

ACCOUNTING INFORMATION FOR STRATEGIC DECISIONS

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ABSTRACT

The major dilemma of any company's top management was and remains the prediction of the firm; by carefully analyzing facts and events that defined the company in the past for "n" years, management must make specific prediction about the position of the firm on Company's Business Cycle (CBC) for the next few years. This approach is extremely easy to set, but extremely difficult to apply in business practice in the current global economy. The essential source for decision makers in what consists of informing about facts and events that defined the company in the past was and remains accounting. For at least the last five centuries, accounting information played a key role in strategic business decision making. Solely from the existing analytical information in the various accounts and statements that are prepared periodically in the accounting field of the firm, there are reasonable chances for the senior manager to predict quite realistic the CBC outline for the entity responsible. The development of computers and computer networks has helped enormously the organization of firm's accounting as well as the manner in which the accounting information, more finished, processed and transmitted (reported) in real time can be exploited by higher decider.

Keywords: Accounting Information, Economic Theory, Knowledge Base, Financial Results

INTRODUCTION

The evolution in time for "n" years of economic entities (companies, firms, businesses, commercial societies, etc.) existing in all countries, inevitably meets a tortuous, fragmented path, meaning that even the most efficient firm has no permanent upward trend in terms of its financial results [2-5]. As at a national level the economic life fluctuates a lot, meaning that it evolves cyclically for "n" years, so, at the microeconomic level, meaning at the firm level, its own evolution has a cyclic character.

By simplifying the reality that exists in the national economy (NE), we can affirm that its operation can be captured / represented by a logic function such as:

$$NE = f(\Omega, \alpha, \beta, \varepsilon) \quad [1]$$

Where

Ω - Number of firms in economy

α - Relationship between firms

β - Synergy factor exploited by the system

ε - Residual factor unrestrained by others

Peter Drucker argues that rarely the firm's decision maker will be able to accurately predict its future for the next one or more years, meaning the positioning of the entity on the company's business cycle (CBC), which will be recorded in the future; but we have the duty to strive, he says, to predict as rigorously as possible *the foreseeable consequences to events or facts that have occurred in the past irrevocably* [8].

MATERIALS AND METHODS

From the perspective of the firm's theory (regardless of its size, its nature of basic activity, its economic context in which it operates, its legal form, etc.), any economic entity fulfills a number of 5 functions to achieve its goals; the 5 functions of the firm entered in theory under the following names:

- research development function of the firm;
- production function of the firm
- marketing function of the firm;
- financial-accounting function of the firm;
- human resources function of the firm;

The figure below schematically presents the location of the 5 functions of the company and the role of accounting information (note that the specialty literature recently replaced the phrase of accounting information, particularly since 2005, as the implementation of IAS / IFRS; currently it is used the term of economic-financial information specific to EU companies listed on the stock market) in the organizational structure and the top management support:

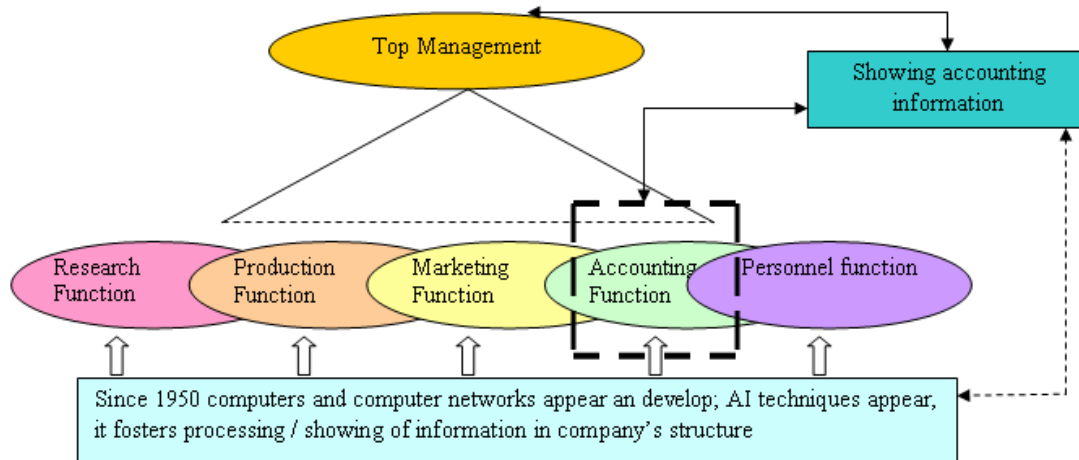


Figure 1 Firm's functions and accounting information [11]

Management decisions are classified according to several criteria, but our interest is limited to their classification according to the target horizon type and the importance of the issue under consideration; according to this criterion we have two types of decisions [9-10]:

1. Current or tactical decisions, when the decision maker aims for short periods of time, weeks or months, and the resources allocated to meet the decisions are modest; such decision are daily adopted by persons in management positions in business organization;
2. Strategic decisions, when the decision maker aims for long periods of time, years, allocates all or part of the company's core assets to achieve that goal; such decisions are usually adopted at what we call top management (i.e. CEO and his team, meaning Chief Executive Officer or President, etc.).

