

# The role of decision-making styles in the health of companies

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## Abstract

Economic enterprises, which are likened to humans in terms of their life situation, are born at one time and die in different ways after going through different stages of life. But what is meaningful about the life of economic enterprises is their health and flexibility. The formation of new businesses is an important driver in economic activities and is the main driver of economic development in a country. Therefore, the purpose of this research is to investigate the role of decision-making styles (intuitive, dependent, rational, immediate, and avoidant) on the health of companies (financial health and financial flexibility) in Iran's capital market. In terms of purpose, the present research is applied, and in terms of data collection methods, descriptive-analytical survey based on structural modeling approach. The statistical population of the research is top and middle managers of listed companies and a standard questionnaire was used to collect data. In this research, the causal relationships between decision-making styles and financial health of companies were predicted. The results showed that rational and avoidant decision-making styles affect the health of companies. In other words, rational and avoidant decision-making by company managers increases the financial health and financial flexibility of companies.

Keywords: decision making styles, financial health, financial flexibility  
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## 1 Introduction

Decision-making is considered one of the most crucial processes within an organization and is regarded as the primary responsibility of managers at all levels. Some believe that all management is decision-making. The decision-making style of individuals reflects their habitual patterns used during the decision-making process. In other words, the decision-making style of each person is their personal approach to understanding and responding to decision-making tasks. Therefore, in addition to organizational and environmental factors influencing managers' decision-making styles, differences in personality traits also lead to variations in managers' behaviors and, consequently, their decision-making styles differ from one another. Decision-making is a process that involves various cognitive functions, including initial functions such as active and long-term memory, as well as complex tasks such as thinking, reasoning, problem-solving, and executive functions such as cognition and action [6]. The goal of joint-stock companies and their managers is to maximize the value of shareholders' equity, or in other words, maximize the value of the company and its shares. Maximizing the value of a company requires the optimal utilization of financial resources and achieving proportional returns and risks. It is also the fundamental pillar of the quality of a company, ensuring effective management and

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maximizing the value of the company. Therefore, considering the role of managers' decision-making in the financial health of a company, increasing the quality of the company is a vital aspect to formulate necessary strategies for enhancing financial health and sustainability. Although the financial health of new companies is crucial for economic growth and expansion, only a few newly established organizations achieve financial health and survival. On the other hand, recent unprecedented bankruptcies of major companies on an international level, coupled with market fluctuations in the Iranian capital market, financial crises in important domestic companies and industries, and their impact on bankruptcy and insolvency of companies, have raised concerns, which can be referred to as a horrifying financial tsunami [12]. Given the vitality of companies for their health, flexibility, and their inclination towards profit maximization and demonstrating risk power, decision-making and improving the quality of managers' decision-making are of great importance. Therefore, the aim of this study is to determine the role of decision-making styles in the health of companies. One of the important effective criteria for organizational health is the decision-making style of its managers. This study seeks to answer the question: What impact do decision-making styles have on the health of active companies in the Iranian capital market? This study continues with the establishment of theoretical foundations, review of related research, explanation of the research method and hypotheses derived from the problem and theoretical foundations of the research, followed by the presentation of the results of hypothesis testing, and ultimately, the conclusion and suggestions are stated.

## 2 Theoretical foundations and research background

Companies constantly face challenges for their survival and growth, and successful entry into the market comes with a high level of uncertainty and various constraints. As a result, a significant number of companies, especially new ones, leave the market shortly after entering it. Therefore, in some industries or regions, only a few newcomers manage to survive. Until our knowledge about the growth processes of new companies improves, the success and failure of companies will remain an ambiguous issue [7]. Industrial enterprises can contribute to aligning supply and demand in the country, but it is essential to pay attention to the fact that establishing industrial companies alone is not enough. It is crucial to maintain them and understand the factors that lead to their discontinuation. The survival of a company in the market depends on various factors. According to neoclassical theories, the survival of a firm depends on its characteristics as well as market characteristics. New entrants to an industry can introduce new technologies that rejuvenate the industry's existing technologies. Another benefit of new companies is the reallocation of resources in companies entering the industry with higher efficiency and technology, as well as forcing less efficient firms to exit the industry due to their inability to compete with them [19].

