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ACCOUNTING INFORMATION-THEBASIS OF THE COMPANY' S STRATEGIC DECISIONS

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Abstract: *The main objective of the paper is to evaluate the role of accounting information in strategic and operational decision making for the economic entities.Accounting as a language of business has developed the ability to evaluate the economic situation, so that it can provide the information to make the right decisions. The purpose of accounting is to make from its information a guidance tool such as a dashboard, an advisor for its own activity in the macroeconomic context.For the management of the enterprise, the accounting information represents a tool to capitalize on the potential for the successful development of its objectives in an efficient way, in a strong competitive environment and a globalized market.In order to fulfill the company's objectives, the collaboration between the accounting side, which provides the information, and the managerial side, which use this information in the decision-making process, is an essential condition for success.The specific objectives of the study are to identify the main problems of this collaboration, by identifying the frequency of using accounting information in decision making, to know about the effectiveness of accounting information in long-term strategic decisions, to identify the problems in generating accounting information in the economic entities and to recommend suggestions to overcome the identified problems.*

Keywords: *accounting information, decision-making process, globalized market*

JEL codes: D81, D84, G34, M40

Introduction

The elaboration and implementation of a strategy can be achieved only under the conditions of the existence of an information basis at company level. Igor H. Ansoff and Edward J. McDonnell have highlighted the importance of accounting information for the development and implementation of strategies (Ansoffand McDonnell,1990). For a long time the role of accounting information was limited to the measurement of inputs and outputs generated by continuing its activity firstly focusing on the financial performance.

Subsequently, the accounting information developed from a financial data system based on the analysis of financial indicators a forward-looking toolbox. Business managers are aware that it gives them a picture of the decisions taken in the past,based on the analysis of some financial indicators, but also an overview of the future evolution of the based on the economic-financial history (the results obtained in the completed financial years), so reducing degree of uncertainty and risk.

According to John Arnold and Tony Hope, the role of accounting information is to help managersunderstand clearly their responsibilities, reducing the level of risk and uncertainty in decision-making as a guarantor of performance and budgeting by allowing comparative analyzes to be carried out over a period of time(Arnold andHope,1990). Similarly, Dorina Budugan and Iuliana Georgescu consider accounting information as a learning machine that helps to assess how the

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objectives set could be achieved by quantifying the financial impact of each available alternative (Budugan and Georgescu, 2009).

Accounting information is an integral part of a company's management, contributing to the formulation of strategies, planning and control of activities, optimizing the use of resources.

The successful achievement of the company’s objectives requires that managers of the companies will use the information rationally,having the purpose to optimize the management and the strategic decisions in a volatile and highly competitive economic environment.

Accounting information is collected from well-defined sources, their nature being described through outlined essential attributes such as relevance, reliability, intelligibility and comparability in highlighting the basis for managerial decisions.

The accounting information is based on the balance sheet or the attached financial statement (profit and loss account, statement of cash flows, statement of changes in equity, explanatory notes to the annual financial statements).

Accounting information and strategic decision making

The financial position of the enterprise is known mainly through the financial statements, summary accounting documents which present the assets, liabilities and equity of the entity at the end of the financial year.The role of the accounting information generated by the annual financial statements is to ensure that the undertaking is aware of its economic activity over a certain period of time, and to provide predictability in order to reduce the uncertainty associated with the volatile economic environment (Young et al.,2019).

The information provided by the accounting system is standardized and is intended for a wide range of internal and external users (creditors, shareholders, employees, securities agencies, tax authorities) as well as for the company's own management, being a means of communication with the internal and external environment of the organization in terms of its financial performance.They are useful tools for anticipating future credit needs, in substantiating decisions on the allocation and use of available funds, while provide a source of information for both management and third parties.

Information about liquidated and solvency is useful for anticipating the ability to take action, honor their financial commitments that have been due.

The accounting information acquires a special relevance if we take into account their beneficiaries grouped according to certain criteria according to the degree of interest shown by each category. Thus, investors are attracted to the performance of the capital invested, focusing on the risk and return on their investments reflected in the financial reports published by the company. In case of listed companies, the published financial statements influence their market capitalization.

According to William R. Jan, Harka F. Susan and Better S. Mark, financial statements fulfill three functions (William et al., 2005):

- ***to generate useful information to a group of external users (investors and creditors)*** for decision making. Based on this information, third parties can make predictions regarding the evolution of the future performance of the company. Thus, although accounting information refers to past data, it can anticipate the dynamics of financial performance. (Salvary, 2003).
- ***to provide information to those who operate and control the company,*** which is the basis for making investment decisions. Each firm set its priorities on which it bases its investment decision to maximize profit, shareholder dividends, and increase market share. The choice of investment options aims at maximizing the net present value.
- ***basis for establishing the fiscal payment obligations*** due to the general consolidated budget. The analysis of the accounting information from this perspective involves a distinction between accounting and taxable profits, given that most of the times there is a significant difference between the two. Thus, the decisions taken by the company in the allocation of its funds take into account the tax facilities from which they can benefit

(additional deduction in the calculation of the tax result of research and development expenses, tax exemption of profit invested in technological equipment, computers, control machines, in computer programs, recovery of tax losses from taxable profits obtained in the next 7 consecutive years).

