P-ISSN: 2204-1990; E-ISSN: 1323-6903
DOI: 10.47750/cibg.2022.28.04.170

ASSESSING THE IMPACT OF FINANCIAL ACCOUNTING DATA ON MANAGERIAL DECISION-MAKING IN EGYPT'S MEDIUM AND SMALL-SIZED ORGANIZATION

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Abstract

The goal of this study is to learn more about the financial practises used by Small and Medium Sized Enterprises (SMEs) in Egypt, especially those that are located in emerging markets. Reports on accounting procedures are essential for tracking all accounting functions. Accounting data, such as the cash flow and income statements assertion reports seen in corporate financial records, is used by management to make decisions. The current study looks at how financial accounting reporting affects small and medium-sized businesses in Egypt. The incremental innovation, the focus strategy, and the cluster method are only a few of the strategies that have been developed to encourage the growth of the entrepreneurial sector in Egypt, based on the economic pathway change. The study also looks into the administration's perspective on capital distribution to see if it maximises the decision's efficacy. Cross-sectional data strategy was applied for this aim, and 200 managers and employees of SMEs who responded to a standardised questionnaire provided the data. The primary goal of this study is to examine the difficulties faced by Egyptian entrepreneurship as they launch their Small and Medium Enterprises (SMEs). The study found that a favourable link between financial accounting reports and managerial actions is mediated by the ability, relevancy, and quality of accounting statements.

Keywords: SMEs, Financial Accounting Reporting, Managerial Decision, Management Decision Making,

1. Introduction

Financial reports provide an evaluation of the financial and economic situations over the short and long terms. When making a decision about investments that clearly outlines the decision's repercussions, accounting information play a crucial role in corporate decision-making practices. Many small and medium-sized businesses (SMEs) are fighting for their existence in the present competitive global economy. These include an absence of sufficient operating capital, ineffective management, and insufficient application of crucial business and management techniques. To ensure the effectiveness and efficiency of the firm, management methods that can give management essential information are essential. The accounting expertise in the financial statement enables management to make more informed decisions. Managerial accounting, a well-known organisational activity that includes both non-financial and financial details, is a crucial information management system that SMEs should use. SMEs offer services and goods that are inexpensive for locals and are designed to meet local demands [1].

This method was implemented in response to the challenges facing Egyptian entrepreneurs, which included fierce rivalry, a shortage of resources, and insufficient managerial skills. This research concentrates on entrepreneurial businesses and the difficulties they encounter when they develop their Egyptian Small and Medium-Sized Enterprises (SMEs) in the market. However, it becomes essential to specify the goals, describe the words, and provide a study questions in terms of being able to recognize their difficulties and limitations. Customers who value financial outcomes include owners, creditors, institutions, regulators, employees, potential buyers, and the executive team of the organization [2]. The aforementioned groups of people rely on information from corporate financial reports to ascertain the institution's status, which is a crucial indicator of how much funding will be contributed.

Business reports provide an overview of both short- and long-term market profitability and cash flow situations, which has positive impacts and aids in the development of managerial skills for a broad range of

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customers. Business reports provide an overview of both the short- and long-term economic performance and financial factors, which has positive impacts and aids in the development of accounting knowledge for a wide variety of consumers. The decision-making mechanisms of corporate entities incorporate financial statements. The inclusion of financial information as a record is the financial document's main goal. It is crucial to draw the conclusion that the ability to use accounting knowledge is a crucial component of corporate efficiency. Accounting information are important in the context of SMEs because they provide information to improve monitoring and control and help companies handle their current problems in vital areas like pricing, expenditure, and cash flow [3].

The remaining segments are arranged as follows: The related works are covered in the second section. The research aims are stated in section 3. The Research framework and assumptions are explained in Section 4. The final section provides a summary of the findings and conclusions.

2. Related works

The assessment of the literature has revealed that very few researches, either globally or exclusively for Egypt, has been conducted on finance for informal firms. The inaccessibility to capital is a challenge for SMEs in Egypt. The review of literature looks at global and Egyptian SME finance concerns. This will begin by discussing SMEs in general and their significance to the economy. Next, to look at some of the challenges that these businesses must deal with, notably those related to financing and spontaneity. Finally, we'll discuss SMEs and entrepreneurship. SMEs are widely regarded as the engine that propels developed nations and the foundation of regional economies [4].

