Behavioural Accounting Explained through Different Factors

Basma Ben Néfissa *, PhD in Finance
Faculty of Economic Sciences and Management of Tunis, University of Tunis
El Manar, Campus Universitaire, B.P. 248 El Manar II 2092, Tunisia
Email: bennefissabasma@yahoo.fr
*corresponding author

Faouzi Jilani, Professor of Finance
Faculty of Economic Sciences and Management of Tunis, University of Tunis
El Manar, Campus Universitaire, B.P. 248 El Manar II 2092, Tunisia

Abstract

The positive theory of accounting initiated by Watts and Zimmerman in 1978 postulates that the purpose of accounting is to describe, explain and predict accounting facts. The significant contribution of this theory is to analyze the effect of accounting output on the primary recipients of financial statements. However, despite its notable contributions, the positive theory of accounting falls short of studying the context in which the decision-making process by agents takes place. It has been proved that this context conditions the decision-making process. Thus, in many fields, both accounting and non-accounting, researchers have felt the need to look at the behavioral dimension, mainly the emotional and cognitive dimensions of decision-makers, particularly executives, because these dimensions significantly influence the decision-making process.

In the first part of our article, we will show how behavioral research has occurred in many fields. The aim is to prove that man is not a machine and that cognitive and emotional specificities must be rigorously analyzed to avoid unexpected results. Subsequently, we present a more or less diverse range of work on behavioral accounting. Finally, we prove through a careful and rigorous review of the accounting literature that behavioral accounting offers the opportunity for researchers, particularly practitioners, to be apprehended and thus evaluated through different faculties.

Keys words: accounting, behavioral,
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INTRODUCTION

Whereas in the past decades, the main concern was to value a company thanks to numerical data, nowadays, the value of a company is based on financial and non-financial variables, i.e., behavioral, cognitive, and emotional variables.

Since its emergence some twenty years ago, behavioral accounting has developed significantly. Indeed, in many fields, researchers have become aware that the behavior of the decision-making agent influences the agent's decision. Thus, behavioral accounting is based on human variables related to the individual's intrinsic characteristics.

Therefore, the behavior of the decision-making agents was not by the theory. Researchers have focused on the behavioral aspects of the individual in many areas.

In the context of a company, the general management deploys all its efforts to ensure maximum performance for the economic entity. Therefore, all its attention would be focused on the behavioral dimensions of the individual because many researchers have focused on the way the behavioral aspects of the decision-maker would condition one's decisions.

Based on rigorous reasoning, and after a careful reading of the works on behavioral accounting, we decided to approach behavioral accounting through different factors.

Thus, our problem is presented as follows: Should behavioral accounting, a branch of accounting, be of interest to every company?

The first section will see how the behavioral aspect has been the subject of numerous research studies in various fields, whether in law, finance, or taxation. Therefore, we will present a research sample revolving around behavioral accounting by selecting different aspects.

In the second section, we will approach behavioral accounting through different determinants. It is relevant to study these determinants because it is thanks to these determinants that accounting can be evaluated within a firm.

THE BEHAVIORAL ASPECT AS APPREHENDED IN MANY DOMAINS

The Behavioral Dimension Occupies an increasingly Important Place in Different Domains.

Whatever the field of study, whether in law, economics, medicine, philosophy, or finance, researchers note that the reactions of the various
stakeholders no longer correspond to what is expected in theory. For example, Sunstein (2000) shows in his work, "Behavioral Law and Economics," how the psychological and cognitive factors of the human being condition their implications whether in civil law, constitutional law, or taxation. Indeed, according to Sunstein (2000), the study of legal behavior is relevant because it allows us to bring legal reform to some instances. Likewise, Lorino (2004) points out that when carrying out a specific task, each individual reacts according to a "reading grid" specific to him or her and develops throughout his or her experience. Indeed, accounting policy can only be evaluated through the accountant's understanding of his cognitive and behavioral specificities because these specificities significantly influence his behavior. By reviewing the accounting literature on this subject, we note that behavioral accounting is now a relevant subject that researchers should exploit.

In 2002, De Swarte emphasized the study of psychological factors to understand the decision-making mechanism within an economic entity because the decision-making mechanism is not an individual but a collective one.

Indeed, the inconsistencies noted within organizations lead researchers to conduct studies on the behavioral and psychological dimensions to understand why individuals do not react to what is theoretically expected.

In finance, researchers had become interested in the behavioral dimension when they noticed rapid changes at all scales. The scales led them to question assumptions considered immutable with the functioning of markets, such as solid rationality and the "natural" regulatory functioning of markets, thus noting the discrepancies between predictions and realizations within financial markets. The proponents of this school of thought have been interested in studying the different actors' attitudes, psychologies, and motivations.

