

Financial Reports and Managerial Effectiveness in Planning and Decision-making

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ABSTRACT This study focuses on evaluation of financial reports being instruments for effective managerial planning and decision-making. The objective of this study is to re-establish the relevance of financial reporting in organisational management. In order to achieve this, the researcher administered questionnaire on the staff of WEMA Bank branches in the Western States of Nigeria, while secondary data from journals, books, magazines, etc. were used. All data gathered were analysed with tables and processed. The result of the study indicates that financial reporting, as a device for disclosure of organisation's financial dealings can eliminate some problems, resulting from inappropriate planning and decisions. However, to resolve conflict of incomparability of financial statements of similar firms, it was recommended that entities should comply with rules regulating the preparation and disclosure of financial statement and reports in order to ensure uniformity and accuracy. Also the need for carrying out periodic investigations on these institutions and providing timely reports to their managements was suggested.

INTRODUCTION

The purpose of consolidated statements is to present, primarily for the benefit of stakeholders and any interested party about the progress or otherwise of the organisation, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches or divisions. There is a presumption that consolidated statements are more meaningful than separate statements (Thomas 2008).

Financial reporting is the process of communicating economic information to the stakeholders – management, shareholders, public, etc. to facilitate informed judgement and decision-making. It deals with the presentation of financial and other relevant statements to show the extent to which the objectives of the organisation have been achieved. It is a statement prepared by the directors of an organisation showing how well they have been able to manage the resources entrusted to them by the owners (shareholders) of the business. Financial reports are means through which the strengths and weakness of an organisation can be ascertained at a glance. They are instruments without which certain

operational decisions can not be made, especially those that deal with investment, expenditure and assets management (Better 1998; Meigns 1998; Whittington 1998).

Financial reporting entails the preparation and presentation of both financial and non-financial information by the organisation for effective planning and reliable decisions. However, the ultimate aim of financial reporting is to provide information that may be useful enough for evaluating management effectiveness in utilising resources under its control to satisfy its users' needs. Financial reports are used by investors and creditors in deciding where to invest their limited resources in a particular organisation or not (Akintoye 2002).

However, in order to have an effective financial report for planning and decision-making, financial managers must have an analytical knowledge of the instruments used for their decision making.

The issues of fraud, mismanagement, insolvency and liquidity problems have been conflicting matters over the years in most organisations in Nigeria despite the fact that most organisations presented true and fair reports. These problems often result to cessation of operations and in most cases become very deceitful to the unsuspecting public whose resources are utilised by such organisations. Also, there have been lapses in some financial reporting regulations, some of which include weaknesses during the preparation of financial reports due to human errors. Therefore, this paper focuses on the im-

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part of financial reporting on effective managerial planning and decision-making.

Objectives

The main objective of this study is to re-establish the role of financial reporting in ensuring managerial effectiveness in organisational planning and decision-making. The specific objectives therefore include the following:

- (i) To acquaint ourselves with relevance of financial reporting in financial management of organisations;
- (ii) To assess the efficacy of financial reports in facilitating effective managerial planning in decision-making;
- (iii) To establish the relationship between financial reporting and organisational management;
- (iv) To emphasise the need for effective managerial planning in organisations;
- (v) To acquaint ourselves with the management of WEMA BANK PLC;
- (vi) To give an insight into the management of the banking sub-sector in Nigeria.

Literature Review

Financial Statement

According to Meigs et al. (2001), Financial Statement simply means a declaration of what is believed to be true and which, communicated in terms of monetary unit. It describes certain attributes of a company that is considered to fairly represent its financial activities. It is also the means of communicating to interested parties the relevant information on resources, obligation and performances of the reporting entity.

Furthermore, financial statement is a mechanism of communicating to all interested parties such full information on the resources, obligations and performances of the reporting enterprise. Therefore, they are the means to present a firms' financial situation to the users. The basic contents of financial statements include the following:

- (a) *Balance Sheet*: This is a statement showing the financial position of an enterprise by summarising the assets, liabilities and owners' equity during a given period.
- (b) *Profit and Loss*: This presents the company's revenue and expenditure for a

product. It equally shows the profit or loss generated from the business during a given period of time Ekong (2001).

- (c) *Cash Flow Statement*: This is a statement showing the flow of cash (that is, cash receipt and payment) in the organisation for a particular period of time.
- (d) *Notes to the Account*: These are usually explanatory notes to the accounts to give reasons for the figures and information contained in financial statements.
- (e) *Value Added Statement*: This one reports the wealth presented by the company employees, etc. and the distribution of such wealth to pay for all expenditure incurred by it during the period under review.
- (f) *Historical Financial Summary*: This enables an instant comparison over a period, usually five years. It provides vital information about an organisation with regards to its turnover, profit before and after taxation, dividends, asset employed, issued and paid-up capital and reserves (Meigs 2001).