When seeking establishment licences, which are granted by the local district, MEs in Egypt must navigate complicated rules and challenging legal processes. When SMEs owners wish to launch a small business, they must adhere to several administrative requirements and red tape in order to receive an operating licence [5]. Additionally, political considerations pose greater challenges for SMEs, particularly when a change in administration results in amendments to rules and legislation.

The relevance of management accounting practises (MAPs), particularly in SMEs operating in emerging economies. However, based on the findings of logistical investigation, owner/manager perceptions of MAPs' worth, trade status, type of industry, SME industry, and utilisation of innovations within the company all significantly and favourably influence how much MAPs have been used. One of the study's many recommendations is to raise consciousness about the benefits of adopting MAPs. This study recommends using additional methods of research, such as conducting questionnaires or case studies, to obtain more in-depth information [6].

A variety of financial sciences now cover a much wider range because to the expansion of industrial and commercial organizations and entities across different nations [7]. A financial statement of economic units reflects the desires and goals of various buyer classes, including owners, defaulters, and other individuals, to make wise financial decisions. The most critical way for notifying external economic systems is the set of financial reports [8].

One of the key tenets of disclosure and a fundamental requirement of those who make economic decisions is the availability of open and comparable financial information. The accounting records already serve as the primary sources of financial information, despite the fact that specifics may come from other sources. As a result, excellence must be attained [9]. An important catalyst for changes in the economic climate over the past few years has been the increase in public involvement in the form of public enterprises. Despite the accuracy of the financial information provided in this context, people are more effective at making economic judgments.

Identification, measurement, accumulation, analysis, preparation, interpretation, and communication of data are the steps in management accounting that support managers' decision-making and planning and control of business operations [10]. This section stipulates that information serves as the foundation of management accounting. The latter, typically, is derived from a number of measurements and indicators that reflect specific business and economic results [11].

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3. Research questions and objective:

To ascertain whether the poor management of SMEs is a result of poor organization in the fields of marketing, general administration, human resources management, and financial management to determine the economic factors that affect how well SMEs operate.

- What impact do managerial actions have on the development and success of SMEs?
- How do managerial decisions affect the growth and success of SMEs?

Research objective:

1. To find financial accounting reporting and managerial decision making.
2. To enhance the management skill.
3. To mitigate poverty and improving standards of living using SME.

3.1 Significance of Financial Statements

The financial condition, performance outcomes, and financial integrity information for a corporate entity are included in the financial statement, which is significant since it is helpful to a wide range of customers for making economic decisions. Because of this, the financial outcomes are designed to serve the needs of the general public. Information about an organisation unit's business results, in specifically its presentation, is necessary to predict the ability of the firm to maintain working capital from its available resources and identify potential modifications to its financial resources that will surely govern them in the future.

The main objective of presenting accounting information is to provide details about how activities and finances of a profit unit are impacted by sales, initiatives, and financial occurrences. Then, a profit unit uses this data to assess customers, major bank members, and other outside consumers as well as to aid in decision-making.

3.2Accounting knowledge's importance in managerial decision-making

Facilitating perception Knowledge is intended to reduce the decision-level makers of ambiguity before making decisions, enhancing the likelihood that those determinations will be made with a thorough understanding of the desired objectives. Regulations that will improve decision-making viewpoints and experiences usually include decision-friendly information as a crucial component. Even if the determining function of the fact is vital for personal actions as well, the decision-making element is only essential in incidents involving numerous people. Decision-influent awareness, especially when used to business decision in the management sense, tries to influence the attitude of (other) individuals. The outcomes of activity monitoring, output assessment and evaluation, and rewards programs and disincentives are among the types of information that affect decisions. Of course, a prerequisite would be that the person whose actions could be impacted is aware of how to use the information that could influence their judgement.

For making decisions, specific accounting evidence should be employed. For illustration, a price decision-maker can improve decision-making information by updating his or her forecasts of consumption based on the price and income from the preceding period. Rates and production data from the previous cycle may still be used in order to protect the sales manager's outcomes for this period. The accounting discipline generally accepts the division between decision-making and affecting details. The restriction of accounting knowledge is also that it is only one informational method available to authorities. The importance of accounting information is also specifically associated with the fact that the decision-maker generally has direct connections to other types of stuff, such as first-hand quality control, reports, or intuition.

