

Research Article

Role of Financial Statement Analysis in Enhancing Performance and Competitiveness of Chartered Firms: Empirical Evidence from NCR

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Abstract: The management of the competitiveness of the professional services firms and the financial statement analysis have an essential role in promoting the managerial decision-making process and supporting managerial decision-making. The firms of chartered accountants, which are highly competitive and exist in knowledge-based business environments, are becoming more demanding in terms of analytical application of financial statements to improve performance and strategic positioning. This paper will look at the importance of the financial statement analysis in enhancing the performance and competitiveness of chartered accountancy firm within the National Capital Region (NCR) of India, and how such decision-making effectiveness mediates such performance. The quantitative and empirical research approach selected allowed gathering primary data through a structured questionnaire and use of 100 chartered firms. The practices related to financial statement analysis were considered as per the performance and competitiveness of firms and decision-making effectiveness was considered as an intervening variable. They were descriptive statistics, correlation analysis, hierarchical regression and mediation analysis with the Sobel test. The results indicate that financial statement analysis affects performance and competitiveness of firms positively, directly and indirectly through an effective decision making. The findings indicate that the strategic importance of financial statement analysis is not in the aspect of compliance but rather in enhancing clarity in the management, minimizing uncertainties, and in making informed strategic decisions. The research adds to the empirical literature on the same topic in professional service firms that is scarce and provides practical informational support towards enhancing managerial performance in chartered accountancy practice.

1. INTRODUCTION

The chartered accountancy firms are placed in a strategic position in the professional services industry to offer assurance services, taxation, advisory and compliance services to a broad range of business organizations. Being knowledge-intensive, such companies are highly dependent on the professional experience and the competent use of available resources as well as on informed management decisions to maintain the performance and competitiveness. Chartered firms in economically vibrant business environments like in the National Capital Region (NCR) of India, are experiencing mounting demands due to complex regulations, growing competition, technological transformation, and the changing expectations of clients.

The purpose of financial statement analysis is a basic tool by which organizations process financial data in order to aid planning, control and strategic decision making. Financial statements in chartered accountancy firms are not only historical accounts, but also play a very important role in assessing profitability, liquidity, and cost behaviour, as well as operations efficiency. Considering the fee-based system of revenue collection and an extremely strong reliance on human capital, the successful interpretation of financial statements is required to address the risk of uncertainty and strive to maximize service delivery as well as sustain a competitive positioning.

Although the significance of financial statement analysis has been established, it is not uncommon to find the analysis used in chartered firms in compliance-related areas.

The financial statements are often prepared to meet the statutory and regulatory requirements, and relatively less emphasis is on the fact that they can be used to make managerial decisions. Consequently, pricing of professional services, client portfolio management, cost control and strategic expansion decisions might not be as fully exploited as the information provided by the financial analysis. Such a disconnect between the availability of financial information and its managerially useful use may limit the performance and competitiveness of firms, especially in very competitive professional service markets, like the NCR.

Effectiveness in decision-making is one of the essential internal capabilities, which connects the financial data to the organizational performance. Clear, timely, strategic, and less uncertain decisions are the attributes of effective decision-making, and they can be improved with the help of systematic analysis of financial statements. The quality of financial decisions in professional service firms is a determinant of performance outcomes in most cases where strategic decisions are made which involve deployment of human resources, technology investments and diversification of services. Nonetheless, there is little empirical evidence to study the effectiveness of decision-making as a process in which financial statement analysis can impact the performance of firms particularly chartered accountancy firms in India.

Most of the past empirical studies of financial analysis and firm performance

have concentrated on manufacturing firms, banking institutions and large corporate organizations. Little research has been done on professional service firms, which have apparent unique operation characteristics and increasing economic value. In addition, little effort has been researched on the role of financial statement analysis in enhancing competitiveness through the enhancement of the internal managerial processes and not necessarily the direct impact of financial results.

