

### Topic: Relative benefit depreciation for project selection

In large firms, investment decisions are delegated to decentralized decision makers who have access to significant private information about future investment returns. When controlling the decisions of the decentralized management, firms face a horizon problem. Long-term investments affect cash flows over several years. In contrast, managers leave their positions frequently and may leave the firm before the consequences of their decisions are realized. As a consequence, it is difficult to hold managers accountable for their investment choices.

As shown by Reichelstein (1997) and Rogerson (1997), using residual income as performance measure and applying the relative benefit depreciation method can help firms overcome the horizon problem. A problem with this solution is that it potentially induces inefficient decisions if managers can choose between multiple exclusive investment projects. In this case, Mohnen and Bareket (2007) illustrate that the mechanism can be adjusted to induce efficient project choices. The objective of the thesis is to explain the relative benefit depreciation method in a setting where a manager has access to a single investment project (Reichelstein 1997) or can choose between multiple exclusive projects (Mohnen and Bareket 2007). The author outlines and proves the efficient mechanism in both cases and critically discusses the opportunities and limits of residual income-based performance measures in controlling investment decisions.

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### Ausgangsliteratur

- › Reichelstein, S. (1997). Investment decisions and managerial performance evaluation. *Review of Accounting Studies* 2, pp. 157-180.  
<https://doi.org/10.1023/A:1018376808228>
- › Rogerson, W. P. (1997). Intertemporal cost allocation and managerial investment incentives. *The Journal of Political Economy* 105, pp. 770-795.  
<https://doi.org/10.1086/262093>
- › Mohnen, A., and M. Bareket (2007). Performance measurement for investment decisions under capital constraints. *Review of Accounting Studies* 12, pp. 1-22.  
<https://doi.org/10.1007/s11142-006-9020-1>

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### Bewerbungsprozess

Interessierte Studierende können sich bis **17.06.2024** per E-Mail bewerben. Dazu senden Sie mir bitte ein aktuelles Sammelzeugnis und ein Motivationsschreiben an [ulrich.schaefer@univie.ac.at](mailto:ulrich.schaefer@univie.ac.at). Für die Bearbeitung des Themas sind das Verständnis des Preinreich-Lücke-Theorems und Kenntnisse bei der Ermittlung und Anwendung wertorientierter Kennzahlen wie dem Economic Value Added (EVA) von Vorteil. Bitte legen Sie im Motivationsschreiben dar, inwiefern Sie mit diesen Grundlagen vertraut sind.

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<https://controlling.univie.ac.at/master/masterarbeiten/>

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