Information Acquisition and Opportunistic Behavior in Managerial Reporting*

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1. Introduction

This study investigates whether discretion in information acquisition affects managerial reporting, enabling opportunistic self-interested behavior, which may erode firm value.[1] Information acquisition, including gathering, screening, and editing information, is an important aspect of the functioning of accounting systems (Ewusi-Mensah 1981; Hertog and Wielinga 1992; Woodward 1997). Organizations often delegate responsibility for information acquisition to local managers because, in today's industrialized environments, the effective acquisition of information requires the specialized knowledge and expertise of the local manager (Balakrishnan 1991; Choudhury and Sampler 1997). Such delegation also allows the manager to participate in the development and implementation of information systems, which may increase the manager's satisfaction and perceptions of procedural justice (Hunton and Gibson 1999; McGowan and Klammer 1997).

While there are benefits to discretion, we investigate a potential cost. Specifically, we investigate whether allowing managerial discretion results in more opportunistic reporting by managers. Prior analytical studies have investigated agency problems associated with managers who have discretion in information acquisition. However, these studies assume that the additional information has economic value and, therefore, they focus on the *contractual role* of information acquisition: for example, how the principal can induce the manager to acquire information (Conroy and Hughes 1987; Lambert 1986) or exploit the information choice of the manager (Antle and Fellingham 1995; Balakrishnan 1991). By comparison, our study focuses on the *behavioral effect* of information acquisition after controlling for its economic effect by ensuring that managers' wealth maximization is independent of the information.

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1. In the conventional economic sense, a self-interested individual is one who maximizes "his utility function, which depends only on his own consumption, and which determines all his choices" (Sen 1987, 80). In organizations, employees' goal of pursuing self-interest may or may not be congruent with organizational goals (Ouchi 1979). Prior accounting research has largely focused on situations in which these two goals are incongruent, whereby employees' self-interest maximizing behavior is often referred to as "opportunistic" (Chua 1986; Rankin et al. 2008; Tiessen and Waterhouse 1983). This notion is consistent with Williamson et al.'s (1975, 258-59) definition of opportunism as "an effort to realize individual gains through a lack of candor or honesty in transactions" and "self-interest seeking with guile."

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Our basic experimental setting is one in which participants self-report their earnings and are paid based on their reports. We use this simple and straightforward approach to investigate honesty because it makes the implications of misreporting transparent and obvious to our participants. Other studies (e.g., Evans et al. 2001; Hannan et al. 2006) have investigated honesty in a production setting where participants report budgeted production costs and are paid based on their reports. Both settings have comparable structures in that participants are incentivized to inflate their reports and use a "trust contract," whereby the firm trusts the manager to report in good faith, rather than mechanisms such as hurdles (Antle and Eppen 1985) or audits to induce truthful reporting. We do not use a production setting in our experiments because inflating budgets may be justified as conventional practice (Jensen 2001) and, thereby, provide a means for participants to legitimize misreporting. Such a legitimizing referent could weaken our ability to attribute individual differences in reporting behavior to honesty preferences. We use a trust contract because it allows us to investigate the role of behavioral factors in mitigating agency problems when participants have strong economic incentives to behave opportunistically.

Conventional economic theory predicts that, because wealth-maximizing reports are independent of the actual state in our setting, discretion in information acquisition should have no effect on managers' reporting behavior. To the extent that managers have preferences for honesty as well as wealth, however, such discretion may affect their reporting behavior. Discretion allows managers to design or manipulate the information system to remain ignorant of relevant information. Prior research (Dana et al. 2006; Dana et al. 2007) suggests that, by remaining ignorant, the manager can rationalize maximizing personal wealth without feeling guilty about violating social preferences. As a result, we predict that managers will be more likely to report opportunistically (i.e., exaggerate resources needed at the local level) with discretion than without discretion.

We empirically investigate whether discretion leads to more opportunistic reporting via two experiments. In both experiments, we manipulate discretion by either automatically providing participants with private information about the actual state or allowing participants to choose whether to acquire costlessly such information before submitting their reports. Results of Experiment One show that, contrary to our predictions, discretion does not affect the overall level of reporting. However, the data suggest that individual differences (i.e., ethical type) affects whether participants choose to exploit the opportunity afforded by discretion in information acquisition. Therefore, we conduct Experiment Two to investigate the role of individual types.

Prior accounting research (e.g., Koford and Penno 1992; Luft 1997; Evans et al. 2001; Mittendorf 2006; Rankin et al. 2008) recognizes that individuals vary in terms of their preferences for honesty. Such individual differences affect the outcome of the decision when the reporting environment requires managers to trade off their preferences for honesty and wealth. We distinguish among three types of managers in Experiment Two: (1) managers with a low honesty preference such that they resolve the trade-off in favor of wealth maximization; (2) managers with a high honesty preference such that they resolve the trade-off in favor of honesty; (3) managers with a moderate honesty preference such that they resolve the trade-off by reporting neither to maximize wealth nor to be completely honest.[2] We contend that managers with low or high honesty preferences will not be affected by discretion in information acquisition. However, managers with moderate

2. No consistent terminology for identifying these types has emerged in the accounting literature. For example, Koford and Penno (1992) refer to "economic" and "ethical" types whereas Mittendorf (2006) refers to "preferences for honesty," "pure self interest," and "conflicting priorities," and Luft (1997) refers to the weight placed on the preference for honesty to describe individual differences. We borrowed the terms "low honesty preference" and "high honesty preference" from Rankin et al. (2008) and derived "moderate honesty preference" type.

honesty preferences will tend to exploit discretion. By not acquiring information, these managers will avoid the psychological discomfort associated with being knowingly untruthful, and, therefore, report more opportunistically.

Results of Experiment Two are consistent with our predictions. The reporting behavior of participants identified as low honesty preference or high honesty preference type is not affected by discretion in information acquisition. In contrast, a significant portion of the participants identified as moderate honesty preference type choose not to acquire information and report more in line with wealth maximization compared to when they do not have discretion.

Our findings have important implications for management control research and practice. We extend prior research on managerial reporting by examining the effect of discretion in information acquisition on reporting behavior. Conventional economic theory predicts that, in settings like ours, granting discretion in information acquisition should have no effect on managers' reports. We develop theory to predict that discretion is likely to affect reporting behavior because it allows managers to increase their wealth without being knowingly untruthful. We also extend this stream of research by considering individual differences. A growing body of accounting research has examined how managers' individual/personal characteristics influence their ethical decision making. For example, Seybert (2010) finds that managers who are high self-monitors are more likely to protect their reputations by manipulating earnings. Hobson et al. (2011) find that managers' personal values affect their judgment regarding the ethicality of budgetary slack creation. Our results add to this literature by showing that certain types of managers are more likely than others to avoid relevant information and report opportunistically and, as a result, the overall efficiency of the organization's resource allocations may be affected.

