KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

KNUST SCHOOL OF BUSINESS (KSB)

AN INVESTIGATION OF THE USE OF FINANCIAL STATEMENT FOR DECISION MAKING IN SMEs; A CASE STUDY IN THE KUMASI METROPOLIS.

A research work submitted to the Department of Accounting and Finance, College of Humanities and Social Sciences, School of Business in partial fulfilment of the requirement for the award of a Master of Science Degree in Accounting and Finance.

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NOVEMBER, 2023

DECLARATION

This thesis is my original work and has not been presented for a degree in any other university or any other award.

EMMANUEL FOSU ………………………. ……………………

Student's Name **Signature** **Date**

I confirm that the work reported in this thesis was carried out by the candidate under my supervision.

PROF. K.O. APPIAH …………………… ……………………

Supervisor **Signature** **Date**

DEDICATION

This study is dedicated to the Almighty God, my dear Mother, Madam Rose Donkor and my entire family for their unflinching support throughout my studies.

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ABSTRACT

Financial statements contain relevant data on potential risk and return connected with various actions and play a big part in the success of a company, especially for SMEs. Financial statements give a realistic and impartial view of an enterprise's or firm's genuine business status. Through a sample of 288 respondents from 253 small and medium scale enterprises drawn from 3 industries, around the Kumasi metropolis, the study investigates the use of financial statement for decision making in small and medium scale enterprises. The study makes use of logit analysis and a principal key factor that analyses the various objectives of the study. The study concludes that owners who generate their financial statement less frequently are more competent and comfortable to read them and this overall confidence translates to organisations with increased revenue. The study's conclusions should be useful to small and medium-sized businesses.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

It is a well-known truth that small and medium-sized businesses significantly contribute to the expansion of economies. This is true both for underdeveloped, developing and developed nations (Dana & Ramadani, 2015). According to Rathnasiri (2014), over seventy percent of labour force within European countries are engaged in SMEs. The narrative is very similar to that in Asia. Dana & Ramadani, (2015) have also stated that small and medium scale enterprises deploy about eighty percent of all workforces in Japan. He further added that SMEs employ fifty percent of Germany's labour and about forty-six percent in the United States of America. The same is also true for African countries. For instance, SMEs contribute over thirty percent of Cameroon's Gross Domestic Product (GDP). Whiles in Ghana, it is estimated that they make up around ninety percent of private sector businesses. SMEs are also responsible for over fifty percent of the nation's workforce (Owusu et al., 2019).

In spite of the critical role of SMEs in economies around the world, the industry (especially within Africa) has been bedevilled with numerous challenges. These bottlenecks further impede on their ability to grow and ultimately affect their contribution to national economic development. (Amoako et al., 2014). Among other things, the reduced performance of SMEs in Africa has been attributed to a host of factors. Some scholars have opined that access to financial and material resources are the major impediment to the performance of SMEs (Abor & Quartey, 2010). Others have also argued that the lack of government support and favourable business environments affect SMEs. Yet, some have argued that the non-usage of financial statements in decision has an effect in the performance of SMEs.

According to Van Auken (2005), financial statements provide an opportunity for various business owners, investors, managers etc, to have a comprehensive understanding of their business, through the use of relevant financial information. It also enables these stakeholders to make better investment, management and operational decisions. According to Van Auken (2005), despite the crucial significance of financial statements in company decisions, many SMEs' managers and owners are not fully lettered in the efficient use of financial accounts. In this light, though a given financial statement may be accurate, reliable and timely, they will amount to little use because some managers, owners and investors are not conversant with interpreting and applying them in decision making. Van Praag (2003), has argued that the increased discontinuance and failure rate that characterizes most SMEs reveals the necessity of proper decision making in business. He asserts that stakeholders of SMEs often lack sound finance skills. Other scholars have opined that's SME owners and managers usually do not have a firm understanding on the implication of proper decision making. As a result, their inapt decisions introduce complex operational problems and ultimately shorten the lifespan of SMEs (Timmons and Spinelli 2004; Wiklund and Shepherd 2005).

Other scholars have argued that, most SME owners are over optimistic about their businesses' financial potential. They opine that, in many instances, it leads to an erroneous evaluation of the business potential, (Smith 2011). Despite the significant contribution that SMEs make to the expansion of the Ghanaian economy, there are very few studies that look at how financial statements affect the choices that SMEs in Ghana make. In the light of the limited literature on the subject, this study seeks to obtain information that will help deal with the knowledge gap. This new body of knowledge will better be instrumental in strengthening SMEs in the country.

1.2 Statement of the Problem

Across the globe, numerous studies have been done on SMEs. Not many studies have been done on using financial statements and SMEs decision making as variables (especially in Ghana). For instance, Anning, and Adusei (2022) sought to investigate possibility of financial statement manipulation in Ghana. Their study used the Beneish model to classify the SMEs into two (those that are prone to manipulate statement, and those that are not) their study reveals that most SMEs are likely to manipulate financial statements.

The International Financial Reporting Standard for SMEs was chosen as the preferred accounting standard for SMEs in Ghana in a study conducted by Aboagye Otchere and Agbeibor (2012). Again, Musah, Gakpetor and Pomaa (2018) have examined financial management practices among SMEs. Their study used 4 main components. As a result, fixed asset management, capital structure management, accounting information management, and financial reporting practises are all used. Their research examined small and medium-sized business performance in terms of profitability. Carraher & Auken (2013) have investigated the impact of financial statement for decision making in SMEs. Their study sample over 300 small firms in the United States. Their study sought to (a) ascertain the determinants that influence financial statements use. It also sought to assess the comfortability of owners in interpreting same. Their research showed, among other things, that the frequency of preparation was inversely negatively correlated with how comfortable owners were using financial figures to make judgements. They also established this was positively proportional to revenue levels. Within the Ghanaian context, a study that is closely related to the study under review was conducted by Agbemava et al., (2016). Though their study did not analyse the effect of financial statement in decision making, its objective was to test the role of financial statements preparation to the development of SMEs in the Ho Municipality of Ghana. They also sought to investigate the challenges these business encounter when creating financial statements.

Studies that look at how financial statements affect choices made by small and medium-sized businesses in Ghana are few and far between. Clearly, this lack of relevant literature possesses a significant knowledge gap on the subject. There is therefore a pressing need to institute an enquiry that will provide fresh insights on the subject. This study therefore seeks to review literature, gather and analyse relevant data that will reveal new information to bridge this knowledge gap.

1.3 Objectives of the study

The research sought to learn more about how using financial statement influences the making of decisions among SMEs in Ghana. It specifically aims to accomplish the following goals:

i. To examine the factors that determines the use of financial statements by SMEs in Ghana.

ii. To ascertain whether owners of SMEs are comfortable with the interpretation of financial statements.

iii. To examine the perception of SME owners on the relevance of financial statements in decision making.

1.4 Research questions

i. What are the factors that influence the usage of financial statements among SMEs in Ghana?

ii. How comfortable are SME owners in interpreting financial statements?

iii. What is the perception of SME owners on the relevance of financial statements in decision making?

1.5 Significance of the study

Research offers stakeholders, owners, society, governments, and companies pertinent knowledge that will steer and influence their decision- and policy-making. This is one of the most important advantages of research. The results of this research will thus be helpful to the decision-makers or owners, managers, investors, as well as other stakeholders. This study specifically intends to provide a new dimension to the body of knowledge decision making among Ghanaian SMEs. These new insights will provide information that will make SMEs more competitive and profitable. Again, it will help banks ascertain the determinants that make them more resourceful in terms of lending. In a similar way, it will educate policymakers, financial advisers, and consultants on the latest developments in Ghanaian SMEs' decision-making. By using the easily available financial data, stakeholders may use financial statements to gain a greater understanding how to manage their organisation. Despite the possibility that financial statements might help managers and stakeholders make better choices, small business owners usually lack the expertise required to effectively use financial statements. Under the present instance, even reliable, accurate financial statements are ineffective if owners cannot comprehend and apply them (Van Auken, 2005).

Since activities made without taking into account the financial consequences may result in a muddled corporate focus and financial challenges, the firm's strategic goals are also closely tied to and supported by the usage of financial statements (Horngren et al. 2009). The relevance of the decisions is made obvious by the high discontinuation or rate of failure amongst small firms (van Praag 2003). Small business owners frequently lack good financial abilities and may not completely comprehend the effects of their actions, endangering the future of their company and leading to significant operational issues (Timmons and Spinelli, 2004). As opposed to this, businesses must make use of the data in financial statements to assess and create investment possibilities (Breen, Sciulli, and Calvert 2004), acquire knowledge to manage their operations, and perform efficiently and effectively (Shields 2010). The proper interpretation and use of financial statements are especially important since poor financial management is a significant cause of financial stress and business failure (Carter and Van Auken 2008).

1.6 Scope of the Study

Normally, the scope of a research can be classified into three main areas. Consequently, the time scope, the contextual scope, and the geographic scope. The topic of this study focuses on how decision-making among SMEs in Ghana is impacted, as well as the part financial statements play in that process. Therefore, the review of the literature was limited to ideas and discoveries made by previous scholars on the subject under investigation. The study's geographical focus is only on Ghana's Ashanti region. Thus, data will be analysed that was captured within the said region. The time scope of this study will cover data captured in 2022.

1.7 Summary of Methodology

Based on the investigation's conceptual framework and study aims, explanatory research was chosen. Explanatory research is essential for determining the connections between various occurrences. The explanatory research was perfect for the study since it had a specific emphasis on examining how SMEs in Ghana utilise financial statements to affect their decision-making. The Statistical Package for Social Science (SPSS) programme was the tool utilised to analyse the study's data. The only form of data analysis adopted by the researchers was quantitative. Tables and charts were utilised to display the results of the descriptive analysis.

1.8 Limitation of the study

Like every other studies, this one is limited by a number of criteria. First, because the relevant organisations are subject to laws and regulations that limit the information that their workers may disclose, the bureaucratic norm in the research settings shows itself as a restriction to the study. Once more, these regulations limit who may access information. Sadly, matter how hostile they are to the researcher, these rules must be followed.

