

The Role of Financial Statement Analysis in Supporting Islamic-Based Corporate Strategic Decision Making

Zebua Heart Artist

Muhammad Rizal

Universitas Negeri Medan

Abstract

Financial statement analysis is an important tool used by companies to assess their overall performance and financial condition. This study aims to analyze the role of financial statement analysis in supporting strategic decision-making and the formulation of a company's business strategy. The method used in this study is a qualitative descriptive method with a literature study approach, namely examining various theories and concepts related to financial statement analysis and business strategy. The results of the study indicate that financial statement analysis plays a very significant role in providing relevant and accurate information regarding the level of liquidity, solvency, profitability, and operational efficiency of the company. This information serves as the basis for management in evaluating financial performance and identifying the company's strengths and weaknesses. In addition, financial statement analysis also helps in assessing the effectiveness of implemented business strategies and serves as a reference in formulating more appropriate and adaptive strategies in the future. In the context of strategic decision-making, financial statement analysis contributes to determining the company's investment, funding, and operational policies. Thus, it can be concluded that financial statement analysis serves not only as a tool for evaluating past performance but also as a basis for planning and developing sustainable business strategies. Therefore, companies are advised to conduct regular financial statement analysis to improve the quality of decision-making and improve their competitiveness.

Keywords: Financial Statement Analysis, Strategic Decision Making, Business Strategy

Background

The increasingly complex and competitive global business environment demands that companies demonstrate a high degree of adaptability in the face of various changes. Market dynamics, technological advances, and increasing competition between companies push management to make quick, accurate, and informed decisions. In such a situation, a company's success is determined not only by operational capabilities but also by the quality of strategic decision-making by management.

Effective strategic decision-making requires accurate, relevant, and reliable information. One of the primary sources of information used by various parties, both internal and external, is financial reports. Financial reports present an overview of a company's financial condition, including assets, liabilities, and equity, as well as its performance in generating profits over a specific period. This

information serves as a crucial basis for assessing a company's performance and determining future policy direction.

However, financial reports essentially only present historical data in the form of numbers. Without in-depth analysis, this information cannot provide comprehensive meaning to its users. Therefore, a financial statement analysis process is necessary to process, interpret, and evaluate financial data so that it can be used optimally in decision-making. Financial statement analysis is a crucial tool for more in-depth identification of a company's financial condition.

Through financial statement analysis, companies can assess various important aspects, such as liquidity, which indicates the ability to meet short-term obligations; solvency, which reflects the ability to meet long-term obligations; and profitability, which reflects the company's ability to generate profits. Furthermore, analysis can be used to assess operational efficiency and the effectiveness of the company's resource utilization. Thus, financial statement analysis provides a more comprehensive picture of a company's financial health.

The information generated from financial statement analysis plays a crucial role in supporting the formulation of business strategies. A business strategy is a series of decisions and actions designed to achieve a company's long-term goals and create a competitive advantage. In developing a business strategy, it must consider the company's internal conditions, including its financial condition, as well as external factors such as industry competition and market changes. Therefore, financial statement analysis is a crucial foundation for ensuring that the strategy aligns with the company's capabilities and circumstances.

On the other hand, a company's business strategy will directly impact its financial performance, as reflected in its financial statements. For example, decisions about business expansion, product diversification, or cost efficiency will influence the company's financial structure and profitability. This demonstrates the reciprocal relationship between financial statement analysis and business strategy, where the two influence each other and cannot be separated.

Besides serving as an internal evaluation tool, financial statement analysis also plays a crucial role for external parties, such as investors and creditors. They use the information from financial statement analysis to assess risk levels and potential returns before making investment or credit decisions. Therefore, the quality of financial statement analysis significantly impacts stakeholders' level of trust in a company.

In the context of strategic decision-making, financial statement analysis serves as the basis for determining various important policies, such as investment, financing, and operational management decisions. These decisions must be based on actual financial conditions to minimize risk and increase the chances of success. Without proper analysis, strategic decisions can potentially be inappropriate for the company's current situation and negatively impact its sustainability.

