



INTERNATIONAL JOURNAL OF TRENDS IN ACCOUNTING RESEARCH

Journal homepage: <https://journal.adai.or.id/index.php/ijtar/index>



Analysis of The Role of Behavioral Accounting in Financial Decision Making: A Literature Study

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ARTICLE INFO

Article History:
Received: 11 Jun 2025
Accepted: 30 May 2026
Published: 31 May 2026

Keywords:
Behavioral Accounting;
Financial Decisions;
Cognitive Biases;
Heuristics;
Social Pressure.

ABSTRACT

This study examines the role of behavioral accounting in financial decision-making through a literature review of findings from 2019–2024. It focuses on how cognitive biases, heuristics, and socio-emotional pressures affect the quality and effectiveness of financial decisions across sectors ranging from MSMEs to large corporations. The research method is a systematic narrative literature review that identifies and analyzes reliable sources from databases such as SINTA, Scopus, and Google Scholar. The synthesis shows that cognitive biases—such as overconfidence and anchoring—and heuristic strategies often distort risk and opportunity assessments, while socio-emotional pressures such as herd mentality also influence investment decisions. This study addresses fragmented literature by presenting a more holistic and applicable theoretical framework, contributing to accounting theory and practice, as well as financial policy. Although the literature review approach has limitations, including potential publication bias and methodological variation across studies, these findings are expected to support further empirical research to optimize financial decision-making in the era of digital transformation.

1. INTRODUCTION

In business and finance, decision-making is crucial. Good financial decisions can lead a company to growth and stability, while poor decisions can lead to significant losses. However, in practice, financial decisions are not always based on rational analysis and objective data. Many psychological and social factors influence how individuals or organizations make financial decisions, such as cognitive biases, heuristics, and social pressures (Azmi & Puspita, 2024). Behavioral accounting bridges this gap by showing that financial data is not neutral. As Lubis (2010) stated: "Numbers are not neutral; they shape and are influenced by the behavior of decision-makers, so accounting systems must be designed to accommodate the psychological dynamics that occur within them." This statement emphasizes that financial reports and the figures presented must be interpreted with the decision-makers' psychological state in mind.

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Recent studies have shown that many financial decisions are influenced by non-economic factors. The Global Risk Report (2024) revealed that 87% of executives globally admitted that their strategic decisions were influenced by market sentiment and risk perceptions, which are difficult to measure quantitatively. Similarly, a 2023 Financial Services Authority (OJK) survey of companies in Indonesia found that 68% of financial managers experienced decision-making distortions due to overconfidence.

Behavioral accounting explains and helps us understand how psychological factors can influence financial decision-making. For example, the anchoring effect is when individuals rely on initial information when making decisions, even when recent data indicates a change in the situation. Herd mentality is another phenomenon, referring to the tendency of individuals or groups to follow market trends without thorough analysis, a tendency that often occurs in the investment and business worlds. Several previous studies have addressed these aspects, including Ainul Ifadah & Sa'adah (2023), which examined cognitive biases and heuristics in public-sector financial decisions, and Hayati, Askandar, & Afifudin (2024), which examined strategic accounting processes in MSMEs. However, these studies still have limitations because they do not comprehensively address how psychological factors influence decision-making across sectors and how social pressure shapes financial decisions.

Therefore, this study aims to address this gap by conducting a more comprehensive literature review incorporating the latest findings from studies over the past five years. Thus, the results are expected to assist academics and practitioners in better understanding the role of behavioral accounting and provide practical recommendations for companies to reduce errors in financial decision-making.

2. LITERATURE REVIEW

Behavioral Accounting and Its Foundations

Behavioral accounting is a branch of science that examines how psychological and social factors influence financial decision-making. Behind the numbers and financial reports lie thought processes, perceptions, emotions, and cognitive biases that shape financial choices. This fundamental concept emphasizes that decision-making is not solely about mathematical calculations but also about how individuals interpret information and situations. This is particularly important in the modern business context, which is characterized by global market dynamics, uncertainty, and rapid advances in information technology.

