

## Using Strategic Cost Management Techniques for Reducing Banking Risks (Applied Study)

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**Abstract:** *In alongside demonstrating how strategic cost management approaches can lower banking risks, the study sought to address the theoretical underpinnings of both banking risks and strategic cost management techniques. as well as identifying the most important measures through which banking risks to which economic units are exposed can be reduced to a minimum by helping to deal with situations in which the future cannot be predicted with certainty and that banking risks arise from the financing side. The study was applied in a sample of banks listed on the Iraq Stock Exchange, and the focus was on commercial banks because of the exposure of these banks to a range of banking risks, the most important of which are credit risks, liquidity, exchange rate and interest rate. These banks also suffer from problems related to operational decisions such as pricing decisions. Strategic cost management techniques are a set of tools and methods that are appropriate to the needs of the modern business environment, which is concerned with cost analysis in a broad framework through its ideal position in order to improve the cost structure and achieve competitive advantage. This was the most significant finding of the research. The research discovered that strategic cost management techniques can help reduce risks and rationalize operational decisions, through which they can respond quickly to customer requirements and provide sufficient flexibility for any Changes that may occur and the delivery of products to them as quickly as possible while adhering to the standards of the modern corporate environment.*

**Keywords :** Banking risks, Risk reduction, Banking industry

### 1. INTRODUCTION

The contemporary business environment is surrounded by many challenges and pressures such as globalization, competitive advantage, continuous improvement, information technology and others, which must be responded to to stay within the circle of competition and achieve decisive success, so economic units should adopt certain strategies represented by the group of business and actions that translate their mission and goals. On this basis, the shift has been made from the traditional method to the strategic approach to cost management. One of the administrative gateways that deals with cost analysis in a broad framework and the utilization of information supplied is strategic cost management in the formulation of competitive strategies and the selection and implementation of the best ones, the information provided by strategic cost management techniques can satisfy the fundamental requirements for managing the economic unit, including financial data regarding costs and revenues as well as non-financial data regarding productivity, quality, time, and value. This is because the emphasis is on long-

term factors, improving the product's performance and quality while lowering its costs and lowering banking risks in a way that is appropriate for the demands of the modern business environment and the changes and developments that go along with it.

## **2. RESEARCH METHODS**

### **The first topic:**

#### **Research issues:**

The research issues are general economic entities and banking entities in particular are exposed to many problems, the most important of which are their exposure to financial risks as well as the inefficiency of the operational decisions followed. At a time when the contemporary business environment is characterized by rapid and successive changes and developments, the most important of which are the globalization of markets, the intensification of competition between economic entities, the focus on customers and technological development, and the inadaptability of traditional cost management methods. Strategic cost management technology has emerged precisely in response to these changes and developments strategic cost management techniques affect the reduction of banking risks in banks listed on the Iraq Stock Exchange?

#### **Research importance:**

The importance of the study results in being a serious attempt to identify the most important strategic cost management techniques that can be applied in banks listed on the Iraq Stock Exchange, and to show the impact of these banks in reducing banking risks and rationalizing operational decisions, The importance of this study stems from the importance of strategic cost management techniques, banking risk and operational decisions. Strategic cost management techniques provide a framework through which all relevant aspects can be integrated to solve problems and overcome difficulties. Therefore, they are a continuous improvement tool aimed at planning, controlling and reducing costs, thereby helping economic entities to strengthen their competitive position.

#### **Research objectives:**

The research aimed to address the theoretical framework of both strategic cost management techniques and banking risks, in addition to demonstrating the effect of strategic cost management techniques in lowering banking risks and identifying the most crucial steps that can be taken to minimize the banking risks to which economic units are

exposed by assisting in the resolution of circumstances where the future cannot be assured and where banking risks originate from the financing side. It is therefore a tool for continuous improvement that aims to plan, control, and lower costs in order to solve issues and overcome challenges.

**Research hypothesis:**

The research is based on the following hypothesis: There is no statistically significant effect between strategic cost management techniques and banking dangers associated with Iraq Stock Exchange-listed banks.

