COVID-19: judgment and decision making on CSR

COVID-19: julgamento e tomada de decisão sobre a RSE

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ABSTRACT
Judgment and decision making (JDM) research in accounting focuses on the judgment and decision of prepares, user and auditor providers of financial and non-financial information, including sustainability information. The environment in which these judgment are made and how groups interact has changed substantially during the Covid-19 pandemic, ang likely post-pandemic. We focused on the impact these changes for corporate social responsibility (CSR) reporting, including manager decision on the preparation and use CSR information, and the effect of CSR reports and assurance on investors judgement.

Keywords: judgments and decision making, CSR reporting, COVID-19 pandemic.

RESUMO
A pesquisa de julgamento e tomada de decisão (JDM) em contabilidade se concentra no julgamento e na decisão de preparadores, usuários e auditores fornecedores de informações financeiras e não financeiras, incluindo informações de sustentabilidade. O ambiente em que esses julgamentos são feitos e como os grupos interagem mudou substancialmente durante a pandemia da Covid-19, provavelmente pós-pandemia. Concentramo-nos no impacto destas alterações na comunicação da responsabilidade social das empresas (RSE), incluindo a decisão do gestor sobre a preparação e utilização das informações RSE e o efeito dos relatórios e garantias RSE sobre o julgamento dos investidores.
1 INTRODUCTION

Subjective judgments are crucial in accounting practices, influencing decisions made by preparers, users, auditors, and providers of financial and non-financial information. The Covid-19 pandemic has significantly impacted these judgments, leading to new challenges and uncertainties (Cui et al., 2022). Accounting research has focused on judgment and decision-making (JDM) using experimental methods, examining judgments made by auditors and assurance providers. The COVID-19 pandemic has created long-term implications for health, economic stability, and the work environment, necessitating adjustments in judgments due to increased reliance on remote work arrangements and online interactions (Nasution et al., 2020, Ramadhany et al., 2022). The complexity of business transactions and evolving accounting standards further complicates the role of subjective judgments in accounting. Understanding the complex interplay between subjective judgments and financial and non-financial reporting will enable practitioners to make informed decisions and contribute to the stability and transparency of accounting practices. The Covid-19 has changed professional judgments and the way groups interact during the pandemic disease (AL-Kasasbeh et al., 2021). Predicted long-term effects on health, economic condition and the work environment (Brammer et al., 2020) have resulted in the need for accountants and auditors to make new judgments, and the judgments are made in an environment of far greater uncertainty.

The changes above need to be recognized by JDM researcher, as it is important to consider the changes currently impacting business in the pandemic environment, so that researchers are addressing important questions relating to these changes (Bapuji et al., 2020). It is also important to consider the post-pandemic environment so that research conducted now is beneficial for organization, accountants, and auditors adjusting to the changing environment post pandemic.

The basic aims of JDM research for both financial and non-financial reporting are to evaluate the quality of judgments by prepares, users and auditors; test which factors impact these judgments and under what circumstances; and determine the underlying cognitive process by which these judgment are made (Libby, 1981; Trotman, et al., 2011).
This paper addresses three key areas of judgement and decision making (JDM) research. First, how does the Covid-19 environment affect management’s decision on the preparation and use of CSR information. Second, how do Covid-19 related changes in the environment faced by auditors (including changes in how an audit is conducted) affect the research questions addressed and the design of audit JDM studies. Third, how do changes in the Covid-19 environment affect tasks completed by management accountants (including judgment on what to include in management accounting reports), managers use of management accounting reports and, in turn, the design of management accounting JDM Studies.

With respect to CSR reporting, we consider the impacts of Covid-19 on the judgments of prepares of CSR reports, as well as the JDM implications for managers and investors using CSR information. we also consider management’s judgments related to obtaining sustainability assurance and the type of assurance needed.