Decision-making is the essence of management because managers fulfill all their duties through decision-making. Decision-making is necessary to achieve goals, and decision-makers must choose and implement one of the available strategies. The quality and nature of this strategy, external environmental factors beyond the organization's control, the power of competitors, and the nature and intensity of competition all affect the success or failure of decision-makers in achieving their goals. Among the sensitive aspects of management tasks, decision-making, communication, coordination, and guidance can be considered. Management initiates the use of the decision-making process in the form of decision-making roles to achieve efficient performance of these tasks. Researchers believe that management and decision-making are synonymous; in other words, managers are recognized through their decisions. In fact, decision-making is the essence of management and reflects all the abilities and capabilities of managers. On the other hand, the success or failure of organizations is attributed to the decisions made by their managers. Therefore, the quality of management is considered to be dependent on the quality of decision-making, and it is claimed that decision-making, on its own, is the most crucial role of managers because the quality of plans and programs, the effectiveness and efficiency of strategies, and the quality of results achieved from their implementation are all determined by the quality of the decisions made by the manager [11]. The process of decision-making in managing organizational affairs is so important that some authors define the organization as a decision network, and management as decision-making. In today's world, organizational management cannot solely rely on the ingenuity and personal judgment of individuals but rather decisions must be made based on scientific research, accurate and timely information, and on the basis of specific principles and methods. Nowadays, the complexity of organizations, high operational costs, and the size of organizational structures make it necessary for managers to adopt appropriate decision-making methods and make rational decisions. What managers need more than anything else is a comfortable, reliable, and scientific tool to assist them in making decisions, which they encounter continuously from time to time. Quantitative techniques and mathematical tools are effective and fruitful in this regard. Although decision-making is both a critical and challenging task in many organizations and agencies, many decisions are still made based on experience and insight rather than on evidence-based on accurate and documented findings. Decisions made in this way are often due to the lack of data

and the connection between data and goals, a lack of understanding of complex goals, and inaccurate risk estimation [23].

Financial health refers to an organization's ability and capacity to cope with financial crises and return to normal business conditions, which is a crucial characteristic for organizations to sustain their business operations. However, concerns are not limited to major disasters alone; even small deviations and uncertainties that challenge organizations are also taken into account [19]. Therefore, timely detection of companies before experiencing financial distress is of great importance because financial distress leads to resource wastage, missed investment opportunities, and significant costs. In competitive environments, unsuccessful companies quickly exit the competition, while others gain a better position and achieve higher profits. To maintain their business continuity in such conditions, companies require financial resources and funding to meet their needs and support their survival [5]. Hence, the concept of accounting sustainability emerges in creating financial health for companies.

The financial flexibility of companies stems from their ongoing activities. The definition of continuity of activities, according to international standards, emphasizes the continued existence of a business entity. It generally represents a point where a company forms an important contract to accomplish a significant project, and after completing the project, the company's lifespan comes to an end, such as a civil partnership contract between two or more individuals for a specific period. Such a company will not have continuity of activities beyond the necessary time [27]. There is an established assumption called the continuity of activities, which posits that an economic unit will continue its activities as long as it can fulfill its plans, obligations, and current operations. This assumption, or self-evident proposition, is based on the expectation that an economic unit will not dissolve in the foreseeable future. Consequently, an economic unit is expected to continue its activities indefinitely. This assumption, reflecting the expectations of all stakeholders in the economic unit, forms the basis for financial statements. Therefore, financial statements provide a momentary view of a company's financial position and are only part of a continuous series of reports. Except for dissolution scenarios, users of such information will interpret it based on the assumption that the economic unit will continue its activities, as it has been inherited. Therefore, if an economic unit has a limited lifespan, the reports and data related to the termination of activities and the nature of dissolution will be specified. Continuity of activities, as a self-evident assumption, justifies the perspective that asset values should be determined based on the conditions of non-dissolution and provides a basis for recognizing depreciation. Furthermore, based on the assumption of continuity of activities, one can argue about the agency theory. It encourages managers to look to the future and motivates investors to provide the unit with capital. Justifying the agency theory necessitates continuity of activities [4].