The objective of the financial statements is to provide relevant information about the financial position of the company at a given time, as presented in the balance sheet or can illustrate its performance, which is fulfilled by the profit and loss account.

In a competitive economic environment, economic agents must create opportunities by adopting new strategies in order to maintain their market position and increase the company's value. The issue of growth and development is a priority for most companies. Managers can use competitors' accounting information to implement a corporate strategy such as internal growth, mergers and acquisitions or alliances. Knowing the economic and financial situation of competing companies is possible when they have chosen to list the company on a regulated capital market, which requires transparency on their part in publishing the financial statements to which both investors and other companies can access.

The choice between the different forms of growth and development is made according to the characteristics of the initiating enterprise of the project (size, financing capacity, etc.) and its strategic options (specialization or diversification).

On the other hand, managers use accounting information to decide whether to allocate assets, increase capital or investment.

The financial policy of a firm requires investment decisions to be taken in conditions of uncertainty due to insufficient knowledge of the economic environment in which it operates, which requires the identification and understanding of risks and the aim of reducing the costs of costly financial situations.

Once the risks have been identified and quantified, there are several decisions about any risk. They concern the degree of risk exposure of the firm,respectively acceptance, diminution or aversion to risk. Economic practice has shown that a direct proportional relationship exists between profitability and risk (an increase in profitability is accompanied by increased risk), which requires management decisions, which will be taken on a particular investment, take into account the associated risk in the analysis of the feasibility of the investment.

The development of investment projects and the provision of funds necessary for the current activity of the company involves the choice of a strategy that ensures a minimum cost of financing and an optimal structure of mobilized capital. In order to finance the asset, managers can choose both self-financing by capitalizing profits or issuing shares with the aim of raising equity capital, and a debt policy through the use of loans in the internal and external capital markets(Carey et al.,2005).***The choice of form of financing must take into account:***

- the financial situation of the company (its indebtedness);
- the duration and cost of funding;
- the risks associated with each source of funding;
- ensuring a balance between consumption and inputs of financial resources.

The degree of indebtedness influences the cost of financing, knowing that the level of the interest rate at which the company is borrowed is influenced by it, the creditors wanting to compensate the increased risk to which they are exposed as a result of the credit beneficiary not honor its contractual payment obligations.

If the rate of return obtained by the company is higher than the interest rate on the money market, economic operators prefer credit as an alternative financing. In this way, the company achieves fiscal savings as a result of the deductibility of interest expenses when calculating taxable profit.

The financing decision by contracting loans aims to correlate the financial flows obtained by the company with those related to lending, but also to establish an optimal level of indebtedness to

ensure a balance between the desire of shareholders to receive higher dividends and the necessary funds for business development.

The accounting information summarized in the financial statements also presents certain limitations related to the recording in the accounting of the goods at their acquisition or production value, and the receivables and obligations, at their nominal value (historical cost), without taking into account their market value or inflation.

At the same time, the need to have financial statements with comparable information is made difficult by the use of different reporting standards.

Another aspect to consider is the difference between the accounting result and the fiscal result.

Thus, the accounting result is determined as the difference between the income from any source and the expenses incurred in order to obtain them while the tax result is calculated as the difference between the income from any source and the expenses incurred for their realization, in a fiscal year, minus non-taxable income, tax deductions and non-deductible expenses and tax loss.

This delimitation between taxation and accounting distorts the information presented in the financial statements.

Case study on the impact of information contained in financial statements on investment decisions

Research methodology

Theaim of the research was to test the multiple linear regression model as well as explaining the statistical-mathematical relationship and the influences between the dependent variable (stock market capitalization) and two independent variables (net profit and equity).

A similar approach had Ciora Costin Munteanu Sebastian Mădălin and Iordache Vlad which analyzed the correlation between financial indicators and stock indicators. The result obtained by them, using econometric methods, showed a weak correlation between market indicators and measures that use information from financial statement (Ciora et al., 2011). The result seems surprising if we do not take into account the fact that the end of the period under analysis coincided with the economic crisis that began in 2008. Other authors (Stolowy et al., 2020) argue that there is a strong correlation between the indicators presented in the financial statements and the way in which the company is perceived by investors.

In order to demonstrate the use of multiple linear regression in the analysis of financial results, I studied the correlation between market capitalization, net profit and equity. To analyze this correlation, I used financial information provided by the Bucharest Stock Exchange website, from which, initially, the financial indicators were extracted to analyze their impact in adoption of the investment decision.

The next step was to test the correlations between these indicators and establish the regression equation.

Economic-mathematical modeling was performed using the statistical program SPSS version 17.0. For the correlation analysis, I determined both the mean and the standard deviation in the incipient phase were, establishing the level of correlation using the Pearson index.

