

The University of Hong Kong  
Faculty of Business & Economics  
School of Business

**PMBA 2235 – ACCOUNTING CONTROL AND  
MANAGEMENT BEHAVIOR**



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**Office hours .... Most times by appointment only**

**Prerequisites ..... PMBA6013 Accounting for Business Decisions OR  
PMBA2902 Accounting & Business Decisions**

## **A. OVERVIEW**

### **I. Course Scope and Objectives**

The emphasis of this course is accounting and control. That is, in understanding the information and measurement properties of strategic performance measurement systems for the purposes of (i) allocating resources among firms, between departments or divisions of individual firms, (ii) rewarding and monitoring the performance of managers, and (iii) executing strategy through the development of key performance measures. Students who undertake this course will be able to take advantage of professional development workshop materials created for HKICPA, which will help them to keep abreast with the latest development in the field. Students will also be exposed to the growing amount of applied research in the Accounting Literature on the usefulness of strategic performance measurement systems.

The course is taught by a series of lectures, case presentations and discussions. The cases permit the exploration of the control issues in a broad range of settings (e.g., large and small firms, manufacturing and service firms, for-profit and not-for-profit firms). The cases are listed in the class schedule below.

## II. Textbook

### Primary textbook:

#### Source of most of the case studies used in the course

Merchant, Kenneth A. and Van der Stede, Wim A., 2003. Management Control Systems: Performance Measurement, Evaluation and Incentive, Prentice Hall/Pearson Education.

!!!You need to purchase this textbook as it contains most of the cases.

### Secondary textbook:

#### Source of the theoretical material on management control systems – detailed in the powerpoint slides. NB: The coverage of this textbook is the first six chapters

Merchant, Kenneth A. and Van der Stede, Wim A., 2003. Management Control Systems: Performance Measurement, Evaluation and Incentive, Prentice Hall/Pearson Education.

Purchasing this textbook is highly recommended as it provides an excellent reference for many of the concepts of management control systems.

### Reading guidelines

#### A. CASE STUDIES (most are in my book).

The focus of the reading should be:

- A) What is the issue?
- B) Why does it happen?
- C) What is the solution?

For the cases in my book - it is important that the whole case be read through at least once with the above questions in mind.

#### B. READINGS

For the readings - at least read the first half of each article (attached readings only) is sufficient to get the gist of the a) issue, b) framework of analysis.

## III. Computer

You will need to bring your notebook computer to class in order to run the computer simulation exercise. The minimum requirements are Windows XP with Quick time (supplied for free by [www.Apple.com](http://www.Apple.com)) media player software and a CD ROM drive. Earphones will be useful too. Arrangements can be made for power to be provided in the class.

## **B. ASSESSMENT**

### **I. Program Learning Objectives (PLOs):**

**PLO1:** Acquisition and internalization of business knowledge and skills in key functional areas.

**PLO2:** Application of business knowledge to solve business problems.

**PLO3:** Develop managerial leadership and inculcate professional ethics and competency in business.

**PLO4:** Developing global outlook.

**PLO5:** Mastering communication skills.

### **II. Course Learning Objectives (CLOs):**

Our learning goals in this course are for you to:

**CLO1:** Operationally define and describe management control systems and its impact on management behavior, including being able to identify problems or concerns with the management control systems.

**CLO2:** Assess the fit between organization's strategy and its management control systems. Specifically, how strategic performance measurement systems can enhance decision making.

**CLO3:** Understand the problems/issues associated with the successful implementation of strategic performance measurement systems, including the development of a strategy map and causal business model that formulizes business strategy?

**CLO4:** Develop ability to apply the management control concepts in a real world setting and propose workable solutions to the identified problems or concerns.