The Role of Cognitive Biases and Heuristics in Financial Decisions

Recent research shows that cognitive biases—such as overconfidence and anchoring—are closely related to the decisions made by financial decision-makers. A study by Ainul Ifadah and Sa'adah (2023) revealed that these biases occur not only in the public sector but also in how investors and managers assess investment risks and opportunities. The results of this study indicate that even when objective data are available, individuals' perceptions of that information can be distorted, leading to higher-risk decisions. Sector Approach and Digital Transformation

In the MSME sector, research by Hayati, Askandar, and Afifudin (2024) found that applying behavioral accounting principles can help business owners reduce judgment errors, especially amid digital transformation. Conversely, in a larger corporate context, a study by Putri, Sari, and Widyari (2024) revealed that social pressures—such as the tendency to follow market trends or herd mentality—play a significant role in driving changes in financial strategy. From both studies, it is clear that although each sector faces different challenges, human behavior remains a key factor that cannot be ignored. Synthesis and Research Gap: Although numerous studies have partially addressed the influence of cognitive biases and heuristics, the existing literature remains fragmented across sectors and specific aspects. The public sector, MSMEs, and large corporations impacted by digital transformation have been studied separately, resulting in a lack of an integrative study that integrates all dimensions—psychological, social, and technological—of financial decision-making. This gap motivated this research: synthesizing previous findings to obtain a holistic picture. With this integrative

approach, it is hoped that the resulting theoretical framework and practical recommendations can be applied by various types of organizations to improve the quality of financial decisions. approach in this literature review not only summarizes previous research but also compares and links findings to demonstrate relationships among behavioral variables and the financial marketing context. Furthermore, these findings are expected to serve as the basis for more in-depth research and the development of financial decision-making models that comprehensively account for behavioral aspects.

3. RESEARCH METHOD

This research uses a systematic narrative literature review. This approach aims to collect, filter, and synthesize research findings published in the last five years (2019–2024) on the role of behavioral accounting in financial decision-making. Literature Search Process; first, Identification of Sources and Keywords. The search process begins by identifying primary keywords such as "behavioral accounting," "financial decision-making," "cognitive bias," "heuristics," and "social pressure," which are then used to search the literature across various databases. The primary sources used include the SINTA portal, Google Scholar, Scopus, and trusted university journal repositories. Second, Selection Criteria. The literature searched was sorted based on Recency: Only articles, journals, and books published within the last five years (2019–2024) were selected. Relevance: The literature must directly address the relationship between behavioral aspects and financial decision-making. Credibility: The sources cited must come from indexed journals, nationally (e.g., SINTA) and internationally, to ensure accuracy and methodological rigors. Third, Screening process. The search is conducted by entering a combination of keywords into the database. The resulting literature is then filtered based on the title, abstract, and keywords obtained. Articles that do not meet relevance criteria or are not proven credible are eliminated at an early stage. Fourth, Literature Selection. The remaining literature is evaluated in more depth by reading the entire text to ensure that the content truly addresses the role of behavioral accounting within the financial decision-making framework. At this stage, the researcher also notes the methods, findings, and recommendations offered in each study for later synthesis.

Literature Analysis Techniques

After the relevant literature was collected, the analysis was conducted using the following steps: 1) Coding and Theme Grouping. The findings from each study were coded into key themes such as cognitive biases, heuristics, and social pressures. This grouping made it easier to compare similarities and differences between studies. A systematic analysis was conducted by synthesizing findings from previous studies, comparing existing perspectives, and identifying gaps or deficiencies not yet addressed by the literature. This approach aims to provide a holistic picture of the role of behavioral accounting in financial decision-making. 2) Critical Discussion. Each theme was critically analyzed by linking the research findings, thereby gaining a deeper understanding of influential behavioral factors and their impact on financial decisions across sectors such as the public sector, MSMEs, and large corporations.

