Are We Ready for the Future: What Management Accountants CAN and OUGHT to Study?
Information to Support Decision-Making

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Agenda

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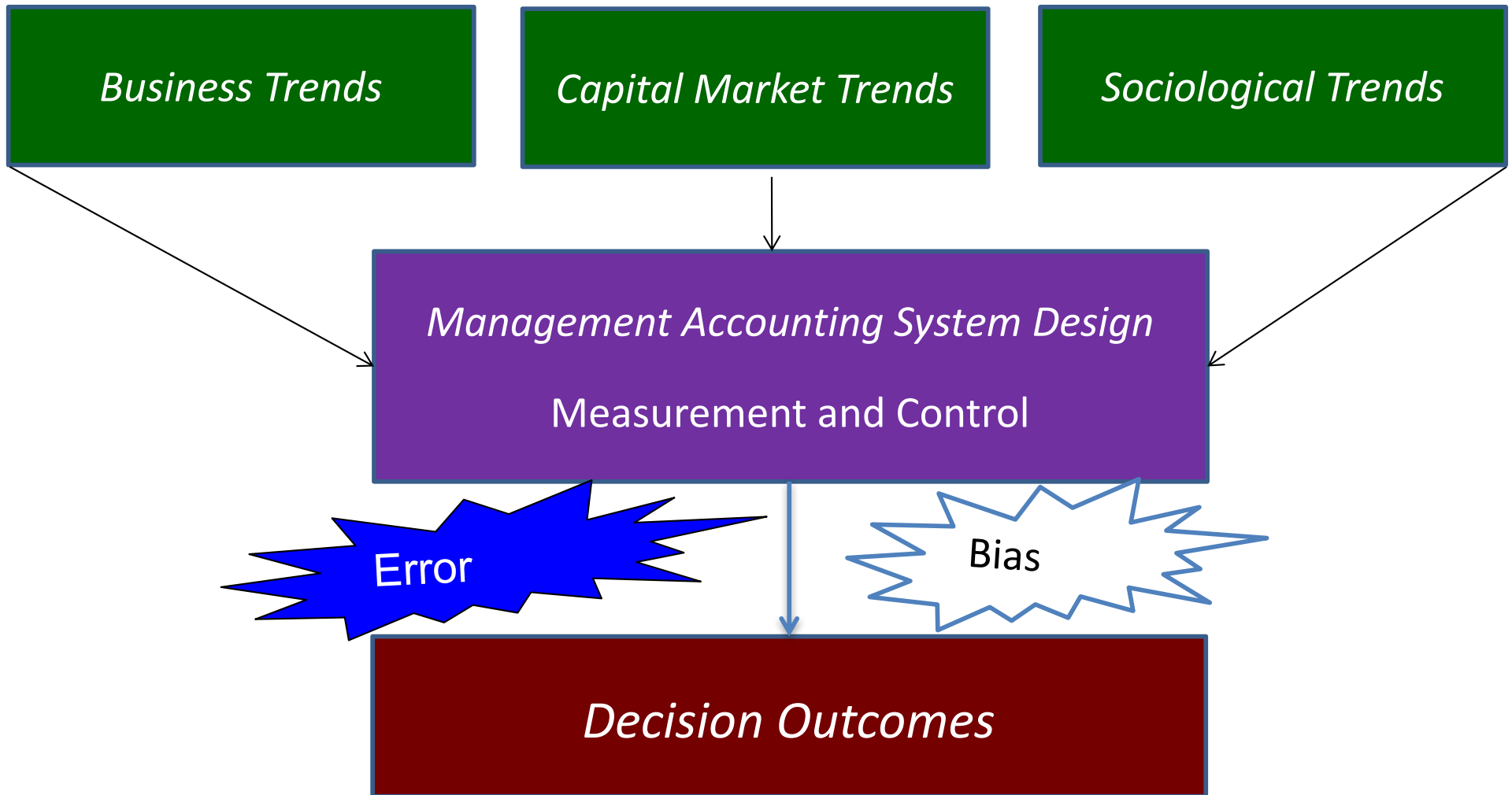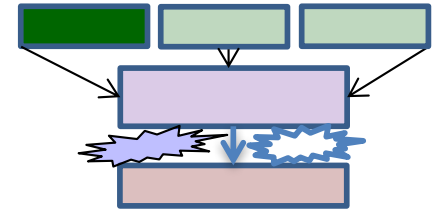NOTRE DAME

