INFORMATION AND STRATEGIC DECISIONS IN ECONOMIC ENTITIES MANAGEMENT

LUCIAN IOAN SABĂU*

ABSTRACT: Information and decision are two key elements of economic entities management. Information represents the support of decision making by those managing the economic entity, helping them take the right decision for them to achieve set objectives. Strategic decisions provide long-term success of the economic entity outlining its internal and external stand. Those responsible for making strategic decisions have the ability to influence the economic entity’s success through these decisions they take, the role of the strategy being to ensure perfect correspondence between what the economic entity can do and what it could do, given the opportunities and threats in the environment they conduct business.

KEY WORDS: information; decision; strategy; strategic decision; strategic management.

JEL CLASSIFICATION: M12.

1. INFORMATION AND DECISION

Everyone today uses information to help decision making. “Information includes facts, ideas, and concepts that help us understand the world” (Ingram & Albright, 2007, p.3). However, to use information, we must be able to interpret and to understand its limits. Little information or even their misuse often leads to poor decisions, or, we might even say, inappropriate decisions.

Accounting provides information that is useful in decision making within an entity. This information is like a map for the entity, helping decision makers to know where they are, where they were and where they are heading. Unlike measuring distances on a map, which is made by using measurement units such as kilometers, accounting measures the activities of an entity in monetary units.

Accounting information is “specific economic information produced from the processing through methods, processes and instruments appropriate to accounting data.

* Ph.D. Student, “West” University of Timișoara, Romania, luciansabau1@gmail.com
It is real, precise, complete, representing the dashboard, the support of economic, financial and management decisions taken by managers” (Epuran, et al., 2004, p.29).

In this way, we are passing to a decision and see that it is “the commitment to an action intended to produce satisfaction to certain parties, called beneficiaries, to those actions” (Yates, 2003, p.24). In his vision, an effective decision is one that “leads to satisfactory working conditions for its beneficiaries” (Yates, 2003, p.31).

Other author viewed the decision as “a choice of a course of action to achieve the desired future state” (Butler, 1998, p.37). It follows that for choice to occur, the presence of participants is needed, these need to be aware of the possibility of choice, and they must also be aware of an uncertainty level so that they can decide what action to take.

Reason represents the basic concept in decision making based on that decision makers can determine preferred outcomes, and can find ways to do so to achieve the desired results.

A decision is actually a choice between several alternatives. Lack of several alternative means no decision should be taken. Making rational decisions requires information. Decisions that managers, leaders of the economic entities, make have great importance for the economic entity, for its own employees, business partners and for the company as a whole.

Some authors noted that “there is no doubt that the long-term image of the accountant as a conservative, unsociable employee hidden behind an office in the back of a company has been completely shattered” (Gelinas & Dull, 2008). In the post Enron and WorldCom period, the primary objective of an entity is its administration. From this point of view, even the professional accountant is expected to take a leading role in enhancing administration, in identifying and mitigating an entity’s risks.

It can be said that decision is a characteristic both of human beings and of economic entities. Without decisions, an economic entity cannot conduct business, cannot evolve by taking advantage of opportunities and benefits that arise. At the same time, decisions help economic entities exceed crisis moments.

Before a decision is taken, the objectives, as well as available variants, alternatives, the manager has must be known.

Thus, we note that information is the key element in decision making. There are three types of information used to substantiate decisions (Clarke, 2002, pp.6), namely:

- Accounting information – which is quantified in financial terms (money);
- Information expressed in numerical terms, such as market share owned;
- Qualitative information (which can be quantified), such as, for example, information on employees’ experience and moral behavior.

Accounting has as purpose “the recording and summarizing of the financial information that is considered most relevant to different types of users to enable them to evaluate the performance and financial position of the reporting entity” (Clarke, 2002, p.6).

Just as capital, raw materials, labor are considered resources for an entity, so is information very important. We could say that it is sometimes crucial for the survival
of the entity in the current economic environment, where competition is becoming stronger.

Information is used by decision makers and by other users to satisfy their internal needs. They represent internal users of information within an entity. Also, information is disseminated outside the entity to external users such as suppliers, customers and shareholders with an interest in the entity.

Some authors (Anthony, 1965, Kleindorfer et al., 1998, p.299) classify decisions into three types:

- Routine decisions;
- Tactical decisions;
- Strategic decisions.

The transition from routine to strategy is in fact an increase in complexity, results with a wider coverage, much larger time horizons, justifying the time and resources assigned to their analysis.

**Routine decisions** are, by nature, repetitive, with a relatively small purpose, and minor consequences, being guided by organizational rules. Such decisions may be those relating to maintenance of equipment, purchase orders, invoicing, payroll, advertising, administrative costs. Routine decisions are taken in particular by clerks, secretaries, managers, salespeople, etc.

