

Performance Measurement and Incentives

winter term 2022/23 (Wednesdays: 10 a.m.-2 p.m., room 010, Thielallee 73)

ECTS credits: 6

Purpose and content of the Course:

This course aims at equipping master students (you) with the necessary background to critically assess different problems of the measurement of value creation in firms. These skills will help you to decide, when and which instruments of performance measurements are useful and when they are not. Measurement is crucial for value creation and thus, for the firm's success. The class starts with insights from both capital market theory and principal-agent theory and then introduces modern performance measurement systems and management incentive systems such as residual income, Economic Value Added, Cash Value Added, and bonus banks. This course is rather theory-based. The course also discusses empirical evidence.

Course prerequisites:

There are no formal prerequisites because it is a compulsory class in the first semester. However, students with a sound microeconomic or game-theoretic background will have an advantage.

Overview examinations: Written examination (100%). Attendance is compulsory. There is an option for up to four groups of two students to present results on performance measures and management compensation in European listed firms of a certain industry. The presentation is 15 minutes and an additional follow-up discussion on the presentation. The presentation slots will be distributed in the first class. In case of excess demand, there will be a lottery. The contents of the presentations and discussions are relevant for the exam. The grade on the presentation/discussion performance will account for 30% of the overall grade given that it is better than the grade in the exam. Otherwise, the exam grade counts 100%.

Competencies developed:

You will learn which factors determine whether a performance measure is useful or not. This will help you in managerial decision-making. You will learn about modern performance measures and when and why they might be more useful than traditional performance measures such as return on assets or return on equity.

Course literature:

The relevant course material will be distributed via Blackboard: lecture notes, exercises, and other readings (case studies, etc.).

Course organization:

The class is taught in English. The class consists of lecture parts and tutorials (with exercises) both of which are offered by Florian Dreyer. The following table provides a more detailed overview.

	Subject	Lecture notes
Introduction		
Oct 19	Introduction	Chapter 1
Perfect performance measurement		
Oct 19	The NPV rule and CAPM (Exercises 1, 2)	Chapter 2.1 – 2.2
Oct 26	Corporate finance and management accounting (Exercises 3, 4)	Chapter 2.3 – 2.4
Nov 2	Performance Measures: an overview (Exercise 5)	Slides only
Results from principal-agent theory		
Nov 9	Direct and indirect performance measurement (Exercises 6, 7)	Chapter 3.1 – 3.2
Nov 16	Multiple performance measurement, Trust (Exercises 8, 9)	Chapter 3.3 – 3.5
Financial performance measures		
Nov 23, Dec 30	Short-term performance measurement (Exercises 10, 11)	Chapter 4.1 – 4.2
Dec 7	EVA, CVA etc. and Long-term performance measurement (Exercises 14, 15)	4.4 – 4.5
Presentations and Exam preparation		
Dec 14	Presentations	
Dec 14	Exam preparation	
Exam: Dec 15, 10 a.m.-12 p.m. in K005		