In this regard, this research paper looks into how the financial statement analysis can be useful in improving the performance and competitiveness of chartered accountancy firms in the NCR and specifically the mediating role of decision-making effectiveness. The empirical research of this relationship aims at contributing to existing research on financial management in professional service firms, and contributing to the understanding of how analytical use of financial statements can enhance managerial performance and competitiveness in a highly dynamic professional setting.

1.1 Research Questions

1. How well are chartered accountancy firms applying the financial statement analysis to assist in managerial decision-making processes?
2. Is financial statement examination an important component of performance and competitiveness of chartered accountancy firms in the NCR?
3. What is the impact of financial statement analysis on the effectiveness of decision-making in chartered accountancy firms?
4. Are there any effects on effectiveness of decision-making to mediate between

financial statement analysis and firm performance and competitiveness?

5. What are the most prominent dimensions of decision-making effectiveness, which are impacted by financial statement analysis in professional service firms?

1.2 Objectives of the Study

1. To examine the level of adoption of financial statement analysis practices among chartered accountancy firms operating in the National Capital Region (NCR).
2. To assess the impact of financial statement analysis on the performance and competitiveness of chartered accountancy firms.
3. To evaluate the influence of financial statement analysis on decision-making effectiveness within chartered accountancy firms.
4. To analyze the mediating role of decision-making effectiveness in the relationship between financial statement analysis and firm performance and competitiveness.
5. To provide empirical evidence on the strategic role of financial statement analysis in strengthening managerial effectiveness in professional service firms.

2. REVIEW OF LITERATURE

Budgeting and forecasting are the pillars of financial plans. The preparation of revenue forecast is usually performed primarily taking into consideration the existing range of clients. The human resource, compliance, training, and technology costs are the key elements of the cost budget because the sector is labor-intensive, which needs the workforce (Minhaj and Khan, 2025). Lastly, the variance analysis makes it possible to monitor the financial performance by comparing the budgeted plans against the actual performance realized.

The wider analytical approach seems to be crucial to the extent of studying the success of firms in terms of PSGs, especially chartered entities. The reason is that the rationale of the work of such companies is highly different with that which is received in manufacturing or asset-heavy companies (Ford & Gosling, 2024). Although in the latter value moments are directly connected with tangible or physical products, can also indirectly connect with a high amount of monetary capital investments, firms that specialize in the provision of PSGs create value through specialized intellectual capital. A traditional methodology fails to provide any meaningful light to the aspects of effectiveness of PSGs.

When it comes to chartered firms, the financial performance is considered a factor but only as a partial condition of success (Walker & Morris, 2021). This is unlike the manufacturing companies, which can be said to have definite parameters of output efficiency because the output of a service company is intangible. Services provided by a company, which could be auditing, taxation, consultancy, etc, are based on professional knowledge, perception and compliance of principles.

Moreover, the factors of the welfare of the employees and the quality of provided services are also significant points that cannot be judged only on the profitability of the firm. The essential component of the services provided by professional companies is the motivation, participation, and competence of employees, whose rendered services are the foundation of the provided services to the clients (Edelman, 2022). This is the reason why profitability-based approaches that are not consistent with the welfare of the employees or are costly to maintain can harm the morale and productivity of the employees, and thus, this profitability will not be sustainable.

2.1 Research Gap

Study of literature shows that financial statement analysis has been extensively discussed in manufacturing organizations, banking institutions, and corporate, large enterprises with a focus on its contribution to enhancing financial performance. Nevertheless, there is a paucity of empirical research on chartered accountancy firms as an independent professional service organization, albeit they are increasingly important economically and have certain unique features of their operation.

To begin with, the studies done by previous researchers have mostly focused on the direct variance between financial analysis and financial performance without laying enough attention on internal managerial processes through which the financial statement analysis affects organizational performance. This omission construe knowledge on how financial information is translated to competitive advantage in professional service firms where managerial judgment and human capital are directly related to performance.

