



School of Business & Economics  
Assistant Professor for Management  
and Financial Accounting

Prof. Dr. Aline Grahn

## **Performance Measurement and Incentives (Leistungsmessung und Managementanreize)**

winter term 2024/25 (Thursdays: 2 p.m.-7 p.m., room 108, Garystrasse 21)

**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, bonus banks and the balanced scorecard. 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. The course is a pre-requisite for the seminar in "Controlling".

**Overview examinations:** Written examination (100%).

There is also an option for up to three 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, the follow-up discussion on the presentation another 15 minutes. 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.



School of Business & Economics  
**Assistant Professor for Management  
 and Financial Accounting**

**Course literature:**

The relevant course material will be distributed via Blackboard: lecture notes, exercises, 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 Prof. Grahn. The following table provides a more detailed overview.

	Subject	Lecture notes
<b>Introduction</b>		
Oct 17	Introduction	Chapter 1
<b>Perfect performance measurement</b>		
Oct 17	The NPV rule and CAPM	Chapter 2.1 – 2.2
Oct 24	<a href="#">Exercises 1, 2, 3, 4</a>	
Oct 31	Performance Measures: An Overview ( <a href="#">Exercise 5</a> )	Chapter 2.3 – 2.4; Slides
<b>Results from principal-agent theory</b>		
Nov 7 / Nov 14	Direct and indirect performance measurement ( <a href="#">Exercise 6</a> )	Chapter 3.1 – 3.2
Nov 21 / Nov 28	Multiple performance measures, unknown disutility, Trust ( <a href="#">Exercise 7, 8, 9</a> )	Chapter 3.3 – 3.5
<b>Financial performance measures and Balanced Scorecard</b>		
Nov 28 / Dec 5	Short-term performance measurement and managerial myopia ( <a href="#">Exercises 10, 11, 13</a> )	Chapter 4.1 – 4.2
Dec 5	Long-term performance measurement and Balanced Scorecard ( <a href="#">Exercise 14</a> )	Chapter 4.4 - 4.5
<b>Presentations and Exam Preparation</b>		
Dec 12	Presentations	
Dec 12	Exam Preparation	
<b>Exam: Dec 19, 2 p.m. -3.30 p.m.</b>		
Exam review (probably): January 13, 2025, 11 a.m. – 2 p.m.		
Exam, re-take (probably): April 8-11, 2025		