Scholars have suggested that in specific organizational environments, such as when contracting upon output is difficult, an effective control mechanism is the selection of employees who possess personal attributes that are in line with the firm's objectives (Campbell 2012; Merchant 1985). Consistent with this perspective, Fischer and Huddart (2008) show analytically that firms can benefit by considering ethical type when designing the organizational structure. Our study suggests another means through which firms may benefit by considering ethical type. Specifically, our findings suggest that firms should consider managers' ethical type when delegating decision rights and disseminating information within the organization.[3] If firms are unable to employ mechanisms to identify managers' ethical type, then firms should recognize that managers' ability to exploit opportunities afforded by discretion in information acquisition is a potential cost when weighing the costs and benefits of assigning decision rights to managers.

The remainder of the paper is organized as follows. The second section presents the framework, hypotheses, research method, results, and discussion for Experiment One. The third section presents the framework, hypotheses, method, and results for Experiment Two. In the fourth section, we conclude with a summary of the findings and a discussion of the implications of our study.

2. Experiment One

The primary research question investigated in this study is whether discretion in information acquisition increases opportunistic behavior in managerial reporting. This section provides background and develops theory related to this question. Results of Experiment One

3. For example, some firms use psychological or behavioral measures (e.g., integrity tests) to help identify managers predisposed to report truthfully (Murphy 1993). It should be noted, however, that although there is evidence that using such measures reduces counterproductive behavior and increases job performance (Brown et al. 1987; Ones et al. 1993), there are also concerns about the validity of those measures and their vulnerability to manipulation and biases (see, e.g., Guastello and Rieke 1991).

indicate that our theory should be modified to reflect the impact of individual type, and this modification is incorporated into the theory developed for Experiment Two. Notably, the underlying theory developed in this section applies to both Experiments One and Two, as does the description of the basic experimental setting.

Framework and hypothesis development

Background

Prior experimental studies have examined honesty in managerial reporting using a principal–agent (i.e., firm–manager) dyad whereby the manager is provided with private information on local production costs and submits a budget report to the firm. The manager's budget is approved with certainty, and thus, the manager benefits to the extent that production costs are inflated (i.e., the manager keeps the difference between the budgeted and actual costs).[4] Evans et al. (2001) find that, contrary to conventional economic theory, managers often do not inflate their reports to the maximum possible level. Other experimental studies, in which the manager reports productive capacity, also find that managers' behavior deviates significantly from wealth maximization; that is, budgetary slack is well below the maximum amount (Chow et al. 1991; Waller 1988). Prior studies also provide evidence that the level of honesty or slack is affected by behavioral factors such as managers' reputational or ethical concerns (Stevens 2002; Webb 2002), social pressure to appear honest (Hannan et al. 2006; Young 1985), fulfillment of psychological contracts (Krishnan et al. 2012), communication of firm preferences (Newman 2013), and ability to rationalize misreporting by sharing slack with others (Church et al. 2012). Our study investigates whether the ability to remain ignorant of relevant information affects the extent to which managers report opportunistically.

Discretion in information acquisition and reporting behavior

The self-consistency model in social psychology (Aronson 1992, 1999; Steele 1988) asserts that individuals desire to have a positive self-concept and that behaving inconsistently with self-concept entails a psychological cost, such as cognitive dissonance (Festinger 1957). Relatedly, self-concept maintenance theory (Mazar et al. 2008) suggests that when individuals have competing motivations between taking opportunistic actions for financial gain and maintaining a positive self-concept, they often seek a compromise by categorizing their actions in more compatible terms (e.g., by finding rationalizations for their actions). Such categorization allows individuals to avoid triggering negative self-signals, thereby protecting self-concept (Mazar et al. 2008).

Consistent with this notion, research in psychology and economics finds that individuals often choose which input to attend to in a self-serving manner. For example, employees with low performance expectations avoid performance feedback that might hurt their self-esteem (Northcraft and Ashford 1990), and individuals shun situations that may elicit their empathy or concern for others if such empathy or concern compels them to incur a cost to care for others (Dana et al. 2006; Dana et al. 2007; Shaw et al. 1994). However, these studies do not speak to honesty in managerial reporting because they focus on other psychological factors (i.e., self-esteem; fairness concerns; impression management). In accounting research, Schwartz and Wallin (2002) find that subordinates lie more when they can set the probability for an information system to generate false reports. Their study differs from ours because participants in their setting always make a definitive choice of whether to lie (i.e., whether to set the probability at zero). In contrast, our study gives participants opportunities to remove that definitiveness, blurring the boundaries of a "lie,"

4. Other studies (e.g., Brüggen and Luft 2011; Hannan et al. 2010; Rankin et al. 2008, 2003) allow the principal to reject the agent's budget report. Therefore, the agent benefits to the extent that the budget is inflated, conditional on the principal accepting the report.

and we focus on how such opportunities influence their reporting behavior. Schwartz et al. (2013) investigate superiors' self-serving manipulation of a production hurdle system (i.e., a system under which budgets above the hurdle will be automatically rejected) and find that superiors set high hurdles such that inflated budgets can be accepted (thereby increasing their wealth) without "interruption" from their visceral emotions. Although Schwartz et al. (2013) is similar to our study in that it investigates the avoidance of information, its focus is on information avoidance by superiors rather than subordinates and, as such, does not provide insight into how information avoidance by the manager making the report may affect honesty.

In many budgeting and reporting settings, wealth-maximizing reports require lying. Managers who have utility for honesty incur psychological costs when they lie and, thus, must trade off utility for wealth and disutility from dishonesty when making their reports (Luft 1997). Discretion in information acquisition may provide managers with the opportunity to suppress the psychological costs associated with lying by avoiding information that would clearly indicate that they were lying. Consistent with this notion, prior research finds that uncertainty in available information increases the elasticity (i.e., justifiability) of individuals' self-serving behavior and, consequently, exacerbates such behavior (Schweitzer and Hsee 2002).[5] In our setting, by not acquiring information, managers can exploit the opportunity discretion affords by remaining ignorant of the actual level of misrepresentation. Such ignorance may allow them to maintain a positive self-concept while simultaneously reporting so as to increase their wealth. Therefore, we expect that when given discretion, managers will choose to avoid relevant information and report opportunistically. In contrast, managers who do not have discretion (i.e., those who are directly provided with relevant information) can only inflate their reports by knowingly doing so. Such misreporting may reflect poorly on self-concept, and Mazar et al. (2008) suggest that individuals curtail misreporting in order to maintain a positive self-concept. Therefore, we expect that when managers do not have discretion in information acquisition, self-concept concerns constrain their opportunistic behavior. Accordingly, we predict that managers who have discretion in information acquisition are more likely to report opportunistically so as to increase their wealth than managers who do not have discretion. We formally state this prediction in the following hypothesis:

> Hypothesis 1. *Managers who have discretion in information acquisition will report more opportunistically than managers who do not have discretion.*

Method

Experimental setting and design

The experimental setting is a reporting task in which participants can maximize their wealth by reporting the maximum allowable amount. Specifically, participants act as an employee of a company that distributes frequent bonuses based on job performance. The company's bonus earnings for each employee follow a uniform distribution ranging from \$5 to \$25 in whole dollar amounts. The company's accounting records that track bonuses for the most recent pay period have been destroyed, and therefore, the company has requested employees to self-report their bonus earnings. The employee maintains a separate set of records that details the employee's bonus. This information is private, known only by the employee, and is costless to obtain. The company does not know the employee has this private information. The employee reports a bonus amount and will be paid based

5. In Schweitzer and Hsee's (2002) experiments, participants do not have discretion in information acquisition and the level of information uncertainty (high or low) is exogenously imposed by the experimenter.

on the reported amount. The employee may report any whole dollar amount from $5 to $25, inclusively. Because the actual bonus amount is private information, the company will never learn whether the employee reported an amount that exceeds the actual bonus.

As discussed earlier, prior honesty studies typically use a production setting whereby participants submit a budget report. However, because inflating budgets may be justified as conventional practice (Jensen 2001) and, thereby, allow participants to justify their actions even absent discretion, we modified the setting to make lying less justifiable. This facet is particularly important for our study because, given our research objective, we need a decision setting in which one "ought to" report truthfully so as to generate sufficient anticipated guilt for misreporting and, in turn, provide motivation for participants to exploit discretion in information acquisition to avoid such guilt. We note that our setting features the same primary agency conflicts as present in the production budgeting settings used in prior research and thus captures the economic substance of those settings.

The experimental design consists of two between-participant conditions. In one condition, participants do not have discretion in information acquisition and are automatically provided with the actual bonus information, after which they report a bonus amount. We refer to this condition as No-discretion. In the other condition, participants have discretion in acquiring the actual bonus information. We refer to this condition as Discretion. If participants decide to acquire the information, they are provided with the actual amount of the bonus, after which they report a bonus amount. If participants decide not to acquire the information, they report a bonus and never learn the actual amount.

Participants and procedures

Fifty-four undergraduate students enrolled in various majors at a public U.S. university were recruited to participate in the experiment (28 in the No-discretion condition and 26 in the Discretion condition). The average age of the participants is 21 years, and 67 percent are male. The participants' gender, age, and area of study do not differ significantly across the two experimental conditions.

The experiment was conducted in a computerized research laboratory. Each participant sat at a computer surrounded on three sides by solid partitions, which prevented participants from seeing each other's screens. At the beginning of the experiment, instructions were distributed in hard copy and read aloud by an administrator. The instructions explained the experimental setting and reporting task as described above. All participants took the role of the employee.[6]

The instructions stated that the administrator would not be able to learn the actual amount of any participant's bonus during the experiment and that each participant's decision would be kept completely anonymous during and after the experiment. After the instructions were read, each participant was given a unique participant code, which was used to log into the experimental site on the computer. To ensure that participants fully understood the instructions, they were required to score 100 percent on a quiz before beginning the actual experiment.

6. We chose not to have participants take the role of the firm because it would potentially introduce distributional concerns (e.g., fairness or equity). That is, the employee-participant's reporting decision might be affected by the extent to which resources are taken away from another participant who is randomly assigned to act as the employer (Rankin et al. 2008). In actual employment contexts where there exists a hierarchy of residual claimants extending from the immediate supervisor to the shareholders, it is unlikely that distributional concerns would have a similar effect. We acknowledge that in organizational settings where the consequences of decisions on others are more direct and salient, opportunism may be lower; however, we are aware of no theory that would predict an interactive effect with discretion. Further, Dana et al. (2007) find that individuals are willing to avoid information in settings where their decisions have consequences for others.

After the quiz, the computer program randomly determined the actual amount of each participant's bonus from the uniform distribution of $5, $6, …, $25. The next step differed depending on the experimental condition. In the No-discretion condition, the actual bonus was displayed on the screen, and then the participant reported his or her bonus by entering an amount on the computer. In the Discretion condition, the participant was asked whether he or she wanted to learn the actual bonus amount. If the answer was yes, the actual bonus amount was displayed on the screen; otherwise, no additional information was provided. In either case, the participant then reported his or her bonus by entering an amount on the computer.

Next, all participants completed a post-experiment questionnaire. Finally, participants used their unique participant code to receive their pay. They were paid in private in a separate room by an assistant who had no knowledge of the experiment or access to the actual bonus information. Each participant received cash equal to his or her bonus report.

Results

Descriptive statistics

To assess whether participants report in an opportunistic manner, we modify a measure used by Evans et al. (2001). The measure, referred to as *WM* (for wealth maximization), is computed as (reported bonus – actual bonus) / (25 – actual bonus).[7] *WM* takes a value from zero to one and represents the extent to which participants report opportunistically. If a participant reports the maximum bonus amount of $25, the value is one. If a participant reports the actual bonus amount, the value is zero. Values between zero and one represent participants who report an amount above the actual bonus but less than the maximum amount possible.[8] Panel A of Table 1 reports the mean and standard deviation of *WM* for the No-discretion and Discretion conditions. For the Discretion condition, we report the data across all participants, as well as partitioned by whether participants acquired the actual bonus information.

Test of Hypothesis 1

Hypothesis 1 predicts that managers who have discretion in information acquisition will report more opportunistically than managers who do not have discretion. Therefore, we expect *WM* will be higher in the Discretion than in the No-discretion condition. To test Hypothesis 1, we regress participants' *WM* on a dummy variable *Condition* (which equals one if the condition is Discretion and zero otherwise). We control for the participant's actual bonus because it is possible that a participant's report is affected by how much could have been earned without lying. As reported in panel B of Table 1, results show that the level of *WM* does not differ significantly ($p = 0.659$) between the No-discretion condition (0.61; see panel A of Table 1) and the Discretion condition (0.56).[9] Therefore, Hypothesis 1 is not supported. Further inspection of the data, however, reveals that the *WM* of participants in the Discretion condition varies dramatically based on their information acquisition decision. As reported in panel A of Table 1, 13 of 26 participants (50 percent) chose not to acquire information. Controlling for the actual bonus, the *WM* of

7. When unaware of the actual bonus (i.e., when participants in the Discretion condition do not acquire information), the theoretically unbiased estimate of the actual bonus is its expected value (i.e., 15). We note that all participants who chose not to acquire information reported a bonus greater than 15, suggesting that they were inflating their reports. For robustness, we repeated the analyses after replacing the actual bonus with 15 in the calculation of the *WM* measure for participants who chose not to acquire information. Statistical inferences are unaffected. We also re-ran the analyses using the raw, reported bonus amount as the dependent measure and statistical inferences are unchanged.
8. We repeated our analyses using an alternative measure of opportunistic behavior (i.e., slack), which is computed as reported bonus – actual bonus, and statistical inferences are unchanged.
9. Reported *p*-values are two-tailed unless otherwise specified.