1.9 Organisation of the Study.

The research is divided into five chapters. The first chapter introduces the study and includes the following sections: background to the study, statement of the problem, aims of the investigation, importance of the study, methodology summary, scope of the study, limits, and study organisation. Chapter two provides pertinent and comprehensive literature review. Chapter three explains the research methodology used, while chapter four presents analysis of data and discussions of key findings. Lastly, the fifth chapter five outlines major findings, recommendations and conclusions made on the findings of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents relevant literature review on the topic *"an investigation of the use of financial statement for decision making in SMEs".* The chapter is organised in five (5) main sections as follow: The section 2.1 presents the conceptual literature review, discussing concepts such as SMEs and financial statement decision while section 2.2 presents the theoretical review. Section 2.3 presents the empirical reviews while the conceptual framework is presented in section 2.4. Section 2.5 presents the chapter summary.

2.1 Conceptual Literature Review

This section of the literature review presents the conceptual review. In particular, the main constructs used in this study are financial statement, decision making and SMEs

2.1.1 Financial Statement

Businesses disclose data in the shape of financial statements, which are published on a regular basis. The time frame might be quarterly, semi-annually, or yearly. Financial statements provide a good overview of where the company stands. Financial statements must be informative, helpful, and comprehensible. Financial statements, according to Bahri, St-Pierre, and Sakka (2017), are information and assessment technique that recognizes, records and communicates important, trustworthy, and consistent data about a firm's economic operations. Financial information, according to Wu and Xu (2020), is the mechanism through which people measure and convey market movements.

Financial statements offer pointer that stakeholders can use. Stakeholders, such as investors, creditors, and administrators, as well as those with an interest in business, require a thorough comprehension of financial concepts in order to take decisions and communicate with a corporation. Financial statements aid a company's goal and objectives, as well as other financial planning duties such as trends and performance evaluation.

Knowing financial information is critical to the success of a small business (Udell, 2015). It is strongly related to future planning and is aimed at achieving specified aims (DeZoort, Wilkins, Justice, 2017). Financial statements may be utilized as a blueprint to financial strength in corporate activities (Udell, 2015). Financial activities include deciding how and where to raise cash to establish the firm, investment activities include deciding how and where to buy assets, and activities of the company include deciding how to create income (Jusoh and Ahmad, 2019).

There exist three kinds of financial information. These are the balance sheet, income statement, cash flow statement, and statement of fund usage. A balance sheet depicts a company's financial situation throughout time (Subramanyam, 2014). The four main components of a balance sheet are assets, current liabilities, owner's equity, and capital. The income statement shows the income and expenses for a specific time period (Amiram, Bozanic, and Rouen, 2015). The income statement contains elements such as income/revenue/sales (based on the industry of a firm), costs or spending, which may lead to profit, loss, excess, or shortfall. The cash flow is yet another critical component of the financial statement. Financial flow depicts a company's cash position and primary sources of cash at a given moment in time (Albrecht, Holland, Malagueño, Dolan, and Tzafrir, 2015). Their constituents include liquidity position, as well as securities.

Companies would be in a stronger place to examine the cost productivity of resources used in product delivery of goods (Craja, Kim, and Lessmann, 2020).

2.1.2 Small and Medium-sized Enterprises (SMEs)

SMEs have traditionally been defined as private businesses with a small staff. Nkuah et al. (2013) state that the framework of SMEs differs by nation and industry. Small and medium-sized enterprises (SMEs) have several conceptualizations (Quartey et al., 2017). Various scholars have characterized what characterizes SMEs in diverse manners. Some academics and researchers categorise SMEs according to their functioning sector, fixed assets, number of employees, annual income, legal status, manufacturing method, and staff count.

Micro, small, and medium-sized companies (MSMEs) are classified by the World Bank (2013) based on their worker size and sales volume. Micro businesses, as defined by the particular categorization, are companies with ten or less workers and a US$10,000 or less annual sales turnover. Small enterprises must have a sales turnover of $3 million and a maximum of 50 employees; medium-sized firms must have a sales turnover of $15 million and a maximum of 300 employees.

The study's conceptualization of SMEs is based on a firm's fixed assets and the number of employees. Small businesses employ 6 to 30 people and have fixed assets (excluding land and buildings) of less than $100,000. Medium-sized businesses employ 30 to 100 people and have fixed assets (excluding land and buildings) worth less than $1 million.

2.1.3 SMEs and Financial decisions

Meaningful judgments by small and medium-sized businesses are heavily reliant on having access to exact, trustworthy, and continuous financial records, which allows for inferences about the impacts of various conditions (Rossi, Lombardi, Siggia, and Oliva, 2015). Unaware of the possible ramifications of their actions, business owners may adopt risky measures that serve to reduce inflows (Vanauken, Ascigil, and Carraher, 2017). The perfection of financial statement production, as well as the relevance of later examination, both determines the utility of SME choices (Akhtar and Liu, 2018).

Due to their restricted access to financial resources, the dependability of financial statements and the speed of decisions are especially critical for SMEs. Operations issues might result from poor decisions made too soon or from a failure to recognise market failures (Al Balushi, Locke, and Boulanouar, 2018). Since businesses frequently use their biases or preconceptions when making judgements, this makes trustworthy financial data all the more crucial (Bilal, Naveed, and Anwar, 2017). This leads to bad business decisions. Partialities and heuristics, on the other hand, Belas, Gavurova, and Toth (2018) claim that in circumstances when the owners lack the capacity to grasp necessary information, can help decisions and clarify circumstances.Since entrepreneurs frequently use their biases or heuristics when making judgements, this makes trustworthy financial data all the more crucial (Bilal, Naveed, and Anwar, 2017). This leads to bad business decisions.

Due to their ignorance or lack of understanding of the financial implications of their actions, company owners commonly have knowledge gaps. Due to a lack of financial data, the use of inappropriate data, or poor data methods, which can result in financial trouble and failure, small businesses who do not utilise financial statements are particularly affected by this gap. In addition, SMEs may unnecessarily tolerate commercial and financial risks that outweigh the associated rewards (D'Amato, 020). According to Belas et al. (2018), classical finance theory presupposes that data, including financial data, is simply and universally available, and that it is properly and rapidly communicated to stakeholders.

Several studies emphasize the need of SMEs obtaining reliable, clear data in order to make smart choices (Vanauken et al., 2017; Akhtar and Liu, 2018). However, data or information flow among SMEs is likely to be constrained by several constraints caused by poor information quality, an absence of inspiration, inadequate expertise of proprietors, insufficient resources, and greater agency costs (Udell, 2015). As a result, large businesses are more likely than SMEs to tie presumptions of finance theory.

Financial statements are powerful information sources that may be used to influence others (Jusoh and Ahmad, 2019). The financial accounts contain crucial information that provides precise data required to undertake trustworthy analysis, which is vitally valuable for shareholders. Their relevance is especially evident in regard to the likely consequences of bad economic decisions, incompetent leadership of small businesses, and the greater risk of failure (Bahri, St-Pierre, and Sakka, 2017). SME owners, in general, lack significant abilities and understanding of creating and analyzing financial statements in the context of making critical company choices (Subramanyam, 2014). Furthermore, SMEs frequently make decisions in an uncertain environment, without thorough knowledge, which is an impossible goal for them (Amiram, Bozanic, and Rouen, 2015).

For SMEs to make wise decisions, they must have access to accurate, reliable financial data that provides insights into the outcomes of many situations (Akhtar and Liu, 2018). The quality of financial statements and the accuracy of the associated analysis impact the success of SME choices (Gardi, 2021). Because of their restricted access to financial resources, SMEs require reliable financial accounts and effective decision-making. Poor judgments made too fast can result in illiquidity, operational interruptions, and the inability to explore market opportunities (Ruivo, Oliveira, and Neto,2014).

Sound financial knowledge is extremely crucial since entrepreneurs frequently make decisions based on their preconceptions or biases (Brigham and Houston, 2021), which leads to decision mistakes that are damaging to the firm. However, as Dwivedi et al. (2019) realize, prejudices and heuristics can help to simplify problems and make judgments when entrepreneurs lack or do not grasp all of the required information.

Due to this information gap, business leaders sometimes fail to recognise or are ignorant about the financial repercussions of their decisions. Small businesses that do not have financial statements may be most damaged by this gap, because a lack of financial information, erroneous information, or poor use of the information can quickly lead to illiquidity, financial trouble, or collapse. Overall, SMEs may incur economic and financial risks that outweigh the rewards unintentionally (Van Auken, 2005). SMEs are losing out without effective and adequate financial reporting and analysis practices, such as improved ability to anticipate fortunes or failures, improved monitoring of financial health and progress, greater ease in financial planning and control, and better assessments of financial risks (Sooriyakumaran and Vannarajah, 2023).

Traditional finance theory assumes that data, particularly financial data, is easily and freely accessible, and that it is supplied to investors in a timely and fair manner (D'Amato, 2020). Belas et al. (2018) and Gardi (2021) both underline the importance of SMEs having trustworthy, precise information while making choices. However, the information flow amongst small businesses is often constrained by limitations caused by poor quality of information, an absence of drive as well as expertise amongst entrepreneurs, scarce funds, and higher overhead costs (Akhtar and Liu, 2018). As a result, large enterprises are more inclined than SMEs to meet the premises of finance theory.

Financial statements are significant and extremely important sources of data (Brigham and Houston, 2021). The data supplied in these statements is vital to owners, investors, and lenders because it offers the facts needed to support correct evaluations. The possible effects of poor financial decisions and leadership for small enterprises, as well as their high failure rates, underscore their importance (Song, Yu, and Lu, 2018). Small business owners typically do not have solid entrepreneurial abilities as well as a poor comprehension of the material involved in creating financial statements and analysing them in decision making (Ehiedu, 2014). Furthermore, small businesses are frequently forced to make judgments in uncertain circumstances with little information, which is an unattainable ideal for them (Albrecht et al., 2015).

