Integration of Audit Quality Practices and the Determinants of Strategic Decision-Making Ability to Enhance Business Performance

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Abstract:- The objective of this study is to integrate audit quality practices and the determinants of strategic decision-making ability to enhance the financial performance of the selected businesses in Ghana, which contribute differently to the existing body of knowledge. The cross-sectional data on 120 businesses was collected in 2022 via the World Bank survey on business growth in Ghana. The results of the fitted OLS regression model show that audit quality practices and the determinants of strategic decision-making ability have a positive effect on business performance, indicating that high audit quality practices and strategic decision-making ability enhance the financial performance of business enterprises in Ghana. The Pearson correlation analysis also indicates that business performance is positively associated with audit quality practices, and strategic decision-making ability enhances financial performance. Consequently, it is new for all businesses, including private and public, to embrace a high level of audit quality practices and strategic decision-making ability to enhance the financial performance of businesses in Ghana and other west African communities.

Keywords:- *Business Performance, Audit Quality Practices, Strategic Decision-Making Ability, OLS Regression Model, Pearson Correlation.*

I. INTRODUCTION

A financial statement audit is a crucial mechanism for mitigating information asymmetries and ensuring the effectiveness of a corporate environment (Elewa & El-Haddad, 2019). For the audit process to enhance corporate performance, it is essential to have audited financial information that is credible and reliable. Currently, the significance of the audit profession has grown as a result of information asymmetry and the influence of financial information on investment choices. The quality of audits plays a crucial role in bolstering trust in the reliability and honesty of financial accounts, which is necessary for improving the financial performance of a company (Farouk & Hassan, 2014). Audit quality is essential for instilling confidence in users who rely on the audit report to make investment decisions.

An auditor is responsible for preventing, identifying, and reporting instances of fraud, other unlawful activities, and mistakes (Oluwagbemiga, 2010). This idea has been notably emphasized by the decline of both small and large enterprises globally. Auditor independence plays a crucial role in enhancing the quality of financial reporting. It achieves this by enhancing the effectiveness and efficiency of the audit process and ensuring that auditors maintain a necessary level of distance from their clients. This distance is important to safeguard the auditors' integrity and prevent any compromise to their unbiased opinion (Tobi et al., 2016). The autonomy of auditors plays a crucial role in upholding the trust of users in the audited financial accounts. Auditor independence can be influenced by various circumstances, including the provision of non-audit services to the client and having relationships with the client firm. Furthermore, if the auditors exceed the expected duration of their engagement with a client, known as extended audit tenure, it can potentially compromise their independence (Jackson et al., 2008). Regulators established guidelines to govern the interaction between the auditor and the customer. Auditors are subject to further limitations on the types of non-audit services they can offer due to the Sarbanes-Oxley (SOX) Act and the regulations set by the Securities & Exchange Commission (SEC). The Public Company Accounting Oversight Board (PCAOB) has additionally released supplementary independence regulations pertaining to the offering of specific tax services. According to the SOX act, it is mandatory for the lead and concurring audit partner to be replaced on the audit engagement every five years (Singer & Zhang, 2018). Enforcing restrictions on offering certain audit services to the customer and implementing audit partner rotation can effectively protect auditor independence (Singer & Zhang, 2018). In addition, the ongoing pursuit of maximizing corporate profitability underscores the significance of improving firm financial performance as well.

Furthermore, it is necessary to integrate strategic decision-making into a business environment that will adopt audit quality procedures to improve business performance. When making strategic judgments, it is crucial to comprehend the actual conditions and the intricacies of the surrounding context. Vasilescu (2011) states that in order to make a good decision, it is crucial to clearly define the objectives or desired outcome. Next, gather sufficient and relevant information to evaluate the available options. It is also important to consider various choices that align with the organization's values, interests, and competences. Reflect on the potential outcomes of each course of action and assess their acceptability. Create a concise list of the advantages and disadvantages, prioritizing what you deem as very important, important, or less important. Additionally, learn from past experiences and seek opinions from individuals who have encountered similar situations.

