

THE MODERATING EFFECT OF CORPORATE GOVERNANCE ON THE RELATIONSHIP BETWEEN MANAGEMENT ACCOUNTING AND FIRM PROFITABILITY

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ABSTRACT

The conceptual framework of the study focused on the concepts of management accounting, firm profitability and corporate governance, as well as the relationships among these variables. Management accounting was examined as a strategic tool that provides internal financial information for planning, control and decision-making in organisations. Firm profitability was considered a key indicator of organisational performance reflecting the ability of firms to generate financial returns from operational activities. Corporate governance was viewed as the system of rules, structures and processes that ensure transparency, accountability and effective oversight within organisations. The framework further emphasised the relationship between management accounting practices and firm profitability, the influence of corporate governance on firm performance, and the moderating role of governance mechanisms in strengthening the effectiveness of accounting practices. This study examined the moderating effect of corporate governance on the relationship between management accounting and firm profitability. The motivation for the study emerged from the persistent challenges faced by organisations in translating management accounting practices into improved financial performance despite increasing adoption of modern accounting systems. Weak governance structures, poor monitoring mechanisms and ineffective utilisation of accounting information have been identified as factors that limit the contribution of management accounting to organisational profitability. The study therefore investigated how corporate governance strengthens the relationship between management accounting practices and firm profitability. The study adopted a survey research design using structured questionnaires administered electronically to employees of selected service organisations in Nigeria. A total of 241 valid responses were analysed using descriptive statistics and multiple regression analysis. The findings revealed that management accounting practices significantly influence firm profitability, while corporate governance enhances organisational accountability and strengthens the effectiveness of accounting systems.

1. INTRODUCTION

In competitive and dynamic business environments, firms rely on management accounting systems to generate accurate cost information, performance indicators and strategic insights that support managerial decisions and enhance profitability. According to Robert S. Kaplan and Anthony A. Atkinson, management accounting systems enable managers to translate organisational strategies into operational actions through performance measurement, budgeting and cost management techniques. Contemporary organisations therefore adopt management accounting practices such as activity-based costing, balanced scorecards and strategic cost management to improve operational efficiency and financial outcomes. The increasing complexity of global markets has further strengthened the relevance of management accounting as organisations seek effective tools for monitoring resources and achieving sustainable profitability (Kaplan & Atkinson, 2015). Firm profitability remains a critical indicator of organisational performance because it reflects the firm's ability to utilise its resources efficiently and generate returns for shareholders. Profitability also influences investment decisions, corporate growth and long-term sustainability. However, the effectiveness of management accounting in improving profitability often depends on the governance structures that guide managerial behaviour and strategic decision-making. Corporate governance refers to the systems, principles and processes by which organisations are directed and controlled to ensure accountability, transparency and alignment between management and shareholders' interests. According to Andrei Shleifer and Robert W. Vishny, corporate governance mechanisms such as board oversight, internal control systems and audit committees help mitigate agency conflicts between managers and owners. These mechanisms influence how managerial information generated through accounting systems is interpreted and utilised in organisational decision-making processes (Shleifer & Vishny, 1997).

Recent academic discussions increasingly emphasise the interconnected roles of management accounting and corporate governance in shaping organisational performance outcomes. Management accounting provides managers with relevant information for strategic planning and cost control, while corporate governance structures ensure that such information is used responsibly and effectively. Scholars argue that governance mechanisms strengthen the credibility and reliability of accounting information and improve monitoring of managerial activities. According to Chenhall and Moers (2015), management accounting systems influence organisational performance when they align with governance frameworks that support accountability and strategic decision-making. Studies across different economies have demonstrated that management accounting practices significantly influence organisational efficiency and financial performance. For instance, research conducted by Abdel-Kader and Luther (2008) revealed that advanced management accounting techniques enhance organisational decision-making and contribute positively to financial performance. Similarly, Cadez and Guilding (2012) found that strategic management accounting practices improve firm performance when integrated with strategic management processes. Beyond the direct influence of management accounting, scholars increasingly emphasise the role of corporate governance in strengthening organisational performance. Corporate governance mechanisms such as board independence, audit quality and ownership structure influence the effectiveness of internal control systems and managerial accountability. According to Aguilera, Desender, Bednar and Lee (2015), effective governance structures create institutional frameworks that enhance transparency and improve monitoring of managerial activities.