2.2 Theoretical Literature Review

This section of the literature review presents the theoretical review of the study

2.2.1 Rationality and Utility Theory

A rational individual, according to classical decision theory, has consistent preferences even in complex settings. Even in the face of clarity, deciding on a path of action is not always simple. But, after danger is factored in, how can a logical individual decide on the optimal course of action? Von Neumann and Morgenstern (2007) created anticipated utility theory (AUT) to characterize decisions made in dangerous situations. AUT describes rational decisions under uncertainty by presuming logical tastes and that individuals prefer more to less.

Options are converted into quantitative preference ratings via a utility function. Lewis, Howes, and Singh (2014) and Bakker, Lelkes, and Malka (2000) employed utility functions to rank risky alternative combinations and assign higher values to desirable outcomes. The utility function of each individual is particular to that individual, and while results for an individual may be compared, preferences cannot.

2.2.2 Risk Aversion Theory

Options are converted into quantitative preference rankings via a utility function. According to Liu, Qu, and Wang (2015) and O'Donoghue and Somerville (2018), utility functions may be used to rank potentially dangerous alternative combinations and assign greater values to preferred outcomes. Each person's utility function is distinctive, and while outcomes may be compared, preferences cannot.

2.2.3 Modern Portfolio Theory

Finance theory argues that individuals are risk cautious when it comes to their money. By definition, a hazardous asset has an uncertain payment in the future. Investors would not maintain the asset if there were any risks without a favourable risk premium (Goetzmann et al., 2014; Alvarez, Larkin, and Ropicki, 2017). Supply and demand factors will cause the asset price to fall until it equilibriumly represents the proper risk premium.

2.2.4 Behavioural Finance Theory

Much of current finance theory is founded on expected utility theory. The theory's presumptions are that individuals have comprehensive knowledge about prospective possibilities and their probabilities, and that they can compare their choices across different predicted choices (Kapoor and Prosad, 2017). People combine these statistics and select the

option that maximizes predicted utility. Although the usual technique yields many important insights, it appears that something is lacking. People, for instance, regularly suffer from certain disposition effect, and the dominant classical models do not give sufficient answers. Thus, the models are unable to correctly capture real, observable behaviour. Of course, human irrationality or the models' flawed premise might cause these prescriptive models to fail.
Behavioral finance employs ideas from various disciplines to better comprehend the decisions made by investors (Joo and Durri, 2015). Psychologists as well as other social scientists have long studied people's behavior and have amassed a large body of evidence on how individuals make decisions. Neuroscientists can now demonstrate how brain activity affects monetary decisions of neuroeconomics using sophisticated technology (neurofinance). Rather than focusing on one aspect, scientists in these other areas examine how decision makers arrive at their conclusions.

Traditional finance theory is normative in the sense that it prescribes how investors should make decisions (Ramiah, Zhao, Moosa, and Graham, 2016). However, the behavioural finance approach aims to provide an explanation for why investors arrive at the observed decision.

2.2.5 Behavioral Decision Theory and Bounded Rationality

Decision-making models use behavioural choice theory ideas. Herbert Simon, a Nobel winner, provided one of the initial refutations of anticipated utility theory. The goal, according to Simon (1972), is to replace economic man's worldwide rationality with a sort of rational behaviour that is compatible with the access to knowledge and computing skills that species, including man, truly posed in the types of circumstances in which animals lived.

Despite the difficulty of the job, Simon and other decision specialists saw that the previous paradigm did not sufficiently reflect the behaviours of actual people. People, according to Simon, "satisfice" instead of "optimise," which means they pick the course of action that best meets their top priorities even if it is not the optimal option. A vehicle buyer, for example, may not thoroughly research every piece of information about every automobile on the market. Instead, this buyer may search until he or she finds the vehicle that best suits his or her likes and preferences.

2.3 Empirical Literature Review

This section of the literature review presents the theoretical review of the study.

2.3.1 Factors determining the use of financial statement

Few studies have been published that investigate the usage of financial statements by small enterprises. Bahri et al. (2017), Since the accuracy of financial information affects business owners' judgements, they look for better information (Albrecht et al., 2015; Craja et al., 2020). Although behavioural finance recognises the possible influence of overconfidence and optimism on decisions, classical finance theory assumes rational decision-making (Barberis and Thaler, 2002; Ritter, 2003).

Ehiedu (2014) owners' knowledge of financial accounts varies greatly, and they are frequently perplexed by financial information. Financial statement complexity may also diminish its usefulness for SME owners who rely on their accountants to convey the data to them (Rossi et al., 2015). Owners who have higher knowledge, skills, and confidence in their financial accounts should be more inclined to seek help from outside accountants because they appreciate the necessity of acquiring and using correct financial statements (Vanauken et al., 2017).

Background influences appear to be significant in comprehending financial statements, implying that the owner is capable of interpreting, analyzing, and applying the financial information included in the statements. The proprietor has experience and training in the evaluation and use of financial statements. Owners who lack the necessary experience may be unable to use their financial statements, which may result in poor financial management, poor judgement, and the possibility of biassed decision making, endangering the firm's existence.

Financial statements give neutral information about a company's present financial situation and may thus be used to examine the influence of current choices on future operations (Akhtar and Liu, 2018). For example, scenario studies based on exact financial data can forecast the amount of risk and financial ramifications associated with specific solutions. SME owners who do not possess independent financial information are not able to limit the predicted influence of their actions on their company, which leaves them open to making choices that result in unfavourable situations, higher risk, or concentrated benefits (Bilal et al., 2017).

2.3.2 SMEs Owners Comfortability in Interpreting Financial Statement

Belas et al. (2018) and D'Amato (2020) underline that small businesses are frequently financially disadvantaged and unskilled, and so do not pay attention to financial numbers when making decisions. In small businesses, decision making encompasses a plethora of elements and is quite difficult (Teece, 2014; Rossi et al., 2015) on the other hand, claimed that little experience and self-confidence often results in weak judgments. SMEs are particularly exposed to the effects of bad financial decisions due to their restricted accessibility to financial markets and other sources of credit. Statements are predicted to be used more frequently by owners who understand and appreciate financial data than by those who do not (Akhtar and Liu, 2018).

Though conventional finance theory emphasises the need of making rational judgements, behavioural finance recognises the possible effect of excessive trust and optimism (Prosad, Kapoor, and Sengupta, 2015). According to Salzman and Zwinkels (2017), Small enterprises owners frequently do not grasp or are perplexed by financial statement data.

The alleged complexity of financial statements may cause SMEs to rely on accountants to describe the information (Gardi, 2021). These behaviours suggest limited financial awareness amongst business owners, necessitating the creation of financial statements and training (Udell, 2015). Experienced owners are more likely to seek expert aid from outside accountants because they recognise the value of appropriate statements (DeZoort et al., 2017). The ability to infer financial statements and, as a result, apply that information by the owners is significant since it provides the owners greater confidence, and therefore they susceptible to employ such correct information when making decisions.

Owners who are uncomfortable with utilizing financial figures to guide their judgments are likely to utilize them less than those who are. Various things may have an impact on this level of comfort. Employees that are knowledgeable about financial statements, for example, work for companies that create financial statements internally rather than externally. Internal knowledge should allow for more discussion and clarifications between the business owner and the outsourced expertise (Smallbone, North, and Leigh 1993), possibly putting owners at ease with financial data.

Financial decisions are influenced by one's educational level as well (Watson 2002). Traditional loan and investment capital are more likely to be available to business owners with higher levels of education (Carter et al. 2003). They also assist owners in better comprehending financial statements and communicating (Hanlon and Saunders 2007; Neeley and Van Auken 2010). Owners with a solid financial and accounting expertise, according to Cassar (2009), are more inclined to seek help from outside sources.

In terms of company characteristics, revenue, which may be used as a proxy for firm size, has an impact on many small business choices, both operational and strategic. Increased income indicates that the company has more resources and access to them. Changing revenue levels shift the company's view on its resource restrictions and requirements (Byers, Groth, and Wiley 1997). Small companies' decisions are influenced by income, according to Neeley and Van Auken (2010), while organizational size, according to Busenitz and Barney (1997), is affected by the fact that larger organisations have greater resources and information to base their decisions on. Financial statements, on the other hand, are essential for understanding how income levels influence small businesses, since they must prepare for resource demands.

Ultimately, the regularity with which financial statements are prepared may indicate an owner's confidence in making judgments based on them. Financial statements are more complex and important for decision-making in companies that prepare them less often (Cassar 2009; Cassar 2008). Financial statement preparation frequency is closely related to the elimination of uncertainty, particularly in competitive contexts. The decreased expenses of infrequent reports may be perceived as positive by small businesses who have their financial statements generated less regularly.

These companies are unlikely to understand the benefits of more current financial data, are unwilling to spend greater expenditures, and are less confident in their ability to use the data they would acquire. These effects, when combined, result in the following hypotheses:

H1: The confidence of an owner in utilising financial statements to make decisions is dependent on (a) whether financial statements are prepared internally, (b) the previous year's total revenue, (c) how frequently the firm's financial statements are prepared, and (d) the owner's level of education.2.3.3 Owners' actual use of financial statements to make decisions.

2.3.3 Owner's actual use of financial statement to make decisions.

Only a few studies have looked at how small firms use financial statements. According to Bruns and McKinnon (1993), managers desire improved knowledge, and the quality of information they acquire indicates the success of their decisions (Berger and Udell 1998). Traditional finance theory presumes rational decision-making, but behavioural finance acknowledges the role of excessive trust and optimism in decision-making (Ritter 2003). Owners' understanding of financial accounts varies widely, according to Sian and Roberts (2009), and many are bewildered by the information. Because of the statements' complexity, small business owners depend on their accountants to decipher the data for them. Owners who are unclear about their financial data are less inclined to make decisions based on it.

Because they recognise the necessity of accurate financial statements, owners with good finance and accounting expertise are more likely to use external accountants (Cassar and Ittner 2008; Berger and Udell 1998). (Sian and Roberts, 2009; Caesar, 2009).

The usage of yearly financial statements is also linked to corporate features and demography, according to Holmes and Nichols (1988). For instance, the frequency of financial statement creation changes according to whether or not outside funding is utilised and the size of the organisation (Cassar 2009).