**Research society and samples:**

Banks listed on the Iraq Stock Exchange represent the research community, and the data search for the fiscal year ending on 31/12/2022 was applied.

**Research methodology:**

In the theoretical part, the descriptive approach was used to review books, journals, theses, and university theses. Additionally, the analytical method was relied upon through the design of a questionnaire to identify the most important procedures to be followed to apply strategic cost management techniques in order to reduce banking risks.

**The second subject: the research's theoretical component**

**The idea behind strategic cost management approaches and their significance:**

Strategic cost management strategies are regarded as a collection of instruments and approaches that are suitable for the demands of the modern company environment and aid in decision-making that will provide a competitive edge. Since the emphasis is on increasing the product's performance and quality while lowering its costs, the information supplied by strategic cost management techniques can satisfy the fundamental requirements of the economic unit's management. This includes non-financial information about productivity, quality, and time as well as financial information about costs and revenues. (Blocher,et.al.,2010:6) .

As a framework for integrating all pertinent elements to solve issues and overcome challenges, strategic cost management techniques are a tool for continuous improvement that aims to plan, control, and lower costs in order to help the economic unit improve its competitive position. (Al-Nuaimi, 2007: 41).

The importance of the information they provide, whether financial or non-financial, relying on a set of costing and administrative techniques that will help achieve competitive advantage through their importance in improving the financial results of the economic unit as well as achieving customer satisfaction and loyalty (Mohammed, 2012: 39).

The importance of strategic cost management techniques comes through their targeting to achieve customer satisfaction with the economic unit and its products and services provided to them through three main activities, and these activities can be illustrated as follows: (Al-Mawali, 2015:131-132))

- a. **Cost and Resource Planning:** Cost and resource planning is done using Target Cost (TC), Activity-Based Costing (ABC), Activity-Based Management (ABM), and Constraint Theory (TOC).
- b. **Cost Control and Supervision:** Cost control and supervision is carried out through a range of techniques such as product lifecycle costing (PLCC), reference comparison (BM) and balanced label (BSC).
- c. **Cost reduction:** Costs can be reduced by using a range of techniques including continuous improvement (CI), value engineering (VE), value analysis (VA), concurrent engineering (CE), and total quality management technology (TQM), on-time production technique (JIT) .

### **Objectives of Strategic Cost Management Techniques:**

The objectives of strategic cost management techniques have expanded and extended to increasing revenues, improving profitability and productivity, improving value from the point of view of both the economic unit and the customer, in addition to improving indicators of cost, quality, time and flexibility, and the objectives of cost accounting techniques can be classified into two groups, which are as follows: (El-Kelety, 2006: 73)

**First: Operational objectives of strategic cost management techniques:** There is a set of operational objectives for these technologies, and these objectives are usually related to energy operation and short-term decision-making, and these objectives are as follows: (Student, 2010: 43)

- a) Identify and measure the costs of resources consumed by the activities that caused their occurrence, and then identify and measure the costs of products and services that consumed these activities.
- b) Provide effective and efficient control over the costs of activities addition to metrics for evaluating these costs.
- c) data in order to provide appropriate financial and non-financial information that can serve different administrative levels.

**Second: Strategic objectives of strategic cost management techniques:** These technologies seek to achieve a set of strategic goals, and these objectives are related to power generation and long-term decision-making that are consistent with various environmental variables and developments, and these objectives are as follows: (Al-Bishtawi and Jarira, 2015: 184), (Al-Zamili, 2017: 27-28)

- 1) Continuous improvement of the resources, activities, operations, economic unit's goods and services in line with consumer demands and preferences as well as the demands of the competitive market.
- 2) Apply customer-oriented strategic management accounting methods in order to evaluate the performance of activities, processes and products.
- 3) To accurately measure costs, revenues and profitability at the level of the process, product, production line, department, customer or at the level a whole.
- 4) Work make appropriate decisions related to the pricing of products, adding or disposing of one of the production lines or developing the current product.

