

# IMPLICATIONS OF THE ACCOUNTING FINANCIAL INFORMATION SYSTEM ON THE DECISION-MAKING PROCESS

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## **Abstract:**

*The joint between scientific knowledge and scientific research has a productive and motivating role in that both are related to a certain sector or field of activity and not only to research. In relation to the involvement of the real facts in the research, the scientific knowledge achieved in this article has been carried out at a theoretical level. It fixes the general and generalizable components of the field for which the research is carried out. The scientific statements and theories formulate general laws for which the testing was carried out. At the theoretical level we will operate with concepts, statements, laws, theses and hypotheses; these being the basic works of scientific theory and research.*

**Key words:** corporate governance, decision-making process, accounting, informational system.

**JEL classification:** G38

## **1. INTRODUCTION AND RESEARCH METHODOLOGY**

For the management of any organization the adoption of a decision plays an important role as it ensures its survival and functioning. It is the purpose of any management process and represents the essence of management. I believe that the activity and success of any decision-making process depends on three important factors: information, action, decision.

Rational decision-making is addressed only to the first characteristic of the decision-making problem, namely risk measurement (Neumann, J. V., & al., 2007). Rational decision making is based on a set of rational behavioral axioms, which quantifies preferential choices based on a mathematical function called "utility function." This utility function can be used to predict how risky choices are made by using the probabilities of different events (Raiffa, H., 1968.). Some studies have shown that decision makers may disregard the utility function or its axioms (V. Sankaranarayanan & al., 2007). It can be shown that such irrational decision-making behaviors are actually rational when considering the extended decision-making model. Numerous studies have demonstrated the need to develop decision-making models based on human cognitive processes (Azuma, R., & al., 2006).

In this article I will carry out an analysis on the decision-making models of the utility of the accounting financial information system in the decision-making processes. The typology of the research used in this article is of the type Qualitative Field Study that involves a process of data collection, and then the employment of research methods specific to qualitative research (the questionnaire). In order to reach this objective, we carried out the research work in two directions, carrying out both a fundamental research and an applied (empirical) research based on a questionnaire addressed to managers from different decision levels within the companies regarding the usefulness of the information provided by accounting in the framework of the decision-making processes.

## **2. FORCES OF CONVERGENCE AND DIVERGENCE IN THE DECISION-MAKING PROCESS**

The financial-accounting system is the main source of information for the leadership of an entity in order to manage, forecast and control the activity, and through the information it provides

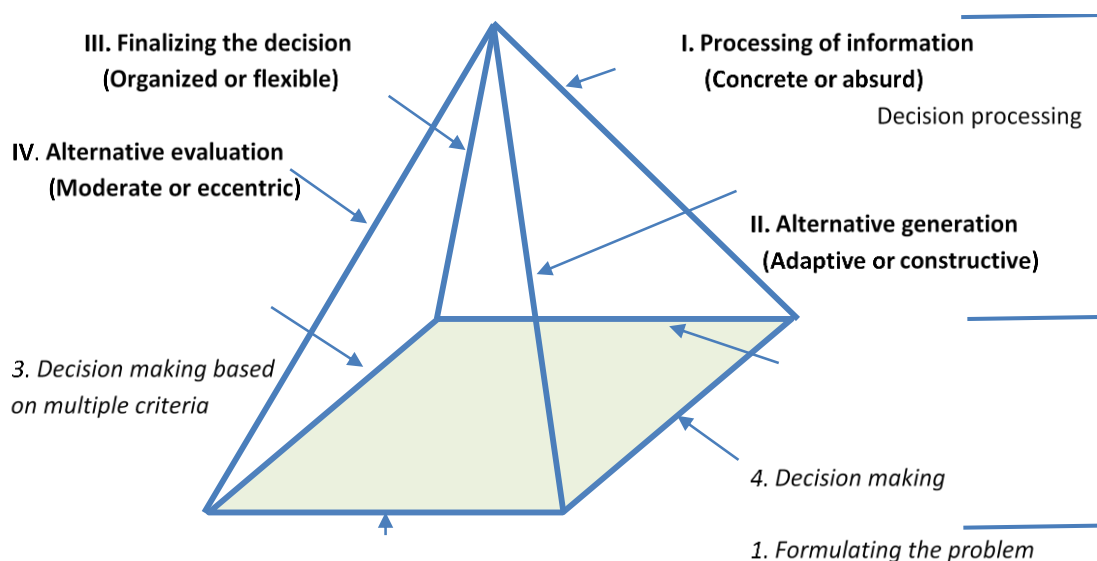
serves to substantiate the decisions of the managers. Moreover, they do not use accounting information only for decision making but also to communicate with external users.

