

MANAGEMENT CONTROL

PART 1: MANAGEMENT CONTROL AND MANAGEMENT CONTROL SYSTEMS

CHAPTER 1: INTRODUCTION TO MANAGEMENT CONTROL

MANAGEMENT CONTROL (WHAT)

"The systematic process by which the organization's higher-level managers influence the lower-level managers to implement the strategies."

NEED FOR CONTROL (WHY)

DECENTRALISATIE → Geeft beslissingsbevoegdheid aan lower-level managers (opvolging nodig)

Need for control	Top-down function of MGS	Bottom-up function of MGS
Managers do not automatically understand the goals and strategies ¹ or how they can attribute to these goals and strategies	Explain strategies and goals in as operational a way as possible	Report on goal achievement
Managers do not automatically agree with goals and strategies	Motivate lower-level managers to strive for goals	Facilitate higher-level managers to benefit from the specialized skills and knowledge of lower-level managers
Managers do not automatically have the resources needed to act with the goals and strategies	Resource allocation (budgeting), develop personal skills of lower-level managers	Enable lower-level management to acquire support and resources (participatief budgeteren)

FIRM SIZE (WAAROM GROTE BEDRIJVEN MEER NOOD HEBBEN AAN MGS)

- Kleine organisaties → veel directe communicatie → kan al veel doen zonder MGS
- MGS wordt ingewikkelder naarmate de organisatie groter wordt

MANAGEMENT AND CONTROL

Management control can be understood as a part of the overall managerial function

→ Overall managerial function - 5 STAPPEN:

1. Planning (investeringsbeslissingen)
2. Organizing (juist resources op planning plakken)
3. Staffing (juiste mensen op juiste plaats)
4. Leading (inspireren en motiveren)
5. Controlling (planning gerealiseerd?)

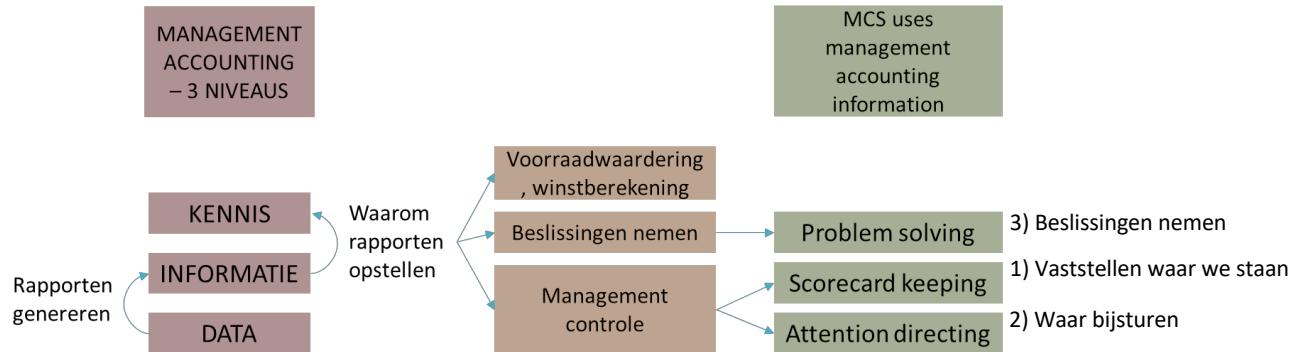
¹ Goals and strategies: developed by higher-level managers → doelstellingen (goals) en keuzes die je maakt om doelstellingen te realiseren (strategie)

➔ Meer dan het individuele:

- Geïntegreerde view over organisatie
- Coördinatie van verschillende hiërarchische niveaus
- tools

ACCOUNTING AND CONTROL

Management control uses management accounting information:



Reasons for a strong connection between management accounting and management control:

- importance of money as the overall measure of organization performance
- general importance of the overall accounting system to satisfy the information needs of the stakeholders

HUMAN BEHAVIOR

Management controle dient om het gewenste gedrag (→ doelcongruentie) uit te lokken bij gedecentraliseerde managers

What motivates managers (3 dimensies):

- **goals** may have positive effect on effort when:
 - goals are clear and directional
 - goals are not too distant
 - achievement is valued positively
 - attention points:
 - goals should be aligned with strategy
 - (multiple) goals reduce clarity and direction
 - Goals may be seen as threat
- **rewards** they get from their efforts
 - variation in their dependence on output
 - controlled by labor laws
 - variety across firms and functions
 - attention points:
 - rewards should not be seen as fixed salary (seen as exceptional performance)

- rewards may enhance internal competition
 - performance and rewards should ideally be matched in time
- the **social context** in which they work
 - external factors: work ethics
 - internal factors: organizational culture, management style, tone-at-the-top
 - attention points:
 - culture explains control difference
 - culture explains that organizations are not easily changed
 - culture can also be used as a control

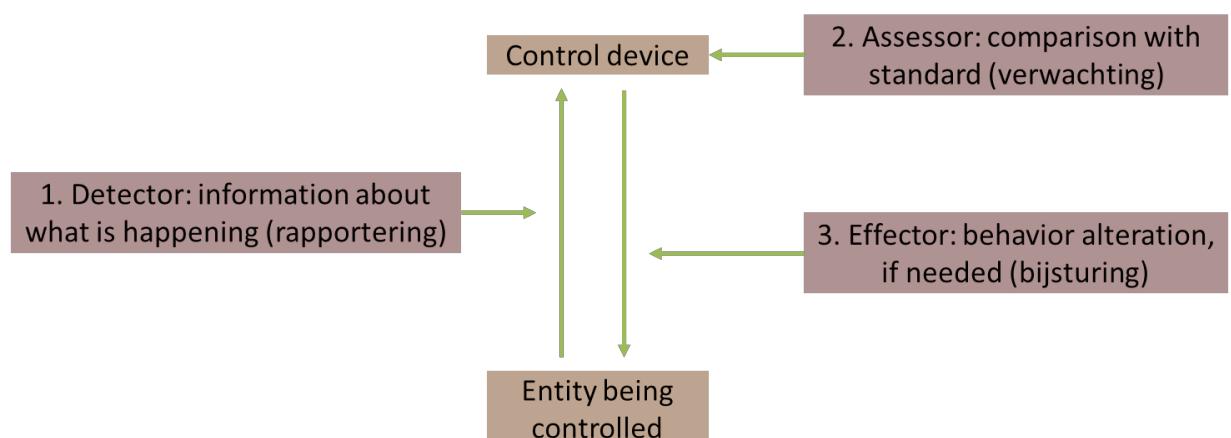
CHAPTER 2: DESIGNING MANAGEMENT CONTROL SYSTEMS

OBJECTS OF CONTROL

→ cascade van te controleren objecten



ELEMENTS OF CONTROL



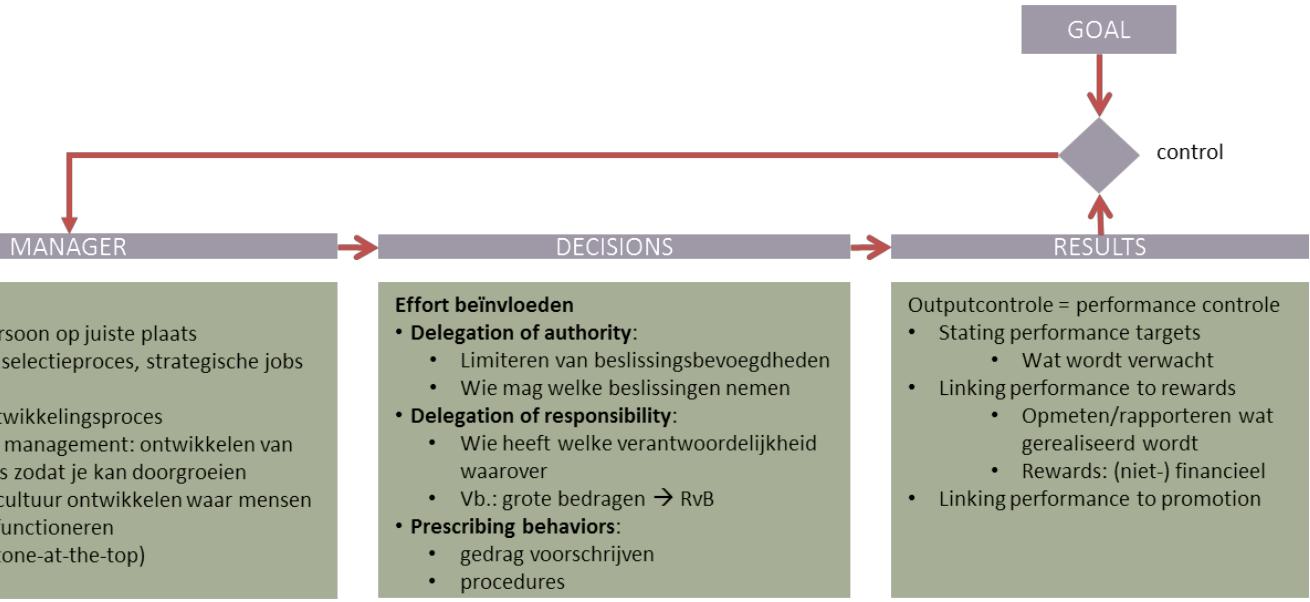
Vb.: temperatuur in huis, snelheid in auto

→ Verschillen met management controle:

- Standaard definiëren → als gevolg van planningsproces

- Assessor → subjectief (niet automatisch)
- Enorme interactie met stukken van dezelfde organisatie
 - Optimalisatie van volledige organisatie
- Behavior alteration → wat moet je doen om gedrag te verbeteren? (niet simpel)
- Self-control nodig → er wordt verwacht dat je zelf weet in welke richting je jezelf moet bijsturen (vb.: je kent de bedrijfscultuur)

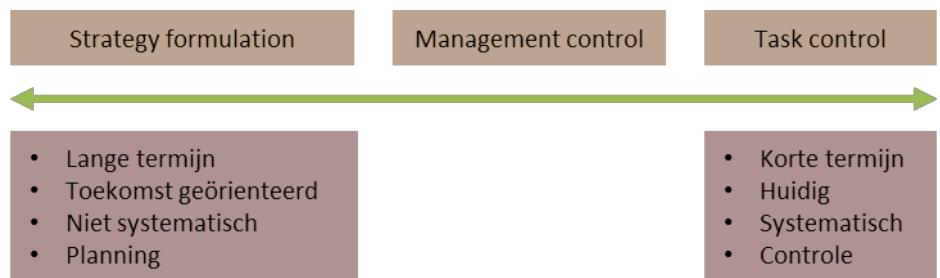
CONTROL MODEL



STRATEGY, MANAGEMENT CONTROL AND TASK CONTROL

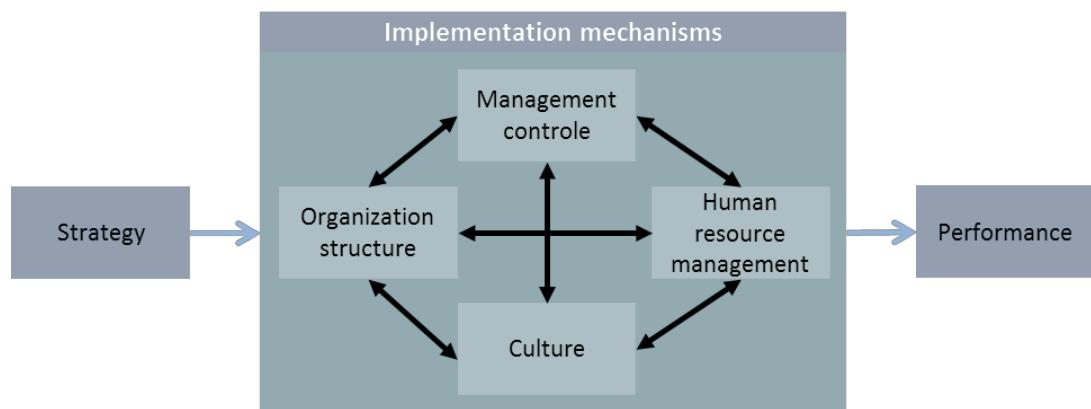
- Management control activities
 - Planning what the organization should do
 - Coordinating the activities of several parts of the organization
 - Communicating information
 - Evaluating information
 - Deciding what, if any, action should be taken
 - Influencing people to change their behavior
- Planning and control functions
 - Strategy formulation → Goals, strategies and policies
 - Management control → implementation of strategies
 - Task control → efficient and effective performance of individual tasks