### **Concept and types of banking risks:**

The concept of risks to which an economic unit is exposed is related to the future, and that banking risks can be quantified, and that it is related to the state in which the financial variable of interest is characterized by two characteristics: that its future value is not known with certainty and that its value in the future involves one of three possible outcomes (Ali, 2005: 38).

Because the behavior associated with the risk can result in either gains or losses and it is impossible to predict which will actually occur, some people view banking risk as the potential volatility in outputs, an objective concept that can be quantified, and a source of potential losses. Financial risk indicates that there is a chance of either a financial profit or a financial loss for the economic unit, and the term risk is used to refer to the change that can occur in the returns associated with a particular asset (Abbas, 2016: 1) .

Banking risk is seen as losses that can be exposed due to uncertain changes, and that financial risk is a relative indicator of the degree of volatility in the return that the economic unit will receive in the future; consequently, banking risk is a relative indicator of the degree of volatility in the return that the economic unit will receive in the future; in other words, it is the loss to which the economic unit may be exposed during the accounting period due to uncertain changes that may occur in the future. (Gualandri,et.al.,2009:12) .

There are several types of financial risks, namely credit risk, liquidity, exchange rate and interest rate, and these risks can be clarified through the following:

- a. **First: Credit risk:** This type of risk is related to the quality of assets and the probability of default, and there is great difficulty in assessing the quality of assets due to the scarcity of information available (Jamaan, 2017: 199). .
- b. **Second: Liquidity risk:** Liquidity risk is the risk resulting from the failure of the entity to meet the debt burden in accordance with the terms agreed upon with financiers or lenders, and liquidity risks are related to the bank's inability to face the lack of its cash obligations in the face of depositors on demand, due to insufficient liquidity due to sudden and high withdrawals (Al-Kilani, 2015: 8).
- c. **Third: Exchange Rate Risk:** Exchange rate risk expresses Since foreign exchange rate fluctuations carry a risk of loss, an institution may be exposed to an occurrence that could result in profit or loss. (Josette, 2015: 91).
- d. **Fourth: Interest Rate Risk:** Interest rate risk is the sensitivity of cash flows to changes in the level of interest rates. The asset or liability becomes the basis for the interest rate in a certain period of time (Beatty, et.al.,2020:703) .

#### **The relationship between strategic cost management techniques and banking risk:**

There is a relationship between strategic cost management techniques and banking risks, especially financial risks, as this technology reduces these risks from their ability to provide appropriate information that helps exclude activities (Hijazi and Al-Alim, 2018: 99).

Because it allocates the cost of resources to activities and the cost of activities to cost purposes based on their uses and the causal relationship, strategic cost management approaches measure the cost and performance of resources and activities as well as cost purposes. of cost drivers to activities, thus helping to provide appropriate information through which rational decisions can be made to mitigate the impact of risks to economic units (Roffish Turey, 2019:54) .

The use of resources linked to various activities is accurately reported by strategic cost management techniques, which yields a number of benefits, such as the provision of indicators that assist in assessing the significance of activities and are presented in a way that empowers management to make resource allocation decisions. (Mashash, 2017: 9-10).

Strategic cost management techniques provide a set of non-financial metrics by which cost drivers are measured, including cost, time, quality, and quantity. Because the application of the costing system on an activity-based basis varies from one organization to another, each organization can develop its own performance measures (Landi,et.al.,2022:1097) .

Cost factor analysis provides a fresh look at cost behavior and the analysis that follows is required for planning and budgeting. In this area, cost management techniques also play a role in activity-based budgeting as a planning and control tool that helps in evaluating performance (Al-Sayed and Al-Marei, 2006: 125).

### **The third subject is the research's applied aspect.**

#### **An overview of the research sample at the beginning:**

There are a total of (65) banking institutions in Iraq, however, they contributed only 1.94% of local notifications in 2021, as this network has 904 branches spread around the world, where these institutions provide a broad range of financial services, particularly lending, savings, and payments, and offer any business establishment the financial services it needs, since the existence of a banking system greatly aids in the nation's development by energizing the investment sector and drawing in foreign capital. Money to invest in investment projects. For the sample of the study, a group of managers and their assistants, accountants, auditors and financial analysts working in Iraqi banks were selected, and a questionnaire was designed and distributed to them.

