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The Effect of Using Managerial Accounting Techniques on Banking Sector: A Theoretical Study

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Abstract:
In this study a new proposed measurement in accounting area is presented in order to find relation between managerial accounting techniques and efficiency, effectiveness, profitability, control and performance of banking sector located in Jordan. This study also proposed a measurement of effective to the management by assisting them to adopt new ideas and techniques in dealing with financial problems and obstacles facing them while running of the daily works in the organization.
Keyword:
Managerial accounting, Banking Sector, Performance

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1.1Introduction

Managerial accounting is an important field in the accounting context. In addition, it provides important information necessary for making decisions, planning, directing, controlling and evaluating the managerial decision to meet all levels of management needs, where managers at all levels of an enterprise fall back upon managerial accounting information to achieve management objectives. There are some factors which contribute in the development of managerial accounting, and these include:

1- Increasing competition between companies wishing each company to increase its profit via reducing cost leading to reduce prices.

2- The attention to products quality to meet customer's satisfaction.

3- Technological revolution especially in communications and information technologies. All of these factors had lead to the development of more advanced managerial accounting techniques (Altakreti, et al, 2007).

Financial world crises (2008), affect the global economic especially the banking sector, as we noticed the collapse of many of the financial institution in different countries. The commercial banks represent an important sector in the national economy and play a safer intermediary between savers and investors in terms of deposit of the funds and reinvesting it. So the process of efficiency evaluation is a task to be accomplished in order to improve and enhance the efficiency of the financial and banking operations to ensure the continuation of strength enough to compete between banks (Kuo, et al, 2008; Masa'deh et al, 2015).

Evaluating banking efficiency has been a common practice among many banking and finance researcher for a number of years, the main reason for continued interest in this area of research is the changing in the banking business environment. While commenting on effectiveness, (Keh, et al, 2006) observed that a measure of effectiveness assesses the ability of an organization to attain its pre-determined goals and objectives. Simply, an organization is effective to the degree to which it achieves its goals (Asmild, et al, 2007; Masa'deh, 2012, 2013). In sum, effectiveness is the extent to which the policy objectives of an organization are achieved.

In this study a suggestion has been proposed in order to find the relation between managerial accounting techniques and efficiency, effectiveness, profitability**,** control and performance of Jordanian banking sector.

1.2 Significance of the Study

According to reviewed literature on managerial accounting techniques, the issues related to analysis of this topic have not been addressed in any known study. Hence, the research provides a new academic and scientific contribution to the literature. Since there haven't been any empirical studies that have connect between managerial accounting techniques and efficiency, effectiveness, profitability**,** control and performance of banking sector , it will also be effective to the management by helping them to adopt new ideas and techniques in dealing with financial problems and obstacles facing them while running of the daily works in the organization.

This study will explore the importance of using managerial accounting techniques on the level of Efficiency, Effectiveness, Profitability**,** Control and Performance for banks. Also this study will show the value of some rarely used techniques that may be useful in raising the level of Efficiency, Effectiveness, Profitability**,** Control and Performance.

1.3 Problem Statement

We notice that the banking sector were the most affected by the financial worlds crises. So from my point of view, the weakness of managerial accounting techniques especially in

controlling and budgeting and not comparing the actual performance with the expected one is the main reason to this defect in the banking sector.
Management accountants in organizations are using the managerial accounting techniques in their daily work and these techniques play significant role at all level of management function starting from planning until taking the right decision.
The main problem of this study is the unstable banks performance which leads to miss trust in banks which may create financial crises.

1.4 Research objectives
1-To explore the managerial accounting techniques used in banks.
2-To investigate the effect of using managerial accounting techniques on the level of Efficiency, Effectiveness, Profitability**,** Control and Performance.
3-To show the differences between techniques that is used in Jordan and UK.
4-To know the differences on the level of Efficiency, Effectiveness, Profitability**,** Control and Performance.
5-To explore the effect of banks capital size and banks ages on the using managerial accounting techniques.

1.5 Questions of the study
1.What is the managerial accounting techniques used in banks sector?
2.What is the effect of using managerial accounting techniques on the level of Efficiency, Effectiveness, Profitability**,** Control and Performance on banks?
3.What are the differences between techniques using in Jordan and UK banks?
4.What is the difference on the level of Efficiency, Effectiveness, Profitability**,** Control and Performance between Jordan and UK banks?
5.What is the relation between the bank's capital size, ages and using managerial accounting techniques?

2. Literature Review
Obeidat, et al. (2013) aimd to recognize the most important internal and external variables that contributed toward the profitability of the Islamic banks in Jordan over the period 1997-2006. Various internal and external variables that have been extensively reported in the earlier literature as major determinants of profitability are regressed against the employed profitability measures. Our results indicate that the most important internal determinants of profitability are the total deposit, cost of deposits, total expenditures, Mudaraba loans and restricted investment deposits. On the other hand, the main external determinants are the money supply and market share. The obtained results were robust for various regression models employed. Thus, our recommendation for Islamic banks stakeholders in Jordan, mainly the management is to consider the consequences of these variables when formulating their various operational and investment strategy.