Second, we consider judgement and decision making (JDM)financial statements audit research during the pandemic. Prior to Covid-19, it was documented that companies were operating on an increasingly diverse and global scale with changing business models and that financial statements were requiring greater professional judgment and intuition under condition of uncertainty (Janrosl et al., 2022). These uncertainties also vary considerably between industries and organizations, and a challenge faced by JDM researchers is how internal and external validity are affected by the appropriateness od case materials used in prior studies where the content no longer holds in the pandemic environment.

Third, we consider the impact of significant business uncertainties resulting from the economic instability created by Covid-19 on the preparation of financial and non-financial information by management accountants, and JDM research examining managers use of this information. As organization seek to respond and re-establish their business positions, the ways in which business performance is managed, evaluated and controlled are being materially impacted, providing opportunities to consider the generalizability of JDM research finding in this area.

The budget development and negotiations process are being impacted with key players now contributing from remote work settings and often developing forecasts within virtual teams. With many organization already undertaking strategic cost management and seeking to understand the cost impact from sustainability initiatives
prior to the pandemic, Covid-19 has now significantly compressed decisions making time frames in this regard.

2 LITERATURE REVIEW

2.1 REPORTING OF CSR

These papers examine the impact of CSR information disclosures and presentation formats on investors judgments in the absence CSR assurance (Martin and Moser, 2016; Elliott et al., 2017; Bucaro et al., 2020) or the effect of CSR assurance on investors judgments (Brown-Liburd and Zamora, 2015; Elliott et al., 2020; Hoang and Trotman, 2021). This is somewhat surprising given CSR information is generally prepared by management accountants and is used by a range of stakeholders in additions to investors, including managers, customers and suppliers, in making business decisions.

In this section, we examine the potential impacts from the Covid-19 pandemic on the preparation, assurance and use of CSR information for JDM purposes. We consider both the implication of Covid-19 on extant JDM research in this area, and opportunities for future JDM research to inform our understanding of the role of CSR performance information during this period and in a post pandemic environment.

2.2 REPORTING OF CSR FOR MANAGERIAL DECISION MAKING

Corporate sustainability has evolved from reporting on environmental and social impacts at the periphery of an organization to managers now seeking to embed sustainability within their core business strategy (Grewal and Serafeim, 2020). Sustainable business management creates opportunities for business model innovations, new product markets, and value creation through supply chain management (Joshi and Li, 2016)

Some of the opportunities for future research examining managers preparation and use of CSR information include examining what motivates managers to pursue different sustainability strategies, how managers implement management control system to manage sustainability and how managers decide where and when to disclose CSR information, including relating to either profitable or unprofitable CSR investment (Hale et al., 2016, Joshi and Li, 2016., Grewal and Serafeim, 2020, Rahmi et al., 2022). As Mosher and Martin (2012) highlight, different aspects of CSR performance are likely to be the result of different managerial motivations, with the effects of different types of CSR on financial performance then likely to also vary.
In the context of Covid-19, research aimed at understanding managers CSR related motivations is particularly important. With the pandemic described as putting CSR to the test (Kramer, 2020). There are a range of potential. Positive financial impacts from sustainability efforts, including new product and service opportunities, shared value creations, product differentiations giving access to environmentally conscious markets, and preferential access to scarce resources (Joshi and Li; PwC, 2019)

The Covid-19 pandemic also highlights tension on delivering positive CSR outcomes across multiple performance areas; with many organizations experiencing negative financial and economic performance as lockdown conditions restrict revenue, and travel restriction limit supply chain movements; yet environmental outcomes are favourable with reduced use of workplace resources and fewer cars on roads, as many employees continue to work from home and social outcomes are mixed, as government seek to support high quality healthcare provision through the pandemic, while those who have been made redundant an the casualized workforce experience significant challenges in terms of mental health and wellbeing.

In a Covid-19 environment, where many organizations face financial difficulties, the need to demonstrate tangible outcomes from sustainability focused programs and initiatives is becoming increasingly important (Kramer, 2020). Future research can examine the design and decision making impacts of CSR reports and decision data (e.g. objective versus subjective measures, leading versus lagging measures, and short terms versus long term measures) to extend the work of Church et al., 2019 investigating the effect of financial versus non-financial presentation formats on CSR investment decisions.