**Analysis of the demographic characteristics of the members of the research sample:**

(360) questionnaire form was distributed to the members of the research sample represented by each of the managers and their assistants, accountants, auditors and financial analysts working in Iraqi banks, and the demographic characteristics of the members of the research sample were examined, which can be clarified as follows:

Table (1)

Analysis of the demographic characteristics of the members of the research sample

No.	Variable	classification	Number	Percentage
1	lifetime	30-40 years old	44	%12.2
		41-50 years old	75	%20.9
		More than 50 years	241	66.9%
2	Sex	male	239	%66.4
		female	121	33.6%
3	Qualification	Bachelor	164	%45.6
		Master	116	%32.2
		Doctor	80	22.2%
4	Years of Experience	5-10 years	103	%28.6
		11-15 years old	80	%22.2
		More than 15 years	177	49.2%

Source: Prepared by the researcher.

It is clear from the above table that the majority of respondents are over 50 years old (66.9%), followed by the age group from 41 to 50 years (20.9%), and the age group from 30 to 40 years (12.2%). The sample members consist of (66.4%) of males and (33.6%) of females, and holders of a bachelor's degree constitute the largest group of sample members in terms of educational level, and according to the above data, the group with experience (more than 15 years) comes in first place (49.2%), followed by the experienced group (between 11 and 15 years) (22.2%), and (5-10 years) came in third place (28.6%).

**Statistical description of the variables of the study:**

The following table provides an illustration of the arithmetic mean, percentage, and standard deviation of the variable of strategic cost management strategies.:

Table.(2) Arithmetic mean and standard deviation variable strategic cost management techniques

No.	Paragraph	Arithmetic mean	Percentage	Standard deviation
1	The Bank's management prepares and manages the budget based on activities for the purpose of achieving specific objectives by coordinating activities.	4.44	%88.8	.915
2	The management plans to use the available resources and energies in order to achieve the objectives of the bank as effectively and efficiently as possible.	4.41	%88.2	.963
3	The administration relies on the use of the budget as a planning and control method, through which the bank's objectives can be translated into work programs adopted by the administration.	4.59	%91.8	.789
4	A quantitative plan is prepared to utilize the resources available to the bank during a limited period in the future, and this budget is prepared based on the main and supporting activities in the bank.	4.53	%90.6	.814
5	A plan is prepared to coordinate and direct the workflow and this budget is prepared depending on the activities in the economic unit to help measure and evaluate risks.	4.39	%87.8	.972
6	There is coordination between the different administrative units and departments and individuals working in the bank in order to provide a sound base for measuring the efficiency of performance.	4.44	%88.8	.906
7	The control function in the bank is facilitated by adopting a scientific control basis and standard, and determining the responsibility of each of the individuals working in the facility.	4.60	%92.0	.740
8	The link between the quantity of services rendered and the activity necessary to deliver them is used in activity-based budgeting.	4.54	%90.8	.796
9	The activity-based budget aids in understanding the bank's strengths and competencies as well as in achieving the objectives the bank has established.	4.46	%89.2	.898
10	The strengths and weaknesses of the bank's activities are determined, as the activity-based budget uses the relationship between the quantity and the activity required for them.	4.61	%92.2	.738
	Overall average	4.501	%90.02	0.8531

Source: Researcher preparation based on statistical program (SPSS-26) .

The above table shows that the arithmetic mean for all paragraphs was (4.501) with a percentage (90.02%) and a standard deviation (0.8531). Thus, the management of the banks of the study sample depends on the use of the budget as a planning and control method, through which the bank's objectives can be translated into appropriate work programs to reach the best possible level of performance, where a quantitative plan is prepared to exploit the resources available to the bank during a limited period in the future.