Based on the financial-accounting information, managers have the opportunity to manage and lead the entire economic-financial activity of the entity. All this information provided by the system of accounts serve the economic-financial analysis as a raw material in the elaboration of decisions based on the economic-financial reality and have a great importance on its quality taken by the managers. The managers at the operational level of an entity, daily, make numerous decisions that influence and affect the cash flow, profitability but also the level of investments. Although the essence of the decisions largely refers to its financial resources, there are many other internal and external factors that influence them (environmental pressure, competition, organization characteristics).

The following figure shows a pyramid of the typology of decision making (figure no. 1). The upper part of the pyramid presents the dimensions of the decision-making process and the base of the pyramid presents the dimensions of decision-making. The four dimensions of the decision-making process are:

- i. formulation of the problem;
- ii. making decisions based on multiple criteria;
- iii. problem solving techniques;
- iv. making / accomplishing the decision.

Each edge of the pyramid represents each of the four dimensions of the decision-making process.



**Figure no. 1. The pyramid of the decision-making process**

Source: own elaborating using data by Behnam Malakooti, 2012

In practice, decision makers rarely resort to complex decision making models. Intuition, experience, imagination and emotion management are invoked in the decision-making process, including the stage when alternative variants are developed and final choices are made. (table no.1)

**Table no. 1. Comparative analysis of decision behavior models**

<b>The rational model</b>	<b>The model of limited rationality</b>
<b>Investigating the internal and external environment (gathering information)</b>	
There are no time and cost restrictions on obtaining information. The decision maker has perfect information	The perfect knowledge of the decision-making situation, by investigating the environment, is improbable and sometimes even impossible. Information assimilated by decision makers is affected by cognitive or organizational distortions.
<b>Recognizing the existence of a problem</b>	
The decision maker is able to notify on time all relevant signals that suggest the existence of problems	Often, managers fail to notice on time the relevant signals that suggest problems, whether they are difficulties or opportunities.
<b>Problem identification</b>	
The real decision-making problem is clear and well understood by the decision maker. The factors influencing the performances have been correctly identified, the nature of the links between factors and performances is precisely formulated, the significant changes in the evolution of the factors are known.	The elements of the decision-making situation are combined by the decision-maker in a mental model that has little chance of comprising all the variables, facts and relationships involved in the real problem (because of the cognitive and organizational limits). The rationality of the perception of the problem is thus seriously affected.
<b>Specifying the decision criteria</b>	
The objectives pursued throughout the organization are coherent and convergent. The decision criteria reflect these objectives, and their relative importance is established on the basis of the contribution of the objectives reflected in achieving the fundamental purpose of the organization.	Individuals or departments tend to focus more on achieving their specific goals, neglecting the general goals. Managers retain, or attempt to impose, a small number of decision criteria, and the relative importance attributed to these criteria reflects, to some extent, the interests of their units.
<b>Generating alternative solutions</b>	
The decision maker is omniscient and able to imagine all possible alternative solutions.	The decision maker imagines a small number of action alternatives potentially valid for solving the problem.
<b>Evaluation of alternative solutions</b>	
The consequences of the identified solutions can be accurately estimated. In the case of the existence of several decision criteria, they are all taken into account, by creating a function of global utility. The feasibility and risk of the considered solutions are rigorously estimated.	The accuracy of the assessment is affected by the information held and the limited cognitive ability of the decision maker (memory, cognitive distortions). The construction of a global utility function is difficult, impossible even, because of the distorted and contradictory objectives that underlie the retained decision criteria.
<b>Choosing a solution</b>	
The decision maker always chooses the solution that brings to the organization the greatest profit from the point of view of its	Searching and evaluating alternative solutions, until a satisfactory solution is found, which will be chosen and implemented. A solution is

