

Profit Architecture Design: Executive Control Systems for Margin Expansion in Capital-Intensive Manufacturing Firms

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Abstract—Margin expansion in capital-intensive manufacturing firms is frequently pursued through cost reduction initiatives, yet such approaches often yield temporary improvements rather than structural profitability gains. High fixed-cost structures, operating leverage sensitivity, capital expenditure intensity, and working capital volatility render traditional cost control insufficient for sustained margin stability. This paper introduces the concept of Profit Architecture—a governance-centered framework positioning margin expansion as an executive design discipline rather than an accounting outcome. The study argues that durable profitability emerges from integrated control systems linking P&L ownership, capital allocation discipline, operational throughput governance, and margin protection mechanisms. By reframing EBITDA not as a retrospective metric but as a forward-looking design constraint, the article develops a model through which executive leadership can engineer scalable profit systems in capital-intensive environments. The contribution extends strategic management scholarship by embedding financial architecture into enterprise governance theory and offers actionable implications for manufacturing leaders navigating volatility and scale pressures.

Keywords—Profit architecture; Margin expansion; Executive governance; Capital-intensive manufacturing; EBITDA discipline; Operating leverage; Financial control systems; ROCE alignment.

I. INTRODUCTION

Capital-intensive manufacturing firms operate within a structural tension: profitability depends not only on sales performance but on the disciplined orchestration of fixed costs, capital investments, and capacity utilization. Unlike asset-light enterprises, these organizations carry substantial depreciation burdens, infrastructure commitments, and working capital exposure. As a result, margin expansion is neither automatic nor linear. Revenue growth does not guarantee profitability; in many cases, it amplifies margin volatility.

Traditional cost control frameworks focus on expense reduction, procurement efficiency, or labor

optimization. While necessary, such measures rarely produce durable margin expansion in capital-intensive settings. The reason lies in structural operating leverage. High fixed costs magnify the financial impact of capacity underutilization, pricing fluctuations, and demand variability. A small deviation in volume can materially distort EBITDA performance.

This paper advances a different perspective: margin expansion in capital-intensive manufacturing is fundamentally an executive design problem. Profitability must be architected through integrated governance systems that align pricing discipline, capital allocation, operational throughput, and financial control mechanisms. The term *Profit Architecture* is introduced to describe this systemic approach.

Profit Architecture shifts focus from reactive cost management to proactive margin engineering. It requires executive P&L ownership, granular cost transparency, disciplined capital deployment, and real-time financial oversight. Rather than treating EBITDA as a post-period evaluation tool, it becomes a structural constraint shaping strategic decisions.

The core argument of this study is that sustainable margin expansion emerges when profitability is embedded within enterprise governance architecture. Firms that institutionalize profit systems outperform those that pursue episodic efficiency initiatives.

The sections that follow examine the structural challenges of margin management in capital-intensive firms and develop a framework for executive control systems that enable durable profitability.

II. THE MARGIN PARADOX IN CAPITAL-INTENSIVE FIRMS

Capital-intensive manufacturing firms often

experience what may be termed the *margin paradox*: revenue growth can coincide with margin compression. This paradox emerges from structural operating leverage. High fixed costs—depreciation, plant overhead, technical personnel, maintenance infrastructure—create a profitability model heavily dependent on capacity utilization. When utilization rises, margins expand disproportionately; when it falls, profitability deteriorates rapidly.

However, even during growth phases, margin expansion is not guaranteed. Increased volume frequently requires incremental working capital, accelerated maintenance cycles, expanded logistics capacity, and additional compliance costs. In competitive markets, pricing pressure may accompany volume gains, further compressing contribution margins. As a result, firms can report record revenues while experiencing declining profitability ratios.

The paradox intensifies when capital investment decisions are made reactively. Capacity expansion without synchronized demand stability increases depreciation burden before margin stability is secured. Conversely, underinvestment may constrain throughput and weaken client confidence. Profitability becomes sensitive not only to cost structure but to timing and governance quality.

This structural reality exposes the limitations of traditional cost accounting approaches. Aggregated cost reports fail to capture contribution margin variance across product lines, customers, or production configurations. Without granular visibility, executives cannot distinguish between revenue that strengthens profit architecture and revenue that undermines it.