Two, despite the known importance of decision-making effectiveness as an essential managerial skill, there is paucity of empirical research on this measure as a mediating variable on the relationship between financial statement analysis and company performance, especially in the chartered accountancy firms of developing economies like India.

Third, prior studies have been highly biased in the use of limited performance measures and business environment but little focus has been put on competitiveness and managerial efficacy within professional service firms that operate in highly competitive markets such as the NCR. The specific context of the regulatory setting and

competition that chartered firms are exposed to require contextual empirical research.

Lastly, the literature has geographical gap since not many studies empirically investigated the role of financial statement analysis in improving the performance and competitiveness of chartered firms in the Indian professional services industry.

The current research fills these gaps by offering empirical evidence of the relationship between financial statement analysis and firm performance and competitiveness in terms of increased effectiveness of decision making thus contributing to existing literature on financial management and professional service firms.

3. METHODOLOGY

3.1 Research Approach

The research method used in this paper is a quantitative, empirical research study that aims at examining how the financial statement analysis can help firms in bringing in performance and competitive advantages in chartered accountancy firms. The analysis goes beyond the direct impact analysis by integrating the effectiveness of the decision-making as a mediating variable, thus they captured the internal managerial process that the financial analysis has on the firm outcome.

3.2 Sample Design and Data Source

The empirical methodology will be founded on primary data that will be gathered by 100 chartered accountancy firms in the NCR. The respondents were partners, senior auditors, managers, and executives that interpret financial statements as well as make strategic decisions. The sample of the

firms was wide-ranged to make certain representativeness of the small, medium and large practices.

3.3 Measurement of Constructs

Financial statement analysis was measured using structured indicators covering:

- Profitability ratios
- Liquidity and solvency analysis
- Cash flow statement analysis
- Budgetary and variance analysis
- Forecast-based financial evaluation

The performance and competitiveness of firms were evaluated through the following indicators; operational efficiency, increase in revenues, client retention, consistency of profitability and perceived competitive advantage. Effectiveness in decision making was a managerial skill that was used to measure accuracy, timeliness, and a strategic fit of financial decisions.

3.4 Analytical Framework

The research is based on a mediated regression model. The predictor variable is the financial statement analysis, outcome variables are financial performance and competitiveness, and the mediator is the decision-making effectiveness.

Data Analysis Techniques

The analysis involved:

- Descriptive statistics to assess usage intensity of financial statement analysis
- Pearson correlation to examine inter-variable relationships
- Hierarchical regression analysis to test direct effects

- **Mediation analysis using the Sobel test** to assess the indirect effect of decision-making effectiveness

All analyses were conducted using SPSS, and statistical significance was tested at the 5% level.

4. RESULTS AND DISCUSSION

4.1 Descriptive Analysis of Decision-Making Effectiveness

The objective of the descriptive analysis of the Decision-Making Effectiveness (DME) was to analyze the effectiveness of chartered firms in using the financial statement analysis to aid the managerial and strategic decisions. The findings show that the effectiveness of decision making in chartered firms in the NCR is moderately and highly developed, which means that there is a growing tendency to use financial information in operations and strategic decision making.

Table 1. Descriptive Analysis for Decision-Making Effectiveness

DM Statement	N	Mean	Std. Deviation
DM1 Financial analysis improves the quality of managerial decisions.	100	3.57	1.394
DM2 Decisions in our firm are based on systematic financial evaluation.	100	3.44	0.935
DM3 Financial information enables timely decision-making.	100	3.14	1.287
DM4 Strategic decisions are supported by financial analysis outputs.	100	3.71	1.402
DM5 Financial analysis reduces uncertainty in decision-making.	100	3.91	1.198

Table 1 gives the standard deviation and mean of the different dimensions of decision-making effectiveness. The findings indicate that the respondents are to a large extent in support that financial statements increase financial clarity, accuracy of decision making and confidence of managers. Timeliness of decisions and strategic alignment dimensions are also characterized by a positive mean value, but quite lower than clarity aspects. It implies

that although financial data is commonly being used in the routine decision-making, its strategic potential is not fully developed in chartered firms yet.