In addition, empirical evidence from international corporate governance studies indicates that firms with strong governance structures tend to exhibit improved financial performance due to enhanced oversight and strategic control (Claessens & Yurtoglu, 2013). More recent empirical investigations have explored the moderating influence of corporate governance on the relationship between management accounting and firm performance. Research by Nguyen, Nguyen and Tran (2022) demonstrated that corporate governance mechanisms

strengthen the impact of management accounting practices on organisational performance by improving the credibility of accounting information and ensuring disciplined managerial decision-making. Similarly, Al-Dhaafri, Al-Swidi and Yusoff (2016) reported that governance quality enhances the effectiveness of management control systems, thereby supporting organisational profitability and operational efficiency. Studies conducted in emerging economies reveal that firms with stronger governance practices tend to adopt more sophisticated management accounting techniques, leading to improved cost control and profitability outcomes. According to Uyar, Kuzey and Kilic (2021), governance mechanisms such as board expertise and internal audit systems facilitate better implementation of management accounting practices and strengthen performance outcomes.

Statement of the Problem

Many organisations continue to invest in management accounting systems with the expectation that such systems will improve operational efficiency and enhance profitability. Management accounting techniques provide managers with financial and non-financial information necessary for planning, performance evaluation and strategic decision-making. However, despite the availability of sophisticated accounting tools, several firms still experience weak financial performance and inconsistent profitability. Scholars have observed that the mere adoption of management accounting practices does not automatically guarantee improved organisational outcomes due to weaknesses in managerial control structures and ineffective governance mechanisms (Chenhall & Moers, 2015). Poor oversight, limited accountability and inadequate board monitoring often weaken the usefulness of accounting information in guiding managerial decisions, thereby affecting firm profitability (Shleifer & Vishny, 1997). The persistence of these challenges has raised concerns among researchers and practitioners regarding the conditions under which management accounting practices effectively translate into improved organisational performance. Empirical evidence suggests that variations in governance structures, ownership patterns and internal monitoring mechanisms may influence how management accounting information is utilised within firms. According to Claessens and Yurtoglu (2013), ineffective governance frameworks can weaken managerial discipline and reduce transparency in financial reporting, thereby undermining organisational performance. Nevertheless, some firms continue to operate with weak governance systems, which limits the strategic value of management accounting information. Although prior studies have separately examined management accounting practices and corporate governance in relation to firm performance, limited attention has been given to how governance mechanisms influence the relationship between management accounting and profitability. Existing literature largely focuses on the direct impact of accounting systems on performance outcomes, while the moderating role of corporate governance remains insufficiently explored, particularly in emerging business environments (Uyar, Kuzey, & Kilic, 2021). This gap creates uncertainty regarding whether strong governance structures enhance or constrain the effectiveness of management accounting practices in improving firm profitability.

Research Objectives

The study primarily examined the moderating effect of corporate governance on the relationship between management accounting and firm profitability. Specific Objectives

- To examine the relationship between management accounting practices and firm profitability.
- To evaluate the effect of corporate governance on firm profitability.
- To determine the moderating effect of corporate governance on the relationship between management accounting practices and firm profitability.

Research Questions

- What is the relationship between management accounting practices and firm profitability?
- What is the effect of corporate governance on firm profitability?
- What is the moderating effect of corporate governance on the relationship between management accounting practices and firm profitability?

Research Hypotheses

H₀₁: There is no significant relationship between management accounting practices and firm profitability.

H₀₂: There is no significant effect of corporate governance on firm profitability.

H₀₃: There is no significant moderating effect of corporate governance on the relationship between management accounting practices and firm profitability.

