



Accounting for Management Practices: A Holistic Perspective in Nepalese Commercial Banks

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Abstract

Background: *Management Accounting supports competitive decision-making by collecting, processing, and communicating information. It helps in management plan, control, and evaluation of business practices in Nepalese Commercial Banks. The main aim of this study is to analyze the management accounting system practices in Nepalese Commercial Banks.*

Methods: *This study followed a descriptive research design. A sample of 507 bank employees has been selected with convenience sampling technique to get the information related to the accounting practices. A structured questionnaire related to the Management Accounting System including the five domains like Budgeting and Planning, Controlling and Reporting, Decision support system, Costing system and Performance Evaluation were designed in Likert scale rating format for responses, and descriptive statistics were used to make the analysis of responses.*

Results: *It was found that the Nepalese banking sectors apply management accounting practices including budgeting and planning, controlling and reporting, decisions making, costing and performance evaluations. Among the various techniques banking sector use Budgeting and control most and costing system the least. These techniques were widely used in bank's performance evaluation as well.*

Conclusion: *there is a positive and significant association between the application of management accounting system and organizational performance. So, the banks can enhance their performance through the use various techniques of accounting for managerial decisions.*

Keywords: *Budgeting and Planning, Costing, Decision making, Reporting, Management Accounting*

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Introduction

Management Accounting refers to management of details and records that furnish timely statistical and financial advice needed by controllers to make current and day to day decisions. Management accounting involves preparing and providing timely financial and statistical information to business managers so that they can make day-to-day and short-term managerial decisions.

Management accounting is that branch of accounting which produces information for managers and forms an important integral part of the strategic process within an organization. It involves the process of identifying, measuring, accumulating, analysing, preparing, interpreting, and communicating information that helps managers fulfil organizational objectives (Horngren, Sundem, Stratton, Burgstahler, and Schatzberg, 2007). Chartered Institute of Management Accountants (UK) views management accounting as an integral part of management which requires the identification, generation, presentation, interpretation and use of information relevant to: formulating business strategy; planning and controlling activities; decision-making; efficient resource usage; performance improvement and value enhancement.

It differs from financial accounting due to its lone intention of availing fruitful performing advice to managers. Its characterized by unique practices that must be grasped in order to devise a managerial accounting plan successfully. It is an essential management sub function. The function requires the recognition, assessment and addition, scrutiny and translation and effective delivery of advice. The info is in turn used by management to strategize, assess and control internal and external organizational activities and to secure proper accountability for its monetary resources (CIMA, 2005). It helps in analyzing and recording business activities for internal company use in an effect to increase efficiency and productivity. It is the process of analysis, interpretation and presentation of accounting information collected with the help of financial accounting and cost accounting, in order to assist management in the process of decision making, creation of policy and day to day operation of an organization. Thus, it is clear from the above that the management accounting is based on financial accounting and cost accounting. Baines and Langfield-Smith (2003) found a significant relationship between changes in strategy and management accounting practices. Several research studies have asserted that management accounting system plays a proactive role in the strategy management, acting as a mechanism that enables organizational strategy and contributes to organizational performance. Based on the above background that study has tried to address the issue that, what is the present practice of Management accounting practices in Nepalese commercial banks

Research Objective

The main purpose of this study is:

- To analyze the present management accounting practices (MAPs) in Nepalese Commercial Banks.

Literature Review

Dimensions of management accounting system

The empirical dimension of specific MAPs and techniques are highlighted in following section. The majority of the studies have dimensioned Management Accounting Systems to costing, budgeting, decision making, performance evaluation and controlling and reporting systems.