Small enterprises may be less financially competent as well. (McMahon, 2001; McMahon and Stanger 1995), therefore financial statements are rarely used in decision-making (Halabi, Barrett and Dyt 2010). Furthermore, the sort of financial statement created depends on the company's features.

Sales are commonly used as an indicator for business size. (Carter and Van Auken 2005), may suggest the expected intricate nature of a company's activities and financial reporting needs. Smaller firms, according to Berger and Udell (1998), are more financially opaque, but as they grow, they improve their financially transparent; as a result, the usage of financial statements by owners ought to vary with sales. Increased sales need more resources, a greater financial risk, and a greater need for financial data. Decreased sales, on the reverse hand, may prompt business owners to concentrate more on the financial ramifications.

Financial statements should be used not just by highly informed owners, but also by owners of larger firms who have had to acquire knowledge about financial statements as the company has grown. That is, people should be more inclined to use financial statements and feel more at ease when doing so. Enterprises that create their own financial statements should be better capable of using financial statements, as we have reasoned. Finally, companies that create financial statements on a regular basis (monthly rather than annually) are more likely to recognize the significance of the data contained in the statements.

As a result of this logic, we may predict:

H2: The use of financial statements in to make decisions by an owner is positively associated to (a) the owner's comfort with financial statements, (b) internal financial statement preparation, (c) the firm's total revenue in the previous year, and (d) the owner's degree of education.

2.4 Conceptual Framework

From figure 2.2, the owner's confidence in utilising financial statements to make choices, and how the financial statement is prepared influences how the financial statement is used. While this interaction is the focus of the study, the author recognizes other determinants that have a potential influence on this interaction. The factors include the owner's motivation, amount of education, overall income, and periodicity of financial statements.

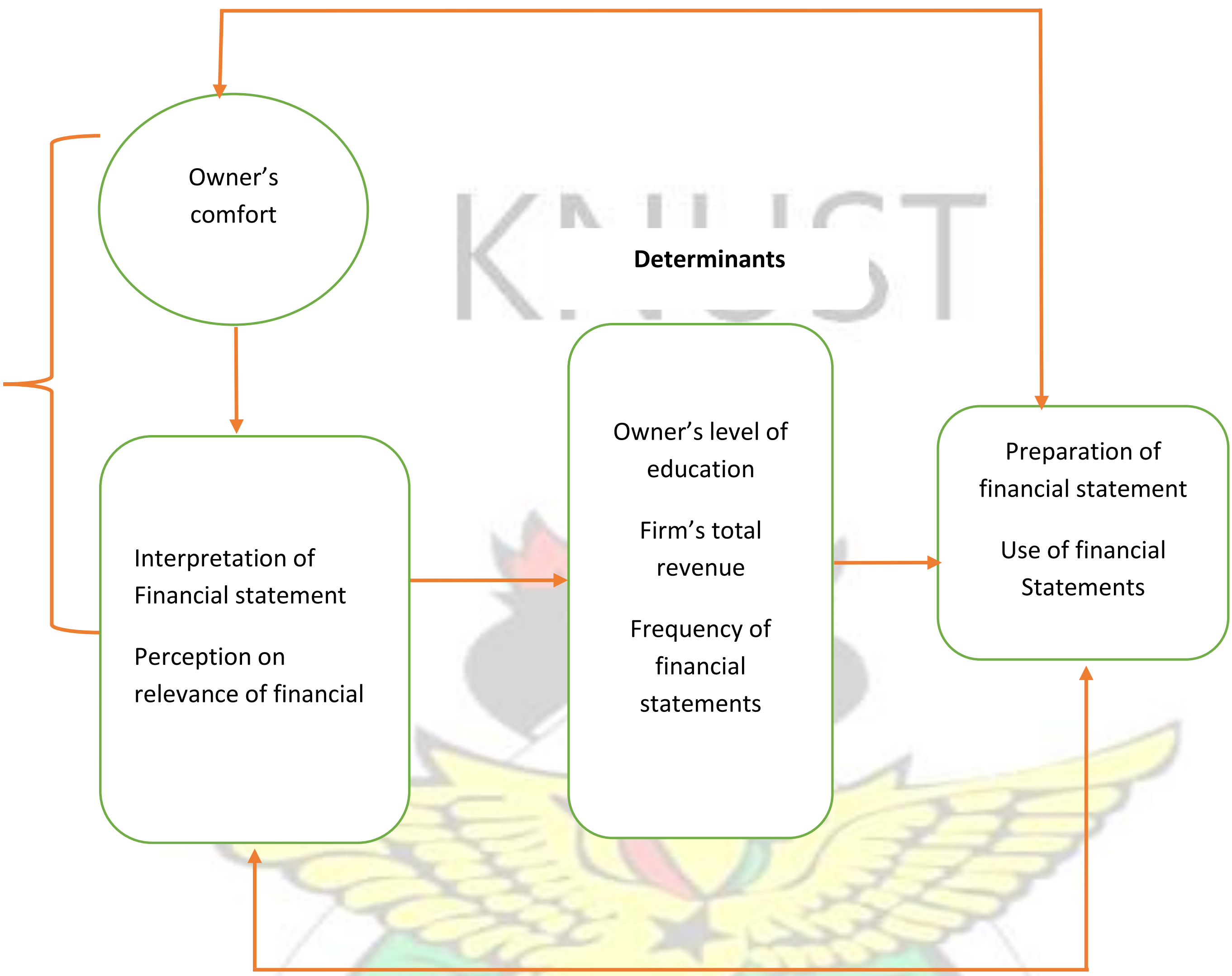

Figure 2.1: Conceptual framework of the study

Source: Authors construct (2022)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter discusses the data, methods, and techniques used to investigate *"the use of financial statement for decision making in SMEs"*. The chapter is organised in six (6) major sections as follow: The section 3.1 presents the research design, while section 3.2 presents the data used for the study. Section 3.3 presents the methodology while section 3.4 discusses the model specification, the variables used in the study and how they are measured are presented in section 3.5 presents, while the final section 3.6 presents the chapter summary.

3.1 Research Design

Explanatory research is carried out to determine the extent and type of connections between cause and effect. Explanatory research focuses on examining a specific topic or scenario in order to explain the presence of patterns and interactions between variables under examination (Apuke, 2017; Bowen, Rose, and Pilkington, 2017). Only specific causal evidence may be used to prove the existence of cause-and-effect connections.

Explanatory research was chosen for the study based on the aims of the study and the framework of philosophy chosen for the investigation. Explanatory research is essential for determining the connections that are present between occurrences. With a focus on exploring how the use of financial statement influences the making of decisions among SMEs in Ghana, the study was best served by the explanatory research.

3.2 Data and Data Collection Instruments

The data sources needed for the study was obtained from two bases: primary and secondary. The primary data for the study were acquired through the delivery of a questionnaire, which was used to collect data needed to answer the research questions. The emergence of COVID-19 and the numerous social distancing procedures, the researcher verified that all protocols were followed and using Google forms to get survey results.

The majority of the secondary data for the study came from papers given by the NBSSI. Reports on the activity and number of SMEs are among the secondary data. The researcher administered questionnaire to gather data on the field. The researcher assured the respondents of their anonymity, saying that the replies they supplied would be kept completely secret and that the administered instruments were just for research purposes.

3.3 Study population

The study's population is the total number of units of issue or phenomena to be researched (Khan, 2014). With a focus on SMEs in Kumasi Metropolis, the researcher visited the National Board for Small Scale Industries' office. The researcher was given a list of 1034 SMEs. This figure was used as the research population.

3.4 Sample Size and Sample Technique

The study relied on the model:

Sample size= Sampling Population/1+sampling population (margin of error)^2 to calculate the sample size (Miller & Brewer, 2003). From a population of 1152, the study sampled 288 respondents at a 0.05 margin of error.

The procedures used to determine the elements of a sample for research are referred to as sampling techniques (Singh and Masuku, 2014; Otzen and Manterola, 2017). The study population was initially categorized into three strata depending on what they do, according to the researcher. After stratifying the study population, the required number of respondents for the research was chosen using a simple random selection (using a random number table). Those who were selected responders were approached and asked to complete a survey.

Table 3.1 Sample size for SMEs

SME	**Population**	**Sample Size**
Manufacturing	308	77
Agro-based	351	88
Services	493	123
Total	1152	288

Source: Author's construct (2022)

3.5 Reliability and Validity Test

In research, reliability refers to the extent to which a research approach delivers steady and consistent outcomes. However, validity refers to how well a research technique accurately portrays the phenomenon being studied (Graziano & Raulin, 2012). To evaluate the effectiveness of the research instruments, a pilot study was conducted to assess their validity, reliability, and practicability. The study's most important component is making sure of its reliability and validity. The study selected 10 businesses (14 percent) for the pilot test at random. After coding the data, the researcher performed initial analysis to evaluate whether using the Cronbach's alpha was reliable. Cronbach's alpha is regarded as a reliable metric (Monette et al., 2018). To be more explicit, each of the Cronbach alpha numbers was larger than or equal to 0.5 (as Passer (2013) advised). The reliability analysis results assisted in determining whether or not the questionnaire should be redesigned. To confirm the validity of the study instrument, the researcher engaged specialists in logistics, finance, marketing management, and other fields, and will modify the questionnaire as needed.

3.6 Estimation Methods and Strategy

This study adopted a quantitative research strategy to analyse the study data. According to Bryman (2012), definite information regarding cause-and-effect relationships can be precisely obtained when cross-sectional study is used. And this is primarily due to the fact that it outlines variables that can be subjected to rigorous statistical analysis. To alleviate this restriction, the researcher has utilised a sufficient sample size.

3.7 Model Specification

The study used Pearson's correlation between products and time to investigate the nature and strength of this correlation. The adjusted R2 was used to characterise the magnitude of the dependent variable, which may be elaborated by the shift in the independent variable, and the standardised beta coefficient showed the association's trajectory (positive or negative). The test hypotheses are tested with a 95% accuracy level. A p-value is given to define whether the hypothesis relationships are significant or not (p-value of < 0.05 means significant influence).