It is thus the interest of behavioral finance to elucidate the mysteries unsolved by classical finance, as Thaler (1999) affirms: "Real life financial markets do not resemble those described in financial manuals." Vianez et al. (2020), following a bibliometric analysis conducted over the period 1987-2017, note that the subject of behavioral finance has been generating interest among researchers over the years. Choosing different aspects of behavioral finance, these researchers note that the subject relating to investor sentiment is the subject that arouses the most interest.
This result is quite understandable since every company that wants to ensure its sustainability makes every effort to provide the privileged user of accounting information with relevant information to guide them in their investment choices. Suppose the latter reacts in the stock market unexpectedly or in a manner that does not conform to what is theoretically expected. In that case, the company will question the determinants that led the investor to react unexpectedly or irrationally.

It has been predicted, whether in textbooks or econometric models. It has been considered more relevant for researchers to focus on the "black box" of the human being. This black box, which causes the individual to react differently, is not covered by the theory.

Behavioral accounting has changed the role of accounting. Whereas accounting has previously represented a means of accountability where everything was linked (i.e., the functioning, consequences, and forms were linked to behavioral accounting), the decision maker's behavior affects his decision. Hence, this explains researchers' interest in focusing all their attention on the psychological side of decision-makers.

Indeed, behavioral accounting has been defined as applying behavioral science to accounting. Its purpose is to highlight and anticipate human behavior in all possible and imaginable situations.

It should be noted that towards the end of the 1960s, the need to study the behavioral impact on decisions was widely felt, and one could note a considerable increase in research on this topic. In the 1970s, researchers focused on analyzing information by the decision-making agent. Among the decision-making agents studied, auditors were at the center of research, as researchers investigated auditors' preoccupations, their behaviors, their modes of communication of accounting information, and their decision models.

As early as 1997, many institutions around the world began to incorporate the behavioral aspect into their studies.

Other researchers argue that behavioral accounting is that branch of accounting that aims to understand cognitive and emotional concepts that affect human decisions. It should be noted that currently, the multiplicity of methods to measure everything related to behavior has led to the absence of a unanimous definition of behavioral accounting. Indeed, the contribution of the behavioral dimension in all disciplines has led to the questioning of hypotheses dating back to several decades.
Indeed, whereas in the past decades, decision-makers were assimilated to agents whose aim is to maximize profit, nowadays, they are considered agents subject to two types of forces: cognitive forces and emotional forces that affect their decisions.

Behavioral research primarily used students as participants, but from the 2000s onwards, researchers realized that the behavioral aspect is crucial to understanding the decision-making behavior of the agent or any other party, hence the selection of professionals rather than students as research participants. Research in behavioral accounting has developed from then on because its objective has evolved. Whereas in the past decades, its goal was to understand how the reaction of each person conditions the reaction of all, now its goal is to know if the professionals’ skills help them become impervious to the psychological biases they are subject to when performing complex tasks.

Indeed, as researchers point out, behavioral research provides professionals with the experience necessary to understand economic and accounting phenomena better.

Shields (2007) notes an exponential increase in the number of studies on behavioral research.

After noting that the behavioral dimension has been studied in many fields, the following reviews about behavioral accounting were addressed in a wide range of research. It should be noted that the importance given to the behavioral dimension can be observed in particular through the multiplicity of research carried out in diverse contexts.

**Behavioural Accounting: The Subject of much Research**

In the Taiwanese context, Chin and Chih (2008) researched to analyze how the gender of the auditor conditions his or her understanding of audit risk. Their research found that female auditors have a higher level of ethics and a higher level of risk-receptive and non-risk-taking behavior. Thus, based on this research, we can affirm that behavioral accounting has been understood through the gender of the auditor, which can affect the understanding of risk.

In the American context, Beckman and Menkhof (2008) note that in the case of international fund managers, women are likely to be risk-averse and not consider competition as a critical success factor.
Ross (2007) notes that the overall attitude adopted by senior management determines the degree of confidence of the privileged users of accounting information, who are investors.

In the Nigerian context, Adekoya and al. (2020) conducted questionnaire-based research among 152 accountants to determine the determinants that condition the auditor's ethical behavior. Following the analysis of the obtained results, these researchers note that factors such as fear of sanction, religion, training, morality, and intrinsic values affect the ethical behavior of the auditor.

In the Portuguese context, Marques and Azevedo-Pereira (2009) analyzed the impact of ethics on the practice of accounting. After analysis, they noted that the determinants like gender and age condition the ethics of professional accountants in Portugal.

Consistent with Buckeyl et al. (1988), who assert that, in some situations, men are more likely to break the rules than women, this unethical behavior is justified by the saying "the end justifies the means." Indeed, men tend to transgress the rules more than women in complex situations.