1. What we ought to research

2. What research I have done in this area

3. Random thoughts on what can be researched

Management Accounting–
Planning, Measurement, and Control

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Business Trends

Capital Market Trends

Sociological Trends

Management Accounting System Design

Measurement and Control
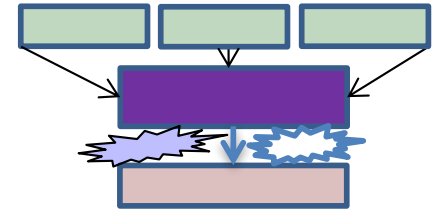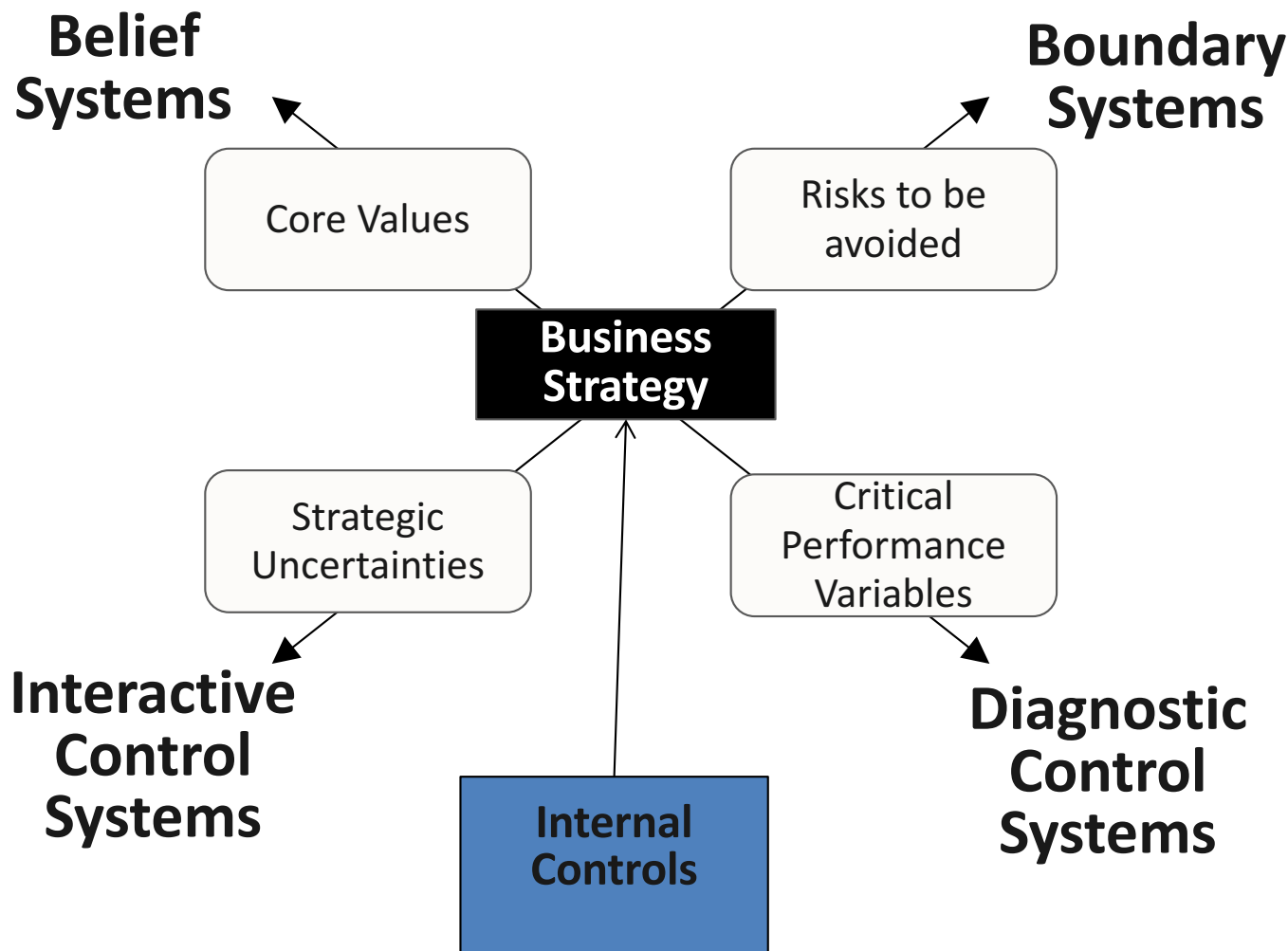
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Bias