Source: Panaite, N. &amp; al., 2014

### 3. INTUITION VS. RATIONAL ANALYSIS IN DECISION MAKING

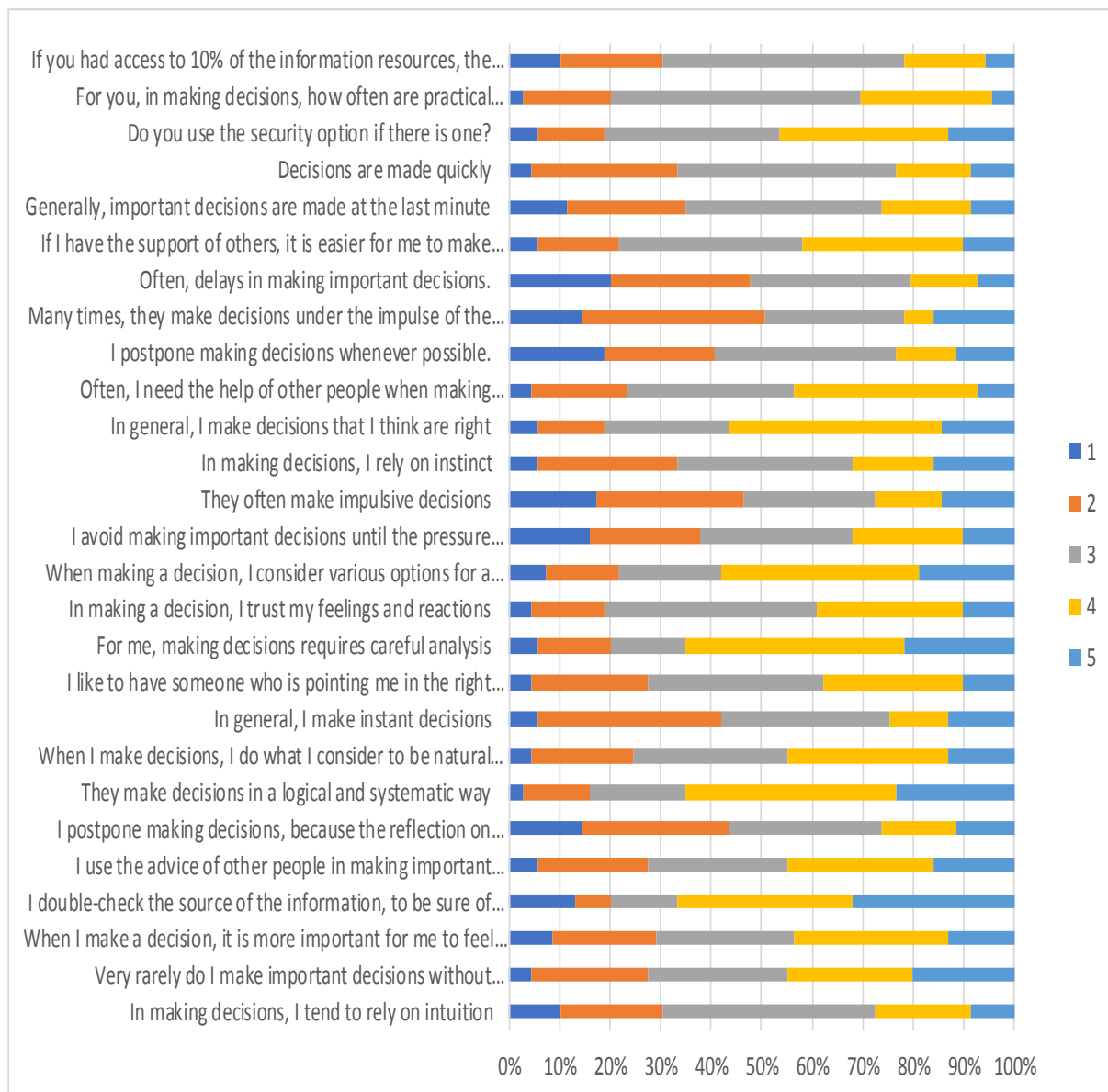
Two sorts of human considering can be recognized: rational and irrational. Considering and behavior are considered sound in the event that one considers the collected social values (rationality at the social level). Rationality, on the other hand, is characterized as a set of abilities (capacities) which a course of activity can be distinguished and which can empower us to reach an objective. Irrational considering can be understood as an expansion of sound considering, that's , the capacity to mix thinking in designs related to consistent structures, in order to attain an objective. Unreasonable considering and activities don't cruel that coherent considering is connected. This implies that considering is based on standards that leave from classical, judicious thinking. (Evans J. S. B. T., 2010).