Organizational management decision-making is similar to a "black box," with most businesses adopting a method that typically starts with recommendations and input from staff on the state of the institution and its policy before taking into account the risks and long-term ramifications. Financial analysts and investment executives can make the essential evaluations of the circumstances in the manner of business decisions and advancements in the decision-making technique if they have trustworthy information, applicable details, and documentation verification. There are lots of people involved in how enterprises make decisions, including how they evaluate bias and identity.

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The development of standards to guarantee transparent financial data output of sectors of the economy is the core purpose of codifying accounting principles. In figure 1 Managerial decision making procedure has explained.

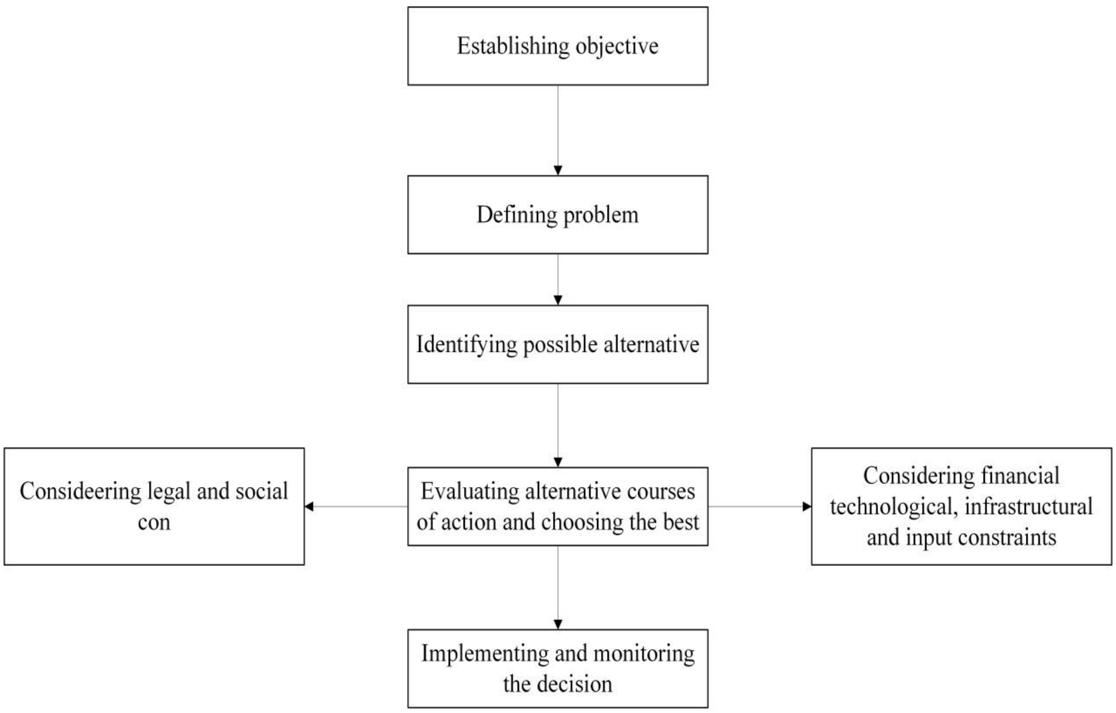

Figure 1: **Managerial decision making process**

a) Establishing the Objective:

The first phase in the decision-making process is determining the objective of the business. The basic goal of a private business is to enhance profits. However, a firm may have extra objectives, including boosting sales or growing the company.

b) Defining the Problem:

The second step in making a solution is identifying or perceiving the problem. It is essential to understand the nature of the problem because decision-making is eventually meant to solve problems. A cotton textile enterprise, for illustration, would see a reduction in sales and profits.

c) Identifying Possible Alternative Solutions

The next step is to explore for viable solutions once the problem has been identified. This necessitates considering the variables that influence the problem. It is essential to create a hyperlink between the variables and the problems in this manner.

d) Evaluating Alternative Courses of Action:

The following phase in making a business resolution is assessing potential courses of action. This requires the gathering and processing of data. Some of the data will be accessible to the company's many divisions, while exposure to others may be provided by the government and business.

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e) Implementing the Decision:

Once the various necessary steps have been evaluated and the optimal course of action has been selected, the final stage is to implement the decision. The implementation of the choice must be closely watched in order to get the desired results from the optimal method of action. If it is found that the resolution was performed incorrectly and the expected outcome did not occur, appropriate action should be taken.