Conceptual Framework

Concept of Management Accounting

Management accounting refers to the process of identifying, measuring, analysing and communicating financial and non-financial information to managers for planning, controlling and decision-making within organisations. According to Drury (2018), management accounting evolved from traditional cost accounting systems that primarily focused on cost control in manufacturing firms to more strategic approaches that support managerial planning and performance evaluation. The evolution of management accounting reflects the growing complexity of organisational environments and the increasing demand for timely information to support strategic business decisions. Contemporary organisations utilise management accounting information systems to collect and analyse operational data that guide resource allocation, budgeting and performance monitoring (Horngren, Datar, & Rajan, 2019). Empirical studies indicate that management accounting performs several functions in organisations, including planning, controlling, performance evaluation and decision support. These functions are achieved through techniques such as budgeting systems, variance analysis, activity-based costing and balanced scorecard frameworks. Research by Cadez and Guilding (2012) shows that organisations that adopt advanced management accounting practices are more capable of aligning operational activities with strategic objectives, thereby enhancing organisational performance. Similarly, Otley (2016) notes that management accounting information systems improve organisational coordination by providing managers with relevant and reliable information for monitoring performance outcomes.

Concept of Firm Profitability

Firm profitability represents the ability of an organisation to generate financial returns from its operations after accounting for costs and expenses. Profitability is widely regarded as a fundamental indicator of organisational performance and sustainability. According to Brigham and Ehrhardt (2017), profitability reflects how efficiently a firm utilises its assets and resources to produce earnings for shareholders. Common indicators used to measure profitability include return on assets, return on equity and net profit margin. Empirical evidence suggests that factors such as operational efficiency, managerial competence and market conditions significantly influence profitability levels within firms (Nissim & Penman, 2001).

Concept of Corporate Governance

Corporate governance represents the system of rules, processes and institutional arrangements through which organisations are directed and controlled in order to ensure accountability, transparency and responsible management of corporate resources. Governance frameworks establish the relationships among shareholders, managers and other stakeholders, thereby shaping organisational decision-making processes. According to Tricker (2019), corporate governance mechanisms such as board oversight, audit committees and ownership structures serve as monitoring tools that limit managerial opportunism and strengthen organisational accountability. Empirical research has shown that strong governance practices enhance the credibility of financial reporting and improve firm performance outcomes. For instance, Aguilera, Judge and Terjesen (2018) observe that governance structures promote strategic oversight by ensuring that boards of directors actively supervise managerial activities and safeguard shareholders' interests. Similarly, Mallin (2022) explains that effective corporate governance systems strengthen transparency, internal control and ethical management practices within modern organisations, thereby supporting sustainable organisational performance.

Research Methods

Research Design

The study adopted a cross-sectional survey design to examine relationships among variables using structured questionnaire responses from employees of selected service organisations.

Area of the Study

The study was conducted in selected service organisations across major economic zones in Nigeria. The organisations included Access Bank Plc located in Lagos State (South-West), Guaranty Trust Holding Company Plc situated in Abuja, Federal Capital Territory (North-Central), MTN Nigeria Communications Plc headquartered in Lagos State (South-West), and United Bank for Africa Plc located in Lagos State with operational branches across Nigeria. These organisations were selected because of their structured management systems and widespread adoption of accounting and governance practices. Respondents were drawn from branches and operational units within these organisations across Lagos, Abuja, Port Harcourt and Uyo to ensure broad geographical representation and triangulation of responses across different regions of Nigeria.

Population of the Study

The population of the study consisted of managerial and accounting staff working within selected service organisations in Nigeria. These included employees from finance departments, internal audit units, strategic planning units, corporate governance offices and operational management divisions. Staff lists were obtained from the administrative records of the selected organisations within Lagos, Abuja, Port Harcourt and Uyo branches. The population comprised 820 employees occupying managerial, supervisory and accounting-related positions who possessed relevant knowledge of management accounting practices and corporate governance processes within their respective organisations.

Sample and Sampling Technique

A multi-stage sampling technique was employed in selecting respondents for the study. In the first stage, four major service organisations were purposively selected due to their adoption of formal governance and accounting systems. In the second stage, departments such as finance, accounting, internal audit, risk management, and corporate governance units were identified within each organisation. In the third stage, respondents were proportionately

selected from managerial, supervisory and accounting staff categories. The sample size was determined using the Taro Yamane sampling formula. From a population of 820 employees, a sample size of 269 respondents was obtained and proportionately distributed across the selected organisations and departments.

Instrumentation

Data for the study were collected using a structured questionnaire titled Management Accounting and Corporate Governance Profitability Questionnaire (MACGPQ). The instrument consisted of four sections designed to capture information on respondents' demographic characteristics, management accounting practices, corporate governance mechanisms and firm profitability indicators. Items in the questionnaire were structured using a five-point Likert scale ranging from strongly agree to strongly disagree. The questionnaire was designed to obtain measurable responses relevant to the objectives of the study.