### III: Mapping of Program and Course Learning Objectives:

IMBA Program Learning Objective (PLOs)	CLOs (e.g. CLO1, ...) <i>*Multiple CLOs are allowed for each PLO)</i>
1. Acquisition and internalization of business knowledge and skills in key functional areas.	CLO1, 2
2. Application of business knowledge to solve business problems.	CLO1, 2
3. Develop managerial leadership and inculcate professional ethics and competency in business.	CLO4
4. Developing global outlook.	CLO1
5. Mastering communication skills.	CLO4

### IV. Assessment Activities

#### Group Work:

**Objectives:** promoting active learning; bridging the gulf between students and teacher; creating a sense of community; developing teamwork, communication and presentation skills.

Please form a group of five students (maximum). Please email the name of your group and your group members as well as their student ID number. If you do not have a group to join, please let me know as soon as possible so that I can assign you to a group.



#### 1. Strategy Map Case (20%)

All groups are required to construct a strategy map of something that they are familiar with, such as how to be successful in the business of your parents, or the business of your summer work employer. The map must consist of (i) different time objectives such as those defined by the balanced scorecard – financial, customer, internal process and learning, (ii) specific measures and targets that need to be achieved at each level in order to be a successful at the end objective, and (iii) linkages between the various objectives. Prepare a two page (one page for the strategy map and one page that explains the various linkages). All groups will present their strategy map to the class.

#### Details of assessment criteria

Marks will be awarded on the presentation for:

- Description of the case and how the strategy map fits the firms business model (10%)
- How the linkages between the various objectives and accompanying measures are displayed and explained (10%)

## 2. Computer Simulation Exercise (20%)

The balanced scorecard exercise is a business simulation with the sole objective of help you make decisions based on understanding the systematic linkages between operations in an organization as they pertain to the four components of the balanced scorecard. Students will be graded on both presentation and report.

### Details of assessment criteria

- a) Winning with the highest profit (10%)
- b) Ability to articulate your learning in the game (10%)

Computer simulation presentation – 3 PowerPoint slides maximum.

- a) What is the difference between a basic strategy map and a causal business model that formulizes business strategy?
- b) What were the key decision points – that were critical to survival in the exercise?
- c) What were the key measures that were most useful and why were such measures useful?
- d) How what you learnt relates to the proposed benefits of the balanced scorecard (refer to recent articles on the balanced scorecard)?

## 3. MCS Application Project Paper/ Presentation (40%)

For the Group Project you will select a management control issue (e.g., types of control, budgeting, performance measurement, incentive systems, transfer pricing, and control of multinational divisions) in an organization of your choice and analyze the effects on behavior. The management control issue selected has to relate to what we cover in this course.

This is a group assignment. Group composition is entirely up to you (maximum of five members). You need to submit **a brief outline/proposal (one-page)** of your group project by 19<sup>th</sup> October, 2008. In the proposal, please indicate the names of your group members. The time allocated for each presentation (20<sup>th</sup> October, 2008) is **15** minutes. Please keep to your time limit for presentation and leave **5** minutes for Q&A.

Final written report – 10 pages maximum length (including all tables, figures and attachments. Due date: 3<sup>rd</sup> November.

### Details of assessment criteria

#### **General Guidelines for Presentations in Class**

#### ***Good presentation grades are assigned to groups who:***

- Prepare at least three-four powerpoint slides that summarizes the main points of the Strategy Map, Project or Case
- Briefly introduces the content of the Chapter, Reading or Case in a way that relates to (i) prior Chapters, (ii) actual examples and (iii) prior experience of presenters or class members
- Spends more time to facilitate and interact with the class by (i) asking questions, (ii) developing consensus, solutions from the class, and (iii) seeking feedback

#### ***Poor presentation grades are assigned to groups who:***

- Read directly from the powerpoint
- Try to include every detail without thinking about the priority of certain issues, or emphasizing the salient points

- Do not seek class interaction through questioning, discussing etc.
- Are not conscious of the time spent relative to the salience of each point or example (eg. more time can be devoted to important points, less time may be devoted to unimportant points).

**4. Attendance and In-class Critique (20% for individual):**

Attendance will be taken for the lectures and tutorials. The attendance and participation in class will be considered in assigning points for attendance and individual participation.