TABLE 1
Descriptive statistics and hypothesis test for Experiment One

Panel A: Descriptive statistics

No-discretion condition		Discretion condition	
All participants (all acquired; $N = 28$)	0.61 [0.47]	All participants: ($N = 26$)	0.56 [0.45]
		Acquired: ($N = 13$)	0.18 [0.32]
		Did not acquire: ($N = 13$)	0.93 [0.14]

Panel B: Regression results

Independent variables	Coefficient	Std. error	*t*-statistic	*p*-value
Intercept	0.82	0.20	4.08	< 0.001
Condition	−0.06	0.13	−0.44	0.659
Actual bonus	−0.01	0.01	−1.12	0.267
N	54			
R^2	0.03			
Model *F*-statistic	0.73			
Root MSE	0.46			

Notes:

In panel A, the cell data report the mean and [s. d.] of *WM* (our measure of wealth maximization), computed as (reported bonus – actual bonus) / (25 – actual bonus). The No-discretion condition consists of one period in which participants are shown the actual bonus amount before reporting. The Discretion condition consists of one period in which participants choose whether to acquire the actual bonus information before reporting. In Panel B, we report a regression analysis using *WM* as the dependent variable. *Condition* is a dummy variable that equals one if the condition is Discretion and zero otherwise. *Actual bonus* is included to control for the effect of the randomly determined bonus on *WM*.

these participants (0.93; see panel A of Table 1) is significantly *higher* ($p = 0.031$) than that of the No-discretion condition (0.61). On the other hand, 13 of 26 participants chose to acquire information. Controlling for the actual bonus, the *WM* of these participants (0.18) is significantly *lower* ($p = 0.007$) than that of the No-discretion condition (0.61).

Discussion

The results of Experiment One do not support our prediction that discretion in information acquisition, on the whole, affects the level of opportunistic reporting. Further inspection of the data, however, suggests that the preference for honesty varies considerably among participants. For example, in both the No-discretion and Discretion conditions, a portion of participants reports the actual bonus (36 percent in No-discretion and 31 percent in Discretion), while another portion reports so as to maximize wealth (54 percent and 42 percent, respectively). Prior accounting research (e.g., Evans et al. 2001) also provides evidence of heterogeneity in the reporting behavior across individuals. Specifically, three distinct patterns of reporting behavior emerge: some always report the actual state, others always report to maximize wealth, and still others report somewhere in the middle. Salterio and Webb (2006) suggest that the desire to report truthfully is an individual-level characteristic, which can account for differences in reporting patterns (see also Koford and Penno 1992; Stevens 2002).

For testing Hypothesis 1, participants' predisposition to report a certain way may obscure the predicted effect of discretion in information acquisition on reporting behavior. As

elaborated in the next section, participants who are predisposed to report truthfully because they have a high honesty preference need to know the actual bonus to do so and, thus, must acquire information. By comparison, participants who are predisposed to maximize wealth because they have a low honesty preference may be indifferent about whether to acquire the information because it is irrelevant to their reporting decision. That is, the reporting behavior of these two types of participants may be unaffected by discretion in information acquisition. On the other hand, participants who are neither predisposed to maximize wealth nor predisposed to report truthfully are influenced by both a preference for wealth and a preference for honesty as they trade off the utilities of these two preferences. It is this type of individual who would likely be influenced by discretion in information acquisition because it affords them the ability to report opportunistically without knowingly being untruthful.

Our results from Experiment One suggest that it is important to take into account individual-level differences to understand fully how participants make information acquisition decisions. Therefore, we conduct a second experiment to investigate how individual differences affect information acquisition decisions and reporting behavior. Prior research suggests that insight into individual differences is important for understanding ethical decision making (Detert et al. 2008; Koford and Penno 1992; Prehn et al. 2008).

3. Experiment Two

Framework and hypothesis development

Baiman and Lewis (1989) note that, inconsistent with standard agency theory, individuals exhibit different predispositions for truthful reporting and thus call for research that incorporates such predispositions into accounting models of communication. Subsequent research has considered these predispositions in modeling reporting behavior. For example, Luft (1997) and Mittendorf (2006) assume that managers derive disutility from being dishonest and the magnitude of disutility varies by individual.[10] When making reporting decisions, managers trade off their utility for wealth with their disutility from dishonesty.

Consistent with this perspective, we contend that while managers derive utility from wealth, they also experience different levels of disutility from dishonesty. That is, managers have different preferences for honesty, which makes them predisposed to report a certain way. This viewpoint is also consistent with prior research suggesting that individuals' moral judgments are influenced by their personal values (Hobson et al. 2011). It should be noted that individuals' preferences for honesty can vary depending on how they morally frame a specific decision setting (Jones 1991) or what they perceive the social norm to be for that setting (Bicchieri 2006). As mentioned earlier, in this study we use an experimental setting that increases the likelihood that the injunctive norm is reporting truthfully.[11]

For managers who have a low honesty preference, the honesty preference is outweighed by the preference for wealth, and therefore the managers are predisposed to report so as to maximize wealth (Mittendorf 2006). In turn, they are affected little by situational factors such as discretion in information acquisition. Because the actual bonus plays no role in their reporting decision in our setting, they are indifferent about whether to acquire the actual bonus information before reporting. Some may choose to acquire the information and others may choose not to, but regardless they will report the maximum allowable amount.

For managers who have a high honesty preference, the honesty preference outweighs the preference for wealth, and therefore the managers are predisposed to report truthfully. These managers are not expected to manipulate information acquisition to self-justify

10. Stevens and Thevaranjan (2010) make a similar assumption in discussing solutions to the moral hazard problem.

11. Social norms can be classified as injunctive (i.e., what one should do) and descriptive (i.e., what others do) (Cialdini et al. 1991). In our setting, participants have no information about others' behavior and thus no knowledge of the descriptive norm.

misreporting because such behavior indicates "moral laxity" or "moral backsliding" and fails to fulfill their absolute, determinate moral goals (Buchanan 1996). For them, reporting anything other than the actual amount will create psychological discomfort, and the opportunity to remain ignorant of relevant information will not mitigate such discomfort (e.g., Prehn et al. 2008). Hence, they are expected to acquire information and report truthfully.

