

Trends in management accounting: Editors' Perspectives

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Main message

- If there are *trends* in management accounting
 - *Ignore*
 - Especially when editors have a perspective on these trends
- Likely to yield more innovative research
- My *personal* taste-driven views:
 - Mixed-method studies
 - Use of innovative datasets
 - Insights from new disciplines

Observations about (management) accounting research

- Diverse with **little cross-fertilization**
 - Diversity stems from theoretical paradigms, disciplinary perspectives, research methods, and more
 - Good and bad
- Data poor
 - Samples tend to be small scale, non-random, non-public
 - Obvious issues with generalizability, identification of treatment effects, replicability
 - Over abundance of case studies (based on interviews)
 - No field experiments
- Work often simply affirms findings from disciplinary foundation studies in a business type setting
 - Little impact from studies in accounting onto economics, psychology, sociology
 - In management accounting, economics-based research is under weighted esp. in experimental work
- **Neither bold nor imaginative**
 - Often simply follows “gurus” about the putative working of management tools such as balanced score cards, value-based management, ABC
 - Desires to show effect on performance without commensurate effort to implement research designs that can identify the relation
 - Stuck with basically the same topics as 25 years ago (budgets, performance targets, transfer pricing)

Mixed method studies

- Economics-based work underpinned by a formal model
 - Clarifies the internal logic and consistency
 - Makes assumptions explicit
 - Allows for integration with economics-based work in other (business) fields and across studies in management accounting
- Recent developments in economics also admit integration with behavioral sciences
 - Formal modelling of other-regarding preferences, fairness concerns, status, trust, etc.

Abernethy, Bouwens, Hofmann, and Van Lent (2015)

- Social norms, agents' choices, and incentive contract design
- Uses economic theory on social norms to formalize the concept of “(ethical) **work climates**” from management/strategy literature
 - Social norm arises endogenously – describes the behavior of other agents in the firm
- Key result: in “egoistic” work climates (agents are mostly concerned about their own payoffs), firms can:
 - Mute incentives (but then agents put in less effort)
 - Change the performance measure to “above level”, summary metrics that reflect the performance of multiple agents

Proposition 1: Assume an agency with a social norm for undesirable action; the comparative statics for the focal agent are as follows:

- (i) Effort for the undesirable action increases with the other agent's preferences to conform to the social norm when there is a low cost to the undesirable action, and vice versa (i.e., $\partial u_i^*/\partial s_j > 0$ if $c < \underline{c}$), where \underline{c} is an expression defined in Appendix 1;
- (ii) Effort for the desirable action decreases with the other agent's preferences to conform to the social norm (i.e., $\partial a_i^*/\partial s_j < 0$);
- (iii) Incentive rate for total performance decreases with the other agent's preferences to conform to the social norm (i.e., $\partial \beta_i^*/\partial s_j < 0$);
- (iv) Percentage weight for aggregate performance increases with the other agent's preferences to conform to the social norm (i.e., $\partial(1-\gamma_i^*)/\partial s_j > 0$).

	(4a) Degree of Work Unit Undesirable Action	(4b) Supply of Effort	(4c) Incentive Rate for Total Performance	(4d) % Weight on Aggregate Performance
Work climate – focus-on-self	0.111*** (0.036)	-2.231*** (0.878)	-1.749* (1.104)	4.267*** (1.352)

Use innovative datasets

- Archival datasets from company records
 - Mobilizing these data to answer a compelling research question can be hard
- Multi-wave surveys
 - Repeated respondent observations can solve a lot of econometric problems
 - Most managerial problems are causal, most surveys can only produce correlational evidence → mismatch needs to be addressed
- Learn from innovative practices elsewhere
 - Use of social media data in economics, finance, and capital markets research
 - Large scale field experiments in economics and management
 - Details of supplier contracts and executive compensation contracts from SEC filings in capital markets research
 - Use well-known data in a new way (as in the night time light intensity data in Hodler and Raschky)
 - Executive time use project (<http://sticerd.lse.ac.uk/ExecutiveTimeUse/>)

Field experiments and open data sources

- World management survey: <http://worldmanagementsurvey.org/>

FINALLY, IN SEARCH OF CAUSATION WE ARE RUNNING MANAGEMENT EXPERIMENTS IN INDIA

To investigate the causal impact of management I am working with the World Bank to run experiments in large Indian firms

Find large performance impact from improving basic management for operations, quality, inventory and HR