Zawawi and Hoque (2010) purposed of this paper is to present a review of the literature on management accounting innovations (MAIs). Specifically, it explores recent developments in research on MAIs and offers suggestions for future research. The review differs from existing reviews by its specific focus on MAIs and the recent time period covered. In this paper, MAIs refer to the adoption of "newer" or modern forms of management accounting systems such as activity-based costing (ABC), activity-based management, time-driven ABC, target costing, and balanced scorecards. The paper presents a review of findings from journal articles published in 22 notable accounting

journals. The study found that research on MAIs has intensified during the period 2000-2008, with the main focus on exploring the extent to which a host of organizational and environmental factors influence the implementation and use of MAIs in organizations. In addition, research on MAIs indicates the dominant use of sociological theories and increasing use of empirical/field studies (AlHarrasi et al, 2016).

Pavlatos and Paggios (2009) purposed of this study is to report the level of adoption and the benefits derived from traditional and contemporary management accounting practices in the Greek hospitality industry. They used for methodology an empirical survey via questionnaires was conducted on a sample of 85 leading hotels in Greece. Descriptive statistics on the adoption level, the relative benefits and future emphasis of individual practices provide the basis for discussion. The study found the adoption rates for many recently developed practices were very satisfactory. Overall, traditional management accounting techniques (e.g. budgeting practices, profitability measures, product profitability analysis, customer profitability analysis absorption costing, and nonfinancial measures for performance evaluation) were found to be more widely adopted than recently developed tools. It is concluded that traditional management accounting is very much alive and well. Many hotels intended to place greater emphasis on more recently developed techniques in the future, particularly activity based costing techniques (activity based costing, activity based budgeting, and activity based management), balanced scorecard and benchmarking.

Sulaiman, et al. (2004) examined the extent to which traditional and contemporary management accounting tools are being used in four Asian countries: Singapore, Malaysia, China and India. Overall, the evidence reviewed suggests that the use of contemporary management accounting tools is lacking in the four countries. The use of traditional management accounting techniques remains strong. The paper concludes with various recommendations for future research, the most important of which is the need for future studies to be grounded in theory.

Kumar and Gulati (2010) purposed of this paper is to appraise the efficiency, effectiveness, and performance of 27 public sector banks (PSBs) operating in India by using a two-stage performance evaluation model. The study used the cross-sectional data for the financial year 2006/2007; the technique of data envelopment analysis has been used for computing the efficiency and effectiveness scores for individual PSBs. The overall performance scores have been derived by taking the product of efficiency and effectiveness scores. The study found that the empirical results reveal that high efficiency does not stand for high effectiveness in the Indian PSB industry. A positive and strong correlation between effectiveness and performance measures has been noted. Furthermore, on the efficiency front, State Bank of Travancore appears as an ideal benchmark, while State Bank of Bikaner and Jaipur, and State Bank of Mysore emerge as ideal benchmarks on the effectiveness front.

Webb, et al. (2010) investigated the effect of UK building society demutualization on levels of efficiency at the largest five commercial banks in the UK. This research utilizes data envelopment analysis (DEA) within a rarely adopted windows framework to analyze efficiency. The study also incorporates a novel risk proxy in the profit-orientated approach to determine DEA input/output which proves a useful innovation to the methodology. The study found that converting building societies outperformed their bank counterparts in all areas of efficiency and that scale efficiency dominates pure technical efficiency.

Interestingly, the results also indicate that the level at which institutions continues to find economies of scale had increased when compared to previous research.

Mostafa (2007) aimed of this research is to measure the relative efficiency of the top 50 Gulf Cooperation Council (GCC) banks. The sensitivity of the results is also investigated. Data envelopment analysis (DEA) was used to evaluate the relative efficiency of GCC banks. Cross-sectional data for the year 2005 were used to conduct the analysis. The results indicated that the performance of several banks is sub-optimal, suggesting the potential for significant improvements. Separate benchmarks were derived for possible reductions in resources used, and significant savings are possible on this account.

Several empirical researches in accounting and finance literature examined the relation between stock return and financial ratios including (leverage and profitability ratios). FOR INSTANCE, Piotroski (2000) used financial ratios to supplement a value investing strategy and found that he can generate significant excess returns. Variables used by Piotroski included ROA, cash flow ROA, change in ROA, change in leverage, change in liquidity, change in gross margin, and change in inventory turnover. There are several previous researches regarding the effect of debt to the value of ROE. One of them is Husnan (2001) who described that the use of debt is statistically significant to the change in the value of non-multinational companies ROE, while it is not significant to the multinational companies. Graham and Harvey (2001) reported that managers focus on book values when setting financial structures. Al Khalaileh (2001) tested the relationship between accounting performance indicators and market performance indicators for a sample of (40) Jordanian publicly-held companies listed in Amman Stock Exchange during the period between the year of 1984 to 1996. The results showed a significant positive relationship between the stock return and the ratios of Return on Assets (ROA) and Return on Equity (ROE).