The third type of manager is likely to have greater difficulty in determining the amount to report because they have a moderate level of honesty preference and thus often swing between pursuing wealth and preserving honesty (Brickley et al. 1997; Mittendorf 2006). These managers are different from those with a low honesty preference in that they are sensitized to the moral aspects of the reporting context. However, they also are different from those with a high honesty preference because their preference for wealth tempts them, and thus, they may lack sufficient moral motive to report the actual amount (Jones 1991). Overall, these managers desire to maximize wealth but are dissuaded by concerns over psychological discomfort resulting from misreporting.

For managers with a moderate honesty preference, the actual information can play an important role in their reporting decision. When directly given relevant information, they often misreport up to a point but not to the full extent allowable (Evans et al. 2001; Goldstone and Chin 1993; Mazar et al. 2008) because psychological discomfort (e.g., violation of self-concept) tempers any further misreporting. While psychological discomfort can curb misreporting to some degree, these managers are still tempted by gains in wealth. Consequently, a means allowing them to report so as to increase wealth, while simultaneously rationalizing their behavior, provides a possible solution to the moral dilemma they face (Batson et al. 1997; Shu et al. 2011; Tsang 2002).

Discretion in information acquisition can create a means to rationalize behavior because it provides managers with a moderate honesty preference an opportunity to suppress the psychological discomfort associated with knowingly misreporting. However, whether they will exploit this opportunity by not acquiring information will depend on the extent to which such psychological discomfort can be reduced by information avoidance. Specifically, some managers may believe that the knowledge of the actual information is a necessary condition for lying to occur (Fingarette 2000), and therefore the absence of the actual information will alleviate psychological discomfort (as compared to knowingly lying). Managers with this belief will exploit discretion by avoiding relevant information and report so as to increase their wealth. Other managers, however, may believe that lying does not presuppose the knowledge of the actual information and can occur even when "one really does not seem to know but nevertheless *ought* to know the truth" (Solomon 1993, 35, emphasis in original). For managers with this belief, choosing not to acquire the actual information will not substantially reduce the psychological discomfort associated with misreporting. Therefore, these managers would not avoid the actual information and their behavior will not differ with or without discretion in information acquisition.

In summary, we expect that managers with low honesty preferences will always report the maximum allowable amount, regardless of their information acquisition decision; and managers with high honesty preferences will always acquire information and report the actual amount. In contrast, we expect that managers with moderate honesty preferences who choose not to acquire information will be more likely to report so as to increase wealth than when they have no discretion in information acquisition.[12] We formally state our hypotheses as follows:

12. We do not have a strong theoretical basis to predict whether the reporting behavior of the moderate honesty preference types who acquire information will be different than when they have no discretion. Therefore, we do not propose any hypothesis for this subgroup, but rather empirically examine their behavior in our data analyses.

HYPOTHESIS 2a. *When given discretion in information acquisition, the reporting behavior of managers with low honesty preference will be the same as when they have no discretion in information acquisition, regardless of their information acquisition decision.*

HYPOTHESIS 2b. *When given discretion in information acquisition, managers with high honesty preference will acquire information and their reporting behavior will be the same as when they have no discretion in information acquisition.*

HYPOTHESIS 3. *When given discretion in information acquisition, the reporting behavior of managers with moderate honesty preference who choose not to acquire information will be more opportunistic than when they have no discretion in information acquisition.*

Method

Experimental design

Experiment Two uses the same experimental setting and task as Experiment One; however, we manipulate discretion in information acquisition within-participant. In the first phase of the experiment, participants do not have discretion in information acquisition (referred to as the No-discretion phase). The actual bonus is shown directly to all participants, after which participants report an amount to the firm as their bonus earnings. Participants repeat this procedure for five independent periods (i.e., they report five times). The purpose of the No-discretion phase is to assess each participant's type, that is, whether the participant has a low honesty preference, a high honesty preference, or a moderate honesty preference. Having participants make five independent reporting decisions increases the reliability with which we can assess their type. Participants who have a strict preference for wealth maximization (low honesty preference) or truthful reporting (high honesty preference) should exhibit consistent behavior over time. By including multiple periods, we minimize the possibility of misclassifying participants' type.

After completing the No-discretion phase, all participants enter into the second phase in which they are given discretion in information acquisition (referred to as the Discretion phase). In the Discretion phase, participants first choose whether to acquire the actual bonus information and then report an amount as their bonus earnings to the firm. The second phase of the experiment consists of one period (i.e., participants report once). We limit the Discretion phase to a single period in order to be consistent with Experiment One.[13]

Participants and procedures

Sixty-nine undergraduate students enrolled in various majors at the same university as Experiment One participated in Experiment Two. The average age of the participants is 21 years and 58 percent are male. Instructions for the No-discretion phase were

13. We could have maintained a between-participant design by administering a pre-experimental instrument to identify individual type (e.g., using a certain personality inventory) and then assigning participants to the two conditions: No-discretion and Discretion. We chose to use a within-participant design because we are concerned that "type," as determined by such an instrument, may not carry over to the experimental context. Prior research provides evidence that the expression and manifestation of individual characteristics are context specific (Brown 2009; Dohmen et al. 2011; Koutsos et al. 2008). In addition, type classification based on observed behavior is arguably more reliable than that based on responses to hypothetical questions.

distributed and read aloud. Experimental procedures were the same as those in the No-discretion condition in Experiment One, except that participants were told that the experiment would be repeated for several independent periods, but were not told how many periods. They also were informed that one period would be randomly chosen to determine their cash payment. At this point, participants were not aware that the Discretion phase would be conducted later.

After the five periods were completed, participants were asked to pause. Next, instructions for the Discretion phase were distributed and read aloud. Experimental procedures were the same as those in the Discretion condition in Experiment One. Participants were told that the Discretion phase would be conducted for only one period, after which the experiment would end. Finally, one period out of all six periods was randomly selected to determine each participant's cash payment and participants were paid in private by an assistant who had no knowledge of the experiment.[14]

Results

Participants' types and descriptive statistics

We examine participants' reporting behavior in the No-discretion phase to assess their type. We compute the mean *WM* over periods 1–5 for each participant. Participants with mean *WM* of one always report the maximum amount and are classified as low honesty preference type. Participants with mean *WM* of zero always report the actual bonus and are classified as high honesty preference type. Finally, participants with mean *WM* between zero and one are classified as moderate honesty preference type. In Experiment Two, we classify 33 participants (47.8 percent) as low honesty preference type, 11 (15.9 percent) as high honesty preference type, and 25 (36.2 percent) as moderate honesty preference type.[15] Table 2 reports the mean and standard deviation of *WM* in the No-discretion and Discretion phases, partitioned by participants' type and whether they acquired the actual bonus information in the Discretion phase.

