THE PROCESS OF MANAGERIAL DECISION-MAKING BASED ON THE FINANCIAL INFORMATION

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Abstract: *The paper aims to highlight the importance of financial information in decision-making by the management of the organization. In this respect, issues regarding the importance, sources and users of financial information and the way of manifesting the finances into the organization are being approached. The paper is finalized with a conceptual model regarding the decision making process based on the financial information. The methodology used in the research is based on theoretical research and direct observations from the management practice in the organizations.*

Keywords: *financial information, enterprise value maximization, financial management, conceptual decisional model*

JEL Classification: *G32, G39, M29, O16*

1. Introduction

In the context of market mechanisms, increasing the complexity of the economic activity of enterprises has profound implications in the management process, a process that can be achieved only on the basis of a careful study of reality and a scientific analysis that facilitates the adoption of appropriate decisions. Regardless of the level in which it is exercised and the field it is aimed at, the managerial decision, by its essence, implies a thorough knowledge of the given situation, of the whole complex of causes and factors that determine it, which is done through the financial- accounting.

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In general, the enterprise management refers to the organization, management and administration, as well as to the management of financial, material and human resources, to the regulation of technological and informational flows, in order to achieve two fundamental objectives: profitability and liquidity. While profitability is the ability of an enterprise to earn profits and also to keep intact the invested capital, liquidity is the ability of an enterprise to pay off its due debts on the basis of available sources.

The market, as a mechanism for regulating the functioning of the enterprise, has a decisive, complex and permanent impact on the decisions of the management of the enterprise regarding the options for financial resources, the allocation of resources, the size of the allocation, the efficiency of their use in order to ensure the competitive margin and the viability of the company.

Every goal in the activity of the enterprise is accomplished by the action of the human factor which, based on the analysis, of the conclusions drawn, directs the effort so that the effects are maximal. Given the competitiveness of current economic and social life, the enterprise finances are the foundation in the critical analysis process for making managerial decisions and, of course, in estimating the market value of the enterprise. The organization's finances include financial theory, financial analysis and financial policies.

In this context, the paper aims at identifying the theoretical and practical aspects in the field of the organization's finances and proposing a conceptual model for managerial decision making based on financial information.

2. Financial information: importance, sources and users

Under the current conditions of an information society, the most important resource is information. This is the basis of any decision-making process, and in the financial field, finance and accounting are the main source of information both for the organization in question and for its partners. A high-performance management is only accomplished by the relevant and timely information of the decision-maker (Aaker & Jacobson, 1994; Loth, 2017).

The main source of information and data in the financial analysis is represented by the synthetic accounting statements (the patrimonial situation, the profit and loss account, the cash account situation and the annexes to the balance sheet) as the results of the accounting activity (Parkinson, 1994; Puxty & Dodds, 1995; Robson, 1966; Lucey, 1996; Jones, 2002; Sherman & Young, 2016), which regulates and normalizes all events in the organization's work.

Instead, the finances are predictive and support the management decisions (financial management and top management of the organization) based on monetary flows.

Financial information takes into account the expected results in the future as a result of capitalizing on the accumulated patrimony. The organization's finances have a fundamental objective: to maximize the value of the enterprise, ie increase the wealth of its owners. Therefore, the analysis of past and future financial flows is necessary in making decisions. Western practice reveals that the decision-making process relies heavily on "cash-flow" information rather than the accounting benefit. "The cash flow statement contains critical analytical data" (Loth, 2016).

Technical and technological potential, equipment quality, know-how, employee qualification, productivity level, etc. are factors that determine the present and future competitiveness of the enterprise and hence of its financial performance through financial policies (capital accumulation, investment, productive capital management).

“An ideal plant layout should provide the optimum relationship among output, floor area and manufacturing process. It facilitates the production process, minimizes material handling, time and cost, and allows flexibility of operations, easy production flow, makes economic use of the building, promotes effective utilization of manpower, and provides for employees’ convenience, safety, comfort at work, maximum exposure to natural light and ventilation” (Islam et al., 2017).

According to Modigliani and Miller (1985), finance, no matter how modern, is nothing without an intense economic activity to support them, fulfilling three functions:

• measurement (measurement) of wealth;
• distribution of results;
• investor protection.

