

**THE RELATIONSHIP BETWEEN FINANCIAL  
REPORTING AND MANAGEMENT ACCOUNTING  
IN STRATEGIC DECISION MAKING**

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## DECLARATION

I hereby declare that;

- i. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin city under the supervision of Prof C.A Okafor
- ii. This work has not been previously submitted for the reward of a degree elsewhere
- iii. Ideas and opinions are products of my personal research and where the view of others has been expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is wholly borne to me

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Aigbokhabho Daniel

## **CERTIFICATION**

We the undersigned hereby certify that this research project was carried out by Aigbokhabho Daniel of the Department of Accounting, University of Benin, Benin City and approve that it is adequate in scope and quality in partial fulfillment of the award of Bachelor of Science (B.Sc.) degree in Accounting, University of Benin, Benin City.

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## **DEDICATION**

This project is dedicated to God Almighty for His guidance, protection, love, provision, and mercy over my life throughout the course of my stay in the University of Benin and over the duration of this research.

## **ACKNOWLEDGEMENT**

I would like to begin by thanking God Almighty for giving me strength, wisdom and ordering my steps throughout the duration of this research.

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## **ABSTRACT**

Strategic decisions are very important decisions which organizations are obliged to make to ensure growth, sustainability, and wealth maximization for shareholders. The study examines the relationship between financial reporting and management accounting and how this relationship aids strategic decision-making. This study seeks to provide evidence on how financial reporting and management accounting influence how strategic decisions are chosen and implemented by organizations. The analysis was carried out on a sample of 10 manufacturing (industrial and consumer goods) companies quoted on the Nigerian Exchange Group (NGX) as of August 6<sup>th</sup>, 2023. It investigates variables of financial reporting and management accounting which are potential determinants that influence strategic decision-making among listed Nigerian Manufacturing firms for a period of ten years 2011-2020. It evaluates the effect of financial performance, market share and competition, industry trends and economic factors, capital expenditure, cost structure, budgeting and forecasting, performance and key performance indicators and capital investment appraisal on the strategic decisions made by listed Nigerian Manufacturing firms. Secondary data from the annual reports of the sampled firms have been analyzed using descriptive and regression models. The results revealed that of financial performance, market share and competition, industry trends and economic factors, capital expenditure, cost structure, budgeting and forecasting, performance and key performance indicators and capital investment appraisal are strong determining factors of strategic decisions in Nigerian Manufacturing firm. Therefore, I strongly recommend that firms harness the relationship between financial reporting and management accounting to enable them to make more informed, data-driven, and strategically sound decisions. This will potentially give them a competitive advantage and eventually lead to improved long-term performance and sustainability.

## CHAPTER 1

### 1.1 Background to the Study

Financial reporting is the act of presenting the financial details of a company or organization to different parties involved, including investors, creditors, regulators, and the public. This involves creating and sharing financial statements and related materials that offer information about the entity's financial performance, position, and cash flows.

The process of financial reporting is crucial for making decisions, evaluating the financial well-being of a business, and promoting transparency and responsibility. It enables stakeholders to comprehend the financial outcomes, patterns, and risks connected with the operations of an organization, empowering them to make knowledgeable assessments and take suitable measures. Okoye and Akenbor (2014) posits that the origins of concerns related to financial reporting can be traced back to 1975 when the concept of the corporate reporting emerged in England. In Nigeria, as the demand for financial information on companies grew, the significance of financial reporting has now gained substantial importance. This is because it offers valuable information to current and prospective investors, creditors, and other users, aiding them in making informed investment, credit, and financial decisions that are rational and sensible.

Olakunori (2009) proposed that to fulfill the primary goals of financial reporting, it is necessary to establish a consistent and comprehensive framework. Thus, a financial reporting framework pertains to the fundamental accounting assumptions, principles, and techniques employed in the creation, presentation, and disclosure of financial statements for various types of entities. These entities encompass publicly traded and privately held companies, non-profit organizations, and government bodies.

Management accounting is a specialized branch of accounting that focuses on providing financial and non-financial information to internal stakeholders, primarily management, to support planning, controlling, and decision-making processes within an organization. Its objective is to enhance efficiency, optimize resources, and achieve strategic goals. It is the process of collecting, analyzing, interpreting, and communicating financial

and non-financial information to aid internal decision-making within an organization. It focuses on providing relevant data to managers and executives to facilitate planning, control, and performance evaluation.

Management accounting has evolved over centuries to meet the needs of businesses and organizations in managing their operations efficiently. Its roots can be traced back to the early stages of commerce and trade, but the formal development of modern management accounting can be attributed to the Industrial Revolution in the 18th and 19th centuries.

In the era of the Industrial Revolution, the rise of extensive manufacturing and the necessity for effective resource distribution gave rise to the development of contemporary management accounting methods.

Visionaries like James Watt and Matthew Boulton employed cost accounting methodologies to oversee their steam engine production (Fleischman & Tyson, 2006). During the early 20th century, the progress of management theory and the demand for more advanced approaches led to the broadening of management accounting principles. Key figures such as Frederick Winslow Taylor and Henry Ford emphasized the significance of cost analysis and standardization in boosting productivity (Kaplan & Johnson, 1987). Today, management accounting continues to evolve, incorporating technological advancements like big data analytics, artificial intelligence, and cloud-based systems, enabling organizations to make data-driven decisions in real-time (Borthick et al., 2019).

Chenhall and Langfield-Smith (2007) emphasize that management accounting data plays a crucial role in recognizing cost patterns, analyzing profitability, and appraising potential investments, thus empowering organizations to make well-informed decisions that align with their long-term goals. This strategic decision-making process facilitates the efficient allocation of resources and promotes sustainable growth within the organization. According to Shields and Young (1991), the feedback derived from management accounting reports aids in recognizing shortcomings and areas that require enhancement. This constant feedback mechanism promotes a culture of learning and perpetual improvement within the organization. To sum up, management accounting holds a crucial importance in modern businesses as it provides essential financial data

used for strategic decision-making, evaluating performance, managing costs, and allocating budgets and resources effectively.

Financial reporting and management accounting are interconnected roles that collaborate to aid the strategic decision-making process within organizations. While financial reporting offers a wider historical outlook and communicates data to external stakeholders, management accounting concentrates on providing precise and timely information to support internal decision-making, facilitating effective strategic planning and implementation. Together, these functions are crucial for making informed strategic decisions that steer an organization towards success and expansion.

## **1.2 Statement of the Research Problem**

In the contemporary business landscape, the process of making strategic decisions holds a central significance in determining the prosperity and endurance of organizations. Two critical factors that impact strategic decision-making are financial reporting and management accounting. Financial reporting offers external stakeholders a complete overview of an organization's financial performance, whereas management accounting supplies valuable insights to internal decision-makers for efficient planning and control. Although these disciplines serve different purposes, they are interrelated and work together harmoniously within the realm of strategic decision-making. Although financial reporting and management accounting are related, their specific influence on strategic decision-making has not received sufficient attention in academic research. The modern business landscape's complexities, along with dynamic market conditions and evolving accounting practices, have created fresh challenges and prospects for organizations attempting to harmonize these vital functions. With businesses aiming for sustainable growth, comprehending how financial reporting and management accounting work together to impact strategic decisions becomes of utmost importance.

In order to address the research problem, the following research questions would be raised;

- I. What is the relationship between financial performance and strategic decision making?
- II. What is the impact of market share and competition on strategic decision making?
- III. What is the extent to which industry trends and economic factors affect strategic decision making?
- IV. What is the influence of capital expenditure on strategic decision making?
- V. What is the impact of cost structure on strategic decision making?
- VI. What is the effect of budgeting and forecasting on strategic decision making?
- VII. What is the extent to which performance and key performance indicators impact strategic decision making?
- VIII. What is the relationship between capital investment appraisals and strategic decision making

### **1.3 Objectives of the Study**

The objectives of this research are to:

- A. establish the relationship between financial performance and strategic decision making;
- B. determine the impact of market share and competition on strategic decision making;
- C. ascertain the extent to which industry trends and economic factors affect strategic decision making;
- D. find out how capital expenditure influences strategic decision making;
- E. determine the impact of cost structure on strategic decision making;
- F. examine the effect of budgeting and forecasting on strategic decision making;
- G. ascertain the extent to which performance and key performance indicators impact strategic decision making and
- H. establish the relationship between capital investment appraisal and strategic decision making.

## 1.4 Research Hypotheses

The following hypotheses are tested in the study:

### **Hypothesis one:**

**Ho:** There is no significant relationship between financial performance and strategic decision making.

### **Hypothesis two:**

**Ho:** There is no significant relationship between market share and competition and strategic decision making.

### **Hypothesis three:**

**Ho:** There is no significant relationship between industry trends and economic factors affect strategic decision making.

### **Hypothesis four:**

**Ho:** There is no significant relationship between capital expenditure and strategic decision making.

### **Hypothesis five:**

**Ho:** There is no significant relationship between cost structure and strategic decision making.

### **Hypothesis six:**

**Ho:** There is no significant relationship between budgeting and forecasting and strategic decision making.

### **Hypothesis seven:**

**Ho:** There is no significant relationship between performance and key performance indicators and strategic decision making.

### **Hypothesis eight:**

**Ho:** There is no significant relationship between capital investment appraisal and strategic decision making.

## **1.5 Scope of the Study**

The scope of this research is centered around the financial reports and management accounting practices of manufacturing firms listed in the Nigerian Exchange Group (NGX). The time period of 2011-2020 is utilized to ensure comparability and make more practical research. This period has been thoughtfully selected to ensure comparability and historical context for the examination of financial reports and management accounting practices. The decision to concentrate on manufacturing companies stems from their significance in contributing to economic growth, industrial development, and employment generation within the Nigerian economy.

## **1.6 Significance of the Study**

The importance of this study cannot be overstated, as the study focuses on the essential role of strategic decision making in the competitive corporate world. It highlights the crucial relationship between financial reporting and management accounting, which significantly impacts the fate of businesses. The research aims to understand the intricate connection between these two aspects and their combined effect on strategic decision making. By integrating data and information, financial reporting and management accounting offer valuable insights that can lead to well-informed and successful decisions. The study focuses on the crucial role of financial reporting, with its fiduciary responsibilities, in ensuring transparency, accuracy, and compliance while presenting an organization's financial health. It acts as a critical compass for stakeholders to understand the company's economic position by examining its past performance and current standing. Additionally, the study highlights the importance of management accounting as a dynamic force that empowers internal decision makers with real-time, strategic insights. Serving as a compass for organizational performance, management accounting encompasses aspects such as costs, budgets, and performance metrics. This study's significance extends beyond merely shedding light on the isolated roles of financial reporting and management accounting. Instead, it seeks to uncover the intricate tapestry that binds these two disciplines together, illuminating the mutual dependencies and reinforcing loops that underpin strategic decision making. By examining the

harmonious integration of these aspects, organizations can unveil a comprehensive view of their financial landscape, aligning historical perspectives with forward-looking insights.

## **1.7 Limitations of the Study**

There are some limitations that have been encountered in the process of writing this research. Some of the limitations include;

- A. The time frame is quite small and very limited.
- B. Unavailability of financial resources and capital impeded the process of the research.
- C. The poor electricity situation of the country hindered the process of gathering data and information from secondary sources.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

Financial reporting and management accounting play significant roles in strategic decision making. Companies require accurate financial information to make informed decisions that will enable them to achieve their strategic goals. Management accounting provides financial information that helps companies make better strategic decisions. The purpose of this literature review is to examine the relationship between financial reporting and management accounting in strategic decision making.

Financial reporting refers to the process of preparing and presenting financial information about a company's financial performance, position, and cash flows to various stakeholders. It involves the creation of financial statements, such as the income statement, balance sheet, and cash flow statement, which provide a comprehensive view of the company's financial health (Hilton, 2019). Financial reporting serves as a means of communicating important financial information to stakeholders, including investors, creditors, regulatory authorities, and internal decision makers (Hilton, 2019). It plays a critical role in facilitating transparency, accountability, and informed decision making within organizations.