Amartebakhshayesh et al, [3] have investigated the impact of exchange rates as an economic stability indicator on the sustainability indicators of asset values in the Tehran Stock Exchange from the years 2006 to 2018. For this purpose, the present study falls under the category of descriptive research in terms of research method and falls under the category of applied research in terms of research objectives. The design of this research is post-event. Additionally, panel data models were used to examine the relationship between variables. The results of the study indicated that exchange rate fluctuations have a significant inverse effect on the first indicator of asset value sustainability, which is book value, at a 95% confidence level. The influence of exchange rate fluctuations on the second indicator of asset value sustainability, which is market value, was found to be statistically significant at a 95% confidence level. Furthermore, the impact of exchange rate fluctuations on the third indicator of asset value sustainability, which is the current value, was also negative and statistically significant at a 95% confidence level [9]. Ghaderi et al. [9] have explored the development of the concept of the structure of accounting for the sustainability and financial health of companies in the Iranian capital market. They found that the financial health of companies is influenced by the structures of sustainability (voluntary accounting activities, transparency of accounting thinking, and corporate social responsibility reporting). Companies need to possess accounting sustainability characteristics to avoid financial distress and maintain financial health. Therefore, if investors and stakeholders cannot rely on such sustainable information, the likelihood of a company's financial health will decrease. Abdolbaghi Attabad and Mirlohi [1] conducted a study on the life cycle, financial distress, and restructuring strategy. They concluded that financial distress has a significant impact on the managerial, operational, and financial restructuring of companies. Rasouli Ghahroudi and Fakhraei [21] examined the impact of capital structure and ownership structure on the survival of companies in the stock market. They found a significant and inverse relationship between the capital structure and the survival of companies. Majority ownership has an inverse effect on the survival of companies.

### 3 Factors affecting the health of companies

Investment Efficiency (Inves:) Based on Rapp et al's [20] model, the following model is used to estimate investment efficiency, so that the remaining The positive balance of this model as a measure of investment more than the limit

and its negative value as investment less than the limit is considered

$$INVEST_{it} = \beta_0 + \beta_1 GROWTH_{it-1} + \beta_2 LEVERAGE_{it-1} + \beta_3 CASH_{it-1} + \beta_4 Ln(AGE)_{it-1}$$

$INVEST_{it}$ : Total capital expenditure is the net sum of property, machinery and equipment, research and development expenditure and net intangible assets.

$GROWTH_{it-1}$ : The growth rate of the company’s net sales is obtained by dividing the difference between the net sales of the current fiscal year and the previous fiscal year by the sales of the previous fiscal year.

$1 - LEVERAGE_{it}$  (financial leverage of the company): the ratio of total liabilities to total assets.

$1 - CASH_{it}$ : The ratio of cash for the end of year 1-t is obtained, which is obtained by dividing the total cash and short-term investments by the total assets.

$Ln(AGE)_{it}$ : The logarithm of the number of years of acceptance in the Tehran Stock Exchange of the company at the end of year 1-t.

$1 - Ln(Size)_{it}$ : Is the natural logarithm of the sum of the market value of the equity of company i at the end of the year 1-t be Trade credit Commercial credit is calculated from the following relationship [13]. in which we have

$$Trade - Credit = \frac{TAR + TAP}{NetAsset}$$

1. The sum total of the company’s accounts and commercial receivables;
2. NetAsset = net assets of the company, which is obtained from the difference between total assets and liabilities.
3. Financial health:
4. To measure financial health, two localized financial health indicators Amartebakhshayesh [3] and Pothong and Ussahawanitchakit [18] have been used.

Amartebakhshayesh’s localized financial health measurement index [3]: This index has been adjusted by Kurdestani and Tutli [13] based on the conditions of the country. The reason for using adjusted local coefficients is that the main

5. coefficients of Amartebakhshayesh’s model were designed in the economic environment of the United States of America. It may not be able to provide an acceptable result in Iran’s economic environment.

1 is provided.

$$Adjusted - Z' - Score = 0.291X_1 + 2.458X_2 - 0.301X_3 - 0.079Z_4 - 0.05X_5$$

$X_1$ : where total assets / (total current liabilities - total current assets)

$X_2$ : Total assets/accumulated profit (loss).

$X_3$ : Total assets/operating profit (loss).

$X_4$ : total assets/total book value of equity

$X_5$ : Total Assets/Sales

Table 1: Ranges of adjusted Amartebakhshayesh’s model	
Financial health range	$Z'.Score \geq 0.30$
Helpless range	$-0.14 \leq Z'.Score \leq 0.30$
Bankruptcy range	$Z'.Score \leq -0.14$

Olson’s bankruptcy probability index [13]: According to Gul et al. [10], Salehi et al. [24] financial health has been measured using Olson’s index [18]. The calculation method of this index is as described in relation (3.1).

$$P(Z) = \frac{1}{1 + E^{-Z}} \tag{3.1}$$

where in:

$P(Z)$ : If  $P(Z)$  is less than 0.05, the company is classified as bankrupt and if  $P(Z)$  is greater than 0.50, the company is classified as healthy, and the critical point here is 0.05  $P(Z)=0$  will be.