- Vb.: voorraadmodel, operationeel activity based management



FRAMEWORK FOR STRATEGY IMPLEMENTATION

- ⇒ **Strategie** leidt tot **performance**, maar enkel als strategie goed **geïmplementeerd** is.
- “We hebben onze doelen bereikt”



PART 2: THE ENVIRONMENT AND STRATEGY OF ORGANIZATIONS

CHAPTER 3: ORGANIZATIONS AND THEIR ENVIRONMENT

SHAREHOLDERS AND STAKEHOLDERS

- **The shareholder view**

- The owners have the legal power to close down the company
 - The main objective of a company is to give return on the owners' investments
 - The main concern for managers and the management control is creating value for the owners
- ➔ Alles in functie van SH value ➔ management moet deze waarde creëren
- ➔ Dominating in Anglo-Saxon countries like the UK and the US

- **The stakeholder² view**

- A company has a number of equally important objectives
 - Shareholder value is niet het engste doel
 - Input from all the most important stakeholders are crucial for the company's survival
 - A main concern for management is balancing the demands from the stakeholders
- ➔ Traditionally dominating in Continental Europe like Germany and Japan

- **Comparison of different views:**

	Short-term shareholder view	Long-term shareholder view	Stakeholder view
For whom does the organization exist?	The present owners	The present and <u>future</u> owners	All stakeholders
Time horizon	Short	Long	Long
Main goal	Short-term profitability	Long-term profitability	<u>Survival</u>
Performance measures	Mainly financial	Financial and non-financial	Financial ³ and <u>non-financial</u>
Importance of shareholders	Very high (present)	High (all)	High (all)
Importance of other stakeholders	Rather low	Rather high	High
Examples	Venture capitalists	Familiebedrijven	Non-profits

GOALS OF THE ORGANIZATION

- Owners
 - High profitability and low risks
- Customers
 - E.g.: market share, customer satisfaction, market image

² Stakeholder: individuals and groups of individuals that both contribute to and benefit from the organization

³ Financial measures enkel ter ondersteuning van 'survival' en missie

- Employees
 - E.g.: employee satisfaction and competence
 - Suppliers
 - E.g.: price, quality, timely deliveries, good relationships
 - Lenders
 - E.g.: solvency, liquidity, good relationships
 - Society
 - E.g.: law-abiding, good ethics
-

TWO MAJOR TRENDS

- **Financial capitalism**
 - Markt meer en meer gekenmerkt door een aantal grote spelers
 - Vb.: pension funds → kijken enkel naar return
 - Venture capitalists, private equity (en aantal andere spelers)
 - Veel meer actieve spelers → nabij betrokken in organisatie
- **Corporate governance**
 - Financial capitalism, financial crises and accounting scandals
 - An increased interest from the owners in the running of the companies
 - Increased internal control
 - Means of corporate governance:
 - Samenstelling RvB: onafhankelijkheid, auditcomité, renumeratiecomité, strategisch comité, verhouding voorzitter en CEO
 - Financiële rapportering: hoe vaak rapporteren naar buitenwereld?
 - Auditing en interne controle
 - Incentive programs: belang van management linken met shareholder value
 - Investor meetings
 - Media
 - Effects: better-run companies or even more short-term behavior?
- **Corporate social responsibility (CSR)**
 - A reaction to the shareholder-value trend
 - Triggered by a number of events:
 - Accounting scandals
 - Anti-globalization demonstrations
 - Triggered media and NGO's
 - Means of CSR
 - Code of conduct (ethische codes)
 - Sustainability reporting:
 - 'integrated reporting: over meer dan enkel financiële cijfers rapporteren (vb.: 3P's – Profit, people, planet)
 - Internal reporting channels (om reputatieproblemen te vermijden)
 - Culture and values
 - Personal example

- Storytelling
- Training
- Intranet

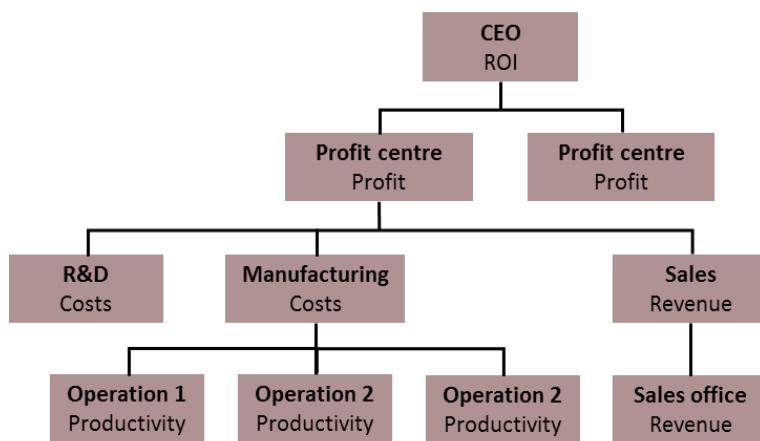
THE ENVIRONMENT OF THE ORGANIZATION

- **The contingency theory:**
 - Fit → leads to performance
 - Misfit → leads to bad performance

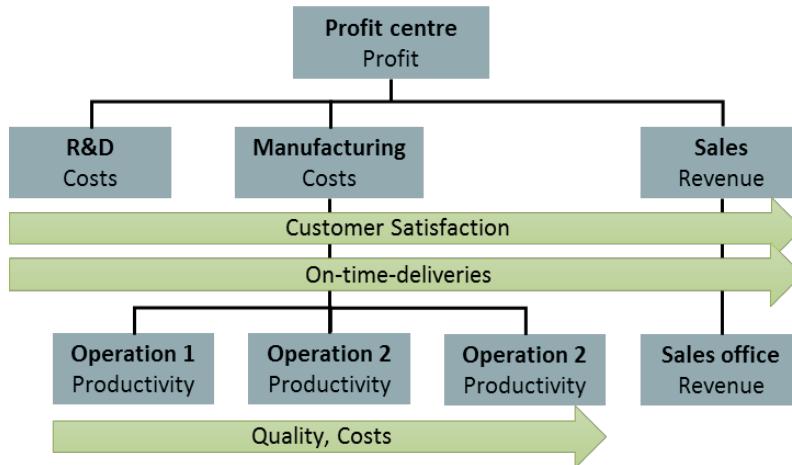
➔ Both environment and strategy need to have a **fit** with the management control system
- **MODEL 1: Dynamics, certainty and complexity – Stability**

Mechanistic management system	Organic management system
In stable situations	In changing situations
<ul style="list-style-type: none"> - Specialization through the breaking down of tasks - Definition of tasks by superior - Well-defined responsibility - Hierarchic structure of control - Vertical, hierarchical communication consisting of instructions and decisions - Loyalty and obedience - Internal knowledge and skills 	<ul style="list-style-type: none"> - Cooperation through contribution to the common task - Continual redefinition of tasks through interaction with others - Commitment beyond definition - Network structure of control - Horizontal communication consisting of information and advice - Commitment to the common task - Knowledge about the external environment

- Performance measures in a mechanistic organization:



- Performance measures in an organic organization:



- **MODEL 2: Nationale cultuur (Hofstede)**

- 4 Dimensies:
 - Individualisme vs. collectivisme (e.g.: individual rewards are preferred in individualistic countries)
 - Risk avoidance (e.g.: Subjective evaluations are not preferred in countries with high aversion towards uncertainty)
 - Masculisme vs. feminism
 - Power distance: centraal of gedecentraliseerd → verdeling van macht (e.g.: decentralization is preferred in more equal countries)

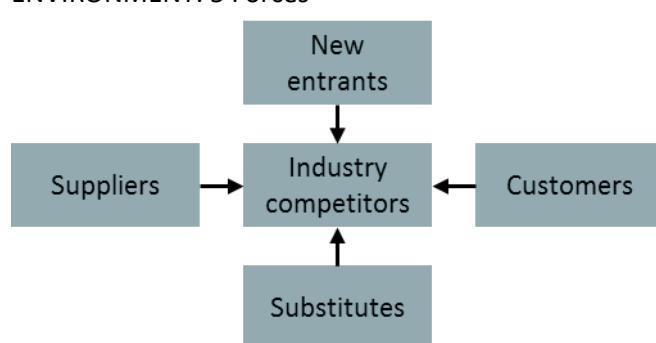
CHAPTER 4: STRATEGY AND MANAGEMENT CONTROL

STRATEGY FROM DIFFERENT PERSPECTIVES

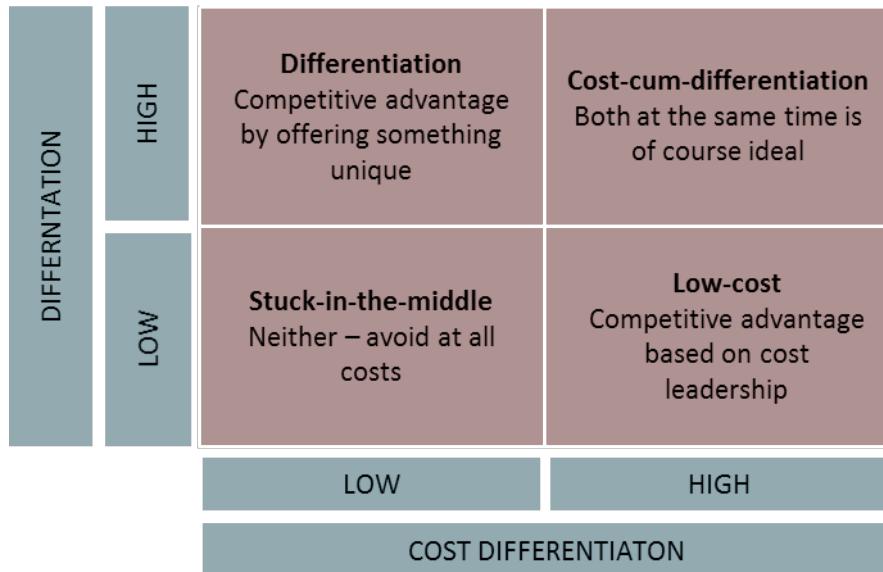
- **Deliberate strategies**
 - The design perspective (Chandler)
 - Strategy is defined to fit environment and capabilities
 - E.g.: SWOT, budgeting ...
 - The strategic planning perspective (Ansof)
 - Similar to above but even more formalized → verdere operationalisering
 - E.g.: Checklists, methods, procedures ...
 - The positioning perspective (Porter)
 - Choose a generic strategy (Low-cost or differentiation that fits the market structure (the 5 forces))
- **Emerging strategies**
 - Strategies may be very cleverly designed, but still be difficult to implement or not work very well in practice
 - change onderschat, te weinig communicatie, niet juiste mensen ...
 - Instead, strategies emerge out of how problems are dealt with in practice
 - bottom-up
 - Managementcontrolesysteem veel belangrijker en flexibeler in emerging strategies