To test the assumptions underpinning linear regression and the suitability of the data for testing, the data were subjected to various diagnostic tests, as shown in the regression equation below.

The following were the two regression models:

$OC = a_0 + b_1Prep + b_2Rev + b_3Freq + b_4Edu$, and

$UD = a_0 + b_1OC + b_2Prep + b_3Rev + b_4Edu$,

Where:

OC = owners' comfort in using financial statements to make decisions,

UD = whether financial statements actually were used to make decisions,

Prep = whether financial statements were prepared internally or externally,

Edu = owner's level of education,

Rev = firm's total revenue during previous year, and

Freq = how often financial statements are prepared.

3.8 Variables Description and Measurement

3.8.1 Dependent variables

The study used two separate regressions and two different dependent variables. The first dependent variable measured owners' confidence in their capacity to make financial judgements. The variable was calculated as the (arithmetic) mean value of the owners' ability to interpret an income statement, a balance sheet, a cash budget, an expense projection, and a sales prediction. (1–5 scale, 1 = very comfortable, 5 = extremely comfortable). The second dependent variable concerned whether the owner made decisions based on financial statements. If financial figures were considered in decision making, the variable was set to 1; otherwise, it was set to 0.

3.8.2 Independent variables

The first collection of independent variables (dependent variable = owners' comfort with using financial numbers to make decisions) was connected to the firm's financial aspects in the first regression analysis. Respondents stated how frequently they created their income statement, balance sheet, and cash budget (1 = never, 2 = monthly, 3 = quarterly, 4 = yearly). These replies were compiled into a new variable called "frequency," which includes the strongly associated frequencies of preparing the four financial statements. The second independent variable was whether the financial statements were created internally or externally (one equals internal, zero equals external).

Respondents indicated how confident they were in their ability to interpret income statements, balance sheets, cash budgets, sales forecasts, and expense forecasts (1–5, where 1 indicates not confident, and 5 indicates confident). This information was used as the independent variable in the second regression analysis (the dependent variable being whether the owner used financial statements when making decisions, yes or no). Because the connections between these responses were so strong, the researcher devised a new variable called "comfort." The second independent variable was whether the financial statements were produced internally or externally (1 = internal, 0 = external).

3.8.3 Control variables

As in prior SME financial studies, the control variables included in the study were the firm's total yearly sales during the preceding calendar year and the owner's education level. Revenue may be an indicator of a firm's financial expertise, since organizations with bigger sales are more likely to have stronger financial controls and more established financial procedures

(Vanauken, Ascigi, and Carraher, 2017). Education level (1 = no education, 2 = basic education, 3 = SHS/VOC/TECH, 4 = diploma, 5 = bachelor's degree, 6 = master's degree) may indicate stronger human capital and company viability (Akhtar and Liu, 2018; Alin-Eliodor, 2014).

3.9 Data Analysis Technique

Following data collection, the findings were initially summarised using univariate statistics, tables and charts were used to analyse the data to make clearer the features of the respondents and responding firms, and multiple linear regressions were performed. It looks to be the best way for comprehending the link that exists between the dependent and the independent variables. It is particularly useful for examining the extent to which dependent variable changes when the independent variable changes. Percentages were determined for the owner's educational level, gender, kind of business, total assets, and revenue. The t-tests of differences in (arithmetic) mean ranks also contrasted responses from owners who used financial information to make choices vs those who did not.

3.10 Ethical Considerations

Ethical considerations in research are a set of principles that guide your research designs and practices. Scientists and researchers must always adhere to a certain code of conduct when collecting data from people. (Bhandari (2021)

A variety of factors were taken into account to guarantee that the Researcher used procedures and practises that were suitable to his academic institution and the research community as a whole. These included informed consent, in which participants only agreed to participate after being informed of the study's purpose, risks, and benefits. They were permitted and informed that they might discontinue their participation at any moment during the trial.

Another significant issue was inflicting injury to responders, which was avoided. Rather, all replies were handled with the highest care, and their safety was prioritised.

By not disclosing or recording the identity of any respondents, refusing to make completed surveys available to outside parties, and storing raw data in password-protected spreadsheet files, the researcher furthered guaranteed anonymity and secrecy. These strategies also aided in protecting respondents' privacy. Finally, plagiarism has recently become a major concern for many Ghanaian academic institutions and the scientific community as a whole. The researcher took care to avoid completely copying the works or ideas of others; instead, he paraphrased, quoted, and/or referenced all of their direct works and ideas.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS OF RESULTS

4.0 Introduction

This chapter includes the study's findings and debates on the use of financial statements for decision-making in SMEs. The chapter is structured into six (6) main sections as follows: Section 4.1 presents preliminary evidence in terms of demographic information of the respondents whilst section 4.2 presents the descriptive statistics, with section 4.3 presenting the results on factors determining the use of financial statements. Section 4.4 presents results on the comfortable interpretation of financial statements, section 4.5 presents results on the perception of SME owners on the relevance of financial statements, while section 4.6 Chapter summary is presented in section 4.8.

4.1 Preliminary Evidence

In the area of respondents' backgrounds, the study focused on characteristics such as gender, age, and formal education level. According to Table 4.1, out of a total of 253 responders, 131 (representing 52%) are men. Females make up the remaining 48% of responders. This demonstrates that men account for the majority of research participants.

When it comes to respondents' ages, the majority of participants (44%) are between the ages of 26 and 35. This is followed by respondents between the ages of 36 and 45, who account for 33% of all respondents. In the area of formal education, most of the respondents (43%) have a Bachelor’s degree. This was followed by respondents with a Diploma (19%). This is shown in Table 4.1

Table 4.1: Background information of respondents

Variables	Frequency	Percentage (%)
Gender		
Male	131	52
Female	122	48
Age		
18-25	33	13
26-35	111	44
36-45	83	33
46-55	17	7
56 and above	9	4
Education		
SHS/VOC/TECH	49	19
Diploma	48	19
Bachelor	108	43
Masters	48	19
Total	**253**	**100**

Source: Field data, 2022

4.2 Descriptive Analysis

As presented in Table 4.2, the majority of the businesses (37%) are sole proprietorships. This is followed by 34% which are legally structured as Limited Liability Companies.

Table 4.2. Legal Structure of Business

Legal Structure of business	Frequency	Percentage (%)
Sole proprietorship	94	37
Corporation	38	15
Limited Liability	86	34
Partnership	35	14

Source: Field data, 2022

4.2.1 Type of Business

With reference to the type of business, the majority of the sampled businesses (51%) are in the service sector. This is followed by 36% who are in the manufacturing sector. Only 13% are agro-based.

Table 4.3. Type of Business

Type of Business	Frequency (No. of respondents)	Percentage (%)
Service	129	51
Manufacturing	91	36
Agro-Based	33	13

Source: Field data, 2022.

4.2.2 Assets and Revenues

The majority of the businesses (28%) have assets below GHS 10,001 and also have revenue of less than GHS 10,001. This is presented in Table 4.4.

Table 4.4: Assets and revenues of business

Total Assets	Frequency	Percentage (%)
<GHS 10,001	72	28
GHS 10,001–GHS25,000	31	12
GHS 25,001–50,000	52	21
GHS 50,001–75,000	31	12
GHS 100,000	67	26
Revenue		
<GHS 10,001	79	31
GHS 10,001–GHS25,000	43	17
GHS 25,001–50,000	18	7
GHS 50,001–75,000	27	11
GHS 75,001–100,000	29	11
GHS 100,000	57	23

Source: Field data, 2022

4.3 The Factors that Determine the use of Financial Statements

When asked whether the firm depends on financial figures when making choices, the majority of respondents (78%) said they do, with the remaining 22% saying they do not.

Table 4.5. Use of Financial Statement

Use of financial statements	**Frequency**	**Percentage (%)**
Reliance	197	78
Non-Reliance	56	22%

Source: Field data, 2022

4.3.1 Use of Financial Statement and Comfort

Table 4.6 (r =.691; sig..01) Demonstrates a robust association between financial statement and comfort. According to the data, a shift in financial statement is connected with a significant change in comfort with financial statement.

Table 4.5. Use of Financial Statement

		Financial Statement	Comfort
Financial Statement	Pearson correlation	1	.691**
	Sig. (2-tailed)		
	N	253	253
Comfort	Pearson correlation	.691**	1
	Sig. (2-tailed)		
	N	253	253

**Correlation is significant at the 0.01 level (2-tailed)

4.3.2 Use of Financial Statement and Preparation

Table 4.7 (r =.682; sig..01) Demonstrates a robust association between financial statements and preparation. According to the data, a shift in financial statement is connected with a significant change in preparation of financial statements.

Table 4.7 Relationship between financial statement and preparation

		Financial Statement	Preparation
Financial Statement	Pearson correlation	1	.682**
	Sig. (2-tailed)		
	N	253	253
Preparation	Pearson correlation	.682**	1
	Sig. (2-tailed)		
	N	253	253

**Correlation is significant at the 0.01 level (2-tailed)

4.3.3 Use of Financial Statement and Perception

Table 4.8 (r =.691; sig..01) Demonstrates a robust association between financial statement and perception. According to the data, a shift in financial statement is connected with a significant change in perception with financial statement.

Table 4.8. Relationship between financial statement and perception

		Financial Statement	Perception
Financial Statement	Pearson correlation	1	.675**
	Sig. (2-tailed)		
	N	253	253
Perception	Pearson correlation	.675**	1
	Sig. (2-tailed)		
	N	253	253

**Correlation is significant at the 0.01 level (2-tailed)

4.3.4 Owners' Comfort in using Financial Statements

Table 4.9: The Ordinary Least Squares Regression of Owners' Comfort in Making Decisions Using Financial Statements

Model 1	R	R Squared	Adjusted R square	Std. Error of the Estimate	Sig.
	0.75	0.56	0.52	0.12	0.001

	R	Std. Error B	t Std. Error	Sig Sig.	Confidence Interval Upper	Lower
1 (Constant)	0.72	0.76	2.05	.000		
Preparation	0.30	0.05	6.00	.000	0.20	0.40
Revenue	0.40	0.08	5.00	.001	0.25	0.55
Frequency	0.15	0.03	4.50	.001	0.10	0.20
Education	0.25	0.07	3.50	.000	0.10	0.40

Dependent Variable: Owners' Comfort

Source: Field data, 2022

The Ordinary Least Square Regression (OLS) model was used to measure the influence of each independent variable on the dependent variable. The coefficient of correlation (r) measured the strength and direction of the linear relationship between the independent and dependent variables. From Table 4.9, the findings show a correlation coefficient (R) value of 0.75, which indicates a strong positive relationship between the independent variables and the dependent variable. It suggests that there is a meaningful association between the variables.