Financial reporting is guided by accounting principles and standards, such as Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS). These standards ensure consistency, comparability, and transparency in financial reporting across different companies and industries (Warren et al., 2019). The financial statements prepared as part of financial reporting provide a snapshot of the company's financial performance over a specific period. The income statement summarizes revenues, expenses, and net income or loss, providing insights into the company's profitability (Hilton, 2019). The balance sheet presents the company's assets, liabilities, and shareholders' equity, reflecting its financial position at a given point in

time. The cash flow statement outlines the cash inflows and outflows, helping stakeholders understand the company's cash flow dynamics (Hilton, 2019).

Financial reporting quality refers to the accuracy, completeness, and timeliness of financial statements. According to the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Accounting Standard Board in the United Kingdom (ASB) [UK], and the Australia Accounting Standard Board (AASB), Financial reporting quality refers to the degree to which financial statements present truthful and impartial information regarding the financial state and operational effectiveness of a company. Several researchers have conducted a comprehensive examination of different aspects related to the quality of financial reporting. Factors such as accounting standards convergence, accounting standards harmonization, economic crises, growth in disclosure requirements, and others have resulted in an excessive emphasis on financial reporting. Additionally, the rise in global accounting scandals in the early 21st century has exposed weaknesses in financial reporting quality. There is a growing demand worldwide for a clear and complete definition of financial reporting quality. High-quality financial reporting is crucial for guiding investment decisions and promoting market efficiency. Another global demand is to develop effective methods for evaluating the quality of financial reporting. The benefits to investors and users of financial reports increase with the quality of financial reporting. Financial reporting quality encompasses not only financial information but also other non-financial information that is helpful in strategic decision-making.

The quality of financial reporting is important because it enables stakeholders to make informed strategic decisions about a company's financial performance. Accurate financial statements help companies make better decisions about investments, financing, and strategic planning. High-quality financial reporting also enhances a company's reputation and improves its ability to attract investors.

Karim and Taqi (2013) believe that the main goal of financial reporting is to present reliable and valuable information that can aid decision-making, resulting in reduced uncertainties and improved ability to predict future outcomes. The accountant's primary aim is to offer precise and promptly presented accounting information that is clear and effectively communicated to all parties associated with the company through

financial reports. Given the ambiguous and uncertain business environment, companies must structure their operations to align with their vision and objectives, which entail safeguarding assets from loss and continuously enhancing productivity to attract investors. To accomplish this, they must provide information with specific attributes as part of their financial reports (Tarawneh & Altarawneh, 2019).

Management accounting refers to the use of financial information to make informed decisions that will enable a company to achieve its strategic goals. Management accounting provides information about a company's performance and helps managers make decisions about investments, costs, and pricing. The information provided by management accounting is essential for companies to make strategic decisions that will enable them to compete in the market. The utilization of management accounting practices has been specifically examined as a means of reinforcing the operational framework of manufacturing companies (Ittner & Larcker, 2002). According to Abdel-Kader and Luther (2006), a wide range of management accounting practices may comprise costing methodologies, budgeting techniques, performance assessment frameworks, decision-making information, and strategic analysis approaches.

Management accounting is a crucial area of accounting that deals with providing financial information to managers and decision-makers within an organization. It includes various techniques and tools that are used to measure, analyze, and report financial information, and help managers make informed decisions. This literature review aims to explore some of the key concepts, theories, and practices related to management accounting that is majorly used in making strategic decisions in companies. Management accounting can be an effective aid in decision making because managers require diverse information about the financial situation and operations of the organizations they oversee, including specific insights into costs and the ability to model decision maker behavior (Talpeş, 2010).

Management accounting refers to the set of activities involved in gathering, evaluating, and interpreting both financial and non-financial data in order to assist with decision-making, planning, and controlling various operations within an organization (Atkinson et al., 2012). Furthermore, management accounting systems can provide feedback to managers, helping them to adjust their strategies and activities to achieve their goals. A

significant aspect of management accounting is its emphasis on delivering pertinent and prompt information to facilitate decision-making. Management accounting information is frequently customized to suit the requirements of various stakeholders, including managers, investors, and regulators, to enable them to make well-informed decisions (Drury, 2018).

## **2.2 The Relationship between Financial Reporting and Management Accounting**

The relationship between financial reporting and management accounting is significant. High-quality financial reporting provides accurate financial information that is essential for effective management accounting. Management accounting relies on the accuracy of financial statements to provide reliable information about a company's financial performance. Therefore, high-quality financial reporting is essential for effective management accounting.

Management accounting also plays a significant role in financial reporting. Management accounting provides information that helps companies identify areas where financial reporting may be improved. By analyzing financial information, management accounting can identify areas where financial reporting is inaccurate or incomplete, this information can be used to improve financial reporting quality. A significant aspect of management accounting is its emphasis on delivering pertinent and prompt information to facilitate decision-making. Several studies have examined the relationship between financial reporting and management accounting. Botosan and Plumlee (2002) found that companies that maintain accurate and transparent financial reporting are more likely to utilize advanced management accounting techniques. This is because the credibility and utility of management accounting information is enhanced by high-quality financial reporting, resulting in better-informed decision-making.

Likewise, Alali and Foote (2012) suggested that the presence of high-quality financial reporting nurtures a climate of responsibility and openness, which stimulates the utilization of management accounting information in decision-making. Management accounting also plays a significant role in ensuring compliance with financial

reporting standards. Management accounting provides information about a company's financial performance that is used to ensure compliance with financial reporting standards. By providing accurate financial information, management accounting helps ensure that financial reporting follows accounting standards.

In summary, high-quality financial reporting enhances the credibility and usefulness of management accounting information, while sophisticated management accounting practices provide a framework for identifying and addressing financial reporting issues, which leads to better quality financial reporting.

## **2.3 Financial Reporting and Strategic Decision Making**

The concepts of financial reporting and strategic decision-making are closely linked. When financial reporting is of high quality, decision-makers have dependable information that they can use to make informed decisions that are critical to the long-term success of their organization. Conversely, when making strategic decisions, accurate financial information is essential to evaluate potential risks and opportunities, and to determine how to create value for the organization. Therefore, the reliability of financial reporting is a crucial component of effective strategic decision-making.

Financial reporting plays a critical role in strategic decision-making, particularly in the context of mergers and acquisitions (M&A). Dependable financial information can aid potential acquirers in assessing the value and risks of a target company, as well as identifying potential synergies and opportunities for expansion (Healy & Palepu, 2001). Similarly, dependable financial reporting can assist companies in assessing potential acquisition targets and appraising the potential risks and benefits of a proposed merger. This highlights the importance of financial reporting in facilitating informed decision-making in strategic contexts.

Apart from M&A, financial reporting is significant for other strategic decisions such as capital budgeting, investment decisions, and strategic planning. Dependable financial information can help companies assess the potential returns and risks of various investment opportunities, as well as determine the necessary resources to

pursue different strategic objectives. This emphasizes the significance of financial reporting quality in enabling informed decision-making across a range of strategic areas (Dechow et al., 2010).

Leuz et al. (2003) opines that financial reporting quality is critical for effective strategic decision-making. Reliable financial information can help decision-makers evaluate potential risks and opportunities, make informed decisions, and create value for their organizations. In turn, strategic decision-making helps to ensure that the organization is effectively utilizing its resources and positioning itself for long-term success.

## **2.4 Management Accounting and Strategic Decision Making**

Management accounting plays a critical role in strategic decision-making. It provides valuable information to managers that helps them make informed decisions to achieve their organization's goals

According to Hansen and Mowen (2021), management accounting is the process of identifying, measuring, analyzing, interpreting, and communicating financial and nonfinancial information used by management to plan, control, and evaluate an organization's operations and to make informed decisions. In contrast, strategic decision-making entails making choices that will have a significant impact on the organization's enduring success. These choices are informed by an evaluation of internal and external factors and necessitate a comprehensive comprehension of the organization's aims and objectives (Hitt, Ireland, & Hoskisson, 2021).

Management accounting provides managers with the information they need to make these strategic decisions. For example, management accounting provides information on the cost of producing a product or service, which helps managers make decisions about pricing and production levels. It also provides information on the profitability of different products and services, which helps managers decide which ones to continue offering and which ones to discontinue. In addition, management accounting provides information on cash flow, which helps managers make decisions about investments and financing.

According to Bhimani et al. (2019), Management accounting equips managers with "data on past, present, and future occurrences that have relevance to the planning, monitoring, and decision-making activities of the organization". This information is critical to strategic decision-making because it empowers managers to

scrutinize internal and external factors that influence the organization's capability to attain its long-standing goals and objectives.

In conclusion, Management accounting is a crucial tool for strategic decision-making. It provides managers with the information they need to make informed decisions that will affect the long-term success of their organization.

## **2.5 Approaches to Financial Reporting**

Financial reporting approaches significantly impact strategic decision making within organizations. These approaches provide essential information about a company's financial performance, position, and cash flows, enabling stakeholders to make informed decisions (Hilton, 2019). There are 5 approaches to financial reporting namely, Accrual accounting, Ratio analysis, Comparative analysis, Segment reporting, and Integrated reporting. Financial reporting is the process of preparing and presenting financial information to stakeholders. It serves as a means of communication, providing stakeholders with crucial information about a company's financial performance, position, and cash flows. By adhering to accounting principles and standards, financial reporting ensures transparency and facilitates informed decision making (Hilton, 2019; Warren et al., 2019).

### **2.5.1 Accrual Accounting**

Accrual accounting is a financial reporting approach that acknowledges revenues and expenses at the time they are earned or incurred, irrespective of cash transactions. By aligning revenues with the expenses directly linked to their generation, it offers a more precise representation of a company's financial status and its overall performance. This method stands in contrast to cash accounting, which only recognizes revenues and expenses when cash is received or disbursed. In the United States, the Securities and Exchange Commission (SEC) played a vital role in its evolution. To promote transparency and comparability among businesses, the SEC mandated the use of accrual accounting for financial reporting purposes. This requirement was formalized through the enactment of the Securities Exchange Act of 1934.

As per the findings of Wolk, Dodd, and Rozycki (2012), accrual accounting offers a more precise portrayal of a company's financial well-being by capturing the true economic nature of transactions. It allows for the

alignment of expenses with the revenues they generate, enabling enhanced assessments of profitability and overall performance. Furthermore, this approach facilitates the monitoring of assets, liabilities, and equity, granting stakeholders a clearer comprehension of a company's financial position. Separate research conducted by Kieso, Weygandt, and Warfield (2016) emphasizes the significance of accrual accounting in decision-making processes. Accrual accounting offers a more extensive perspective on a company's financial performance during a specific timeframe, supporting informed decision-making for investors, creditors, and management. By recognizing revenues and expenses at the time they are incurred, rather than solely when cash is exchanged, accrual accounting helps mitigate the risk of misrepresenting a company's financial condition. Accrual accounting originated as a solution to the shortcomings of cash accounting, with the objective of delivering a more precise depiction of a company's financial state and achievements. Its roots can be traced back to Luca Pacioli's promotion of double-entry bookkeeping. As time passed, accrual accounting evolved into a widely adopted norm in financial reporting, primarily propelled by regulatory mandates and the necessity for decision-making tools that provide comprehensive information.

### **2.5.2 Ratio Analysis**

Ratio analysis is a crucial technique in financial analysis that involves assessing a company's performance by examining its financial statements and calculating a range of ratios. These ratios provide valuable insights into different dimensions of the company's financial well-being, such as its profitability, liquidity, efficiency, and overall stability. The origins of ratio analysis can be traced back to Benjamin Graham, a highly influential investor and author, who emphasized the significance of utilizing ratios to evaluate the investment worth of stocks (Graham & Dodd, 1934). Furthermore, in the 1940s, the DuPont Corporation introduced the DuPont analysis framework, which deconstructed the return on equity (ROE) ratio into components such as profit margin, asset turnover, and financial leverage (DuPont Corporation, 1941). This framework played a major role in popularizing the use of ratios to gain a comprehensive understanding of a company's profitability. Over time, ratio analysis has advanced to incorporate a wide range of ratios and metrics that facilitate meaningful

comparisons across industries and aid in the identification of trends and potential risks. Nevertheless, it is important to note that ratio analysis has limitations as it heavily relies on historical financial data and may not encompass qualitative factors or prospects of a company.

### **2.5.3 Comparative Analysis**

Comparative analysis in financial reporting entails the examination and evaluation of financial data across various time periods, companies, or industry benchmarks. It offers valuable insights into an organization's financial performance, trends, and position, enabling stakeholders to make informed decisions. This analysis involves comparing financial statements, ratios, and other pertinent financial metrics.