Based on the above description, it can be concluded that financial statement analysis plays a crucial role in supporting strategic decision-making and the formulation of a company's business strategy. Financial statement analysis serves not only as a tool for evaluating past performance but also as a basis for planning future strategic steps. Therefore, this study was conducted to examine in more depth the role of financial statement analysis in supporting strategic decision-making and improving the effectiveness of a company's business strategy on a sustainable basis.

Research methods

This study uses a qualitative approach with a descriptive approach. This approach was chosen because the study aims to understand and explain in depth the role of financial statement analysis in supporting strategic decision-making and a company's business strategy. Through a qualitative descriptive approach, researchers can describe the phenomena that occur based on a review of relevant theories and literature.

The data sources used in this study are secondary data obtained through literature review. This secondary data includes textbooks, scientific journals, academic articles, and other sources related to financial statement analysis and business strategy. Data collection was conducted by reviewing, analyzing, and compiling various references relevant to the research topic.

The data collection technique in this study was conducted through library research, which involved reading, understanding, and analyzing various written sources related to the problem being studied. The researcher then identified key concepts related to financial statement analysis, financial ratios, and business strategy as the basis for the research discussion.

Furthermore, the data analysis technique used was qualitative descriptive analysis, which involves interpreting the collected data and then systematically organizing it to produce a comprehensive understanding. The analysis process was conducted by connecting existing theories with the research problem, thus drawing relevant conclusions that align with the research objectives.

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From an Islamic perspective, financial statement analysis and business strategy are not solely profit-oriented but must also adhere to sharia principles. These principles include honesty (shiddiq), trustworthiness, transparency, and fairness in all business activities. Financial statements in Islam must reflect the true state of affairs without any manipulation, as this relates to accountability not only to stakeholders but also to Allah SWT.

Furthermore, in Islamic business, strategic decision-making must avoid prohibited elements such as usury (riba), gharar (uncertainty), and maisir (excessive speculation). Therefore, financial ratio analysis also requires ethical considerations, ensuring that the company's revenues are derived from lawful activities and do not harm other parties. Thus, the resulting business strategy will not only improve the company's financial performance but also provide blessings and long-term business sustainability.

With this method, it is hoped that the research can provide a clear picture of the importance of financial report analysis in supporting strategic decision making and the formulation of company business strategies, both from a conventional perspective and based on Islamic economic principles.

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Results and Discussion

Results

Based on a literature review of various relevant scientific sources, several important findings were obtained regarding the role of financial statement analysis in supporting strategic decision-making and corporate business strategy. The results of this study are presented systematically as follows:

1. Results of the Company's Financial Condition Analysis

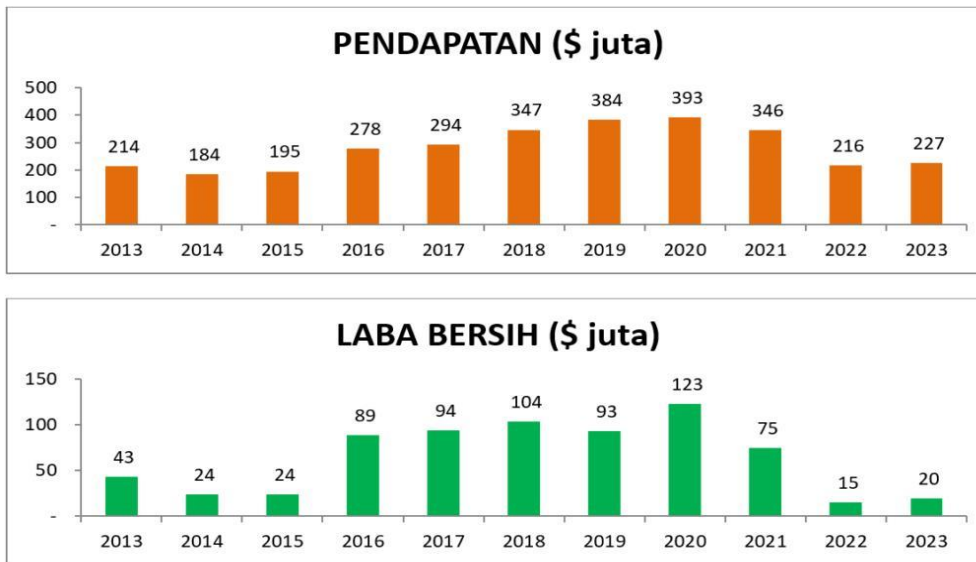


The research results show that financial statement analysis is able to provide a comprehensive picture of the company's financial condition through various main indicators, namely liquidity, solvency, profitability, and activity.

