



Spring Term 2014 (FS 2014)

Empirical Research in Managerial Accounting and Performance Measurement

Course schedule and reading list

1) Session and exercise schedule

Session	Day	Time	Room
1	Monday, 02.06.2014	10.30 - 12.00	PLM F 103/104
2	Monday, 02.06.2014	13.30 - 15.00	PLM F 103/104
Exercises	Monday, 02.06.2014	15.30 - 17.00	PLM F 103/104
3	Tuesday, 03.06.2014	10.30 - 12.00	PLM F 103/104
4	Tuesday, 03.06.2014	13.30 - 15.30	PLM F 103/104
Research Seminar Prof. Ittner	Tuesday, 03.06.2014	16.00 - 17.30	PLM F 103/104
5	Wednesday, 04.06.2014	10.30 - 12.00	KOL-G-220
6	Wednesday, 04.06.2014	13.30 - 15.00	KOL-G-220
Exercises	Wednesday, 04.06.2014	15.30 - 17.00	KOL-G-220

On Tuesday, 03.06.2014, 16.00-17.30 Prof. Ittner will present his latest research paper in the IBW's Research Seminar in Accounting, Auditing & Governance (AAG) (see www.business.uzh.ch/professorships/managerialaccounting/lehre/aag.html), the seminar talk is considered as a part of the doctoral seminar.

2) Seminar content

Course Objectives:

The objective of the course is to develop your ability to critically evaluate and conduct archival and survey-based empirical research on performance measurement and compensation issues. In particular, you should get (1) an appreciation for important contemporary research topics in these areas, (2) an understanding of the strengths and weaknesses of common research designs, and (3) the necessary skills to design and conduct empirical research on performance measurement and compensation topics.

Conduct of Course:

For the most part, the course will be conducted using a seminar format. Therefore, you are expected to take an active part in discussing and evaluating the readings assigned for each course session. In general, the class discussions will be centered





around three papers per session. You are expected to be familiar with the required readings.

For each paper, one or more discussion leaders will be assigned to prepare a two-page summary of the paper before the course starts (in English). In addition, your task as a discussion leader consists of briefly summarizing the paper, highlighting the contribution, and pointing out/discussing some critical research design choices. This should take no more than 15 minutes.

On top of the required readings, additional reading material for each class are identified. This is just a small selection of papers that are important or closely related to the topic of the session. We will not have the time to cover those papers in detail, but you are expected to skim the content of the papers to get a basic sense for the results and the research approach. This will help you to put the main readings into a broader context, and also serves as a good starting point to probe further into any of the areas covered.

Course Requirements:

In preparation of the course:

- Read the following papers to provide background for the course:

Indjejikian, R. (1999), "Performance Evaluation and Compensation Research: An Agency Perspective", *Accounting Horizons* (June): 147-157.

Ittner, C.D. and Larcker, D.F. (2001), "Assessing Empirical Research In Managerial Accounting: A Value-Based Management Perspective", *Journal of Accounting and Economics*: 349-410.

- Carefully work through the required readings with a focus on the research question, the contribution to the literature and the research design.
- Skim the additional readings to get a basic sense for the research question.
- Prepare a two-page summary of the assigned paper to be distributed before class.

During the course:

- Lead the class discussion of the assigned paper.
- Contribute to class discussions when you are not the leader.
- Working in small groups (to be selected the first day of class), prepare a short presentation that discusses a set of hypotheses and research design for a research topic of your choice related to performance measurement and compensation. The presentation should cover your research question and motivation, hypotheses, and research design. Each team will briefly discuss their research design on Wednesday, 04.06.2014.



After completion of the course:

- Write a journal-style referee report together with a letter to the editor. The paper to be reviewed will be distributed during the last session. You have one week to complete this task.

Session 1: The Choice of Performance Measures

Required Readings

Bushman, R.M., Indjejikian, R.J. and Smith, A. (1995), "Aggregate Performance Measures in Business Unit Manager Compensation: The Role of Intrafirm Interdependencies", *Journal of Accounting Research*, Vol. 33 Supplement, pp. 101-128.

Moers, F. (2006), "Performance Measure Properties and Delegation," *The Accounting Review*, 897-924.

Bouwens, J. and L. van Lent, (2007), "Assessing the Performance of Business Unit Managers", *Journal of Accounting Research*, 667–697.

Additional Readings

Abernethy, M.A., Bouwens, J. and Van Lent, L. (2004), "Determinants of Control System Design in Divisionalized Firms", *The Accounting Review*, pp. 545-570.

Matejka, M., Merchant, K. and Van der Stede, W. (2009), "Employment Horizon and the Choice of Performance Measures: Empirical Evidence from Annual Bonus Plans for Loss-Making Firms", *Management Science* 55: 890-905.