**Tactical decisions** refer to decisions on pricing, recruitment, marketing strategy, purchasing of raw materials and other resources, decisions on production and operations planning. These tactical decisions fall in middle management responsibilities. However, some of these decisions may contain strategic elements, but mostly these decisions do not have as effect changing the direction of an economic entity. Thus, the impact of tactical decisions on an economic entity is secondary compared to the impact of strategic decisions, although they can pretty much affect individuals, groups or entire departments. But given that tactical decisions in a certain period of time are more in number than strategic ones, their collective effect is as large as that of strategic decisions.

**Strategic decisions** have the following characteristics (Stellmaszek, 2010, p.34):

- *They have a comprehensive perspective*. Strategic decisions impact on the entire economic entity having a significant contribution to shaping its future development;
- *They provide the long-term success of the economic entity*. The main objective of strategic decisions is to create long-lasting benefits the enabling economic entity to overcome its competitors;
- *Delineate internal and external position of the economic entity*. To obtain the advantages mentioned above, strategic decisions adapt the economic entity to the business environment in which it conducts business, sizing internal resources and its capabilities to achieve the desired position on the external market.
2. STRATEGIC DECISIONS

The term “strategy” is derived from the Greek word “strategos” being used as a military term that refers to a general plan of arrangement and leading of an army to defeat the enemy army. We could say that businessmen like comparisons with their military counterparts. Therefore, they began to think about developing a strategy as a plan to control and use available resources, human, physical and financial ones, in order to promote and ensure the achievement of their own interests.

Unlike economists who do not take into account a wide range of issues, managers do this by outlining the economic entity’s future, considering a strategy to move towards the needs of the company, examining how efforts made lead to the achievement of objectives.

Research in the field of strategic decisions constitutes a concern not only in our times. Thus, we see that in 1958, March and Simon believed that decision making is in fact synonymous with the management of an entity (March & Simon, 1958). The very high dynamics of an entity requires an understanding of decision making. Managers are often forced to make choices from a wide range of alternatives that can sometimes be considered doubtful and they have to rationally choose so that both the entity and its owners benefit from these decisions.

Using the term “strategic” indicates that important decisions are taken in all types of entities.

Strategic decisions are actually more than simple judgments to choose from more possible solutions. Using mathematical models we can determine the existing risks, options we have and the best solutions we can take. All these mathematical models are useful in understanding the process of solutions’ choice, but are less useful when decisions are taken by individuals within an entity.

Over time we see that the use of the term “strategic” has done nothing else but create confusion rather than clarifying this term. Nutt & Wilson believe that strategic decisions have the following characteristics (Nutt & Wilson, 2010):

- they are elusive problems that are difficult to define exactly;
- they require an understanding of the issue in order to offer a viable solution;
- in very rare cases, they have only a “best solution”, often having more possible solutions;
- in the solution arise questions about compromises and priorities;
- solution benefits are difficult to estimate, especially because most times they do not have a clear objective whose effectiveness can be measured;
- a high degree of uncertainty and ambiguity is associated with solutions.

A definition of the terms “strategy” and “strategic decision” is found given by Mintzberg. He defines strategy as “a model or plan which integrates major objectives of an organization and sequences of action into a coherent whole” (Mintzberg et al., 2003, p.10), while strategic decisions are defined as those that “determine the overall course of a company and its viability depending on expected, unpredictable and
unknown changes from the environment in which the company conducts business” 
(Mintzberg et al., 2003, p.10). Strategic decisions actually define the true objectives of 
the entity. They establish the resources that the entity will have available to meet 
objectives and how these resources will be allocated.

Often we are tempted to interpret the word “strategy” as “plan” or “program”. 
But the meaning of the word “strategy” is actually more complex, it leading to 
increased economic performance. Joan Magretta believes that an effective strategy 
means “a way to get better performance by the fact of being different” (Magretta, 
2012).

3. MANAGERS AND STRATEGIC MANAGEMENT

Starting from the fact that those who make these strategic decisions have a 
very important role in determining future strategy, we believe it is necessary to 
determine their role in making these strategic decisions.

In the literature we often encounter the term “managers”, “top management”. 
These are responsible for the results of strategic decisions. Therefore they will 
check in detail starting data and will closely observe the results of these strategic 
decisions, even if not directly involved in activities.

Managers are those who have the executive position within the economic 
entity and are responsible for the origination and coordination of a whole system rather 
than carrying out specific tasks.

Drucker notes that, throughout history, the manager was defined as the one 
who is “responsible for the work of other individuals” (Drucker, 1999, p.15).

The successful manager is in Witzel’s vision the one that “has the ability to 
recognize opportunities when they arise and to exploit them” (Witzel, 2003, p.29).

The manager is the one who makes decisions “in mobilizing domestic stocks 
and exploiting opportunities to reduce them, with favorable consequences for 
improving economic stability and increasing economic performance” (Burja & Burja, 
2010, p.43-50).