By conducting comparative analysis, users can assess a company's financial performance over time, identify patterns and tendencies, and gauge its position in relation to competitors or industry benchmarks. Through the examination of changes in financial data such as revenues, expenses, assets, and liabilities, analysts can develop a more comprehensive understanding of a company's financial well-being and performance. Comparative analysis is useful for benchmarking a company's performance against its peers. Through the comparison of significant financial ratios like profitability ratios (e.g., return on assets, return on equity), liquidity ratios (e.g., current ratio, quick ratio), or efficiency ratios (e.g., inventory turnover, asset turnover), analysts can evaluate how a company is performing compared to industry averages or the financial data of its competitors.

Furthermore, comparative analysis extends beyond financial statements and encompasses the examination of non-financial data such as market share, customer satisfaction, or employee productivity. This broader approach allows for a comprehensive understanding of a company's performance and competitiveness.

In summary, comparative analysis in financial reporting serves as a valuable instrument for assessing a company's financial performance, identifying patterns, and facilitating informed decision-making. It offers stakeholders a holistic perspective of a company's financial position, enabling them to evaluate its performance in comparison to peers or industry benchmarks.

## **2.5.4 Segment Reporting**

Segment reporting is a financial reporting approach that entails revealing financial details regarding distinct business segments or operational divisions within a company. It furnishes users of financial statements with comprehensive understanding of the performance and risks linked to the diverse segments of an organization. IFRS 8 - Operating Segments defines an operating segment as a constituent of an entity that engages in business activities and generates revenues distinct from other segments. If it meets specific quantitative thresholds, such as generating 20% or more of the company's revenue, assets, or profit/loss, it is required to be reported separately. Segment reporting offers several advantages. Firstly, it allows stakeholders, including investors, creditors, and analysts, to independently evaluate the financial performance and risks associated with different divisions of a company. This enables them to make more strategic decisions regarding investments or lending to the organization.

Secondly, segment reporting enables management to assess the performance of each segment and allocate resources effectively. It aids in the identification of underperforming segments or those with growth potential, facilitating strategic decision-making. Furthermore, segment reporting enhances transparency and accountability by providing a clear understanding of the company's operations. It helps uncover hidden risks or issues within specific segments that may not be evident when considering the company.

## **2.5.5 Integrated Reporting**

Integrated reporting is a thorough method of corporate reporting designed to offer a more comprehensive and interconnected understanding of an organization's performance, strategy, and value generation. It surpasses conventional financial reporting by encompassing non-financial data, such as environmental, social, and governance (ESG) factors, in order to present a more holistic representation of an organization's overall value. The concept of integrated reporting gained significant attention with the introduction of the International Integrated Reporting Framework by the International Integrated Reporting Council (IIRC) in 2013. The

framework guides organizations in producing integrated reports that effectively communicate their business model, strategy, risks, opportunities, and performance in a concise and connected manner.

Integrated reporting promotes transparency, accountability, and decision-making that considers a wider range of factors beyond just financial metrics. By considering both financial and non-financial aspects, integrated reports enable stakeholders to gain a better understanding of an organization's long-term value creation potential and its ability to effectively manage risks and seizing opportunities. In recent years, there has been an increasing recognition of the significance of integrated reporting among organizations and regulatory bodies. A notable example is the European Union's Non-Financial Reporting Directive (NFRD), which mandates certain large companies to disclose non-financial information, including ESG factors, in their management reports. The aim of this directive is to improve the pertinence and comparability of non-financial information, aligning it with the requirements of financial reporting.

Numerous studies have demonstrated the multiple benefits that integrated reporting can bring to organizations and their stakeholders. For instance, it can enhance internal decision-making processes, facilitate improved risk management, attract long-term investors, and bolster stakeholder engagement and trust. Research conducted by Dumay and Bernardi (2016) indicated that integrated reporting can assist organizations in generating value by offering a more comprehensive perspective on their activities and performance. Integrated reporting signifies a transition towards a more all-encompassing and thorough method of corporate reporting. By integrating financial and non-financial information, organizations can effectively convey their strategies for value creation, risks, and opportunities, resulting in enhanced decision-making and engagement with stakeholders. The rising adoption of integrated reporting frameworks and regulations emphasizes its increasing significance in today's business environment.

## **2.6 Approaches to Management Accounting**

Management accounting is a distinct branch of accounting that focuses on producing and examining financial data to aid managers in making decisions within an organization. Unlike financial accounting, which primarily communicates past financial information to external parties, management accounting concentrates on providing timely and pertinent information to internal managers and executives.

The main purpose of management accounting is to support decision-makers in planning, monitoring, and assessing the organization's activities and achievements. Through the utilization of diverse methods and approaches, management accountants offer valuable insights and enable strategic decision-making within the organization. The techniques and approaches utilized in management accounting consist of a broad array of tools and methods that are customized to suit the unique requirements and situations of the organization. Some frequently employed methods in management accounting comprise cost-volume-profit analysis, activity-based costing, budgeting and variance analysis, balanced scorecard, target costing, and throughput accounting.

### **2.6.1 Cost-Volume-Profit Analysis**

CVP analysis aids organizations in comprehending the connection between costs, volume, and profits. It assists in identifying the breakeven point and evaluating the influence of modifications in sales volume, costs, and selling prices on profitability (Drury, 2018). A fundamental element of CVP analysis involves determining the breakeven point, which signifies the sales level where total revenues equal total costs, resulting in neither profit nor loss. By calculating the breakeven point, organizations can identify the minimum sales volume required to cover all costs and initiate profit generation. This information is crucial for effective planning and decision-making, as it assists in establishing sales targets and evaluating the financial viability of different business endeavors. Additionally, CVP analysis empowers organizations to assess the consequences of changes in sales volume, costs, and selling prices on profitability. Through conducting "what-if" scenarios, managers can evaluate the potential impact of these variables on their financial performance. For instance, they can examine how an increase in sales volume or selling prices, or a reduction in costs, would affect the organization's

profitability. This analysis aids in comprehending the intricacies of the business and identifying strategies for enhancing profitability.

Moreover, CVP analysis plays a role in determining the contribution margin, which signifies the disparity between sales revenue and variable costs. The contribution margin represents the portion of revenue available to cover fixed costs and contribute to profits. By analyzing the contribution margin, organizations can evaluate the profitability of diverse products, services, or business segments. This information guides decision-making related to pricing strategies, cost management, and resource allocation.

### **2.6.2 Activity Based Costing**

Activity-Based Costing (ABC) is a management accounting approach that assigns costs to specific activities and then allocates those costs to products or services based on their utilization of those activities. By attributing indirect costs to the activities that drive them, ABC offers a more precise understanding of costs. ABC acknowledges the limitations of traditional costing methods, such as relying solely on direct labor or machine hours, which may not accurately capture resource consumption by products or services. To address this, ABC focuses on activities as the fundamental cost drivers (Kaplan & Anderson, 2007).

According to Kaplan and Anderson (2007), the ABC process involves three essential steps. Firstly, organizations identify and classify various activities performed within their operations. These activities are grouped into cost pools, such as setup costs, inspection costs, or customer service costs, based on their resource similarities. The second step entails assigning suitable cost drivers to each activity. Cost drivers are factors that influence resource consumption in activities and can be based on factors like activity volume, time, complexity, or other relevant factors. The accurate assignment of cost drivers enhances the precise linking of costs to activities.

The third step involves gathering data on the consumption of activities by products or services. Data collection methods can include time studies, interviews, or process analysis. By quantifying activity consumption, costs can be allocated more accurately to products or services based on their actual utilization of activities.

Once the costs of activities are determined, they are allocated to products or services using appropriate cost drivers. This allocation process multiplies the activity cost rate (derived by dividing the total cost of an activity pool by its corresponding cost driver) by the quantity of the cost driver consumed by each product or service. Activity-based costing offers several advantages over traditional costing methods. It enables organizations to gain a more accurate understanding of the actual costs associated with their products or services. Furthermore, ABC assists in identifying areas for process improvement, cost reduction, and resource optimization (Drury, 2018).

### **2.6.3 Budgeting and Variance Analysis**

Budgeting and variance analysis play a crucial role in management accounting, assisting organizations in planning, controlling, and evaluating their financial performance. The process of budgeting involves creating financial plans that outline anticipated revenues, expenses, and cash flows for a specific period, typically a fiscal year. Budgets serve as a reference point against which actual performance is measured and assessed, providing a roadmap for achieving financial targets (Hansen et al., 2018).

On the other hand, variance analysis entails comparing actual performance with the budgeted amounts to identify deviations and delve into their underlying causes. It involves scrutinizing the variances between actual revenues, expenses, and cash flows, and their corresponding budgeted figures.

Variances can be either favorable, indicating results better than expected, or unfavorable, signaling results worse than anticipated. Analyzing variances provides valuable insights into the factors contributing to performance deviations (Hansen et al., 2018). Variance analysis aids management in comprehending the reasons behind deviations and facilitates the implementation of appropriate corrective measures. By monitoring financial performance and pinpointing areas for improvement or concern, organizations can make informed decisions to effectively pursue their financial goals.

## 2.6.4 Balanced Scorecard

The Balanced Scorecard (BSC) was introduced by Kaplan and Norton in the early 1990s as a framework for strategically measuring performance. It offers organizations a comprehensive perspective by incorporating both financial and non-financial metrics across multiple dimensions. The BSC extends beyond conventional financial measures, such as revenue and profit, by encompassing indicators related to customer satisfaction, internal processes, and learning and growth (Kaplan & Norton, 1992).

The BSC framework comprises four interconnected perspectives:

**Financial Perspective:** This perspective concentrates on financial goals and metrics like profitability, revenue growth, and return on investment. It assesses the financial well-being of the organization and its ability to create long-term value for shareholders.

**Customer Perspective:** The customer perspective evaluates the organization's capacity to meet customer needs and expectations. It includes metrics such as customer satisfaction, customer retention, and market share. By understanding and fulfilling customer requirements, organizations can enhance their competitive position and drive financial performance.

**Internal Process Perspective:** This perspective examines the internal processes and operations crucial for delivering value to customers and achieving financial objectives. It entails identifying and measuring key processes and activities that contribute to organizational effectiveness and efficiency. Examples of metrics within this perspective may include cycle time, quality, and productivity.

**Learning and Growth Perspective:** The learning and growth perspective focuses on the organization's ability to foster innovation, learning, and the development of its people, systems, and culture. It incorporates measures related to employee satisfaction, training and development, technological capabilities, and knowledge management. These measures support the organization's capacity to adapt and improve over time.

By integrating these four perspectives, the BSC enables organizations to adopt a more balanced and comprehensive view of their performance. It aligns performance measures with strategic objectives and promotes a proactive and forward-looking approach to performance management.

### **2.6.5 Target Costing**

Target costing is a strategic approach in management accounting that is utilized during the product development phase to establish a desired cost for a product or service based on market requirements and the intended profit margin. The fundamental idea behind target costing is to design products or services in a manner that allows them to meet the target cost while still providing value to customers. By determining a target cost, organizations can align their cost structure with market demands and customer expectations (Cooper & Slagmulder, 2003).

Successful implementation of the target costing approach necessitates close collaboration and coordination among various departments, including marketing, design, engineering, and production. These teams collaborate to identify cost drivers, explore alternative design possibilities, and discover innovative methods to achieve the target cost without compromising quality or functionality (Gunasekaran et al., 2019).

For effective execution of target costing, companies need to possess a comprehensive understanding of customer needs, preferences, and their willingness to pay. Conducting market research and analysis is critical for identifying the factors that drive customer value, competitive pricing, and market trends. This information facilitates the establishment of realistic target costs that align with market expectations (Muralidharan et al., 2019).

Continuous monitoring and control of costs are essential throughout the product development process. Companies track the actual costs incurred at each stage of development and compare them to the target cost. Any deviations are carefully analyzed, and corrective measures are taken to align the costs with the desired target (Cooper & Slagmulder, 2003).

Target costing offers several advantages, including improved cost management, enhanced profitability, and increased customer value. By emphasizing cost reduction early in the product lifecycle, companies can gain sustainable competitive advantages and deliver products or services that meet customer expectations while maintaining profitability (Muralidharan et al., 2019).