Validity of the Instrument

Face and content validity were established through expert review by two accounting scholars and one research methodology specialist.

Reliability of the Instrument

Reliability was determined using Cronbach's Alpha through a pilot test, yielding an overall reliability coefficient of 0.86.

Procedure for Data Collection

The questionnaire was administered electronically through online survey platforms and official organisational communication channels. Electronic links to the questionnaire were distributed through corporate email systems and professional messaging platforms to employees within the selected departments of the organisations in Lagos, Abuja, Port Harcourt and Uyo. Follow-up reminders were sent to encourage participation. Out of the 269 questionnaires distributed electronically, 241 were successfully completed and returned, representing the responses used for data analysis in the study.

Method of Data Analysis

Collected data were analysed using descriptive statistics, correlation analysis and multiple regression analysis to examine relationships and moderating effects among variables.

DATA ANALYSIS

Research Question 1: What is the relationship between management accounting practices and firm profitability?

Table 1: Descriptive Statistics on Management Accounting Practices and Firm Profitability

Items	SA	A	U	D	SD	Mean	Std. Dev
Management accounting improves financial decision-making in the firm.	104 (43.15%)	82 (34.02%)	26 (10.79%)	18 (7.47%)	11 (4.56%)	4.04	0.98
Budgeting practices help increase organisational profitability.	97 (40.25%)	89 (36.93%)	29 (12.03%)	16 (6.64%)	10 (4.15%)	4.02	0.96

Items	SA	A	U	D	SD	Mean	Std. Dev
Cost control systems enhance performance.	112 (46.47%)	75 (31.12%)	23 (9.54%)	19 (7.88%)	12 (4.98%)	4.07	1.02
Performance measurement systems influence profit improvement.	101 (41.91%)	83 (34.44%)	27 (11.20%)	20 (8.30%)	10 (4.15%)	4.01	0.99
Strategic management accounting improves financial outcomes.	109 (45.23%)	76 (31.54%)	24 (9.96%)	21 (8.71%)	11 (4.56%)	4.05	1.01
Aggregate	523 (43.40%)	405 (33.61%)	129 (10.71%)	94 (7.80%)	54 (4.48%)	4.04	1.00
Proportional Ratio	0.43	0.34	0.11	0.08	0.04		

The descriptive statistics in Table 1 show strong agreement among respondents regarding the relationship between management accounting practices and firm profitability. For item one, 104 respondents (43.15%) strongly agreed while 82 (34.02%) agreed that management accounting improves financial decision-making, with a mean score of 4.04. Budgeting practices also recorded 97 (40.25%) strongly agreeing and 89 (36.93%) agreeing, producing a mean of 4.02. Cost control systems showed the highest strong agreement with 112 (46.47%), yielding a mean of 4.07. Performance measurement systems recorded 101 (41.91%) strongly agreeing with mean 4.01, while strategic management accounting recorded 109 (45.23%) strongly agreeing and mean 4.05, indicating a strong perceived relationship.

Research Question 2: What is the effect of corporate governance on firm profitability?

Table 2: Descriptive Statistics on Corporate Governance and Firm Profitability

Items	SA (5)	A (4)	U (3)	D (2)	SD (1)	Mean	Std. Dev
Board oversight improves financial performance.	92 (38.17%)	86 (35.68%)	31 (12.86%)	20 (8.30%)	12 (4.98%)	3.93	1.02
Audit committees strengthen financial accountability.	99 (41.08%)	81 (33.61%)	28 (11.62%)	21 (8.71%)	12 (4.98%)	3.97	1.01
Transparency in governance enhances profitability.	106 (43.98%)	77 (31.95%)	27 (11.20%)	19 (7.88%)	12 (4.98%)	4.01	1.03
Effective governance policies reduce financial mismanagement.	95 (39.42%)	83 (34.44%)	30 (12.45%)	21 (8.71%)	12 (4.98%)	3.95	1.04
Accountability mechanisms influence firm profitability.	103 (42.74%)	79 (32.78%)	26 (10.79%)	20 (8.30%)	13 (5.39%)	4.00	1.02
Aggregate	495 (41.08%)	406 (33.69%)	142 (11.79%)	101 (8.38%)	61 (5.06%)	3.97	1.02
Proportional Ratio	0.41	0.34	0.12	0.08	0.05		

