 1 year measure \(\rightarrow\) 3 year measure

6) Reduce pressure for short term profit – tell mgr not to worry about short term profit
   - profit are not directly linked to reward

CHAPTER 12 USING FINANCIAL RESULT CONTROLS IN THE PRESENCE OF UNCONTROLLABLE FACTORS

1) Controllability principle:
   - Risk aversion: Employees are risk averse
     when mgr suggested 10,000 fixed salary or 0-20,000 unfixed salary, 90% choose 10,000 fixed.
   - But company needs risk to achieve target
     \(\rightarrow\) company have to provide higher compensation
     \(\rightarrow\) even after they choose risk, mgr tries to minimize risk \(\rightarrow\) loose opportunity
employees whose result was distorted by uncontrollable influences are prone to develop excuse

2) Type of Uncontrollable Factors
   1) Economic and competitive factor – profit is affected by many thing like as consumer demand, price, cost
   2) Acts of nature – hurricane, earthquake, floods, …
   3) interdependence – sharing each other
      a. pooled interdependencies – firm’s entities use common resources
      b. sequential interdependencies – output is input of other entity
      c. reciprocal interdependencies – bidirectional sequential interdependencies

3) Controlling for the distorting effects of Uncontrollable
   1) Controlling before measurement
      - Insurance
      - Responsibility structure: Mgr pay attention to
        Do not holm employees accountable for too many things over which they have little influence
   2) Controlling after measurement
      - Variance analysis
        - to explain why actual manufacturing costs are different from standard
        - Two purpose: a. to segregate some uncontrollable factors from the controllable factors
          b. to isolate certain controllable performance factors from others

   - Flexible performance standards
     - to vary any of numbers of uncontrollable factors (sales, production, exchange rate, …)
     - when mgr are not confident about forecast, they engage in contingency, scenario, what-if.
       ➔ make various plan depends on uncontrollable situation
     - Limitation : some are hard to make as a plausible scenario
       should be updated more frequently
       cost too much

   - Relative performance evaluation (RPE)
     - evaluation is not in terms of absolute level
     - should be relatively evaluated with closest outside competitor

   - Subjective performance evaluation
     - Evaluate good or bad with explanation, not numbers only
     - Advantage: it can correct for flaw in the result measures
     -Disadvantage: a. Likely to be biased
       b. often provide inadequate or no feedback about how evaluated
       c. even though evaluation was fair, employees do not trust
       d. it can create an excuse culture
       e. expensive in management time

SECTION V CORPORATE GOVERNANCE

CHAPTER 13 CORPORATE GOVERNANCE AND BOARDS OF DIRECTORS
   - MCS focus the perspective of top management
   - CG control behavior of top management ➔ spread to whole employees

1) Sarbanes-Oxley ACT 2002
   - to improve [transparency, timeliness, Quality of financial reporting]
   - mainly to prevent financial fraud in the company

2) Board of Director
     b. Duty of loyalty – advance corporate over personal interest

Financial Dept  
CFO  
Treasurer  
Controller

- Board should own stock enough that if that lost it, it would be hurt  
  - directors’ ownership \ then financial statement fraud  
- Requirement for directors:  
  a. buy stock  
  b. talented  
  c. devote time: not “too busy so that have no time to serve”  
  d. independence: do not be played by CEO  

- effective board of directors is important  
- Main guide to follow:  
  a. comply relevant laws and regulation  
  b. believe to be “best practice”  

3) Audit committees  
- Provide independent oversight over companies’ financial reporting process, internal controls, independent audit  
- Non-employee audit committee: External auditors  
- Must establish procedure for receipt, retention, complaints regarding accounting  

4) Compensation Committees  
- deal with issues related to the compensation and benefits provided to employees, top management  
- some stock exchanges require listed companies to have compensation committees  

CHAPTER 14 CONTROLLERS AND AUDITORS  
- both of controller and auditor create tension, conflict  
- Management service – help line manager to make right decision  
- Oversight – ensuring that action of everyone in org are legal, ethical, in the best interest  