Decision Outcomes

Business Trends

- Accelerating path of innovation
- Increasing consumer sophistication
- Growing intensity of competition (industry consolidation and collapse of barriers to entry)

Increased need for decentralization

Need for multiple control systems

Belief Systems

Boundary Systems

Core Values

Risks to be avoided

Business Strategy

Strategic Uncertainties

Critical Performance Variables

Interactive Control Systems

Diagnostic Control Systems

Internal Controls

Focus on control

The agency theory paradigm has been dominant in the literature:
Design compensation systems that align managers with shareholders
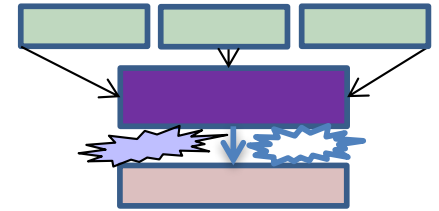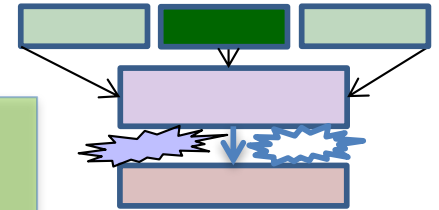
Focus on the usefulness of performance metrics to improve incentive contracting

Profits (horizon)

Stock-price based compensation

Capital markets trends

- Capital market institutional structure
- Average holding period of stocks has declined over time (1960-8yr 4mo; today 8mo)
- Quarterly reporting

Increased short-term focus

Socio demographic trends

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- The millennials (the Victoria paradigm)
- They need to have a meaningful job
- There is more turnover
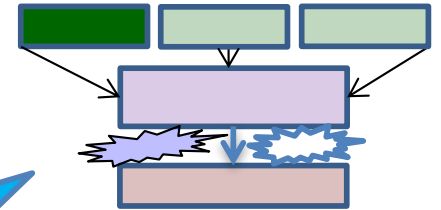
- Less alignment
- More short-term
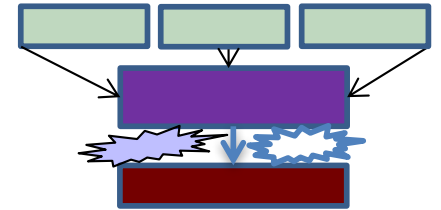
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The opportunity in performance metrics
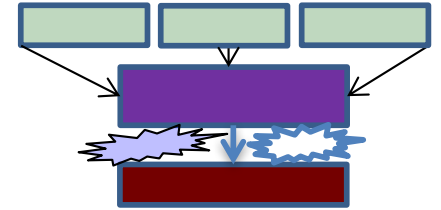
Little research focuses on how managers use new accounting information to improve their effort choices when there is no change to their incentive contracts:

- Content
- And form

Help to overcome short-termism
Also to decentralize

Case study research: Customer Information Blinders

Excessive reliance on performance metrics leads to do things as usual and miss new opportunities.

Content: Customer Lifetime Value

- Middle-size bank in Southern Europe
- Sophisticated in technology, innovation and human capital
- Incentive system based on profits (EVA)
- Push to sell more and sell more mortgages
- Introduced the mortgage simulator to:
    - Make employees think of customer not product
    - Facilitate negotiations with customers

What were the potential biases

4 sources of short-termism for mortgage lender.