3.3 Definition of SME

According to [12], SMEs are frequently categorised based on their staff count or asset worth. According to the scale of the workforce and its resources, categorization by size differs between regions and between nations. SMEs currently lack a precise legislative classification. For their owe programmes, different universities use different definitions. Identification of SMEs for numerous concessions and programmes has become difficult as a result of this situation. Additionally, this causes a number of issues with how government strategy for promoting SMEs is implemented. The government should therefore acknowledge the urgent necessity for creating a legislative definition for Micro, Small, Medium, and Large Enterprises.

The current legal provisions stipulate that separate financial information are not required to be prepared. As a result, it affects how well businesses perform. A distinct accounting standard for SMEs is advised, as it will include instructions on how to produce and present the financial statements of SMEs. Banks are generally less enthusiastic in financing to these small enterprises because the majority of them require formal characteristics like consistent accounting documents and incorporation. One of the key reasons given in the literature is that the lack of clear and comprehensive documentation makes it difficult for banks to determine if SMEs have the financial wherewithal to return their obligations.

3.4 Quality of Financial Reporting

This data is organized and assessed through a range of methods, assisting management in precisely identifying the challenge and issue, setting goals, evaluating approaches, and selecting the optimum method for implementation and evaluation. Access to key decision management information and the development of a structured method for obtaining on-going financial information are, in this regard, the most efficient aspects of the operations to be taken into account in the compilation of the financial report. In the earlier literature, it is emphasised how important accurate and high-quality financial statements are for managing finances, assessing feasibility, and understanding.

Additionally, it lessens ambiguity and disagreements among all parties concerned, including management, users, regulations, the public at large, and all other parties. All procedural participants should be given a thorough explanation of every step in the process, including the declaration technique, all transactions, accounting principles, and all judgements and opinions made by the employees participating. The integrity and dependability of data produced by company's data systems are crucial not just for accurate financial statements but also for the expansion and general success of an organisation.

According to [13], effective financial statements lessen the asymmetrical knowledge and lack of equivalence that come from competing companies. By lowering the level of uncertainty surrounding those incidences, it also helps business investors have a better grasp of all organisational procedures and activities. On the other hand, reliable financial reporting helps banks and the government since it boosts the financial results and investment efficiency of private businesses, which in turn boosts tax receipts and bank loans.

4. Research framework and hypotheses

The dimensions and factors that contribute to restricted access to money will be discussed in this section by the researcher. These factors were taken from the literature study and served as the foundation for the research's organisational structure.

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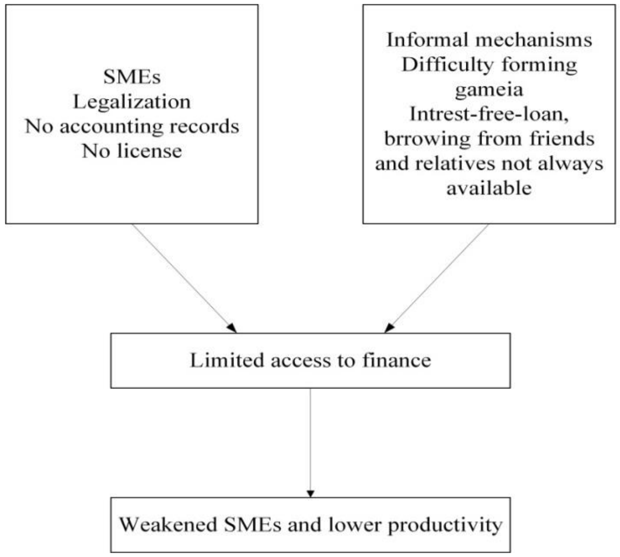

Figure 2: **Barriers to finance**

This study describes the relationships between financial statement features and management decision-making using analytical underpinnings from the body of existing financial reporting literature. The anticipated relationship between financial statements and managerial decision-making is shown in Figure 2. In this research, management decision - making process serves as the regression model, and accrual analysis serves as the predictor. Financial accounting communicates through some kind of variety of mediators, besides the financial statement accuracy, comprehensibility, and importance.

Considering previous statements, financial accounts should be reliable and precise for decision-making. Collecting and sending pertinent information as soon as possible. They ought to have contained input and been predictable as well. Reliability, verification, and objectivity are necessary for credibility [14]. The suggested format here affects how financial statements are used to make management decisions.