According to Mintzberg, Raisinghani, and Theoret (1976), strategic decisions are responsible for determining the direction and scale of all business actions necessary to accomplish organizational goals. Strategic decisions are distinct from administrative and operational decisions as they pertain to organizational operations that involve high levels of uncertainty and risk. These judgments belong to a category that involves allocating substantial resources, establishing precedents, and leading to a succession of subsequent decisions. According to Ivan and Ivana (2012), strategic decision making is used to address problems with significant consequences and long-term effects on the organization. It primarily focuses on business areas essential for organizational growth, prosperity, and survival. The significance of it mostly stems from its impact on key business performance indicators, such as sustaining an organization's competitive advantage, aligning internal operations with the external environment, and overcoming threats and obstacles. Strategic decisions include inherent risks, as a bad judgment might cause an organization to collapse, leading to disgrace for the company and significant financial losses for stakeholders, potentially resulting in bankruptcy (Mueller, Mone & Baker, 2007).

Hence, the aim of this research is to integrate the practices that ensure high quality audits with the factors that influence the ability to make strategic decisions, in order to improve the financial performance of the chosen businesses in Ghana. This will be achieved by utilizing an appropriate economic model, which will make a significant contribution to the current knowledge in this field.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Research studies investigate the impact of audit quality on the performance of the firm. Several research utilized several factors such as the size of the audit company, the experience of the auditor, the fees charged for the audit, the rotation of auditors, and the independence of auditors to represent audit quality. Examples of these studies include Bouaziz (2012), Anderson and Verma (2012), Farouk and Hassan (2014), Tobi et al. (2016), and Matoke and Omwenga (2016). The study conducted by Elewa et al (2019) investigates the correlation between audit fees, which serve as an indicator of auditor independence, and the quality of audits conducted by businesses in New Zealand. The study found that the provision of non-audit services by a firm's auditors undermines the auditors' independence. Farouk and Hassan (2014) examine the impact of audit quality on the financial performance of cement companies listed in Nigeria. The objective was to assess the influence of auditor independence and audit firm size, which were used as indicators of audit quality, on financial performance through the application of multiple regression analysis. The results indicate that the size of the audit company and the independence of the auditor have notable effects. Nevertheless, the impact of auditor independence on business financial performance surpasses that of auditor size. In their study, Matoke and Omwenga (2016) examine the correlation between the quality of audits and the financial performance of listed companies in Kenya. They use various indicators such as auditor independence, auditor size, audit team qualities, auditor experience, and net profit margin. The study examined the data by utilizing multiple linear regression analysis. The findings of this study indicate a positive and substantial relationship between audit quality and financial performance. Furthermore, the degree of auditor independence is positively associated with increased profitability in firms. Woodland and Reynolds (2003) examine the correlation between indirect indicators of audit quality and financial statement analysis through the use of multivariate regression analysis. It was found that there is no evidence to support the idea that the size, length of service, or industry specializations of auditors are related to the quality of audits. Miettinen (2011) examines the connection between audit quality and financial performance. The measurement of audit quality was based on the size of the auditor. The study's findings demonstrate that audit quality exerts both a direct impact and an indirect impact, mediated through audit size, on financial performance. In a study conducted by Bouaziz (2012), the relationship between the size of auditors and the financial performance of 26 Tunisian enterprises listed on the Tunis Stock Exchange was examined. The results indicate that the size of auditors significantly affects the financial performance of organizations in terms of Return on Assets (ROA). The study conducted by Anderson and Verma (2012) investigated the correlation between the size of auditors, the length of their employment, and the rotation of auditing firms.

In addition, the capacity to make strategic decisions in business is a combination of various characteristics of ability. The research on strategic decision-making ability centers around the structure of strategic decision-making ability and the elements that impact it (Bilancini et al., 2019). Strategic decision-making ability, as described in the literature, consists of three key competencies. Firstly, it is the skill to identify, forecast, and seize strategic opportunities by evaluating the surrounding environment. Furthermore, it is essential to possess the capacity to formulate strategic judgments, including establishing objectives and determining a business plan. The third step involves the integration of resources through the process of selecting, acquiring, and employing resources (Wally & Baum, 1994). The study conducted by Schønning et al. (2019) posits that the strategic decision-making ability system comprises three dimensions: strategy analysis, strategy selection, and optimization, as well as adaptive and updating capability. The synergy of these parts is essential for the development and refinement of strategic decision-making. A complete and practical driving model is developed by thoroughly examining the variables involved in rational decision-making (Spanuth et al., 2020).