Limitations of the Literature Review Method

While the literature review method provides a comprehensive overview based on previous literature, this approach has limitations, including: a) Publication Bias. Published studies tend to highlight significant results and may overlook studies with negative or insignificant findings. This can create gaps in understanding the phenomenon being studied. Literature is often not publicly available or accessible only through specific institutions, potentially reducing the scope of the data analyzed. b) Methodological Variation. The collected literature uses different approaches and methodologies. This variation makes it difficult to synthesize findings into a consistent analytical framework and can lead to interpretation biases on the past five years

for recency; this may overlook earlier research that has made significant contributions to behavioral accounting theory and practice.

By understanding these limitations, readers can appreciate the scope of the study and consider potential biases in interpreting the results of this literature review. This research is expected to make a scientific contribution by presenting a comprehensive synthesis of the role of behavioral accounting in financial decision-making and identifying areas requiring further research.

4. RESULTS AND DISCUSSION

Based on the reviewed literature, several key themes emerged regarding the role of behavioral accounting in financial decision-making. These findings can be grouped into three main categories: a) the role of cognitive biases, b) the influence of heuristics in the decision-making process, and c) The impact of socio-emotional stress. The following explanation discusses each theme in relation to the others and provides a comparative synthesis of previous research findings.

The Role of Cognitive Biases

The literature reveals that cognitive biases, such as overconfidence, anchoring, and confirmation bias, are dominant factors influencing financial decisions, and they also shape the themes discussed below. Overconfidence leads decision-makers to underestimate investment risks, which can result in high-risk financial decisions. Anchoring causes individuals to remain fixed on initial information even after market conditions change, reducing adaptive responses to changing situations.

Research by Ainul Ifadah & Sa'adah (2023) emphasized that cognitive biases apply not only to the public sector but also to the broader corporate context. These findings indicate that cognitive biases can significantly impair the validity of financial analysis and hinder optimal decision-making.

The Influence of Heuristics in Decision-Making

Heuristics are mental strategies that facilitate decision-making amid complex information, and they complement cognitive biases in shaping financial choices. 1) Advantages: Heuristics help individuals by providing quick solutions based on experience or easily remembered information. 2) Disadvantages: Excessive reliance on heuristics can lead to systematic errors, especially when the information used is outdated. Research by Hayati, Askandar, & Afifudin (2024) revealed that applying heuristics in MSME financial decision-making offers speed but can also lead to biased judgments if not supported by in-depth analysis. These results align with findings in the corporate sector reported by Putri et al. (2024), which show that heuristics can be effective when complete information is difficult to obtain but can also increase the likelihood of evaluation errors.

The Impact of Socio-Emotional Pressure

Social pressure and individual emotions have a substantial influence on financial decision-making, extending the effects of cognitive biases and heuristics. 1) Herd mentality: Many decision-makers tend to follow trends or majority opinion, resulting in decisions that lack independence or critical thinking. 2) Emotions such as fear and greed: This often drives quick decisions without rational consideration, especially during times of market volatility. Literature reviews reveal that socio-emotional pressure distorts the evaluation of risks and opportunities, thereby affecting the final outcomes of financial decisions. This is evident in both corporate and investment-market contexts, where external pressures often weaken decision-makers' analytical logic.