2.3 CSR INFORMATION FOR INVESTOR TO MAKING DECISION

The current and extremely uncertain future economic conditions resulting from the Covid-19 pandemic, we do not yet know the extend to which sustainability activities and disclosures are considered important by investors. It is, however, likely that organizations perceived to have a sustainable business strategy that is resilient to unexpected shocks over the long term will be valued, and performance of sustainability initiatives, including the way in which CSR information is framed and investors own values influence the decisions they make when presented with this information (Gödker and Mertins, 2018, Muda et al., 2018).

JDM research in a Covid-19 environment necessitates considering whether the behavioral decisions theories traditionally used need to be refined to reflect changes in
the environment. That is not uncommon to test the boundaries within which theories predict behavior. As an example, Elliot et al (2014) suggest that CSR disclosure evoke affective reactions in investors, and there can be unintended influences of these affective reactions on investors estimates of fundamental value. Elliott et al draw on affect as information theory from psychology to predict that investors unintentionally use their affective reactions to CSR performance in making subsequent judgments.

Research examining theoretical boundary competitions created by the Covid-19 pandemic is important. For example, Guiral et al (2020) investigate two potential boundary conditions for the affect as information heuristic investigated by Elliott et al (2014), specifically the effects of the strategic importance of activities driving CSR performance. Research by Martin and Moser (2016) highlight the interactions between stakeholders, in the case investors and managers, that shape CSR disclosure choices.

Finally, it is important to acknowledge that with some organization favorably impacted by pandemic-related behaviors (retailer with increased demand for online shopping platforms) investors in those organizations may be experiencing significant wealth creations. In contrast, investors in organizations unfavorable impacted by pandemic related behavior (airlines with travel restricted during lockdown conditions) and those with lower job security may experience decreased wealth.

2.4 CSR REPORTS FOR ASSURANCE

While research on sustainability reporting has existed for decades, there has been increased research interest related to the assurance of CSR information as it has become common practice for large companies to have their CSR reports voluntarily assured (KPMG, 2013, 2017; Cohen and Simnett, 2015).

Prior to the Covid-19 pandemic, concerns have been expressed about the reliability of voluntary disclosed positive CSR information and the effect of this information on investors judgment (Elliot et al., 2014; Martin and Moser, 2016; Hoang and Trotman, 2021).

The most common issue related to CSR assurance addressed in prior research is the effect of assurance on the judgements of users. Previous experimental CSR assurance studies have examined the effect of CSR assurance on stock recommendation (Pflugrath et al., 2011), stock price estimates (Coram et al., 2009; Brown-Liburt and Zamora, 2015), investor willingness to invest (Cheng et al., 2015) and investors estimates of fundamental value (Hoang and Trotman, 2021). The second issue is the type of assurance chosen by
management. Either reasonable or limited assurance can be provided for assurance engagements on CSR information (ISAE 3000, IAASB, 2013).

Known about the value added by assurance on non-financial information in situation of poor financial performance and in some cases, where organizations are on the brink of collapse. In a Covid-19 environment, comparison between the potential benefits of sustainability assurance and the associated cost may be made using very different criteria and there may be more weight given to short-term considerations than long term.

The Covid-19 environment is also likely to affect how an assurance engagement is conducted and, therefore, the relevance of the case material used in an experiment to address questions related to CSR assurance needs to be considered. Another question to be addressed by CSR assurance providers is what are the incentives for management fraud in CSR reporting, and how will these impact the risk of material misstatement for CSR reports.

2.5 MANAGEMENT ACCOUNTING JUDGEMENT AND DECISION MAKING (JDM) RESEARCH

The pandemic has required many organizations to focus on identifying new growth strategies, as they experience declines in demand for goods and services, cash flow, their ability to pay operating expenses and access to credit. These challenging financial conditions have combined with changing customer needs and delivery modes, supply chain uncertainties due to lockdowns, travel restrictions and demand fluctuation, and significant workplace change during the pandemic. These Covid-19 related changes need to inform the questions researchers are addressing now and into the future, as well as the case materials used.