**Details of assessment criteria**

**General Guidelines for Participation in Class**

***Good participation grades are assigned to students who:***

- Ask insightful, penetrating questions
- Push the discussion of the case to a higher, more sophisticated level
- Help other students and myself understand, in a constructive manner, that some of the arguments that have been voiced are somehow flawed or incomplete.

***Poor participation grades are assigned to students who:***

- Rarely talk
- Skip classes
- Make irrelevant, shallow comments
- Are unprepared when they are called on.

**V: Mapping of Assessment Methods and Course Learning Objectives:**

<b><u>Assessment Method</u></b>	<b><u>Weig hting (in %)</u></b>	<b>CLOs (e.g. CLO1, ...)</b> <i>*Multiple CLOs are allowed for each PLO)</i>
1. Lecture Attendance & Participation - MCS Application Project – Presentation	10	<b>CLO1</b>
2. Computer Simulation Exercise (group of 2)	20	<b>CLO2</b>
3. Attendance & In-class Participation	20	<b>CLO3, 4</b>
4. Case Analysis and Presentation - Strategy Map Case – Report and presentation	20	<b>CLO2</b>
6. Group Project - MCS Application Project – Written report	30	<b>CLO3, 4</b>
	<b>Total: 100%</b>	

## C. EXPECTATIONS

Please use a name card in the class. Grading class participation requires that I get to know everybody as soon as possible.

My expectation is that you will come to class every time. If you will be absent, please let me know before class. I can tolerate a small number of good excuses. Finally, students are expected to adhere to, and will be bound by, the University policies governing academic integrity.

## D. COURSE POLICIES

### Academic dishonesty

**The University Regulations on academic dishonesty will be strictly enforced! Please check the University Statement on plagiarism on the web: <http://www.hku.hk/plagiarism/>** Academic dishonesty is behavior in which a deliberately fraudulent misrepresentation is employed in an attempt to gain undeserved intellectual credit, either for oneself or for another. It includes, but is not necessarily limited to, the following types of cases:

- a. Plagiarism - The representation of someone else's ideas as if they are one's own. Where the arguments, data, designs, etc., of someone else are being used in a paper, report, oral presentation, or similar academic project, this fact must be made explicitly clear by citing the appropriate references. The references must fully indicate the extent to which any parts of the project are not one's own work. Paraphrasing of someone else's ideas is still using someone else's ideas, and must be **acknowledged**.
- b. Unauthorized Collaboration on Out-of-Class Projects - The representation of work as solely one's own when in fact it is the result of a joint effort.
- c. Cheating on In-Class Exams - The covert gathering of information from other students, the use of unauthorized notes, unauthorized aids, etc.
- d. Unauthorized Advance Access to an Exam - The representation of materials prepared at leisure, as a result of unauthorized advance access (however obtained), as if it were prepared under the rigors of the exam setting. This misrepresentation is dishonest in itself even if there are not compounding factors, such as unauthorized uses of books or notes.

Where a candidate for a degree or other award uses the work of another person or persons without due acknowledgement:

1. The relevant Board of Examiners may impose a penalty in relation to the seriousness of the offence;
2. The relevant Board of Examiners may report the candidate to the Senate, where there is *prima facie* evidence of an intention to deceive and where sanctions beyond those in (1) might be invoked.