The R-squared value of 0.56 implies that approximately 56% of the variance in the owner's comfort can be explained by the independent variables in the model. This shows that the independent variables collectively have a moderate degree of influence on the dependent variable. The adjusted R-squared value of 0.52 takes into account the number of independent variables in the model. It adjusts the R-squared value, providing a more conservative estimate of the proportion of variance explained by the independent variables. The standard error of the estimate of 0.12 represents the average distance between the observed values of the owner's comfort and the predicted values from the regression model. It reflects the overall accuracy of the model in estimating the dependent variable.

The coefficient values for each independent variable (Preparation, Revenue, Frequency, and Education) quantify the magnitude and direction of their impact on the owner's comfort. For example, a one-unit increase in Preparation is associated with a 0.30-unit increase in owner's comfort, all other variables being held constant. In this case, all the independent variables (Preparation, Revenue, Frequency, and Education) have significance values of 0.001 or less, indicating statistically significant relationships with the owner’s comfort.

The 95% confidence intervals provide a range within which the true population parameters for the coefficients are likely to fall. For example, the 95% confidence interval for the Preparation variable ranges from 0.20 to 0.40. This means that we can be 95% confident that the true population parameter for the Preparation coefficient lies within this interval. In the context of the study assessing owners' confidence in their capacity to make decisions based on financial information, the results suggest that the variables Preparation, Revenue, Frequency, and Education are statistically significant predictors of owner's comfort. These variables contribute to the variation in owners' comfort and have meaningful associations with their confidence in decision-making. The positive coefficients indicate that higher levels of these independent variables are associated with higher levels of owner comfort.

4.3.5 Use of Financial Statements to Make Decisions

Table 4.10: Logit regression analysis of owners' comfort in using financial statements to make decisions

Step 1[a]	Coef (B)	S. E	Odds Ratio [Exp (B)]	95% Cl [Exp (B)] Lower	Upper	*P*-value
Preparation	0.783	0.218	2.189	1.502	3.190	0.001**
Revenue	-0.452	0.176	0.635	0.431	0.936	0.021*
Frequency	0.326	0.152	1.385	1.091	1.757	0.008**
Education	0.609	0.193	1.837	1.275	2.645	0.001**
Constant	0.452	0.113	-	-	-	-

Dependent Variable: Owners' Comfort

A logistic regression analysis was conducted to examine whether or not owners of SMEs were comfortable with using financial statements to make decisions. It assessed the likelihood of the following independent variables (Preparation, Revenue, Frequency, and Education) affecting owners' decisions. The constant term represents the intercept or baseline effect in the model, where all predictor variables are set to zero. Since the constant term does not have an associated predictor variable, there is no variability or uncertainty related to its estimate.

From the Table, the positive coefficient suggests that an increase in the variable "Preparation" is associated with a higher likelihood of owners being comfortable with using financial statements to make decisions. Owners who were better prepared had a higher likelihood of being comfortable with using financial statements for decision-making (B = 0.783, SE = 0.218, p < .001). For every one-unit increase in "Preparation," the odds of being comfortable with financial statements increased by approximately 2.189 times (OR = 2.189, 95% CI [1.502, 3.190]).

The positive coefficient suggests that an increase in the variable "Revenue" is associated with a higher likelihood of owners being comfortable with using financial statements. Owners with higher revenue had a lower likelihood of being comfortable with using financial statements (B = -0.452, SE = 0.176, p = .021). For every one-unit increase in "Revenue," the odds of being comfortable with financial statements decreased by approximately 0.635 times (OR = 0.635, 95% CI [0.431, 0.936]). This implies that owners with higher revenue may have a higher comfort level in using financial statements for decision-making.

The positive coefficient suggests that an increase in the variable "Frequency" is associated with a higher likelihood of owners being comfortable with using financial statements to make decisions. Owners who frequently used financial statements had a higher likelihood of being comfortable with them (B = 0.326, SE = 0.152, p = .008). For every one-unit increase in "Frequency," the odds of being comfortable with financial statements increased by approximately 1.385 times (OR = 1.385, 95% CI [1.091, 1.757]).

For every one-unit increase in "Education," the odds of being comfortable with financial statements increased by approximately 1.837 times (OR = 1.837, 95% CI [1.275, 2.645]). Owners with higher education levels had a higher likelihood of being comfortable with using financial statements (B = 0.609, SE = 0.193, p < .001). This implies that owners who frequently use financial statements are more likely to be comfortable with using them for decision-making.

Based on the results, it appears that owners of SMEs who are better prepared, have a higher frequency of using financial statements, and possess higher education levels are more likely to be comfortable with using financial statements for decision-making. On the other hand, owners with higher revenue may have a lower comfort level in using financial statements. These findings highlight the importance of preparation, frequency of usage, and education in promoting financial statement literacy among SME owners, which can have implications for their decision-making processes and overall business performance.

4.4 Comfortable Interpretation of Financial Statements

4.4.1 Comfort

Mean scores and standard deviation are employed as descriptive measures for the comfort variable. The comfort scores were greater than 3.5, suggesting a high level of comfort as determined by the instrument.

The study respondents indicated that they are able to able to interpret income statement (mean=4.122; Std. = 1.370), are able to interpret balance sheet (mean=4.110; Std. = 1.372), are able to interpret cash budget (mean=4.189; Std. = 1.232), are able to interpret expense forecast (mean=4.252; Std. = 1.234), and able to interpret sales forecast (mean=4.244; Std. = 1.277). This is presented in Table 4.11.

Table 4.11: Comfort with financial statement

	Mean	Standard Deviation
I am able to interpret income statement	4.122	1.370
I am able to interpret balance sheet	4.110	1.372
I am able to interpret cash budget	4.189	1.232
I am able to interpret expense forecast	4.252	1.234
I am able to interpret sales forecast	4.244	1.277

Source: Field data, 2022

4.4.2 Preparation

Internal/External preparation of financial statement

Concerning how the financial statements are prepared, the majority of respondents (77%) indicated that they prepare the financial statements internally. The remaining (23%) prepare the financial statements externally.

Table 4. 12. Preparation of financial Statement

Preparation of financial statement	Frequency	Percentage (%)
Internal preparation	195	77
External preparation	58	23

Source: Field data, 2022

Mean scores and standard deviation are employed as descriptive measures for the preparation variable. The preparation scores were greater than 3.5, suggesting a high level of preparation as determined by the instrument.

The study respondents indicated that they regularly prepare income statement (mean=4.272; Std. = 1.300), regularly prepare balance sheet (mean=4.201; Std. = 1.331), regularly prepare cash budget (mean=4.272; Std. = 1.321), regularly prepare expense forecast (mean=4.166; Std. = 1.298), and regularly prepare sales forecast (mean=4.292; Std. = 1.303). This is presented in Table 4.13.

Table 4.13: financial statement preparation

	Mean	Standard Deviation
I regularly prepare income statement	4.272	1.300
I regularly prepare balance sheet	4.201	1.331
I regularly prepare cash budget	4.272	1.321
I regularly prepare expense forecast	4.166	1.298
I regularly prepare sales forecast	4.292	1.303

Source: Field data, 2022

4.5 The perception of SME owners on the relevance of financial statements

4.5.1 Relevance

Mean scores and standard deviation are employed as descriptive measures for the relevance variable. The preparation scores were greater than 3.5, suggesting a high level of relevance as determined by the instrument. The study respondents indicated that the use of financial statements improves creativity (mean=4.217; Std. = 1.307), the use of financial statements improves the speed of decision making (mean=4.150; Std. = 1.312), use of financial statements affects the quality of decision making (mean=4.252; Std. = 1.305), and use of financial statements improves competitive advantage (mean=4.212; Std. = 1.282). This is presented in Table 4.14.

Table 4.14: Financial Statement Relevance

	Mean	Standard Deviation
The use of financial statements improves creativity	4.217	1.307
The use of financial statements improves the speed of decision making	4.150	1.312
The use of financial statements affects the quality of decision making	4.252	1.305
The use of financial statements improves competitive advantage	4.212	1.282

Source: Field data, 2022

4.6 Discussion of Findings

Because financial statements play such a significant part in decision-making, it's critical to understand how owners utilize them. Financial statements are one of the major essential sources of data; inefficient choices are linked to bad financial management, which is one of the leading causes of company difficulty and failure (Headd 2003).

Enhanced financial management helps a company stay afloat while pursuing valuable prospects. Good financial judgments are based on accurate financial data and an understanding of financial statements. Financial statements that are accurate offer the information required for decision making that will help the company achieve its financial and operational objectives. Understanding and interpreting financial accounts is a must for effective decision making, even given trustworthy data.

The outcomes of this study shed light on how small business owners use financial statements. The study concentrated on two elements of financial statement use: owners' familiarity with them and whether they really rely on them to make decisions. These dependent variables are crucial in the application of financial statements (Timmons and Spinelli 2004; McMahon 2001).

The extent to which a business owner believes in financial statements may determine how frequently they are used. The adverse link that exists between owner comfort and frequency of financial statement preparation demonstrates that owners compensate for their discomfort by writing more financial statements. Owners improved comfort, however, can results in increased certainty and the notion that financial disclosures may not be issued regularly. In fact, neither their ability to analyse financial statements nor the frequency with which financial statements are created ensure that owners make wise decisions (Shields 2010; Timmons and Spinelli 2004). The accuracy of owners financial data analysis and implementation are crucial decision-making criteria.