Recent studies that tested the relation between leverage and stock returns reported contradicting results. Dimitrov and Jain (2005) reported negative relation between leverage and stock returns. They studied changes in leverage levels and showed that they are negatively related to contemporaneous and future adjusted returns. They calculated contemporaneous and future returns as raw and risk adjusted returns. Their main focus was to examine the change in leverage as a result of the economic performance and not due to growth, mergers and acquisitions or sudden changes in capital structure for some other reasons, and hence they made a distinction between financing for operating performances or for the reasons such as growth.

In their study on the probability of financial distress and leverage, George and Hwang (2006) found a negative relation between returns and book leverage. They explained that firms that suffer most (least) in financial distress maintain low (high) leverage. Thus, the return premium to low leverage firms relative high leverage firms appear to be a form of compensation for the financial distress costs. Dhaliwal et al (2006) argued that corporate level taxes decrease the effect of leverage on the cost of equity. They examined the relation between leverage, corporate taxes and the firm`s implied cost of capital. They found that although the cost of equity capital increases with leverage when corporate taxes are introduced, it reduces the risk premium. Hou and Robinson (2006) offered evidence that industry concentration is an important economic determinant for understanding stock returns. The findings indicated that returns decrease in leverage. This contradicts one of

the fundamental principles of traditional finance theory and suggests that there is a need for a better understanding of how leverage is priced. It also indicates that leverage has been largely ignored in common asset pricing models. The negative relation between leverage and returns is also robust to the additional risk factors such as tax rates and industry concentration.

Harjanti and Tandelilin (2007) found that leverage is negatively significant with profitability, and implies that companies that have high profitability tend to have more internal funding than the smaller one. The companies that have high profitability will use less debt because the capital used is achieved from retained earnings. Their research which was made to all manufacturing companies listed in Jakarta Stock Exchange from 2000 to 2004 indicated that profitability which was proxy by ROE, Basic Earning Power (BEP), and Gross Profit Ratio had negative significant relation to leverage. Sivaprasad et al (2007) investigated whether capital structure is value-relevant for the equity investor. They integrated the MM framework into an investment approach by estimating abnormal returns in excess of the market return on leverage portfolios in the time-series for different risk classes.

3. Methodology

This section discusses the questionnaire, model, population and sample, the mix approach, data collection, and ethical consideration. Accordant to (Sekaran, 2003; Zikmund 2006) research as an systematic, organized, data- based critical, scientific inquiry in order to gather, record, and analyze data to help in decision making process and solving problem.
The researchers will use questionnaire as data generation method. According to Oates (2006), one research strategy can use one or more generation methods to gather data. The researcher will use questionnaire as the only method for identifying managerial accounting techniques which using in banks. The questionnaire consists of two parts. The first part discussed personal information about questions and items will be prepared by researcher about the studied variables.

The researchers will use the DEA for computing the Efficiency, Effectiveness, Profitability**,** Control and Performance scores. DEA is a data-oriented approach for evaluating the performance of a set of peer entities called DMUs whose performance is characterized by multiple measures/indicators (Gregorious and Zhu, 2005).

Data envelopment analysis (DEA), is widely used technique for the measurement of the relative performance of the banks. DEA is specific methodology for analyzing the relative efficiency for multiple inputs and outputs by evaluation of all decision making units (DMUs) and measurement of their performance in respect to the best practice banks which determine the efficient frontier (Berger and Humphrey, 1997). In DEA, the frontier is estimated by using mathematical method i.e. linear programming and this estimated frontier is used to measure the relative performance of the banks. As DEA is a none-parametric technique, it does not require any structural form of the production frontier (Wheelock and Wilson, 1999).

The population in this study is all corporation banks in Jordan and UK. The researchers ill study all these banks, and will study the actual statements for these banks sins 1980s. The purpose of this study is to identify the relationship between managerial accounting techniques and the level Efficiency, Effectiveness, Profitability**,** Control and Performance. Therefore, the central study question is defined as: What is the effect of using managerial

accounting techniques on the level of Efficiency, Effectiveness, Profitability**,** Control and Performance on banks. This study tries to determine if:

H1: There is statistically significant relationship between using managerial accounting techniques and raising the level of
a)Efficiency
b) Effectiveness
c)Profitability
d)Control
e)Performance
H2: There is statistically significant relationship by using managerial accounting techniques between Jordan and UK banks.
H3: There is statistically significant relationship on the level of Efficiency, Effectiveness, Profitability**,** Control and Performance between Jordan and UK banks.

4. Conclusion

This study new proposed measurement in accounting area is presented in order to find relation between managerial accounting techniques and Efficiency, Effectiveness, Profitability**,** Control and Performance of Banking Sector. This study also proposed a measurement of effective to the management by helping them to adopt new ideas and techniques in dealing with financial problems and obstacles facing them while running of the daily works in the organization.

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