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Managerial decision-making and financial accounting information

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Abstract

The literature addressing the topics of decision-making and the use of information covers a wide range of fields, each with its own perspective. Thus, it is not surprising that we are far from reaching agreement in this area. Our paper focuses on the role of financial accounting informations in managerial decision-making. The findings of our paper revealed that financial accounting informations help managers know what happened in the past and which is the present situation of the company, make visible those events that are not perceptible by daily activities, provide a quantitative overview of the company and help managers prepare for future activities and decisions. To be usefull for decision making, financial accounting information must be intangible, relevant, reliable and comparable. The reality of decision-making reveals that decisions are taken not only in terms of informations and status quo, but based on personal beliefs and representations that shape the personal vision of the world.

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1. Introduction

The literature addressing the topics of decision-making and the use of information is multidisciplinary and covers fields such as management, social science, information technology, human neurology and psychology. Consequently, each of the subject areas has its own perspective. It is not surprising that, with such a diverse research input, researchers in the fields of decision-making and decision tools are far from reaching agreement concerning the mechanisms of decision-making or the best way to support this process.

Although, decision-making research in accounting has a long history beginning in the 1960s, researchers have approached managerial decisions more in terms of managerial accounting and less of financial accounting. This could be due to the expansion, over time, of the objectives of financial accounting information, from supporting company's management to helping investors make correct decisions.

Research methodology

The purpose of this paper is to identify what role plays financial accounting information in managerial decision-making.

In our approach we seek to describe and explain relationships through a fundamental qualitative research, based on literature review. We consider that a trenchant response to our issue would be superficial and risky, because of the many factors involved and the complexity of the context in question. We appreciate that a sequential approach of the main issues would be more appropriate and will allow the highlight of the anchor-elements of our question. Thus,

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using a consistent literature review, we outline several considerations about decisions, decision theories, decision-making processes, decision makers, the manager as a key player in decision-making, the role of financial accounting information in this process, including the quality as a determinant of the decision usefulness of financial accounting information. Finally, we formulate conclusions and proposals to improve decision-making process at managerial level.

2. Being the decider

“Nothing is more difficult, and therefore more precious, than to be able to decide” according to Napoleon Bonaparte. (Larouse du XX-e siècle, 1929). Sfez (1988) proposes a classification of decision maker evolution in three stages:

- *the certain man* is an actor of the classical organization making decisions in a rational manner, according to a linear process in a certain universe; he can optimize all the factors and his individual objectives converge with those of the entity;
- *the probable man* is an actor with limited rationality seeking only a satisfactory solution in a more uncertain universe but probabilistic;
- *the random man* is an actor in current businesses where imprecision, uncertainty and complexity are very present; decisions involve compromises.

Whatever the status of decision maker, there are several theories seeking to explain the decision-making process based on different aspects.

2.1. What theory to mobilise?

A decision is a choice made at a time, in a given context, from more alternatives, to stimulate actions of variable size and duration. It is essential for an organization’s survival and development, since it is prior to any action.

A decision may be regarded as “human’s behavior that operates choices being partially informed” (Mélèse, 1979), “a course of action consciously chosen from a number of possibilities, in order to reduce a perceived dissatisfaction on a problem” (Nizard, 1986) or “a process that consists in being permanently located in front of choices” (Mintzberg, 1984a), but whatever the definition considered, we identify three *key aspects to characterize a decision*:

- the perception of a problem and the need to solve it;
- the usage of relevant informations to better understand the problem, its dimensions and the possible alternatives;
- the selection criteria used to make a certain election.

Understanding patterns of deciding and decision-makers behaviors come a long way. The various aspects of decision-making process:

- rational and formalized dimension (Rapaport, 1967; Fericelli 1978)
- human and behavioral dimension (Simon, 1959; Barnard, 1950; Lindbom, 1959; Argyris, 1973)
- political dimension (Crozier & Friedberg, 1977)
- organizational dimension (March & Olsen, 1976)

integrate and combine differently depending on decision makers and context.

If in the '50 - '60, the analysis of decision-making processes remains labelled by the approach in terms of rational optimization, after this period several researches try to integrate human dimensions, by considering the intuition, unconscious and irrational. Thus, the decision-making process is analyzed differently according to decision maker outlook. Behavioral and cognitive theories present decision makers with cognitive processes and differentiated value systems proving that decisions are influenced by immaterial and psychological factors. The contemporary decision results from an interpretable and multirational procedure with many concurrent ends.

2.2. The steps until the final choice

A decision is the result of a process and its steps are as important as the final choice. Resuming the elements of decision theory, it is possible to highlight several decision systems, according to the type and level of decision-making within an organization:

- routine, scheduled, repetitive decisions are taken in accordance with classical reasoning systems based on rationality and optimization;
- short-term, tactical decisions are based on organizational foundations: the specific operating of the entity, habits and experiences inducing private decision-making systems;
- strategic decisions from the highest level are based on political foundations: power, pressure, negotiations of different groups of actors influence decision-making systems.

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