The margin paradox therefore reframes profitability as a systems challenge. It is not merely about reducing expenses or increasing volume; it is about aligning fixed-cost absorption, pricing discipline, capital timing, and operational throughput within a coherent control architecture. Sustainable margin expansion requires intentional design rather than incidental efficiency.

The next section introduces the conceptual shift from conventional cost control toward the design of integrated profit systems—what this study defines as Profit Architecture.

III. FROM COST CONTROL TO PROFIT ARCHITECTURE

Traditional cost control emphasizes variance analysis, procurement negotiation, and budget enforcement. While these mechanisms remain essential, they operate primarily at the operational level. Profit Architecture, by contrast, functions at the executive level. It integrates financial logic into strategic decision-making processes.

The transition from cost control to Profit Architecture involves three conceptual shifts.

First, profitability becomes a design constraint rather than an outcome variable. Executive decisions—whether related to pricing, capacity expansion, or client acquisition—are evaluated through their projected structural impact on margin stability. EBITDA and ROCE are embedded into strategic planning rather than reviewed retrospectively.

Second, cost visibility becomes contribution-driven. Instead of examining total expenses, firms analyze margin by segment, product, shift configuration, and customer contract. This granularity reveals which revenue streams strengthen or dilute profit architecture. Contribution transparency transforms pricing negotiations and client portfolio strategy.

Third, capital allocation is incorporated into margin engineering. Investment decisions are assessed not solely on growth potential but on their ability to enhance fixed-cost absorption efficiency and long-term return metrics. Depreciation schedules, asset utilization, and working capital elasticity become integrated components of profitability governance.

Profit Architecture thus represents an executive control system that connects commercial ambition with financial discipline. It treats margin as an engineered outcome emerging from coordinated governance layers. In capital-intensive manufacturing, where structural costs dominate performance sensitivity, such integration becomes indispensable.

The following section formalizes this concept into a structured framework outlining the key layers of Profit Architecture and their interdependencies.

IV. THE PROFIT ARCHITECTURE

FRAMEWORK

Profit Architecture can be understood as an integrated control system composed of interdependent governance layers that collectively determine margin stability. In capital-intensive manufacturing, profitability is not the by-product of isolated efficiency gains; it emerges from structural coherence between cost transparency, capital discipline, operational throughput, and executive oversight.

The first layer of Profit Architecture is structural cost transparency. Capital-intensive firms often operate with complex overhead allocations that obscure true contribution margins. Profit Architecture requires cost decomposition at a granular level—by product configuration, customer segment, production shift, and contract type. This visibility enables executives to distinguish between revenue that enhances fixed-cost absorption and revenue that merely increases operational burden. Margin expansion begins with analytical clarity.

The second layer is capital efficiency governance. Fixed assets dominate the cost structure of manufacturing firms. Depreciation, financing costs, and maintenance commitments create performance rigidity. Profit Architecture therefore embeds capital allocation discipline within executive oversight. Investment decisions are evaluated not solely on projected volume growth but on their structural impact on return metrics such as ROCE and long-term EBITDA stability. Capital becomes a strategic instrument rather than a reactive expenditure.

The third layer involves margin protection mechanisms. Competitive markets frequently compress pricing, particularly in commoditized industrial segments. Profit Architecture integrates pricing discipline, contribution analysis, and contractual safeguards to prevent margin erosion. This includes structured bid evaluation, sensitivity modeling under different utilization scenarios, and explicit risk buffers for currency or input volatility. Margin protection is designed rather than improvised.

The fourth layer is executive decision control. Profit Architecture ultimately depends on leadership architecture. Clear P&L ownership, codified decision rights, and real-time financial dashboards

ensure that profitability considerations shape operational and commercial initiatives. Governance elasticity—the ability of executive systems to adapt as scale increases—becomes a defining capability.

These layers are mutually reinforcing. Cost transparency informs pricing discipline; capital governance influences fixed-cost absorption; margin protection depends on operational alignment; executive control integrates all components. When synchronized, they create a structural environment in which margin expansion becomes durable rather than episodic.