Ittner, C., Lacker, D. and Rajan, M. (1997), "The Choice of Performance Measures in Annual Bonus Contracts", *The Accounting Review* 72 (April 1997), 231-55.

Session 2: Target Setting

Required Readings

Bouwens, J. and P. Kroos. (2011). "Target Ratcheting and Effort Reduction," *Journal of Accounting and Economics* 51: 171-185.

Carter, M.E., Ittner, C. and Zechman, S. (2010), "Explicit Relative Performance Evaluation in Performance-Vested Equity Grants," *Review of Accounting Studies* 14: 269-306.

Kim, D. And J. Yang (2010), „Beating the Target: A Closer Look at Annual Incentive Plans“, Working paper, Indiana University.



Additional Readings

Merchant, K. and Manzoni, J.F. (1989) "The Achievability of Budget Targets in Profit Centers: A Field Study", *The Accounting Review*, 539-558

Bol, J., Keune, T., Matsumara, E. and Shin, J. (2010). "Supervisor Discretion in Target Setting: An Empirical Investigation", *The Accounting Review* 85: 1861-1886.

Dekker, H., Groot, T., and Schoute, M (2012). „Determining Performance Targets.“ *Behavioral Research in Accounting*: Fall, Vol. 24, No. 2, pp. 21-46.

Session 3: The Use of Subjectivity in Performance Evaluation

Required Readings

Höppe, F. and Moers, F. (2011) „The Choice of Different Types of Subjectivity in CEO Annual Bonus Contracts.“ *The Accounting Review*: November 2011, Vol. 86, No. 6, pp. 2023-2046.

Woods, A. (2013). "Subjective Adjustments to Objective Performance Measures: The Influence of Prior Performance," *Accounting, Organizations and Society*, Volume 37, Issue 6, pp. 403-425.

Gibbs, M., Merchant, K.A. and Van der Stede, W., and Vargas, M.E. (2004). "Determinants and Effects of Subjectivity in Incentives". *The Accounting Review*, 79 (2), 409-436.

Additional Readings

Govindarajan, V. and Gupta, A.K. (1985), "Linking Control Systems to Business Unit Strategy: Impact on Performance", *Accounting, Organizations and Society*, 10(1), pp. 51-66.

Session 4: The Implications of Subjectivity in Performance Evaluation

Required Readings

Ittner, C., Meyer, M. and Larcker, D. (2003), "Subjectivity and the Weighting of Performance Measures: Evidence from a Balanced Scorecard", *The Accounting Review*, July 2003, Vol. 78, No. 3, pp. 725-758

Moers, F. (2005), "Discretion and bias in performance evaluation: the impact of diversity and subjectivity," *Accounting, Organizations and Society*, Volume 30, Issue 1, Pages 67-80

Bol, J. (2011), „The Determinants and Performance Effects of Managers' Performance Evaluation Biases.“ *The Accounting Review*, Vol. 86, No. 5, pp. 1549-1575.



Additional Readings

Ahn, T., Hwang, I., and Kim, M. (2010). "The Impact of Performance Measure Discriminability on Ratee Incentives", *The Accounting Review* 85: 389-417.

Session 5: Alternative Compensation Objectives

Required Readings

Campbell, D. (2008), "Nonfinancial Performance Measures and Promotion-Based Incentives", *Journal of Accounting Research*, 297–332.

Vance, M (2014), "Deferred Compensation Plan Characteristics and Voluntary Employee Turnover," Working paper, University of Southern California.

Ittner, C. and D. Larcker. (2002), "Determinants of Performance Measure Choices in Worker Incentive Plans," *Journal of Labor Economics* 20, No. S2, pp. S58-S90.

Additional Readings

Westphal, J. and Zajac, E. (1994). "Substance and Symbolism in CEOs' Long-term Incentive Plans", *Administrative Science Quarterly* 39: 367-390.

Session 6: Conducting Performance Tests

Required Readings

Griffith, R. and Neely, A. (2009). "Performance Pay and Managerial Experience in Multitask Teams: Evidence From Within a Firm". *Journal of Labor Economics* 27: 49-82.

Pizzini, M. (2006), "The Relation Between Cost-system Design, Managers' Evaluations of the Relevance and Usefulness of Cost Data, and Financial Performance: An Empirical Study of US Hospitals", *Accounting, Organizations and Society*, pp. 179-210.

Hanlon, M., S. Rajgopal, and T. Shevlin, (2003), "Are Executive Stock Options Associated with Future Earnings?," *Journal of Accounting and Economics*, 3-43. (Also, D. Larcker's discussion of this paper, *Journal of Accounting and Economics*, December 2003, 91-103).

Additional Readings



Ittner, C., Larcker, D., and Randall, T. (2003), "Performance implications of strategic performance measurement in financial services firms," *Accounting, Organizations and Society*, Volume 28, Issues 7–8, Pages 715-741.