Accounting of firms is organized and run according to laws existing in each country, including in the case of Romania [12]. In the case of companies listed on the stock market, regardless of country, the legislature usually establishes stricter rules on the organization of

accounting for such entities, and on the public character of certain accounting information on firm's financial results over time (the public nature provides the necessary transparency for all natural or legal persons that buy and trade shares on the stock exchanges). The Western states, including under the aegis of international organizations such as the World's Organization of Commerce (WOC), there is a tendency on harmonization of accounting rules operating in different countries, especially for medium and large companies listed on the stock exchange. The same trend is registered in the EU. For the purposes cited we remember that there were implemented International Financial Reporting Standards IAS / IFRS issued by the IASB (International Accounting Standard Board) on annual or interim financial statements.

RESULTS

Romanian economic entities currently prepare their annual financial statements in accordance with a system of laws and accounting standards differentiated by sectors of economic activity, legal nature, the size of the firms which are listed or unlisted at stock market. OMFP no. 3055/2009 in accordance with Directive IV (no. 78/660) and VII (no. 83/349) provided [13]: specific schemes balance sheet, profit and loss account, notes, picture of cash flows, changes in equity, expanding the evaluation criteria that entities must adopt to those used before. Association of Chartered Certified Accountants and auditors, CECCAR took a leading role in interpreting and integrating IAS / IFRS standards in accounting. Compulsory introduction of these standards of IASB for parent companies of the groups listed in preparing the consolidated accounts and extending the obligation to all other companies requires a significant change to existing accounting rules. It does not only deal with a technical problem of formal changes in the registration and presentation of information in financial reports, implementation of International Standards IAS / IFRS in the EU involving firstly the understanding of the cultural approach, of the background philosophy that stays behind these rules [14].

IAS International Accounting Standards have been developed for the first time in 1973, by IASC (International Accounting Standard Committee), which became in 2002 IASB (International Accounting Standard Board) responsible for developing new IFRS rules whose role is to replace the old IAS standards. [15]

In other news, we remember that since 1930, Ludwig von Bertalanffy, a German biologist, developed the principles of what today we call the GST (General Systems Theory); the later systemic approach played a major role in the development of various areas of knowledge, including the economy [1]. According to Bertalanffy, a system is given by a set of elements Me ; when this set has a Ro relationship that has well-determined Pd properties there are established the order connections in the operation of this abstract construction.

The set of elements Me is given either by enumerating its elements:

$$Me = \{a, b, x, \}, \quad [2]$$

Or by indicating a Pd property which is specific to its elements:

$$Me = \{x | Pd(x)\} \quad [3]$$

Where $Pd(x)$ is a property considered to be true for all x individuals belonging to me .

We can say that the system is identified by its specific characteristics or by the relationships between these features, taking into account the specific nature of the system's components (which may be biological, technical, economic, and social and so on).

In economic theory a major role played the *open economic systems*, which is that type of system connected to the environment in which is located and in the operation of which we can find the specific feedback.

From the perspective of the approach outlined above, we deduce immediately that the national economy is an open economic system of large size and complexity and that the accounting information, more finished, processed promptly becomes a major advantage in the global competition between countries. In Figure 2 we present graphically the location of accounting information in its systematic approach, obviously referring to the national economy.

Finally, any company treated as a system has a certain organizational chart with one or more hierarchical levels, which represent the formal authority flow on which it is based the daily management [2-5]. For medium and large companies, especially when the entity is listed on the stock exchange, the daily management results from a more complex organizational chart with 2 up to 5 hierarchical levels.

