Managerial Accounting is Fun!
Trust Me!

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“Eclectic style is a combination of styles in order to design an environment, which would have a great look, artistic taste, and a specific connective element, which would make the whole design look as one piece of work.”

• In design, choose the pieces you love.
• In research, choose the projects you think are interesting and cool.
Why does accounting exist?
Sumerian inventory accounting for beer ingredients (2000 to 3000 BC)
Marked envelope with matching tokens from Susa, Iran (3300 BC)

Incan quipu ("knotted string")
(c. 1500 A.D., Photo: Museo Larco, Lima, Peru.)
British Exchequer Tallies (c. 1440 A.D.)
I ask again:

Why does accounting exist?
Trust & Accounting
That Complicated Relationship

• Two Views
  – Accounting helps build trust and thereby facilitates exchange.
  – Accounting destroys the natural human tendency to trust.
Working Definitions

• Accounting
  – Measurement & Control

• Trust
  – A willingness to make oneself vulnerable to the actions of another.
Measurement:
The first element of Accounting

• How does the act of measurement (i.e., record-keeping) affect economic exchange?
  – Prior with Basu, Dickhaut, Hecht, and Waymire (PNAS, 2009)

• Accounting records as “external memory”
Trust Game

Stage 1

Investor chooses investment (0 to 10 lira)

Multiplier = 3

Trustee receives investment x 3

Stage 2

Investor receives ‘return’ from trustee

Trustee chooses ‘return’ to investor
A Complex Economy

Investors      Trustees

A1 ———— B1
A2 ———— B2
A3 ———— B3
A4 ———— B4
A5 ———— B5
Recordkeeping

- Manipulated the possibility of recordkeeping.
  - Textbox at right of computer screen
- Referenced in instructions as: “available for typing”
- Captures contents every 5 seconds.
Main Findings

• Recordkeeping Promotes Reputation Formation.
• Recordkeeping Spontaneously Increases Investor-Trustee Coordination.
  – Trust
• Recordkeeping Beneficially Alters The Economy.
Correlation in Image Scores
Risk

![Risk Graph]

- Recordkeeping
- No Recordkeeping

Coefficient vs Period

Period: 1 to 10

Coefficient Ranges: 0.0 to 0.5

American Accounting Association

Emory | Goizueta Business School
## Scorecard

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<th>Accounting is Good for Trust</th>
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A follow-up

• Ongoing work with Millar and Waymire.
• How are reputations shared?
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Control:
The second element of Accounting

- How does the implementation of a control system affect trust?
  - Prior work using Attribution Theory by Malhotra and Murnighan (ASQ 2002)
- What do we conclude when we see someone cooperating in the presence vs. the absence of a control system?
Binary Trust Game

• Manipulated whether the trustee operated under a control system or not.
• Saw greater trust when there was no control system in place.
• Conclusion:
  – Control systems reduce trust.
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Investigation of accounting's impact on trust.
But there’s something strange about the M&M study

• “Pseudo-subjects”
• Cooperation was unaffected by control system.
Following up on M&M

- Can a control system help to build trust by getting people to behave cooperatively?

Prior with Coletti & Sedatole (TAR 2005)
Why would “control-induced cooperation” lead to trust?

• Fundamental Attribution Error – observers tend to over-attribute behavior to dispositional rather than situational characteristics.

• Therefore, when observing control-induced cooperation, we expect collaborators to over-attribute this cooperation to “trustworthiness.”
Main findings

• Through two experiments, both examining the effect of a *strong* control system on trust and cooperation:
  – The control system improves perceived trustworthiness.*
  – The effect is mediated by cooperation.

* Trustworthiness defined as a willingness to act cooperatively in absence of economic incentive to do so.
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But does the type of control matter?

• Are behavioral controls more damaging to trust than outcome controls?
  – Prior work with Christ and Sedatole (SF 2008)
Main findings

• Behavioral controls damage trust, by making people feel intruded upon and by creating a loss of autonomy.

• Outcome based controls don’t seem to damage trust nearly as much.
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But are all outcome based controls equal?

• Do positively framed outcome based controls (aka bonuses) affect trust differently from negatively framed outcome based controls (aka penalties)?
  – Recent work with Christ and Sedatole (TAR 2012)
Main findings

• Penalties destroy trust.
• Bonuses create trust!
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A Research Segue

• Christ, Sedatole & Towry (2012) isn’t positioned in the trust literature.

• Incomplete Contracting!
  – When contracts are incomplete, principal has discretion.
  – When principal has discretion, trust matters.
The Next Chapters

- Incomplete Contracting and Discretion.
- Taking the principal out of the “black box.”
  - Ongoing and prior research with Maas, van Rinsum, Hecht, Tayler,Arnold, Gillenkirch, and whomever else I can drag into it!
Takeaways

• Accounting & Trust: It’s complicated!
• Complicated is good.
• Reviewers are good.
• Segues are good.
• Managerial Accounting Research is Fun! (TRUST ME)