## IX. WEB RESOURCES

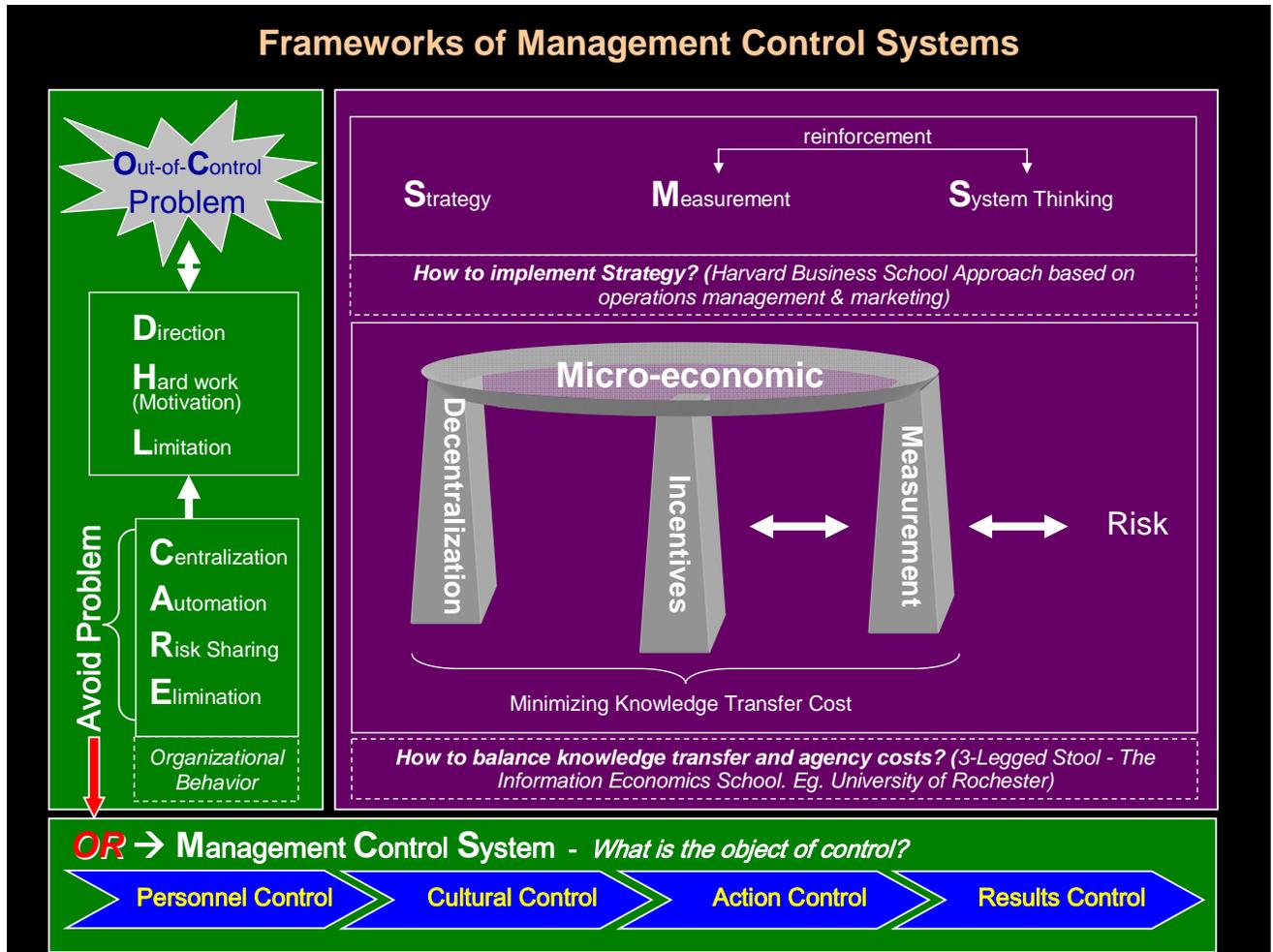
Two types of resources will be used to manage the course during the semester:

### Yahoo groups:

Will be used as a message board to ask questions, give instant feedback through polls and exchange ideas about management accounting. Follow these simple steps to join the MA206 yahoo group. Subscribe to Yahoo groups (see my website for direct access). **Click on the "Yahoo! Groups join now!" icon on the right side of [www.brainlid.com](http://www.brainlid.com) (my homepage) – or**

**My email address: [occonnor@business.hku.hk](mailto:occonnor@business.hku.hk) will be used to submit any assignments.**

