INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN ACCOUNTING, FINANCE AND MANAGEMENT SCIENCES

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ISSN: 2225-8329

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To Link this Article: http://dx.doi.org/10.6007/IJARAFMS/v12-i3/14406 DOI:10.6007/IJARAFMS /v12-i3/14406

Received: *17* June 2022*, **Revised:*** *21* July 2022*, **Accepted:*** *30* July 2022

Published Online: *15* August 2022

In-Text Citation: (Ali, 2022)

To Cite this Article: Ali, S. T. M. (2022). The Impact of Cost-Benefit Analysis on Firm Performance: A Review. *International Journal of Academic Research in Accounting Finance and Management Sciences*, *12*(3), 132–138.

Vol. 12, No. 3, 2022, Pg. 132 - 138

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The Impact of Cost-Benefit Analysis on Firm Performance: A Review

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Abstract
The majority of businesses aim to boost their performance in every manner they can. Those that make an effort to develop, attain, and maintain performance can hold the winning card. Thus, it is imperative to compete in a constantly changing environment in order to understand and track success. One way that business firms can innovatively achieve this business success in the changing landscape of the twenty first century business environment is by applying the tenets of cost benefit analysis in their decision making. This conceptual paper reviews scholarly works on the topic in order to propose hypotheses that could be used in future studies to address the influence of cost benefit analysis, in improving firm performance. It does so by drawing on the principles of strategic management accounting and the perspectives of the cost benefit analysis. A probe into this problem would be crucial for Iraq and, indirectly, those Middle Eastern nations that are connected to Iraq on a sociocultural and economic level. This paper's uniqueness comes from its contribution to the improvement of theoretical, conceptual, and methodological reasoning for the connections between strategic cost-benefit analysis applications and firm performance in business organisations. This will help to strengthen the current literature's discussion.
Keywords: Cost-benefit Analysis, Firm Performance, Management Accounting, Business Environment

Introduction

Globalization and international business coexist in the twenty-first century. Due to the economic downturn, attention is being placed more than ever on enhancing firm performance, the effectiveness of business processes, prudent costing, and return on investment (Maresova et al., 2017). This new century's corporate environment has seen a number of changes that have increased complexity and uncertainty. Businesses are under intense competitive pressure to do tasks more efficiently, quickly, and affordably in this dynamic environment that characterizes the modern global economy. They must improve their capacity for adaptation as they deal with an increasing number of environmental concerns. Moreover, nowadays, due to the prevailing change in business landscape heightened most recently by the COVID-19 pandemic, firms are in pursuit of techniques, models and solutions to help resolve this challenge. Continuous increase in firm performance is now every company's goal (Beauty & Aigbogun, 2022). This is due to the fact that businesses may only experience development and advancement through performance. Because businesses are continually looking for effective and efficient results, evaluating and analyzing business performance is crucial (Taouab & Issor, 2019); more so, doing this by trading off advantages and disadvantages of certain strategic interventions. This is where cost-benefit analyses comes into play

According to Rasid et al (2011), cost-benefit analysis refers to the methodical process for determining the advantages and disadvantages of potential solutions to satisfy transactions, operations, or functional needs. In general, cost-benefit analysis entails totaling up the expenses associated with a project or decision, deducting that sum from the predicted benefits, and calculating the net result. If the anticipated advantages surpass the anticipated costs, you could argue that the choice is a good one to make (sometimes, this value is expressed as a ratio). On the other hand, a business may want to reconsider the choice or initiative if the costs surpass the advantages.

The adoption of certain organizational change processes geared towards improving firm performance comes at its own risk. The reality of the COVID-19 pandemic saw the struggle for survival of many firms which devised several techniques to remain in business. Employees will be impacted by the significant organizational change that occurs from this. The main aim of this paper is to make theoretical contributions which can be translated to practical realities in the firm by evaluating arguments centred on cost-benefit-analysis as a strategic management technique for enhancing firm performance. The target of this contribution are primarily managers of business firms who are in search for models that would keep them competitive. A review of pertinent literature is key to achieving this aim.