STRATEGIC FRAMEWORKS

- **Corporate strategy**
 - Single industry
 - specialiseren in 1 industrie
 - E.g.: Coca-Cola, Volkswagen
 - Related diversification
 - in verschillende sectoren aanwezig met gemeenschappelijke sterkte zoals bvb.: R&D, distributiekanaal ...
 - E.g.: Apple, Proctor&Gamble
 - Unrelated diversification
 - in verschillende sectoren actief zonder gemeenschappelijke sterktes
→ holding
 - E.g.: Virgin, Yamaha
- **Business unit strategy**
 - Mc Kinsey model: 4 strategien
 - BUILD = investeren → verwachting: groei in sales en marktaandeel
 - HOLD = behouden in huidige toestand → verwachting: geen grote groei, maar genereren wel nog cash
 - HARVEST = cash cows → moeten voldoende cash genereren om te kunnen investeren in 'build' units (zullen geen investeringen krijgen)
 - DIVEST = verkopen om zo cash te genereren
- **Prospector vs. defender strategy (Miles & Snow)**
 - DEFENDER: stick to 1 market where you have very good knowledge
 - Organische groei binnen markt, productief en agressief
 - PROSPECTOR: continually looking for new business opportunities
 - Nieuwe opportuniteiten, leiders in veranderingstraject, creativiteit en innovatie, mens centraal
 - ANALYZER: combination of defender (in stabiele markten) and prospector 'in sterk veranderende markten')
 - REACTOR: do not change until they are forced to
- **Differentiation vs. low-cost strategy (Michael Porter)**
 - ENVIRONMENT: 5 Forces

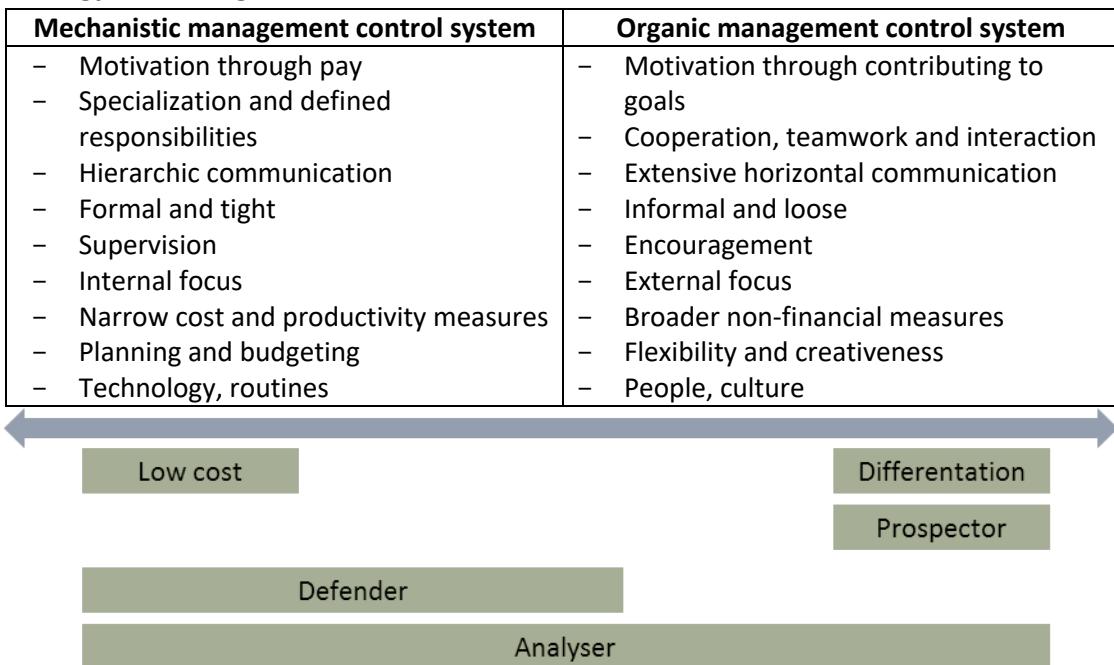


- STRATEGY: differentiation and low-cost strategies



STRATEGY AND MANAGEMENT CONTROL SYSTEMS

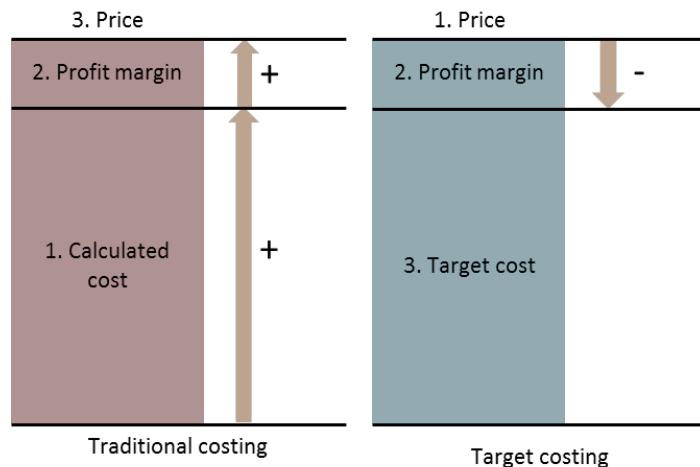
- Strategy and management control fit



LOW COST	DIFFERENTIATION
<ul style="list-style-type: none"> - Tight cost control - Frequent detailed reports - Clear structure of responsibilities - Quantitative targets on incentives 	<ul style="list-style-type: none"> - Design, customer experience - More coordination between functions - Subjectivity in incentives and KPI's - Greater emphasis on attracting qualitative people with creativity
TRADITIONEEL MODEL – DEFENDER	HUMAN RESOURCE MODEL – PROSPECTOR
<ul style="list-style-type: none"> - People work for money - Managers: supervise, control and distribute tasks 	<ul style="list-style-type: none"> - People are motivated because they contribute to goal setting - Self-control

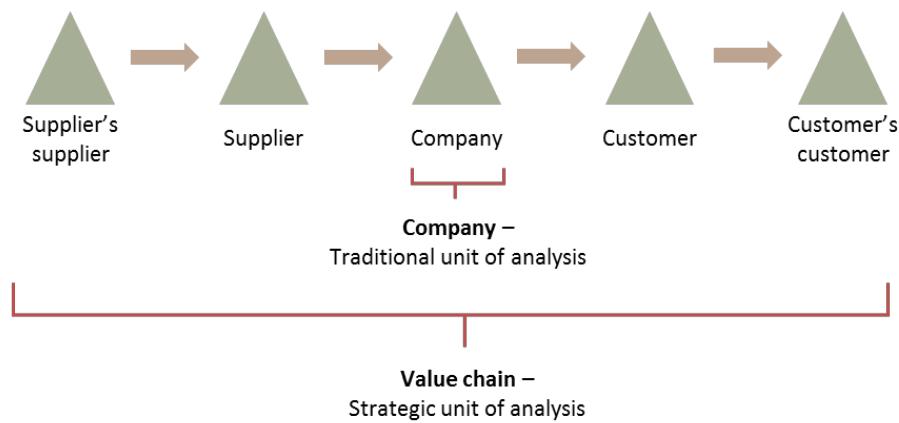
- **Strategic management accounting**

- Target costing: basic logic



- Value chain analysis

→ Company or value chain as unit of analysis



- Balanced scorecard

PART 3: MANAGEMENT CONTROL AND THE ORGANIZATION'S INTERNAL STRUCTURE

CHAPTER 5: DECENTRALIZATION, CONTROL, INCENTIVES

DECENTRALIZATION

- **Decentralization:**
 - Delegation of decision-making authority to lower levels in organization (decision rights)
 - Provision of sufficient material and formal resources to execute that authority (resource allocation)
 - Assignment of accountability and responsibility for the quality of decision making
- **Management control**
 - Formal management control
 - Designing the organization and choosing the form of decentralization
 - Executing management control by applying formal rules
 - Formal planning and control cycle
 - Informal management control
- **Advantages:**
 - Improvement of quality of decision making of higher-level and lower-level managers
 - Lower-level managers hebben meer info over lokale mark ten kunnen dus beter beslissingen nemen daarover
 - Increased economies of scale and specialization
 - Management development (managers van de toekomst opleiden)
- **Disadvantages:**
 - Managers kennen strategie en hun bijdrage daarin niet
 - Managers gaan niet automatisch akkoord met strategie
 - Managers hebben niet altijd juiste resources

➔ Potentieel conflict
➔ Nood aan management controlesysteem (trade-off want kost veel)

TYPES

- **Functional organization**
 - Each manager is responsible for a specified function such as production or marketing
 - PRO'S:
 - Kostenstructuur → schaalvoordelen
 - Specialisatie van functies
 - CONS:
 - Potentiële conflicten moeten geëscaleerd worden naar de top
 - Moeilijk om bijdrage van elk departement te meten
 - Silo denken

- **Business unit organization**
 - Business unit managers are responsible for most of the activities of their particular unit, and the business unit functions as a semi-independent part of the company
 - PRO'S:
 - Wendbaar: units zijn losstaande bedrijfjes die flexibeler kunnen omgaan met verandering → entrepreneurship
 - Bijdrage is meetbaar
 - Dichter bij markt
 - CONS:
 - Niet optimale efficiëntie: dupliveren van (ondersteunende) functies
 - Concurrentie tussen units
 - Minder specialisatie, minder schaal
 - Discussie:
 - Moet HQ beperkingen opleggen? → ethisch, budgetten, sector ...
 - Wat moet er wel nog centraal gebeuren? → In welke mate 'shared services': HR, legal, PR , investor relations ...
- **Matrix organization**
 - In which managers of functional units have dual responsibilities
 - PRO'S:
 - Veel integratie → competenties samenbrengen
 - CONS:
 - Wie is verantwoordelijk waarvoor?
 - Meetbaarheid van de bijdrage