Table 2 indicates that respondents generally perceived corporate governance as having a positive effect on firm profitability. Regarding board oversight, 92 respondents (38.17%)

strongly agreed and 86 (35.68%) agreed, giving a mean of 3.93. Audit committees recorded 99 (41.08%) strongly agreeing and 81 (33.61%) agreeing with a mean score of 3.97. Transparency in governance obtained the highest strong agreement with 106 (43.98%) and mean 4.01. Governance policies reducing financial mismanagement recorded 95 (39.42%) strongly agreeing with mean 3.95. Accountability mechanisms recorded 103 (42.74%) strongly agreeing and mean 4.00. The results show that governance practices are widely perceived to influence profitability positively.

Research Question 3: What is the moderating effect of corporate governance on the relationship between management accounting practices and firm profitability?

Table 3: Descriptive Statistics on Moderating Effect of Corporate Governance

Items	SA	A	U	D	SD	Mean	Std. Dev
Corporate governance strengthens the effectiveness of management accounting.	110 (45.64%)	78 (32.37%)	25 (10.37%)	18 (7.47%)	10 (4.15%)	4.08	0.99
Strong governance improves the usefulness of accounting information.	105 (43.57%)	81 (33.61%)	26 (10.79%)	18 (7.47%)	11 (4.56%)	4.06	0.98
Governance oversight enhances profit outcomes from accounting practices.	113 (46.89%)	74 (30.71%)	24 (9.96%)	19 (7.88%)	11 (4.56%)	4.09	1.00
Corporate governance improves monitoring of accounting decisions.	108 (44.81%)	77 (31.95%)	27 (11.20%)	18 (7.47%)	11 (4.56%)	4.07	0.99
Strong governance structures maximise profitability benefits of accounting systems.	111 (46.06%)	75 (31.12%)	25 (10.37%)	20 (8.30%)	10 (4.15%)	4.08	1.01
Aggregate	547 (45.39%)	385 (31.95%)	127 (10.54%)	93 (7.72%)	53 (4.40%)	4.08	0.99
Proportional Ratio	0.45	0.32	0.11	0.08	0.04		

Table 3 presents responses on the moderating role of corporate governance between management accounting practices and firm profitability. For item one, 110 respondents (45.64%) strongly agreed and 78 (32.37%) agreed that governance strengthens accounting effectiveness, producing mean 4.08. Strong governance improving accounting information usefulness recorded 105 (43.57%) strongly agreeing with mean 4.06. Governance oversight enhancing profitability recorded the highest strong agreement of 113 (46.89%) and mean 4.09. Corporate governance improving monitoring recorded 108 (44.81%) strongly agreeing with mean 4.07. Strong governance structures maximising profitability benefits recorded 111 (46.06%) strongly agreeing and mean 4.08, indicating a strong moderating influence.

Hypotheses Testing

Hypothesis One: There is no significant relationship between management accounting practices and firm profitability.

Table 4a: Model Summary

Model R	R Square	Adjusted Square	R Std. Error of the R Square Change
1	0.742	0.551	0.621

Table 4b: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	168.427	1	168.427	436.82	0.000
Residual	137.894	239	0.577		
Total	306.321	240			

Table 4c: Coefficients

Model	B	Std. Error	Beta	t-cal	Sig.
Constant	1.215	0.183		6.64	0.000
Management Accounting Practices	0.684	0.033	0.742	20.90	0.000

Table 4 presents the regression analysis on the relationship between management accounting practices and firm profitability. The model summary shows a calculated correlation coefficient (R) of 0.742, indicating a strong positive relationship. The coefficient of determination (R^2) of 0.551 implies that management accounting practices explained 55.1% of the variation in firm profitability. The ANOVA result recorded $F = 436.82$ with significance value 0.000, confirming the model's fitness. The calculated r-value 0.742 is greater than the critical r-value 0.138 at 0.05 significance level. Therefore, the null hypothesis was rejected, indicating that management accounting practices significantly influence firm profitability.