Figure 1. Structure of the course



# ACCOUNTING CONTROL AND MANAGEMENT BEHAVIOR

## COURSE OUTLINE\*

Session	Week Beginning	Topic	Case Assignment & Reading
<b>A. Strategy and defining management control systems (Motivation)</b>			
<b>1</b>		<p><b>1. Course overview (One hour)</b></p> <ul style="list-style-type: none"> <li>- Objectives, Assessment, Outcomes</li> <li>- Presentation duties</li> <li>- Case studies and reading material</li> <li>- Computer simulation game – prepare for Saturday workshop</li> </ul>	<p><b>Tasks:</b></p> <ol style="list-style-type: none"> <li>1. Form quick groups and read outline               <ul style="list-style-type: none"> <li>- Strategy map group (5-6 members)</li> <li>- Simulation game group (2 members)</li> <li>- Major project group (5-6 members)</li> </ul> </li> </ol>
		<p><b>A. Management Control Frameworks (Behavioral Perspectives) (Two hours)</b></p> <p><b>1. Out of control problem</b></p> <p><b>2. Factors impacting on Management Control</b></p> <p><i>Role of management control systems</i></p> <p><i>Causes of management control problems (OC)</i></p> <ul style="list-style-type: none"> <li>- (D) Lack of direction</li> <li>- (H) Motivational problems</li> <li>- (L) Personal limitations</li> </ul> <p><b>1. How to achieve good control?</b></p> <p><i>What is good management control?</i></p> <p><i>Avoiding control problems</i></p> <ul style="list-style-type: none"> <li>- (C) Centralization</li> <li>- (A) Automation</li> <li>- (R) Risk sharing</li> <li>- (E) Activity elimination</li> </ul> <p>- Management controls</p> <p><b>Highlight: OC DHL CARE</b></p> <p><b>4. Management control frameworks</b></p> <ul style="list-style-type: none"> <li>- People, Action and Results controls</li> </ul> <p><i>Object of control framework</i></p> <ul style="list-style-type: none"> <li>- The conditions that allow each</li> </ul>	<p><b>Tasks:</b></p> <p><b>1. Read before class:</b></p> <p><b>Case Example #1</b> (1-NGO) A Ltd – Guanxi and Agency Problems in China (NGO, p.28)</p> <ol style="list-style-type: none"> <li>1. What is the problem here?</li> <li>2. How to manage this problem?</li> </ol> <p><b>Case Example #2</b> (2-NGO) ABC Ltd – Managing a Service Department in China (NGO, p.128)</p> <ol style="list-style-type: none"> <li>1. What is the problem here?</li> <li>2. How to manage this problem?</li> </ol> <p><b>Case Example #3</b> (3-NGO) ECG Group – Fraud and the Liquidation of a Joint Venture in China (NGO, p.198)</p> <ol style="list-style-type: none"> <li>1. What were the various weaknesses in the internal control system in this case?</li> <li>2. In what ways could the situation have been avoided?</li> <li>3. In what ways did Chinese accounting practice interfere in the transition of the joint venture from a manufacturing entity to an engineering service company?</li> <li>4. How can the process of liquidation be more effectively managed?</li> </ol>

