6-9-2007

HOW ENTREPRENEURS INFLUENCE THE EVOLUTION OF MANAGEMENT ACCOUNTING SYSTEMS: THE ROLE OF DECISION-MAKING STYLE AND OVERCONFIDENCE (INTERACTIVE PAPER)

David A. Bruce
*University of South Australia, dabruce@netvigator.com*

Helen Thorne
*University of South Australia*

---

**Recommended Citation**

Principal Topic

A number of recent studies have explored links between entrepreneurial cognition and business performance, however little attention has been paid to the potential influence that cognition may have on internal business processes which, in turn, contribute toward business performance. This study explores the role of one particular internal business process, management accounting systems (MAS). Given that the effective use of MAS can positively contribute to business performance, we consider how an entrepreneur's decision-making style and level of overconfidence influence MAS development. Analytic decision-making involves conscious reasoning and deliberate rational thought, whereas intuitive decision-making relies on gut-feeling derived from previous experience and learning (Mitchell, Friga et al. 2005). The cognitive bias of overconfidence, where individuals “overestimate the correctness of their initial estimates” (Forbes 2005), can increase the likelihood of venture initiation and start-up, however, it can also lead, subsequently, to inappropriate operational decisions and underperformance.

Method

We conducted a two-stage, mixed methods study of Hong Kong-based entrepreneurs who had started, and continue to run, a business. The first stage was a survey of 120 respondents enquiring into personal and business characteristics. Factor analysis of intuitive and analytic styles, followed by multiple regression, was used to explore relationships among variables. The second stage involved 32 interviews when questionnaire responses were fed back for comment. Qualitative data analysis explored common patterns among interviewee responses.

Results and Implications

Our research shows that MAS evolution during the birth and growth stages of a business is positively influenced by an entrepreneur's level of analytic decision-making, which in turn has a positive mediating effect on business growth. No such relationship was observed with intuitive decision-making or overconfidence. These findings link cognitive behavior to mode of venture organizing and confirm previously held views on the role of analytic processing in entrepreneurial businesses (Olson, 1985). On a practical front, our findings will assist entrepreneurs and their advisors to better understand how entrepreneurial behavior influences MAS development and business growth. This will help entrepreneurs evaluate, and if necessary change, their behavior, thus contributing positively to the likelihood of venture survival and subsequent growth.

Contact: David A. Bruce; dabruce@netvigator.com; (T): 852-2504-2865; 17/8, 9, Mansfield Road, Hong Kong.