Literature Review

Researchers have worked hard to come up with performance idea measures. This topic of firms' performance is still being debated and has an incomplete body of literature. Many of the methods for improving business performance have received scathing reviews from academics around the world. The cost-benefit analysis is one of the more well-known. Under the following subheadings—conceptualizing cost-benefit analysis, conceptualising firm performance, and cost-benefit analysis in firm performance—this part examines the review of the literature.

Conceptualizing Firm Performance

The study of Taouab and Issor (2019) addresses the conceptualization of firm performance, whereby they argue that the concept of firm performance has recently gained importance in research on strategic management and is regularly employed as a dependent variable. Although it is a widely held belief in the academic literature, its definition and measurement are seldom ever agreed upon. However, because there is no operational definition of firm performance that the majority of researchers agree upon, there will inevitably be a variety of interpretations proposed by different persons based on their individual perspectives. Definitions of this term can be vague, generic, poorly defined, or abstract.

Le (2005) claims that firm performance is a measure of an organization's capacity to use both material and human resources in order to meet its goals. Truong and Tran (2009) as well as Nguyen et al (2021), who contend that company performance should also take into account the effectiveness of applying business means during the production and consumption process, also lend credence to this line of thinking. The performance of a firm demonstrates

the relationship between the output outcomes and the input resources used during an enterprise's business activities (Truong & Tran, 2009).
Return on assets (ROA), return on equity (ROE), and return on investment are prominent metrics used to measure business performance (ROI). These financial ratios, which have been employed by numerous researchers, including Ang et al (2000) are represented by the accounting indicators of firm success.
Abor (2005) examines the connection between financial structure and firm performance of enterprises in Ghana, where firm success is assessed by ROE, using financial data of 20 listed firms. In their study by Nieh et al (2008), ROE and EPS were used as tabular data from a sample of 143 electronic companies that were listed on Taiwan's stock market between 1999 and 2004. Panel data analysis was employed by Saeedi and Mahmoodi (2011) with a sample of 320 listed companies on the Tehran stock exchange (Iran). ROA, ROE, EPS, and Tobin' Q are used to evaluate a company's success.

Conceptualizing Cost Benefit Analysis
Comparing the anticipated or predicted costs and benefits (or opportunities) connected with a project choice in order to assess whether it makes sense from a business standpoint is known as a cost-benefit analysis (Mishan & Quah, 2020). Jules Dupuit, who developed this concept, believed that selecting any option from the many available options required examining the relationship between the entire cost of that option and the advantages associated with it before making a selection based on the findings of that relationship.
The idea of cost-benefit analysis has been the subject of opinion from a number of study authors. For instance, according to Kenton (2018), cost benefit analysis is a method for calculating all expenses associated with and potential profits to be generated from a business opportunity or proposal. Cost benefit analysis, according to Kevin et al (2010), is a methodical strategy used to evaluate the strengths and weaknesses of any transactions or activities by contrasting prospective benefits with expenses related to the operations. According to John (2009), this idea is an analytical procedure, the results of which will assist managers in determining whether the project is financially beneficial before building a new facility or taking on a new project. Although it can be used to help decide practically any course of action, its most typical application is to help assess whether to proceed with a big expense. It is a key decision-making method that helps determine whether a planned activity or expenditure is literally worth the price (Robert, 2014).
According to AL-Obaidi and Salman (2019), due to their connection to the success or failure of these firms, decisions in the business environment are currently regarded as one of the most challenging tasks for modern commercial organisations. The cost-benefit analysis is one of the most crucial instruments that assists in facilitating this process since it directly connects with the demands and requirements of a large group of users, whether inside or outside of business. Due to the difficulty in matching the costs that a company may spend from this project in return for the benefits anticipated to be acquired in the near future, the process of choosing any project related to the commercial activities of the firm has recently become challenging and confusing.
Al-Obaidi (2014) as well as AL-Obaidi and Salman (2019) addressed the factors that influence cost benefit analysis. The size of the company is one of these factors. For small businesses, applying for a CBA is relatively simple and easy, and it only takes a short amount of time. However, in large businesses, applying for a CBA is frequently seen as a challenging and