		<p>type of control to work best?  <b>Highlight: Basic object of control framework</b>  <b>Highlight: What control problems are addressed by each of the control types?</b></p> <p>5. Designing and Evaluating MCS  - Implementation strategies  <b>Highlight: Sequence of introducing controls – Action, Cultural and Results controls</b>  <b>The role of controls - Present summary of Sandino (2007)</b>  <b>Highlight: New framework/terminology</b></p>	<p>(4) Sandino, T. 2007. Introducing the first management control systems: Evidence from the retail sector. <i>The Accounting Review</i> 82(1): 265-293.</p>
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Session	Week Beginning	Topic	Case Assignment & Reading
2		<p><b>B. Strategy and Management Control (Harvard Business School Perspective) (Two hours)</b>  <i>Where, What and How of strategy</i></p> <p>6. What is the Balanced Scorecard?  <b>Benefits of the BSC</b>  -Goal congruence  -<i>On-time decision making</i>  -Alignment  -Learning</p> <p>7. Strategic Objectives  - Sustainable competitive advantage (SCA)  -<b>SCA Framework</b>  (NGO) Fortune Ltd. – The Balanced Scorecard in a Sino-US Joint Venture in China (NGO, p.180)</p> <p><b>Highlight: How to determine your sustainable competitive advantage?</b></p> <p>8. Systems Thinking  - Role of strategy maps  Alignment &amp; Focus  -<b>Maxim strategy map exercise</b>  <b>Example of a strategy map</b></p>	<p><b>Tasks:</b>  <b>Read before class:</b></p> <p>(5) O'Connor, N. G, "Map Business Strategy and Develop Performance Measures That Matter: Developing a Strategy Map, <i>Australian CPA Network Journal</i>, October 2004.  Download from:  <a href="http://www.fbe.hku.hk/~conner/acno/">http://www.fbe.hku.hk/~conner/acno/</a></p> <p><b>Case Example #4</b>  (6-NGO) Case study - O'Connor, N. G. and Feng, E., "Using the balanced scorecard to manage intangible assets in a Sino-foreign joint venture". <i>Australian Accounting Review</i>, 2005, 15, 2.</p> <p><b>Also see Fortune Ltd. – The Balanced Scorecard in a Sino-US Joint Venture in China (NGO, p.180)</b></p> <ol style="list-style-type: none"> <li>1. What are the problems involved in managing and controlling R&amp;D functions?</li> <li>2. How is a R&amp;D function different from a sales function?</li> <li>3. How to measure R&amp;D productivity?</li> <li>4. How does the Balanced Scorecard approach differ from other approaches to performance measurement? What, if anything, distinguishes the balanced scorecard approach from a "measure everything, and you might get what you want" philosophy?</li> </ol>

		<p><b>Highlight: How to reach consensus on a basic strategy?</b>  <b>Highlight: How to draw a strategy map?</b></p> <p>2.2 Strategy Map exercise - Decide on which firm to do?</p> <p>2.2 Discuss major project options Half hour</p>	
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<b>3</b>		<p><b>Special Workshop</b></p> <p><b>3.1 Balancing the Corporate Scorecard Game (three hours)</b> The game will be played in groups of two</p> <p><b>Introduction</b>  <b>Objectives</b>  <b>Rounds of play</b></p>	<p><b>Assessable Tasks:</b>  <b>Computer simulation game (10%) :</b> Bring notebook computer with DVD ROM and power cord</p>
<b>4</b>		<p><b>3.2 Game Play</b> One hour</p> <p><b>3.3 Game play debrief</b> One hour</p> <p><b>3.4 Strategy Map Work</b> One hour</p> <p><b>3.5 MCS Proposal Work</b> One hour</p>	<p><b>Assessable Tasks:</b>  <b>Computer simulation presentation (10%) – 3 powerpoint slides maximum.</b></p> <p>a) What is the difference between a basic strategy map and a causal business model that formulizes business strategy?</p> <p>b) What were the key decision points – that were critical to survival in the exercise?</p> <p>c) What were the key measures that were most useful and why were such measures useful?</p> <p>d) How what you learnt relates to the proposed benefits of the balanced scorecard (refer to recent articles on the balanced scorecard)?</p>