The next section examines the central role of executive P&L ownership as the infrastructural core of Profit Architecture.

V. EXECUTIVE P&L OWNERSHIP AS STRATEGIC INFRASTRUCTURE

In capital-intensive manufacturing, profit systems fail not because cost analytics are absent, but because accountability is diffused. Executive P&L ownership transforms profitability from a departmental objective into a strategic infrastructure.

Effective P&L ownership requires clear attribution of revenue and cost drivers across the organization. Segment-level profitability reporting replaces aggregated performance views. Executives gain visibility into which customers, markets, or production configurations generate sustainable contribution margins and which erode them. This transparency reshapes strategic priorities.

Decision-right architecture complements financial visibility. Commercial leaders may negotiate pricing, operations managers may control throughput, and finance teams may monitor cost variances—but ultimate margin integrity must reside within executive authority. Without centralized accountability, functional optimization can conflict with enterprise profitability.

Executive P&L ownership also reshapes incentive systems. Volume-driven targets are recalibrated to incorporate contribution metrics. Operational KPIs integrate cost-per-unit sensitivity and yield performance. Profit Architecture thus aligns organizational behavior with structural margin goals.

Importantly, P&L ownership is forward-looking.

Rolling forecasts and scenario modeling allow leadership to anticipate margin compression before it materializes. Executive oversight evolves from reviewing historical performance to designing margin resilience under volatility.

In this framework, profitability becomes an architectural construct embedded within governance systems. The next section explores how capital intensity amplifies margin volatility and why disciplined investment sequencing is critical for sustainable expansion.

VI. CAPITAL INTENSITY AND MARGIN VOLATILITY

Capital-intensive manufacturing firms operate under amplified operating leverage. High fixed-cost structures—driven by machinery, facilities, automation systems, and technical infrastructure—create a profitability profile that is highly sensitive to volume fluctuations. While operating leverage can magnify gains during periods of high capacity utilization, it can equally intensify margin deterioration when throughput declines or pricing weakens.

This sensitivity introduces structural volatility into margin performance. A modest decline in demand or a slight underestimation of production efficiency can materially impact EBITDA. Depreciation expenses persist regardless of output levels, compressing margins when utilization falls. Conversely, incremental volume improvements may dramatically enhance profitability once fixed costs are absorbed.

Capital investment decisions therefore sit at the center of margin architecture. When firms expand capacity prematurely—before stable demand and pricing discipline are secured—fixed-cost burdens rise faster than revenue stabilization. The resulting depreciation load and financing costs create margin fragility. On the other hand, delayed investment can constrain throughput, reduce competitiveness, and weaken bargaining power in pricing negotiations.

Disciplined sequencing becomes essential. Capital allocation must align with validated demand visibility, stable contribution margins, and working capital resilience. Investment decisions should incorporate stress testing under adverse utilization scenarios, ensuring that margin integrity can

withstand moderate volatility.

Return metrics such as ROCE provide structural discipline. By evaluating capital deployment against long-term efficiency rather than short-term growth enthusiasm, executives prevent overextension. Profit Architecture treats capital not merely as productive capacity but as a strategic exposure variable.

Furthermore, capital intensity interacts with maintenance cycles and asset lifecycle management. Increased throughput accelerates wear, raising maintenance costs and potential downtime risk. Governance maturity requires proactive lifecycle planning to preserve productivity without unexpected margin shocks.

In capital-intensive contexts, profitability is inseparable from capital governance. Margin stability depends not only on cost efficiency but on disciplined asset strategy. When capital deployment is synchronized with demand stability and pricing architecture, operating leverage becomes a strategic advantage rather than a volatility amplifier.

The next section examines how structured margin protection systems—particularly in pricing, working capital, and contract governance—shield profitability from external pressures.

VII. DESIGNING MARGIN PROTECTION SYSTEMS

Margin protection in capital-intensive manufacturing cannot rely solely on periodic cost reviews. Competitive markets, input price volatility, and currency fluctuations continually threaten profitability. Profit Architecture therefore integrates protective mechanisms directly into executive control systems.