MANAGEMENT CONTROL OVERVIEW

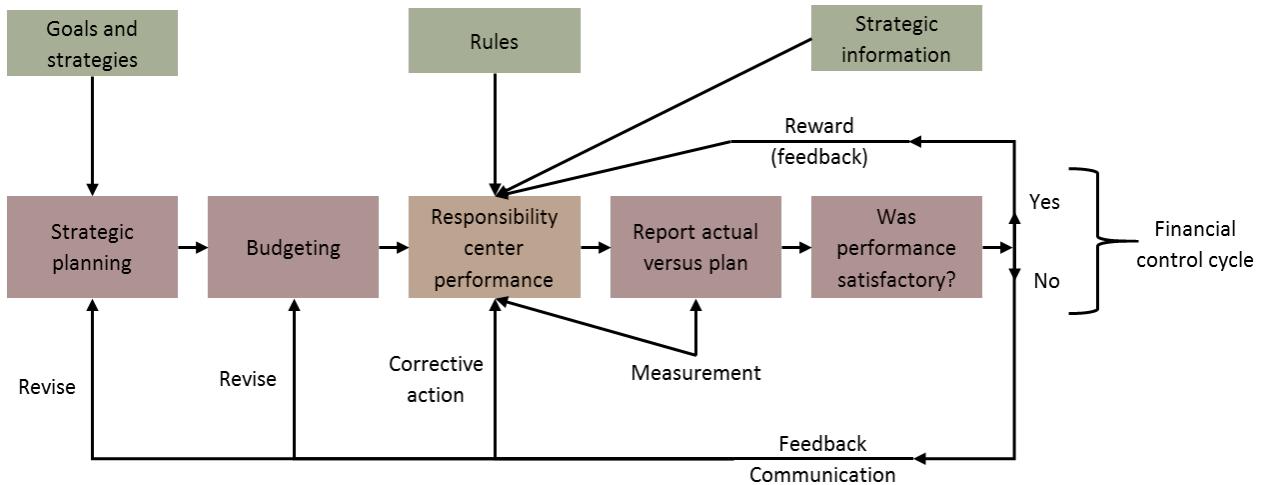
- **Informal and formal ways of controlling managerial behavior**

Management control	
Informal control	Formal control
Informal communication	Organizational structure
culture	rules
Tone-at-the-top	Formal control cycle

Formele instructies:

 - Fysische beperkingen (vb.: toegang tot gebouwen of websites)
 - Manuals, procedures (vb.: checklists, klinisch pad)
 - System safeguards (vb.: interne controle)
 - Task controls (vb.: voorraadpolitiek)

○ OPM:
 - Managers zijn out of control en MCS te complex of te kostelijk
→ Oplossing: centralisatie, automatisatie, outsourcing, divesting
- **The formal control process**
 - Strategic planning → lange termijn
 - Budgeting → eindejaarsbudgetten leiden tot targets
 - Report actual versus plan → reporting (actual vs. Budget) en forecasting (3+9)
 - Was performance satisfactory? → beoordeling: bonusschema's oppakken



- **Interacties:**

- Tussen structuur en control cycle:
 - Impact van financiële control cycle op keuze van organisatiestructuur.
 - Vb.: gemakkelijk te implementeren in business unit structuur, maar ook functionele structuur heeft voordelen (→ discussie)
- Tussen informal control en beoordeling

TIGHT AND LOOSE CONTROL

- **Tight control**

- PRO'S:
 - Sterk financiële bedrijven (vb.: beursgenoteerde bedrijven) moeten beloftes aan markt voldoen
 - Nieuwe creatieve manieren om targets te behalen
- CONS: KT-druk!
 - Errors of commission (= dingen doen die je beter niet doet) & errors of omission (= dingen niet doen die je beter wel doet, vb.: R&D of maintenance uitstellen)
 - Earningsmanagement: manipuleren van financiële cijfers

- **In bepaalde omgevingen werkt tight control het best:**

- Managers should have sufficient discretion
 - Voldoende beslissingsbevoegdheid om KPI's te beïnvloeden
- Managers should have sufficient influence on required performance
 - (in)controllability: is performance controleerbaar
- Uncertainty should not be too high
 - Onzekerheid
- Effects of actions should be timely
 - Je moet vrij snel impact van beslissingen op de output kunnen waarnemen

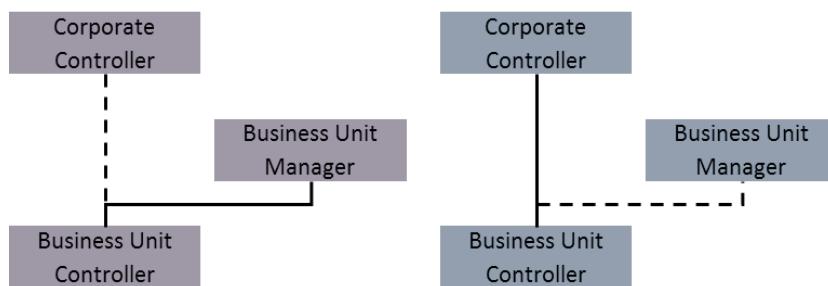
CONTROLLERSHIP

→ Wat doen controllers?

- Management controle:
 - Designing and operating information and control systems
 - Preparing financial statements and financial reports for shareholders and other external partners
- Helpen bij strategische beslissingen:
 - Preparing and analyzing performance reports, interpreting these reports for managers and analyzing program and budget proposals from various segments of the company and consolidating them into an overall annual budget

⇒ **Duale functie:** controller is zowel strategisch partner als controller

→ Types of controllers



Aan wie moet business unit controller rapporteren?

- 1) Aan business unit manager
 - + Nadruk op strategie
 - Typische controles onder druk
- 2) Rechtstreeks aan corporate controller

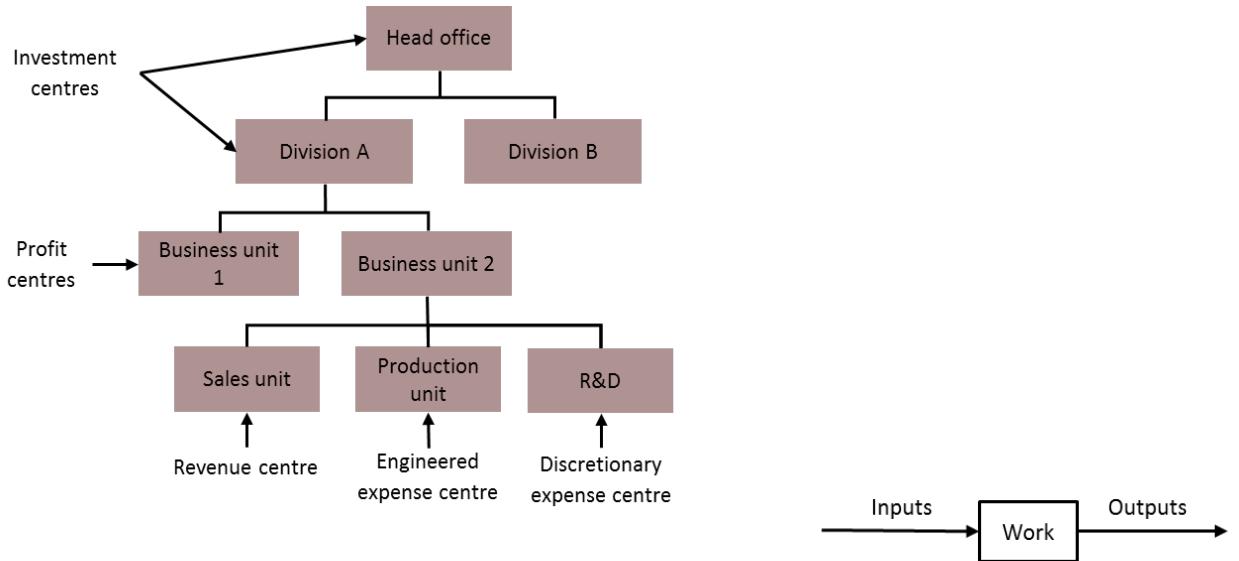
CHAPTER 6: RESPONSIBILITY CENTRES: REVENUE AND EXPENSE CENTRES

RESPONSIBILITY CENTRES

“Organizational units headed by managers responsible for the unit’s performance

- Constitute the important ‘skeleton’ of a management control system
 - 4 types:
 - Revenue centres
 - Expense centres (cost centres)
 - Profit centres
 - Investment centres
- | | | | | | |
|-------------------|----------------------------------|------------------|----------------------|---|----------------------------------|
| ○ Revenue centres | ○ Expense centres (cost centres) | ○ Profit centres | ○ Investment centres | } | Income statement |
| | | | | } | Income statement + balance sheet |

- Organizational structure through responsibility centres



- CONCEPT 1:** A basic model for analyzing assignment of responsibility to managers
 - Inputs:** resources used → Measured by cost
 - Work:** transformatieproces → Capital: moeilijk te meten (financieel of niet-financieel?)
 - Outputs:** Goods or services → Willen we dit meten? Zo ja, via assets
- CONCEPT 2:** Efficiency and effectiveness
 - Efficiency:** the ratio of outputs to inputs, or the amount of output per input
 - Efficient als:
 - Metzelfde output minder input
 - Metzelfde input minder output
 - Input-output relatie nodig vb.: credit collectors
 - Effectiveness:** determined by the relationship between a responsibility centre's output and its objectives → Heb je het objectief gehaald?
 - Profit:** measures both efficiency and effectiveness
- Types of responsibility centres:**
 - Engineered Expense Centre**
 - Input: kan je meten
 - Output: niet-financieel meten → in fysische hoeveelheden
 - Relatie tussen input en output => Efficiency

→ Standaard cost centres vb.: productie, logistiek ...
 - Discretionary Expense Centre**
 - Input: kan je meten
 - Output: niet-financieel meten
 - Geen optimale relatie tussen input en output => Effectiveness

→ Strategische keuzes maken vb.: R&D, marketing, general management ...

REVENUE CENTRES

- Definitie:
 - Input: wordt niet in rekening gebracht of enkel voor eigen input (zeer klein)
 - Output: financieel meten → sales
 - Geen relatie tussen input en output
 - Marketing/sales unit
 - Evaluation by measuring actual sales against budgets
 - Target/verwachting geven op sales zoals ze gemeten worden in accountancy standards (→ puurste vorm)
 - Controle hangt af van een juiste vaststelling van een referentiepunt waarmee de werkelijke opbrengsten kunnen worden vergeleken
 - Benchmark nodig om verwachtingen op te zetten
 - + Duidelijke verwachtingen
 - Houdt geen rekening met kosten (→ profitability van sales)
 - sales houdt geen rekening met moment van betaling (→ kan problemen veroorzaken met working capital)

- In practice few 'pure' revenue centres
 - 'puur' → enkel sales
 - 'niet puur' → kosten linken met sales en mensen incentiveren met betaalde sales
- Financial measures are often complemented with non-financial measures when evaluating revenue centre managers
 - Vb.: klantentrouw, net promoter score, klantentevredenheid ...

OPM: Soms een probleem dat bepaalde afdeling ook revenue inbrengt van andere afdeling (joint sales) → Bij wie komen sales terecht?

- Meeste bedrijven doen niets
- 'Finders fee': 10% gaat naar 'finder', 90% gaat naar afdeling waarvan sales zijn
→ bevordert samenwerking tussen afdelingen

EXPENSE CENTRES

"Responsibility centre whose inputs are measured in monetary terms, but whose outputs are not."