$$-Z_i = -1.32 - 0.0407Y_1 + 6.03Y_2 - 1.43Y_3 + 0.757Y_4 - 2.37Y_5 - 1.83Y_6 + 0.285Y_7 - 1.72Y_8 - 0.521Y_9$$

$Y_1$ : natural logarithm of total assets

$Y_2$ : total assets / total liabilities

$Y_3$ : total assets / (total current liabilities - total current assets)

$Y_4$ : total current assets / total current liabilities

$Y_5$ : Total assets / net profit

$Y_6$ : Total assets / cash flow from operations

$Y_7$ : If the net profit in the previous two periods is negative, a score of 1 is given, otherwise, zero.

$Y_8$ : If the sum of debts is more than the sum of assets, a score of 1 is given and otherwise, zero is given.

$Y_9$ : The difference between the current period's net profit and the previous period's net profit divided by the difference in the absolute value of the period's net profit current and the absolute value of the net profit of the previous period.

Economic added value

Economic added value is not a new concept. One of the accounting performance measures is residual profit, which is defined as operating profit after deducting capital costs, and EVA is actually a modified version of residual profit along with adjustments made to profit and capital [2]. One of the methods of calculating economic added value is as follows:

$$EVA = NO - (WA * IC)$$

EVA: economic added value

NO: Adjusted operating profit after tax

WA: weighted average cost of capital

IC: capital employed

## 4 Hypotheses of the study

Based on theoretical foundations and previous research conducted to investigate the role of decision-making styles on corporate health, the formulated model has been directly tested through the following hypotheses:

Hypothesis 1: Intuitive decision-making style affects the health of companies.

Hypothesis 2: Dependent decision-making style influences the health of companies.

Hypothesis 3: Rational decision-making style has an impact on the health of companies.

Hypothesis 4: Spontaneous decision-making style affects the health of companies.

Hypothesis 5: Avoidant decision-making style has an impact on the health of companies.

The formulated hypotheses and theoretical foundations in tracking the model of corporate health based on decision-making styles are represented in the conceptual model of the research as shown in Figure 1.

## 5 Methodology

The objective of this study is to explain the role of decision-making styles on the health of companies by predicting the relationships between the dimensions of decision-making styles (intuitive, dependent, rational, spontaneous, and

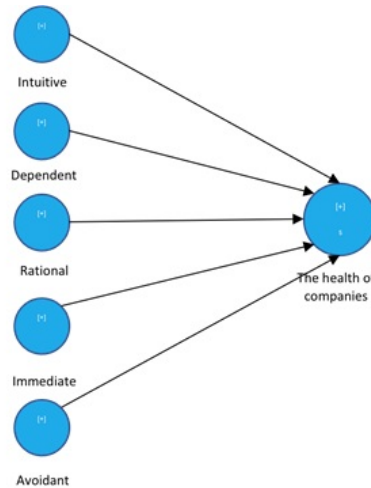


Figure 1: Conceptual model of the research

avoidant) and company health (financial health and financial flexibility). This research is applied in terms of objective and descriptive-analytical in terms of data collection methods, based on a survey approach using structural equation modeling. The software used for hypothesis testing is Smart-pls version 3.2.7. When the sample size is small or the distribution is non-normal, it is preferable to use software such as Smart-pls [7]. The path model is defined by two sets of linear structural equations (inner model or structural model and outer model or measurement model). The structural model determines the relationship between the latent variables, and the measurement model specifies the relationship between the latent variables and the observed indicators. In addition, an online (<https://survey.porsline.ir>), and face-to-face questionnaire method was used for data collection, and the structural equation modeling approach based on partial least squares (PLS) was employed for inference. To distribute the questionnaire among managers of listed companies, data was collected online and face-to-face through social networks. For the sample distribution, 82 questionnaires were collected through both face-to-face and online methods via social networks, out of which 12 were discarded due to insufficiency or data accuracy, resulting in a valid sample size of 70. Regarding the sample size adequacy in structural equation modeling, according to Chalaki et al. [5], a sample size should be at least 10 times the number of estimated parameters to obtain valid and generalizable results. Therefore, considering the structural model of this study, the available observations (questionnaires) (70 cases) are statistically sufficient. Balugani et al. [4] also recommended a ratio of 5 cases per parameter [4, 10]. The respondents were divided into five occupational categories, and the frequency of each category is shown in Table 2.