## B. Responsibility frameworks for designing management control systems

Session	Week Beginning	Topic	Case Assignment & Reading
5		<p><b>C. Management Control System Design (Rochester Business School Perspective)</b></p> <p><b>9. Decentralization</b></p> <p><i>Knowledge transfer costs Determinants - size, automation, knowledge aggregatability technology, competition, product heterogeneity, uncertainty</i></p> <p><b>Highlight: Three legged stool</b></p> <p><b>Highlight: The customer as a monitoring agent</b></p> <p><i>Responsibility-Based, Activity-Based and Strategy-based Responsibility Centers</i></p> <p><b>Highlight: Contrast different types of Responsibility Centers</b></p>	<p><b>Tasks:</b> <b>Read before class:</b> (7) O'Connor, N.G., Deng, J., &amp; Luo, Y. Political constraints, organization design and performance measurement in China's State-owned enterprises. <b>Accounting, Organizations and Society.</b> (2006), pp. 157-177.</p> <ol style="list-style-type: none"> <li>1. What are knowledge transfer costs?</li> <li>2. What are the main determinants of knowledge transfer costs?</li> <li>3. What is the three legged stool?</li> <li>4. What types of controls fit under each leg?</li> <li>5. Why is balance necessary? Consider if one of the legs was missing – what costs/problems would arise?</li> </ol> <p><b>Case Presentation #3</b> (8-NGO) Yunhong Group – Delegation and Performance Measurement (NGO, p.198)</p>
6		<p>Preview of: <b>5.1 Measurement – Designing strategic performance measurement systems</b></p>	<p><b>Assessable Tasks:</b> <b>Presentation of Strategy Map project (20%)</b></p>

Session	Week	Topic	Case Assignment & Reading
<b>C. Designing strategic performance measurement systems</b>			
<b>7</b>		<p><b>5.2 Measurement – Designing strategic performance measurement systems</b></p> <p>How to develop performance measures?</p> <p><b>Highlight: Mistakes companies make in implementation</b></p> <p>What are the unintended consequences of focusing on certain measures?</p> <p><b>5.2 Combinations of measures and other remedies to the myopia problem -The BSC</b></p> <p><i>Addressing the Myopia Problems</i>  <i>Use aggregate measures (EVA)</i>  <i>Control investments with preaction reviews</i>  <i>Improve accounting profit measures</i>  <i>Extend the measurement horizon</i>  <i>Measure a set of value drivers</i>  <i>Reduce pressure for short term profit</i></p> <p><b>5.3 Principals of multiple performance measurement systems</b></p> <ul style="list-style-type: none"> <li>- Measurement diversity</li> <li>- Measure alignment with strategy</li> <li>- Causality among measures</li> <li>- Legitimacy of control</li> </ul> <p><b>Highlight: Bias in subjective performance measurement</b>  <b>Highlight: Tradeoff between controllability and accountability</b></p> <p><i>Implementation issues</i>  <b>Measurement of intangibles</b></p>	<p><b>Tasks:</b>  <b>Read before class:</b>  (9) O'Connor, N. G, " Getting results", <i>Australian CPA Network Journal</i>, April 2005.</p> <p>(10) Case study - Knowledge@Wharton. (2000). <i>Non-financial Performance Measures: What Works and What Doesn't</i>. Retrieved February 14, 2007, from <a href="http://knowledge.wharton.upenn.edu/createpdf.cfm?articleid=279">http://knowledge.wharton.upenn.edu/createpdf.cfm?articleid=279</a></p> <ol style="list-style-type: none"> <li>1. What are the most common mistakes firms make in measuring non-financial performance</li> <li>2. What are the unintended consequences of focusing on certain measures?</li> </ol> <p>(11-NGO) O'Connor, N. G, J.F. Deng &amp; M.D. Shields. 2007 "Determinants of Subjective Performance Measurement of Managerial Behavior", The University of Hong Kong, Dec 2007.</p> <ol style="list-style-type: none"> <li>1. What are the common types of bias in performance measurement?</li> <li>2. How does distance feature as an influence on such bias?</li> </ol>

<b>8</b>			<b>Assessable Tasks:</b> <b>1. Final project proposal presentations (10%)</b>
		Final report due	

### Reading code:

Yellow -see O'Connor, N.G. ***Management Control of Multinational Enterprises in China: A Contracting and Management Accounting Perspective***, McGraw-Hill, 2006.

Green – see reading materials

Blue – please download from [www.brainlid.com](http://www.brainlid.com)

Highlights in grey indicate critical ideas introduced in the class

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