- **Engineered expense centres**
 - Input: kan je meten
 - Output: niet-financieel meten → in fysische hoeveelheden
 - Relatie tussen input en output
 - Manufacturing operations, marketing units, administrative and support units
 - Units perform repetitive tasks for which **standard cost** can be developed

⇒ Performance measured by efficiency: difference between theoretical and actual cost

 - Often detailed variance analysis are performed → flexibele budgetten: om juiste efficiency variabele op te nemen in analyse
 - Complement with measures of quality, training and employee development
→ Effectiveness elementen
- **Discretionary expense centres**
 - Input: kan je meten (stated in annual budget)
 - Output: niet-financieel meten
 - Geen optimale relatie tussen input en output
 - Administrative and support units, R&D units and most marketing activities
 - The difference between budget and actual expense does not incorporate the value of the output
 - Main purpose: control expenses by allowing managers to participate in planning
 - Hoe budget optellen? → Welke taken zijn er?
 - Variabiliteit van input, maar veel moeilijker om kostenstructuur aan te passen aan noden → committed resources op lange termijn
 - Often a problem of goal congruency in the planning stage
 - Managers zullen proberen om zoveel mogelijk budget te krijgen, maar is niet altijd optimaal voor organisatie

- Budget = referentiepunt → Opstellen van budget is dus belangrijk!
 - **Incremental budgeting**
 - = startpunt zijn actuals van vorige periode
 - Verandering tov vorige periode
 - PRO'S:
 - goedkoop
 - niet veel werk
 - CONTRAS:
 - inefficiënties van vorige periode blijven
 - doelcongruentieproblematiek
 - **Zero-based budgeting**
 - = startpunt begint bij nul (niet gebaseerd op verleden)
 - Analyse van alle activiteiten
 - Value added: is het nodig
 - Kwaliteitsniveau
 - Op andere manier mogelijk
 - Wat mag kost zijn (benchmarken)
 - Efficiëntie tijdens opstellen van budget
Effectiveness achteraf om te meten
 - PRO'S:
 - Cost saving zonder output aan te tasten
 - CONTRAS:
 - Tijdsintensief
 - Impact op cultuur
 - Discussies op metingen
- ⇒ Performance measured by effectiveness: vooral niet-financiële measures

CHAPTER 7: RESPONSIBILITY CENTRES: PROFIT AND INVESTMENT CENTRES

The two most far-reaching forms of formal decentralization

- Profit centre – responsibility centres financial performance is measured in terms of profit
- Investment centre – profit is compared with the assets employed in earning it
 - Maatstaven om link te leggen met assets:
 - ROI, ROE → relative (%)
 - Residual income (=EVA), economic profit → absolute (waarde gecreërd)
 - Van accounting profit naar economic profit

PROFIT CENTRES

- Conditions for delegating profit responsibility
 - The manager should have access to the relevant information needed for making such a decision
 - There should be some way to measure the effectiveness of the trade-offs the manager has made
- Advantages:
 - Quality of decisions may improve
 - In business unit zelf → betere info, sneller, drive/motivatie
 - Op top niveau: centraal niveau → focus op corporate strategie
 - Provide training ground for general management
 - Profit consciousness is enhanced
 - Bedenken over hoe profit te verbeteren → creativiteit boosten
- Difficulties:
 - Loss of control
 - Increased friction: Onstaan specifieke problemen:
 - Verschillende units, 1 klant → hoe sales verdelen?
 - Problematiek van transferprijzen
 - General overhead van support alloceren? Zo ja, hoe?
 - Additional costs: management, marketing
 - Lack of competent general managers:
 - Elke business unit heeft 1 nodig
 - Too much emphasis on short-run profitability
 - Profit is korte-termijn maatstaf → creëert niet altijd waarde
- Constraints on business unit authority
 - Constraints from other business units
 - Constraints from corporate management

Vraag: In welke mate beperkingen opleggen?

Corporate

- Strategisch → financiële middelen, charter, ethisch
- Uniformiteit → leverancierselectie, budgetering, beloningen en incentives
- Shared services → activiteiten centraliseren: wat wel, wat niet?

- Other profit centres:

- Functional units: toch inrichten als profit centre

- Marketing – Sales

- Sales als revenue centre
 - Profit centre = alternatief

Net sales

A

- COGS

S

→ Waar je niet verantwoordelijk voor bent gelijk zetten aan standaard

Gross margin

$$\begin{array}{r} \text{- other expenses} \\ \hline \text{EBIT} \end{array} \quad \text{S/A}$$

- Verantwoordelijk voor soort van profit
→ Ze focussen op wat winstgevend is: profitable sales binnenbrengen

- **Manufacturing**

- Voor de hand liggend: engineered expense centre
- Pseudo – profitcentre:

$$\begin{array}{r} \text{Net sales} \\ \hline \text{- COGS} \\ \hline \text{Gross margin} \end{array} \quad \rightarrow \text{prijs op plakken} = \text{transferprijs}$$

- **Transferprijs**

- gevolg: - discussie prijs → beter intern of extern
- /+ conflicten tussen units → meer onafhankelijkheid
- + klantentevredenheid belangrijk

- **Service and support units**

- Profit center: eigen transferprijs + verkopen aan de buitenwereld
→ Gedragen als martspayer

- **Measuring profitability (KPI's)**

Income statement:

Revenu	
Cost of sales	
Variable expenses	
Contribution margin	(1)
Fixed expenses incurred in profit centre	
Direct profit	(2)
Controllable corporate changes (CCC)	
Controllable profit	(3)
Other corporate allocations (OCA)	
Earnings before interest expenses and taxes	(4)
Taxes	
Net income	(5)

- Variabele kosten = controllables
- Direct profit = alle sales & costs van centre
- CCC = kosten waarop je impact hebt
- OCA = geen impact (vb.: external relations)

⇒ Minstens 5 mogelijkheden → Welke maatstaf zou je nemen, waarom?

- 2
- (1) Weinig bedrijven + al de rest is 'out of control'
 - (2) Meer gebruikt → kosten onder eigen verantwoordelijkheid

- 1 (3) Naast eigen kosten, impact op andere kosten (vb.: ICT)
- (4) Verantwoordelijk voor DCA
- ➔ Toch druk voor efficiëntie
 - ➔ Business unit vergelijkt met andere bedrijven
 - ➔ Als onafhankelijk bedrijfje zou je het zelf moeten hebben

OPM: Hoe sales meten?

- Moment → zoals accounting standaard?, betaling?
- Unit levert aan foreign currency land en er zijn evoluties
→ munt effect eruit?

- 3 → (5) Internationale omgevingen → Verschillende taxes
-

INVESTMENT CENTRES

- Investment base = the sum of assets employed in an investment centre
 - Welke activa nemen we mee en hoe gaan meten?
- Two primary methods of relating profit to the investment base
 - **Return on investment (ROI):** Earnings before interest expenses and taxes/assets employed
 - Problems with using ROI for performance evaluation:
 - Investering (20.000) met EBIT = 4.200
⇒ Herrekening van de cijfers
 - Wat leidt je af:
 - Doelcongruentie: beide units zouden moeten uitvoeren
 - Doen ze het ook?
 - ROI: A zal doen, B niet
→ Voor sterke afdelingen: geen incentive om investeringen te doen
 - RI: voor beiden toegenomen ($WACC < \text{additionele EBiT}$)
 - **Residual income (RI):** Earnings before interest expenses and taxes – cost of capital * assets employed
 - Measurement problems involved in investment centres:
 - Working capital
 - Property plant and equipment
 - Acquisition of new equipment
 - Gross book value
 - Annuity depreciation
 - Other valuation methods
 - Goed nadenken welke activiteiten meenemen in berekeningen en aan welk bedrag?
 - Boekwaarde
 - Vervangingswaarde
 - Historische kost
 - **Economic value added (EVA)**
= an advanced version of residual income
 - Considers a problem that ROI and RI normally uses book values

- A number of **accounting adjustments** need to be performed (WHY?)
 - Capitalization of research and development expense
 - Capitalization of market-building expenses
 - Capitalization of trade-mark
 - The adding back of goodwill amortization

⇒ Nu geen kost → in active en stelselmatig in P&L
- Case study!!
 - EVA incentive plan: 3 stappen
 - 1) EVA performance = $1 + \frac{\text{actual improvement} - \text{improvement goal}}{\text{EVA interval}}$
 - 2) Calculated bonus = target bonus * EVA performance
 - 3) Payout

CHAPTER 8: TRANSFER PRICING, SHARED SERVICE CENTRES AND CROSS-FUNCTIONAL MANAGEMENT

TRANSFER PRICING

- What:
 - How to devise a satisfactory method of accounting for the transfer of goods and services from one responsibility centre to another
- Vereisten:
 - It should provide each business unit with the relevant information it needs to determine the optimum trade-off between company costs and revenues
 - It should induce goal-congruent decisions
 - It should help measure the economic performance of the individual business units
 - The system should be simple to understand and easy to administer
- Methods:
 - Market price-based transfer price
 - Cost-based transfer prices
 - Negotiated transfer prices
 - Two-step pricing
 - Profit sharing
 - Two sets of prices
- **Market price-based transfer price** – The ideal situation
 - Afdelingen gedragen zich alsof op de markt
 - Competent people → mensen handelen in belang van eigen business unit
 - Good atmosphere
 - Marktprijs bestaat (mits eventuele aanpassingen)
 - Afdelingen mogen elders (ver)kopen → vrije markt
 - Full information
 - Negotiation
 - **Probleem:** Constraints on resourcing (geen vrije markt)
 - Limited markets

- Externe suppliers zijn verticaal geïntegreerd
 - Zelf verticaal geïntegreerd
 - Monopolie
- Capaciteitsproblemen
 - Overcapaciteit (te weinig vraag) → eerst naar eigen afdeling gaan
 - Bottleneck/ondercapaciteit → eerst aan eigen afdeling verkopen
- **Cost-based transfer pricing**
 - Marktprijs afwezig → proberen marktprijs te benaderen
 - Cost basis = standard costs
 - Profit mark-up: based on return on sales or return on investments
 - **Probleem:** upstream fixed costs and profits
 - Elke afdeling zal kosten en profits doorrekenen waardoor laatste afdeling niet meer competitief kan zijn en niet de juiste info heeft om optimale beslissingen te nemen voor organisatie.
- **Negotiated transfer price**
 - Negociëren tussen units
 - Voor grote bedragen en projecten
- **Two-step pricing**

COST PLUS	
VK	5
FK	4 (20000/5000)
Profit	2 (10000/5000)
TP	11

Nadeel: doorrekenen van '4' vaste kosten en '2' profit
→ Geen relevante informatie

TWO-STEP			
Hoeveelheid	5000	4000	6000
VAR	25000	20000	30000
CAP	20000	20000	20000
Marge	10000	10000	10000
TP	55000	50000	60000

→ Wel voldoende informatie

- Toch weinig gebruikt
 - Vastleggen van capaciteit is niet altijd wenselijk (kan leiden tot capaciteitsproblemen)
 - Niet altijd accuraat
 - Kan leiden tot conflicten tussen business units (→ competitie over capaciteit)
- **Profit sharing**
 - Transfer price = kostprijs standaard + deel van marge op moment van verkoop
 - PRO'S:
 - Samenwerking bij binnenhalen van klanten
 - CONTRA'S:
 - Hoe economic profit meten?
 - Zware discussie over verdeelsleutel