Table 2: Status of the respondents in terms of job category

Job category	Abundance	Percent
Senior manager	11	14
Middle manager	22	30
Financial manager	40	56
Total	70	100

## 6 Research findings

In this study, the endogenous variable representing corporate health (financial health and financial flexibility) and the independent variables representing decision-making styles (intuitive, dependent, rational, spontaneous, and avoidant) were measured using a standardized questionnaire. The questions in this questionnaire were derived from standardized instruments. Additionally, to develop and validate the research instrument suitable for the country's context, experts and scholars in the field of study were consulted. Table 3 presents information related to the research variables.



Table 3: Research model variables

Variables	Questions used from previous studies	Mail scale
Decision-making styles	Scott and Bruce’s [26] questionnaire is used	Likert five-point method (1=completely agree and 5=completely disagree)
The health of companies (financial health and financial flexibility)	Pothong and Ussahawanitchakit [18] is used.	Likert five-point method (1=completely agree and 5=completely disagree)

Table 4: Descriptive statistical results for research variables

Variables	Mean	Median	Standard deviation	Minimum	Maximum
Intuitive decision-making	3.90	3	1.12	1	5
Dependent decision-making	3.22	4	1.11	1	5
Rational decision-making	3.11	4	1.23	1	5
Immediate decision-making	3.56	3	2.11	1	5
Avoidant decision-making	3.67	4	1.21	1	5
The health of companies	3.55	4	1.35	1	5

### 7 Model analysis and testing of hypotheses

In the research model, the variables were modeled as higher-order reflective constructs. The steps and methods used are outlined in Table 5.

Table 5: Summary of data analysis steps

Evaluation of the measurement model (external validity)	Reliability	Reliability of indicators	
		Examination of unidimensionality	Cronbach’s alpha Composite reliability
Validity	Convergent validity (AVE) and discriminant		
	Discriminant validity		Fornell and Locker criterion
	Construct correlation and multiple co-collinearity (VIF)		Checking subscription validity
Structural model evaluation (internal validity)	Estimation of path coefficient		
	coefficient of determination (R2)		
	Predictive communication		
Examining model quality indicators	Common method variance correction		
	Measurement bias correction		
	The goodness of fit criterion (GOF) and square root mean residual (SRMR)		
Testing hypotheses	Examining the significant Z coefficients related to each of the hypotheses		

In order to evaluate the measurement model (outer model), the reliability and validity of the constructs and indicators are assessed. The Cronbach’s alpha and composite reliability for each of the model constructs were found to be greater than 0.7. Additionally, all indicators exhibited the necessary reliability. To examine the validity of the model constructs, both convergent validity and discriminant validity were assessed. The average variance extracted criterion was used to evaluate convergent validity for all model constructs, and it was found to be greater than 0.5. Considering that the square root of the average extracted variance in the diagonal of the matrix is greater than the correlations or inter-construct relationships, the mentioned criterion is also acceptable. Therefore, the model constructs demonstrate good convergent validity. Overall, the quality of the model constructs indicates suitable validity.

Table 6: Checking the quality of the measurement model

Construct	Cronbach’s alpha	Composite reliability	Convergent validity
Intuitive decision-making	0.686	0.758	0.712
Dependent decision-making	0.907	0.838	0.843
Rational decision-making	0.790	0.672	0.625
Immediate decision-making	0.949	0.951	0.950
Avoidant decision-making	0.966	0.966	0.966
The health of companies	0.971	0.971	0.675

### 8 Research findings

To evaluate the structural model (inner model), after calculating the path coefficients, factor loadings, and variance explained by variables using the PLS algorithm, the significance of the paths and factor loadings is examined using the bootstrapping method to obtain t-values (Bootstrapping approach is a suitable method for creating standard errors or t-values. When the sample size is small and the accuracy of the estimators is important, this method can calculate the errors using the resampling method and provide the appropriate and versatile confidence interval or standard deviation. Also, this method is used to estimate the variance of the estimators when the probability distribution function of the estimators is uncertain or complex [1]). The significant results of the paths can be seen in the table below.