1) Controller  
- Usually Key members  
- play key role in design and operating MCS  
- must stay independent of their entity’s managers  
- fiduciary responsibility to ensure information from operating unit, internal control system are adequate  
- Limitation: Can they work both? (dog / police)  
  ( part of team / independent process )  
- How can controller work both effectively?  
  a. audit committees and internal auditor oversee controller function  
  b. bolster internal employee to report misstatement to their superior (internal accuser)  
  c. Designing incentive system that do not create temptation (Incentive is not related with result)  
  d. operate solid-line reporting (report to controller and line-manager)  

2) Auditor  
- Process Phases:  
  a. Planning phase – Developing an understanding of group  
  b. Audit Process – obtain, evaluate evidence objectively  
  c. Judgment – based on evidence, as to whether criteria have been met  
  d. Communicating – Conclude result to interested users  
- External Auditor:  
  - employed by professional service firm  
  - independent of management  
  - experienced and licensed by professional association  
- Internal Auditor – eye and ear of management  
- Common Types  
  a. Financial audit  
  b. Compliance audit: procedure, rule, law, policy  
  c. Performance audit: good performance ? quality, efficiency
- Value of audit:  
a. add credibility  
b. provide anticipation  
- factors make audit valuable:  
a. greater potential consequences  
b. other control mechanism are not feasible  
\[\Rightarrow\] but if assessment are not reliable, value of audit is low  
- Disadvantage:  
a. periodic basis – can’t do anything for event in the between period  
b. Job pressure or defensiveness can affect autonomy of audit and cause negative audit  
c. audits are costly

CHAPTER 15 MANAGEMENT CONTROL-RELATED ETHICAL ISSUES AND ANALYSES

- Ethic: Morally acceptable behavior
- why is ethic difficult?  
a. rational people act to maximize their own self-interest  
b. main purpose of for-profit org is to maximize shareholder value  
c. ethical behavior = value maximizing value

1) importance of good ethical analyses
- Unethical behavior is costly – society should create extra rule, standard
- Good ethic is a glue that holds organization and society
- Senior manager should serve as moral exemplar
- To control unethical behavior, manager should be well developed ethical reasoning skill
  - without solid foundation prepared in ethic? They will make mistakes
    a. they fail to recognize ethical issue when they arise
    - some untrained people think legal = ethical
    b. some untrained people try to make a simple rule
    - always tell the truth, do no harm  \[\Rightarrow\] barely work

2) Ethical Model
- Utilitarianism (공리주의) (Consequentialism)
  - rightness of actions is judged solely on the basis of their consequences  
  - accepted for long time  
  - Limitation: - Quantifying “good” is difficult (hard to measure)  
    - it is easy to sacrifice the welfare of few individual for good of larger number of people
- Rights and duties
  - Every individual has certain moral entitlement in virtue of their human being  
  - every right should be provided or at least not to interfere  
  - Limitation: - difficult to get agreement as to what rights should have  
    - rights can proliferate(확산)  \[\Rightarrow\] they can conflict  
    - smoker’s right to smoke? Or others right to be free of smoke?
- Justice/fairness
  - People should be treated same  
  - Most societies conclude that process, not necessarily outcome, should be fair  
  - Limitation: - people are different. Differences should be considered  
    - it is easy to ignore effect on both aggregate social welfare and specific individual  
(wealth for one group may harm another group)
- Virtue (善行)
  - intent to do what is ethically right without regard to self-interest  
  - integrity, loyalty, courage  
    - Loyalty: faithfulness  
    - Courage: strength to stand firm in the face of difficulty or pressure  
  - Limitation: - List of Potential virtue is long (generosity, grace, decency, commitment, frugality, …)  
    - \[\Rightarrow\] it is not obvious which set of virtues should be applied in any given setting  
  - virtues actually can impede ethical behavior

3) Analyzing ethical issues
- the decision making model where the ethics of an action is in question
  a. Clarify fact – what is known? Based on 5W1H  
  b. define the ethical issue – what stakeholders are harmed? Are there conflict?  
  c. specify the alternatives – list alternative course of action including compromises
d. compare values and alternatives – check if there is clear compelling decision
e. assess the consequences – short/long term positive/negative for major alternatives
f. make a decision – balance consequences against the primary ethical principles or values, choose best