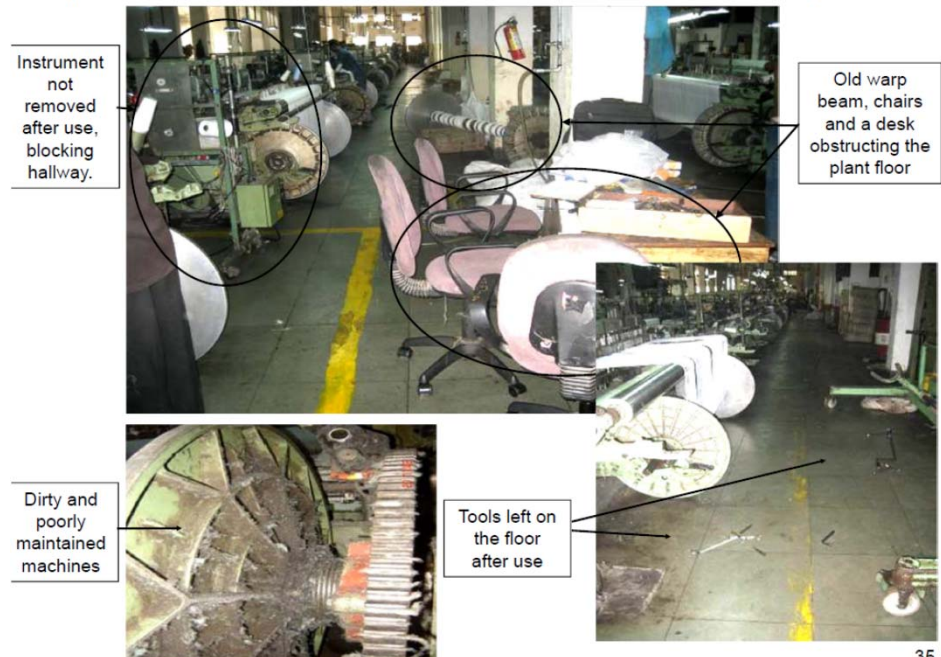
Outside a typical Indian factory in our experiments



Inside a typical Indian factory in our experiments

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The plant floors were also disorganized – the land that Lean forgot



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Bloom et al. QJE (2013)

The inventory rooms had months of excess yarn, often without any formal storage system or protection from damp or crushing



Yarn without labeling, order or damp protection

Different types and colors of yarn lying mixed

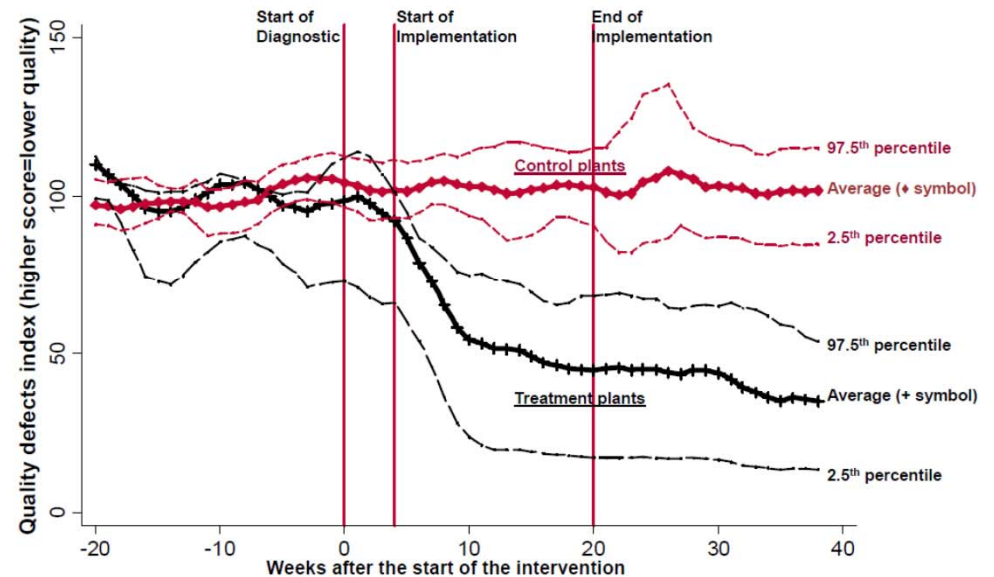


Yarn piled up so high and deep that access to back sacks is almost impossible

A crushed yarn cone, which is unusable as it leads to irregular yarn tension

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Not surprisingly, modern management practices led to large performance improvements – e.g. defects down by 50%