The findings also reveal that the degree of income earned by owners is positively related to their confidence in their ability to analyze financial statements. This conclusion confirms Neeley and Van Auken (2010) and Busenitz and Barney (1997), assertion that the size of business influences not just the type of decision-making but also the firm's dependence on financial data in making choices. Owners who are more confident in their abilities to understand financial figures run businesses with greater revenues; owners who are less confident run businesses with lower revenues. Comfort in analyzing financial accounts is vital since larger revenues imply more money is at risk. As the company's earnings expanded, the owners presumably got the expertise or knowledge needed to run it.

The study predicted and revealed a clear link between utilizing financial statements and levels of education when looking at the elements that influence whether financial statements are really utilized to make choices. Business owners who are educated are probable to be schooled in the interpretation and significance of financial statements, whilst those with inadequate education are less probable to utilize financial figures to make choices. Beforehand, it was shown that educational attainment was linked to the success of small businesses (Carter et al. 2003; Cassar 2009; Hanlon and Saunders 2007).

Findings revealed a strong link between owners' familiarity with comprehending financial information and whether they used financial statements to make choices. Understand the relevance of the information and grasp its worth. It should also lead to more financial statements being used since owners can comprehend and value the data. Before making choices, they may still consult consultants to derive conclusions about the data in the financial statement, however, these owners use their own judgement and analysis. They may, on the other hand, be overconfident in their judgement and ability to use financial statements when reading financial accounts. This order corresponds to behavioral finance theory, that states; decision-makers create beliefs that impact their actions (Barberis and Thaler 2002; Ritter 2003).

External financial statement preparation may indicate a company's financial competence and internal knowledge (Breen, Sciulli, and Calvert 2004). Financial statement preparation is outsourced by companies with insufficient internal financial experience, whereas companies with adequate financial knowledge can generate their own financial statements. External specialists generating financial statements would provide organisations the certainty in using the statements to make decisions, as a result, business owners who have faith in the financial statements are more liable to use the financial statements to make decisions (Shields 2010).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION

5.0 Introduction

This chapter summarises the results, conclusions, and suggestions from an inquiry into the use of financial statements for decision-making in SMEs. The chapter is divided into four (4) major sections, which are as follows: Section 5.1 contains a summary of the study and its findings, while Section 5.2 contains the study's conclusion. Section 5.3 contains the study's recommendations.

5.1 Summary of Findings

The findings are summarised based on achieving the following objectives:

i. To examine the factors that determine the use of financial statements by SMEs in Ghana.
ii. To ascertain whether owners of SMEs are comfortable with the interpretation of financial statements.
iii. To examine the perception of SME owners on the relevance of financial statements in decision-making.

The extent to which SME owners are confident in utilising financial statements may influence how frequently they are used in making decisions. The research evaluates possible variables that influence owners' comfort in using financial statements; the relation between owners' comfort as well as the regularity of preparing financial statements implies that owners are convenient in preparing and utilising financial statements. Comparatively, owners increased comfort can result in increased assurance and the belief that financial statements could be made more often. In reality, neither confidence in their capacity to prepare financial statements nor the regularity with which they are prepared ensures that owners make smart judgments (DeZoort, Wilkins, and Justice, 2017). The accuracy of their financial data analysis and successful execution are critical factors influencing quality.

Findings again revealed that owners' confidence in their capacity to analyse financial information is directly related to the amount of income they generate. This conclusion is similar to the findings of Akhtar and Liu (2018) who found that business size influences not just the manner in which decisions are made but rather the firm's dependence on financial details to inform choices. Entrepreneurs who are highly confident in their abilities to analyse financial figures own enterprises with increased sales; entrepreneurs who are less confident own firms with lower profits. Since increased sales indicate that more money is in danger, familiarity with understanding financial accounts is essential. Owners are likely to have earned the necessary expertise or education to run the company as its sales rose.

In terms of the variables that influence the application of financial statements in decision-making processes, owners wo are highly educated are possible to be significantly instructed in the analysis and relevance of financial statements, while owners who are less educated are less likely to utilize financial statements in decision making. Earlier, educational level was discovered to be strongly attributable to small business survival (Boonvut, 2017).

The findings revealed a clear relationship between whether or not owners utilized financial information to make choices as well as their comfort level with comprehending financial information. Being comfortable evaluating financial accounts demonstrates their knowledge of the value of the data as well as their acquaintance with the information provided. This should contribute to wider usage of financial statements since owners can comprehend and value the data. When making choices, they could still depend on consultants to make inferences about the facts in the financial statements, but these entrepreneurs also utilize their own judgment as well as assessment. Whenever they evaluate the facts, they may be overly optimistic about their expertise and capability to utilize financial figures. This series corresponds to behavioral finance theory, according to which decision makers create attitudes that impact their actions (Ullah, 2020; Taseva, 2020).

Foreign financial statement creation may indicate the company's financial complexity and institutional knowledge (Osadchy et al. 2018). Firms with insufficient internal financial competence contract preparing the financial statements, while firms with adequate financial experience can generate their own income reports. External experts preparing financial statements will provide companies better trust in utilizing the statements to make choices (Zandi and Abdullah, 2019; Hani, 2019).

5.2 Conclusion

Relying on 253 SMEs in Kumasi Metropolis, this study explores the characteristics related with whether SME owners utilize financial statements as well as are confident in their capacity to comprehend these statements. Little prior research has investigated the role of financial statements in SMEs' decisions. As a result, this research is significant, given the essential function of financial statements for investors and the implications of owners' actions on organizational survival across time.

Managers who prepare financial statements less regularly are better informed and comfortable reading them, and this general confidence correlates to improved revenue for organisations. This consequence may occur if owners make the decisions financial statements when they are more confident in their capacity to understand such financial numbers. Instruction to guarantee owners' comprehension of financial statements can so influence how company's financial information is utilized in strategic planning.

The study's findings must be valuable to SMEs' proprietors and service suppliers to Microenterprises. Financial accounts contain critical data that must be utilized to influence choices, both by external assessors and domestically. The data may be used by both proprietors as well as service providers to determine which variables influence their usage of financial statements. Recognizing what elements have had this impact may help to enhance the method through which financial statements are absorbed into judgments.

5.3. Recommendations

Efficient understanding of financial statements is a valuable asset for the management of a firm during decision making process. To enable this, an education that focuses on building the confidence in the utilisation of financial statements is required for SMEs.

A firm architecture that increases SMEs comfort in financial analysis is required. Modern technology that increase sales should be easily accessible, as this will increase SMEs income levels so that entrepreneurs will be confident in the understanding of financial statements.

Employees levels of abilities and competences must be reasonably constant. Personnel should be well-trained and possess both the tools and knowledge required to prepare financial statements within the organisation. There must be a measured approach to incorporate the understanding of financial statements in decision making.

5.3.1 Suggestions for further research

The research's shortcomings present opportunities for additional investigation. The research might be broadened to other SMEs in different metropolises and to look at variances based on geography, gender, company type, and rural vs. urban regions.

The study also did not investigate the precise link between the usage of financial statements and the contribution to the success.

Lastly, the researcher acquired all of the data at once. Longitudinal research might give more data about how financial statements are used at various phases of a company's growth and across the economic cycle.

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APPENDIX.

LIST OF FIGURES

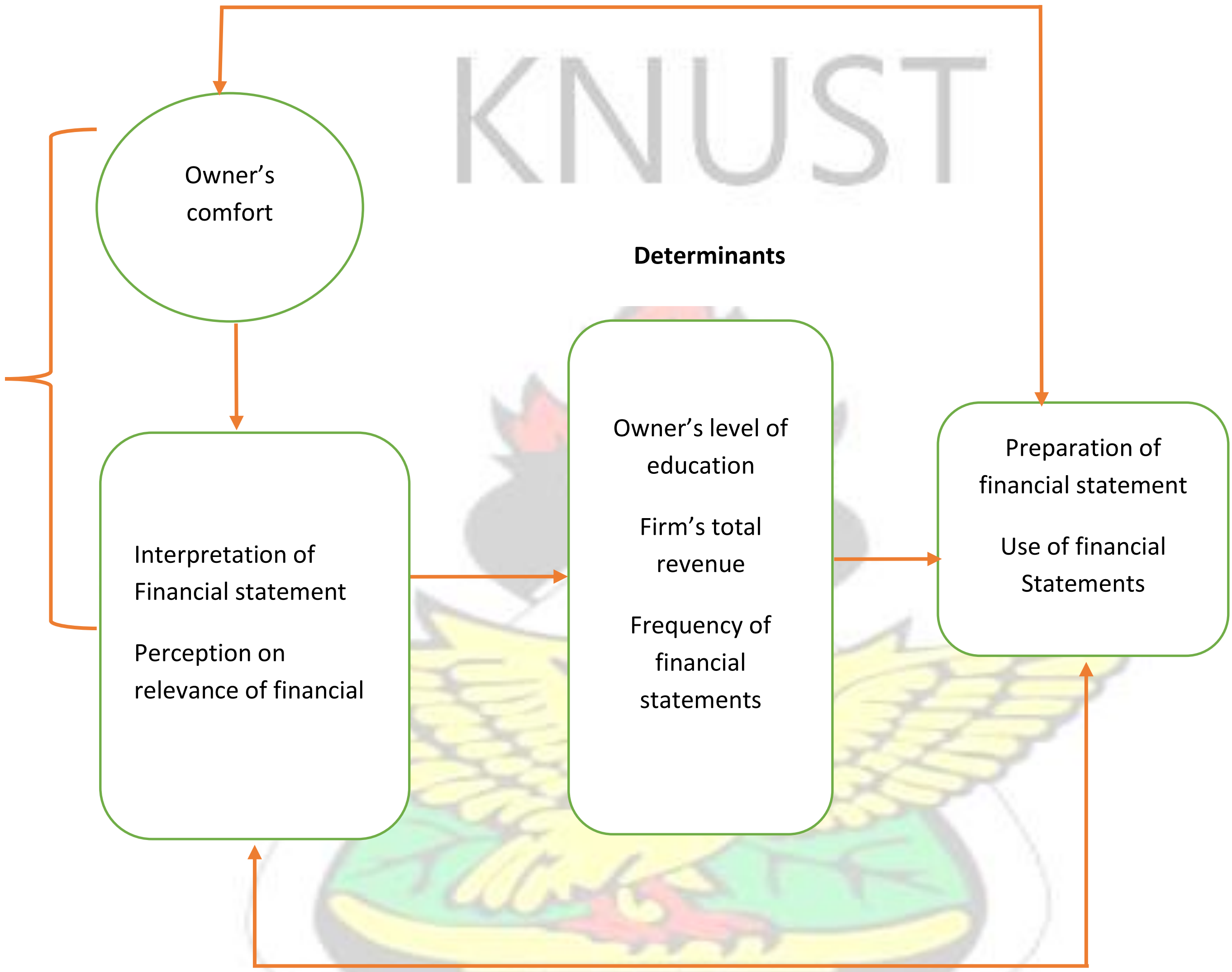

Figure 2.1: Conceptual framework of the study

Source: Authors construct (2022)