Participants' responses to the post-experiment questionnaire provide credence to our classification of types. Participants indicated in the questionnaire the extent to which they believed people have agreement about what one should do (i.e., what amount to report) in the No-discretion phase, using an 11-point Likert scale with 1 = "there is a great deal of disagreement" and 11 = "there is a great deal of agreement." An ANOVA test shows that the rating is significantly different ($p = 0.003$) across the three types. Post hoc LSD tests further reveal that the rating of the moderate honesty preference type (4.2) is significantly lower than the ratings of the low honesty preference (5.4; $p = 0.063$, one-tailed) and the high honesty preference (7.8; $p = 0.001$) types. In addition, the rating of the high honesty preference type is significantly higher ($p = 0.015$) than that of the low honesty preference type. These results show that the moderate honesty preference type of participant perceives the reporting decision as an issue with less social consensus than do the other two types. This finding is consistent with research suggesting that individuals who take a nondeontological perspective in ethical decision making are more likely to view moral issues as being flexible and arbitrary (Buchanan 1996; Scott 2000).

14. To facilitate comparisons across participants, actual bonus amounts were randomly chosen in advance for each of the six periods in Experiment Two. That is, each participant received the same set of actual bonuses in the same order. The actual bonus amounts were \$14, \$9, \$18, \$10, \$21, and \$16 in periods 1 through 6, respectively.

15. Over the five periods of the No-discretion phase, there is no statistically significant trend for the *WM* of any of the three types of participants, suggesting that the reporting behavior of each type is stable.

TABLE 2
Descriptive statistics for Experiment Two

	No-discretion phase		Discretion phase	
	Acquired information in the Discretion phase	Did not acquire information in the Discretion phase	Acquired information	Did not acquire information
Low honesty preference (N = 33; 47.8%)	1.00 [0.00] (N = 18; 54.5%)	1.00 [0.00] (N = 15; 45.5%)	1.00 [0.00] (N = 18; 54.5%)	1.00 [0.00] (N = 15; 45.5%)
High honesty preference (N = 11; 15.9%)	0.00 [0.00] (N = 11; 100%)	n/a	0.00 [0.00] (N = 11; 100%)	n/a
Moderate honesty preference (N = 25; 36.2%)	0.52 [0.28] (N = 14; 56.0%)	0.62 [0.32] (N = 11; 44.0%)	0.60 [0.37] (N = 14; 56.0%)	0.83 [0.22] (N = 11; 44.0%)

Notes:

The cell data report the mean and [s. d.] of *WM* (our measure of wealth maximization), computed as (reported bonus – actual bonus) / (25 – actual bonus). The No-discretion phase consists of five periods in which participants are shown the actual bonus amount each period before reporting. The Discretion phase consists of one period in which participants choose whether to acquire the actual bonus information before reporting. All participants take part in both conditions, with the No-discretion phase always conducted first. Based on participants' reporting behavior in the No-discretion phase, their type is assessed. Participants who always reported the maximum amount in the absence of discretion are classified as low honesty preference; participants who always reported the actual bonus amount in the absence of discretion are classified as high honesty preference; and all other participants are classified as moderate honesty preferences. In the first two columns of the table, we partition participants' responses in the first (No-discretion) phase based on whether they acquired information in the second (Discretion) phase.

Tests of hypotheses

Hypothesis 2a predicts that, when given discretion in information acquisition, the reporting behavior of managers with low honesty preference will not differ from when they have no discretion, regardless of their information acquisition decision. Hypothesis 2b predicts that, when given discretion, managers with high honesty preference will acquire information and their reporting behavior will not differ from when they have no discretion. First, we examine the participants' information acquisition decisions for these two types. As reported in Table 2, 55 percent of the low honesty preference type participants and all of the high honesty type participants choose to acquire information in the Discretion phase. A chi-square test shows that the difference in information acquisition choice is statistically significant (χ^2 = 7.59, p = 0.006). Regardless of the information acquisition choice, however, in the Discretion phase all of the low honesty preference type participants reported \$25 (i.e., the same as they reported in the No-discretion phase) and all of the high honesty preference type participants reported the actual bonus (i.e., the same as they reported in the No-discretion phase). That is, discretion in information acquisition does not have any effect on the *WM* of the low or high honesty preference type of participants. These results are consistent with Hypotheses 2a and 2b.

TABLE 3
Regression results for the tests of Hypothesis 3

Independent variables	Model (1)	Model (2)	Model (3)
Intercept	Coeff. = 0.57	Coeff. = 0.44	Coeff. = 0.51
	S.E. = 0.18	S.E. = 0.20	S.E. = 0.13
	t = 3.17	t = 2.15	t = 3.88
	p = 0.007	p = 0.057	p = 0.001
Phase	Coeff. = 0.10	Coeff. = 0.21	Coeff. = 0.15
	S.E. = 0.09	S.E. = 0.10	S.E. = 0.07
	t = 1.15	t = 2.08	t = 2.27
	p = 0.269	p = 0.032*	p = 0.032
Actual bonus	Coeff. = −0.01	Coeff. = −0.01	Coeff. = −0.01
	S.E. = 0.01	S.E. = 0.01	S.E. = 0.01
	t = −0.85	t = −0.18	t = −0.82
	p = 0.413	p = 0.863	p = 0.422
N	84	66	150
R^2	0.02	0.04	0.02
Model F-statistic	0.73	2.24	2.59
Root MSE	0.39	0.37	0.39

Notes:

We performed three regression analyses using *WM* (our measure of wealth maximization) as the dependent variable, computed as (reported bonus – actual bonus) / (25 – actual bonus). Regression models (1), (2), and (3) are estimated, respectively, for (1) the moderate honesty preference types who chose to acquire information, (2) the moderate honesty preference types who chose not to acquire information, and (3) all moderate honesty preference types combined. The regressions use the Huber-White method to estimate robust standard errors after adjusting for nonindependence caused by repeated measurement. The cell data report the coefficient of the independent variable (Coeff.), robust standard error (S.E.), t-statistic (t), and p-value (p). *Phase* is a dummy variable which equals one for the Discretion phase and zero for the No-discretion phase. *Actual bonus* is included to control for the effect of the randomly determined bonus on *WM*. An asterisk indicates a one-tailed test for a directional prediction.