Costing: Research indicates that the information on product costs generated by costing systems has a wide number of uses. It includes pricing decisions; cost control (Yoshikawa et al 1989; Lukka and Granlund, 1996); an evaluation of production processes; and transfer pricing (Bjornenak, 1997). The two main costing methods adopted were absorption costing and direct (variable) costing in previous researches. Absorption costing system is generally preferred globally (Drury et al. 1993), Shields, 1991). The extent of use of other costing techniques such as process costing and job costing has also been widely researched. Shields et al. (1991) noted that Japanese firms report more frequent use of process costing (55 to 61 %) compared to U.S companies (24 to 36 %). Meanwhile in Sweden, Lukka and Granlund (1996) indicated that 41 % of Swedish companies implement process costing compared to 38% using job order costing. Lastly Wijewardena and De Zoysa (1999) discovered that more than half of the Australian companies used process costing (52%) or job-order costing (30 %) as the main product costing method - which is a not dissimilar to the findings of Lukka and Grandlund (1996).

Budgeting: Budgeting is perceived as an important control system in almost all organizations (Hansen and Van der Stede, 2004). The main focus on budgeting has been on uptake rates and the purposes underlying its use. Previous research indicates that the main purposes of budgeting are planning future performance; planning the future financial position; planning future cash flows; planning future day to day operations; and controlling costs (Armstrong et al., 1996; Chenhall and Langfield-Smith, 1998; Sulaiman et al., 2004; Abdel-Kader and Luther, 2006). Budgeting is also used for performance evaluation, communication of goals and strategy formation (Guilding et al., 1998; Hansen and Van der Stede, 2004; Sulaiman et al., 2004) to coordinate

activities across business units (Chenhall and Langfield-Smith, 1998) and for timely recognition of problems and to improve the next period's budget (Joshi et al., 2003).

Performance evaluation: Emmanuel et al. (1990) noted that performance evaluation was an important function of management accounting. Performance evaluation provides information for managers to support the achievement of their organization's strategic objectives (Jusoh and Parnell, 2008). Hall (2008) argued that in recent years' organizations have sought to develop more comprehensive performance measurement systems (PMS) to provide managers and employees with information to assist in managing their operations. Hall (2008) also stated popular techniques for delivering a wider set of performance measures are the balanced scorecard (Kaplan and Norton, 1996), and performance hierarchies (Lynch and Cross, 1992). However, the choice of measures to guide and evaluate the performance of business units is one of the most critical challenges facing organizations (Ittner and Larcker, 1998). CIMA (2005) highlighted the frameworks for performance measurement and management which are the value-based management (VBM); ABC and activity-based management; balanced scorecard; European Foundation for Quality Management (EFQM) excellence model; benchmarking; strategic enterprise management (SEM); and six sigma.

Decision Making /Decision support system: Wu et al. (2007) hold that effective decision making is the most important key factor in today's rapid and changing competitive environment. The decision support analysis can be divided into short term and long term analysis. Abdel-Kader and Luther (2006) argued that for regular or short-term decisions management accountants can use cost-volume-profit (CVP) analysis, product profitability analysis, customer profitability analysis, and stock control models. For longer-term capital investment decisions management accountants can produce and review accounting rates of return and payback periods as well as complex signals based on discounted cash flow. Capital budgeting techniques capture both non-discounted and discounted approaches. Klammer et al. (1991) argued that the superiority of internal rate of return (IRR) and net present value (NPV) analysis has been repeatedly demonstrated under conditions of certainty.

Controlling and Reporting: Anthony (1965) defined control is the process of assuring that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives. It is a function that compares achieved results with planned goals. The control function is the process of ordering, evaluating, and providing feedback to the management system of an organization. The environment in which modern organizations operate are becoming more and

more complex – more products, more players, and rapidly changing technology and markets. As a result of this complexity, no single individual or group can evolve a solution, which is considered effective. Hence, the need for an integrated system of management control arises (Pant, 2005). Control refers to monitoring and evaluation of performance to determine the degree of conformance of actions to plans. Ideally, planning precedes control, which is followed by a feedback corrective action or a feed forward preventive action. Financial reporting may be defined as a communication of published financial statement and related information from business enterprises to third parties including shareholders, creditors, customers, government authorities and the public. It is the reporting of accounting information of an entity (individual, firm, company, government enterprises) to a user or group of users. Company financial reporting is a total communication system involving the company as issuer, the investors and creditors as primary user, other external users, the accounting profession as measures and auditors, and the company law regularity or administrative authorities (Lal, 2012).