Instinct, creative energy and emotion administration are based on a person's encounter. Involvement may be a combination of unequivocal and verifiable (or implied) information assembled by a individual. It is characterized as a set of competencies and aptitudes that an person collects whereas learning formally and casually through practice and perception.

A few authors accept that instinct could be a form of rationality, instead of it's opposite. This reflects the person's capacity to recognize a arrangement determined from the choice maker's one of a kind involvement and a combination of a person's explicit and inferred information. To begin with, instinct is utilized for key choices. Instead of being an irrational process, it is based on a profound understanding of a issue circumstance. Intuition may be a complex wonder based on involvement and information that are basically established within the subliminal (Khatri N., Alvin N. G., 2000).

Although it is difficult to prove empirically the existence of the quasi-rational process of knowledge, it cannot be rejected as the result of irrational and emotional knowledge. Quasi-rationality offers a compromise between competing opinions of individual members of a decision-making team (Hammond K. R., 2010)

Two sorts of human considering can be recognized: rational and irrational. Considering and behavior are considered rational on the off chance that one considers the amassed social values (rationality at the social level). Rationality, on the other hand, is characterized as a set of abilities (capacities) through which a course of activity can be distinguished and which is able empower us to reach an objective. Irrational considering can be understood as an expansion of judicious considering, that's , the capacity to mix thinking in designs related to consistent structures, in order to realize an objective. Irrational considering and activities don't cruel that consistent considering is connected. This implies that considering is based on standards that leave from classical, judicious thinking.



**Figure no. 2. The weight of the respondents in the sample structure according to the agreement expressed in relation to the assertions evaluated**

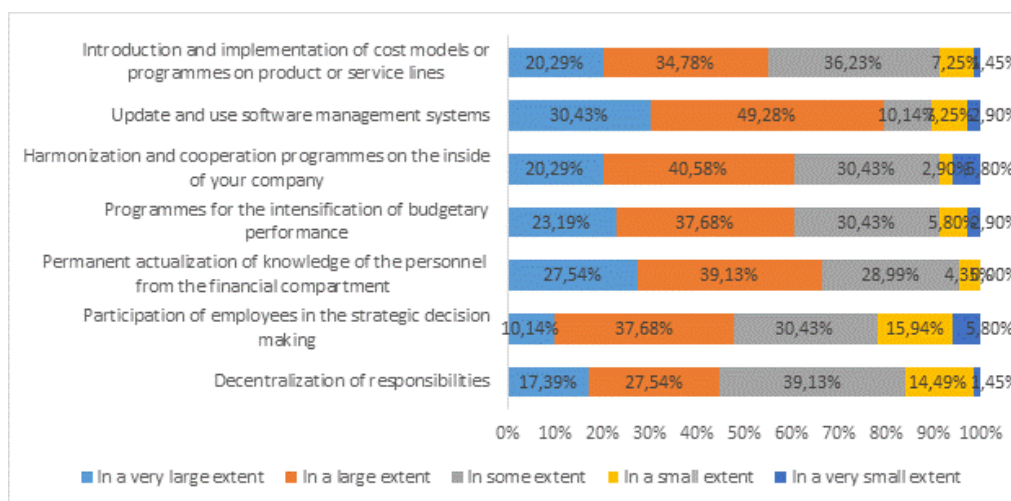
*Note: 1 = strongly disagree, 2 = disagree, 3 = neutral (neither agree nor disagree), 4 = agree, 5 = completely agree*

Source: own elaboration

Information can be partitioned in two categories: unequivocal and implied. Unequivocal information is deliberately put away and is the result of learning. The amassing of unequivocal information comes about within the so-called intervened encounter. Express information can be accumulated as well as books, reference books, databases and advancements, both on the socio-logical and specialized levels. Explicit information cannot be monopolized: it spreads quickly inside organizations and advances persistently with the involvement picked up by the individuals of the organization. Inferred information, on the other hand, determines straightforwardly from the encounter of a specific individual and is basically put away within the subliminal. (Hammond K. R., 2010).