2 pre-existing when CLV deployed:

- Think of product not of customer
- Think of just the product being sold not of cross-selling

2 potentially CLV-induced

- Drop prices to increase sales
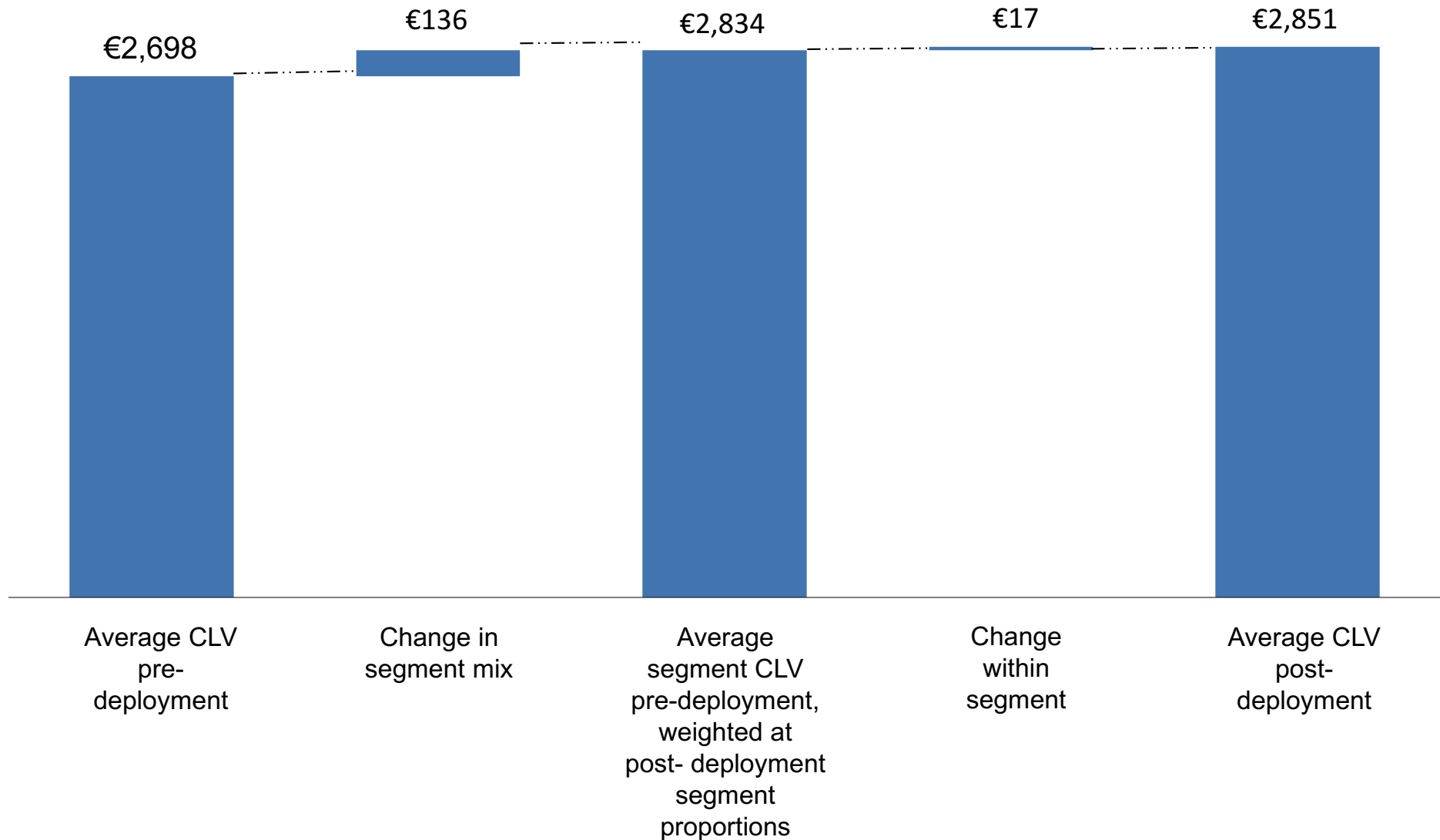- Drop credit standards to increase profits today

What we found

We found the following effects on branch managers' decisions:

- Segment composition:
  - Managers focus on most profitable segments
- Cross-selling:
  - There is some increase in cross-selling, especially in new customers
- Pricing:
  - Managers do not react by discounting prices excessively
- Risk performance:
  - If anything, there is an improvement in the risk assessment performance

Change in Average Customer Value Pre- and Post-CLV Availability

Average Customer Value per Segment Pre- and Post-CLV Availability (€)

Bar chart comparing Pre-CLV and Post-CLV values:

	Segment A	Segment B	Segment C	Segment D	Average
Pre-CLV	3,728	2,567	1,870	1,362	2,698
Post-CLV	3,741	2,597	1,843	1,473	2,851
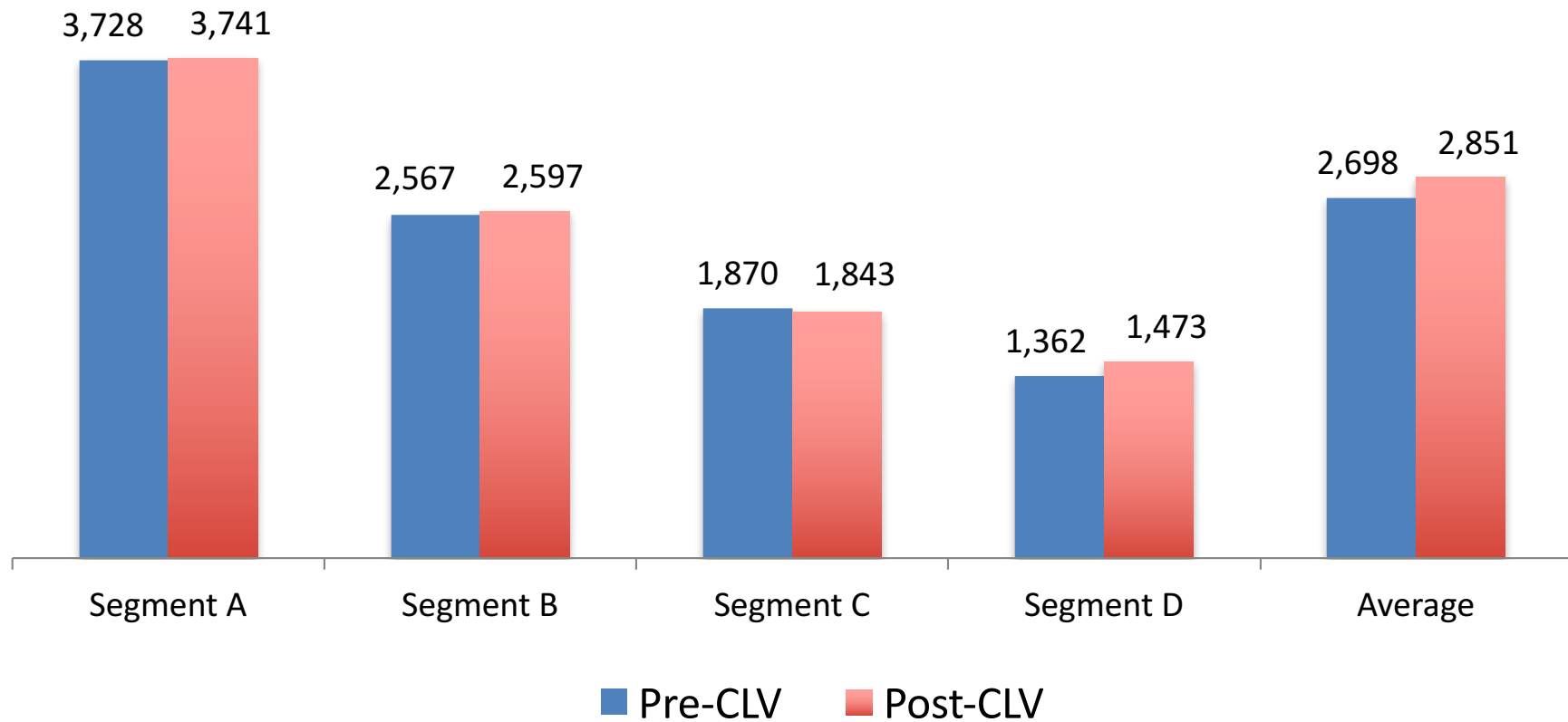
Form: Feedback frequency and detail

- Multiasistencia provides claims management services with repair needs for insurance groups

- It manages a network of about 800 professionals that provide repair services in Spain

- Professionals are paid a fixed fee for small jobs (about 80%) and denial of service, and based on number of hours and cost of materials for larger jobs

- In 2011, Multiasistencia begins to focus effort on improving customer satisfaction

- Had doubts on what system to implement

Form: Feedback
Sources of short-termism

- Induced by content of current metrics of performance (cost plus and number of repairs)
  - The firm (Multiasistencia)
    - Maximize number and volume of repairs
    - Included some measures of quality
  - The professional
    - Do the repair, cash the check
  - Generally tackled with relational contracts
  - Reinforced with the customer satisfaction metrics
- Short-termism induced by the new metrics