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Table 3.1 Sample size for SMEs

SME	Population	Sample Size
Manufacturing	308	77
Agro-based	351	88
Services	493	123
Total	1152	288

Source: Author's construct (2022)

Table 4.2*:* Background information of respondents

Variables	Frequency	Percentage (%)
Gender		
Male	131	52
Female	122	48
Age		
18-25	33	13
26-35	111	44
36-45	83	33
46-55	17	7
56 and above	9	4
Education		
SHS/VOC/TECH	49	19
Diploma	48	19
Bachelor	108	43
Masters	48	19
Total	**253**	**100**

Source: Field data, 2022

Table 4.2. Legal Structure of Business

Legal Structure of business	Frequency	Percentage (%)
Sole proprietorship	94	37
Corporation	38	15
Limited Liability	86	34
Partnership	35	14

Source: Field data, 2022

Table 4.3. Type of Business

Type of Business	Frequency	Percentage (%)
Service	129	51
Manufacturing	91	36
Agro-Based	33	13

Source: Field data, 2022

Table 4.4: Assets and revenues of business

Total Assets	Frequency	Percentage (%)
<GHS 10,001	72	28
GHS 10,001–GHS25,000	31	12
GHS 25,001–50,000	52	21
GHS 50,001–75,000	31	12
GHS 100,000	67	26
Revenue		
<GHS 10,001	79	31
GHS 10,001–GHS25,000	43	17
GHS 25,001–50,000	18	7
GHS 50,001–75,000	27	11

GHS 75,001–100,000	29	11
GHS 100,000	57	23

Source: Field data, 2022

Table 4.5. Use of Financial Statement

Use of financial statements	**Frequency**	**Percentage (%)**
Reliance	197	78
Non-Reliance	56	22%

Source: Field data, 2022

Table 4.6. Relationship between financial statement and comfort

		Financial Statement	Comfort
Financial Statement	Pearson correlation	1	.691**
	Sig. (2-tailed)		
	N	253	253
Comfort	Pearson correlation	.691**	1
	Sig. (2-tailed)		
	N	253	253

**Correlation is significant at the 0.01 level (2-tailed)

Table 4.7 Relationship between financial statement and preparation

		Financial Statement	Preparation
Financial Statement	Pearson correlation	1	.682**
	Sig. (2-tailed)		
	N	253	253
Preparation	Pearson correlation	.682**	1
	Sig. (2-tailed)		
	N	253	253

**Correlation is significant at the 0.01 level (2-tailed)

Table 4.8. Relationship between financial statement and perception

		Financial Statement	Perception
Financial Statement	Pearson correlation	1	.675**
	Sig. (2-tailed)		
	N	253	253
Perception	Pearson correlation	.675**	1
	Sig. (2-tailed)		
	N	253	253

**Correlation is significant at the 0.01 level (2-tailed)

Table 4.9: Ordinary Least Square Regression of Owners' Comfort in using financial statements to make decisions

Model 1	R	R Squared	Adjusted R square	Std. Error of the Estimate	Sig.
	0.75	0.56	0.52	0.12	0.001

	R	Std. Error B	t Std. Error	Sig. Sig.	Confidence Interval Upper	Confidence Interval Lower
1 (Constant)	.072	0.76	2.05	.000		
Preparation	0.30	0.05	6.00	.000	0.20	0.40
Revenue	0.40	0.08	5.00	.001	0.25	0.55
Frequency	0.15	0.03	4.50	.001	0.10	0.20
Education	0.25	0.07	3.50	.000	0.10	0.40

Dependent Variable: Owners' Comfort

Table 4.10: Logit regression analysis owners' comfort in using financial statements to make decisions.

Step 1[a]	Coef (B)	S. E	Odds Ratio [Exp (B)]	95% Cl [Exp (B)] Lower	95% Cl [Exp (B)] Upper	*P*-value
Preparation	0.783	0.218	2.189	1.502	3.190	0.001**
Revenue	-0.452	0.176	0.635	0.431	0.936	0.021*
Frequency	0.326	0.152	1.385	1.091	1.757	0.008**
Education	0.609	0.193	1.837	1.275	2.645	0.001**
Constant	0.452	0.113	-	-	-	-

Dependent Variable: Owners' Comfort

Source: Field data, 2022

Table 4.11: Comfort with financial statement

	Mean	Standard Deviation
I am able to interpret income statement	4.122	1.370
I am able to interpret balance sheet	4.110	1.372
I am able to interpret cash budget	4.189	1.232
I am able to interpret expense forecast	4.252	1.234
I am able to interpret sales forecast	4.244	1.277

Source: Field data, 2022

Table 4. 12. Preparation of financial Statement

Preparation of financial statement	**Frequency**	**Percentage (%)**
Internal preparation	195	77
External preparation	58	23

Source: Field data, 2022

Table 4.13: financial statement preparation

	Mean	Standard Deviation
I regularly prepare income statement	4.272	1.300
I regularly prepare balance sheet	4.201	1.331
I regularly prepare cash budget	4.272	1.321
I regularly prepare expense forecast	4.166	1.298
I regularly prepare sales forecast	4.292	1.303

Source: Field data, 2022

Table 4.14: Financial Statement Relevance

	Mean	Standard Deviation
The use of financial statements improves creativity	4.217	1.307
The use of financial statements improves the speed of decision making	4.150	1.312
The use of financial statements affects the quality of decision making	4.252	1.305
The use of financial statements improves competitive advantage	4.212	1.282

Source: Field data, 2022

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

KNUST SCHOOL OF BUSINESS (KSB)

MASTER OF SCIENCE (ACCOUNTING & FINANCE)

(DESIGNED QUESTIONNAIRES)

TOPIC: “AN INVESTIGATION OF THE USE OF FINANCIAL STATEMENT FOR DECISION MAKING AMONG SMES IN GHANA.

BY:

EMMANUEL FOSU

PG8272021

NAME OF SUPERVISOR: PROF. K.O.APPIAH

NOVEMBER, 2023

SURVEY QUESTIONNAIRE

This questionnaire is meant to collect data for academic study at Kwame Nkrumah University of Science and Technology. The overall objective of the study is to investigate how the use of financial statement influences the making of decisions among SMEs in Ghana. Your response to the present questionnaire would be highly appreciated and every piece of information you give will be confidential. Thank you.

SECTION A: Background information of Respondents

Please complete this section by ticking the applicable box

1. Gender? Male [ ] Female [ ]

2. Indicate your age

A. 18– 25 [ ] B. 26 – 35 [ ] C. 36 – 45 [ ] D. 46 – 55 [ ] E. 56 and above [ ]

3. What is your educational level? A. No Education [ ] B. SHS/VOC/TECH [ ] C. Diploma/HND [ ] D. Bachelor's Degree [ ] E. Master's Degree [ ] F. Others, specify…………

SECTION B: Business Background

4. What is the legal structure of your business? A. Sole proprietorship [ ] B. Partnership [ ] C. S-Corp [ ] D. Corporation [ ] E. Limited Liability Company [ ]

5. Type of Business? A. Agro-based [ ] B. Manufacturing [ ] C. Service[ ]

6. what are the total assets of the firm? A. <GHS 10,001 [ ] B. GHS 10,001–GHS25,000 [ ] C. GHS 25,001–50,000 [ ] D. GHS 50,001–75,000 [ ] E. GHS 75,001–100,000 [ ] F. GHS 100,000 [ ]

7. what are the annual revenues of the firm? A. <GHS 10,001 [ ] B. GHS 10,001–GHS25,000 [ ] C. GHS 25,001–50,000 [ ] D. GHS 50,001–75,000 [ ] E. GHS 75,001–100,000 [ ] F. GHS 100,000 [ ]

Section C: Comfort

7. Do you use financial statements when making decisions? A. Yes[ ] B. No[ ]

8. Kindly indicate the extent to which you agree or disagree with each of the following statements indicated below on comfort with a financial statement on a scale of 1 – 5 [where: 1 = very uncomfortable, 2 = uncomfortable, 3 = neutral, 4 = comfortable, and 5 = very comfortable]

	1	2	3	4	5
I am able to interpret an income statement					
I am able to interpret a balance sheet					
I am able to interpret cash budget					
I am able to interpret expense forecast					
I am able to interpret sales forecast					

Section D: Preparation

9. Which of the following statement is true about your financial statement preparation?

A. The financial statement is prepared internally

B. the financial statement is prepared externally

10. Kindly indicate the extent to which you agree or disagree with each of the following statements indicated below on the preparation of financial statement on a scale of 1 – 5 [where: 1= Strongly Disagree, 2=Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree]

	1	2	3	4	5
I regularly prepare an income statement					
I regularly prepare balance sheet					
I regularly prepare a cash budget					
I regularly prepare expense forecast					
I regularly prepare a sales forecast					

Section E: Relevance

11. Kindly indicate the extent to which you agree or disagree with each of the following statements indicated below on relevance of financial statement on a scale of 1 – 5 [where: 1= Strongly Disagree, 2=Disagree, 3 = Neutral, 4= Agree, 5 = Strongly Agree]

	1	2	3	4	5
Use of financial statements improve creativity					
Use of financial statements improves speed of decision making					
Use of financial statements affects quality of decision making					
Use of financial statements improves competitive advantage					