Research Methodology

A descriptive and analytical research design has been employed in this research. There were 28 banks at the time of the study. Out of these 28 banks only 17 numbers of banks were established before 2002. The selection of the bank for the study was framed on the basis of ten years in operations. Furthermore, six earliest established Nepalese commercial banks were selected for the study. These banks were established between 1937 and 1993.

Employee Sampling: According to the Annual Report of the Banks, there were 8248 total numbers employees in these banks. Accordingly, the sample size determined was 367 numbers of employees. The sample was determined with 95% of confidence level, 5% margin of error with a response distribution of 50%. The determination of sample size was formulated with reference to Gupta, (1996). But the researcher has collected 507 usable questionnaire forms from the respondents that represents 69.07 percent response rate. There were one set of questionnaire designed for the purpose of data collection from the respondents. At the outset, the independent variables of Management Accounting System include Budgeting and Planning, Controlling and Reporting, Decision support system, Costing system and Performance Evaluation. Management accounting system variable has 45 opinion statements and Performance variable has 6 opinion statements. Likert 5-point scale (with 5=strongly, 4=Agree,

3=Neutral, 2=Disagree and 1=Strongly Disagree) has been used. The Cronbach's α for overall Management Accounting system was 0.948 (highly reliable), for overall and for overall Performance was 0.821 (highly reliable).

Data Analysis

This section describes the perceptions of employees regarding Management Accounting Systems practice in their respective banks. The dimension presented here is the dimension of manifest variables viz. *Budgeting and Planning, Controlling and Reporting, Decision Making System, Costing System and Performance Evaluation*.

Results

Overall management accounting system practice in commercial banks

Table 1 presents the overall management accounting system variables descriptive statistics. The result shows that the highest mean of respondents among different management accounting system variables regarding different statements was 3.75 (SD=0.681) and the lowest mean was 3.53 (SD=0.586) of costing system. It falls under agreed band and mean of almost all the statement is greater than test value (3). That means all opinion statements are important variables. To test the significant difference from the mean score, the p value of all opinion statements resulted in 0.001(<0.01), which indicates that all the statements are significant variables.

Table 1 Respondents' view on Management Accounting System in commercial banks

Variables of Management Accounting System	N	Mean	Std. Deviation	Test Value = 3.00		
				t value	p value	Remarks
<i>Budgeting and Planning</i>	507	3.755	.681	24.947	0.001	Significant
<i>Controlling and Reporting</i>	507	3.595	.593	22.583	0.001	Significant
<i>Decision Making System</i>	507	3.601	.568	23.793	0.001	Significant
<i>Costing System</i>	507	3.532	.587	20.406	0.001	Significant
<i>Performance Evaluation</i>	507	3.561	.614	20.553	0.001	Significant

Budgeting and planning practice in commercial banks

The results show that grand mean of respondents regarding different opinion statements is 3.755(SD=.681). It falls under agreed band and mean of almost all the opinion statement is greater than test value. That means all statements are important variables. To test the significant difference from the mean score, the p value of all

statement comes out to be 0.001($p < 0.01$), which indicates that all the statements are significant variables. If the manager makes plan about the sources and uses of money, additional cash borrowing necessities, the budgeting and planning system become more effective for management accounting system as it was found to be with the highest mean score 3.94($SD = .958$). Hence, the commercial banks of Nepal are prepared with the good plan and source and uses of money for effective management accounting system. Despite this, the relationship between top managers and workers was found with the lowest mean score of 3.49 ($SD = 0.964$). However, it has been a significant factor; it is also least important contributing factor to management accounting system according to the result. Table 2 puts details of Budgeting and Planning practice dimensions.