Moreover, improving an individual's ability to make strategic decisions enables them to gain a deeper understanding of the unique characteristics of their surroundings and the always evolving patterns (Bilancini et al., 2019). The primary focus of academic study is strategic decision-making, particularly in the field of environmental sustainability (Bilancini et al., 2019). Given the limited explanatory power of theoretical frameworks that primarily focus on human capital, scholars have turned their attention to examining how the features of entrepreneurial and executive teams influence the quality of strategic decision-making. This shift in focus is in response to the realization that demographic variables play a significant role in this context. Notable studies by Friedman and Carmeli (2018) and Feng et al. (2022) have contributed to this emerging field of research. Prior study provides evidence of a correlation between the aggression, core self-evaluation, and strategic decision-making abilities of the senior management team (Clohessy & Acton, 2019; Gao et al., 2021).

Currently, there is a strong focus on understanding how the psychological characteristics of decision-makers impact their capacity to make effective strategic decisions. The main intellectual factors to examine are the cognitive approach, complexity, requirements, and variance (Forbes, 2007; Nadkarni & Narayanan, 2007). From a cognitive perspective, the strategic decision-making process comprises three stages: environment scanning, interpretation, and action (Kumbure et al., 2020). This study categorizes the ability to make strategic judgments into three distinct areas: scanning, interpretation, and action ability. The ability to survey the surroundings for vital information. The ability to analyze and interpret data in a perceptive and innovative manner. Behavioral ability refers to the capability to engage in logical assessment and judgment, and subsequently choose suitable actions in response to the environment (Li et al., 2019).

Business firms consider the external environment as a crucial aspect of the strategic decision-making process in strategy formation (Chen, 2022). Comprehending the scientific aspects of the environment, accurately identifying its characteristics and dynamic patterns, and pursuing the most optimal entrepreneurial approach are crucial for the success of a business venture (Zhou & Wu, 2018; Xi et al., 2019). Decision-makers who possess a high level of environmental scanning ability are able to gather a more thorough range of internal and external information pertaining to the enterprise. This ability also facilitates effective communication with external stakeholders, acquisition of strategic information, and continual reduction of information bias through the supplementation and correction of information (Hongjia et al., 2010; Wang & Xu, 2019). Policymakers that possess robust interpersonal skills can develop a comprehensive comprehension of the external competition, as well as the economic, financial, and legal landscape (Sarker & Palit, 2014). Individuals possessing robust executive capacity can formulate more strategic decision-making strategies. Offer a wide range of viewpoints for policymakers to assess strategic initiatives. During the debate, decision-makers can thoroughly and impartially assess various strategic alternatives for technological innovation. The aim is to select high-quality solutions from a wide range of options (Yuetong, 2022). Hence, possessing a robust capacity for strategic decision-making might serve as a fitting framework for firms seeking growth and innovation. It identifies the trajectory of enterprise growth, directs entrepreneurial endeavors, and provides ongoing oversight of business performance and entrepreneurship. Thus, this research presents the following hypotheses:

- H1: Scanning ability has a positive effect on business financial performance.
- H2: Interpretation ability has a positive effect on business financial performance.
- H3: Action ability has a positive effect on business financial performance.