Pricing discipline is the first line of defense. Contribution margin analysis must precede contractual commitments. Bids are evaluated not only on revenue potential but on fixed-cost absorption impact, logistics burden, and working capital requirements. Structured pre-contract evaluation reduces the risk of volume growth that dilutes margins.

Customer segmentation further enhances margin protection. Not all revenue streams contribute

equally to profitability. High-volume contracts may generate stable absorption benefits, while customized low-volume orders may impose disproportionate setup and compliance costs. Executive oversight ensures that portfolio composition supports structural margin objectives. Working capital governance constitutes another protection layer. Extended receivables cycles can undermine cash flow stability even when nominal margins appear healthy. Profit Architecture integrates credit discipline, inventory optimization, and supplier negotiation strategies into profitability planning. Liquidity resilience becomes a margin safeguard.

Currency and input price volatility introduce additional risk. Hedging strategies, contractual adjustment clauses, and scenario modeling help buffer external shocks. Rather than reacting to volatility, governance systems anticipate it.

Operational yield management also plays a protective role. Waste reduction, defect minimization, and throughput optimization directly enhance contribution margins. However, these initiatives must be embedded within governance routines rather than pursued as isolated efficiency campaigns.

Margin protection systems thus operate as structural reinforcements. They preserve profitability under fluctuating external conditions and prevent episodic erosion during growth phases.

The following section integrates operational throughput governance with profit logic, demonstrating how production systems must align with financial architecture to enable scalable margin expansion.

VIII. INTEGRATING OPERATIONAL THROUGHPUT WITH PROFIT LOGIC

In capital-intensive manufacturing environments, operational throughput cannot be treated as an isolated productivity variable; it constitutes a structural determinant of margin stability. The interaction between capacity utilization, fixed-cost absorption, yield efficiency, and scheduling precision directly shapes profitability outcomes. However, many firms manage production volume independently from financial architecture, assuming that higher output mechanically translates into

stronger margins. This assumption frequently proves misleading. Throughput expansion without integrated profit logic may increase variable costs, intensify maintenance cycles, and amplify working capital demands, thereby offsetting expected margin gains.

The integration of operational throughput with Profit Architecture requires a systemic alignment between production planning and contribution margin analysis. Capacity utilization must be evaluated not merely in percentage terms, but in relation to marginal contribution thresholds. For example, incremental production may improve fixed-cost absorption up to a certain point, beyond which overtime premiums, quality risk, and accelerated equipment wear reduce net profitability. Executive governance must therefore embed financial sensitivity modeling into production planning decisions. Throughput targets should reflect margin optimization rather than volume maximization.

Shift economics further illustrate the structural relationship between operations and profit logic. The transition from single-shift to multi-shift production significantly alters cost dynamics. Additional supervisory layers, night-shift premiums, energy consumption variations, and maintenance intensity all affect contribution margins. Without integrated margin analysis, firms may expand shifts to meet demand while inadvertently compressing profitability. Profit Architecture demands that such operational decisions be evaluated through scenario-based modeling that incorporates depreciation allocation, labor elasticity, and demand stability.

Yield engineering represents another crucial dimension of operational-profit integration. In capital-intensive processes, small variations in material efficiency, defect rates, or downtime can materially influence margin outcomes. However, yield improvements must be framed within executive governance systems rather than treated as isolated technical initiatives. Real-time dashboards connecting production metrics with financial indicators allow leadership to monitor margin sensitivity to operational variance. This alignment ensures that operational excellence translates into structural profitability rather than incremental efficiency gains.

Moreover, operational scaling often introduces

complexity in scheduling and product mix management. High-margin, low-volume products may compete for capacity with lower-margin, high-volume contracts. Without a governance framework linking product mix decisions to contribution analysis, production planning may prioritize volume stability over profitability optimization. Profit Architecture integrates portfolio management into operational scheduling, aligning capacity allocation with strategic margin objectives.

The central insight of this section is that operational systems must be subordinated to profit logic rather than treated as autonomous performance engines. Sustainable margin expansion in capital-intensive manufacturing arises when throughput governance, yield management, and capacity planning operate within a financially disciplined architecture. When this integration is achieved, operating leverage becomes a strategic amplifier of profitability rather than a source of volatility.

