MOTIVATIONAL EFFECTS OF MANAGEMENT CONTROL SYSTEMS IN ASSISTED LIVING FACILITIES - Study case

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dx.doi.org/10.18374/JABE-22-4.3

ABSTRACT

Management Control Systems (MCS) are used to support planning activities and performance evaluations. MCS tend to include incentives for managers, and thereby influence the behavior of leaders and staff. This case study explores the effect of costing systems and transfer prices that are only partially successful in their contributions to managing an assisted living facility. The case illustrates conflicts among divisions and division members, and raises many opportunities to discuss financial as well non-financial initiatives that may solve some of the problems the facility faces.

Keywords: *Time-driven activity-based costing; transfer pricing; teaching notes; target setting; incentives.*

1. INTRODUCTION

Redshank Senior Living (RSL) is a senior living facility that is part of the corporation Redshank SE. Among its various services in hospitality and sports, Redshank SE runs RSL as an assisted living investment center. Its senior citizen residents each have a private apartment and all meals are provided. Seniors in assisted living are no longer capable of fully organizing their day by themselves. The skilled staff in assisted living facilities provide the help they need. All residents pay the same daily fee for these services. This division of RSL is in high demand, has a waiting list, and runs at full capacity.

2. TIME–DRIVEN ACTIVITY–BASED COSTING (APPROX. 40 MINUTES)

Currently, RSL calculates the daily rates for residents by adding all costs for the residential space, the meals, and the care staff, and dividing this sum by the number of resident days. RSL adds a markup for its shareholders that is customary in this industry. Recently, some insurance firms that pay for the health care of the residents have complained that charging the same fee to all residents is not a realistic reflection of the resources that each individual consumes. Their legal departments have urged RSL to revise their daily rates immediately.

RSL’s new head accountant, Amy, recognizes that every resident consumes roughly the same apartment space and the same number of meals. But she sees that residents have different needs in terms of assistance. Amy uses a National Medical Association classification system to classify residents into three groups from A (little assistance needed) to C (much assistance needed). Some of the services require a high level of skill, especially for the C–classification residents.

Trained nurses must perform these services. More basic services are carried out by assistants who either have no formal training or are studying for their nursing qualifications. Amy thinks that time–driven activity–based costing (TDABC) would be the most suitable costing system to determine individual costs per resident day. She familiarized herself with the standard estimated timings for individual care tasks prescribed by the National Medical Association, conducted interviews with the staff, and analyzed written documentation on RSL care. She compiled the following information on the residents and staff of RSL: