

PhD Forum:

Experimental Research in Accounting and Auditing

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Agenda and dramatis personae

- Experimental overview – Steve and Victor
- Management Accounting experiments – Victor
- Audit experiments – Steve
- Financial accounting experiments – Victor
- Questions and comments - YOU

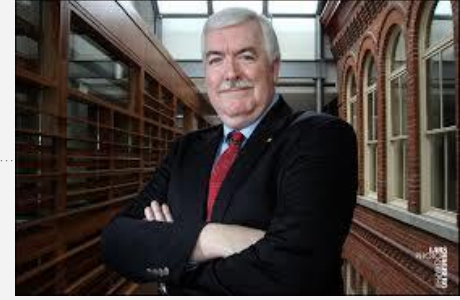


What is an experiment?

Drawn from presentations made by:

Bob Libby, Victor Maas, Mark Peecher, Steve Salterio and Ira Solomon

Definition – Positive Research



- **Scientific research** is *systematic, controlled, empirical and critical investigation of phenomena guided by theory and hypotheses about the presumed relations among such phenomena*

(From: Kerlinger, F.N. *Foundations of Behavioral Research*).

Experiment - A Definition

– *Phenomena (an individual or social process) is reproduced in controlled situations, and then various measurements are made of the phenomena, often measurements that could not be collected in natural setting.*

— Reynolds, P.D., *A Primer in Theory Construction*, 1987, p. 156.

When should you do experiments?

- **Theory:**

*a set of interrelated **constructs** (concepts), definitions, and propositions that present a systematic view of phenomena by specifying the **relations among variables** with the purpose of **explaining and predicting** phenomena (Kerlinger)*

Remember this always!!!

- **Theory is generalizable!**
- Experimental findings are **NOT** generalizable except via the theory!
- More “realism” in experiment does not increase generalizability unless context is theorized to have a role!

How to do an experiment?

- Experimenter “manipulates” explicitly one or more variables and randomly assigns subjects to various groups.
- The groups receive different combinations of the variables (“treatments”) and one group may receive no explicit treatment (control group).



Don't use experiments if:

- Goal is to identify parameter size
- Goal is to identify “real world” degrees of association
- Explore a topic where there is no or very limited theory to guide investigation

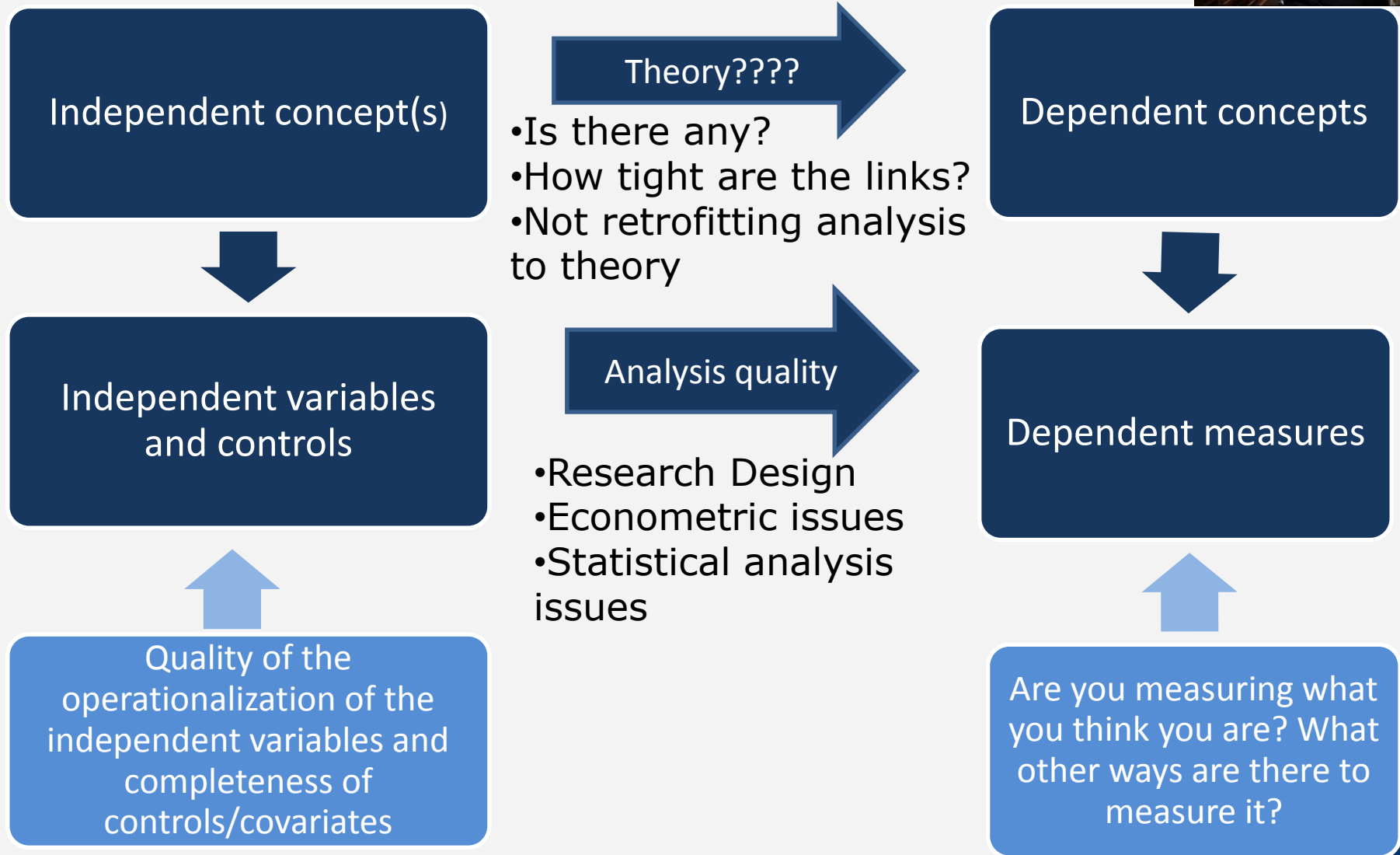
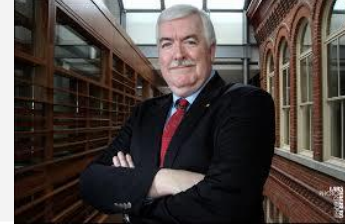
Advantages of Experiments

- Allow for strong casual inferences (as opposed to associations)
- Focus on factors of theoretical interest
- Disentangle effects of extraneous factors
- Internal validity is king!!!
 - Hence, we will study predictive validity

Features of Experiments

- **Manipulation of independent variables**
 - Ensure manipulation's effectiveness
 - Manipulate construct of interest
- **Control extraneous variables**
 - random assignment (less self-selection)
 - hold specific factors constant
 - measure specific factors (e.g., covariates)

Predictive validity model (aka “Libby” (1981) boxes)



Final Predictive Validity Question

- What is the point?
 - Does it generalize?
 - Is it interesting?
 - Are the findings new to anybody?
 - What has the paper added to the body of knowledge?

Psychology and Economics based Experiments

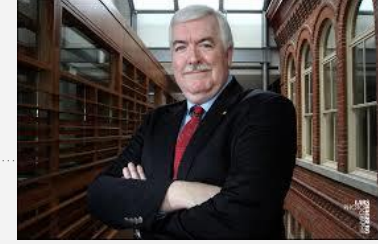
Attribute	Psychology-based	Economics-based
Repeated trials	Often not	Usually yes.
Incentives	Often not; flat \$, accountability	Usually yes. Performance-based
Deception	Usually not. Last resort.	Rare.
Formal script	Doubtful but?	Yes.
Unit of analysis	Individuals or teams	Often market behavior

Key questions in experimental management accounting



1. How does management accounting affect superior – subordinate relationships?
2. How does management accounting affect cooperation and competition among peers?
3. How does management accounting facilitate economic decision-making?

Top 5 Under-researched Areas for Audit Experiments



1. The intersection of the organization and the individual – meso OB research in auditing
2. Understanding interactions between auditors and client staff – beyond negotiation
3. Understanding effects of regulatory scrutiny on auditor decisions, judgments and planning
4. Expanding consideration of incentives beyond economic incentives
5. The context dependent effects on critical audit judgments associated with the new auditor's report

Key questions in experimental financial accounting



1. How do regulations and the incentives, individual characteristics and social environment of managers and accountants affect reporting choices?
2. How do these factors – and the reporting choices made -affect investors' and analysts judgments and decisions?

Over to you!



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For more wit and wisdom from Steve

- Read Steve's blog at



www.morebysteve.wordpress.com