Notes: Average quality defects index, which is a weighted index of quality defects, so a higher score means lower quality. Plotted for the 14 treatment plants (+ symbols) and the 6 control plants (+ symbols). Values normalized so both series have an average of 100 prior to the start of the intervention. Confidence intervals from plant block bootstrapped. 37

Insights from new disciplines

- What can we learn from political sciences, quantitative sociology, linguistics and natural language processing, neurosciences, development economics?
- Why are psychological theories dominant in management accounting, rather than (for example) work in biology?
 - Lots of recent attention to **managerial traits**
 - Identifying fixed managerial effects (CEO, CFO)
 - Lots of quasi-random traits are examined: overconfidence, narcissism, depression-babies, school ties, military experience, voice tone, inherited identity, religion, sensation-seeking
 - Begs the question what is the root cause of these traits? Perhaps biological factors → genetic differences (twin studies), bmi, body height, hormones

Jia, van Lent, Zeng (2014)

- Does variation in pubertal exposure to testosterone (as measured by facial masculinity) across CEOs explain misreporting?

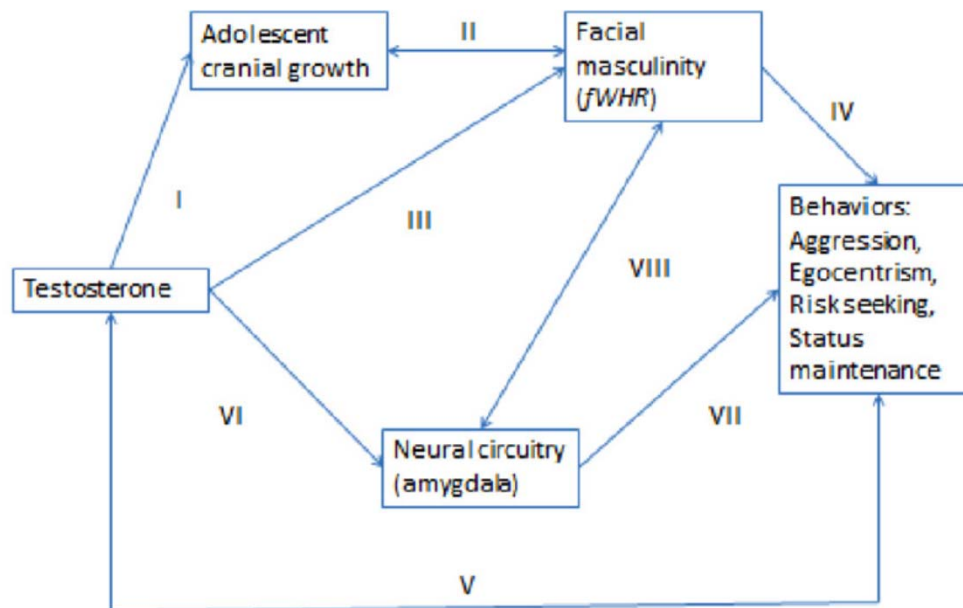


TABLE 4

Hazard Ratio, Coefficient Estimates, and Summary Statistics for Cox Proportional Hazard Regressions and Ordered Logistic Regressions Relating Misreporting Proxies Based on F-Score to CEO fWHR

Variable	<i>Hazard Rate (F-score > 1.85)</i>		<i>F-Risk</i>	
	Measurable Pictures (1)	Good-Quality Pictures (2)	Measurable Pictures (3)	Good-Quality Pictures (4)
<i>Intercept 1</i>			5.393* (2.908)	20.217*** (3.552)
<i>Intercept 2</i>			8.580*** (2.926)	23.360*** (3.717)
<i>Intercept 3</i>			10.067*** (2.936)	24.813*** (3.651)
<i>D(fWHR > median)</i>	1.833*** (0.203)	1.984*** (0.256)	0.434*** (0.136)	0.368** (0.161)

In sum

- Don't do what everybody else is doing ...
 - (but make sure that you keep your audience in mind)
- Look for topics that potentially inform not just accounting, but a wider academic community
 - (brown bag your proposals to other departments in your school)
- Be bold, not boring

Feel free to contact me if you wish to discuss your dissertation research
(especially if you work in one of the areas in which I have expertise)

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