Table 2 Respondents' view on Budgeting and Planning practices in commercial banks

Opinion Statements	Mean	Std. Deviation	Test Value = 3.00			
			T	df	Sig. (2-tailed)	Remarks
Assignment of Policy and responsibility	3.79	.926	19.23	506	.001	Significant
Increase efficiency and reduce uncertainty	3.77	.950	18.32	506	.001	Significant
Save and preserve business resource	3.68	.855	18.03	506	.001	Significant
Relationship between managers and workers	3.49	.965	11.46	506	.001	Significant
Control tools for administration and written communication	3.68	.930	16.51	506	.001	Significant
Sources and Uses of money	3.94	.958	22.20	506	.001	Significant
Implementation of plan and strategy	3.91	.969	21.26	506	.001	Significant
N= 507						

Controlling and reporting practice in commercial banks

The results show that grand mean of respondents regarding different opinion statements is 3.59 ($SD = .593$). It falls under agreed band and mean of almost all the statement is greater than test value. To test the significant difference from the mean

score, the p value of all statement comes out to be 0.001($p < 0.01$), which indicates that all the opinion statements are significant variables. If the manager makes plan about the detect and correct irregularities become more effective for controlling and reporting was found to be with highest mean score of 3.805 (SD=.919). Hence, the commercial banks of Nepal detect and correct irregularities for effective management accounting system. Moreover, the measuring performance against target was found to have the lowest mean score of 3.50 (SD=.854). However, it has been significant variable; it is also least important contributing factor to management accounting system. Table 3 puts details of Controlling and Reporting practice dimensions.

Table 3 Respondents' view on Controlling and Reporting practices in commercial banks

Opinion Statements	Mean	Std. Deviation	Test Value = 3.00			
			T	df	Sig. (2-tailed)	Remarks
Detect and correct irregularities	3.805	.919	19.710	506	.001	Significant
Rules and regulation are prepared and followed	3.665	.874	17.114	506	.001	Significant
Effective feedback, monitoring and supervision	3.639	.879	16.370	506	.001	Significant
Define authority and responsibility	3.611	.887	15.515	506	.001	Significant
Measure performance against target	3.503	.854	13.266	506	.001	Significant
Review periodic reports on progress	3.505	.821	13.855	506	.001	Significant
Follow benchmarking and seek best solution	3.509	.872	13.141	506	.001	Significant
Apply responsibility centers for better performance	3.523	.948	12.418	506	.001	Significant
N= 507						

Decision Making System in commercial banks

The output results show that grand mean of respondents regarding decision making on different statements is 3.601(SD=.5684). It falls under agreed band and mean of almost all the statement is greater than test value. To test the significant difference from the mean score, the p value of all statement comes out to be 0.001(p<0.01), which indicates that all the opinion statements are significant variables. If the manager makes good decision that increases market share, productivity and profit was found to be highest mean score 3.923(SD=.9283). However, commercial banks of Nepal make right decision for effective management accounting system. The participation in decision making on merger and acquisition was found to have the lowest mean score 3.197 (SD=1.102). However, it has been a significant factor; it is found to be least important contributing factor to management accounting system. Table 4 puts details of Decision Making System practice dimensions.

Table 4 Respondents' view on Decision Making System practices in commercial banks

Opinion Statements	Mean	Std. Deviation	Test Value = 3.00			Remarks
			T	df	Sig. (2-tailed)	
Cost information for pricing	3.44	.816	12.347	506	.001	Significant
Investment decision through NPVandPI	3.50	.869	13.021	506	.001	Significant
EPS and Net profit used for capital structure decision	3.52	.842	13.929	506	.001	Significant
Customer profitability analysis	3.52	.922	12.857	506	.001	Significant
Product profitability decision based on benefit cost analysis.	3.59	.896	15.024	506	.001	Significant
Break Even analysis for launching a new product	3.61	.894	15.453	506	.001	Significant
Participation in decision making	3.19	1.102	4.031	506	.001	Significant
Retention of quality customers	3.84	.959	19.774	506	.001	Significant
Apply effective strategies	3.78	.896	19.822	506	.001	Significant
Decision increases market share, productivity and profit	3.92	.928	22.391	506	.001	Significant
Financial resources and marketing Decision	3.65	.840	17.443	506	.001	Significant
Drop or continue decision	3.59	.911	14.720	506	.001	Significant
N= 507						