The organization's finances are designed to measure wealth in the economy and transfer it to different participants in obtaining it, ensuring that an effective risk distribution takes place and taking into account the following principles:

• The enterprise belongs to the owners (shareholders, shareholders, individual entrepreneurs) having the interest to maximize the value of the investment;

• The goal of enterprise value maximization takes into account uncertainty, risk and especially time;

• Any financial decision to maximize value is good.

The main users of the information resulting from the financial analysis are the stakeholders, out of which:

- The capital providers (shareholders, investors, banks);
- Business partners (suppliers, clients, employees, trade unions);
- The state (tax, government, local authorities);
- Other users (company management, analysts and consultants, auditors, competitors, audience).

The financial results are pursued by stakeholders with different interests in the organization's activity and results (Table 1).

Table 1
Economic and financial indicators pursued by stakeholders

Stakeholders	Financial indicators pursued
Owners/shareholders	Profit, the effectiveness of the activities, the price per share, the value of the business / enterprise
Managers	Efficiency indicators, result indicators, business continuity
Banks/Financial creditors	Solvency, liquidity, cash flow, trust
Beneficiaries/ Clients/Consumers	Quality of products and services, delivery dates, value for money
Employees	Salary levels, non-financial benefits, job security, job opportunities, working conditions, moral satisfactions
Competitors	Sales price, product and service quality, market share
State	The level of taxes and duties

Source: adapted upon Radu & Taicu (2009), p.132.

3. Approaches of the organization's finances

The organization’s finance could be approached in three ways: practically, politically and theoretically, given the timely creation of a finance science (Figure 1).

Financial practices

Finance is the subject of an organization's practice aimed at achieving the goal of maximizing the global value of the organization. In this respect, managers must:

• Obtain the profitability hoped for by shareholders in relation to other investment opportunities offered by the financial market (such as the purchase of government bonds) in relation to the degree of risk assumed by investing the capital;

• ensures a good solvency of the organization towards the creditors;

• Ensure the opportunity for stakeholders to contribute to increasing the value of the organization and ensure that their expectations are met.

For this purpose, the practice of financial analysis or diagnostic analysis and financial management is used.

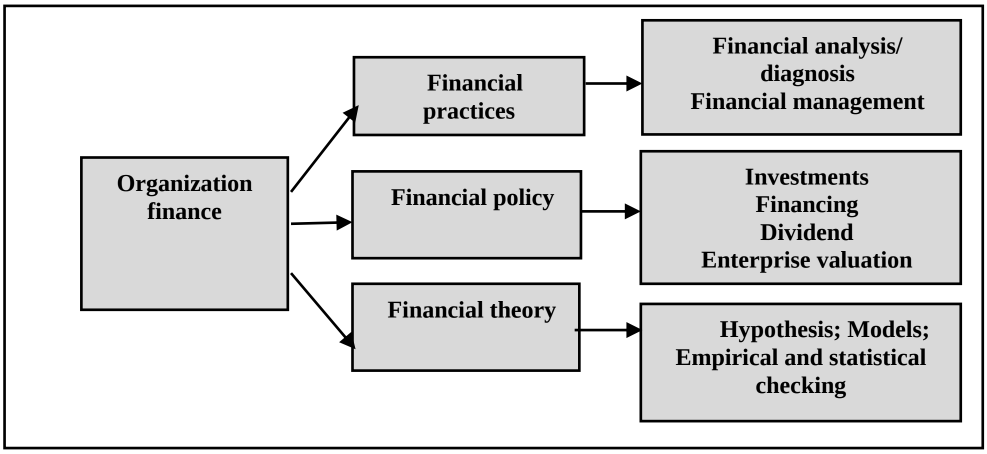

Figure 1. Approaches of the organization's finances

Financial analysis or financial diagnosis seeks to identify the organization's potential to generate cash flows, to have self-financing capacity, to create a financial balance and to determine its financial performance,

The main actions of the financial analysis can be carried out in succession or as independent working steps:

• analysing the financial balance on the basis of the balance sheet;

• analysis of profitability margins based on the results account;

• financial diagnosis of enterprise profitability and risk;

• analysis of financial flows based on the financing table.

The conclusions of the financial analysis substantiate the entire future financial policy of the organization (internal analysis) and motivate the behaviour of all partners, investors and competitors towards the organization (external analysis).

Enterprise budgeting, attracting external capital (own and borrowed), preservation and expansion of market segments, and other economic strategy and tactics, find in the financial analysis a foundation for value judgments.