### **2.6.6 Throughput Accounting**

Throughput accounting is a management accounting approach that centers on optimizing the movement of products or services within a system to increase sales throughput while minimizing inventory and operating expenses. It is rooted in the principles of the Theory of Constraints (TOC) developed by Eliyahu Goldratt. Throughput accounting offers valuable insights into the financial consequences of operational choices and aids in identifying and prioritizing system enhancements.

Throughput accounting acknowledges that the primary objective of any organization is to generate profits by enhancing the rate at which products or services are sold (throughput) while simultaneously minimizing operating expenses and investments in inventory. Traditional cost accounting systems often prioritize cost reduction without considering the impact on throughput. Conversely, throughput accounting underscores the significance of identifying and improving system constraints, also known as bottlenecks, to enhance overall performance. Within throughput accounting, three key performance measures are employed:

**Throughput (T):** Throughput refers to the speed at which a system generates revenue through sales. It represents the income derived from selling products or services, subtracting any direct variable costs associated with their production and delivery. Throughput takes center stage in throughput accounting as its increase directly contributes to higher profitability (Goldratt, 1990).

**Operating Expenses (OE):** Operating expenses encompass all costs incurred by an organization to support its operations, including fixed costs, salaries, utilities, and other indirect expenses. Throughput accounting encourages the identification and elimination of non-value-added costs to reduce overall operating expenses and enhance profitability (Goldratt, 1990).

**Inventory Investment:** Inventory investment represents the financial resources tied up in inventory, including raw materials, work-in-progress, and finished goods. Throughput accounting highlights the need to minimize inventory levels to mitigate excessive holding costs, obsolescence, and missed opportunities for generating throughput (Goldratt, 1990).

By focusing on these three metrics, throughput accounting equips managers with insights into the financial implications of decisions regarding inventory management, production scheduling, product mix, and sales strategies. It aids in identifying and prioritizing actions that can drive significant improvements in overall system performance and profitability.

## **2.7 Financial Performance**

Financial performance pertains to a company's capacity to generate profits and effectively allocate its resources, playing a pivotal role in ensuring long-term viability and sustainability. It offers an understanding of the company's overall financial well-being and its capability to attain financial objectives. Evaluating financial performance involves the utilization of diverse financial indicators, including profitability, liquidity, solvency, and efficiency ratios, to gauge the company's financial position. The precision, transparency, and promptness of financial reports have a significant influence on a firm's financial performance. Several studies have highlighted the significance of superior financial reporting in enhancing financial performance. Ahmad et al. (2016) discovered a positive correlation between high-quality financial reporting and heightened profitability among Malaysian firms. Additionally, Wang and Chen (2019) demonstrated that improved financial reporting quality reduces information asymmetry, leading to enhanced financial performance. Numerous studies have demonstrated a direct association between the financial performance of a company and the standard of its financial reporting. For instance, Dechow et al. (2010) discovered that firms with elevated profitability and cash flows generally offer more precise and dependable financial information, thereby indicating a higher quality of reporting. Similarly, Healy and Palepu (2001) observed that companies with stronger financial performance are inclined to adhere to stricter reporting standards, guaranteeing the accuracy and comprehensiveness of their financial statements.

Research have also indicated that the level of earnings management practiced by companies is influenced by their financial performance. Burgstahler and Dichev (1997) provided evidence that companies experiencing weak financial performance are more prone to manipulating their earnings in order to present a more favorable financial position. Conversely, organizations with robust financial performance may have less motivation to employ such practices, as their actual performance is likely to be positively received by the market (Ewert and Wagenhofer, 2005). These findings imply that financial performance has a notable impact on the trustworthiness and dependability of financial reporting. The financial performance of a company significantly influences how the market responds to its financial reporting. When a company demonstrates positive financial performance, it tends to experience higher market valuation and positive investor sentiment. As a result, companies with strong financial performance are likely to face increased scrutiny from investors, leading to greater expectations for accurate and transparent financial reporting (Francis et al., 2004). On the other hand, companies with poor financial performance may encounter more pressure to manipulate their reported earnings, potentially distorting the information provided to investors. The connection between financial reporting quality and financial performance works in both directions, high-quality financial reporting has the potential to positively impact a company's financial performance by improving transparency, minimizing information asymmetry, and attracting external funding (La Porta et al., 2003). Conversely, inadequate financial reporting quality can result in unfavorable outcomes such as limited access to capital markets and increased capital costs (Francis et al., 1999). Therefore, financial performance and financial reporting quality interact and influence each other reciprocally. Stronger financial performance is often linked to enhanced reporting quality, a decrease in earnings manipulation, and heightened scrutiny from the market. Moreover, the quality of financial reporting itself can influence a company's financial performance, underscoring the significance of precise and transparent reporting for sustained success in the long run.

## **2.8 Market Share and Competition**

The financial reporting practices of organizations are significantly influenced by factors such as market share and competition. Market share denotes the fraction or proportion of a given market that a specific company or

product commands. It serves as an indicator of a company's position and influence within the market. Assessing market share is a common method for evaluating a business's competitive strength and performance. By gauging market share, one can gain valuable insights into a company's capacity to attract and retain customers in relation to its rivals (Chen et al., 2008).

In the research conducted by Chen, Peng, and Wu (2008), the focus was on investigating the correlation between market share and intellectual property rights. The scholars examined the turnover of patents and trademarks and its impact on a company's market share. The results of their study indicate that firms with a larger market share typically possess more enduring and valuable intellectual property rights. Studies indicate that companies with a greater market share tend to adopt a more cautious approach in their financial reporting practices (Dechow et al., 2003). Such firms demonstrate reduced earnings manipulation and uphold higher standards of financial statements to sustain their market dominance and reputation (Lang et al., 2008). The heightened scrutiny and expectations from investors and regulatory bodies significantly influence the financial reporting practices of companies holding a larger market share. Organizations that possess a significant market share tend to participate in comprehensive financial reporting, revealing intricate financial details to stakeholders (Bushman, Piotroski, & Smith, 2004). This tendency arises due to the heightened scrutiny they encounter from investors, regulators, and analysts, resulting in a necessity for increased transparency in financial reporting.

Competition involves the competition and rivalry between companies within the same industry to acquire market share, attract customers, and generate profits. It is a fundamental element of a market-based economy and has a significant impact on business strategies and the overall dynamics of the market. Different types of competition can exist, such as competing on price, differentiating products, implementing marketing campaigns, and fostering innovation (Porter, 1979). Porter's influential research on competitive forces offers a framework for comprehending the elements that mold competition within an industry. The publication delves into how the level of competition impacts the strategic choices of companies, encompassing areas such as pricing, product distinctiveness, and market positioning. Porter's model continues to be a fundamental tool for

examining industry dynamics and formulating effective competitive strategies. Competition among companies in the same industry creates a need for firms to carefully handle their financial reporting practices. Larcker and Richardson (2004) conducted a study that revealed how competitive pressures can drive companies to engage in earnings management to meet market expectations. The research emphasizes that organizations facing strong competition tend to resort to aggressive accounting tactics in order to present a more favorable financial performance. This behavior is driven by the desire to attract investors and sustain a competitive edge.

The relationship between market share, competition, and financial reporting is intricate and diverse. According to a study conducted by Bushman and Smith (2003), companies with greater market shares and facing intense competition are more likely to provide additional information voluntarily in their financial reports. This is primarily driven by the desire to maintain a competitive edge and cultivate a favorable perception among stakeholders. Additionally, the study revealed that companies with higher market shares experience heightened pressure to meet analysts' earnings predictions, potentially resulting in the manipulation of earnings. Regulatory authorities also play a crucial role in shaping financial reporting practices. Research indicates that implementing rigorous regulations on companies with substantial market share and intense competition has a positive effect on the quality of financial reporting (Lang & Lundholm, 1996). These regulations often involve demanding higher levels of transparency through increased disclosure, improved audit procedures, and stricter enforcement of accounting standards. Regulatory interventions can effectively counterbalance the potentially adverse impact of competition and market share on financial reporting practices.

The influence of market share and competition on financial reporting practices is significant. Companies with higher market shares often provide more information to meet stakeholders' expectations for transparency. However, intensified competition may result in more aggressive financial reporting, which has the potential to distort financial statements. Therefore, it is essential for regulatory bodies to implement strict regulations to ensure the quality and reliability of financial reporting, especially for companies with substantial market shares and in highly competitive environments.

## 2.9 Industry Trends and Economic Factors

Financial reporting plays a crucial role in promoting corporate transparency by offering stakeholders essential insights into a company's financial performance, position, and cash flows. Nonetheless, financial reporting does not exist in isolation but rather operates within the broader external environment, where it is subject to the influence of diverse industry trends and economic factors. The preparation and presentation of financial statements by companies can be significantly influenced by industry trends. Examples of such trends include the rapid technological advancements, shifts in consumer behavior, and evolving regulatory demands, all of which have given rise to new business models. Consequently, these trends have implications for financial reporting, specifically in terms of the measurement, recognition, and disclosure of specific items. According to EY (2021), the progress in technology, including automation and data analytics, has brought significant changes to the processes of financial reporting. This increased utilization of technology has led to enhanced precision and promptness in financial reporting, enabling organizations to analyze and present information from extensive datasets. Nevertheless, the integration of technology in financial reporting also introduces cybersecurity and data privacy concerns. With the increasing reliance on technology for financial reporting, organizations are exposed to various cybersecurity threats. These threats can lead to unauthorized access, data breaches, and manipulation of financial information, financial reporting often involve the collection, storage, and analysis of large amounts of sensitive financial data. This raises concerns about data privacy, as organizations must handle and protect this information in compliance with applicable data protection regulations. To address the challenges associated with cybersecurity and data privacy in financial reporting, organizations should implement strong internal controls, conduct comprehensive employee training and awareness, and conduct regular security assessment.

According to the findings of Sheth et al. (2019), changes in consumer behavior, including the growth of e-commerce and the sharing economy, have necessitated alterations in revenue recognition and measurement practices. As a result, companies are required to review and modify their revenue recognition policies to ensure alignment with the economic essence of transactions and to offer valuable information to stakeholders. The rise

of e-commerce has had a profound impact on how companies generate revenue, causing a shift in revenue streams and creating competition for traditional brick-and-mortar businesses. However, revenue recognition in e-commerce can be complicated due to various business models and involvement of intermediaries, fulfillment services, and revenue-sharing arrangements. Unlike traditional sales, where revenue is recognized at the point of sale, e-commerce transactions require companies to reassess their revenue recognition policies to accurately capture the timing and amount of revenue. The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have introduced new revenue recognition standards, ASC 606 and IFRS 15, respectively, which emphasize recognizing revenue when performance obligations are met, and control of goods or services is transferred to the customer.

The sharing economy, characterized by peer-to-peer transactions facilitated by digital platforms, presents unique challenges for revenue recognition. Sharing economy platforms like Airbnb and Uber involve individuals or businesses sharing or renting assets, leading to complex revenue arrangements involving commissions, service fees, or revenue-sharing agreements. Companies operating in the sharing economy must reassess their revenue recognition policies and develop appropriate accounting frameworks to recognize revenue that reflects the economic substance of transactions, considering factors such as the platform's role, timing of revenue recognition, and fair value measurement. By reassessing revenue recognition policies in response to these shifts in consumer behavior, companies can provide stakeholders with more relevant and useful information. Aligning revenue recognition with the economic substance of transactions allows financial statements to reflect the true performance of the business, enabling stakeholders to make informed decisions. Furthermore, these changes enhance comparability across industries and improve the transparency of financial reporting.

Changes in industry regulations have a substantial impact on the practices of financial reporting. An example of this is the integration of fresh accounting standards like IFRS 9 and IFRS 15, which have necessitated modifications in the way financial information is recognized, measured, and disclosed (Möller et al., 2018). The primary objective of these modifications is to improve transparency and comparability among various

industries by providing standardized guidelines for recognizing, measuring, and disclosing financial information, these standards contribute to a more consistent and reliable presentation of financial data. The adjustments required to comply with these standards may involve changes in accounting policies, systems, and processes within organizations, ensuring that financial statements accurately reflect the economic substance of transactions and enhance the usefulness of information for decision-making.

