

Exploring How an Entrepreneur's Cognitive Style and Level of Overconfidence Influence the Development of Management Accounting Systems

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Principal Topic

Entrepreneurs look to exploit profitable opportunities, however the novice entrepreneur faces many challenges, which can slow growth or even terminate the business. One such challenge is the development of management accounting systems (MAS). Insufficient MAS may restrict business growth, while inadequate MAS can lead to business demise. More recently, it has been argued that many New Economy Firms (NEFs) fail due to the "lack of proper management control systems" (Granlund and Taipaleenmaki 2005). At the other end of the survival spectrum, entrepreneurs who intend to, and succeed in, growing a business have been found to focus on internal, as well as external, business issues (Jenkins and Johnson 1997). The development of MAS is an internal business issue; therefore the available evidence suggests that the development of MAS is important to entrepreneurial success.

Recent MAS organizational life-cycle studies (Davila and Foster 2005; Granlund and Taipaleenmaki 2005), and small business MAS studies, recognize the role of the CEO or the owner-manager in the MAS development process, however none consider the influence of entrepreneurial behavior.

This lack of attention to the entrepreneur's influence on MAS development is recognized by Collier (2005), who provides details of a successful business where MAS development is considered a function of entrepreneurial control. Unlike much of the cited MAS research, many entrepreneurship scholars view the individual entrepreneur as an important focus of study, while others consider insights to entrepreneurial behavior to be critical in understanding business development.

Entrepreneurial behavior is considered more predictive of individual variation than personality, with entrepreneurial cognition research receiving considerable attention. Cognition has been found to vary across entrepreneurs in ways that may influence the outcome of their endeavours (Simon, Houghton et al. 2000) and can be viewed in terms of style or bias. Cognitive style is a person's "preferred way of gathering, processing and evaluating information" (Allinson, Chell et al. 2000). Two cognitive styles explored in the literature are rational (analytic) and intuitive decision-making.

Attention is also being given to the cognitive bias of overconfidence, where individuals "overestimate the correctness of their initial estimates" (Forbes 2005). In particular situations, overconfidence can increase the likelihood of venture initiation and start-up, however, it can also lead, subsequently, to inappropriate operational decisions and underperformance.

Methodology/Key Propositions

To explore how an entrepreneur's cognitive style and level of overconfidence influences the development of MAS we are conducting a two-stage study of Hong Kong entrepreneurs using: (1) a questionnaire survey; and (2) a set of face-to-face semi-structured interviews. This mixed methods research approach supplements survey-based data with detailed interview data providing information synergy and data verification (triangulation). The survey, which runs from April to September 2006, is designed to establish: (1) which entrepreneur characteristics may influence the development of MAS during the birth and growth phases of a business; (2) which combination of MAS components and resources are most commonly used to develop MAS during the birth and growth phases of a business; and (3) background information that will assist in further developing questions to be asked during the face-to-face interviews.

The survey data will be used to test a number of hypotheses linking the dependent variable of 'time to MAS adoption' (Davila and Foster 2005) to levels of intuitive and analytic decision-making and to levels

of overconfidence, moderated by: level of education; business ownership experience; industry experience; nationality; gender; and age.

Results and Implications

This interdisciplinary study is expected to contribute to both theory and practice.

From a theoretical perspective, while research has linked cognitive style to business success and cognitive bias to the likelihood of venture start-up, little attention has been given to how these two constructs influence mode of venture organizing. This study is designed to explore relationships between an entrepreneur's cognition and MAS development. More specifically, the findings will determine: (1) whether there is a relationship between levels of intuitive and analytic decision-making styles and the speed of MAS development; and (2) whether levels of overconfidence influence the speed of MAS development.

On a practical front, the findings are expected to assist entrepreneurs and their advisors in understanding more clearly the individual entrepreneurial characteristics associated with MAS development. This knowledge has the potential to contribute positively to the likelihood of venture survival and subsequent growth.

As described, it is envisaged that the entrepreneurship and accounting literatures will benefit from this interdisciplinary study into an area that, until now, has been overlooked.

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