# *Trends and problems of business decision-making*

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## Abstract

*In the face of competition, business managers should focus on the quality of decision-making. This paper provides an assessment of decision-making methods by discussing the current trends of managers referring to decision-making methods. The paper is an analysis of the attitudes of managers towards decision-making methods. This paper is conducted through questionnaires. It also discusses the impact of decision-making methods on business financial performance. Eventually, some conclusions will be drawn.*

***Key words**: decision making, analytical methods, intuitive methods, financial performance, etc.*

## Introduction

Anyone participates or is involved in decision making. For Rosanas (2013): "Decisions are an everyday fact of life". The widespread dissemination of decision-making evidences the necessity of the decision on the path of development of society. Social development is an activity that faces many problems and challenges. Consequently, decision-making involves commitments, tasks and objectives, personal interests or joint interests. Decision-making is an individual fixed position with respect to the problem of the focus of the decision. Therefore Cooper (1961) states that: "The single decision is merely a moment in time".

Decision-making is presented as a choice process between alternatives. Choice among alternatives deserves managerial attention. For March (1994): "... the

decision maker will suffer regret that a better choice could have been done if the outcomes could have been predicted precisely in advance".

Business decision-making refers to the variety of problems that business faces. This requires the manager to design alternatives that ensure business success. Success in decision-making refers to decision-making methods. The method is decisive in the quality of decision-making.

Methods of decision-making have evolved over time. This evolution is measured by human effort referring to quality. According to Covina, Slevin and Heeley (2001); Nygren and White (2002); Dane, Rockmann and Pratt (2012), the methods of decision-making are classified into these two groups:

a. Intuitive methods, which are methods based on descriptive of economic phenomena.
b. Analytical methods are methods that represent an interconnection between science and its application in practice.

For the quality they provide in decision-making, analytical methods should be a priority of any managerial level that engages in decision-making.

## Methodology

The methodology of this paper focuses on the study of the current situation in three of the countries of the Albanian speaking region: Albania, Montenegro and Macedonia. The necessary data for this paper is provided by the survey of 167 business managers operating in the three capitals of the region. This location refers to businesses run by Albanian managers. Data is processed using the Least Squares method. The method of Least Squares as a form of mathematical regression analysis finds the line of best fit for a dataset.

## Data Analysis

Performance assessment takes on importance as it increases management team responsibilities through improving their work, results in business activities. It has to do with objectives, competences and motivation.

The judgment on financial performance is achieved by analyzing the indicators that characterize it.

In the context of financial performance, the financial indicator LRATIO was considered. The Quick Ratio is an important indicator. It also features the Acid-

test or liquidity ratio, refers measures the ability of a business to pay its short-term liabilities by having assets that are readily convertible into cash. According to Petru (2008); "... the more and more severe testing of the payment capacity of the short term debts from the elements of current assets nature which have greater and greater liquidity degrees".

The financial situation, considering the indicator "Liquidity ratio" generally in all three countries analyzed, is presented with obvious fluctuations. The situation is presented as follows:

- Albania has the largest share of food industry businesses with poor financial performance. Thus, 57 businesses or 74.03% of total businesses in Tirana have a monthly earnings ratio of less than 1 with extremely low levels of this indicator, which indicates an unbalanced financial situation. For 7.79% of businesses, the liquidity ratio is less than 1.27, which represents a financial condition that needs to be kept under control. Similarly, businesses, 7.79%, have reached the liquidity ratio in the range of 1.5-1.7, which proves a satisfactory economic condition. Only 10.39% of businesses have achieved a liquidity ratio of more than 2, which expresses an optimal financial condition.
- Referring to Macedonia, it results that 32.43% are in a balanced financial situation, with a monthly ratio of less than 1 and 37.84% need to be kept under control (1.27%). 5.41% of the total business is presented with satisfactory performance and 24.32% are presented with optimal financial performance, as the liquidity ratio is higher than 2.
- In Montenegro, more than 95% of them are characterized by poor financial performance. While businesses whose performance can be considered satisfactory and optimal represent 1.9% of total businesses respectively. The rest of businesses have achieved a liquidity ratio of less than 1.27%.

In the context of this situation it is very important to analyze the impact of the methods used by the managers. For this reason hypotheses have been raised:

$H_1$: Financial performance is expected to be affected by the methods used in managerial decision-making.

For comparison purposes the influence of intuitive and analytical methods were analyzed.

Regarding the use of intuitive methods the analysis results as follows:

| Dependent Variable: LRATIO | | | | |
|---|---|---|---|---|
| Method: Least Squares | | | | |
| Sample: 1 167 | | | | |
| Included observations: 165 | | | | |
| Excluded observations: 2 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | -3.341481 | 3.073665 | -1.087132 | 0.2786 |
| Q418 | 0.040724 | 0.644217 | 0.063215 | 0.9497 |
| Q419 | 0.770186 | 0.576909 | 1.335021 | 0.1838 |
| Q420 | -0.511766 | 0.628893 | -0.813756 | 0.4170 |
| Q423 | 1.062976 | 0.596568 | 1.781818 | 0.0767 |
| Q425 | 0.183108 | 0.539696 | 0.339279 | 0.7348 |
| R-squared | 0.040943 | Mean dependent var | | 1.697670 |
| Adjusted R-squared | 0.010784 | S.D. dependent var | | 6.822701 |
| S.E. of regression | 6.785812 | Akaike info criterion | | 6.703231 |
| Sum squared resid | 7321.511 | Schwarz criterion | | 6.816174 |
| Log likelihood | -547.0165 | F-statistic | | 1.357581 |
| Durbin-Watson stat | 2.045005 | Prob(F-statistic) | | 0.243175 |

Note: Q418 - I sense the necessity of the trainings in decision-making field.
Q419 – Usually, I make quick decisions because I consider what is important in the decision-making moment.
Q420 – I make decisions based on my intuition
Q423 – Intuitive methods have resulted to be successful in general
Q425 - I make decision in independent way

From the set of statements taken into account that refer to intuitive methods only one of them, namely; "Intuitive methods have resulted to be successful in general" results in acceptable significance.

