ROLE OF FINANCIAL INFORMATION IN MANAGEMENT DECISION MAKING PROCESS

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ABSTRACT
The present paper on ‘Role of Financial Information in Management Decision Making Process’ analysis the complete picture of the significance of financial information in the decision making process of any organization. Through this paper, it has been strived to analyze about how the current as well as the future decisions are affected by the information, which is available from the financial statements like cash flow and ratio analysis. The motive of the paper is accomplished by firstly conducting the complete study about the accounting process that is followed in the organizations, then understanding the importance of financial information derived from the books and statements of accounts and finally, by contemplating the impact of such decision making on the firm. It has been concluded in the present study that the significance of financial information in guiding the management is by and large extensive. As such; the role of financial ratios is established to be great in assessing the efficiency, profitability and stability of the organization in the present as well as in the future. Various investment, financing and dividend decisions are also taken post the analysis and evaluation of the available financial information of the firms.

Keywords: Financial Information, Ratio, Decision Making Process, Investment and Dividend Decisions

INTRODUCTION
In order to run the operations of the business efficiently and successfully, the significance of the financial as well as the non-financial information is imperative in any organization. The managers are only able to accomplish the aims and objectives of growth and stability of the firm, if the adequate information of the financial aspects are possessed by them (Henry & Robinson, 2016). But the utilization and the evaluation of such possessed information is the major aspect that majorly guides the decision makers to take adequate decisions for the firm. According to Stanković et al., (2012), the accounting information forms a major part and parcel for taking the vital decisions of day to day operations of the company. According to him, such information does not only hold the importance for management but for the interested parties including the customers and shareholders as well. As quoted in his research study that, “the importance of accounting information for the effective management of business activities is significant.” The statement exhibits the significance of accounting and financial information for taking the major business related decisions.
Also, it has been concluded in the research study of (McDonald et al., 1975) that the financial information which is extracted from the statements of accounts assist the management enormously in taking the investment, financing and dividend decisions. Such decisions, according to them, were not only taken up for the present but for considering the future aspects as well. It has been analyzed from the studies that the major decisions that are taken up by the firms, let it be finance related or to maintain the stability of the firm, comes from utilizing the financial aspects of the organization only. Socea, (2012) also attempted to study about the role of financial information in the management decision making in her research work and concluded that the accounting information does not only guide the management about the various aspects in the present scenario but also tries to rectify the mistakes or errors that took place in the past. As such, by exhibiting the complete quantitative view about the operations and current financial status of the company, the managers are assisted in the future scope and managing the future activities and future leverage of the company. That further helps them to analyzing and planning the future profitability of the business.
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Aim and Objectives
The present paper aims to completely comprehend and contemplate the role of financial information in the decision making process of the management. As such, the motive is to understand that how the accounting and financial information affects the quality of decision making in any company. This is done by getting the complete picture of the aspects, which are specified as below:
- To understand the concept of financial accounting process
- To understand the significance of financial information (especially accounting ratios) in the decision making of the management
- To determine the effect of such decision making on the working and efficiency of any business

Literature Review
Overview of Financial Accounting Process
Accounting process is concerned with the transformation of raw financial data into the useful information by the management. Such process is related to the recording, classification and summarization of the financial data with an ultimate motive to guide the management in decision making (Walther & Skousen, 2009). The data is collected and compiled in a systematic manner at the end of a specified period of time. The role of financial information in the decision making process was also studied elaborately by Zager & Zager (2006), according to whom the financial accounting is basically done to serve the purpose of management as well as for the end users/stakeholders/shareholders. The most important financial statements that serve the purpose are the cash flow statement, Income statement, Balance sheet and finally, the statement of change in the ownership of funds. According to them, the first step in this regard is the collection of data by the way of preparing journals on the continuous basis. After recording the same, the process of making ledgers and trial balance follows in order to summarize the data and to establish the data accuracy. Finally, the income statements, balance sheet and other important statements, as specified above, is prepared after maintaining the accuracy and reliability of the statistics. Along with the above mentioned financial statements, the calculation of financial ratios is vital for an organization in order to infer about the relationships that exist between the various items of financial nature (Elliott & Elliott, 2011). According to them, the ratios aid in transferring some important information about the financial aspects of the company to the management and taking up some considerable steps in that regard. According to Beest et al., (2009), the major objective of any organization carrying out the accounting process is to serve the management with high-quality financial reporting information for the decision making process. During such process, the focus is to enhance and improve the qualitative characteristics like the understandability, comparability and verifiability in the financial reporting (Tóth, 2012).