➢ *Agency Theory*

The need for an audit emerges due to the presence of information asymmetry and agency conflicts among business managers, outside investors, and middlemen. According to Dang (2004), auditing financial statements serves as a reliable monitoring method from the perspective of Agency Theory. It provides assurance to stakeholders that the financial statements are accurate and do not contain significant errors. The literature extensively use Agency Theory to examine the knowledge asymmetry that exists between principals (shareholders) and agents (management). The principal-agent relationship, as shown in the agency theory, is crucial for comprehending the evolution of the auditor's job. Agency Theory posits that conflicts of interest emerge in corporate relationships as a result of the disparity between the advantages received by managers and shareholders. The Agency Theory posits that the auditor's responsibility is to oversee the relationship between the manager and the owners. The manager and owners must comprehend that the auditor is not accountable for the accounting process. Nevertheless, it is the duty of the auditor to ensure that the audit is sufficient (Emander & Andersson, 2005). Agency theory is an economic theory that helps clarify the enhancement of audit quality by addressing issues of responsibility.

➢ *Theory of Inspired Confidence*

Limperg noted that when a society lacks faith in the efficacy of the audit, it consequently undermines the utility of the auditing process. Limperg's Theory of Inspired Confidence focuses on the market dynamics of audit services, considering both the demand and supply aspects. Limperg argues that the demand for audit services arises from the involvement of external stakeholders in the company. The stakeholders expect the management to be accountable for their contributions to the firm. The Theory of Inspired Confidence establishes a connection between the community's requirement for trustworthy financial information and the capability of audit techniques to fulfill these requirements. It emphasizes the evolution of the community's needs and the auditing methods throughout time. Hence, modifications in societal demands and advancements in auditing methodologies lead to alterations in the role of the auditor.

Extensive literature exists on the correlation between ownership structure, corporate governance, and firm performance in established capital markets. There is a scarcity of research on the correlation between the quality of audits and the financial performance of companies operating in underdeveloped capital markets. Hence, there is a need for more investigation into the audit quality and its influence on the financial performance of companies functioning in the business climate of Ghana.

Assess the impact of auditor autonomy and auditor expertise on the financial performance of a company. Therefore, the hypotheses can be formulated as follows:

- H4: There is a significant effect of auditor independence on business financial performance.
- H5: There is a significant effect of auditor experience on business financial performance

III. METHODOLOGY

The quantitative research design was adopted for this study, and cross-sectional data of 120 businesses was collected in 2022 via the World Bank survey (data.worldbank.org/country/gh) on business growth in Ghana based on their auditor quality and financial performance using a purposive sampling technique for the purpose of the analysis of this study.

The methods of analysis in this study include summary statistics (mean and standard deviation), the OLS regression model, and correlation analysis. The OLS (ordinary least squares) regression is suitable for this study because the response or dependent variable is continuous, while the independent variables are also continuous. The regression model helps establish the linear link between business performance, audit quality practices indices, and strategic decision-making ability. The OLS regression model also examines the impact of audit quality practices indices (measured with auditor experience and auditor independence) and strategic decision-making ability (measured with scanning ability, interpretation ability, and action ability) on business performance. It is a parametric method. The adequacy of the regression model is measured via the R-squared and the significance of the overall regression model. The R-squared is the coefficient of determination that examines the variation in the response variable explained by the independent variables. The regression model can be specified as follows:

$$\text{Performance}_i = \beta_0 + \beta_1\text{Auditor Exp}_i + \beta_2\text{Author Ind}_i + \beta_3\text{Scanning}_i + \beta_4\text{Interpretation}_i + \beta_5\text{Action}_i + \mu_i$$

Where Performance is the business financial performance measured in percentage and it is the dependent variable.

The auditor experience (measured in years) and auditor independence (in percentage) are used as proxy to audit quality practices, while scanning ability (in percentage), interpretation ability (in percentage), and action ability (in percentage) are used as proxy to strategic decision-making ability, and they are the independent variables in the regression model. The β_0 is the constant term or intercept, while the β_1 to β_5 are the slopes or coefficients of the independent variables. The μ_i is the stochastic error term, while the ith unit represents the selected businesses.

The other parametric approach adopted in this study is the Pearson correlation, which is used to examine the direction and strength of association between the variables such as business performance, audit quality practices indices, and strategic decision-making ability. The correlation coefficient r lies between the two critical values of -1 and +1, respectively.

Meanwhile, the following diagnostic tests are essential to ensuring the reliability and accuracy of the parametric regression model applied in this study, which include the multicollinearity test, normality test, heteroscedasticity test, and autocorrelation test.

IV. RESULTS

Table 1 Summary Statistics

	N	Mean	Std. Deviation
Business Performance	120	41.78	13.544
Auditor Experience	120	9.1	2.306
Auditor Independence	120	42.42	16.214
Scanning Ability	120	17.26	19.014
Interpretation Ability	120	34.83	19.264
Action Ability	120	49.94	18.186
Valid N (listwise)	120		

Source: Author's Computation using SPSS Software

Table 1 shows that the average financial performance of the businesses under study is about 42% with a variability of about 14%, the average auditor experience is about 9 years with a variability of about 2 years, the average auditor independence is about 42% with a variability of about 16%, the average scanning ability is about 17% with a variability of about 19%, the average interpretation ability is about 35% with a variability of about 19%, and the average action ability of the businesses under review is about 50% with a variability of about 18%.

Table 2 OLS Regression Analysis

Dependent Variable: Business Performance					
Method: Least Squares					
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**	**VIF**
C	0.986465	0.555599	1.775499	0.0785	NA
Auditor experience	-0.021176	0.049162	-0.430736	0.6675	1.097285
Auditor independence	0.378403	0.008453	44.76311	0.0000	1.604040
Scanning	-0.005112	0.006013	-0.850065	0.3971	1.116084
Interpretation	0.356320	0.007275	48.97969	0.0000	1.676854
Action	0.252533	0.006322	39.94813	0.0000	1.128425
R-squared	0.992721	Mean dependent var		41.78176	
Adjusted R-squared	0.992402	S.D. dependent var		13.54408	
Prob(F-statistic)	0.000000				

Source: Author's computation using EViews Software

Table 2 shows that the coefficient estimate of auditor independence is positive and has a significant positive effect on the financial performance of the businesses under review, indicating that high audit quality practices, which is a proxy for auditor independence, contribute to huge business financial performance. This supported the 4th hypothesis (H4). Additionally, Table 2 demonstrates that both the coefficients of interpretation ability and action ability have a significant positive impact on the financial performance of businesses, supporting the second and third hypotheses, respectively. This suggests that an improvement in strategic decision-making ability, which is a proxy for interpretation ability and action ability, contributes to an improvement in the financial performance of businesses in Ghana. The overall model P-value is less than the 0.05 significant level, which means we reject the null hypothesis at the 5% level. This means the OLS regression model is statistically significant, which means there is a significant linear relationship between the financial performance of a business, the quality of its audits, and its ability to make strategic decisions. The variance inflation factor (VIF) of all the independent variables is less than 5, which implies that the fitted regression model does not suffer from the problem of multicollinearity, and this means that the results of the model are reliable. The R-squared value of 0.9927 indicates that strategic decision-making ability and audit quality practices can adequately explain about 99.27% of the variation in business financial performance. This suggests that the OLS regression model is adequate and a good fit to the data, as the overall model is statistically significant, the R-squared is relatively high, and there is no problem of multicollinearity.

Table 3 Diagnostic test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	2.144403	Prob. F (5,114)	0.0651
Obs*R-squared	10.31608	Prob. Chi-Square (5)	0.0668
Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	14.82588	Prob. F (2,112)	0.0545
Obs*R-squared	25.11943	Prob. Chi-Square (2)	0.0587
Jarque-Bera	10.1048	Prob	0.0639

Source: Author's Computation using EViews Software

Table 3 shows that the P-values for heteroscedasticity and serial or autocorrelation tests exceed the 0.05 significant level, which means that we do not reject the null hypothesis at the 5% significant level, indicating that the fitted OLS regression does not suffer from the problems of autocorrelation and heteroscedasticity, which satisfy the OLS assumption. Similarly, the P-value for the normality test via the Jarque-Bera test exceeds the 0.05 significant level, which means that we do not reject the null hypothesis at the 5% level, and this suggests that the residual is normally distributed, which satisfies the OLS parametric assumption of normality.

Table 4 Correlation Coefficient

	Business Performance	**Auditor Experience**	**Auditor Independence**	**Scanning**	**Interpretation**	**Action**
Business Performance	1					
Auditor Experience	0.178	1				
Auditor Independence	0.823**	0.056	1			
Scanning	-0.301**	0.064	-0.256**	1		
Interpretation	0.860**	0.136	0.605**	-0.281**	1	

Action	0.538**	0.261**	0.182*	-0.103	0.230*	1
N	120	120	120	120	120	120

Source: Author's Computation using SPSS Software. Where Asterisk ** and * Represent 1% and 5% Level of Significance Respectively

Table 4 shows that there is a strong and positive significant relationship business financial performance, auditor independence and the interpretation ability while the business performance have a moderate positive significant relationship with the action ability, weak positive association with the auditor experience and weak negative significant association with the scanning ability, indicating that the higher the auditor experience and auditor independence, which is a proxy for audit quality practices, the higher will also be the business performance and the higher the action ability and interpretation ability, which is a proxy for the strategic decision-making ability, the higher will also be the business performance while the business performance indicate a decline with the increase in scanning ability.

V. DISCUSSION OF FINDINGS

From findings presented in Table 2, the coefficient estimate of auditor independence is positive and has a significant positive effect on the financial performance of the businesses under review, indicating that high audit quality practices, which is a proxy for auditor independence, contribute to huge business financial performance. This supported the 4th hypothesis (H4). Additionally, Table 2 demonstrates that both the coefficients of interpretation ability and action ability have a significant positive impact on the financial performance of businesses, supporting the second and third hypotheses, respectively. This suggests that an improvement in strategic decision-making ability, which is a proxy for interpretation ability and action ability, contributes to an improvement in the financial performance of businesses in Ghana. The OLS regression model is statistically significant, which means there is a significant linear relationship between the financial performance of a business, the quality of its audits, and its ability to make strategic decisions. This aligns with the work of Farouk and Hassan (2014), Tobi et al. (2016), Matoke and Omwenga (2016), and Elewa et al. (2019), who also use auditor independence as a proxy for audit quality. The findings of Farouk and Hassan (2014) show that auditor independence has a significant effect on firm performance, which supports the findings of this study. Additionally, the result of the regression analysis supported the work of Kumbure et al. (2020), who posited that the strategic decision-making process encompasses three cognitive stages: environment scanning, interpretation, and action. In their research, they analyze the capacity to make strategic judgments by dividing it into three distinct categories: scanning, interpretation, and action ability.

Besides, the correlation analysis from Table 4 shows that that there is a strong and positive significant relationship business financial performance, auditor independence and the interpretation ability while the business performance have a moderate positive significant relationship with the action ability, weak positive association with the auditor experience and weak negative significant association with the scanning ability, indicating that the higher the auditor experience and auditor independence, which is a proxy for audit quality practices, the higher will also be the business performance and the higher the action ability and interpretation ability, which is a proxy for the strategic decision-making ability, the higher will also be the business performance while the business performance indicate a decline with the increase in scanning ability.

VI. CONCLUSION

Prior research has examined the effects of audit quality and strategic decision-making ability on firm performance individually. However, this study takes a different approach by combining audit quality practices and the factors that determine strategic decision-making ability. The aim is to improve the financial performance of selected businesses in Ghana using an economic model. This research will make a significant contribution to the existing knowledge in this field.

The results of the OLS regression model indicate that both audit quality practices and the determinants of strategic decision-making ability have a positive impact on business performance. This suggests that implementing high-quality audit practices and possessing strong strategic decision-making ability can enhance the financial performance of business enterprises in Ghana. The correlation analysis demonstrates a favorable relationship between corporate performance and the implementation of high-quality audit practices. Additionally, it suggests that financial performance is improved by the ability to make strategic decisions.

Therefore, it is imperative for all businesses, both private and public, to adopt a rigorous approach to auditing and develop strong strategic decision-making skills in order to improve the financial performance of enterprises in Ghana and other West African regions.

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