Hypothesis 3 predicts that the reporting behavior of managers with a moderate honesty preference who chose not to acquire information will be more opportunistic than when they do not have discretion in information acquisition. As reported in Table 2, 44 percent of the moderate honesty preference type participants choose not to acquire information in the Discretion phase. For the moderate honesty preference types who choose to acquire information in the Discretion phase, we regress their *WM* on a dummy variable *Phase* (which equals one if the phase is Discretion and zero otherwise), controlling for the actual bonus.[16] We also conduct a similar regression for the moderate honesty preference types who choose not acquire information in the Discretion phase. As reported in model (1) of Table 3, the *WM* of those who *choose to acquire* information is not significantly different (p = 0.269) between the No-discretion (0.52) and Discretion (0.60) phases. In contrast, as reported in model (2) of Table 3, those who *choose not to acquire* information have significantly higher *WM* (p = 0.032, one-tailed) in the Discretion phase (0.83) than in the No-discretion phase (0.62). As a result, within the Discretion phase, *WM* is

16. All regressions that involve within-participant data use the Huber-White method (Huber 1967; White 1982) to estimate robust standard errors after adjusting for nonindependence caused by repeated measurement.

significantly higher ($p = 0.045$, one-tailed) for those who *choose not to acquire* information (0.83) than for those who *choose to acquire* information (0.60).[17] These findings are consistent with Hypothesis 3 and support our theory that the moderate honesty preference type who choose not to acquire information report more opportunistically because remaining ignorant of relevant information allows them to maximize wealth without being knowingly untruthful.[18]

We also note that, while the percentage of participants who chose not to acquire information is similar between the moderate honesty preference type (44 percent) and the low honesty preference type (45 percent), the motive underlying this choice is different between these two types. As discussed earlier, the low honesty preference types are predisposed to report the maximum amount possible and thus do not need the actual bonus information, whereas the moderate honesty preference types avoid the information to reduce the guilt for knowingly misreporting.

For completion, we also regress the *WM* of the moderate honesty preference type participants combined (i.e., not partitioned based on whether the participant acquired information) on the dummy variable *Phase*, controlling for the actual bonus. The regression results (reported in model (3) of Table 3) indicate that, overall, *WM* is significantly higher ($p = 0.032$) when participants have discretion (0.70) than when they do not have discretion (0.56).[19]

Responses to the post-experiment questionnaire provide important insights for understanding the information acquisition decision and reporting behavior of participants with a moderate honesty preference. Specifically, we asked participants in two separate questions how comfortable they would feel reporting an amount that was different (might be different) from the actual amount if they knew (did not know) the actual bonus amount. Participants responded on an 11-point Likert scale with 1 = "very uncomfortable" and 11 = "very comfortable." We use each participant's response to the "did not know" question minus the response to the "knew" question, referred to as *Diff_Comfort*, to measure the level of reduction in psychological discomfort that each participant potentially derives from information avoidance. We test whether a reduction in psychological discomfort appears to underlie participants' information acquisition decision and, in turn, reporting behavior.

As reported in panel A of Table 4, a logistic regression of *Acquire* (equal to one if the participant chose not to acquire information in the Discretion phase and zero otherwise) on *Diff_Comfort* reveals that the moderate honesty preference type who derive a greater reduction in psychological discomfort from information avoidance are more likely ($p = 0.031$, one-tailed) to remain ignorant of relevant information. Indeed, *Diff_Comfort* is significantly higher ($p = 0.043$) for the moderate honesty preference type who choose not to acquire information (3.9) than for those who choose to acquire information (0.9).

Next, we performed three regressions using *WM* in the Discretion phase as the dependent measure. We regressed *WM* in the Discretion phase on (1) *Diff_Comfort*, (2) *Acquire*,

17. We do not need to control for the actual bonus in this test because the actual bonus is the same for all participants in the discretion stage.

18. As a sensitivity test, we repeat the tests of Hypothesis 3 excluding three moderate honesty preference type participants who report the maximum amount of $25 in four out of the five periods in the No-discretion phase. It is possible that these participants are indeed a low honesty preference type but report a non-$25 amount due to the so-called "trembling hand." Statistical inferences are unchanged when these participants are excluded.

19. Note that this result is not likely to be driven by any "endgame effects" because endgame effects would not be able to explain the observed behavior of the moderate honesty preference type participants. As reported above, we find no significant difference in the *WM* of participants who acquired information (No-discretion versus Discretion) but do find a significant difference for those who did not acquire information. An endgame effect would suggest a pronounced increase in *WM*, regardless of these participants' information acquisition decision.

TABLE 4
Supplemental analyses for Experiment Two

Panel A: Logistic regression results

Independent variables	Coefficient	Std. error	z-statistic	*p*-value
Intercept	−1.14	0.71	−1.62	0.106
Diff_Comfort	0.34	0.18	1.86	0.031*
N	25			
Pseudo R^2	0.15			
LR χ^2	5.22			

Panel B: Regression results

Independent variables	Model (1)	Model (2)	Model (3)
Intercept	Coeff. = 0.63 S.E. = 0.07 t = 8.69 p < 0.001	Coeff. = 0.60 S.E. = 0.08 t = 7.14 p < 0.001	Coeff. = 0.58 S.E. = 0.08 t = 6.89 p < 0.001
Diff_Comfort	Coeff. = 0.03 S.E. = 0.02 t = 1.97 p = 0.031*		Coeff. = 0.02 S.E. = 0.02 t = 1.36 p = 0.094*
Acquire		Coeff. = 0.23 S.E. = 0.13 t = 1.77 p = 0.045*	Coeff. = 0.15 S.E. = 0.14 t = 1.09 p = 0.289
N	25	25	25
R^2	0.14	0.12	0.19
Model *F*-statistic	3.87	3.12	2.54
Root MSE	0.31	0.32	0.31

Notes:

The logistic regression in panel A and regression models (1), (2), and (3) in panel B are estimated for the moderate honesty preference types. For the regression in panel A, the dependent measure is a dichotomous variable that indicates whether a participant acquires the actual bonus amount. For the regression in panel B, the dependent measure is *WM*, computed as (reported bonus – actual bonus) / (25 – actual bonus), in the Discretion phase. The data entry in panel B is the coefficient of independent variable (Coeff.), standard error (S.E.), *t*-statistic (*t*), and *p*-value (*p*). *Diff_Comfort* is computed as the participant's rating of comfort about reporting an amount that might differ from the actual amount when the actual amount is unknown minus his/her rating when the actual amount is known. Both ratings are elicited on an 11-point Likert scale with 1 = "very uncomfortable" and 11 = "very comfortable" as end points. *Acquire* is a dummy variable that equals one if the participant chose not to acquire information and zero otherwise. An asterisk indicates a one-tailed test for a directional prediction.

and (3) both *Diff_Comfort* and *Acquire*. As reported in panel B of Table 4, *Diff_Comfort* is significant (p = 0.031, one-tailed) in model (1) and *Acquire* is significant (p = 0.045, one-tailed) in model (2). When both variables are included in model (3), *Diff_Comfort* is marginally significant (p = 0.094, one-tailed) and *Acquire* becomes nonsignificant (p = 0.289). Overall, these results suggest that, consistent with our theory, the moderate

honesty preference types avoid information to lessen the psychological discomfort associated with misreporting. Participants who can reap a greater reduction in psychological discomfort are more likely to not acquire information and, in turn, report opportunistically.