$Managerial\ Decision\ Making = \alpha 0 + \alpha financial\ acounting\ reporting + \alpha quality\ of\ report + \alpha relevence + \alpha understandability + \in R$

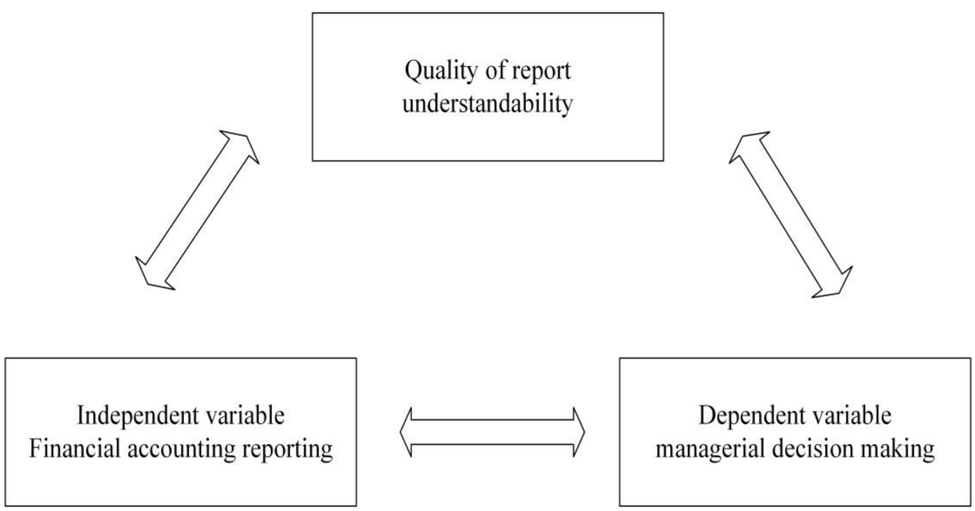

Figure 3: **Research framework**

H1 – Small and medium-sized enterprises have different ways of allocating their resources.

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H2 - Financial practises have an effect on how well Small and Medium scale Enterprises (SMEs) execute in Egypt.

The purpose of the testing is to improve the managerial accounting practises' capacity to predict how well SMEs in Egypt will fare financially.

Between small and medium-sized enterprises in the study sample, there was a substantial difference in the range of financial practises, with the latter having these operations in sufficient depth. Financial practises' impact on Sri Lankan SMEs' operations (Small and Medium Scale Enterprises).

4.1 Data collection

Using data and information gleaned from questionnaires, this study investigates the accounting activities and connections between the financial system and organisational performance of the SMEs in Egypt. The unique and non-questionnaires used for the study consist of 20 items on characteristics and practises related to enterprise organizational and financial management.

4.2 Data analysis method

The first component of this study is to provide new empirical data about Sri Lanka's small and medium-sized enterprises' financial practises. Distributive statistics are used to analyse the questionnaire's data. The second portion investigates whether there is a link between the SMEs represented in the study sample and the actual financial performance of these businesses. The variables used in this study are all classified (nominal or ordinal) in nature and/or have irregular differential characteristics.

A straightforward random sampling approach was employed to choose the companies for this study, giving each company an equal chance of being chosen. The utilisation of numerous data sources improved the survey's effectiveness by making it possible to access a wider range of firms and lowering the likelihood of inaccuracies.

5. Methodology and finding

The theories offer a wide range of tools and methods for developing and validating concepts. The purpose of the structured questionnaire designed for this study was to collect data to investigate how the alternate theory mediates the relation between the dependent and study variables. Understanding the potential impacts of reporting financial accounting impacts on the executive decision-making method in the organisations is the aim of this study. Small- and medium-sized business managers and employees make up the study's population. According to the experts, medium-sized organisations are those with employees, whereas tiny and micro-sized businesses just have team members.

The conceptual framework demonstrates how different dimensions were picked for each variable in the study. 20 self-administered surveys were delivered to the respondents in total, and 75% of them were returned. The majority of respondents—86%—work in the service industry. In the beginning, research assistants scheduled appointments with businesses to present the questionnaires tailored for certain businesses. Following the completion of the questions, the helpers gathered copies. As predictor factors, some of the specifications in this sample are perceptive (financial reporting consistency, recipients, and comprehensibility), while others are factual (company population facts, such as industry sector, market years, and thousands of employees). The survey also includes a response variable (managerial decision making). The respondents' return rate is shown in Table 1.