Behavioral accounting is a branch of accounting that has gained importance because it allows us to provide precise answers to questions that were unanswered in the past decades because they required an in-depth analysis of different stakeholders. Moreover, these questions were not even raised because it was thought that there was a standardization of thought.

Indeed, the development of research on behavioral accounting is since the empirical validations expected from the theory have not unfortunately been validated by theory.

Indeed, by focusing on individual behavior, behavioral research allows us to have a precise answer to questions such as: how does a subordinate perceive equity in the economic entity? Why would an auditor trust client A more than client B? Another question is why, for example, would a hierarchical superior trust one subordinate more than another?

Therefore, it is thanks to the rigorous study of behavior that researchers are now able to answer the questions above.

After reviewing the various studies carried out on the topic of behavioral accounting, we will now proceed to the following section while following deductive reasoning. We extensively reviewed the studies that have been carried out on behavioral accounting. We will now study the
various determinants of behavioral accounting, or in other words, the factors by which we can understand behavioral accounting.

Indeed, understanding accounting through its behavioral aspect means forging an understanding of both cognitive and affective human aspects that impact the decision-making process, whether on accounting or non-accounting. Thus, in the context of our article, we decided to focus on the different factors that are relevant to analyze when working on the subject of behavioral accounting. In other words, the factors stated below allow us to estimate behavioral accounting.

Behavioural Research as Understood through Different Factors

It should be noted that when a company considers the fact that employees are not machines and that they are endowed with intangible capital: cognitive and emotional capacities, and when it starts paying particular attention to these characteristics, the company can, on the one hand, ensure its durability and, on the other hand, radiate and consequently increase its market share.

This section will focus on the different factors through which we will approach behavioral accounting.

It is important to emphasize that each company that wants to be responsible must pay particular attention to its different factors.

**Figure 1: Behavioural accounting, a multidimensional branch.**
**Participation**

Participation refers to the transparency of communication within the economic entity. According to numerous researches carried out in many countries, it has been shown that the better the quality of information disclosed between agents, the more accessible the communication within the economic entity will be. Thus, the more the agent feels involved in financial communication, the more he or she will make efforts to achieve the objective set by the general manager. Indeed, it has been demonstrated by many researchers that the less conflictual the relationship between employee and manager, the more favorable the negotiation between these two parties will be. The less conflictual relationship will lead the agent to act by the general manager’s expectations. According to Shields (1988), the better the relationship between the agent and the principal, the better collaboration.

**Responsibility.**

Whereas traditional accounting answers how the agent feels responsible, behavioral accounting develops the notion of responsibility by showing how the agent reacts when he or she perceives different demands. In other words, it deals with the way agents face a given task and to whom they are accountable. Indeed, the contribution of behavioral accounting is observed when the agent receives contradictory demands. How will the latter act in the best possible way while protecting the interests of the economic entity?

Following Miller et al. (2006), about the auditor's work, some determinants have an impact on the auditor's evaluation. According to these researchers, one cannot evaluate an auditor without considering factors that can condition his evaluation, such as his level of familiarity or reputation.

**System Interfaces**

To facilitate the agent's task, the companies develop information systems to describe the necessary information, such as computerized calculations. The purpose of PDAs is to facilitate learning, guide agents in their decisions, and thus fight against possible "subjectivities". Despite the numerous notable advantages of digital information systems, some researchers note that agents prefer to resort to manual calculation rather than to use the decision support system in some instances. In fact, in a comparative analysis of two groups of participants performing tax calculation, Rose and
Wolf (2000) note that the group that performed a manual tax calculation performed better than the group that used the decision support software. Indeed, in statistical terms, the group that used the manual calculation performed 22% better than the group that used the decision-assisted software. However, in terms of effort, the group that used manual calculation made 112% more effort than the group that used the PDA. Thus, in light of the results of this research, we can say that machines can help agents, but they are not more efficient than agents. They can minimize efforts, but human agents would always be more efficient because they have consciousness specific to human beings. To obtain optimal results, agents can use the PDAs while using their intellectual skills and rationality.

Therefore, this research allows us to investigate whether listeners have more confidence in their judgments or PDAs. Arnold et al. (2006) conducted a comparative analysis of the use of information by two groups, the two groups being: senior auditors and management experts. These researchers noted that for the experts, before using any software, perform their analyses and then use the PDA. On the other hand, as far as the senior auditors are concerned, their judgments are mainly based on the decision support software. Apart from this decision-support software, companies can use different types of graphs.

In fact, according to MacKay and Villaréal (2007), the ability of an individual to understand numerical data differs from individual A to individual B. In the same line of thought, Moriarity (1979) assumes that even if financial data are presented in a standard way, the understanding and apprehension of financial data depends on the emotional and cognitive characteristics of the individual receiving the information. Thus, this researcher has used different faces to ensure that all information is well understood.

