Editorial: Contemporary behavioural issues in accounting research

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Behavioural accounting is concerned with the psychological biases that affect organisational accounting functions, such as strategic planning, budgeting, control, financial reporting and decision-making. Traditionally, researchers believed that problems in organisations resulted from managerial self-interested behaviour and that such problems could be addressed by appropriately-designed incentive schemes. As a recently developed field, behavioural accounting recognises that, even in the absence of self-interest, psychological biases can result in flawed decision making.

An area of behavioural accounting has focused on the effect of biases on the budgeting process (and hence control and performance evaluation systems). Here may be multiple behavioural problems, since many actors in the organisation are involved in preparing and using budgets.

The quality of corporate financial reporting represents another area where behavioural biases come into play. For example, the quality of publicly reported earnings is influenced by the behaviour of managers, either intentionally (manipulating earnings for their own benefits, and in order to influences investors' psychological behaviour), or unintentionally (due to managerial biases). Other parties may be drawn into this misbehaviour; such as analysts and auditors (again, either intentionally or unintentionally).

Recent debates over mandatory auditor turnover (in the light of corporate scandals, such as Enron) have highlighted the problems of the reduction in auditor's independence as the auditor becomes closer and more empathetic towards the management of a company.

In summary, it is important to develop and improve research in behavioural accounting, as academics and policy-makers attempt to understand how to deal with the biases that affect the preparation and use of accounting information. In this special issue of IJBAF, we provide the reader with five different empirical papers, each exploring different behavioural aspects in accounting research.

The first three papers, by Porporato, Hassan and Deng focus on behavioural issues in management accounting and control. Porporato explores how differences in behavioural and educational backgrounds of two groups, accounting-trained subjects and professionals, leads to differences in designing a performance measure, such as the balance scorecard (BSC). Although she reports different designs by the two groups, accounting-trained subjects use more measures than professionals; she uncovers insignificant differences in the use of the BSC as a compensation or strategic implementation tool. She provides an interesting discussion on how people draw on their past experiences and levels of knowledge in a given subject in designing and evaluating a system, and the importance of training and education in directing behaviour towards a more effective evaluation and control measure.

Hassan uses Giddens' (1984) structuration theory to investigate the behavioural aspects associated with the process of reforming a centre-based costing system in public health organisations. His analysis provides an interesting discussion on how the activities of various groups from different social contexts contribute to changing the underlying ethos of public sector employees, as well as how those employees react to change processes. The analysis also highlights how new costing practices ensure the continuity of public sector organisations in response to the forces of globalisation introduced under the banner of new public management.

Deng explores the relationship between the subordinate and the superior in a capital budgeting process. He tests whether management controls can mitigate a subordinate's biased cognitive strategy arising from a superior-subordinate goal-information asymmetry in a capital budgeting process. He shows that process-justification requirement can be employed to mitigate subordinates' opportunistic behaviour.

The fourth paper, by Kleinman et al., develops a cognitive model of factors that may affect perceived independence and auditor performance. It is built on the models of Libby and Luft (1993) and Mayer (2003), analysing the relationship between the factors of ability, experience, knowledge and performance. Kleinman and his co-authors provide interesting discussions on the effects of these factors on the auditor-client relationship.

Finally, the fifth paper, by Darayseh and Waples, focuses on generating a logistic model to measure the cost of type I and type II errors. The paper examines the best possible cut-off score, noting that the percentage of type I errors falls as the relative cost of type I error increases, reflecting the changing tradeoff between type I and type II errors. The paper can be used to explain how a decision maker behaves when the expectation about the company future changed, which will lead to different costs with respect to making an investment decisions.

Research in behavioural accounting is in its infancy. It is to be hoped that the papers in this special issue will motivate readers to further research in this area.

References

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