

The Role of Accountability in Reducing the Impact of Affective Reactions on Capital Project Decisions¹

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Received: 2022/09/16

Accepted: 2023/02/19

Research Paper

INTRODUCTION AND PURPOSE

Capital project decisions often have a significant impact on the long-term success of an organization. This is due, in part, to the large financial outlays and extended time frames involved. It is crucial that independent and objective managers with the necessary expertise make decisions for potential capital projects. However, previous research has indicated that managers may exhibit systematic biases in their decision-making processes. When decision-makers are familiar with the manager proposing the project, their affective reaction to the manager can influence their investment decisions. Our research aims to examine the effect of affective reactions on capital project decisions and investigate whether individual accountability can mitigate this effect.

MATERIALS AND METHODS

We conducted an experimental study using a mixed 2*3 factorial design. The manipulated variables were affective reaction and accountability, while the dependent variable was the managers' decisions regarding the acceptance or rejection of an investment project. Our sample consisted of 84 professionals who were randomly assigned to three groups. Highly experienced accountants participated in the experiment. Participants were presented with a capital project scenario and asked to choose between two proposed capital projects. One project was economically preferred over the other based on net present value. Affective reactions were manipulated at three levels. In the first level, a positive affective reaction was induced by providing descriptions of the manager of the

1. DOI: 10.22051/JAASCI.2023.41241.1724

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economically non-preferred project. In the second level, a negative affective reaction was induced by providing descriptions of the manager of the economically preferred project. In both of these levels, no effective information was provided about the other manager proposing a project. In the third level (control condition), no effective information about the managers was provided.

RESULTS AND DISCUSSION

Our results indicate that individuals are more likely to select the economically non-preferred project when it is proposed by a manager who triggers a positive affective reaction. However, the introduction of accountability reduces this tendency. Additionally, participants are less likely to choose the economically preferred project when it is proposed by a manager who triggers a negative affective reaction. Accountability does not mitigate this tendency.

CONCLUSION

This research highlights how psychological factors can impact the quality of judgment and decision-making in the context of capital project decisions. Moreover, it demonstrates that accountability can alleviate the influence of these factors. Our findings have both theoretical and practical implications. Understanding the psychological factors that affect decision-making and implementing effective methods to improve decision-making processes contribute to the capital project literature. While previous research has established the influence of affective reactions on capital project decisions, there is limited evidence on how to mitigate this influence. Our research potentially provides a solution to enhance managers' capital project decisions. Individual decisions are influenced by their reactions to the proposing manager, which can lead to irrational choices. As anticipated, when managers are held accountable for their decision-making processes, the impact of positive affective reactions decreases. Therefore, companies should design policies and procedures that promote accountability and require decision-makers to explain the rationale behind their choices. Our findings suggest that overcoming the impact of a negative affective reaction to a manager proposing a capital project may be challenging. This challenge may stem, in part, from the perception that the behaviors triggering negative affective reactions are typically inconsistent with the norms and values of firms, and thus, are likely to be considered during decision-making processes.

Keywords: Affective Reactions, Accountability, Capital Project, Decision Making.

JEL Classification: M41, C90, D91.

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