IX. FINANCIAL CONTROL SYSTEMS FOR SCALABLE MARGIN EXPANSION

Scalable margin expansion requires financial control systems that evolve beyond retrospective accounting and become embedded instruments of strategic governance. In capital-intensive firms, traditional monthly reporting cycles and aggregated variance analysis are insufficient to manage structural profitability risk. Margin sensitivity to volume shifts, capital deployment timing, and working capital exposure necessitates a more dynamic control architecture.

A core component of scalable financial control is real-time analytical visibility. Executives must have access to granular dashboards integrating revenue segmentation, cost allocation, contribution margins, and cash flow indicators. Such systems enable proactive intervention when margin erosion signals emerge. The objective is not to increase reporting frequency alone, but to enhance interpretative clarity. Financial data must inform strategic decisions regarding pricing adjustments, capacity utilization, and investment sequencing.

Rolling forecasts play a particularly important role in capital-intensive environments characterized by demand variability. Unlike static annual budgets, rolling projections incorporate updated volume

expectations, input cost trends, and currency fluctuations. By continuously recalibrating margin expectations, executive leadership can adjust operational and commercial strategies before structural deterioration occurs. Profit Architecture thus transforms forecasting from a compliance exercise into a strategic resilience mechanism.

Scenario-based margin modeling further strengthens control systems. Sensitivity analysis examining different utilization rates, input price changes, and exchange rate movements enables executives to understand the elasticity of profitability under stress conditions. This modeling discipline reinforces capital allocation decisions and pricing strategies, ensuring that growth initiatives remain within acceptable risk parameters.

Cash conversion governance constitutes another essential pillar of scalable margin control. In export-intensive and capital-heavy operations, liquidity strain can undermine profitability even when accounting margins appear stable. Financial architecture must therefore integrate receivables monitoring, inventory turnover analysis, and supplier payment alignment into executive dashboards. Margin expansion is sustainable only when supported by liquidity coherence.

Importantly, financial control systems must remain aligned with organizational structure. As enterprises scale, complexity increases across product lines, markets, and operational units. Fragmented reporting undermines margin visibility. Standardized data structures and integrated ERP systems provide coherence, enabling cross-unit comparability and accountability. Governance elasticity—the capacity of control systems to scale proportionally with revenue—becomes a competitive advantage.

Financial control in Profit Architecture is not a defensive mechanism but a strategic enabler. By embedding margin discipline into executive systems, firms create a structural foundation for durable expansion. Profitability becomes less vulnerable to episodic shocks and more reflective of deliberate architectural design.

X. FROM MARGIN STABILITY TO COMPETITIVE ADVANTAGE

Margin stability in capital-intensive manufacturing is

often treated as a financial objective; yet, when embedded within a coherent Profit Architecture, it evolves into a source of durable competitive advantage. Stable margins signal more than operational efficiency—they reflect governance maturity, disciplined capital allocation, and integrated control systems capable of absorbing volatility without structural disruption. In highly competitive industrial sectors, such stability becomes strategically differentiating.

Capital-intensive markets are typically characterized by price competition, cyclical demand fluctuations, and high entry barriers due to asset requirements. Firms that operate without structured margin architecture frequently engage in reactive pricing strategies to maintain volume during downturns. While such tactics may temporarily preserve capacity utilization, they erode long-term profitability and weaken investment capacity. Conversely, enterprises that institutionalize margin protection mechanisms are able to resist destructive pricing pressure and sustain disciplined commercial positioning.

Profit Architecture reshapes bargaining power. When contribution margins are clearly segmented and capital efficiency is rigorously monitored, executives gain clarity on which contracts genuinely strengthen enterprise value. This analytical advantage enhances negotiation leverage in tender environments and strategic account management. Firms no longer pursue volume indiscriminately; they select opportunities aligned with structural profitability objectives. Over time, this selective discipline elevates market perception and reinforces brand credibility among multinational clients.

Moreover, stable margin architecture improves capital access and investment credibility. Financial institutions and investors assess not only revenue growth but earnings predictability and asset efficiency. Firms demonstrating disciplined ROCE alignment and liquidity governance are perceived as lower-risk counterparties. This perception reduces financing costs and expands strategic flexibility for future expansion initiatives. Thus, margin stability directly influences the firm's capacity to reinvest and scale sustainably.