Financial management focuses on managing the enterprise's financial resources. In general, one can distinguish:

• short-term financial management (of current assets and liabilities), which aims at optimizing the management of stocks of materials and products, customer receivables, treasury balances, in order to increase profitability and liquidity, under conditions of risk mitigation.

• long-term financial management (of permanent assets and liabilities), which is the subject of choosing a financial strategy to increase and consolidate the value of the enterprise.

Financial policy

The finance is the subject of organization management policies that translate into tactical or strategic decisions to achieve the goal of maximizing value. These policies can be grouped into four directions:

- *Investment policy* (internal and/or external) that can be directed to specialization (internal development investment to increase efficiency) or to diversification (external investments to other risk mitigation organizations) or to a combination of specialization and diversification;
- *Financing policy*, which aims at selecting sources of financing (own and/or borrowed sources). The criterion for selecting one or the other or a combination of them is the weighted average cost of the enterprise's capital.
- *Dividend policy* (dividend distribution and/or reinvestment) concerns the decision to distribute the dividends that arose at the close of the financial year and/or to reinvest them in the enterprise's development. Ensuring a balance between the two alternatives leads to increased stakeholder trust in the organization, the image and the value of the organization.

- The enterprise valuation policy aims to periodically determine the organization's market value (its patrimony and its current and future income generation capacity). "As a business strategy, the business valuation is based on future projections of financial indicators (net income, dividends, cash flow, etc.)" (Negulescu, 2017).

Financial theory

Financial theory has evolved continuously since Modigliani and Miller (1958) have developed the model of the financial structure of the enterprise. Unique and multicriterial theories, as well as new models adapted to the modern financial investment practice (Black & Scholes, Ross and other models) have been developed.

4. Managerial decision based on financial information

The management decision of the organization includes three analysis, cost-effectiveness, cost-benefit analysis and cost-minimization analysis, based on the concept of "4E" – equity, efficiency, economy and effective-ness (Figure 2).

The capital invested (equity) must meet the requirements and expectations of investors.

Efficiency refers to how strategic goals are achieved and measures the best result for a given resource level or the lowest use of resources for a given predicted outcome.

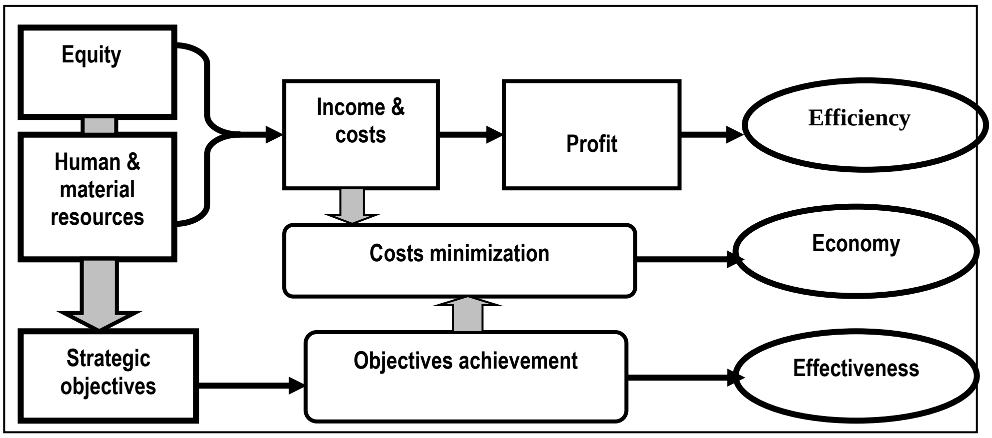

Figure 2. Directions of Financial Analysis for Decision Making

Effectiveness is the extent to which strategic objectives are achieved. The comparisons of the results with the strategic goals, the strategic alternatives and the projected projections reflect the effectiveness of the strategies and the extent to which they have been achieved.

Economy: Strategic resources must be used to create value for money, not to be scattered.

Nevertheless, these analyses lead to future decisions based on performance.

As part of the management of the enterprise, the management decision-making process based on financial information involves four stages:

- Financial Planning: Program Planning, Operations Planning, Investment Planning Based on the Budget Forecast (Kritzman, 1995; Bierman, 1999; Rutteford, 1988; Tracy, 1996);
- Implementation of financial plans: financing, financial statements and cost management (Hansen & Maxen, 1995; Gaddella & Rutteford, 1999; Hicks, 1992; Drury, 2000);
- Performance appraisal: the management information system, the economic and financial analysis and the estimation of the real value of the enterprise (Crouch, 1994; Scot et al., 1988; Johnson, 2016; Richards, 2016; Negulescu, 2017);
- Audit: Specific Financial Control and Administrator Control (Garrity, 2000).