Supplemental analyses

As reported above, in the Discretion phase, 44 percent of the moderate honesty preference type participants choose not to acquire information and, subsequently, report more opportunistically than those who acquire information. While this finding is consistent with our theory, an alternative explanation is also consistent with this pattern of results. Specifically, it might be that the moderate honesty preference type participants who have an inherently lower honesty preference do not acquire the actual bonus information because it is irrelevant to their reporting decisions. As such, this pattern of results could be because acquisition choice acts as a sorting mechanism that classifies moderate honesty preference type participants according to the weight of their honesty preferences.

To assess this conjecture, we partition the moderate honesty preference type participants based on whether they chose to acquire information in the Discretion phase. The presumption underlying this conjecture is that moderate honesty preferences type participants who choose not to acquire information place less weight on honesty preferences than those who choose to acquire information. This implies that, in the No-discretion phase, the former would report more opportunistically compared to the latter. Additional analyses (untabulated) suggest that this is not the case. Specifically, *WM* in the No-discretion phase does not differ significantly ($p = 0.394$) between those who later *chose to acquire* information (0.52) and those who later *chose not to acquire* information (0.62), controlling for the actual bonus. Further, a logistic regression with *Acquire* as the dependent variable and each participant's mean *WM* in the first five periods as the independent variable produces a statistically nonsignificant effect ($p = 0.376$), suggesting that participants' honesty in the No-discretion phase cannot explain their subsequent information acquisition decision. Finally, we regress *WM* in the Discretion phase on *Acquire*, controlling for the mean *WM* over the first five periods and the interaction between *Acquire* and the mean *WM*. We find that only *Acquire* is statistically significant ($p = 0.035$, one-tailed). Therefore, for the moderate honesty preference type participants, the choice not to acquire information appears to be determined by their desire to remain ignorant of relevant information, as our theory predicts, rather than by the irrelevance of the information to their reporting decisions.

In summary, Experiment Two results show that discretion in information acquisition can induce more opportunistic behavior from the moderate honesty preference type participants, but it does not affect the reporting behavior of the low or high honesty preference type participants. As a final test, we also examine how discretion affects the *WM* for all participants combined. A regression (untabulated) of the *WM* of all participants combined on the dummy variable *Phase*, controlling for the actual bonus, reveals that *WM* is significantly higher ($p = 0.034$) in the Discretion phase (0.73) than in the No-discretion phase (0.68).[20]

20. Note that the overall increase in *WM* (from No-discretion to Discretion) found in Experiment Two appears to be inconsistent with Experiment One's finding of no significant difference when all types of participants are pooled. These different results may stem from the within- versus between-participant design of the two experiments. Specifically, the within-participant design of Experiment Two ensures that all types are equally distributed across the No-discretion and Discretion conditions. However, the between-participant design of Experiment One could have resulted in the random assignment of a greater proportion of low or high honesty preference types to the Discretion condition, thereby weakening the overall effect of discretion. Consistent with this possible explanation, we find that the within-participant design yields considerably higher statistical power for Hypothesis 3 tests (0.73) as compared to that of Hypothesis 1 tests (0.11).

4. Conclusion and discussion

Information acquisition is an important stage in the functioning of accounting information systems and such acquisition often requires managers' active involvement and discretion. We develop theory predicting that allowing discretion in information acquisition may promote opportunistic behavior in managerial reporting. Specifically, discretion in information acquisition gives managers the opportunity to remain ignorant of relevant information, thereby enabling them to report opportunistically and, at the same time, suppressing the psychological discomfort associated with misreporting.

We conduct two experiments to investigate the effect of discretion in information acquisition on reporting behavior. In our first experiment, we manipulate discretion *between-participant*. We find that the overall level of opportunistic behavior does not differ between participants who have discretion and participants who do not have discretion. Further inspection of our data, however, suggests that individual differences (i.e., ethical type) may affect whether individuals choose to exploit the opportunity afforded by discretion in information acquisition. Therefore, we conduct a second experiment, in which we manipulate discretion *within-participant*, to investigate whether participants' information acquisition decision and, in turn, their reporting behavior are affected by type. We predict and find that some individuals are predisposed to report either opportunistically or honestly, irrespective of whether discretion in information acquisition is present. In contrast, others want to report opportunistically but also want to avoid the psychological discomfort caused by misreporting. These individuals are susceptible to discretion in information acquisition because, to the extent that information avoidance suppresses psychological discomfort, they will choose to remain ignorant of relevant information in order to report opportunistically without knowingly misreporting. As a result, they are more likely to report opportunistically when they exploit the discretion to avoid information than when they do not have discretion.

Our study contributes to the stream of accounting studies that examine behavior in managerial reporting (Brüggen and Luft 2011; Evans et al. 2001; Hannan et al. 2006; Matuszewski 2010; Rankin et al. 2003, 2008; Stevens 2002). Prior honesty studies have investigated reporting only in settings where managers do not have discretion in information acquisition. In our setting, conventional economic theory predicts that discretion should have no impact on reporting behavior, whereas prior behavioral research suggests that managers may choose to remain ignorant of relevant information and report opportunistically. We extend the behavioral view by incorporating managers' type in predicting their behavior. Our results show that managers' type can play an important role in their information choice and reporting decisions and, therefore, needs to be carefully considered when determining the allocation of decision rights within the accounting system. A failure to do so may result in low quality of information transmitted and, in turn, affect organizational efficiency.

The generalizability of our findings may be subject to certain limitations. First, to increase the likelihood of a truthful-reporting injunctive norm, we use an experimental setting contextually different from standard managerial reporting settings (albeit capturing the main agency conflicts present in those settings). These contextual differences could affect the generalizability of our results to naturally occurring managerial reporting practices. Second, our study focuses on the decision-influencing role of information, controlling for its decision-facilitating role in order to preclude potential confounds. In situations where information is useful for making operational decisions, managers' information acquisition behavior could be different from that observed in our study. Third, we do not impose any cost for acquiring information in order to preclude economic consideration associated with information acquisition. To the extent that acquiring information may be costly in practice, individuals' behavior could be different from that observed in our experiment.

In addition, to preclude any confounding effect of distributional concerns, we chose not to have participants act as the firm in our experiment. While our setting is analogous to reporting contexts in which the economic impact of misreporting on others is remote or obscure, we acknowledge that individuals' reporting behavior could change if such impact is more direct and visible. Finally, although the within-participant design of Experiment Two allows us to identify participants' types, it is possible that the experimental procedures of the first phase may have some carry-over effect on participants' behavior in the second phase. For instance, some participants might have acquired information in the second phase because they were used to receiving the information, suggesting that decision to acquire information may be over-represented in our experiment. Notwithstanding, our findings highlight that some managers may be predisposed to exploit opportunities afforded by discretion in information acquisition.

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