Table 1: **Respondents' return rate**

Sectors	Organizations (n)	Participants (n)	%
Service Industries	102	97	0.44

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SMEs	148	142	0.43
Total	255	236	0.83

5.1 Survey respondents' demographics

Age and gender are the two respondent characteristics that are relevant to the study. Demographic percentages are derived from the actual responses. Table 2 provides factor data analysis as well as the dependencies of the dependent, independent, and moderating factors.

Table 2: **Factor data analysis**

Variables	Dimension	Frequency	%
Biological sex	Male	126	0.58
	Female	109	0.42
Total		235	100.0
Age	18-24	75	0.30
	25-34	44	0.20
	35-50	19	0.08
	Above 50	95	0.42
total		233	100.0

Table 3: **Variable reliability and factor analysis**

Variables	Reporting for Financial Accounting	Managerial Decision Making	understand ability	Relevance	Reporting Standards
Reporting for Financial Accounting	1				
Managerial Decision Making	0.34	1			
understand ability	0.19	0.23	1		
Relevance	0.21	0.19	0.45	1	
Reporting Standards	0.27	0.26	0.55	0.38	1

The estimated coefficients make it abundantly evident that the managerial decision-making of the enterprises is significantly influenced favourably by accounting information reporting. Along with financial reporting, other factors that mediate the relationship between dependent and independent variables include report

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quality, relevance, and understand ability. Table 3 describe the Variable reliability and factor analysis and figure 4 shows the result.

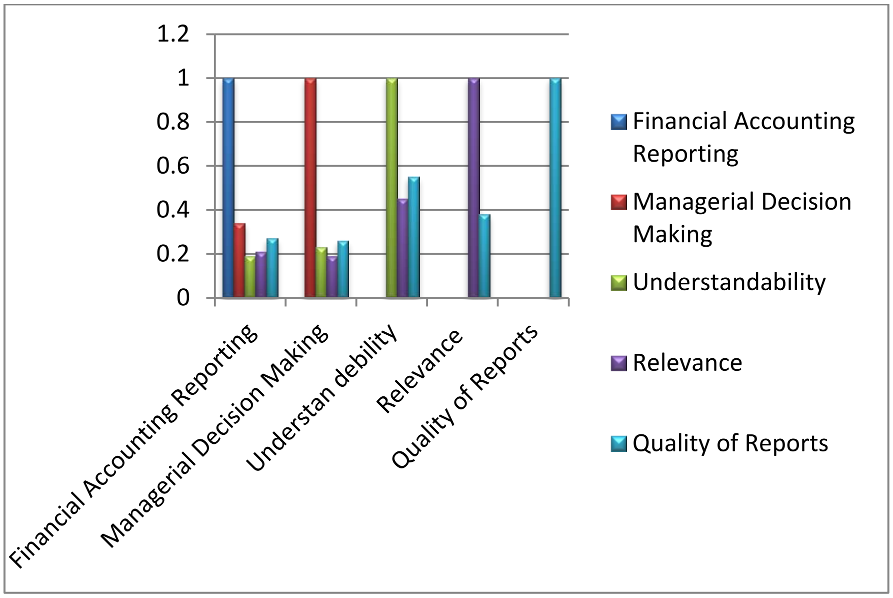

Figure 4: **Result of Variable reliability and factor analysis**

6. Conclusion

The researchers have offered a fresh viewpoint on the increase of the services that are available to SMEs in Egypt and their financial inclusion. The analysis's findings have shown that the importance, clarity, and accuracy of financial statements actually predict how management would make decisions. The results show how important consistent financial reporting is for business decisions. The results showed that the most relevant qualitative aspects in frequently correlated management decision-making are the relevance, reflection of assurance, and intelligible take an accurate of financial statements. The study's conclusions indicate that financial practises have an impact on how effectively small and medium-sized enterprises (SMEs) operate economically in Egypt. Questions about prejudice and the use of self-interest in decisions will be asked of workers who participate in the decision-making process. Consulting firms and financial reporting managers offer proper and sufficient research in the areas of economic decision, acquisition, strategic institution, attempting to identify the organization's objectives, as well as including important management resources for dependability and reconfiguration of decision-making. They do this with the aid of reliable statistics, related, and supporting data.

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