The manager is not merely an employee who proves that he/she obtained good 
results. In fact, the manager is the one who has leadership skills, he/she interrelates 
with employees, not being only concerned with his/her tasks. The manager does not 
rely only on himself/herself in his/her work, but also draws on the work of others. 
Manager may be assimilated with an artist, because leadership is a subjective and 
complex activity. We can say that the manager does not only have as activity decision 
making, but also has the role of a leader, a negotiator in relationships with third parties, 
and liaison with shareholders or associates.

Power believes that good decisions’ obstacles over which managers can act 
with some control over them are: traditions and prejudices and lack of information. 
(Power, 2002)

The first obstacle mentioned above on traditions is generated mainly due to the 
idea that managers sometimes have that “they have always done [things] this way”, 
they do not want to take into account a better alternative because of traditions and 
prejudices they have. This exaggerated closeness to tradition is actually a reflection of
fear manifested towards new ideas, change, and the fear of fail by adopting new ideas, new decisions. These managers would rather stay behind old decisions and not risk new decisions that cannot provide the safety threshold they consider old traditions offer.

Regarding the lack of information, the second obstacle to a good decision, we can say that good and accurate information in due time is very important to reach a decision, but its absence can lead to bad decisions.

Today is very important for any economic entity to establish a strategy to follow.

Strategy determines where economic entity invests its resources, is responsible for ensuring that the economic entity has the flexibility to respond to changes that occur in the operating environment. We are witnessing in our days at major changes in the economy, customers having growing needs, becoming more demanding, while competitors in the local, national or international benefits of any weakness of the economic entity to get an advantage. However, before developing a strategy is necessary to develop an internal analysis of the economic entity.

This analysis is necessary to identify preferred areas of activity, the resources at its disposal, the organizational structure that is best suited for the type of activity they want to perform.

Unlike operational management which focuses on current activities in the economic entity on existing products and services, strategic management focuses on the future success of the economic entity.

Strategic management is defined as “the directing process of the organization in competition with other organizations” (Grant et al., 2011, p.4), or as “the establishment of corporate strategies in relation to market and the business environment opportunities and threats” (Hussey, 1998, pp.38).

Strategic management involves four basic components, namely:

• explore the environment, by analyzing the internal and external factors that affect the economic entity. This includes assessing market competition on which it acts and the impact of globalization on the economic entity's financial performance.
• Strategy formulation, which involves making strategic decisions regarding economic entity's objectives, its policies and its methods of achieving its objectives.
• Implementation of the strategy, which involves making decisions about organizational structure of the economic entity, type and source information systems, and not least, the control mechanism which will be implemented.
• Evaluation and control, which is the evaluation systems used to ensure that strategic planning leads to economic entity objectives. Evaluation, is actually the action of comparing the expected results with those realized.

Two of the most popular types of strategies are offensive and defensive strategies.

Offensive strategies are those that ensure the expansion of economic entities and entering new markets with new products and services. Offensive strategies are those that improve long term survival of the economic entity, economic entities forcing the competitors to adopt defensive strategies and consume resources to defend their position on the market. Defensive strategies, in contrast to the offensive, have as main
features maintaining and enhancing existing market position. Such strategies allow economic entities vulnerable, giving competitors time to take them from the market held by them by creating a certain advantage.

Today there are various economic entities: small, medium, large, private or public, economic entities that have as object of activity production or services, local or global economic entities. The success of an economic entity depends on the characteristics of that economic entity and the environment in which it conducts business.

From this point of view, the role of strategy is to ensure perfect correspondence between what the economic entity can do (depending on its strengths and weaknesses) and what it could do (given the opportunities and threats in the environment it conducts business).

Those responsible for strategic decision making have the ability to influence the economic entity’s success through these decisions they make. Success is not the effect of chance or luck, it being assured by those responsible for decision making through strategic management.

5. CONCLUSIONS

We believe that today, strategic management has become a basic component of the management of economic entities, helping it in implementing and achieving strategies. This actually represents the way of managing an economic entity perfectly adapted to detect future problems that the economic entity may face, opportunities and threats that will arise in the future in a business environment where change occurs faster and faster.

Strategic management improves the results of economic entities, development, expansion and then maintaining and strengthening its economic environment in which they operate, while also improving its competitiveness.

We believe, that nowadays, economic entities should pay more importance to strategic management, to ensure their sustainable development and allow them to deal with the economic difficulties in the current period.

ACKNOWLEDGMENTS: This work was partially supported by the strategic grant POSDRU/ CPP107/DMI1.5/S/78421, Project ID78421 (2010), co-financed by the European Social Fund within the Sectorial Operational Program Human Resources Development 2007 – 2013.

REFERENCES:

