

Causal Reasoning in Financial Reporting and Voluntary Disclosure

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Abstract: Causal reasoning involves understanding the cause of events that have already happened (i.e., diagnosis) as well as predicting which future events will occur (i.e., prediction). Although this type of reasoning is an important part of financial reporting and voluntary disclosure, very little research has relied on it as a basis for developing and interpreting testable research ideas. The purpose of this paper is twofold: First, we review key theories from psychology that pertain to causal reasoning. Second, we identify how these theories can be successfully used by behavioral researchers interested in financial reporting and voluntary disclosure.

Keywords: Causal reasoning, diagnosis, prediction, financial reporting, voluntary disclosure

Highlights: Causal reasoning facilitates understanding events.
Prediction and diagnosis are the two forms of casual reasoning.
Both are important to financial reporting and voluntary disclosure.
We review key theories of causal reasoning.
We also offer suggestions for future research by behavioral researchers.

Funding for this paper was provided by the Deloitte Foundation and the Harrington Fellowship. We thank Shana Clor-Proell, John Hassel, Gary Hecht, Eric Hirst, Marlys Lipe, Bill Tayler, Mike Shields (editor), and two anonymous referees for their comments.