- Marge pas op moment van verkoop

- **Two sets of prices**



- CONTRA'S:
 - Som van de winsten van business units ≠ totale winst van organisatie
 - Additionele administratie (boekhoudkundige last)
 - Te grote focus op interne transfers (ipv op externe sales) vanuit 1^{ste} afdeling
 - Juiste voorstelling van economic performance van 1^{ste} afdeling

SHARED SERVICE CENTRES

CROSS-FUNCTIONAL MANAGEMENT

PART4: THE MANAGEMENT CONTROL PROCESS

CHAPTER 9: PLANNING AND BUDGETING

TO PLAN OR NOT – THE GOALS OF BUDGETING

- **Waarom niet?**
 - Should we really do all the amount of work budgeting requires when it is not going to be met?
 - Would it not be better to try to be as flexible and adaptable as possible?
- **Waarom wel?**
 - Planning:
 - Resource distribution
 - Coordination
 - Accountability
 - Monitoring
 - Motivation
 - Process
 - Reflection
 - Communication
 - Ritual
 - Habit

- legitimacy

LONG RANGE, STRATEGIC PLANNING

- A budget is usually based in a more long range plan
 - Waarom wel:
 - Framework for the budget
 - Management development tool
 - Forcing management to think long-term
 - Aligning managers with strategies
 - Waarom niet:
 - Danger of becoming a bureaucratic, time consuming activity not related to reality
- Reviewing and updating the plan
- Deciding on assumptions and guidelines
- First iteration
- Analysis
- Second iteration

THE PARTS AND LINKAGES OF THE BUDGET

- Parts of the budget (onderdelen zijn gelinkt)
 - 1) Operationele budgetten → RR (meet performance)
 - Revenue budget → Sales
 - Production cost and cost of sales → productie
 - Marketing expenses
 - General and administrative expenses
 - R&D expenses
 - Income taxes

Net sales <hr/> - COGS <hr/> Gross margin <hr/> - expenses <hr/> EBIT <hr/> - interest <hr/> EBT <hr/> - taxes <hr/> Net profit	Startpunt → belangrijkste parameter en zeer onzeker Kost van verkochte goederen (\neq kost van gemaakte goederen) Niet-productiekosten: marketing, distributie, R&D, general expenses → Financiële afdeling → “Welke investeringen gaan we deze periode doen.” (andere: per maand) → financiële middelen
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	Januari	Februari	Maart	...	December
Cash _B					
Cash _{in}					
Cash _{out}					
Cash _E					

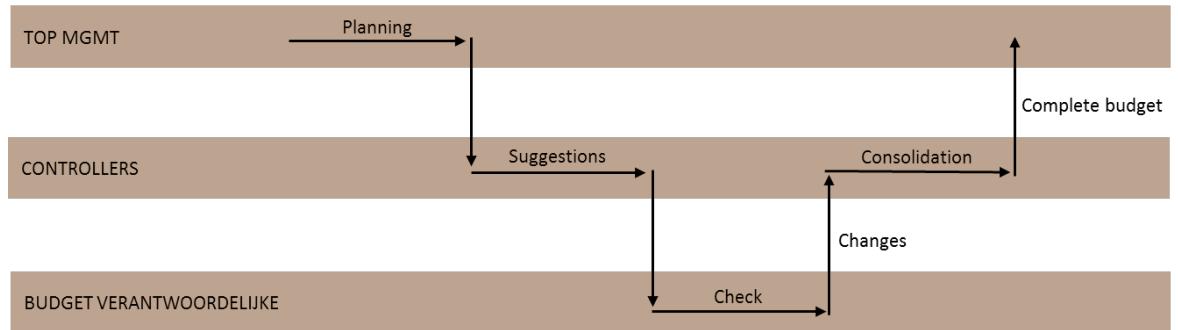
- Cash flow statement:
 - Operational CF
 - CF from investment activities
 - CF from financing activities

BUDGETING PROCESS

• Methodes

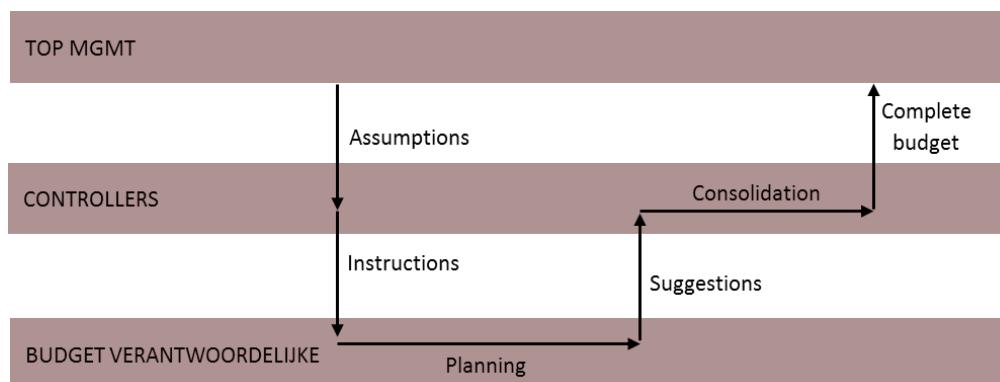
“Centraal of decentraal proces?” → participatie

1) Top-down budgeting



- May be less realistic (top mgmt heeft niet altijd genoeg info over lokale markten)
- Low commitment in the organization (geen betrokkenheid of participatie)
- + Fast
- + Top manager are in control over output

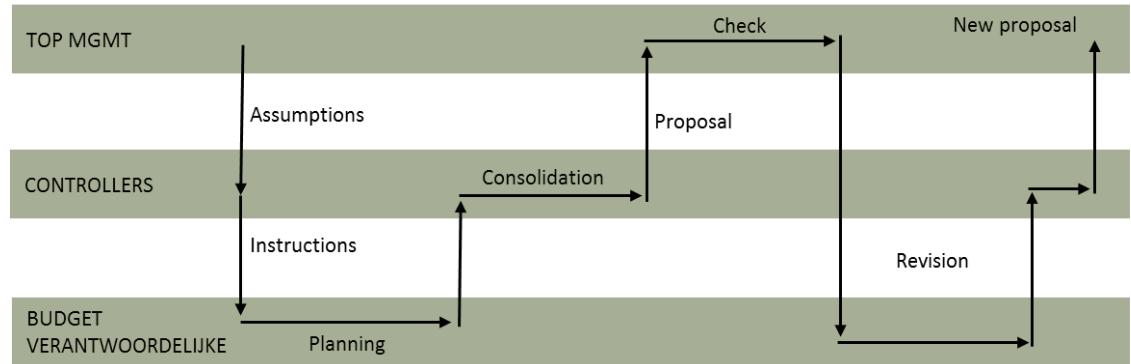
2) Bottom-up budgeting



- May include buffers (want budget gebruikt voor evaluatie)

- No control over the output
- High commitment in the organization
- Probably more realistic

3) Iterative budgeting



- Revisions may undermine commitment
- Creates a tactical negotiation
- Time-consuming
- + Combining the strengths of both methods

• Budget preparation steps

“Hoe verloopt het budgetteringsproces?”

- 1) Issuance of guidelines
 - Richtlijnen vanuit top-management:
 - Lange-termijn strategisch plan → 1^{ste} jaar van plan als startpunt van budget
 - Parameters: grondstofprijzen, inflatie, ruimte voor promotie en loonstijgingen
- 2) Initial budget proposal
 - Komt van vorig jaar (= incremental budgeting) → veranderingen
 - Intern: productiviteit ↑, focus op bepaald segment↑
 - Extern: economische omgeving: economische groei, inflatie ...
- 3) Negotiation
 - Op verschillende niveaus
 - Vooral in grote bedrijven
- 4) Review and approval
 - Na consolidatie door RvB
- 5) Budget revisions
 - Budget vaak gebruikt voor evaluatie
→ Kan tijdens jaar budget worden aangepast?

OPM: budget ≠ forecast

- ➔ 3+9: eerste 3 maanden werkelijk, volgende 9 maanden voorspellen
- ➔ Zal target niet aanpassen

- **Budget Gaming**

“Waarom budget over -of onderschatten?”

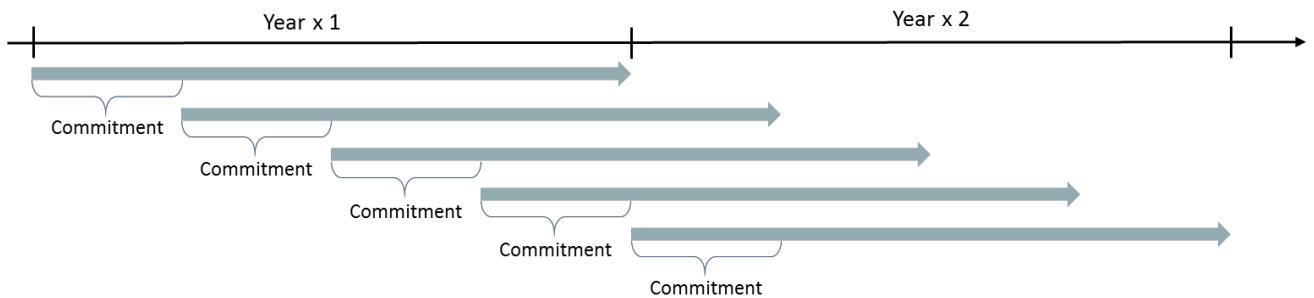
- **Exposure** – Showing a better budget than expected
 - Opbrengsten overschatten / kosten onderschatten
- **Hedging** – Showing a worse budget than expected
 - Opbrengsten onderschatten / kosten overschatten
- Depends on...
 - Superiors
 - Tight control → Hedging
(jezelf indekken)
 - Profitability
 - Winstgevendheid onder druk → Exposure
(Wil unit niet doen sluiten)
 - Uncertainty
 - Onzekerheid over opbrengsten → Hedging
 - Reward system
 - Bonus sterk afhankelijk van targets → Hedging
(meer zekerheid van bonus)
 - Personality
 - Risio-avers, pessimistisch → Hedging
 - Entrepreneurial, jong, risicovol → Exposure

BEYOND BUDGETING

- Critique against budgeting

- Creates internal gaming and myopia
 - Internal gaming = budget slecht opbouwen, earnings manipulation, overtreden van accounting rules
 - Myopia = bijziendheid → niet op juiste focussen
Vb.: op KT fin. Resultaten ipv. LT waardecreatie, te veel financiële drivers ipv. strategische drivers
- Too resource consuming
 - Kost proces > waardecreatie proces
- Calendar year is not a good period
 - Te lange periode
- Impossible to make a reliable budget
- Makes organizations less flexible
 - Te gefocust op budget dat je andere opportuniteiten mist

