

*Behavioral Decision Research and
Management Accounting:
The Case of Conflicts of Interest*

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*Based on my collaborations with Mahzarin
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Moore and Lloyd Tanlu*

Max and Accounting

- 1) University of Pennsylvania (Wharton), B.S.E. in Accounting, 1976
- 2) 1987-1997: Lots of experience teaching employees of the Big X accounting firms
- 3) Our 1997 paper – Bazerman, Morgan, and Loewenstein – no more work with the Big X accounting firms
- 4) SEC call in 2000
- 5) The changes made were weak – focusing on disclosure
- 6) Bazerman, Loewenstein and Moore 2002 HBR paper
- 7) A few talks to accounting and psychology departments on the prior work and some initial empirical data



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Core Argument on Auditor Independence

Psychologists have known for a long time that individuals with a vested self-interest, even honest ones, are incapable of unbiased (independent) judgment.

- a) Auditors have made tremendous profit from selling other services to their audit clients.
- b) Auditors want to be rehired.
- c) The personnel on the audit often take jobs with the client firm.

As long as these other motives are present, auditors are not independent.

Management Accounting - Wikipedia

Management accounting or **managerial accounting** is concerned with the provisions and use of accounting information to managers within organizations, to provide them with the basis to make informed business decisions that will allow them to be better equipped in their management and control functions.

Bounded Decision Making

- **Bounded Rationality – March and Simon**
- Bounded Willpower - Thaler
- Bounded Self-Interest – Thaler
- Bounded Awareness – Chugh and Bazerman



Bounded Decision Making

- Bounded Rationality – March and Simon
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- Bounded Awareness – Chugh and Bazerman
 - Bounded Ethicality – Banaji, Bazerman, and Chugh; Banaji and Bhaskar

Bounded Decision Making

- Bounded Rationality
- Bounded Willpower
- Bounded Self-Interest
- Bounded Awareness
 - Bounded Ethicality

Bounded Ethicality

(Chugh, Bazerman, and Banaji, 2005)

Bounded ethicality refers to the systematic and predictable ways in which humans act unethically beyond their own awareness.

Bounded Ethicality

- 1) Boundedness in your ethicality
- 2) Boundedness in noticing the ethicality of others

Boundedness in Your Ethicality

(Overviews: Banaji, Bazerman, and Chugh, 2003;
Chugh, Bazerman, and Banaji, 2005)

- 1) Implicit Attitudes (lots of work by Banaji, Greenwald et al.)
- 2) In-group/Out-group Biases (Messick op-ed)
- 3) Discounting the Future (Wade-Benzoni, 1999, 2002; Bazerman and Watkins, 2008)
- 4) Overclaiming Credit (Ross and Sicoly, 1979; Caruso, Epley, and Bazerman, 2006; Epley, Caruso, and Bazerman, 2006)
- 5) Moral Disengagement: (*Bandura, 1986, 1990; Paharia and Deshpande, 2009; Shu, Gino, and Bazerman, 2010*)
- 6) Greater Unethical Behavior under a Loss Frame than under a Gain Frame (*Kern and Chugh, 2009*)

B: Boundedness in Noticing the Ethicality of Others



B: Boundedness in Noticing

- 1) Conflicts of Interest (Chugh and Bazerman, 2007; Moore, Tanlu, and Bazerman, 2010)
- 2) Outcome bias in judging ethics (Baron and Hershey, 1988; Gino, Moore, and Bazerman, 2009)
- 3) *Slippery slope (Gino and Bazerman, 2009)*
- 4) *Indirect blindness in judging unethical behavior (Paharia, Kassam, Greene, and Bazerman, 2009; Coffman, in preparation)*

B: Boundedness in Noticing

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