Liquidity ratios, such as the current ratio and quick ratio, indicate a company's ability to meet short-term obligations in a timely manner. Solvency ratios provide an overview of a company's capital structure and level of reliance on debt. Meanwhile, profitability ratios indicate a company's ability to generate profits from its assets and capital. Activity ratios, on the other hand, illustrate the efficiency of asset utilization in supporting operational activities.

These findings show that financial statement analysis is not only able to describe the financial condition statically, but also provides an indication of the stability and overall financial health of the company.

2. Results of the Company's Financial Performance Evaluation



The research results show that financial statement analysis can be used to evaluate company performance periodically through trend analysis. Changes in financial statements from one period to the next provide important information regarding improvements or declines in company performance.

The findings indicate that companies with consistent revenue and profit growth trends tend to have stable financial performance. Conversely, companies experiencing fluctuations indicate instability that can impact business continuity.

In addition, trend analysis also shows certain patterns that can be used as a basis for predicting future financial performance.

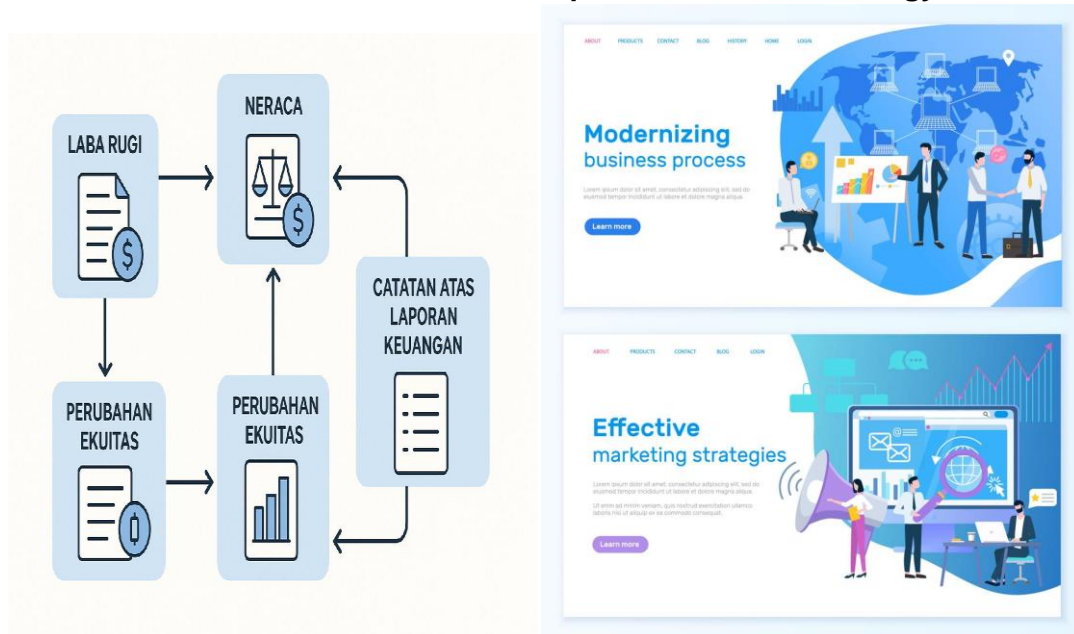
3. Results of Identification of Operational Efficiency and Effectiveness



Research results show that financial statement analysis can also be used to assess a company's operational efficiency and effectiveness. This can be seen through activity ratios such as asset turnover and inventory turnover.

The findings show that a high level of efficiency reflects a company's ability to optimally manage resources. Conversely, low efficiency indicates waste or suboptimal asset utilization in operational activities.

4. Results of Identification of Relationships with Business Strategy



The research results show a strong relationship between financial statement analysis and a company's business strategy. The information generated from financial statement analysis is used as a basis for formulating strategies appropriate to the company's circumstances.

These findings indicate that good financial performance reflects the success of the implemented strategy, while less than optimal performance indicates the need for adjustments to the business strategy.