The identified difference between the dimensions shows the lack of even distribution of the use of advanced financial analysis tools, especially forecasting and scenario-based assessment, in the process of strategic decision-making.

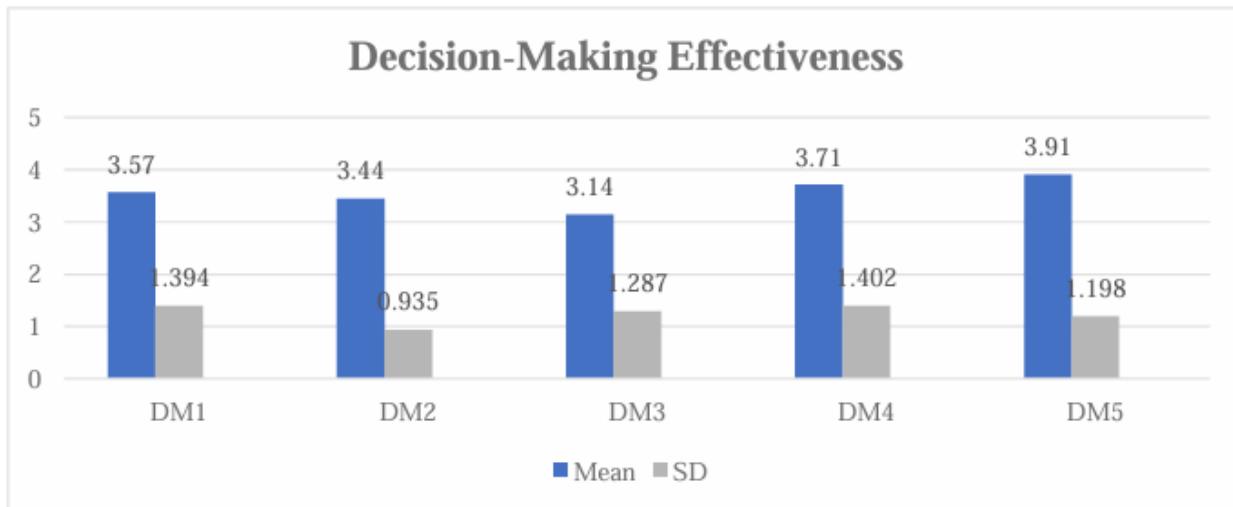


Figure 1. Descriptive Analysis of Decision-Making Effectiveness

The distribution of responses in the dimensions of decision-making effectiveness is provided in Figure 1 in the form of a graphical representation. The figure supports the tabular results by revealing that the overall view of financial statement analysis as a decision-support tool is more positive, and it could be enhanced in the areas of future-oriented and risk-driven decision-making.

4.2 Impact of Financial Analysis Practices on Decision-Making Effectiveness

Regression analysis was done to determine the extent to which financial analysis practices have an important impact on the effectiveness of the decision making process. The findings reveal that the significance of financial analysis practices on the effectiveness of decision making among chartered firms is positive and significant.

Table 2. Coefficients of Financial Analysis Practices and Decision-Making Effectiveness on Chartered Firm's Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.914 ^a	.836	.831	4.00363

Table 2 justifies the report of the regression coefficients, t-values and level of significance of the relationship between financial analysis practices and decision-making effectiveness and their further impact on the performance of firms. The findings validate the fact that the financial analysis practice enhances the effectiveness of decision-making to a large extent that

translates into the positive performance outcomes of firms.

The high value and the importance of the coefficients confirm the hypothesis that financial statement analysis increases the quality of management decisions associated with increasing the financial exposure,

minimizing the uncertainty and making informed strategic decisions.