In sum, what we can retain from the system interfaces is that they, on the one hand, help the agents in their tasks by facilitating calculations, and, on the other hand, they can be considered as a means of control for the agents. Added to this, researchers, especially practitioners, highlight the possible limits of these information systems, such as the complexity of these systems and their relevance. By imposing on the agent the use of specialized software, the latter will deploy all his efforts for a correct application of this software, and the research of the performance will be put in the second plan. A natural question one might ask: Should the agent
be left free in the method of task execution, or should it be restricted with the imposition of a decision support software?

**Culture**

Since the subject of behavioral accounting has gained importance in recent years, we note that researchers are now grasping new themes such as whether cultural differences condition the behavior of individuals. Since behavioral accounting work has become international, whether the results obtained in a country with a particular legal system and a particular culture can be transferred to another country, a comparative analysis between the two countries would be useful. Indeed, culture represents an aspect of behavioral accounting because it affects the decision-making behavior of agents. As an example, we can cite the research of Birnberg and Snodgrass (1988). The concept of supervision in the American-Japanese context is understood differently depending on the origin of the worker. For Japanese workers, it is simply a matter of providing them with relevant information to control their tasks. It is useless to provide information concerning their tasks because the work culture and respect for discipline are two unshakeable values for Japanese workers. By doing so, Japanese companies save their resources, which allows them to offer other benefits to their workers. As for American workers, they work in the following way: upstream, the company provides its workers with all the information necessary to complete their tasks and information related to the control of their tasks. Thus, the control is explicit for American firms, whereas, for Japanese firms, the control is implicit. At the end of this research, we can affirm that culture impacts the workers’ behavior. While for some workers, it is useless to control them, for others, it is necessary to provide them with all the information for the realization of their tasks and the information relative to their control.

**The Mood**

Some researchers have approached behavioral accounting through the mood factor. Indeed, by carefully analyzing the decision-making process, researchers have noted that the mood of decision-making agents conditions their decisions. Indeed, Wright and Bower (1992) note that when the agent is happy, there is a greater chance that he or she will achieve promising results for the economic entity. On the other hand, when the agent is "sad," these researchers note that this state of mind leads to results below the results expected by the firm, hence the importance of
understanding behavioral accounting within the firm. Thus, the mood factor can be considered as a critical success factor.

Indeed, in the accounting field, Chung and al (2007) focus on the impact of the auditor's state of mind on these decisions regarding inventory estimation. At the end of their analyses, they noticed that when auditors are "happy," they are less cautious when estimating inventories than when they are unhappy.

Lerner and Keltner (2001), still about the accounting field, note that when decision-makers are afraid, they tend to make rather pessimistic forecasts, and their choices tend to be very rational. In contrast, when irritated or angry, they make optimistic forecasts, and their choices are risk-averse. Indeed, these observations can be explained by the fact that when the individual is dissatisfied with the situation, he will risk seeing things change. Optimistic expectations are perhaps because individuals always have hope for the future, and, as the saying goes, "the hope of gain reduces the pain."

**CONCLUSION**

After carefully reviewing the various works of behavioral accounting, we can say that this branch of accounting is attractive and can be exploited by researchers. Many dysfunctionalities in the social, economic, and financial sphere are due to the behavioral deficiencies of decision-makers, especially of employees, that have not been taken into account promptly. In this respect, we can cite financial scandals such as Enron and Vivendi and the Toshiba scandals in 2015, Japan which led to a deficit of 460 billion yen during the 2015-2016 fiscal year. We cite the psychological and emotional factors relating to behavioral accounting among the factors retained to explain this situation.

Given the importance of behavioral accounting and, more specifically, its repercussions when it is not considered, we feel it is essential to stress the importance of teaching this branch to students as part of the university curriculum. Given that today's students will be able to work in the accounting field in the future, taking courses in behavioral accounting would allow them to be more effective and efficient in performing their tasks.

In fact, after a thorough review of the works on behavioral accounting, we note that this concept offers the opportunity to be understood through different dimensions. Thus, the subject of behavioral
accounting is relevant and must be scrupulously analyzed within an economic entity because by neglecting the behavioral aspect, whether it is that of the decision-makers or the performers, the results obtained may fall short of the desired results by the general manager. A continuous decline in results may be questioning the perenniality of the firm. In addition, the subject of behavioral accounting offers the opportunity to be apprehended from different angles.

We are convinced that behavioral accounting is a fascinating research topic at the end of this article. After various investigations by researchers, working on this topic has allowed us to provide precise answers about the activities of the human mind. As Devine (1960) points out, the work on behavioral research is the answer to the difficulties and, therefore, to the shortcomings of empirical work on the behavior of the recipients of accounting information.
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