CODES OF CONDUCT IN STRATEGIC MANAGEMENT CONTROL

- Case study -

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ABSTRACT

The case study uses the setting of a wholesale bakery. It explains how to assess the overall, risk-adjusted value contribution from its operations. Then the case demonstrates how to drill down into different segments to understand the sources of profitability and pockets of growth better. For this, the BCG-matrix is used. Last, it illustrates how to enforce a code of conduct within the company's boundary and belief systems. The case study specifically addresses managerial characteristics of the executive team and their pertinent types of leadership. This case study is designed for teaching purposes, and not meant to illustrate good or bad actual corporate practices. Opinions formulated by the author should only stimulate class discussions.

Keywords: *Economic Value Added; Residual Income; CFO; Boston consulting (BCG) matrix; compliance; ethics; teaching notes.*

1. INTRODUCTION

BCC is an industrial bakery that delivers bread, cakes, and cookies to supermarkets. Caroline, the CFO, and Max, the CEO, have made their dream come true and founded the company some years ago. Their bread and butter business is selling bread and cake. Recently, a famous social media influencer has promoted some of BCC's uniquely decorated prototype cookies on her account "The flavor of the month".

Since then, demand for these cookies has been crazy: International movie stars have been camping in the streets for up to 17 hours during winter to buy a bag of these cookies, and the "blue cookie monster beard" has become common among hipsters. BCC's most relevant competitor – Han&Oleg's Bread (HOB) – has tried to copy their recipe, but so far, only with mediocre success.

2. VALUE-BASED MANAGEMENT (APPROX. 40 MINUTES)

The CFO Caroline is a business school graduate. She aims at calculating the overall profitability of BCC. She estimates BCC's weighted cost of capital (WACC) at 16%. Total assets add up to 112 million EUR. Of these, 12 million EUR are current liabilities.

The operating income (OI) totals 17.92 million EUR. Of the OI, 0.147 million EUR have already been deducted for training of staff. The CFO highlights her view that training is not an expense, but an investment into BCC's employees. She says that this training will add value for BCC during the next three years.

Required:

1) Compute residual income (RI). For this purpose, assume that total assets represent the 'investment'.

2) Capitalize (cf. assets) and amortize (cf. income) training using the straight-line method over a 3-year period. Then, compute Economic Value Added (EVA).