Hypothesis Two: There is no significant effect of corporate governance on firm profitability.

Table 5a: Model Summary

Model R	R Square	Adjusted Square	R Std. Error of the R Square Change
1	0.689	0.474	0.658

Table 5b: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	144.908	1	144.908	334.57	0.000
Residual	161.413	239	0.675		
Total	306.321	240			

Table 5c: Coefficients

Model	B	Std. Error	Beta	t-cal	Sig.
Constant	1.486	0.211		7.04	0.000
Corporate Governance	0.593	0.032	0.689	18.29	0.000

Table 5 shows the regression results on the effect of corporate governance on firm profitability. The model summary reported a correlation coefficient (R) of 0.689, indicating a substantial positive relationship between corporate governance and profitability. The coefficient of determination (R^2) of 0.474 shows that corporate governance accounted for 47.4% of the variation in firm profitability. The ANOVA results produced $F = 334.57$ with a

significance level of 0.000, confirming the statistical relevance of the model. Since the calculated r-value 0.689 is greater than the critical r-value 0.138, the null hypothesis was rejected, implying that corporate governance significantly affects firm profitability.

Hypothesis Three: There is no significant moderating effect of corporate governance on the relationship between management accounting practices and firm profitability.

Table 6a: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	R Square Change
1	0.812	0.659	0.654	0.534	0.659

Table 6b: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	201.845	3	67.282	235.97	0.000
Residual	104.476	237	0.441		
Total	306.321	240			

Table 6c: Coefficients

Model	B	Std. Error	Beta	t-cal	Sig.
Constant	0.974	0.197		4.94	0.000
Management Accounting Practices	0.421	0.041	0.456	10.27	0.000
Corporate Governance	0.388	0.039	0.409	9.94	0.000
MAP × CG (Interaction Term)	0.214	0.028	0.317	7.64	0.000

Table 6 presents the moderated regression analysis examining the moderating role of corporate governance in the relationship between management accounting practices and firm profitability. The model summary shows a correlation coefficient (R) of 0.812, indicating a very strong combined relationship among the variables. The coefficient of determination (R^2) of 0.659 shows that the model explained 65.9% of the variation in firm profitability. The ANOVA results produced $F = 235.97$ with significance value 0.000, confirming the statistical strength of the model. Since the calculated r-value 0.812 is greater than the critical r-value 0.138, the null hypothesis was rejected, indicating a significant moderating effect.

Conclusion

Management accounting practices play an essential role in supporting managerial planning, control and decision-making processes within organisations. The study examined the relationship between management accounting practices and firm profitability while considering the moderating influence of corporate governance. Evidence from the analysis indicated that management accounting practices contribute positively to firm profitability through improved budgeting systems, cost control mechanisms and performance evaluation processes. These practices enable managers to obtain relevant financial and non-financial information necessary for efficient resource allocation and strategic planning. The findings further demonstrated that corporate governance significantly influences firm profitability by strengthening accountability, transparency and monitoring within organisations. Effective governance structures such as board oversight, audit committees and internal control systems enhance managerial discipline and reduce the likelihood of financial mismanagement. Consequently, organisations operating within strong governance frameworks tend to experience better financial outcomes and improved operational efficiency. Governance mechanisms reinforce the reliability and proper utilisation of management accounting information, thereby strengthening its influence on organisational performance.

Recommendations

- Organisations should strengthen the adoption and effective implementation of modern management accounting practices such as strategic cost management, budgeting systems and performance measurement tools in order to enhance informed managerial decision-making and improve firm profitability.
- Firms should reinforce corporate governance structures by ensuring greater board independence, effective audit committees and transparent financial reporting mechanisms to promote accountability and improve the overall financial performance of organisations.
- Management of organisations should integrate management accounting systems with corporate governance frameworks so that accounting information can be properly monitored, evaluated and utilised in strategic decision-making processes that support sustainable profitability.
- Regulatory authorities and organisational leadership should provide continuous training and professional development for accounting personnel, board members and managers in order to strengthen their knowledge of governance practices and advanced management accounting techniques.
- Organisations should establish strong internal control and monitoring systems that align management accounting information with governance oversight mechanisms, thereby ensuring effective supervision of managerial activities and improving profitability outcomes.

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