The SPSS (Statistical Package for the Social Sciences) program is used in the statistical analysis of data in experimental research. Compared to other similar programs, it is distinguished by the rigorous structure of the analysis performed and the ease of use.

In order to be able to present the impact of financial information on investment decisions on the capital market, we performed a test through the SPSS application.

The sample consists of 13 companies that are part of the BET index.

The analyzed variables are the market capitalization (dependent variable), respectively the market value of all the shares of a company, the net profit, and equity presented in the financial statements ((independent variable)).

Table no. 1 The economic-financial indicators of the companies that are part of the BET index in the year 2020

Indicators / Company names	**Net profit (Ron)**	**Capitalization market (Ron)**	**Equity (Ron)**
Alro S.A.	295.206.223	1.927.203.664,5	1.031.967.483
Banca Transilvania S.A.	1.197.304.582	16.283.591.774,4	9.522.867.682
BRD - Groupe Societe Generale S.A	951.565.000	13.227.190.811,64	9.472.143.000
Bursa de Valori București S.A	9.118.697	202.840.999,2	148.854.360
C.N.T.E.E, Transelectrica	144.956.820	1.817.917.921,6	3.381.340.866
Conpet S.A.	60.846.759	694.333.745,6	657.010.568
MedLife SA.	41.842.280	3.082.595.414,4	207.077.279
OMV Petrom S.A	1.381.578.837	27.953.867.463,32	32.012.940.116
S.N. NUCLEARELECTRICA S.A.	699.322.229	12.744.454.521,5	7.514.245.928
S.N.G.N. Romgaz S.A.	1.278.884.673	13.489.784.000	7.746.264.019
Societatea Energetică Electrica S.A.	298.378.536	3.949.457.005,8	4.049.335.556
Sphera Franchise Group	66.375.340	597.509.836	682.353.869
Teraplast SA	33.104.139	2.296.666.377,33	239.464.169

Source: bvb.ro/FinancialInstruments/Details/FinancialInstrumentsDetails.aspx?s=ALR

The method used is simple multiple regression.
The regression equation is of the form:

$$\boldsymbol{Y = aX_1 + bX_2 + \alpha} \qquad \textbf{(1)}$$

Table no. 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
	.986[a]	.972	.966	1557217283.69556	.972	172.613	2	10	.000

a.Predictors: (Constant), net profit, equity
b.R Square: the coefficient of determination (is equal to the square of the multiple correlation coefficient).

R Square indicates the percentage of the variance in the dependent variable that the independent variables explain collectively. R Square measures the strength of the relationship between your model and the dependent variable on a convenient 0 – 100% scale. Generally, a higher r-squared indicates a better fit for the model. In our case 97.2% of the variation of market capitalization is explained by net profit and equity.

Another significant test is given by the ANOVA function. Significant importance in ANOVA is the F test, also known as the Fisher test. The higher is F, the greater is the significance of the regression equation.

The elements from the ANOVA test are presented in the table below:

Table no. 3 ANOVA test

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	8371467588286583000 00.000	2	4185733794143291 00000.000	172.613	000[b]
Residual	2424925668640173700 0.000	0	2424925668640173 600.000		
Total	8613960155150600000 00.000	2			

a. Dependent Variable: market capitalization
b. Predictors: (Constant), net profit, equity

Results

From the analysis of the data presented above we can say that ANOVA demonstrates as a summary model a significant level of the regression equation, due to the fact that the value of F is 172,613 with an insignificant sig value.

Considering the fact that we have achieved a significant correlation level and at the same time the tests we performed have reinforced the significance of the regression equation.The coefficients of the regression equation is presented below.

Table no. 4 Coefficients of the regression equation

Model	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
	B	Std. Error	Beta		ig.	Lower Bound	Upper Bound
(Constant)	425661563.440	605249481.753		703	498	-922918321.998	1774241448.878
net profit	8.319	1.400	.521	.942	000	5.200	11.439
equity	.509	.086	.520	.934	000	.318	.700

Source: SPSS

Starting from the coefficients presented in the table above, the regression equation is:

MCAP=425661563.440+8.319NP+0.509E+α (2)

We have demonstrated that net profit and equity influence market capitalization.

Conclusions

The accounting information provides the input for the analysis of the economic-financial indicators at company level, the strategic decision being based on their dynamics. Accounting thus becomes a component in the formulation of the strategy.

Managers bases their strategic decisions taking into account the economic and financial indicators calculated on the basis of accounting data, seeking a yield above the average of the sector of activity to which they belong, in order to ensure sustainable growth.

Management decisions require knowledge of changes in assets, liabilities and capital based on the information provided by the accounting.

Accounting information sets limits to the loss of relevance of information by delaying disclosure, to the use of different accounting principles and methods that make comparisons between the financial results of undertakings difficult. At the same time, the accounting information gives a picture of the economic and financial situation at a given moment, without showing the factors that influenced the company's activity dynamics.

Starting from these significant links between capitalizationmarket andthe net profit and equitywe achieved at the end of the paper the linear multiple regression model, which reveals the existing economic-mathematical link between them.

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