Economic factors, such as inflation, interest rates, and exchange rates, have a substantial impact on financial reporting practices. These factors play a crucial role in determining the measurement and valuation of assets and liabilities, as well as the recognition of revenue and expenses. Understanding their influence is crucial for companies to accurately reflect their financial position and performance in the face of economic fluctuations.

Inflation is the gradual rise in the prices of goods and services over time. It has implications for financial reporting as it diminishes the value of money and presents difficulties in accurately assessing and valuing assets and liabilities. Financial statements based on historical costs may not accurately represent the current worth of assets or account for the impact of inflation on their future earning potential. Consequently, companies may need to modify their financial statements to address the effects of inflation (Gjerde & Knivsflå, 2019). This could involve adjusting historical costs to reflect the present purchasing power of money or utilizing inflation-adjusted measures when reporting financial information.

Interest rates have a notable impact on financial reporting, especially concerning debt instruments and financial instruments valued at fair market value. Changes in interest rates can influence the valuation of debt securities, like bonds, as their fair values are sensitive to fluctuations in market interest rates. It may be necessary for companies to disclose the vulnerability of their financial instruments to changes in interest rates, providing stakeholders with the ability to evaluate the potential effects on financial performance and risk exposures.

Exchange rates represent the conversion rate between two currencies and hold significant importance in the financial reporting of multinational corporations operating in diverse currency environments. Fluctuations in exchange rates can have an impact on the process of converting financial statements from the foreign subsidiary's functional currency to the parent company's reporting currency. Consequently, these fluctuations

can introduce volatility in reported earnings since changes in exchange rates influence the translation of foreign currency-based assets, liabilities, revenues, and expenses. To enhance transparency in financial reporting, companies are required to disclose the extent and nature of their exposure to foreign currency risk, along with the methods employed for currency translation (Hail & Leuz, 2020).

## **2.10 Capital Expenditure**

Capital expenditure, which encompasses investments in long-term assets, plays a crucial role in shaping an organization's financial reporting. It entails acquiring, enhancing, or expanding assets that contribute to the organization's revenue generation and operational effectiveness. Capital expenditure involves allocating financial resources for the acquisition or improvement of long-term assets that are anticipated to yield economic advantages beyond the present accounting period (Garrison, Noreen, & Brewer, 2021). This category of expenditure commonly encompasses investments in assets such as land, buildings, machinery, vehicles, and technology infrastructure. Capital expenditure decisions have enduring consequences for a company's competitiveness and expansion. Through investments in capital assets, companies can enhance productivity, broaden their operations, explore new markets, and secure a competitive edge (Kaplan & Atkinson, 2015).

The implications for accounting policies and practices arise from the allocation and acknowledgment of costs related to capital expenditure. Research has demonstrated that decisions regarding capital expenditure have an impact on the choice of accounting methods employed, such as depreciation, impairment testing, and capitalization of costs. Smith and Johnson (2018) conducted a study revealing that companies with higher capital expenditures tend to favor accelerated depreciation methods, resulting in an increase in reported depreciation expense and consequently reducing taxable income. Capital expenditure has an impact on multiple financial statements, namely the balance sheet, income statement, and cash flow statement. When capital expenditure is incurred, it leads to an increase in long-term assets, thereby raising the value of property, plant, and equipment recorded on the balance sheet. Consequently, this increase affects the income statement by introducing depreciation expense, which in turn reduces net income. Additionally, capital expenditure can influence the cash flow statement by influencing the cash flows related to investing activities.

A study conducted by Brown and Williams (2020) indicated that companies characterized by substantial capital expenditure often exhibit negative cash flows from investing activities, reflecting the outflow of funds directed towards long-term asset investments. Capital expenditure has an impact on the performance measures utilized by managers, analysts, and investors. A study conducted by Johnson and Lee (2019) found that capital expenditure has a positive influence on financial ratios like return on assets (ROA) and return on equity (ROE). Increased capital expenditure is linked to greater asset turnover, resulting in improvements in these ratios. Additionally, capital expenditure can affect non-financial performance measures such as production capacity, operational efficiency, and market share, which indirectly influence the outcomes of financial reporting. The provision of information related to capital expenditure is crucial for stakeholders to assess an organization's future potential and evaluate management's investment choices. Research has emphasized the significance of clear and informative disclosures regarding capital expenditure plans, funding origins, and the implications for future cash flows. Anderson et al. (2021) conducted a study that revealed companies offering comprehensive information about capital expenditure projects and their anticipated benefits tend to receive more favorable investor perception and higher market valuation. Understanding the impact of capital expenditure on accounting policies, financial statements, performance measures, and disclosure practices is crucial for financial reporting professionals, as well as investors and other stakeholders, to interpret and analyze financial information accurately. Further research in this area can explore the effects of capital expenditure on specific industries or the role of regulatory frameworks in shaping financial reporting outcomes.

## **2.13 Cost Structure**

Management accounting plays a crucial role in assisting organizations in making informed decisions by providing accurate financial information. One significant factor that impacts management accounting is the cost structure of a firm. Cost structures encompass the various costs incurred by a business and their allocation across different activities and products. According to Horngren et al. (2019), cost structures serve as the basis for management accounting systems as they establish the way costs are assigned and disclosed within a company. Cost structures encompass the various types of costs incurred by a business, including direct and

indirect costs, fixed and variable costs, and product and period costs. These costs are essential components of management accounting systems as they form the basis for decision-making and financial analysis. By understanding and effectively managing cost structures, organizations can gain valuable insights into their cost drivers and resource utilization, enabling informed decision-making. Cost structures also have an influence on management accounting by affecting how costs are assigned and the assessment of cost center performance. Cost allocation entails the distribution of indirect costs to specific cost objects, including products, departments, or projects. Varying approaches to cost allocation, such as activity-based costing (ABC) and traditional costing, can result in divergent cost information, thereby impacting decision-making (Kaplan & Anderson, 2007). In addition, cost structures have an impact on the reporting of costs within an organization. Accurate and dependable cost information is crucial for internal reporting, performance evaluation, and decision-making in management accounting systems. The structure of costs, including its design and composition, plays a role in determining the level of detail and specificity in cost reporting. For instance, cost structures can assist in establishing cost centers and categories, enabling managers to analyze costs across different levels of the organizational structure. To achieve effective management accounting, it is essential to ensure that cost structures are in line with strategic decision-making. The configuration of cost structures plays a significant role in influencing strategic choices, such as product differentiation, cost leadership, and focus strategies as proposed by Porter (1985). The incorporation of strategic management accounting techniques, such as value chain analysis and target costing, assists in integrating cost structures seamlessly into strategic decision-making processes as suggested by Caglio and Ditillo (2008). Moreover, cost structures facilitate cost analysis and enable organizations to identify the drivers of costs. By understanding the cost structure, management accountants can perform cost behavior analysis and assess the impact of changes in activity levels or cost drivers on overall costs. This analysis is crucial for cost planning, budgeting, variance analysis, and decision-making processes. Cost structures also play a crucial role in the allocation of costs to different cost objects and serve as the foundation for precise cost reporting. When organizations establish a strong cost structure, they can improve their capacity to monitor and manage costs, enhance decision-making, and optimize resource allocation. As a result, this leads to overall improvements in organizational performance. Technological

progress also has a significant impact on cost structures, thereby influencing the practices of management accounting. The emergence of advanced information technology, including enterprise resource planning (ERP) systems, allows for improved accuracy in collecting, integrating, and analyzing cost data (Narasimhan et al., 2018). The adoption of these innovative technologies enhances the efficiency and effectiveness of management accounting processes. Basically, technological advancements, particularly the implementation of ERP systems, have transformed cost structures and had a profound impact on management accounting practices. The use of information technology has enabled organizations to collect accurate cost data, integrate it effectively, perform advanced cost analysis, improve efficiency in management accounting processes, integrate with other systems, and enhance decision support capabilities. By leveraging these technological advancements, organizations can enhance their management accounting practices and gain a competitive edge in today's dynamic business environment.

## **2.12 Budgeting and Forecasting**

Budgeting plays a fundamental role in management accounting by offering a structured framework for planning, controlling, and assessing an organization's financial activities. It empowers managers to establish financial targets, distribute resources, and monitor performance in relation to established goals. Numerous studies have emphasized the positive influence of budgeting on management accounting practices. Hansen et al. (2003) assert that budgets serve as a potent instrument for coordinating and aligning organizational activities with strategic objectives. The budgeting process promotes communication and collaboration across different management levels, fostering a shared comprehension of financial goals and priorities. This integration enhances the effectiveness of management accounting by providing a structured framework for decision-making.

Additionally, budgeting facilitates variance analysis, which involves comparing actual performance with budgeted figures. This analysis highlights areas of underperformance or potential inefficiencies, enabling management accountants to identify corrective actions and enhance future financial planning (Kaplan & Atkinson, 2015). Variances offer valuable insights into the efficiency of resource allocation and the attainment

of organizational objectives. Forecasting complements budgeting by supplying approximations and forecasts of future financial performance. Through the examination of historical data, market trends, and other pertinent factors, forecasting aids management accountants in anticipating revenues, expenses, and cash flows. This data contributes to effective planning, risk evaluation, and strategic decision-making. Evidence suggests that precise forecasting has a positive impact on management accounting practices. Horngren et al. (2008) contend that dependable forecasts empower organizations to allocate resources efficiently, mitigate risks, and seize opportunities. Timely and accurate forecasting assists management accountants in foreseeing potential financial challenges, enabling proactive measures to be implemented to address them.

Furthermore, forecasting facilitates scenario analysis, enabling management accountants to assess the potential consequences of different business scenarios on financial performance. This aids in the evaluation of risks associated with various actions and assists decision-makers in selecting the most advantageous alternatives (Drury, 2015). Through forecasting, management accountants provide vital insights that enhance the decision-making process. Although budgeting and forecasting play a significant role in management accounting, it is important to acknowledge the challenges and limitations they present. The ever-changing and uncertain nature of business environments can diminish the reliability and accuracy of budgeting and forecasting processes (Baker, 2014). Factors such as economic fluctuations, market volatility, and unforeseen events can have a notable impact on financial projections, creating hurdles for management accountants.

Moreover, traditional budgeting practices have faced criticism for their inflexibility, which can impede organizational agility. Researchers have advocated for more adaptable budgeting approaches, such as rolling forecasts, that can better accommodate shifting business conditions (Hope & Fraser, 2003). However, the implementation of these alternative approaches necessitates careful evaluation and adjustment of existing management accounting systems. Budgeting and forecasting play a crucial role in management accounting, exerting a substantial impact on financial planning, control, and decision-making procedures. Budgeting allows organizations to set financial goals, allocate resources, and monitor performance, while forecasting assists in anticipating future financial outcomes and facilitating strategic decision-making. The successful integration of

budgeting and forecasting improves the caliber and pertinence of management accounting information, thereby enabling organizations to attain their financial objectives. Nonetheless, the challenges linked to volatile business environments and conventional budgeting practices necessitate a continuous assessment and adjustment of budgeting and forecasting processes to enhance their efficacy in supporting management accounting.

### **2.13 Performance and Key Performance Indicators**

Effective management accounting relies on accurate performance measurement and the utilization of appropriate Key Performance Indicators (KPIs). Performance measurement involves quantifying the accomplishments of an organization in relation to predetermined goals, encompassing various factors such as financial and non-financial aspects, efficiency, effectiveness, productivity, quality, and customer satisfaction. Management accounting systems are specifically designed to capture and communicate performance information, aiming to assist managerial decision-making processes. Several studies have examined the integration of performance measurement and management accounting. For instance, Atkinson et al. (2012) found that well-functioning performance measurement systems improve the significance and timeliness of management accounting information, ultimately facilitating improved decision-making.

Key Performance Indicators (KPIs) are specific measurements employed to evaluate an organization's advancement toward its strategic objectives. They offer a measurable assessment of performance in relation to vital success factors and function as a valuable tool for management accountants to effectively monitor and communicate performance information. The selection and implementation of KPIs have a substantial impact on management accounting practices. Chenhall (2003) emphasized the significance of aligning KPIs with an organization's strategy to enhance the overall effectiveness of management accounting. Similarly, Otley (2016) underscored the importance of maintaining a well-rounded set of KPIs that encompass both financial and non-financial dimensions of performance. The utilization of performance measurement and Key Performance Indicators (KPIs) has a significant impact on the decision-making processes of managers. By effectively measuring performance, management accountants can identify areas for improvement, establish targets, and

evaluate the outcomes of different strategies. KPIs serve as a framework for decision-makers to assess performance and allocate resources efficiently.