The following table provides an illustration of the banking risk variable's arithmetic mean, percentage, and standard deviation.:

Table..(3)

The banking risk's arithmetic mean, percentage, and standard deviation variable

No.	Paragraph	Art. mean	%	SD.. deviation
1	By examining the connection between the necessary return on investment and the risks associated with this investment, the Bank aims to control the risks to which it is subject.	4.39	%87.8	.982
2	Due to fierce competition, banking risk management has become crucial to the bank's survival. Its goal is to stop losses whenever possible.	4.44	%88.8	.912
3	Financial risk is a relative indicator of return volatility, while banking risk results from losses brought on by unforeseen events.	4.60	%92.0	.744
4	Banking risks occur as a result of the inability to pay or pay the debts owed by the company or institution, which may be the result of economic instability.	4.50	%90.0	.858
5	The state of risk refers to the uncertainty that a certain outcome has been achieved, and that banking risk is associated with the use of debt to finance the needs of the bank.	4.35	%87.0	1.028
6	Banking risk relates to the volatility of dividends available to shareholders, which is the possibility of an adverse deviation from the target or desired outcome.	4.41	%88.2	.951
7	Banking risks are related to the bank's financial decisions, which represent the main sources for generating cash flows in order to achieve economic profits that increase the value of the invested wealth.	4.62	%92.4	.682
8	The Bank works on risk management through a range of activities related to the collection of information on risky assets and the identification of losses that may be incurred.	4.54	%90.8	.799

9	Depending on the level of risk tolerance, banking risk is managed by using the right instruments to minimize possible losses and optimize the market value of anticipated returns.	4.44	%88.8	.939
10	Identifying, quantifying, and dealing with the risks to which the bank is exposed are all part of risk management.	4.63	%92.6	.700
	Overall average	4.492	%89.84	0.8595

Source: Researcher preparation SPSS26..

Banking risks arise from losses resulting from uncertain changes, which is a relative measure of the degree of volatility in the return that the banks of the research sample will obtain in the future. This is evident from the above table, which shows that the arithmetic mean for all paragraphs was (4.492) by a percentage (89.84%) and a standard deviation (0.8595).

#### Test correlation and impact relationships between research variables:

In order to test the correlation relations between the variables of the study, the values of the Pearson correlation coefficient will be extracted in order to measure the strength of the relationship between two variables and their correlation with each other, so the correlation relations between the study variables represented by strategic cost management techniques, banking risks and operational decisions will be tested, as shown below:

Table (4)

Pearson correlation coefficient between the variable of variable of banking risk

Correlations			
		Techniques for Strategic Cost Management	Banking risk
Techniques for Strategic Cost Management	Correlation	1	.954**
	Sig...		.00000
	N..	360.00	360.00
Banking risk	Correlation	.954**	1
	Sig...	.00000	
	N..	360.00	360.00
** Sig...2.00-tailed			

Source: Researcher preparation SPSS26 .

The above table shows that the Pearson correlation coefficient (Pearson) between the strategic cost management strategies variable and the variable of banking risk was (.954), and this indicates that there is a strong positive relationship between the two variables, as continuous improvement is one of the main pillars for making improvements in banking services in investing in assets or new services, or stopping investment due to the high costs of improvement, as improvements can be made in order to accomplish strategic goals through the planning, budgeting, pricing, control, alternative evaluation, and performance evaluation procedures. by determining how improvements can be accomplished, and therefore banks are a sample The study continuously seeks to improve its performance better than competitors through the use of the best methods in evaluating banking services and making appropriate decisions.

The hypothesis of the research states the following: (There is no statistically significant effect between strategic cost management techniques and banking risks in banks listed on the Iraq Stock Exchange), and the values of the coefficient of determination and the corrected coefficient of determination between the variable of strategic cost management tools:

Table..(5)

Values of the adjusted coefficient of determination and coefficient of determination between the banking risk variable and the strategic cost management approaches variable

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.954	.911	.828	.19254	2.440
a. Predictors: (Constant), X (Strategic Cost Management Techniques)					
b. Dependent Variable: Y (Banking Risk)					

Source: Researcher preparation based on SPSS-26 statistical program.