Financial Information for Business Quality
The financial information that is obtained from the final books of accounts or from the accounting process helps in making many decisions like investment, financing and dividend decision. Such decisions are considered as an important aspect for maintaining the business quality. With the assistance of ratio analysis, some significant results are drawn regarding the financial health, profitability and the efficiency of the firms (Sahu & Charan, 2013). According to them, the association between some key variables can be easily understood by carrying out the research on the ratio analysis. The decisions of such aspects is taken after carrying out the inter firm ratio comparison along with intra firm ratio comparison, which helps the firm to comprehend the trend that the company is following and that is operational in the market. Along with it, the quality in the firm’s stability and efficiency is well maintained when the decisions are taken after analyzing the relationship between the variables and how such relationship can be improved. It is the major source of information for the banks and insurance companies for whom the accounting figures and their inter relationship play a major role. For them, it becomes vital to take chief investment decisions (Blessing & Onoja, 2015).
On similar lines, Habib & Hossan, (2010), specified major ratios that are calculated in order to assess the various aspects of management decisions, which are the liquidity ratio, profitability ratios, asset management ratio, debt coverage and market value ratio. Complementing the same, Zager & Zager (2006) stated that the management covers the 2 major criteria for initiating the decision making process.
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These criteria are firstly related to firstly the security ratios comprising of liquidity and debt coverage ratio aspect and secondly, profitability and asset management ratios. According to them, the efficiency of the firm is related or dependent upon the security aspects in the longer period of time. As concluded by their research, these two ratios finally guides in the decision making and aiding in maintaining the quality of the business.

Impact of Decision Making on the Basis of Financial Information

It has been analyzed from various studies that the role of financial information in the decision making process is vast and extensive. In a study regarding the significance of financial information in the decision making process is well explained by Maidoki, (2013), according to whom the effectiveness and efficiency of the business is wholly dependent upon its policies and the decision making process. Besides, in order to maintain the reputation and dignity of the business, the financial reporting is required to be given due consideration. According to him, the healthy decision making for an organization is the one that completely determines the efficiency, effectiveness, compliance and the stewardship of an organization. Such similar impact of the decision making that takes place on the basis of financial information is well explained by Zager & Zager, (2006) in their research study. According to them, the business quality of the whole company can easily be maintained by taking decisions after the evaluation of accounting and financial information. Along with it, the ratio and financial analysis guides much in creating the policies and presumptions for a successful business in the future (Baker & Wallage, 2000).

Zager & Zager, (2006) also explained the significance of the well informed decision making that takes place only after the critical analysis of the books of accounting, supplemented with the ratio analysis and the cash flow statement. As such, the combined ratios based upon the income statement, cash flow and balance sheet can surely aid the company or any organization to measure the business quality in present as well as in the future.

CONCLUSION

Thorough study about the financial information that is gained from the statements of accounts, it has been analyzed that the management’s decisiveness and judgment are highly dependent upon the information in order to maintain the quality in decision making (Research Online, 2011). The financial information collected from accounting details guides the management in taking the decisions about the present activities, maintaining efficiency and future stability in the business by providing the fair and realistic information about the financial aspects of the company. For achieving the purpose, the capability of the accounting managers are needed to be ensured by the management who are capable to understand the significance of the figures as well as the various aspects of financial ratios.

The significance of financial ratios is contemplated specifically in the present research and its role is studied in relation to the decision making. It has been concluded from such research that the profitability, market value, asset management and for maintaining the optimal capital structure of the firm, the ratio analysis is found out to be imperative.

REFERENCES


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(Pearsons Education Ltd, Harlow, England).