For this, the relation between dependent and independent variables can be expressed according to this relation:

$$\mathbf{y = -3.341481 + 1.062976^{*}x_1 + e}$$

*y – financial performance of the business characterized by "liquidity ratio"*
*$x_1$ – intuitive methods have resulted to be successful in general*
*e – random factor*

Positive assessments of the impact of intuitive methods in decision-making should not be considered a coincidence, especially for experienced managers. The

manager during his work experience has been enabled to receive information about business activity, which he organizes, interprets and evaluates the signals coming from outside and within the business. In this way the manager increases his professional competencies. But for Kahneman (2011): "Unfortunately, professionals intuitions do not all arise from true expertise".

The assessment and use of intuitive methods is a predominant situation in making decisions.

As for analytical methods the results of the analysis are presented as follows:

| Dependent Variable: LRATIO | | | | |
|---|---|---|---|---|
| Method: Least Squares | | | | |
| Sample: 1 167 | | | | |
| Included observations: 166 | | | | |
| Excluded observations: 1 | | | | |
| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
| C | 19.80207 | 5.577836 | 3.550136 | 0.0005 |
| Q41 | -0.446889 | 0.648555 | -0.689053 | 0.4918 |
| Q42 | 0.003483 | 0.741820 | 0.004695 | 0.9963 |
| Q43 | 0.478855 | 0.608751 | 0.786620 | 0.4327 |
| Q49 | -1.227567 | 0.810451 | -1.514671 | 0.1319 |
| Q410 | -0.331048 | 0.733903 | -0.451079 | 0.6526 |
| Q411 | -1.363117 | 0.791043 | -1.723190 | 0.0868 |
| Q413 | -1.415964 | 0.807539 | -1.753431 | 0.0815 |
| Q414 | -0.180583 | 0.532766 | -0.338953 | 0.7351 |
| R-squared | 0.130991 | Mean dependent var | | 1.706298 |
| Adjusted R-squared | 0.086710 | S.D. dependent var | | 6.802524 |
| S.E. of regression | 6.500914 | Akaike info criterion | | 6.634454 |
| Sum squared resid | 6635.115 | Schwarz criterion | | 6.803177 |
| Log likelihood | -541.6597 | F-statistic | | 2.958188 |
| Durbin-Watson stat | 1.880690 | Prob(F-statistic) | | 0.004136 |

Note: Q41 - I make decisions only when I dispose the necessity data
Q42 - When I have analyzed the collected data in a good way, the decision-making have been successful
Q43 - I be carefully for clarification of the objectives that decision focus
Q49 - I evaluate the analytical methods because they take into the consideration the influence of some factors simultaneously in decision-making.
Q410 - I evaluate and use the analytical methods because I sense the protect from risk
Q411 - I evaluate the analytical methods because they enable the successful management of productive resources
Q413 - Use of analytical methods requires skills in the fields of statistics, econometrics and applied mathematics
Q414 - It exist the lack of readiness to cooperation with profesionists from the field of statistics, mathematics, etc.

Over the above from 8 statements, only two of them result in acceptable significance.

Therefore, dependent variable "*Financial performance - liquidity ratio" (y) and independent variables "I evaluate analytical methods because they enable successful management of productive resources" ($x_1$) and "Use of analytical methods requires skills in the fields of statistics, econometrics, applied mathematics, etc."* ($x_2$) can be expressed as follows:

**$y = 19.80207 – 1.363117^{*}x_1 - 1.415964^{*}x_2 + e$**

*y - financial performance of the business characterized by "liquidity ratio"*

*$x_1$ - evaluation of analytical methods because they enable successful management of production*

*resources*

*$x_2$ - the use of analytical methods requires skills in the fields of statistics, econometrics, applied*

*mathematics, etc.*

*e - random factor*

The table above demonstrates the evaluation of analytical methods. Analytical merit assessment does not make us optimistic. There are huge differences between the evaluation and the use of analytical methods. It should be acknowledged that the assessment can be considered as a premise that leads to an increase in the degree of use. However, the analysis showed an increased sensitization of managers regarding analytical methods.

## Conclusions

Albania as well as in the regional countries the mentality of managers towards running a business and the methods used in decision-making are characterized by their dominant approach, particularly in the case of small businesses and businesses with a sole owner. This fact dates back to the mentality these countries inherited from the past dictatorships. Under the circumstances, the study is indispensable as it aims to orientate the managers directing their activity towards a successful contemporary management.

The research found that the financial performance of the businesses is connected with methods of decision-making. The situation in the three analyzed countries does not depict an optimistic situation. The dominant method is the intuitive method. A result indicating a significant reason, as the way of doing business in the market economy is highly different from the management of enterprises in the centralized economy.

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