From determination (R- Square) amounted to (.911) and the corrected coefficient of determination is (.828), and this means that the regression model has explained the estimated (82.8%) of the total deviations and the rest are not included in this study, as well as ensuring that there is no bias in the method used to predict data points. The results of the analysis table can be illustrated The variance (ANOVA) between the variable of strategic cost management techniques and the variable of banking risk through the following table:

Table (6)

Analysis of Variance (ANOVA) between the variable of strategic cost management techniques and the variable of banking risk

ANOVA						
Model		Sum of Squares	Push	Mean Square	F	Sig.
1	Regression	17.100	1	17.100	161.271	Per Month
	Residual	13.272	359	.037		
	Total	30.372	360			
a. Dependent Variable: Y (Banking Risk)						
b. Predictors: (Constant), X (Strategic Cost Management Techniques)						

Source: Researcher preparation based on SPSS-26 statistical program .

The above table represents the analysis of variance (ANOVA), where we note that the calculated F value is (161.271) which is significant at the level of significance (5%)  $000 = \text{Sig}$  This is evidence that the model is significant, and this analysis is a test that is used in statistical analysis to obtain a decision whether there are differences between the averages or not, in order to identify what makes an average different from other averages. The estimation of the value of the regression parameter and the value of t and its significance between the variable of strategic cost management techniques and the variable of banking risk:

Table (7)

Estimation value regression parameter and the value of t-and their significance between the variable of strategic cost management techniques and the variable of banking risk

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.154	.156		11.409	.000
	X (Strategic Cost Management Techniques)	.741	.035	.752	21.477	.000
a. Dependent Variable: Y (Banking Risk)						

Source: Researcher preparation based on SPSS-26 statistical program .

The results of the statistical program shown in the table above for the test of the significance of the regression parameter showed that its value was (.741) and the value of its t-test is (21.477), which is significant at the level of significance 5% and 1%, meaning that we reject the null hypothesis and accept the alternative hypothesis, that is, there are significant impact that relationships.

#### **The fourth theme is Conclusions and Suggestions.**

##### **4-1the.Conclusions:**

- 1) Strategic cost management techniques are a set of tools and methods appropriate to the demands of the modern business environment, which addresses cost analysis in a wide range of ways by its ideal position in order to improve the cost structure and achieve competitive advantage.
- 2) The importance of strategic cost management techniques comes from their ability to provide financial information related to expenses and income, as well as non-monetary data on output, profitability, quality, time, flexibility, and value, and that this data is useful in managing the economic unit effectively and efficiently as well as economic through the optimal use of available resources.
- 3) Strategic cost management techniques focus mainly on the customer to meet his needs and requirements better than what competitors offer, and work to improve strategic performance and enhance the competitive position by analyzing the internal and external environments.
- 4) Banking risk is the possible partial or total loss of the value of the wealth of the shareholders of the economic unit, as it is directly related to the ultimate goal of this unit, which is to maximize the wealth of shareholders, as it is main sources for generating cash flows in the entity.
- 5) Strategic cost management techniques can help reduce risks, through which they can respond quickly to customer requirements and provide sufficient flexibility for any changes that may occur and deliver products to them as quickly as requirements.

##### **The Recommendations:**

- a) Because costing and administrative approaches are better suited for the swift and sequential changes that accompany the business environment, banking units must use a strategic approach to cost management in response to these changes.

- b) Provide the department requires both financial and non-financial data to support planning, control, and decision-making. evaluation of operational and strategic performance, in addition to accurately measuring the cost of each of the operations and services.
- c) The management of banking units to review the costing and administrative techniques and adopt and work hard make real continuous reductions in cost and develop its operations and products to adapt to environmental changes, whether in the internal environment or in the external environment.
- d) The need to preserve the bank's assets by diversifying them and preserving the capital by adhering to the specified ratios and striving hard to reduce banking risks and take rational management decisions in a timely manner.
- e) The need for Iraqi banks to implement a specific risk management plan that improves financial performance, as well as the development of mechanisms for preventive and corrective internal control and the adoption of appropriate strategies to avoid banking risks.

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