The experiment we run

- Compensation of professionals based on a monthly bonus for each of three performance measures (starting April 2013)

- We randomly assigned each of the professionals to one treatment:

Feedback:	Aggregate	Detailed
Monthly	MA (control)	MD
Weekly	WA	WD

- We allocated 200 professionals to the monthly treatments, and 600 to the weekly treatments

What happened

	January - April 2013			
	MA	**MD**	**WA**	**WD**
Detractors	13.02%	14.23%	14.44%	14.53%
No Detractors	30.25%	24.70%	25.71%	26.06%
On Time	50.11%	53.76%	50.02%	48.55%
PDA	76.50%	71.67%	76.39%	73.93%
	May - July 2013			
	MA	**MD**	**WA**	**WD**
Detractors	10.53%	8.37%	10.52%	11.15%
No Detractors	39.10%	43.37%	38.05%	38.66%
On Time	54.26%	55.76%	53.64%	50.79%
PDA	79.30%	75.76%	77.40%	77.11%

Two studies one horizon: the long run

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|	CLV	Customer Satisfaction
The mechanism	• Showing the decision-maker the consequences of his/her decision • Maybe implicit incentives	• Forcing the decision maker to maximize the information he/she uses at time of decision
The method	• Field archival	• Field experiment
The commonalities	• Grounded in economic theory • Problems that concerned the managers of the firm	

Accounting and Control Practices as a Source of Relational Contracts (and decision horizon and learning)

"Loose Monitoring" Properties

"Tight Monitoring" Properties
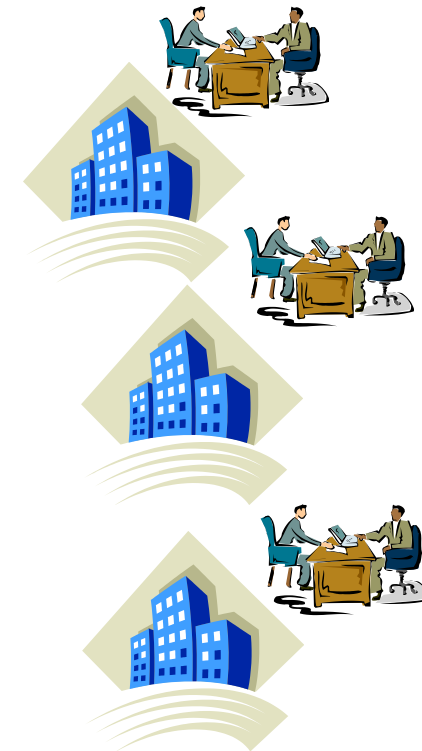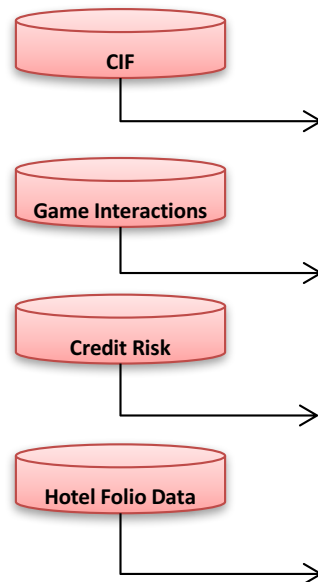
Conditional probability of termination if overcomped": 6x higher in "tight" vs. "loose" monitoring properties

Comps

Variation in Shared Beliefs and Persistent Differences in Behavior

	All Properties	Tight Monitoring	Loose Monitoring
% Discretionary Decisions	23.7%	19.6%	29.2%
Probability of being "overcomped"	23.5%	13.9%	36.8%
Average Comp %	45.8%	35.6%	59.8%

Employees in "tight" monitoring properties also:

- *Place significantly less weight on past customer performance in their comp decisions*
- *Place significantly more weight on the status of their overall portfolio of customer-relationships for the year*

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What should inspire our research?

- Look at what are managers' concerns
  - My personal claim for emphasis on the field
- Tackle big issues
  - Big data
  - Culture
  - Innovation
  - Design of information systems
- Then fit them in the literature