In the most general sense, management theory held that decision makers of business organization, i.e. managers or executive employees (which account for 5-10% of the total employees of the organization) are distributed on 3 levels of authority, respectively [9-10]:

- at the top is what we call organization's top-management, or the superior decision maker; this category is designated generically by the CEO and his team; CEO remains the higher strategic decision maker who has the major role in shaping the path followed by the company on CBC, its directing leading either to success or failure;
- middle managers or middle management, who are located in the middle of the organizational pyramid and serving as an "ax" of transmitting the information and the decisions in everyday life of the organization;
- Supervisors are located at the base of the organizational pyramid, each having under its authority a number of "n" performer's employees; their role is more modest in the strategic thinking designed and applied by the organization within "n" years of operation.

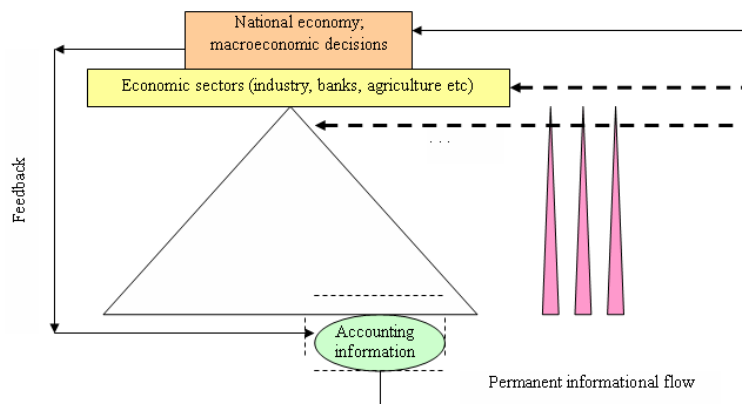


Figure 2 Accounting information in the economic approach of national economy [11]

The volume of information available to the CEO, the quality, utility and nature, their degree of processing and aggregation will ultimately condition the organization's prosperity or failure. Obviously, the firm's decision maker relies daily on multiple sources of information;

he resorts to market studies, economic analysis, textbooks, general economic models and other sources including a notable amount of knowledge. Besides information sources alleged, accounting has become a major source of information for managers in the modern economy; accounting ensures rigor, precision, even mathematical expression, on key indicators that define the path followed by the company for "n" years. Therefore, the top management of the company is based largely on accounting information (but not exclusively) when it adopts different strategies; but he relies equally on intuition and experience accumulated within decades, i.e. on knowledge that is harder to quantify and to mathematically model [6-8].

CONCLUSIONS

Regarding the objective pursued by this work, we managed to briefly prove (as shown in Figure 3), we believe, the deep connection that exists between business functions, accounting information, hierarchical levels of management and informational support on which strategic decisions are based on in business.

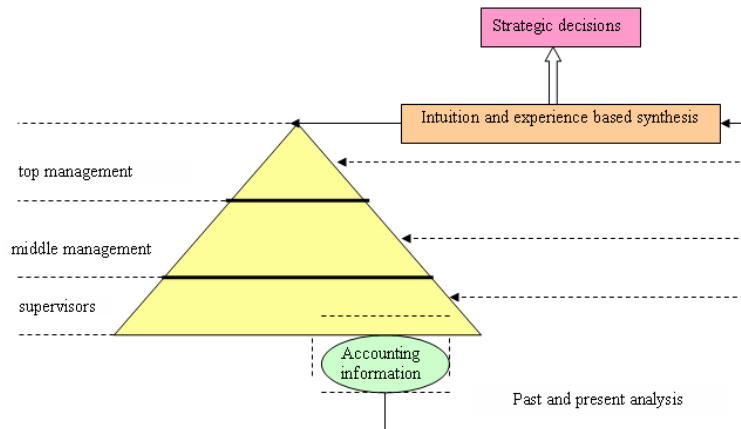


Figure 3 Accounting information and hierarchical levels of management [11]

If we return to the idea argued by Drucker, it goes without saying that by what we called "accounting information" we mean facts and events that took place in the past, irrevocably, *in* the path followed by the company on CBC. There is no other accurate and complete way to capture the company's background for "n" years than the data that are processed daily and annually in the structure of the accounting function.

Over the past decades, "*accounting information*" (international accounting framework states that information is classified as an being accounting when it meets all four quality characteristics: credibility, relevance, understandability and comparability) became and remains more complex, more sophisticated, harder to process through the use of traditional means of calculation and analysis. Obviously, for any large data or knowledge base the expert systems (ES) have become an indispensable aid for their operative processing and for aggregating and summarizing information after desired criteria.

Note: The responsible for English language is the Elena-Florina F.G. Iancu, from Faculty of Economics, Suceava, Romania, and Certificate of Proficiency in English No. 0032407980

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