Much of the JDM (Judgement and Decision Making) research examining managers use of strategic performance information is situated in a hypothetical, store-based retail fashion organization (develop by Lipe and Salterio, 2000), with each business unit employing revenue growth and profit-focused strategies (see Salterio, 2012 for a review). With significant shift in strategic resulting from Covid-19, it is important for JDM research to examine the generalizability of theory and the resultant findings to changes in strategy (delivering a quality, online customer service experience, rather than a store-based experience; implementing a long-term strategy, with restricted budget for capital investment and training).
Similarly, JDM (Judgment and Decision Making) research in this area has tended to focus on minor variations between target and actual performance, while Covid-19 has seen organizations experience significant variations in performance from target (both positive and negative depending on the specific industry impacts from the pandemic). It is pertinent to understand how managers’ judgment are impacted by the way in which these significant variations in performance are presented.

With Covid-19 strengthening the need for managers to provide a comprehensive overview of business performance, organizations will need to combine strategic performance information with information from other key management accounting reports, including risk and CSR reports.

JDM research is beginning to investigate ways in which strategic performance information may variously be combined with strategic risk information (Cheng et al., 2018) and sustainability information (Kaplan and Wisner, 2009).

Taking a more operational focus, we consider the impacts of Covid-19 for JDM research on budget and forecast information. Budget are used for both planning (resources allocation) and control (performance evaluation) purposes; thus, providing decision facilitating and decision influencing information, respectively (Sprinkle and Williamson, 2007). During Covid-19, budgets, including performance targets, have shifted significantly, as the assumptions and forecast upon which they are based have been fundamentally challenged.

During the pandemic, managers and management accountant are revisiting prior year budget assumption and establishing new assumptions to develop forecast for zero-based budget (Broughton, 2020; Gartner, 2020). This highlights the importance of professional judgment in facilitating budgeting and forecasting process. Recent JDM research has begun to consider unintentional biases in the forecasting process (Chen et al., 2015).

Budgeting and forecasting process, including those related to sustainability expenditures, will also be impacted by the emergent changes in work practices, including working from home and virtual teamwork.

Finally, during the Covid-19 pandemic, understanding cost and structures and identifying opportunities for overhead reduction and strategic cost management has become a focal area for many organizations. While there is a long history of JDM research examining cost information, more recent research has focused on the impact on decision performance of factors including the type of costing system (Dearman and Shields, 2005;
Masschelein et al., 2012), level of aggregations in the definition of costing system activities (Cardinaels and Labro, 2008), and fit between cost report presentation format and cost accounting knowledge (Cardinaels, 2008).

Future JDM research examining the way cost information is presented and used for strategic cost management decision can offer valuable insight. Such research can include sustainability cost information, given the influence of environmental cost information on a range of business decision (product design, differentiation, costing, and pricing, Joshi and Krishnan, 2010) and potential business cost saving from lower input disruptions due to improved supply chain resilience and sustainability, (Joshi and Li, 2016).

3 METHODS

This study uses qualitative descriptive approach. Sources of data are obtained from various journal. Therefore, the methodology used is pure literature analyzation, evaluation, and drawn conclusion from theoretical analysis and discussion result, adding deeper insight to achieve a better understanding.

4 RESULT AND CONCLUSION

We have considered on this paper how the Covid-19 pandemic result in changes in the economic environment and work modes, which have direct effect on the design of JDM experiments in accounting. Most fundamentally, these changes affect the research questions that need to be addressed. The changing environment during the pandemic also raises important questions about the use of CSR reports both by managers and investors. Finally, the presence and level of assurance (limited versus reasonable) on investor judgment that need to be made by assurance providers are considered.

Having discussed the impact from Covid-19 on JDM research examining the preparation, use and assurance of CSR reports, we also look at the broader JDM research on audit and management accounting JDM.
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