Financial Reporting

A written message presented on sheets of paper is known as a report (Hall 1998). Literarily, financial report is a written financial information signed, sealed and delivered.

According to Meigs (1998), financial reporting is the process of communicating financial information to decision-makers. It provides information useful for making investment decisions. Its disclosure provides both quantitative and qualitative information for its user's effective use and reliable decisions. In other words it presents information in a way that can be understood by users. Again, the view that is more likely his opinion is that of Larson (1999), who viewed financial reporting as the communication of relevant financial information to decision-makers.

Further, the American Financial Reporting Standards Board (AFRSB) defined financial reporting as "activities which are intended to serve the information needs of external users, who lack the authority to prescribe the financial information they want from enterprise and therefore must use information that the management communicates to them", cited by Lewis and Pendrill (1996). Thus, the management pre-

pare financial reports for the use of the external users who can not but use the information at their disposal to make various decisions concerning an organisation. Majority of the big companies around us have become so large that they attract investing capital from a great number of investors. Hence, these companies are required by law to prepare and present their financial reports covering a period (say 12 months) to their shareholders at their Annual General Meeting (AGM). The small companies are not left out also.

The primary means of financial reporting is by issuing a set of accounting reports called financial statements. These statements normally are of two categories, namely:

- (a) *External Financial Reports*: These are reports prepared for all users of financial statements irrespective of whether the user has direct access to the books and records of the business or not. These reports are usually in form of a published accounts;
- (b) *Internal Financial Reports*: These reports are usually prepared exclusively for management uses (Akintoye 2002).

Significance of Financial Reporting

Financial reporting is of great significance to decision-making, because certain decisions cannot be made without the items in financial report. For instance, investors and potential investors will need the information contents of the financial report to take investment decisions. This is to allow for informed judgement about the economic and financial position of the organisation. Moreover, financial reporting is very important to management in the process of presenting their stewardship report to the shareholders, who are the owners of the business. Thus, financial reporting enables organisations to improve on its activities, its performance, determine all loopholes and come up with strategies aiming at moving a company forward.

The overall objective of financial reporting is to provide information that is useful for rational investment, credit and similar decisions (Akintoye 2002). According to a committee set up by UK accounting British Parliamentary Committee the objective of corporate financial report is "... to communicate economic measures of and information about, the resources

and performance of the reporting entity, useful to those having reasonable rights to such information ..." (CIBN Study Text 1991). This simply means that financial reports enable making meaningful decisions from the information so provided. Other significance of financial report are:

- (a) It shows compliance with statutory regulations and standards;
- (b) It determines the extent of stewardship of the management to the share holders;
- (c) It determines the extent to which the resources of the enterprise have been fully utilised; and
- (d) It ascertains whether financial statements show a true and fair view of an enterprise financial position (Akinloye 2002).

Financial Report and Decision-making

The broad objectives of financial reporting is to provide information about the financial position, performance and financial adaptability of an enterprise that is useful to a wide range of users for assessing the stewardship of management and for making economic decision. Decision-making is one of the functions of management amongst many other functions that are undertaken by the management of an organisation (Pandey 2000). Decision-making is the key to financial managers' success and is very crucial for any business. Managers constantly take actions that affect the firms. For example, the introduction of new products a very important decision to make. Therefore, financial reporting is crucial to decision-makers to make decision on investment, credit policy, marketing strategies, financial, and similar decisions (Kaurdi 1999). Decisions are made out of available information; hence, financial reports should be made available to users periodically.

METHODOLOGY

This study was designed to carry out an assessment of financial report as an instrument for effective managerial planning and decision making. Data were collected from both primary and secondary sources. The secondary source involves literature review from various written documents, while the primary data was collected through questionnaires administered on the staff of WEMA Bank branches in Lagos, Oyo, Ogun,

Osun, Ondo and Ekiti State. These constitute 91.5% of all the branches of WEMA Bank in Nigeria.

The population for this study was all the 500 members of WEMA Bank branches in Lagos, Oyo, Ogun, Osun, Ondo and Ekiti States. The sample size of the study consist 250 staff members who were randomly selected among the total population. All the data obtained from these sources were collected, analysed and the results therein were drawn (Idowu 2002).

RESULTS AND DISCUSSION

This section of the study discusses the results of the evaluation of financial reports and their implications for planning and decision-making.

It can be observed from the respondents that all of them agreed that financial reporting plays an important role in decision making in an organisation. The entire 250 (100%) respondents agreed to it that financial reporting is important in taking decision in an enterprise (see Table 1-No. A). Therefore, there is unanimous agreement that financial reporting is crucial in decision making.