4) Why do people behave unethically?
   a. some are basically dishonest – greed from the root
   b. moral disengagement – they ignore and their conscience does not stop
   c. develop rationalization – “this is for all of us” “everybody does it” “boss told me to do it”
   d. lack of moral courage – know it is wrong no strength to do right around

5) Common Management control-related ethical issues
   a. creating budget slack: make more easily achievable target
      - ethical? No:  - employees will get benefit personally
      - often costly to some stakeholders
      Yes:  - slack is not distortion
      - they are protecting themselves from downside potential future
   b. managing earning: data manipulation problem
      - unethical cuz:  - actions are not apparent to internal external users of financial statement
      - managers and accountants have a duty to disclose fairly presented information
      - people will consider that they are not honest, fair, truthful
      - reward earned from managing earning is not fair
   c. responding to flawed control indicator: targets and prescriptions are not defined properly
      - what should employees do if they know result measure are flawed?
   d. using “too good” indicator: monitoring employees telephone, camera recording in the office

6) Spreading good ethic within an organization
   - once good ethic established, communicate to the employees, and
   managers should take steps to ensure that employees following the rules

SECTION VI SIGNIFICANT SITUATIONAL INFLUENCES ON MCS

CHAPTER 16 ENVIRONMENTAL UNCERTAINTY, ORG STRATEGY, MULTINATIONAOL

- there is no universally best MCS
- Figuring their effect on MCS is difficult cuz:  a. many of factors are related
  b. many of factors interact

1) Environmental Uncertainty
   - Uncertainty makes decision difficult
cuz:  a. result control are not effective when employees do not understand how to generate desired result.
  b. result control are not effective till properly challenging performance targets are set
  c. Uncertainty combined with the use of result controls causes employees to bear business risk
  d. High uncertainty bring broad effects on organization structure, decision-making, communication plan
     ⇒ they tend to decentralize their operation ⇒ fast decision, specialized decision
   - Uncertainty affected organization to become:
      - less top-down monitoring
      - more teamwork
      - more coordination
      - less standard operating procedure
      - less rewards based on individual performance
2) Organizational Strategy
   - Types of Strategy:  a. Corporate Strategy (diversification)
   b. Business Strategy (competitive)

1) Corporate Strategy
   - determine how resources should be allocated among the businesses
   - do not stray far from their core business activity
   - consider transfer pricing problem

2) Business Strategy
   a. cost leadership – standardized, undifferentiated product, cost reduction
   b. differentiation – product that customer perceive as uniquely differentiated from competitors’
      - focus on innovation, functionality, quality, brand image, customization, customer service

3) Multinationality: Multinational organization
   - MNO is difficult than domestic org. they face multidimensional problem
     (culture, geographical, …)
   - if MCS adaptation is done improperly, organization may suffer
     - cur it induce employee behavior that are contrary to target
   - National cultures: behavioral similarities and differences across countries
   - Local institutions
   - Differences in Local business environments
     - risk and uncertainty
     - inflation
     - personnel availability, quality, and mobility
   - Foreign currency translation

CHAPTER 17 MANAGEMENT CONTROL IN NONPROFIT ORGANIZATIONS

1) Differences between for-profit and nonprofit organization
   - MISSION and GOAL different
   - NPO operate small shops to make revenues
   - but money is only a constraint

2) Goal ambiguity and conflict
   - Goal clarity: doesn’t exist in many NPO: many stakeholders have different thinking
     - Conflict: NPO are directed from sources including legislative, judicial, government, policy, …

3) Difficulty in measuring performance
   - in case of For-profit-organization, they can use various measurements
   - can’t use profit measurement for. Then how can we measure their success?

4) Accounting differences

5) External scrutiny

6) Legal constraints

7) Employee characteristics

8) Service provided

Case seminar area are important

Difference between eva roi

Definition relation between frames

Maximum 1 page for each question

transparent, short
4 types of responsibility

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