5. Role Results in Strategic Decision Making

The research results show that financial report analysis makes a significant contribution to various aspects of a company's strategic decision-making, including:

- a) **Investment decisions** → regarding the selection of profitable projects
- b) **Funding decisions** → related to capital structure and financial risk
- c) **Operational decisions** → related to efficiency and productivity

In addition, financial statement analysis also helps in identifying potential financial risks, such as liquidity and solvency risks, which can affect the company's stability.

6. Role Results for External Parties

The research results also show that financial statement analysis is beneficial not only for internal company stakeholders but also for external stakeholders such as investors and creditors. The analyzed financial information is used as a basis for assessing risk levels, business prospects, and investment feasibility.

These findings indicate that financial statement analysis serves as a means of corporate transparency and accountability to stakeholders.

Discussion

Based on the research findings presented, this discussion aims to interpret the research findings by linking them to relevant concepts and theories in financial statement analysis and business strategy. Overall, the research findings indicate that financial statement analysis plays a crucial role in supporting strategic decision-making and the formulation of a company's business strategy.

Financial statement analysis has been proven to provide a comprehensive picture of a company's financial condition through various indicators, such as liquidity, solvency, profitability, and activity. From a financial theory perspective, these indicators serve not only as a descriptive tool for describing financial conditions but also as a diagnostic tool that can be used to identify problems within the company. For example, low liquidity may indicate potential difficulties in meeting short-term obligations, while high solvency may reflect high financial risk due to dependence on debt.

Furthermore, the research results show that profitability ratios play a crucial role in assessing the effectiveness of a company's business strategy. A high level of profitability indicates that the company is managing resources efficiently to generate profits, thus indicating that the implemented strategy is working well. Conversely, a low level of profitability can indicate that the business strategy is not yet optimal and requires evaluation.

In the context of business strategy, financial statement analysis is closely and inseparably linked. A company's business strategy must take into account its financial situation, ensuring that decisions are made within its capabilities. The results of this study align with the concept that effective strategies are based on accurate data and information. Therefore, financial statement analysis is a crucial foundation for formulating realistic and sustainable strategies.

Furthermore, the discussion also shows that the implemented business strategy will be reflected in the company's financial performance. This demonstrates a reciprocal relationship between financial statement analysis and business strategy. Improving financial performance reflects the success of the implemented strategy, while declining financial performance signals the need for strategic evaluation and adjustment. Thus, financial statement analysis serves as a control tool that helps management ensure that the implemented strategy aligns with the company's objectives.

In strategic decision-making, financial statement analysis makes a significant contribution, particularly in investment, financing, and operational decisions. Investment decisions require information regarding the potential profits and risks of a project, while financing decisions relate to determining the optimal capital structure. Meanwhile, in operational decisions, financial statement analysis helps companies improve the efficiency and effectiveness of resource use.

Furthermore, financial statement analysis also plays a crucial role in risk management. By understanding a company's comprehensive financial condition, it can identify various potential risks, such as liquidity, solvency, and declining profitability. This enables the company to take anticipatory steps to minimize potential negative impacts in the future.

In addition to internal stakeholders, this discussion also demonstrates that financial statement analysis has broad implications for external stakeholders, such as investors and creditors. The information generated from financial statement analysis is used to assess a company's risk level and

prospects, thus providing a basis for investment or credit decisions. Therefore, financial statement analysis also serves as a means of corporate transparency and accountability.

Based on the overall discussion, it can be emphasized that financial statement analysis is a crucial element in a company's management system. This analysis serves not only as a tool for evaluating past performance but also as a basis for future strategic planning and decision-making. Therefore, companies need to conduct regular and in-depth financial statement analysis and integrate it with their implemented business strategies to sustainably improve performance and competitiveness.

Conclusion

Based on the research results, it can be concluded that financial statement analysis plays a crucial role in assessing a company's condition and performance and supporting strategic decision-making. Through liquidity, solvency, and profitability analysis, a company can identify its financial strengths and weaknesses.

Furthermore, financial statement analysis also helps evaluate the effectiveness of implemented business strategies. Good financial performance reflects the right strategy, while declining performance indicates the need for improvement.

Thus, financial report analysis becomes an important basis in formulating business strategies and making appropriate decisions to improve company performance and sustainability.

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