Costing System practice in commercial banks

The results show that grand mean of respondents regarding costing system on different opinion statements is 3.532(SD=.587). It falls under agreed band and mean of almost all the opinion statement is greater than test value. That indicates all statements are important variables. To test the significant difference from the mean score, the p value of all statement comes out to be 0.001($p < 0.01$), which indicates that all the opinion statements are significant factors. If the manager reduces cost in functional areas i.e. production, operational, finance, marketing and research and development were found to be highest mean score 3.617 (SD=.817). Hence, the commercial bank of Nepal reduces cost on functional areas for effective management accounting system. The Kaizen costing used for cost reduction and continuous improvement was found to have the lowest mean score 3.351(SD=.895). However, it has been a significant factor; it is also least important contributing factor to management accounting system. Table 5 puts details of Costing System practice dimensions.

Table 5 Respondents' view on Costing System practices in commercial banks

Opinion Statements	Mean	Std. Deviation	Test Value = 3.00			
			T	df	Sig. (2-tailed)	Remarks
Segmentation of costs	3.58	.8117	16.141	506	.001	Significant
Reduction in cost on functional areas	3.61	.817	17.014	506	.001	Significant
Application of activity based management	3.52	.849	13.920	506	.001	Significant
Target costing used for improvement and cost reduction	3.61	.873	15.865	506	.001	Significant
Kaizen costing used for cost reduction and continuous improvement	3.35	.895	8.831	506	.001	Significant
Apply business process re-engineering	3.54	.888	13.894	506	.001	Significant
Apply standard costing system	3.49	.927	12.122	506	.001	Significant
Cost information to develop competitive strategies	3.53	.850	14.256	506	.001	Significant
Cost information for product pricing and reimbursement	3.50	.876	13.073	506	.001	Significant
N= 507						

Performance Evaluation practices in commercial banks

The results show that grand mean of respondents regarding performance evaluation on different statements is 3.561(SD=.614). It falls under agreed band and mean of almost all the statement is greater than test value. To test the significant difference from the mean score, the p value of all opinion statement comes out to be 0.001($p < 0.01$), which indicates that all the statements are significant variables. Uses of financial statement analysis for strength and weakness were found to be highest mean score 3.81(SD=.908). Hence, every commercial bank of Nepal should make the financial statement analysis properly for effective management accounting system and the Customer satisfaction survey that was found to have the lowest mean score 3.359(SD=1.020). However, it has been a significant variable; it is the least important contributing factor to management accounting system. Table 6 puts details of Costing System practice dimensions.

Table 6 Respondents' view on Performance Evaluation practices in commercial banks

Opinion Statements	Mean	Std. Deviation	Test Value = 3.00			
			T	df	Sig. (2-tailed)	Remarks
Customer satisfaction survey	3.35	1.020	7.923	506	.001	Significant
Benchmarking for service quality	3.43	.962	10.198	506	.001	Significant
Financial statement analysis for strength and weakness	3.81	.908	20.151	506	.001	Significant
Variance analysis	3.70	.907	17.379	506	.001	Significant
Residual income, ROI, ROA, ROE used for performance	3.59	.885	15.159	506	.001	Significant
Cash flow analysis	3.42	.921	10.267	506	.001	Significant
Employees attitude and behavior	3.43	.918	10.735	506	.001	Significant
Balance score card	3.55	.906	13.878	506	.001	Significant
Financial reporting system	3.72	.924	17.727	506	.001	Significant
N= 507						

Major findings and discussion

The banking sector is the most prominent one in the financial sector; it is the fastest growing sector in Nepal in the last two decades. Financial liberalization and technological revolution intensify the competitive pressures among the financial institutions.