I accept that instinct may be a form of rationality, instead of its opposite. This reflects the person's capacity to distinguish a arrangement determined from the choice maker's interesting encounter and a combination of a person's explicit and inferred information. To begin with, instinct is utilized for key choices. Instead of being an irrational process, it is based on a profound

understanding of a issue circumstance. Intuition may be a complex marvel based on encounter and information that are fundamentally established within the intuitive (Khatri N., Alvin N. G., 2000).



**Figure no. 3. Measures to improve the decision-making process**

Source: own elaboration

The modern tendencies in choice making are to a great extent related to the so-called double show of decision-making in which rational examination is combined with instinct (figure no.3).

The only boundless asset, data has nowadays become a genuine control figure, a social good that specifically impacts the thriving of a country. The foremost significant alter that the financial substances in Romania go through is the one related to the era, collection, elaboration and spread of data. Financial organizations cannot exist exterior of communication, which they to a great extent produce and intervene. The point of see acknowledged by the lion's share of respondents assembles conclusions concurring to which accounting has the part to supply data that reliably speaks to the budgetary position, the exhibitions and the changes of the financial position (39.13%), in a way and shape that's most valuable to those who utilize bookkeeping data to substantiate their choices. Bookkeeping data plays a unequivocal part in testing the choice variables with essential elements of guaranteeing a wise financial component that will favor, within the medium and long term, the beneficial integration of the economic companies in the competitive market environment.

## CONCLUSION AND PROPOSALS

The modern tendencies in choice making are generally related to the so-called double demonstrate of decision-making in which judicious investigation is combined with instinct. A assortment of terms are utilized by numerous scholars and specialists within the field, counting quasi-rationality, conscious, subliminal, or rational and irrational considering. In spite of the fact that there are phrased contrasts, the essence of changes within the day by day decision-making handle remains unaltered and includes making worldwide choices in which the thinking is blended with the instinct of a director.

We must not absolve: in practice, decision makers never face a single decision problem, and the accounting financial information system provides a wide range of information. Therefore, the cost-profit approach must be focused on the collective effect of the decisions of a company. For example, a complex and costly accounting system can provide sufficient data and even functionality for budgeting. In simpler situations (let's say the supply requirement is established), a cheap application implemented on a computer or even a user-designed model in a usual development environment can provide sufficient data to substantiate the decision, in terms of economic efficiency.



The main role of the accounting information system in the decision-making process requires it to ensure that, through its organization and functioning, the following objectives are met in optimal conditions:

- to provide the information necessary to make decisions, both for the management of the respective entity and for third parties;
- to provide the information necessary for the elaboration of the plans and programs of economic activity, especially of the budgets;
- to ensure the chronological and systematic recording of the economic operations that affect the financial position, financial performance and cash flows of the company;
- to provide the data necessary to calculate the costs of products, works and services;
- to provide the information necessary for the preparation of the financial-accounting reports.

The limits of any structured decision-making approach are essentially the same as in the case of problem solving:

• as a rule, the methods of decision making are presented as rational and clear. Complications, cycles and instabilities are not shown, and the method appears straight. In practice, supervisors go through the different stages back and forward a few times. Whether you approach decision-making in a straight and rational way, or on the opposite, in an iterative way, there are several challenges that you just may confront (Boghean F., 2019);

- it is often difficult or expensive to collect all the necessary information;
- it is not always easy to identify goals that might meet your needs as you perceive them. Often you have to accept a compromise to best meet different interests or divergent goals;
- generating options can be costly and time consuming;
- you often do not have enough time to think creatively;
- evaluating alternatives may also be time consuming;
- estimates of expected results often have a high degree of uncertainty;
- finally, even if you reach what you think is an ideal decision, it can be rejected by others.

Accounting data in this way gets to be an essential and primordial asset of decision-making processes, utilized both for the elaboration of vital advancement plans in accordance with the organizational culture of each economic entity, and for the projection of operational plans in agreement with the medium and long-term advancement technique.

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