- Alternative 1: Rolling forecasts



- Not limited to calendar year
 - Accountability (bonussysteem) over 3 jaar
- Made in a much less detailed manner
 - Via drivers die je kan updaten
- Alternative 2: Relative targets
 - Compare with historic results (instead of budget)
 - Compare with competitors
- Alternative 3: Decentralization
 - Abandoning the budget as a way to decentralize
 - Budget niet gebruiken als controlemaatregel
 - Wel sterke vorm van decentralisatie
- Critique against beyond budgeting
 - Budgeting fulfills many purposes
 - Depends on the contingencies (omgevingsfactoren), e.g.: stability
 - Beyond budgeting does not really mean abandon the budget
 - Rather changing budgeting
 - And changing the name
 - Svenska Handelsbanken
- Svenska Handelsbanken
 - No formal planning system
 - Benchmarking – internal and external
 - Decentralization – ‘the branches are the bank’
 - Management compensation – no individual bonuses for managers
 - Culture – close to the customers and a very strong cost consciousness
 - Outperformed their competitors for 40 years!
- **Case study bekijken in cursus!**

CHAPTER 10: PERFORMANCE MEASUREMENT ANALYSIS

PERFORMANCE MEASUREMENT SYSTEMS

- Used to implement strategy
- Form the basis for performance evaluation
- A myriad of performance measures:
 - Financial: Revenues, ROI
 - Non-financial: Customer satisfaction, lead time
- By comparing the outcome of the chosen measures against appropriate standards, managers can assess the performance of the company and its units
- Performance measurement systems also provide feedback to managers and employees on their efforts thereby fostering learning and motivation
- Financial measures:
 - Natural starting point for many managers
 - Intimately related to assigning financial responsibility to organization subunits
 - The controllability principle
 - STEP 1: Choose appropriate financial measure (kies KPI's)
 - STEP 2: How can the outcome of financial measures be analyzed – variance analysis

FINANCIAL MEASURES: VARIANCE ANALYSIS⁴

- Variance analysis – a thorough monthly or quarterly analysis of differences between actual and budgeted revenues and expenses
- Performance report – Goed gedaan of niet op einde jaar
- The report of variances – tussentijdse situatie; eventueel bijsturen
- STAPPENPLAN:
 - 1) Definieer financiële drivers achter cijfers
 - 2) Splits totaal verschil tussen *actual* en *budget* in die drivers (formules maken)
 - 3) Vul formules in (concrete berekening)
 - 4) Bepaal detail van analyse (“peeling the onion”)
 - 5) Stop met creëren van details wanneer “kost > waarde van extra details”
- **Varianties bekijken in cursus!**
- Additional considerations:
 - Limitations of standards
 - Belangrijk dat standaarden goed gezet zijn
 - Kan op basis van historische cijfers, engineering cijfers, benchmarks...
 - Full-cost systems
 - Amount of detail – “peeling the onion”

⁴ Cursus: voor productiebedrijf; Zelfde methodologie kunnen toepassen op andere organisaties

- Evolutie van big data → ver in detail gaan (hang af van verantwoordelijkheden / controllability)
 - Engineered and discretionary costs
 - Engineered: directe link tussen input en output, e.g.: productie
 - Discretionary: moeilijker om uitspraken over te doen e.g.: selling expenses
 - Management action
 - Interactie tussen managers: uitleg bij cijfers → management tool
 - Limitations of variance analyses
 - Does not tell us why the variance occurred or what is being done about it
 - How to decide whether a variance is significant
 - Offsetting variances might mislead the reader
 - Positieve variantie van subcomponent kan negatieve variantie van ander subcomponent compenseren → totale variantie is misleidend
 - Is performed on the income statement
 - Risico: geen impact op balance sheet
 - Risk that there may be too little focus on the capital invested to generate the profit
 - Profit is 1-periode maatstaf → gaat niet altijd samen met waardecreatie
 - Alternatief: model van Kaplan & Norton (meer LT value drivers opnemen)
 - May lead to too much focus on financial performance
- Strategic variance analysis** = cijfers uitleggen aan de hand van strategische keuzes

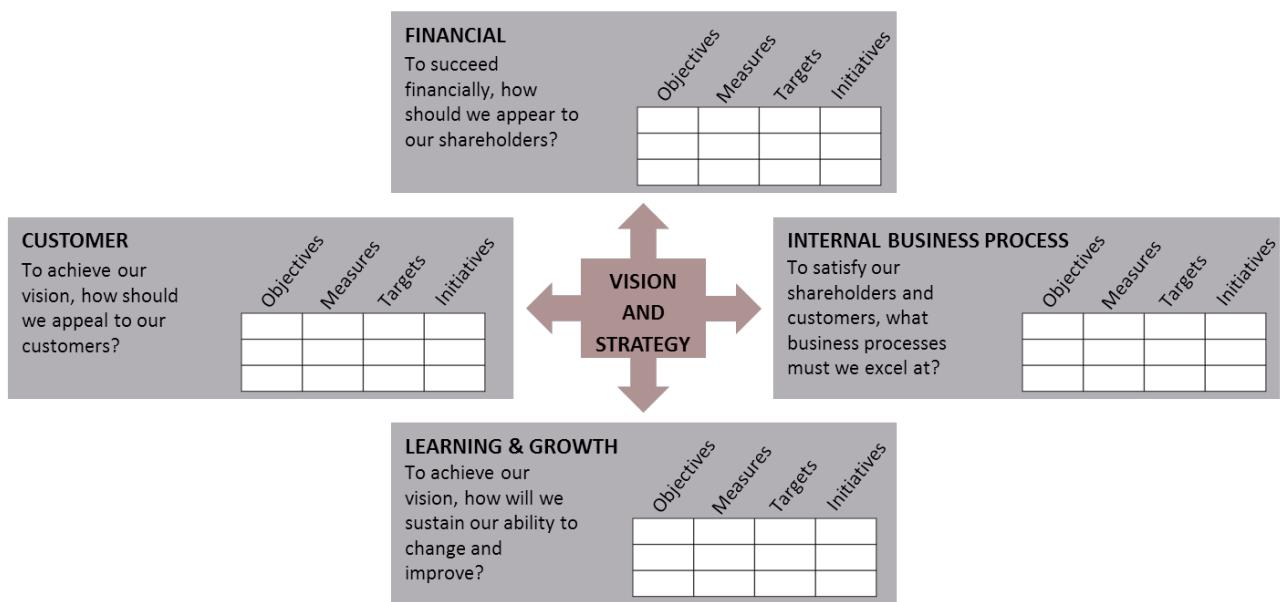
STRATEGY MAPPING AND BALANCED SCORECARD

- Relying solely on financial measures is inadequate and can be dysfunctional
 - Errors of commission – May encourage short-term actions that are not in company's best interest
 - Errors of omission – Managers may not make investments that promise long-term benefits because they hurt short-term results
 - Can distort communication between business unit managers and top management (e.g.: budget slack)
 - May motivate managers to manipulate data
 - Earningsmanagement: manipuleren binne wat toegelaten is
 - Niet naleven van accounting rules

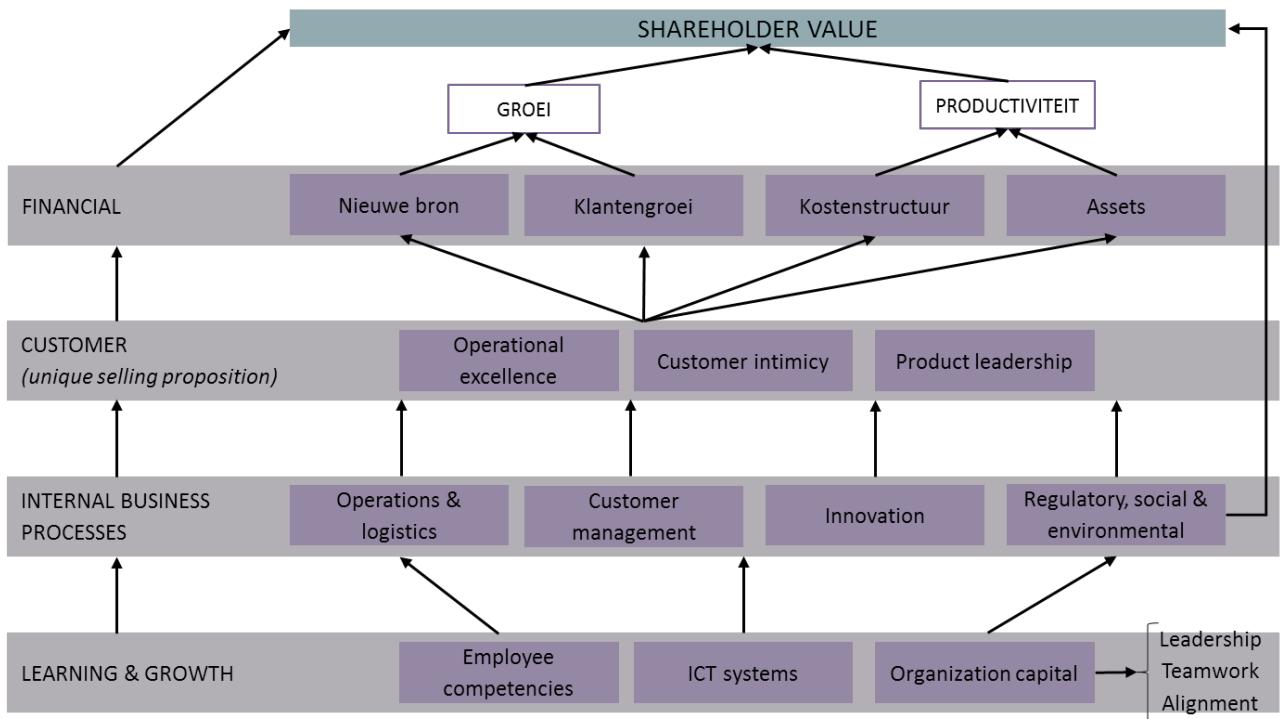
- Maybe better to combine financial and non-financial measures?



- Translating strategy into operational KPI's and actions



- **Building a strategy map**



- 1) CUSTOMER – Wat maakt u verschillend van uw competitors?

Model van Tracy & Bierman → Keuze van strategie:

- Operational excellence: prijs, kwaliteit, leveringsbetrouwbaarheid
Vb.: Ryanair, Walmart, Colruyt
- Customer intimacy: lange termijn relatie met klanten, experience
Vb.: Singapore Airlines, Delhaize
- Product leadership: unieke iets aanbieden, innovatie, nieuwe dingen op markt

- 2) FINANCIAL – Wat zijn de financiële drivers waarop u het verschil maakt?

- Nieuwe bronnen van groei: nieuwe producten, nieuwe landen ...
- Bestaande klanten doen groeien: upselling, cross-selling

- 3) IBP – Wat zijn de interne processen die u toelaten om strategie te realiseren?

- Innovation process + operational excellence => PROCESINNOVATIE
- + product leadership => PRODUCTINNOVATIE

➔ Drijft de rest van het verhaal

- 4) L&G – Zijn onze intangibles klaar om onze strategie te implementeren?