The present scenario of management accounting system in Nepalese commercial banks has been moderately utilized. The perception of employees' towards the dimensions of management accounting system in a nutshell can be understood with a mean score of 3.75 (SD=0.681). Likewise, in terms of the dimension including Budgeting and Planning, Controlling and Reporting, Decision support system, Costing system and Performance Evaluation, the lowest mean score of 3.53 (SD=0.586) was for costing system. The mean score for Budgeting and Planning practice in commercial banks was 3.75(SD=.681). The manager makes plan about the sources and uses of money, additional cash borrowing necessities, the budgeting and planning system become more effective for management accounting system in Nepalese Commercial banks. Hence, the Nepalese commercial banks are prepared with the good plan and source and uses of money for effective management accounting system. Despite this, the relationship between top managers and workers was found not so encouraging. The mean score for Controlling and Reporting practice in commercial banks was 3.59 (SD=.593). The manager makes plan about detecting and correcting irregularities become more effective for controlling and reporting in Nepalese commercial banks. Hence, the commercial banks of Nepal detect and correct irregularities for effective management accounting system. However, the concern is the measuring performance against target is lacking. The mean score for Decision Making System in commercial banks was 3.60(SD=.5684). The managers make good decision that increases market share, productivity and profit. That is, commercial bank of Nepal makes right decision for effective management accounting system. However, the participation in decision making on merger and acquisition was not so encouraging. The mean score for Costing System practice in commercial bank was 3.53 (SD=.587). The manager reduces cost in functional areas i.e. production, operational, finance, marketing and research and development. That is the commercial banks of Nepal reduce cost on functional areas for effective management accounting system. The Kaizen costing used for cost reduction and continuous improvement was not found effective. The mean score for Performance Evaluation practices in commercial banks was 3.561(SD=.614). The uses of financial statement analysis for strength and weakness were found encouraging,

whereas, financial statement analysis for effective management accounting system and the Customer satisfaction survey seems to be lowest area of priority. This is consistent with the previous findings of Vandenbosch (1993), Chenhall and Langfield (1998b), Ittner and Larcker (1995), Sim and Killaough (1998), Laitinen (2006) who have analyzed and found the relationship between management accounting system and organizational performance. Management Accounting System is a value-adding, continuously supporting organizational performance.

Similarly, the present scenario of Organizational Performance in Nepalese Commercial Bank has been found to be moderate. The mean score of Organizational Performance of the commercial banks was 3.730 (SD=0.626). Collective performance consisted of different components such as profitability, productivity, effective decision making, strong financial position service delivery and quality, exploitation of new business opportunities, customer satisfaction, achieve competitive advantage etc. Similarly, the performance of the organization significantly can be seen from improvement in profitability, market share and productivity. However, there can be seen concerns in issues like adaptability, service delivery and quality.

In conclusion, results in this study provide helpful insights and useful guidelines to Nepalese commercial banks, especially those managers who are responsible in making sure that their banks move toward in an appropriate direction. The work presents a comprehensive survey and explanations of the use of Management Accounting System, and Banks Performance in Nepalese commercial banks and therefore makes contribution to the awareness of Management Accounting System and improved bank performance in particular to a least developed country.

Recommendations for Future Researchers

With this research on the relationship between management accounting practices and organizational performance, this area is ripe for future research. Among potential topics is the notion of how management accounting and organizational performance in other sectors or other service sector can be undertaken for further exploring the phenomenon. In order to improve the future study, the sample size could be collected from the manufacturing firms across the country (Nepal). This can further be compared to the service industries including the banking sector. Further research might be carried out with more sample of banks, as this study was based on only six commercial banks of Nepal. It may give new understanding the subject phenomenon. It can either attenuate or inflate correlations among variables. Furthermore, other moderating variables like

MIS, customer loyalty, firm's size, age and structure, manufacturing costs, customer retention, and the success of marketing strategy etc. can also be explored further to understand the relationship between management accounting and organizational performance. In addition, a step further, Structural Equation Modeling approach of data analysis may be taken into account to moderating or mediating factors. Last but not the least, the next few years are likely to see increased global competitiveness in the Nepalese business environment, and the banking sector will also mature in terms of operational years. Therefore, it would be interesting to expand the survey to provide longitudinal survey of management accounting and significant influence of the performance of the banks.

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