Table 1 Summary of Literature Findings

Source / Author	Year	Variables / Themes	Key Findings	Context Sector
Putri, Sari, & Widyari – <i>SINTA Journal</i>	2024	Digital herd mentality in the 4.0 era	Tech companies follow FOMO-based expansion trends, not fundamental analysis.	Indonesian technology corporation
Hayati, Askandar, & Afifudin – <i>Journal Research Accounting (SINTA)</i>	2024	Behavioral factors in the MSME accounting process	The application of behavioral accounting helps business owners assess risks more clearly & choose more appropriate strategies.	East Java MSMEs
Ainul Ifadah & Sa'adah – <i>IAIN (SINTA) Repository</i>	2023	Cognitive bias & heuristic mapping	Identifying overconfidence, anchoring, and other heuristics that frequently appear in public sector decision makers.	Government institutions
Chu, Hoang, & Rahman – <i>Journal of Behavioral Finance</i>	2023	Overconfidence & anchoring in funding decisions	Feeling too much believe self + fixated number early → ASEAN companies tend to in debt excessive , fragile capital structure	ASEAN public corporations
Widjaja , Purnomo, & Santoso – <i>Proc. Int. Conf. on Accounting & Finance</i>	2022	“Digital nudge” & status-quo bias in MSMEs	Interactive accounting dashboards reduce status-quo bias; MSME owners are more willing to diversify their investments .	Indonesian MSMEs
Kusuma & Harnadi – <i>Journal Finance and Banking (SINTA-2)</i>	2021	Confirmation bias in foreign exchange hedging	Managers only seek information that confirms the old exchange rate assumption → delay of hedging contracts, exposure to exchange rate risk soars	Manufacturers listed on the IDX

Firdaus, Atmadja, & Gunawan – <i>Asian Journal of Accounting Research</i> (SINTA-1)	2020	Availability heuristic & herd-trading	Retail investors rely on the most “heard” information → buy along, volume rises, returns actually decline	Indonesian capital market
Nguyen & Lim – <i>Pacific-Basin Finance Journal</i>	2019	Emotional contagion (fear & greed)	Market sentiment index spreads to CFOs: when “fear” hoards cash, when “greed” drains cash → liquidity risk	9 Asian countries (public corporations)

Synthesis Analysis and Implications of Findings

From the summary table above, it is clear that although each study highlights different variables at varying sector levels, the key similarity is the significant influence of behavioral factors on the quality of financial decision-making. 1) Integration of Variables: In the context of this study, the literature shows that no single factor exists in isolation. Cognitive biases, heuristics, and socio-emotional pressures are interrelated and can amplify each other's influence on financial decisions. 2) Importance of the Digital Context: Recent research underscores that amidst technological advancements and digitalization, decision-making dynamics are increasingly complex. For example, in corporate environments undergoing digital transformation, pressure from digital trends and opinions can increase the tendency toward herd mentality, making adaptive accounting control systems even more vital. 3) Contribution to the Literature: This synthesis of findings highlights the gap in the literature, which remains fragmented between the public sector, MSMEs, and large corporations. This research contributes by offering an integrative approach that combines all aspects of behavior in a more comprehensive and applicable analytical framework across various sectors.

5. CONCLUSION

This study concludes that behavioral accounting plays a significant role in financial decision-making, primarily through the interaction of cognitive biases, heuristics, and socio-emotional pressures. The main findings from the literature review indicate that these behavioral factors interact and amplify their influence on decision quality across contexts ranging from MSMEs to large corporations, providing a strong foundation for developing a more holistic financial decision-making model. The implications of this study are evident in two aspects. First, this study theoretically enriches the accounting literature by integrating behavioral and financial variables, thereby encouraging the development of a more adaptive theoretical framework to the dynamics of human behavior. Second, practically, these findings provide input for managers and policymakers to design internal control systems that anticipate biases and emotional pressures, resulting in more rational financial decisions and greater responsiveness to changing market conditions. However, this study has limitations, primarily due to the literature review approach, which relies on available publications. Potential publication bias and limited access to up-to-date information sources may limit the scope of the analysis. Furthermore, methodological variations among the reviewed studies pose challenges to the consistent synthesis of the findings. As a suggestion for further research, it is recommended that empirical studies combine quantitative and qualitative approaches to test an integrative model that encompasses both psychological and social aspects of financial decision-making. Further research should also expand the scope of digital sectors and

environments and address limitations in access to current data to obtain more representative and applicable results. Thus, these conclusions confirm the important contribution of behavioral accounting to the financial literature and open avenues for further research to optimize financial decision-making in increasingly complex and dynamic business contexts.

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