Table 1: Evaluation of financial report

S. No.	Parameters	Frequency	Percentage (%)
A	Do you think financial reports play important roles in decision-making?		
	Yes	250	100
	No	—	—
	Total	250	100
B	Do you think financial reports are adequate in your enterprise?		
	Yes	210	84
	No	40	16
	Total	250	100
C	Do you think financial report make it possible for one to know the weakness of an enterprise?		
	Yes	250	100
	No	—	—
	Total	250	100
D	Do you think financial reports show the strength of an enterprise?		
	Yes	250	100
	No	—	—
	Total	250	100

Source: Field Survey 2010

Also on their response to the adequacy of the financial reporting 210 (84%) confirmed the adequacy of the financial reporting while 40(16%) disagree (see Table 1-No. B). This indicates that financial reports of their company do not contain false data and information and presents the true and fair view of the company's financial position.

On the question on whether the financial reports makes it possible to know the weakness of the business, all the 250 (100%) respondents asserted that financial reporting makes it possible for one to effectively identify weaknesses in business enterprises (see Table 1-No. C). Therefore, organisational weaknesses can be ascertained through financial reports. It was also all affirmation on the question on whether the financial reports show the strength of the organisation. All the respondents 250 (100%) asserted that financial reports show the strength, that is, asset base of the organisation (see Table 1- No. D).

Therefore, the research hypotheses tested were:

H_0 : Financial reporting is not a necessary instrument for planning and decision making.

H_1 : Financial reporting is a necessary instrument for planning and decision making.

The analysis on Table 1(No. A) was used in obtaining the observed and the expected value for computation of Chi-square. To get the expected value of each cell; the total number of the observed value is divided by the cells (rows) available, that is, $250/2 = 125.0$.

Table 2: Computation of Chi-square

Response	O	E	O-E	(O-E) ²
Yes	250	125.0	125.0	15,625.0
No	0	125.0	-125.0	15,625.0
Total	250	250	0	31,250.0

$$(a) \chi^2_c = \sum \frac{(O-E)^2}{E} = \frac{31,250.0}{250} = 125.0$$

$$(b) \text{ Determination of critical value} \\ \text{Degree of freedom d.f. (v)} = (r-1)(c-1) \\ = (2-1)(2-1) = 1$$

At the level of significance of 0.05

$$\chi^2_c = 38.41 : X^2_c = 72.2(125.0)$$

$$(c) \text{ Decision rule: Accept } H_0 \text{ when } \chi^2_c < X^2_c$$

Decision

Since $\chi^2_c > \chi^2_t$ (that is, $125.0 > 72.2$), (34.41) H_0 will be rejected while H_1 will be accepted. Therefore, financial reporting is necessary instrument in decision making.

CONCLUSION

In conclusion, it can be said that the going concern of any organisation depends solely on the effectiveness of its policies concerning planning and decision-making. Also, for any organisation to maintain its reputation, respect and dignity, its financial reporting system has to be given proper focus or attention.

As observed, financial reporting is very crucial for decision making in the day-to-day activities of an organisation. This is shown in the hypothesis tested where $\chi^2_c > \chi^2_t$ (that is, $125.0 > 72.2$) and the alternative hypothesis (H_1) accepted in asserting the importance of financial reporting in planning and decision making. It also provides both quantitative and qualitative financial information to various users. Therefore, management needs to be endowed with an enabling environment to perform their duties diligently. Moreover, financial report is a vital source of financial information. It must be accurate, realistic, complete, timely and efficiently presented to induce appropriate plans and decision such as investment decisions, purchasing decisions, etc. Again, proper and adequate accounting system must be set up in order to encourage accountability, etc.

Furthermore, a sound, effective and efficient financial reporting system tends to improve performance in business operations. In the same view, an effectively applied planning and decision-making system contributes to the efficiency of managerial staff. These minimise the problems of insolvency and liquidity and thereby disallowing mismanagement of organisational resources.

In the final analysis, it is clear that a deeper understanding of the importance of financial reporting can lead to enhancement of organisational growth and achievement of corporate objectives. Therefore, financial disclosure promotes transparency and accountability of managements as stewards of shareholders. This also facilitates the building of public confidence on the enterprises concerned.

RECOMMENDATIONS

The following recommendations are therefore made to enhance the effectiveness of financial reporting in planning and decision-making in enterprises:

- (i) There is the need to maintain adequate accounting records;
- (ii) All the reporting regulations and standards in the preparation of financial statement must be complied with;
- (iii) The accounting preparation must be consistent (that is, following the consistency concept) with the conventional standards and traditions;
- (iv) Qualified and capable professionals should be employed for financial reports preparation and presentation; and
- (v) Management should create conducive working environment and incentives that can encourage workers to put in their best.

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