4.3 Mediation Effect of Decision-Making Effectiveness

The mediation analysis was used to identify the presence of decision-making effectiveness as an intervening mechanism

by which the financial analysis practices can affect the performance of firms. The mediation outcomes validate the fact that the effectiveness of decision-making is a partially significant yet statistically significant mediating variable.

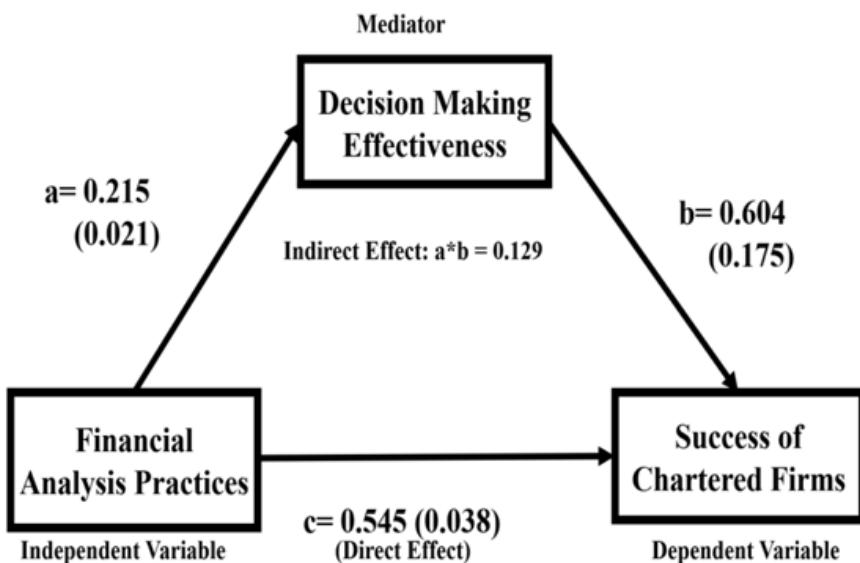


Figure 2. Mediating Role of Decision-Making Effectiveness between Financial Analysis Practices and Firm Performance

The mediation pathway has been illustrated graphically in figure 2 which shows that financial analysis practices have both direct and indirect impacts on the performance of a firm. The indirect impact, which works through the increase in the effectiveness of decision-making, supports the main thesis of this paper that the financial statement analysis is the measure of competitiveness, first of all, because it promotes the soundness of the decision-making process of managers.

5. DISCUSSION

This research investigated whether the use of financial statements analysis can improve

the performance and competitiveness of chartered accountancy firms in the National Capital Region (NCR) and the research focal point was the mediating effect of decision-making effectiveness. The results are significant to the extent that the analysis of financial statements helps organizations achieve their outcomes in professional service firms through enhancing internal managerial processes as opposed to having a direct effect on performance.

The descriptive analysis indicates that effectiveness of decision making in chartered firms is moderate-high in nature which implies that the financial statement analysis is becoming a more and more

prominent decision-support mechanism. The level of agreement among respondents on the issue is high that financial analysis enhances the quality of managerial decisions, uncertainty reduction, and strategic clarity. Nevertheless, comparatively low mean scores on timely and forward-looking decision-making indicate that although financial information is extensively distilled, the entire strategic value of such information is not realized yet. This observation is consistent with the literature that highlights that professional service firms do not always need to engage in proactive strategic planning and in such cases, they mostly operate on financial data.

According to the regression results the practice of financial analysis was found to have statistically significant positive association with decision-making effectiveness. This substantiates the fact that managerial capability may be boosted through systematic application of financial statements to increase financial visibility, assisted evaluation, and alleviate ambiguity in the decision-making process. In knowledge-based professional service organizations, where choices are made concerning pricing, client identification, recruitment, and technology investments are essential, these enhancements in the quality of decision-making have a direct impact on the consistency of the performance and competitive status.