Operationally, stable margins enable long-term planning horizons. Capital-intensive enterprises

require multi-year investment cycles, equipment modernization, and workforce capability development. Volatile profitability undermines such planning by constraining liquidity and increasing uncertainty. When Profit Architecture reduces volatility, management can pursue modernization initiatives, digital integration, and process automation with greater confidence. Competitive advantage emerges not only from current performance but from the capacity to invest consistently.

Importantly, competitive differentiation derived from Profit Architecture is cumulative rather than episodic. While competitors may replicate isolated efficiency initiatives, replicating integrated governance systems is substantially more complex. Executive control systems, capital discipline frameworks, and margin transparency mechanisms constitute organizational capabilities embedded in routines and culture. These capabilities evolve into barriers to imitation.

Strategically, Profit Architecture transforms the firm's identity from a production-oriented enterprise into a financially engineered organization. Market strategy, operational planning, and capital deployment operate within a unified architecture of profitability design. This systemic coherence enhances resilience during downturns and amplifies gains during upcycles.

In this sense, margin stability transcends financial performance metrics. It becomes an institutional characteristic signaling maturity, reliability, and strategic intentionality. Capital-intensive firms that achieve this state shift from competing primarily on cost or capacity to competing on governance credibility.

The following section synthesizes the conceptual contributions of this study, positioning Profit Architecture within broader strategic management and executive governance scholarship.

XI. THEORETICAL CONTRIBUTIONS

The concept of Profit Architecture contributes to strategic management theory by repositioning profitability from an accounting outcome to a governance construct. Traditional scholarship often separates financial control from competitive

strategy, treating accounting systems as monitoring tools rather than strategic drivers. This paper challenges that separation by demonstrating that, in capital-intensive manufacturing, executive control systems fundamentally shape competitive positioning.

First, the framework extends operating leverage theory by embedding it within governance architecture. While operating leverage explains sensitivity of earnings to volume changes, it does not prescribe executive control systems capable of stabilizing that sensitivity. Profit Architecture integrates operating leverage with capital allocation discipline and contribution transparency, providing a managerial pathway for transforming volatility into structured advantage.

Second, the study broadens corporate governance discourse beyond shareholder-agent dynamics. In privately held or mid-sized industrial firms, governance maturity concerns institutional formalization rather than agency mitigation alone. Profit Architecture highlights how executive P&L ownership, decision-right clarity, and financial dashboard integration function as architectural governance mechanisms in growth-oriented enterprises.

Third, the framework integrates capital budgeting theory with strategic management. Investment timing, depreciation structure, and ROCE alignment are shown to influence not merely financial returns but margin stability and competitive resilience. By embedding capital discipline into enterprise design, the study bridges finance and strategy domains.

Finally, the concept of governance elasticity emerges as a core contribution. As scale increases, control systems must adapt proportionally to preserve margin integrity. Profit Architecture conceptualizes this adaptability as a capability in itself—one that distinguishes structurally mature firms from those experiencing episodic profitability.

XII. CONCLUSION

Margin expansion in capital-intensive manufacturing cannot be sustainably achieved through incremental cost reduction alone. High fixed-cost structures, capital deployment intensity, and operational

complexity render profitability sensitive to governance quality. This study introduced Profit Architecture as a framework positioning margin stability as an executive design discipline.

By integrating structural cost transparency, capital efficiency governance, margin protection mechanisms, and executive decision control systems, Profit Architecture transforms profitability from a reactive outcome into a strategic construct. When embedded within enterprise architecture, these systems convert operating leverage from a volatility amplifier into a competitive advantage.

In capital-intensive environments, growth without profit architecture generates fragility. Conversely, governance-led margin design produces resilience, investment credibility, and long-term strategic differentiation. Executive leadership thus emerges not merely as overseer of financial results, but as architect of sustainable profitability.

Profit Architecture ultimately reframes capital-intensive manufacturing strategy: competitive strength derives not solely from assets or scale, but from the disciplined orchestration of profit systems embedded within executive governance.

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