- Employee competencies: strategische jobs
- ICT systemen: ICT-strategie in lijn met bedrijfsstrategie
- Organizational capital:
 - Leadership: juiste leider, management
 - Teamwork: nadrukken in functie van het belang van hele organisatie ipv. BU
 - Alignment: iedereen staat achter strategie

- **Translate strategy map into balanced scorecard**

- 1 Strategische formulering
- 2 Strategische objectieven
 - initiatieven = strategische investeringen

- STRATEX = STRATEGic Expenditures (→ om niet te moeten concurreren met CAPEX)

3 Organisatie aligneren met strategie

- Voor verschillende business units, support units and employees

4 Link budgetproces met strategisch verhaal

- Resource capacity plan: K&N via time driven ABC costing budgetteren

5 Rapporteren

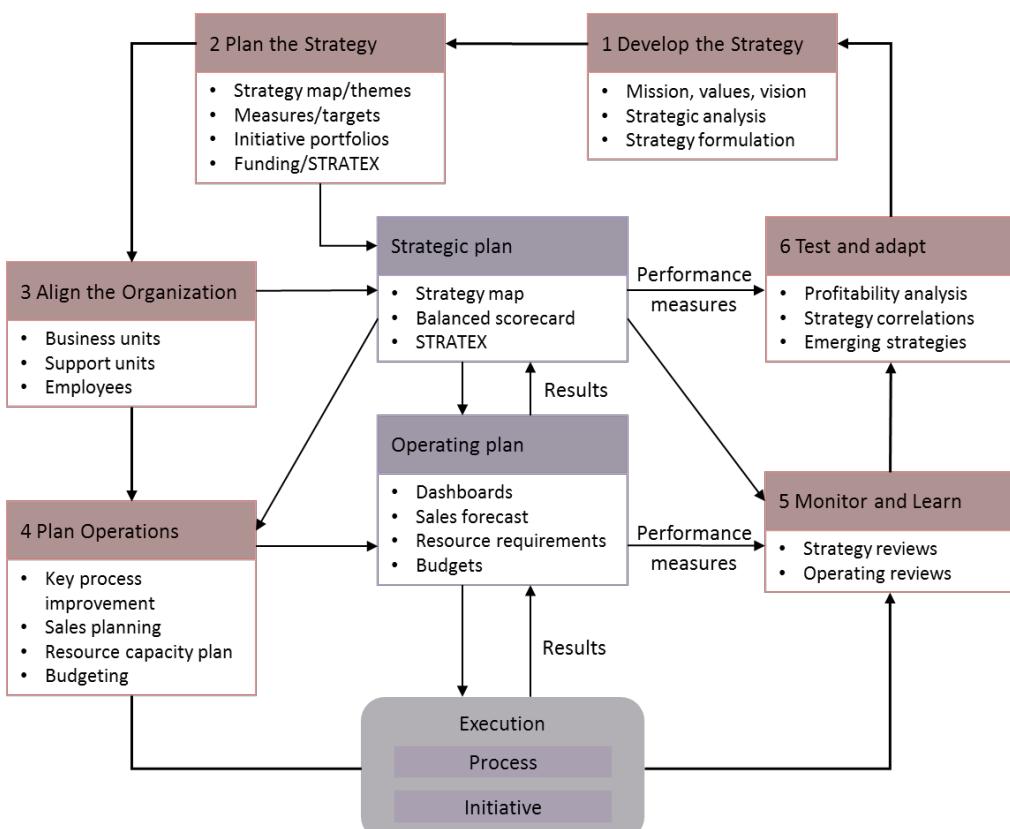
- 2 soorten reviews:
 - o Operationeel: runnen van business
 - o Strategisch: juiste strategische richting?

6 Test of we erin slagen om strategie te implementeren & wijzig richting indien nodig

- Strategy correlation: oorzaak-gevolg relaties
- Emerging strategies: hou rekening met nieuwe business modellen, radicale veranderingen (vb.: fintech, uber, autonome auto ...)

OPM: Succesfactoren

- Topmanagement commitment noodzakelijk
- Aanpak:
 - o Single industry: top management → cascade down
 - o Related diversification: elke unit aparte strategy map waarin gemeenschappelijke sterke staat + gemeenschappelijke map
- ICT support is cruciaal
- Oorzaak-gevolg relaties cruciaal in strategisch verhaal → coherentie
- Meet niet te veel KPI's (= *measurement overload*)
- Link met incentive systems



COMPENSATION AND INCENTIVES

- **Functions:**
 - Pay: iemand die werkt, verwacht daarvoor betaald te worden
 - Attract people: juiste mensen aantrekken
 - Keep employees: juiste mensen behouden
 - Flexible compensation: als het in bedrijf beter gaat, mensen meer kunnen geven (en vice versa)
 - Effort: mensen moeten inspanning leveren
 - Inspiration: mensen moeten drive en creativiteit tonen/gebruiken
 - Goal congruence: mensen moeten effort in juist richting leveren
- **Types** (reward policy van het bedrijf) → positionering
 - Fixed pay: kan 1 keer per jaar herzien worden (loonsverhoging, promotie)
 - Short-term variable incentives: stukje bonus
 - Hoe volledige bonuspot bepalen?
 - Bepaalde winst halen?
 - Vergelijken/benchmarken met industrie?
 - Hoe bonuspot verdelen (wie krijgt wat)?
 - Bonusbank gebruiken?
 - Hoe linken aan strategie?
 - Stock options: managers laten denken in functie van aandeelhouders
 - Incentives based on non-financial measures
 - Non-financial incentives (vb.: challenging, meaningful werk, cultuur)
- **6 discussiepunten:**
 - Types of incentives
 - Size of bonus relative to salary
 - Bonus based on business unit profits, company profits, individual or combination
 - Performance criteria
 - Bonus determination approach
 - Form of bonus payment
- **McGregor**
 - Theory X
 - Humans are lazy
 - And must be forced and controlled
 - They also avoid responsibility
 - Theory Y
 - Working is as natural as resting
 - They can lead and control themselves and may even desire responsibility
 - *Motivation Crowding Theory*

AGENCY THEORY

- Mathematische modellering
 - “A world of two-person explicit or implicit **contracts**. The **principal** (owner) delegates decision-making authority to the **agent** (manager) who performs services. The agent is a **utility maximizer**, motivated solely by **self-interest**.
 - Principal: RvB, aandeelhouders CEO
 - Agent: CEO lower management
 - Self-interest: eigen nutsfunctie maximaliseren
- Self-interest
 - All **agents** act in their own self-interest
 - Financial compensation
 - Leisure time
 - Nice working conditions
 - Leisure is the opposite to effort
 - Managers prefer leisure – work aversion
 - Shirking = withholding effort
 - **Principals** (owners) are only interested in financial returns
- Risk preferences
 - AGENT
 - Managers’ marginal utility of wealth is decreasing
 - Managers’ wealth is tied to the firm (kan eigen risico niet diversifiëren)
 - Managers are **risk avert**
 - PRINCIPAL
 - Stock is held by many owners
 - Owners hold many stock – diversified
 - Owners are **risk neutral**
- Asymmetric information
 - The principal cannot easily monitor the agent’s actions
 - **Private information** = the agent knows more than the principal about the task
 - **Moral hazard** = diverging preferences may lead the agent to manipulate information
- Control mechanisms
 - **Monitoring** (RvB)
 - Limiting actions that benefit the agent at the expense of the principal
 - E.g.: financial control system, auditing, interne en externe rapporteringssystemen
 - Very difficult to monitor complex tasks
 - Benadering van effort → zodat agent zoveel mogelijk in lijn ligt met belangen van principaal
 - **Incentive contracts**
 - Should make the agent work in the principal’s best interest – *goal congruence*
 - Als agent goed presteert, krijgt hij/zij een incentive
 - ‘*pay for performance*’ – vast loon + variabel loon gelinkt aan effort
 - **Agency costs**
 - Monitoring costs

- Cost van incentive contracts
 - Residual loss (= nooit perfecte alignment tussen principal en agent)
- Impact and critique
 - Extremely influential, but...
 - Basic assumptions are wrong?
 - Puur rationale beslissingnemer
 - Beide partijen volledig gestuurd door ‘self-interest’
 - Extrinsieke motivatie
 - Popular because it is easy to calculate mathematically?
 - In practice incentives increase moral hazard?
 - Financiële cijfers manipuleren om toch aan budget te geraken en bonus te krijgen
 - Michal Jensen – Adviezen:
 - CEO moet belangrijke hoeveelheid aandelen bezitten
 - Aan CEO belangrijke rewards en penalty’s
 - Als CEO niet goed is moet die ontslaan worden

MOTIVATION CROWDING THEORY (MCT)

- **Extrinsieke motivatie** vb.: beloningen
- **Intrinsieke motivatie** vb.: graag werk doen
- ➔ Additionele impact van extrinsieke motivatie op (reeds bestaande) intrinsieke motivatie
 - **Crowding in** = intrinsieke motivatie zal toenemen door extrinsieke motivatie elementen toe te voegen
 - **Crowding out** = intrinsieke motivatie zal afnemen door extrinsieke motivatie elementen toe te voegen (extrem: totale motivatie zal afnemen tot lager dan oorspronkelijke intrinsieke motivatie)

Intrinsic motivation	Extrinsic motivation
Satisfaction of doing something and reaching the goal	Satisfaction from what you will get if you reach the goal
Satisfy needs directly	Satisfy needs indirectly
Relates to internal needs	Relates to external needs

- **The crowding-out effect**
 - Totale motivatie = intrinsieke motivatie + extrinsieke motivatie
 - Verhogen van 1 type kan het ander type verhogen (of verlagen)
 - Extrinsieke motivatie verhogen heeft de neiging om intrinsieke motivatie te verlagen
 - Externe beloning toevoegen kan zelfs de totale motivatie reduceren
 - Totale motivatie kan verhogen als externe beloning verdwijnt
- When does the crowding-out effect appear?
 - When there already is a strong internal motivation in place
 - When the external intervention is perceived as controlling

OPM:

- Crowding-in → when external intervention is perceived as supportive
- External rewards does not crowd out motivation if they are unexpected or unrelated to behavior
- Why motivation crowding?
 - **Impaired self-determination**
 - Gevoel dat je minder autonomie hebt
 - External control limits a person's freedom and might therefore be in conflict with the intrinsic motivation
 - **Impaired self-esteem**
 - Gevoel dat je niet vertrouwd wordt
 - Imposing external rewards implies that a person's own involvement and motivation is not enough, thus reducing internal motivation by not acknowledging it
- Intrinsic rewards: (Advies voor omgevingen met crowding-out)
 - Good fixed pay
 - Indien wel bonus → collectieve bonus: wordt niet gelinkt aan persoonlijke effort
 - Interesting assignments
 - Intrinsieke motivatie zal toenemen
 - Communication
 - Vb.: manager die iedereen ken ten vraagt hoe hij/zij kan helpen (coaching)
 - Involvement:
 - Betrek mensen bij beslissingsproces
 - Affiliation
 - Creëer cultuur waar mensen samen de organisatie kunnen bouwen
- Impact and critique
 - Marginal but on the rise
 - "not in line with my experience"
 - Not relevant for larger amounts?
 - Experiment enkel mogelijk met kleine bedragen → veralgemeenbaar?

COMPARING THE THEORIES

Agency theory	MTC
Uit economische literatuur	Uit psychologische literatuur
Verenigde Staten	Noord-Europese literatuur
Mathematisch onderzoek	Experimenteel onderzoek
Simple logic	Complicated
Partly based on assumptions	Based on experiments
Man is totally rational	Man is partly rational
Material needs	Material, social and emotional needs