The mediation analysis that is carried out as one of the most important contributions of the study proves that the relationship between the financial statement analysis and the firm performance is partly mediated by the decision-making effectiveness. This observation gives empirical evidence to the claim that the financial analysis of financial statements has a positive impact on the performance of an organization both directly through its financial impact and

indirectly through boosting the internal processes of management. That is, the financial statement analysis increases the performance and competitiveness mainly through the better way of making decisions, not only through the better financial indicators.

This finding is especially topical in the case of chartered accountancy firms where the creation of value is caused by professional skill, judgment, and quality of service, and not by tangible assets. This is unlike manufacturing companies where efficiency gains can be directly converted into output improvement; the practice-based professional service company relies more on quality of managerial decision making about the deployment of human capital, service mix and relationship with clients. The strategic nature of the financial statement analysis to influence such decisions is brought about by the mediating role of decision-making effectiveness in this study.

The results are also in line with the previous literature that advocates a more comprehensive explanation of financial analysis as a management and strategic process and not as a compliance activity. The findings indicate that companies that incorporate financial statement analysis in their daily decision-making procedures are in a better place to deal with uncertainty, the strategic objectives, and remain competitive in the very dynamic environment like the NCR. On the other hand, companies that restrict financial statement analysis to statutory reporting are likely to miss the benefits of the full strategic potential of such analysis.

To sum up, the discussion supports the opinion that the financial statement analysis needs to be integrated into the managerial process of chartered accountancy firms. Financial statement analysis helps firms

make the decisions more effective, therefore, enabling them to get more consistent performance results, and sustain a competitive edge in an ever more complicated professional services environment.

6. CONCLUSION

This paper has explored how financial statement analysis helps increase the performance and competitiveness of chartered accountancy firms in the National Capital Region with a particular context on mediating with decision-making effectiveness. The empirical results confirm the fact that financial statement analysis is an important managerial instrument that has a great impact on the performance of firms, both directly and indirectly by increasing the effectiveness of decision making.

The descriptive findings show that financial statement analysis is moderately to highly used by chartered firms to elucidate managerial decisions, especially in enhancing clarity, minimized uncertainty, and strategic alignment. Nonetheless, the difference in the dimensions of decision-making indicates the idea that the strategic use of high-level analytical tools, including forecasting and scenario analysis, is developing.

The regression and mediation tests are good evidence that decision-making effectiveness is one of the major mechanisms by which financial statement analysis can contribute to better performance and competitiveness of firms. The discovery highlights the fact that financial analysis does not just help organisations achieve success by enhancing financial performance, but also by enhancing the effectiveness, timeliness and strategy of the managerial decisions. Being the key to remaining competitive, decision-

making capabilities are inseparable in knowledge-intensive professional service firms, in which performance strongly depends on human capital and managerial judgment.

On the whole, the analysis shows that chartered accountancy firms should go beyond the compliance-based application of financial statements and introduce financial statement analysis as a part and parcel of managerial and strategic decision-making procedures. Through this, companies will be able to increase the reliability of performance, accommodate competitive forces, and survive in the volatile professional terrain like the NCR.

Future Work

The results of the current research create numerous opportunities in terms of further research. To begin with, the research targets chartered accountancy firms within NCR; the research can be expanded in the future to other locations or make comparison research in non-metropolitan and metropolitan areas to enhance the generalizability of the results.

Second, the current study will utilize a cross-sectional design. Further studies can utilize longitudinal designs to address the effect of financial statement analysis and effectiveness of decision making on performance of firms in the long term.

Third, although the scope of the proposed study is on the effectiveness of decision-making as a mediating variable, other mediators or moderators like organizational culture, leadership style, or adoption of technological innovations may be considered in future studies to develop a deeper insight on the drivers of performance in professional service firms.

Lastly, more analytical methods could be used in future studies, including the structural equation modelling or mixed-method approaches, to obtain more in-depth

understanding of the behavioural and strategic aspects of financial decision making in chartered companies.

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