A study conducted by Kaplan and Norton (2001) found that organizations that adopted a Balanced Scorecard approach, which integrates both financial and non-financial KPIs, had a higher likelihood of achieving exceptional performance. This discovery implies that taking a comprehensive view of performance, facilitated by comprehensive KPIs, supports well-informed decision-making. Although performance measurement and KPIs provide valuable perspectives on management accounting, they come with inherent challenges and limitations. A notable challenge involves choosing suitable KPIs that are in line with organizational goals and encompass all aspects of performance. Additionally, the reliability and accuracy of data utilized for performance measurement can have an impact on the credibility and accuracy of management accounting information. In order to maximize the advantages, management accountants should consider the strategic alignment of Key Performance Indicators (KPIs), the incorporation of both financial and non-financial indicators, and the careful selection of trustworthy data sources.

## **2.14 Capital Investment Appraisal**

Capital investment appraisal, also known as capital budgeting or investment decision-making, is the process of evaluating and selecting investment projects or capital expenditures that generate long-term benefits for an organization. It involves analyzing the financial feasibility, profitability, and risk associated with potential investment opportunities to determine their value and impact on the organization's financial performance. Capital investment decisions play a crucial role in shaping the financial performance and long-term sustainability of organizations. As such, the process of capital investment appraisal has gained considerable attention from researchers and practitioners alike. Effective decision-making relies on the integration of capital investment appraisal and management accounting practices. Numerous studies emphasize the significance of harmonizing capital investment appraisal techniques, including Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period, with management accounting systems (Kaplan & Atkinson, 2015). This integration facilitates precise financial evaluation, efficient resource allocation, and comprehensive

performance measurement. Capital investment appraisal methods offer valuable information regarding the financial feasibility and potential profitability of different projects. When these methods are integrated into management accounting practices, organizations gain the ability to make well-informed choices regarding the allocation of capital resources. Net Present Value (NPV) computes the current value of anticipated cash inflows and outflows of an investment endeavor, adjusted for an appropriate rate of return. A positive NPV signifies that the project is projected to yield returns surpassing the required rate of return, thus establishing its financial feasibility (Brigham & Ehrhardt, 2013). NPV considers the concept of the time value of money by discounting future cash flows to their present value. By evaluating and comparing the NPV across various investment alternatives, managers can identify the projects that offer the greatest financial advantages. The Internal Rate of Return (IRR) is the discount rate that equates the present value of cash inflows to the present value of cash outflows. It serves as a measure of the expected rate of return from a project. Investment projects with an IRR exceeding the required rate of return are deemed acceptable (Brealey, Myers, & Allen, 2017). Integrating IRR calculations with management accounting systems enables organizations to assess the profitability and appeal of investment opportunities. The Payback Period is a metric that evaluates the duration necessary for a project's cash inflows to recuperate the initial investment. It offers a straightforward measure of liquidity and risk, where shorter payback periods indicate quicker returns on investment (Horngren et al., 2018). Integrating this methodology into management accounting enables the evaluation of project liquidity and the identification of potential risks related to longer payback periods. This approach provides valuable information regarding the time needed to recover the initial investment and allows for an assessment of project liquidity and associated risks when applied within management accounting.

The utilization of capital investment appraisal techniques has been observed to impact costing systems employed by organizations. Conventional costing methods like absorption costing may not present a precise reflection of the costs related to capital investment ventures (Cooper & Kaplan, 2018). As substitutes, activity-based costing (ABC) and target costing have emerged, considering the cost drivers and resource usage associated with capital investments. This shift enhances the accuracy of financial evaluations.

Absorption costing, also known as traditional costing, allocates overhead costs to products based on predetermined rates. However, this method tends to treat all costs as indirect costs, resulting in distorted cost allocations for capital investment projects. Capital investments often require specific resources, processes, and activities that may not be adequately captured by traditional costing systems. Consequently, the costs associated with capital investments may be inaccurately distributed among products or services.

Activity-Based Costing (ABC) is an alternative approach to traditional costing methods that recognizes costs are driven by activities rather than volume-based allocation measures. ABC assigns costs to products or services based on their consumption of various activities. In the context of capital investment projects, ABC allows for a more precise identification and allocation of costs related to the specific activities involved. This enables a more accurate assessment of the profitability and financial viability of capital investment decisions. By considering the specific cost drivers and resource consumption associated with capital investments, ABC provides a more nuanced understanding of the costs involved and facilitates informed decision-making.

Target costing is another alternative approach that aligns costing systems with capital investment appraisal techniques. It focuses on determining the maximum allowable cost for a product or service to achieve a desired level of profitability. Market conditions, customer expectations, and desired profit margins are considered to estimate the target cost. By integrating capital investment appraisal techniques into the target costing process, organizations can identify the maximum cost that can be allocated to capital investment projects while ensuring profitability targets are met. This enables management accountants to actively participate in investment decision-making by assessing the financial feasibility of capital investments and setting appropriate cost targets. Both ABC and target costing offer advantages over traditional costing methods when it comes to capital investment appraisal. By considering the specific cost drivers and resource consumption associated with capital investments, these approaches provide more accurate cost information. This, in turn, enables organizations to make better-informed investment decisions, allocate resources effectively, and assess the financial viability of capital investment projects. Capital investment appraisal techniques play a crucial role in supporting decision-making and risk assessment processes. By utilizing quantitative methods like sensitivity analysis and Monte

Carlo simulation, managers can assess the potential risks and uncertainties linked to investment projects (Bierman & Smidt, 2012). This valuable information aids management accountants in offering insights to decision-makers, thereby improving the overall quality of decision-making. One of the primary benefits of capital investment appraisal techniques, such as sensitivity analysis, is their ability to assess the impact of changes in key variables on investment outcomes. Sensitivity analysis helps managers identify the variables that have the most significant influence on project profitability and quantify their potential effects. By systematically varying these variables, managers can evaluate the project's sensitivity to different scenarios and make informed decisions accordingly. This aids in assessing the risk associated with investment projects and understanding the potential outcomes under various conditions.

Monte Carlo simulation is another valuable technique employed in capital investment appraisal for risk assessment. It involves running multiple iterations of a project's financial model, each time using randomly generated values for the uncertain variables. This process allows managers to analyze a range of potential outcomes and their associated probabilities. By simulating various scenarios, decision-makers can gain a deeper understanding of the project's risk profile and make more informed judgments.

In conclusion, capital investment appraisal significantly influences management accounting by providing valuable insights into investment opportunities. It helps allocate financial resources effectively, aids in budgeting and financial planning, supports performance measurement and evaluation, and contributes to risk management. By integrating capital investment appraisal into the decision-making process, organizations can enhance their financial performance, maximize returns, and drive sustainable growth.

## CHAPTER 3

### 3.1 Research Design

This study utilizes correlational design. This research design investigates the relationship between two or more variables without manipulating them. It helps identify the strength and direction of associations between variables. The main objective of correlational research design is to determine if there is a statistical relationship or connection between the variables, without manipulating any of the variables or establishing cause-and-effect relationships. This research approach entails gathering data from participants and employing statistical analysis to assess the strength and direction of the association between the variables. The primary goal is to assess the degree of association between the variables, which is often quantified as we want to find the relationship between financial reporting and management accounting in strategic decision making. Creswell and Creswell (2018) proposed that correlation design involves the researcher monitoring, observing, and measuring variables as they exist without any form of intervention or maneuvering.

### 3.2 Population, Sampling and Sampling Technique

This study analyses the financial reports and management accounting practices of listed manufacturing firms in Nigeria. The Nigerian Exchange Group consists of 154 listed companies as of August 6<sup>th</sup>, 2023. The population of the study comprises of quoted manufacturing firms (industry and consumer goods) in Nigeria which is made up of 34 companies as of August 6<sup>th</sup>, 2023, according to the Nigerian Exchange Group (NXG). The basis for choosing manufacturing firms is because manufacturing firms have a more comprehensive financial reports and are more inclined to adopt management accounting systems and techniques. This study used sampled data restricted to listed manufacturing firms in the Nigerian Exchange Group from 2011-2020 which is a ten-year period to enable a thorough examination of the analysis. Random sampling technique is used to draw the sample firms so that all firms have equal chance of representation. As a result, the final sample set consists of a balanced panel of 10 companies over a period of ten years.

### **3.3 Sources of Data**

The study applied secondary data from the reports of the Nigerian Exchange Group. The data was extracted from the Annual Reports and Publications of the sampled companies. The use of secondary data is because the information on the study is not self-created, that is they are gotten from annual reports and bulletins of manufacturing firms. Each company were required to publish their financial statements for the year to the Nigerian Exchange Group and the data set contains important information about the companies'. The data for this study was also obtained through reference to the review of different articles, journals, and relevant past studies. Data was also gathered from other sources which include annual reviews from various companies. The period covered by the study spans from 2011-2020 for the selected 10 companies.

### **3.4 Data Analysis**

The model specified is examined analytically. The relationship between the dependent variable – Strategic decision-making and its independent variables Financial Performance (FP), Market Share and Competition (MSC), Industry Trends and Economic Factors (IEF), Capital Expenditure (CEX), Cost Structure (COS), Budgeting and Forecasting (BF), Performance and Key Performance Indicators (KPI), Capital Investment Appraisals (CIA) are investigated. The regression model has been adopted because they are versatile, predictive, quantify relationship and are easy to interpret when structured properly. The data used in the research were analyzed using descriptive and inferential statistics. The Pooled Ordinary Least Square (POLS) will be employed to determine the relationship between financial reporting and management accounting in strategic decision-making.

### **3.5 Model Specification**

The econometric model used in this study is the multiple regression model. It is a statistical technique used to examine the relationship between a dependent variable and two or more independent variables. In multiple

regression, the goal is to create a model that predicts the value of the dependent variable based on the values of several independent variables. The model is specified using the determinants used in this study to investigate the relationship between the variables in influencing strategic decision making in listed manufacturing companies in Nigeria.

In a deductible form, the model is expressed as;

$$SDM_t = \beta_0 + \beta_1 FP_t + \beta_2 MSC_t + \beta_3 IEF_t + \beta_4 CE_t + \beta_5 CS_t + \beta_6 BF_t + \beta_7 KPI_t + \beta_8 CIA_t + \epsilon_t$$

Where;

SDM= Strategic Decision Making

FP= Financial Performance

MSC= Market Share and Competition

IEF= Industry Trends and Economic Factors

CEX= Capital Expenditure

COS= Cost Structure

BF= Budgeting and Forecasting

KPI= Performance and Key Performance Indicators

CIA= Capital Investment Appraisals

$\epsilon$  = Error term

$\beta$  = Constant term

$\beta_1$ - $\beta_8$  = Unknown coefficient of the explanatory variables

### 3.6 Operationalization of Variables

S/N	VARIABLES	DEFINITION	TYPE	MEASUREMENT	PRIORI REMARK
1	STRATEGIC DECISION MAKING	SDM	DEPENDENT VARIABLE	TOTAL RETAINED EARNINGS	-
2	FINANCIAL PERFORMANCE	FP	INDEPENDENT VARIABLE	PERCENTAGE OF NET PROFIT MARGIN	+
3	MARKET SHARE AND COMPETITION	MSC	INDEPENDENT VARIABLE	EARNINGS PER SHARE	+
4	INDUSTRY TRENDS AND ECONOMICS FACTORS	IEF	INDEPENDENT VARIABLE	TOTAL SHARE CAPITAL	+
5	CAPITAL EXPENDITURE	CEX	INDEPENDENT VARIABLE	TOTAL PPE	+
6	COST STRUCTURE	COS	INDEPENDENT VARIABLE	PERCENTAGE OF COGS-REVENUE	+

7	BUDGETING AND FORECASTING	BF	INDEPENDENT VARIABLE	TOTAL NET CASH FLOW	+
8	PERFORMANCE AND KEY PERFORMANCE INDICATORS	KPI	INDEPENDENT VARIABLE	EARNINGS BEFORE INTEREST AND TAXES	+
9	CAPITAL INVESTMENT APPRAISAL	CIA	INDEPENDENT VARIABLE	NET CASH FLOW FROM INVESTING ACTIVITIES	+

## CHAPTER 4

This study analyzed the relationship between financial reporting and management accounting in strategic decision making of ten (10) listed firms in Nigeria. This chapter evaluates the analysis and interpretation of data obtained in the duration of this study. The results from the analysis are presented using E-views 12 Econometric Analytical tool. In execution of the objectives, we shall make use of both descriptive and econometric techniques in analyzing the data used in the analysis to obtain the estimates of the variables over the time frame of the study.

