ACCURATE ACCOUNTING INFORMATION: THE FOUNDATION FOR CORPORATE MANAGERIAL DECISION MAKING

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Abstract

This paper examined accurate accounting information as the foundation for managerial decision making. It looked at the concept of accounting information, managerial decision, levels of managerial decision and process of managerial decision. It also examined the challenges of accurate accounting information and managerial decision making. It concluded that accurate accounting information is the foundation for managerial decision making. It recommended the adoption of an integrated accounting business approach (Udeh's Model), among others.

Key words: Accounting information, managerial decision making, organization, foundation, Nigeria**.**

Introduction

One thing common to organizations, whether big or small is decision making.

Organizations engage in decision making at different times under different situations. Sometimes, it could be decision regarding their survival, how to have an edge over their competitors, how to make more profit/avoid loss or how to pull over a devastating circumstance.

In all these situations, a wide range of variables are expected to be considered as alternatives in decision making. To a very large extent, the more exhaustive the alternatives are, the higher the tendency to make a good decision and vice versa. Quality decision making in organizations is not a haphazard affair. It follows a systematic and well- ordered process.

The decision variables most of the time are either quantitative or non- quantitative or even both. Many a time, the quantitative variables come from accounting information. Accounting information are generated from various sources. Once the information in any of the sources are not verifiable or to say the least inaccurate, it affects the quality of the decision as well as the judgement of the users. This may translate to serious consequences. It may result in loss of colossal amounts of money, decline in the value of shares of the company or unavoidable collapse of the company. It is in a bid to avoid the afore-mentioned consequences that activities and jobs of providers of accounting information are often subjected to routine checks and balances. The import of the checks is that they help to minimize the chances of errors and omissions in accounting reports.

Statement of Problem

Openstax (2012) opines that managers need to realize that some decisions may be complex and require a range of options and uncertain outcomes. In the process of deciding among various options and uncertain outcomes, managers need enough information. Sometimes, deciding how much information is needed to make a good decision becomes a problem. In practice, some managers make decisions without complete information. That creates a problem of its own. In fact, one of the hallmarks of an efficient manager is the ability to determine when to hold on a decision and gather more information and when to make a decision with the information at hand (Terry, n. d). It is necessary to know that going to either extreme in time horizon of decision making can be detrimental to organizational growth. Waiting too long to make a decision can be as harmful for the organization as reaching a decision too quickly. Failure to react quickly enough can lead to missed opportunities while acting too quickly can lead to organizational resources being disproportionately allocated to projects with no chance of success. Managers must know when they have gathered enough information and must be prepared to change course if additional information becomes available and points to the fact that the initial decision was a wrong one. This realization has always posed a difficult challenge, for managers with fragile egos, changing course can be extremely challenging because admitting a mistake can be more difficult than forging ahead with an obviously bad plan. Managers must realize that in the presence of complexities of business tasks, some failures are inevitable especially when vital accounting information is omitted in decision making process (Johnson, 2019).

Managerial decision making is not akin to taking a multiple choice test where there is always only one right answer. This rarely happens in managerial decision making. Most times, a manager is expected to choose between multiple good options without clear idea of the consequences of each outcome. This makes it difficult to say which option will turn out best (Openstax, 2012). Sometimes, the managerial decision making may be complicated by a multiple of bad options and the task to minimize their associated harms. Other times, there could be individuals in the enterprise with competing and opposing interests when managers are expected to make decisions that must not be accepted by all the groups. This places the manager in a precarious position with the tempting possibility of one or two groups standing against his decision. Awareness of this possibility often deter some managers without strong will from taking optimal decisions (Smith, Babich & Lubrick, 2020).

In situations of dilemma in decision making process, accounting information offers a logical and realistic base for decision. It often absorbs managers of personal bias and reduces the chances of organizational conflict. It becomes a reference point in times of doubt.

Conceptual Review

Udeh (2013) defines accounting information as any output from an accounting information system that is capable of being applied in decision making process. It can be quantitative or qualitative in nature. It is fundamentally useful in managerial decision making.

Managerial accounting which is often forward-looking is the aspect that deals largely with decision making. Individuals and managers usually need to do cost-benefit analysis and break-even points in both naira value and units, examine life cycle costs or break down reports into different business segments. The major benefit of managerial accounting is the flexibility to manipulate reports so as to make them useful to the decision at hand (Rom & Rohde, 2007).

Accurate accounting information, however generated, is useful to stakeholders of the company such as employees, shareholders, creditors, all providers of funds, regulatory agencies and tax authorities. Accurate accounting information is one of the principal ways through which organizations communicate with people (efinance management, 2021).

Levels of Managerial Decision Making

Johnson (2019) states that there are basically three levels of managerial decision making. However, managers at all levels must make decisions on behalf of the company. The difference between decisions made at various levels lies in the scope of the choices made. To maintain order and save management time, each level of management concentrates on specific types of functions. The different levels of management and their functions are as follows:

Strategic Level: Managers in this level are the board members or owners of the business. This level is concerned with creation of the mission statement for both the internal and external audiences. Managers here focus on long term planning and determination of objectives which could span over years. This level of managers are not involved in day-to-day running of the organization.

Tactical Level: Managers in this group decide on tactical objectives that will enable them to accomplish strategic goals. The tactical objectives are usually more detailed than the strategic plans. Their choices and plans see fruition in a year or less. Tactical managers are on ground to steer the ship of the organization.

Operational Level (First-line management): When operational level managers choose their own goals on a daily, weekly or monthly basis, they help to accomplish objective of the upper level management. Managers in this level are in the lowest rung of the management ladder. Their decisions are usually subjected to review by higher levels of management before implementation.

Functions of Management

Smith, Babich and Lubrick (2020) see the functions of management as encompassing the following:

Planning: Ackoy (1981) defines planning as a design of what we desire in future and ways to accomplish it. This implies that planning is a process that involves both short term actions (eg budgeting) and long term actions (eg strategic planning).

Organizing: This is the process of bringing both physical and non-physical resources into active engagement without much friction. It takes the effort of good management team to make sure that roles and functions of staff of different levels are clearly mapped out in such a way that tasks are performed as and when due. Ideally, organization starts from identifying what needs to be done, breaking down what needs to be done into smaller groups of activities, and finally coordinating the different parts that are involved in the process so that organizational goals will be achieved.

Staffing: Is the process of sourcing and recruiting best hands suitable for the unique situation of the company in question. When different people are assembled in a company, extra care must be taken to ensure their compatibility. With assemblage of staff, internal control system becomes necessary to ensure that other assets are not mismanaged or misappropriated by the staff.

Coordinating: This entails that various aspects of management are harmonized to ensure goal congruence. Different aspects of business cannot be meaningful except they are properly integrated. This simply means marketing, production, purchasing, financing and all other aspects, must be harmonized.

Controlling: Controlling ensures that things are moving in line with plans. This measures actual performance against set standard. The most commonly used tools are variance analysis and contribution analysis.

Directing: This is an action guided process where managers oversee the functions and activities of others on daily basis. Managers motivate employees through directing and mentoring to bring out their best in carrying out their daily functions.

Reporting: The separation of management from ownership makes reporting a necessity. Owners of business must be informed of how their resources have been employed in pursuance of corporate objective. Management activities are therefore, assessed through reports.

Budgeting: Management tries to give detailed budgets of the units that are controlled by them. Managers try to use budgets to reduce cost and maximize profits.

It is noteworthy to realize that the overall administrative implication of all the managerial functions is to ensure informed decision making. Put differently, all management functions dovetail into or help to guarantee efficient decision making process.

Decision Making Process

Decision making process is segmented into two, namely, planning and control processes. For a manager to make a good decision, he or she needs to pass through the stages in the two processes. The planning segment has five stages while the control segment has two.

Adeniji (2004) identifies the stages thus:

- **Identification of Objectives**: Since organizations pursue different objectives, each enterprise should first of all articulate its objectives. Some pursue profit generation and maximization, market leadership, profit quality, product innovation, worker's welfare, social responsibility. Other organizations may place their priorities on other areas.
- **Search for Alternative Courses of Action**: This stage is usually dependent on the identified objective. Of all the stages, this is the most difficult and probably the most important stage in the decision making process. It entails searching for a range of possible courses of action or strategies that will facilitate the

achievement of the identified objectives. It usually takes future opportunities and threats in the environment into consideration.

- **Data Gathering About Alternatives**: Each alternative requires specific data for both strategic and short-term decisions. The authenticity and completeness of the data go a long way in making or marring the decision. This therefore, explains the serious attention often given to data gathering. The course of action selected by a firm using the information presented is more or less affected within its environment including the products it makes, the markets it operates in and its ability to meet future changes in terms of prices, customers' tastes and preferences.
- **Selection of Appropriate Alternative Courses of Action**: Once the required and necessary data for each course of action have been obtained, management will need to select an option or course of action. This involves choosing among competing alternative courses of action and consequently selecting a particular alternative that will best promote the achievement of the corporate objectives. Managers without deep-rooted accounting knowledge find this stage not only challenging but intricate. We normally advice they seek the guidance of their accountants in this regard to ensure optimality in selection of alternatives.
- **Implementation of the Decisions**: Implementation of a chosen course of action is done as part of the budgeting process. It is usually through the budget, which

is a financial plan, that various management decisions are implemented. They are expressed in forms of cash inflow and cash outflow. It is through the budgeting process that everyone in the organization is communicated on the part he or she is expected to play in order to achieve the overall corporate objective. This stage marks the end of the planning process.

- **Comparison Between the Actual and Planned Outcomes**: This is the beginning of the control process. It centers on comparison of actual outcomes that is, actual costs and revenue with planned outcomes (budgeted costs and revenue). The information relating to this is provided through performance report which compares planned and actual outcomes. Performance report makes use of reporting by exception principles in which activities that do not conform to plans are identified and isolated so that managers can devote their scarce time to give attention to them. Failure to address non-conforming activities goes a long way in preventing the accomplishment of corporate objectives.
- **Responding to Divergences From Plan**: In this last stage, divergences (deviations) from plan are corrected and re-integrated into the next planning phase. The actual and potential causes of deviations are treated so as to prevent subsequent occurrence. To ensure this happens, the remedial measures are brought into the planning process. This is why we say that planning and control are inseparable processes in a continuum.

Adherence to the stages of decision making process incontrovertibly assists managers of all levels to arrive at optimal decisions irrespective of operating circumstances surrounding them.

Challenges Of Accurate Accounting Information And Decision Making

a. Accurate Accounting Information

Traditionally speaking, accounting reports are generated periodically, either quarterly, biannually or annually. Due to rapid changes occasioned by unpredictable volatility in modern markets and society, the periodic reporting has become saddled with a number of challenges.

Inability to Meet the Time Requirement: Most providers of accounting information are unable to meet the time requirement for provision of various accounting information for purposes of decision making. Not minding the quality of accounting information, if it comes a minute late, it becomes useless. The dynamic nature of our society today has invariably complicated the time requirements of generation and provision of accounting information.

Accuracy of the Information: Sophistication in human transactions has inevitably increased the need for accurate accounting information. The more accounting information that is required, the more threats to its accuracy. Once the accuracy of the information cannot be vouched for, then, the basis of corporate decision will become questionable. The consequences of decisions not based on accurate accounting information in the corporate world can better be imagined than explained.

Data Manipulation and Theft: Advancement in technologies brought increased vulnerability of data in computer systems, ranging from manipulation to hacking and outright theft. Various organizations have suffered inestimable losses as a result of this. Effects of data manipulation in organizations are always massive.

Lack of Qualified Personnel: Generation of accounting information is not an all-comers responsibility. It requires special skills acquired through series of training. It may be necessary to state that most small business out fits do not understand the necessity for this, hence their failure to employ staff that can help them generate the essential accounting information.

Frequent Changes in Accounting Policies: Accounting is sometimes seen as a profession on transit. Consequent upon this, some policies change from time to time. Staff of organizations need to be trained and retrained to be able to adapt to the new policies or else after a period of time, they will cease to be useful.

Falsification of Accounting Source Documents: In some organizations, accounting source documents are frequently falsified or manipulated for various reasons. Such documents cannot give a fair representation of the transactions of the organization. Decisions based on documents like this will certainly fall short of the expectations of users of such reports.

High Cost of New Technologies: The cost of acquisition of new technologies for provision of accounting information is high. Many enterprises find it difficult to purchase new technologies that can make provision of accounting information easier. Worst still, a technology that is trending today becomes obsolete tomorrow when an improved version with amazing features evolve.

b. Decision Making

Smith, Babich and Lubrick (2020) identify the following as challenges affecting decision making:

Bounded Rationality: There are situations where leaders face complex challenging issues which make them unable to be rational about situations at hand and this makes them unable to understand alternatives provided. This can lead to incorrect decisions being made without all the information or abandonment of an issue all together. Overcoming bounded rationality is difficult especially against the background that no one is fully knowledgeable. However, versatility and deep-rooted knowledge of leaders in their specialties are helpful.

Escalation of Commitment: As somebody's commitments increase in volume and complexity, the tendency for proper and effective consideration reduces. This increases the chances of taking poor decisions. This essentially underlines why leaders in top echelons of their practice have aides and assistants

Time Constraints: This occurs when there is little time available to collect information with rationality and make effective decisions.

Uncertainty: This is the act of not knowing an outcome until the said outcome has transpired and this is often anchored on the belief that an outcome is envisioned, but not seen. As human beings, every aspect of the future presents with unimaginable uncertainties.

Biases: Some managers take decisions with biases to their inherent beliefs and world views. Here, managers' perception of certain things affects their decision making process.

Conflicts: Conflicts which can be either process or relationship based sometimes influence a manager's decision- making skills. In a bid to avoid a conflict zone or favoring/disfavoring an interest area, sub-optimal decisions may be taken.

Conclusion

Accurate accounting information is a sine qua non for quality managerial decision making. However, modern technologies that make timely provision and processing possible will need to be in place. On the other hand, managers who can effectively make use of accounting information in order to achieve the corporate objectives their organization are desirable.

Recommendations

The following recommendations are proffered**:**

1. **An Integrated Accounting Business Approach**

This approach ensure accounting system software that combines real-time quick processing, analysis, storage and retrieval of accounting information with business process management and intelligence permit real-time monitoring of business processes that send relevant financial or non-financial information from business operations to management and users of accounting information. This model is otherwise known as Udeh’s Model (Udeh, 2022).

2. **Employment of IT Business Consultants**: Employment of highly skilled and IT compliant business consultants that understand modern business practices that enable processing of business information real time is necessary in organizations.

3. **Recruitment of a digital Accountant**: Recruitment of a digital accountant who will be able to analyze, process and make use of the outputs of the integrated system is necessary.

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