complex procedure that takes a lot of time and requires an advanced level of accounting expertise.
The degree of internal inflation and the type of economic system in use are two significant factors that have an impact on the phenomena of cost-benefit analysis (Al-Obaidi, 2014). The economic systems used in developing and developed nations differ from one another, and this difference has a significant impact on the nature of accounting applications and practices, particularly when the idea of cost-benefit analysis is applied to an economic offer (Aigbogun et al., 2018). It is evident from studying the benefits and drawbacks of using the concept of cost benefit analysis that, despite the benefits that entities can obtain from it, there are a number of drawbacks, such as the challenge of identifying and measuring the costs associated with the proposed economic offer, both direct and indirect, as well as a number of barriers that impede the process of assessing the economic benefits, whether tangible or intangible. 2019 (Vladimirovna).

Cost Benefit Analysis and Firm Performance
The study of Chan et al (2012) show that in order to make better business decisions, companies frequently use cost-benefit analysis to compare different projects. Srhoj and Walde (2020) buttresses this fact and notes that companies must assess each prospective expense and source of income that a project might produce. The analysis's findings indicate whether the company should pursue another financially viable project or if the revenue generated is insufficient to cover costs. Companies utilize the cost benefit analysis method to predict the costs and benefits of future initiatives (Aigbogun et al., 2017). The opportunity cost is a factor that many businesses take into account when making decisions. Analyzing potential benefits that might have been gained by selecting one choice over another aids businesses.
The study of AL-Obaidi and Salman (2019) examined the relationship between the project's overall cost and anticipated benefits as provided by the company's top management. It was based on a central premise, according to which the results of a thorough and accurate analysis of the cost-benefit relationship can be used as an indicator to gauge the project's potential financial benefits while also assessing the accounting abilities of the accountants in charge of carrying out this process.

Proposed Hypotheses
From the review of secondary data arising from prior studies, the following research hypotheses are proposed for further testing in future studies.
H1: Cost benefit analysis positively influences firm performance
H2: Cost benefit analysis moderates the influence of company size on firm performance
H3: Cost-benefit analysis moderates the effect of internal inflation on firm performance
H4: Cost benefit analysis moderates the influence of type of economic system on firm performance

Conclusion
The findings from this conceptual paper shows that, from the secondary sources reviewed, the performance of firms across industries has a direct bearing on their ability to make strategic decisions on the trade-off between the cost of investing on undertaking a project and the benefits to be accrued to the project. As a result, a proposition for further testing is assumed for a direct influence of cost benefit analysis on firm performance. The findings also

show that company size, internal inflation and type of economic systems are vital variables in this relationship. The originality of this work is in its improvement of theoretical, conceptual, and methodological justification for the relationships between strategic cost-benefit analysis applications and company performance in business organizations. This will support the discussion in the extant literature.

High and sustained earnings from a well-run business can lead to increased employment prospects and personal income. Additionally, a company's financial success will increase employee pay, improve its manufacturing facilities, and produce higher-quality goods for its clients. This conceptually oriented review's key value is that it offers organized data on previously published research in terms of the methodological approaches utilized, the variables examined, and the results attained.

From the reasoning of the present study, if any firm wants to maximize the anticipated economic worth of a strategic business intervention, cost-benefit analysis might be the right approach. Even in these situations, however, certain additional value-laden assumptions and decisions must be made. One difficulty is how to balance current costs and future rewards. The analysis's results could be significantly impacted by the discount rate selection. Once the cost-benefit analysis is completed, alternative selection criteria may be used. Sometimes all solutions are seen to be acceptable as long as the benefits outweigh the costs. But one can also select the choice with the greatest net benefits, or the option with the greatest percentage of net benefits.

Suggestion for Future Research Agenda

A worthy future research agenda will be to test the zero order relationships as proposed in the four research hypotheses postulated in this study. Moreover, to measure the performance outcome of company implementation intervention, more research integrating strategic management accounting approaches and business case study could be conducted. Future researchers may also take into account improvements in employee satisfaction, talent retention, employee involvement in decision-making, and many other non-financial firm performance outcomes.

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