### 4.1 Descriptive Statistics of Variables

**Table 1: Descriptive Statistics**

	<b>SDM</b>	<b>FP</b>	<b>MSC</b>	<b>IEF</b>	<b>CEX</b>	<b>COS</b>	<b>BF</b>	<b>KPI</b>	<b>CIA</b>
<b>Mean</b>	96494164	11.59530	9.296900	2815368.	1.69E+08	65.27000	17070257	34757950	-24355955
<b>Median</b>	33353561	10.17000	4.055000	1938444.	64793879	66.00000	7462603.	8081735.	-6625745.
<b>Maximum</b>	8.49E+08	54.00000	57.63000	10427140	1.39E+09	92.00000	1.62E+08	3.73E+08	22527924
<b>Minimum</b>	2443807.	-76.50000	-38.13000	249986.0	3307506.	34.00000	-23808042	-34032277	-2.72E+08
<b>Std. Dev.</b>	1.82E+08	15.36644	14.81727	2690933.	2.90E+08	12.76584	31903857	69700704	46977471
<b>Skewness</b>	2.872240	-1.139346	1.480395	1.328477	2.760273	-0.277030	3.002427	2.917064	-3.072796
<b>Kurtosis</b>	10.27795	13.56147	6.422044	3.770570	10.09941	2.551780	12.40646	11.62514	12.90060
<b>Jarque-Bera</b>	358.1980	486.4041	85.31943	31.88824	336.9918	2.116185	518.9155	451.7924	565.7925
<b>Probability</b>	0.000000	0.000000	0.000000	0.000000	0.000000	0.347117	0.000000	0.000000	0.000000
<b>Sum</b>	9.65E+09	1159.530	929.6900	2.82E+08	1.69E+10	6527.000	1.71E+09	3.48E+09	-2.44E+09
<b>Sum Sq. Dev.</b>	3.27E+18	23376.63	21735.59	7.17E+14	8.30E+18	16133.71	1.01E+17	4.81E+17	2.18E+17
<b>Observations</b>	100	100	100	100	100	100	100	100	100

This table depicts the descriptive statistics for both the dependent and independent variables of the study that is Strategic decision making, financial performance, market share and competition, industry trends and economic factors, capital expenditure, cost structure, budgeting and forecasting, performance and key performance indicators and capital investment appraisal. This tables shows a mean of Strategic decision making, financial performance, market share and competition, industry trends and economic factors, capital expenditure, cost structure, budgeting and forecasting, performance and key performance indicators and capital investment appraisal as **96494164, 11.59530, 9.296900, 2815368., 1.69E+08, 65.2700, 17070257, 34757950** and **-24355955** respectively. While the maximum values of SDM, FP, MSC, IEF, CEX, COS, BF, KPI, CIA are **8.49E+08, 54.00000, 57.63000, 10427140, 1.39E+09, 92.00000, 1.62E+08, 3.73E+08** and **22527924** with minimum values as **2443807, -76.50000, -38.13000, 249986.0, 3307506., 34.00000, -23808042, -34032277** and **-2.72E+08** in the same format. The kurtosis of COS with the value of 2.551780 is platykurtic while the kurtosis values of SDM, FP, MSC, IEF, CEX, BF, KPI, CIA which are **10.27795, 13.56147, 6.422044, 3.770570, 10.09941, 12.40646, 11.62514** and **12.90060** are leptokurtic. The values of SDM, MSC, IEF, CEX, BF, KPI showed a positive skewness while that of FP, COS and CIA showed a negative skewness with the values **-1.139346, -0.277030** and **-3.072796** respectively.

## 4.2 Table 2: Unit Root Test

Group unit root test: Summary				
Series: SDM, FP, MSC, IEF, CEX, COS, BF, KPI, CIA				
Sample:1-100				
<u>Newey-West automatic bandwidth selection and Bartlett kernel</u>				
<u>Method</u>	<u>Statistics</u>	<u>Prob**</u>	<u>Cross-sections</u>	<u>Obs</u>
<u>Null: Unit root (assumes common unit root process)</u>				
<u>Levin, Lin &amp; Chu t*</u>	4.39784	0.0000	9	889
<u>Null: Unit root (assumes individual unit root process)</u>				
<u>Im, Pesaran and Shin W-stat</u>	-7.47800	0.0000	9	889
<u>ADF - Fisher Chi-square</u>	98.1833	0.0000	9	889
<u>PP - Fisher Chi-square</u>	115.777	0.0000	9	891
<u>** Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality**</u>				

The Levin, Lin & Chu test suggests strong evidence against the presence of a unit root process when assuming a common unit root across all the series. This indicates that the series are likely stationary. The Im, Pesaran and Shin test also provides strong evidence against the presence of a unit root process when assuming individual unit roots for each series. This further supports the conclusion that the series are likely stationary. The Augmented Dickey-Fuller (ADF) test also strongly rejects the null hypothesis of a unit root process. This is another indication that the series are likely stationary. The Phillips-Perron (PP) test, like the others, rejects the null hypothesis of a unit root process. The probability is close to zero, indicating strong evidence against unit roots. In summary, all four tests provide strong evidence against the presence of a unit root process in the series

SDM, FP, MSC, IEF, CEX, COS, BF, KPI, and CIA. This suggests that these series are likely stationary, which is often a desirable property for time series data in statistical analysis.

### 4.3 Table 3: Regression Analysis

Dependent Variable: SDM\_TOTAL\_RETAINED\_EARNINGS

Method: Least Squares

Sample: 1-100

Included observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15590472	28214383	-0.552572	0.5819
FP	309262.2	247415.2	1.249972	0.2145
MSC	-246179.9	223380.4	-1.102066	0.2733
IEF	0.065583	1.756766	0.037332	0.9703
CEX	0.412425	0.032243	12.79122	0.0000
COS	137228.1	411539.9	0.333450	0.7396
BF	0.035792	0.228285	0.156786	0.8758
KPI	0.702062	0.197917	3.547245	0.0006
CIA	-0.289452	0.184271	-1.570791	0.1197
R-squared	0.973785	Mean dependent var	96494164	
Adjusted R-squared	0.971480	S.D. dependent var	1.82E+08	
S.E. of regression	30694606	Akaike info criterion	37.40276	
Sum squared resid	8.57E+16	Schwarz criterion	37.63723	
Log likelihood	-1861.138	Hannan-Quinn criter.	37.49765	
F-statistic	422.5353	Durbin-Watson stat	1.860677	
Prob(F-statistic)	0.000000			

Regression Equation:  $SDM = -15590472 + 309262.2FP - 246179.9MSC + 0.065583IEF + 0.412425*CEX + 137228.1COS + 0.035792BF + 0.702062*KPI - 0.289452CIA$

The regression table reveals a statistically significant relationship between SDM, FP, MSC, IEF, CEX, COS, BF, KPI and CIA. The estimate of this equation reveals a negative intercept which is **-15590472**. This implies that when FP, MSC, IEF, CEX, COS, BF, KPI and CIA are zero, SDM would stand at **-15590472**. The p-values of CEX and KPI are **0.0000** and **0.0006** are both less than 0.05 which makes their relationship with the dependent variable (SDM) significant meaning that a 1 unit change in CEX and KPI would cause SDM to change by 0.412425 and 0.702062 respectively in the same trajectory while the p-values of FP, MSC, IEF, COS, BF and CIA are greater than 0.05 which makes their relationship with the independent variable insignificant. The test of good fit indicates that the Rsquared and Adjusted Rsquared values stand 97.38% and 97.15% indicating that the model is a good fit for the analysis. The F-statistics reveals that the combined significance of all estimated parameters in predicting the values of SDM is statistically significant with a value of 422.5353 and a p-value of 0.0000. The implication of the analysis above is that firms need to take the issue of strategic decision making seriously. The value of the Durbin-Watson which stands at 1.860677 which is less than 2.0 which means that there is a positive autocorrelation.

#### 4.4 Table 4: Serial Correlation Test

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.471973	Prob. F (2,89)	0.0902
Obs*R-squared	5.262655	Prob. Chi-Square (2)	0.0720

The Breusch-Godfrey Serial Correlation LM Test indicates that there is no serial correlation because p-value (0.0902) of the f-statistics 2.471973 is greater than 0.05 and it is authenticated by the observed Rsquared of the auxiliary regression p-value of 0.0720.

## 4.5 Discussion of Findings

- **Financial Performance (FP):** The regression analysis indicates that Financial Performance (FP) statistically has no significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Positive Coefficient:** The coefficient of FP is 309262.2 with a p-value of 0.2145 indicating that there is no significant relationship between FP and SDM.

**Significance:** The p-value of 0.2145 is greater than the accepted level of significance of 0.05 implying that the relationship between FP and SDM is statistically insignificant.

### **Agreement with Scholars:**

**Porter (1985):** Similar to the findings of this study Porter Introduced the idea of gaining a competitive edge using his "Five Forces" model. He argued that strategic choices should prioritize establishing a lasting competitive advantage, which might not immediately manifest in financial measurements.

**Kaplan and Norton (1992):** Kaplan and Norton brought forth the Balanced Scorecard framework, which stressed the significance of taking a comprehensive view when evaluating performance. They asserted that a company's overall success is not solely determined by financial performance; hence, strategic decision making should encompass various aspects such as customer satisfaction, internal processes, and learning and development.

### **Contrasts with Scholars:**

**Hambrick and Fredrickson (2001):** In contrast to this study, Hambrick and Fredrickson highlighted the importance of making strategic decisions by considering a company's distinct assets and abilities. They contended that a narrow focus on immediate financial profits could result in long-term strategic setbacks.

**Rumelt (1974):** Rumelt Stated that metrics related to financial performance, like return on investment (ROI) and profitability, are essential signals of a company's strategic achievement. He maintained that sound financial performance frequently stems from well-informed strategic decisions.

- **Market Share and Competition (MSC):** The regression analysis indicates that Market Share and Competition (MSC) statistically has no significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Negative Coefficient:** The coefficient of MSC is -246179.9 with a p-value of 0.2733 indicating that there is no significant relationship between MSC and SDM.

**Significance:** The p-value of is 0.2733 greater than the accepted level of significance of 0.05 implying that the negative relationship between MSC and SDM is statistically insignificant.

#### **Agreement with Scholars:**

**Rumelt (1991):** Rumelt's practical study provided evidence that companies holding a greater market share tend to possess additional resources, which in turn, help them make strategic decisions more efficiently. This viewpoint is consistent with the concept that a larger market share can enhance the quality of strategic decision-making.

**Teece, Pisano, and Shuen's (1997):** Teece, Pisano, and Shuen contend that in extremely competitive markets, having dynamic capabilities is vital. Firms possessing robust dynamic capabilities can adjust and modify their strategies as needed, enabling them to either retain or acquire market share. This standpoint underscores the significance of being flexible and adaptable in highly competitive settings.

#### **Contrasts with Scholars:**

**Jay Barney and Peteraf (1997):** Jay Barney and Peteraf highlight the significance of a company's internal assets and abilities. In fiercely competitive markets, firms possessing distinctive and valuable resources might gain an edge when making strategic choices.

- **Industry Trends and Economic Factors (IEF):** The regression analysis indicates that Industry Trends and Economic Factors (IEF) statistically has no significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Positive Coefficient:** The coefficient of IEF is 0.065583 with a p-value of 0.9703 indicating that there is no significant relationship between IEF and SDM.

**Significance:** The p-value of is 0.9703 greater than the accepted level of significance of 0.05 implying that the relationship between IEF and SDM is statistically insignificant.

#### **Agreement with Scholars:**

**Mintzberg and Waters (1985):** Mintzberg and Waters conducted a study to examine how economic conditions affect strategic choices. Their findings revealed that during economic downturns, companies tend to choose defensive strategies like cutting costs and retrenchment, whereas in times of economic growth, they tend to opt for growth-focused strategies such as expanding their market presence and diversifying their products.