These stages, which are in correlation with the available resources (financial, human and material) and the processes that are specific to the enterprise (production, services, sales, investments and others), underpin the decision of the superior management in order to fulfil the strategic objectives and the mission of the enterprise (Figure 3).

Using the financial approaches outlined above, financial management coordinates the three stages of the decision-making process (financial planning, financial plan implementation, and financial performance assessment of the organization) and provides financial management information and data management, taking part in decision-making.

Superior management correlates the financial data obtained with the strategic objectives of the organization (specialization, diversification, investments) and decides on the provision of resources (financial, material and human) in order to carry out planned activities based on specific processes. It also works with financial auditors and stakeholders. The decision-making process aims to ensure the performance of the organization and any deviations from the strategic objectives are monitored (feedback) and underpin subsequent corrective decisions.

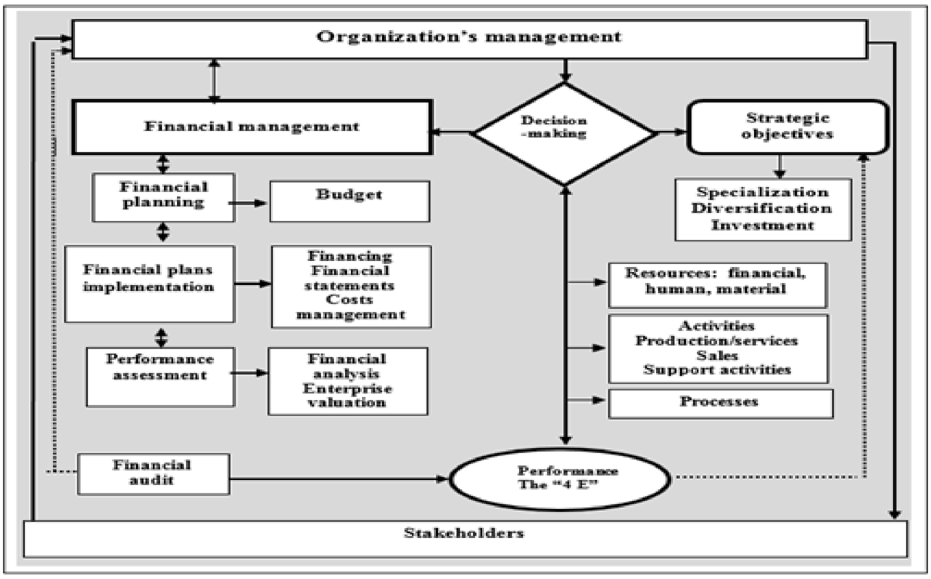

Figure 3. Decision-making process based on financial information

Using IT technology facilitates the speed and accuracy of information flow.

The financial performance measurement is required to:

- Getting knowledge of the obtained results;
- Comparing the results with the proposed objectives;
- Justification of resource acquisition;
- Analysing the contribution of each department or employee to achieving the results;
- Comparing the results obtained in different time periods, between the results of different subunits, between the results of the organization and other organizations;
- Elaborating the diagnostic analysis of the organization and establishing the future directions of action.

Conclusion

Financial statements are financial-accounting tools that provide managers and other interested organizations with an insight into the financial condition of the organization, having as a source the recording of all facts in accounting.

The progress of an organization is measured by continually comparing the results obtained with the targets set in the plans and programs. In an uncertain and volatile environment, organizations need to adapt to the conditions and respond appropriately to their challenges in their favour. That is why financial managerial control is a vital tool in the life of an organization. Implementing unplanned financial plans and adequate feedback does not ensure the efficiency of financial management activities.

Achieving managerial goals at all levels is conditional on the operation of an efficient financial management system. This system can and must provide the necessary information for planning, control and decision making to ensure that the organization's mission and strategic objectives are met.

The organization as a system is the responsibility of management, which requires the development of decisions aimed at ensuring the change and improvement of the existing situation in order to achieve the mission of the organization and the achievement of the strategic objectives. In this context, the conceptual model proposed for managerial decision-making based on financial information can be a useful tool for any enterprise.

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