Table 7: Factor load, significance, and coefficient of determination of direct effects

Hypothesis	Coefficient	t-Statistic	significance	Result
Hypothesis 1-Intuitive decision-making → The health of companies	0.065	0.692	0.489	It has no effect
Hypothesis 2-Dependent decision-making → The health of companies	-0.083	0.574	0.566	It has no effect
Hypothesis 3-Rational decision-making → The health of companies	0.138	1.958	0.050	It has effect
Hypothesis 4-Immediate decision-making → The health of companies	0.273	1.352	0.177	It has no effect
Hypothesis 5-Avoidant decision-making → The health of companies	0.625	3.370	0.001	It has effect

As observed in Table 7, the path analysis reveals that the t-values for the two paths are above 1.96, indicating their significance, while the remaining paths are not statistically significant. In testing the hypotheses using the structural equation model, the output of the software indicates a good fit of the structural model for hypothesis testing. The obtained coefficients are considered significant when their t-values are greater than 1.96 and less than -1.96. As can be seen, the significant coefficients indicate the significance of all paths in the model except for the first, second, and fourth paths. Therefore, the structural model confirms hypotheses three and five. In other words, according to hypothesis three, rational decision-making has a positive and significant impact on company health, while hypothesis five states that avoidance decision-making also has a positive and significant effect on company health. In the measurement and structural models examined, the average shared variance and the coefficient of determination (R-squared) are used to assess the fit of the outer model and the fit of the structural model, respectively. The average shared variance represents the percentage of variations in indicators explained by the corresponding factors, and researchers have considered a value greater than 0.50 as an acceptable level of shared variance [14]. Based on the R-squared values, which indicate the model’s ability to describe the structure, the proposed model has a good fit.

Table 8: Investigating the quality of the structural model and its goodness of fit

The dependent variables	Predictive power
	0.341
The health of companies	$(R^2)$ Communality
	0.841 0.471

In the following, the modified model will be as follows:

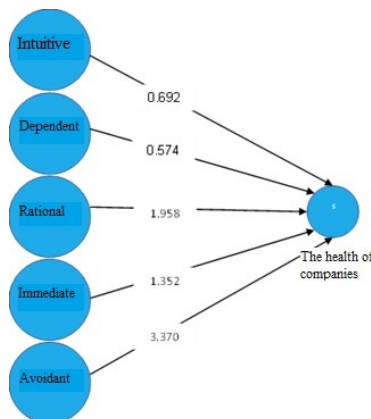


Figure 2: Significant coefficients of the structural model



## 9 Discussion and conclusion

The financial health of companies is closely related to factors such as business continuity, bankruptcy, financial distress, and the qualitative characteristics of accounting information. Therefore, it is necessary to assess the performance of companies in operational, marketing, financial, and accounting areas [12]. Since avoiding bankruptcy is a fundamental strategy aimed at ensuring business activities, the prediction of profitability and the evaluation of business continuity of companies have received significant attention from researchers. Financial health, defined as the ability of an economic unit to generate profits and sustain its operations, is of utmost importance to all shareholders and stakeholders. They all have an interest in having appropriate tools that can assess and predict the profitability and sustainability of these units. Since financial statements are the only common source of information available to all stakeholders, but do not explicitly reflect financial health and the relative sustainability of future activities [17]. The concept of financial health and the relative sustainability of its activities have been the subject of interest in the literature. Researchers have emphasized the importance of using quality-based assessment tools to better understand the quality of financial health assessments. The evaluation of financial health based on quality assessment tools leads to a more pronounced increase in the quality of financial health assessments and a higher degree of interest in the field of financial health assessment [22].

Based on the research findings, when managers choose the intuitive decision-making style, it seems that financial flexibility and the company's financial health are more desirable. According to Olcum and Titrek [15], the intuitive decision-making style serves as a success factor for organizations and enhances their financial flexibility, leading to financial health. Moreover, Song and Samy [29] emphasize that decision-making styles have transformed into a key for management and are vital for any organization. One influential decision-making style on the health of these organizations is avoidance decision-making, which involves daily changes and requires thoughtful change management. According to Kowalczyk [11], the intuitive decision-making style influences the performance of companies and strengthens their financial flexibility, which in turn enhances their financial health. Thus, the results of hypothesis testing in this research show that rational and avoidance decision-making styles have a positive and significant impact on the financial health and financial flexibility of companies. In other words, managers, through rational and avoidance decision-making, drive the company towards financial health and financial flexibility. These findings align with previous research conducted by Olcum and Titrek [15], Song and Samy [29], and Kowalczyk [11]. Considering the tested hypotheses in this research and acknowledging the limitations, the following practical suggestions can be made: Rational and avoidance decision-making styles have an impact on the financial health of companies. Therefore, it is recommended that managers consider rational and avoidance decision-making styles when making decisions in order to enhance the financial health of their organizations.

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