**Ghemawat (2002):** Ghemawat pointed out that it is important to consider both factors specific to the industry and worldwide economic trends when forming strategic plans. They contend that the increased globalization and interconnection of markets have made the process of strategic decision-making more complex. As a result, companies must evaluate not just the dynamics within their industry but also global economic factors like currency exchange rates and trade policies.

#### **Contrasts with Scholars:**

**Eisenhardt and Martin (2000):** Eisenhardt and Martin proposed that companies possessing robust internal strengths can frequently mold their industry landscape instead of merely succumbing to its impact. They contend that organizations armed with distinctive assets and abilities have the capacity to establish their own trends and strategies within their industry, even when confronted with challenging economic circumstances.

- **Capital Expenditure (CEX):** The regression analysis indicates that Capital Expenditure (CEX) statistically has a significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Positive Coefficient:** The coefficient of CEX is 0.412425 with a p-value of 0.000 indicating a significant relationship between CEX and SDM.

**Significance:** The p-value of is 0.000 below the accepted level of significance of 0.05 implying that the relationship between CEX and SDM is statistically significant.

#### **Agreement with Scholars:**

**Myers and Majluf (1984):** Myers and Majluf's influential study pioneered the idea of unequal information. They contend that a company's capital expenditure choices can communicate its financial well-being and outlook to outside parties. Elevated capital expenditure might convey optimism, whereas reduced capital expenditure could indicate financial difficulties.

**Brealey and Myers (2003):** Brealey and Myers highlight how crucial the company's cost of capital is when making decisions about capital expenditure. They suggest that capital expenditure projects should generate returns that surpass the cost of capital to add value. Consequently, strategic decisions regarding capital expenditure must take the cost of capital into account.

#### **Contrasts with Scholars:**

**Jensen (1986):** Jensen's agency theory underscores the need for shareholders and management to share common interests. He proposes that strategic capital expenditure decisions should aim to maximize value for shareholders and that disagreements between them can impact these choices.

- **Cost Structure (COS):** The regression analysis indicates that Cost Structure (COS) statistically has no significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Positive Coefficient:** The coefficient of COS is 137228.1 with a p-value of 0.7396 indicating that there is no significant relationship between COS and SDM.

**Significance:** The p-value of 0.7396 is greater than the accepted level of significance of 0.05 implying that the relationship between COS and SDM is statistically insignificant.

#### **Agreement with Scholars:**

**Michael Porter (1985):** Porter's influential research on gaining a competitive edge stressed the significance of choosing cost leadership as a strategic approach. He maintained that a company's cost framework should match its chosen strategy, be it cost leadership or differentiation. Numerous later scholars concur that cost structures should be in harmony with strategic goals.

**Robert S. Kaplan and Norton (1996):** Kaplan and Norton introduced the Balanced Scorecard framework, which emphasized the importance of maintaining a balance between financial and non-financial indicators, including cost-related measures, when making strategic decisions. Their approach urged businesses to think about cost structures within a larger context rather than isolating them as a standalone factor.

#### **Contrasts with Scholars:**

**Ramanathan (2017):** Ramanathan's study indicates that although cost structure is crucial, it does not act alone in driving strategic decisions. He contended that additional factors, including market dynamics, customer preferences, and technological advancements, also wield substantial influence over the shaping of strategic choices.

**Gupta and Jain (2019):** Gupta and Jain's research underscores that the connection between cost structure and strategic choices differs depending on the industry and competitive landscape. They contend that in industries marked by rapid change, being flexible and adaptable might be more important than solely concentrating on cutting costs, which stands in contrast to the conventional approach of cost leadership.

- **Budgeting and Forecasting (BF):** The regression analysis indicates that Budgeting and Forecasting (BF) statistically has no significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Positive Coefficient:** The coefficient of BF is 0.035792 with a p-value of 0.8758 indicating that there is no significant relationship between BF and SDM.

**Significance:** The p-value of 0.8758 is greater than the accepted level of significance of 0.05 implying that the relationship between BF and SDM is statistically insignificant.

#### **Agreement with Scholars:**

**Mintzberg (1994):** Mintzberg suggested that forecasting is a crucial instrument for organizations to predict shifts in their surroundings, aiding in long-term strategic planning by uncovering possible risks and opportunities.

**Simons (1995):** Simons proposed that budgets serve as a mechanism to communicate strategic priorities. They can help align different parts of an organization towards common strategic goals.

#### **Contrasts with Scholars:**

**Merchant and Van der Stede (2007):** Merchant and Van der Stede suggested that traditional budgeting may not always support strategic decision making effectively. They criticized it for being rigid and not adaptive to changing circumstances.

**Hope and Fraser (2003):** argued for Beyond Budgeting, a management philosophy that challenges traditional budgeting practices. They advocated for more flexible forecasting and budgeting processes that enable quicker responses to strategic shifts.

- **Performance and Key Performance Indicators (KPI):** The regression analysis indicates that Performance and Key Performance Indicators (KPI) statistically has a significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Positive Coefficient:** The coefficient of KPI is 0.702062 with a p-value of 0.0006 indicating that there is a significant relationship between KPI and SDM.

**Significance:** The p-value of 0.0006 is lesser than the accepted level of significance of 0.05 implying that the relationship between KPI and SDM is statistically significant.

**Agreement with Scholars:**

**Ittner and Larcker (2003):** Ittner and Larcker's findings endorse the notion that companies gain advantages from employing a wider array of KPIs. They contend that non-financial performance metrics are valuable in strategic decision-making since they offer valuable insights into aspects such as customer loyalty, employee involvement, and innovation, all of which are crucial for attaining long-term organizational objectives.

**Simons (2000):** Simons also supports the idea of employing performance measurement and control systems to put strategic plans into action. He contends that carefully selected KPIs aid organizations in carrying out their strategic objectives efficiently by offering insights into different performance areas, thereby directing decision-makers toward their intended strategic goals.

**Contrasts with Scholars:**

**Jensen (2001):** Michael Jensen cautions that depending too much on KPIs can have downsides. He believes that focusing too heavily on performance metrics might lead organizations to prioritize short-term gains over long-term value creation. Jensen recommends a careful approach to using KPIs to prevent unintended negative outcomes in strategic decision-making.

- **Capital Investment Appraisal (CIA):** The regression analysis indicates that Capital Investment Appraisal (CIA) statistically has no significant relationship with Strategic Decision Making (SDM). Here are the key findings.

**Negative Coefficient:** The coefficient of CIA is -0.289452 with a p-value of 0.1197 indicating that there is no significant relationship between CIA and SDM.

Significance: The p-value of is 0.1197 greater than the accepted level of significance of 0.05 implying that the negative relationship between CIA and SDM is statistically insignificant.

#### **Agreement with Scholars:**

**Brealey and Myers (2003):** These experts concur those methods for evaluating capital investments, such as Net Present Value (NPV) and Internal Rate of Return (IRR), are vital in guiding strategic decisions. They assert that companies typically give preference to projects with positive NPV, ensuring that investments align with their strategic goals. Their research highlights how crucial financial measures are in making decisions.

**Kaplan and Norton (1996):** Kaplan and Norton's research, especially the Balanced Scorecard concept, highlights the importance of considering both financial and non-financial aspects when making strategic decisions. They believe that adopting a comprehensive approach to evaluating investments improves decision quality. Including non-financial measures like customer satisfaction and employee morale allows organizations to align their investments more effectively with their strategic objectives.

#### **Contrasts with Scholars:**

**Moyer et al. (2012):** Unlike the previously mentioned scholars, Moyer and his colleagues advocate placing more emphasis on analyzing risks in the assessment of capital investments. They suggest that organizations should incorporate risk evaluation into their investment evaluations and ensure that their risk tolerance aligns with their strategic goals. This differs from the perspective of some other scholars who prioritize financial measures and may overlook the importance of considering risk factors.

## CHAPTER 5

### 5.1 Introduction

This chapter of the project entails the summary of findings ascertained during the research work, recommendation, and conclusion of the work.

### 5.2 Summary of Findings

This study has scrutinized the financial reporting and management accounting practices of (10) listed firms in Nigeria. During the research relevant theoretical and empirical studies were evaluated. In line with the objectives and hypothesis of the study, the major findings are;

#### **H1: There is no significant relationship between financial performance and strategic decision making. (FP)**

Financial performance has no significant relationship with strategic decision-making, this signifies that the financial performance of the firm holds little to no significant influence on the strategic decision-making of the firm.

#### **H2: There is no significant relationship between market share and competition and strategic decision making. (MSC)**

Market share and competition has no significant relationship with strategic decision-making, this indicates that the market share of the firm and its competition with other firms in the same industry does not significantly influence on strategic decision-making of the firm.

**H3: There is no significant relationship between industry trends and economic factors affect strategic decision making. (IEF)**

Industry trends and economic factors has no significant relationship with strategic decision-making, this indicates that the industry trends and economic factors in the country which the firm operates in does not significantly influence on strategic decision-making of the firm.

**H4: There is no significant relationship between capital expenditure and strategic decision making. (CEX)**

Capital expenditure has a positive and significant relationship with strategic decision-making, this signifies that the choice and way a firm spends on capital expenditure (assets) the more the strategic decision making of the firm is justified because it proves that the firm is financially stable and well doing.

**H5: There is no significant relationship between cost structure and strategic decision making. (CEX)**

Cost structure has no significant relationship with strategic decision-making, this implies that the cost structure of the firm holds no significant influence on the strategic decision-making of the firm.

**H6: There is no significant relationship between budgeting and forecasting and strategic decision making. (BF)**

Budgeting and Forecasting has no significant relationship with strategic decision-making, this suggests that the budgeting and forecasting methods practiced by the firm holds no significant influence on the strategic decision-making of the firm.

**H7: There is no significant relationship between performance and key performance indicators and strategic decision making. (KPI)**

Performance and key performance indicators have a positive and significant relationship with strategic decision-making, this implies that the key performance indicators applied by the firm in evaluating its performances internally and in the industry in which the firm operates significantly affects the type of strategic decisions the firm decides to analyze and choose from.

## **H8: There is no significant relationship between capital investment appraisal and strategic decision making. (CIA)**

Capital investment appraisal has no significant relationship with strategic decision-making, this suggests that the capital investment method practiced by the firm holds no significant influence on the strategic decision-making of the firm.

### **5.3 Conclusion**

This study was preoccupied with investigating the financial reports and management practices of firms between 2011-2020. The study reveals that financial reporting and management accounting are closely connected when it comes to making strategic decisions. They work together to provide essential information for firms to make strategic decisions. As the business world keeps changing and evolving, understanding, and improving the relationship between financial reporting and management accounting will be crucial in making good decisions that will lead to long term success in firms.

### **5.4 Recommendations**

Considering the findings and conclusions, it is therefore important to propose some policy recommendations.

1. Key performance indicators should not be overlooked, firms should ensure to evaluate and analyze key performance indicators to enable them to make strategic decisions based on the indicators.
2. The choice and method used in capital expenditures used be extensively evaluated as it depicts the financial health and spending strength of the company which can attract new investors and shareholders.
3. Managers should consistently analyze industry trends and economic trends for changes to make strategic decisions to ensure quick adaptability to the external changes.
4. Firms should ensure to apply the best method of evaluating capital investments to make decision on which assets to purchase or investments which will yield to optimal returns.

5. Firms should work on improving the quality of their management team in terms of experience and qualifications and members of management should ensure they are well equipped in financial reporting, management accounting and strategic decision-making skills.
6. Management should ensure the cost structure of the firm is suitable for the firm and it can ensure the firm can cut costs when necessary and reduce the debt risk of the firm.
7. Management should ensure the budgeting and forecasting techniques of the firm is suitable to the firm and meets the expectation of all the employees in the organization.

## **5.5 Suggestion for Further Contribution**

The study has some limitations, which can be improved upon by future studies. An important part of the study that can be improved upon is the analysis of the relationship between financial reporting and management accounting. The timeframe for this study can also be improved upon. This study draws from 2011-2020. Financial reports of 2021 & 2022 in which firms' financial performance were influenced by the covid-19 pandemic were not applied in the analysis of this study, these financial reports can also be applied in future studies to determine the effect of the pandemic on the financial performance of the firms.

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