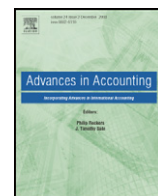




Contents lists available at ScienceDirect

Advances in Accounting, incorporating Advances in International Accounting

journal homepage: www.elsevier.com/locate/adiac

Some theoretical and methodological suggestions for studies examining accountants' professional judgments and earnings management

Philip Heinz ^{*}, Chris Patel ¹, Andreas Hellmann ²

Department of Accounting and Corporate Governance, Faculty of Business and Economics, Macquarie University, Sydney, NSW 2109, Australia

ARTICLE INFO

Keywords:

Theoretical and methodological suggestions
Accountants' professional judgments
Earnings management
Ethics
Personality variables
Multidimensional Ethics Measure (MEM)
"Holier-than-thou" perception bias

ABSTRACT

The objective of this paper is to provide theoretical and methodological suggestions to guide future research on the controversial topics of accountants' professional judgments and earnings management. Based on an evaluation of prior research, this paper provides four suggestions. First, it is suggested that a focus on the influence of personality variables is likely to provide sharper insights into judgments of individuals. Two relevant personality variables have been selected for this paper, namely, Construal of Self and Regulatory Focus Theory. Both Construal of Self and Regulatory Focus Theory have been, primarily in psychology literature, proven as valid and relevant for judgments, decisions and behavior. Second, prior literature conducted studies on earnings management and ethical issues to a large extent in the United States, often assuming that findings are generalizable and transferable to other countries. Given the importance of contextual factors and of gaining insights from global perspectives, the examination of nations with different contextual environments and particularly of countries in which ethical issues have not been rigorously examined, is suggested. Third, prior research has largely relied on simplistic unidimensional ethics measures that are unlikely to capture the complexity of accountants' professional judgments. It is suggested that a combination of a unidimensional measure and 'Multidimensional Ethics Measure' (MEM) provides richer insights into judgments. Fourth, this paper also suggests measuring "holier-than-thou" perception bias. "Holier-than-thou" perception bias means that individuals consider themselves as more ethical than their peers. This bias is important because it may foster an unethical organizational culture. Some of the suggestions included in this paper may provide useful guidance for future studies examining accountants' professional judgments and earnings management.

© 2013 Published by Elsevier Ltd.

1. Introduction

Accountants' professional judgments and earnings management are important and controversial topics in accounting, as shown by significant recent corporate collapses, audit failures, and criticisms regarding the quality of financial reporting during the current Global Financial Crisis (Dechow, Myers, & Shakespeare, 2010; Jiraporn, Kim, & Mathur, 2008; Kothari & Lester, 2012; Laux & Leuz, 2009; Van Tendeloo & Vanstraelen, 2008). However, earnings management is not only a current but also a longstanding issue, dating back to the beginning of accounting and has been of serious concern to the accounting profession and the business world in the last decades (Ball, 2009; Elias, 2004; Kaplan, McElroy, Ravenscroft, & Shrader, 2007; Naser & Pendlebury, 1992). Earnings management has been defined in a number of ways and for the purpose of this paper is defined as the use of "judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying

economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers" (Healy & Wahlen, 1999, p. 368). This definition has been used extensively in previous research and is relevant and useful particularly for this paper, as it relates to professional judgments, earnings management, and ethics (Braun & Rodriguez, 2008; Elias, 2002; Kaplan, 2001a; Niskanen, Karjalainen, Niskanen, & Karjalainen, 2011).

Global standard-setters have moved toward the concept of 'substance over form' or principles-based accounting standards, which require extensive use of professional judgments (Heidhues & Patel, 2012, p. 17). This global shift from rules-based to principles-based accounting standards in combination with imprecise reporting standards has increased the scope for exercising professional judgments which may lead to greater earnings management (Nelson, 2003; Okamoto, 2011). As such, accountants may exercise their professional judgments to engage in earnings management within the guidelines provided by Generally Accepted Accounting Principles (GAAP). Indeed, previous research provides evidence that earnings management is often related to discretionary accruals and as such is not necessarily inconsistent with GAAP (Ball, Kothari, & Robin, 2000; Chung, Firth, & Kim, 2002; Ibrahim, 2009; Merchant & Rockness, 1994; Peasnell, Pope, & Young, 2005). However, earnings management can also be difficult to distinguish

^{*} Corresponding author.

E-mail addresses: philip-alexander.heinz@students.mq.edu.au (Ph. Heinz), chris.patel@mq.edu.au (C. Patel), and andreas.hellmann@mq.edu.au (A. Hellmann).

¹ Tel.: +61 2 9850 7825; fax: +61 2 9850 8497.

² Tel.: +61 2 9850 4055; fax: +61 2 9850 8497.

from appropriate applications of GAAP and may also be inconsistent with the objectives of GAAP (Ball, 2009; Nelson, Elliott, & Tarpley, 2002, 2003). For example, it has been noted that financial fraud is one extreme form of earnings management, and further that a thin line separates earnings management from fraud (Dechow & Skinner, 2000; Elias, 2002). As such, earnings management can result from both legal and illegal means and is therefore a highly ambiguous and controversial issue that requires further examination.

Importantly, despite the argument that earnings management may be within the boundaries of law, ethical issues arise because numerous stakeholders relying on financial statements may be misled (Barua, Lin, & Sbaraglia, 2010; Geiger et al., 2006). Therefore, earnings management provides an excellent construct through which to examine ethical issues and judgments of accountants. Prior literature provides evidence that inappropriate application of professional judgments and ethical issues are clearly related (Jackling, Cooper, Leung, & Dellaportas, 2007). Moreover, recent accounting scandals and the current Global Financial Crisis have focused public attention toward issues related to ethics and accounting (Abdolmohammadi, Fedorowicz, & Davis, 2009; Birnberg, 2011; Smith & Hume, 2005; Sweeney & Costello, 2009). As such, it is concluded that professional judgments, earnings management and ethical issues remain controversial and important topics.

Earnings management has been examined using a number of theoretical and methodological perspectives including normative approaches, capital market research, and experiments. Additionally, some prior studies on earnings management have applied behavioral approaches, which is the approach taken in this paper. Behavioral researchers have frequently examined the influence of national culture on earnings management, with an extensive reliance on the theoretical dimensions developed by Hofstede (1980) and operationalized in accounting contexts by Gray (1988). It is acknowledged that studies relying on Hofstede and Gray provide valuable insights into differences and similarities at national levels. However, as argued by Heidhues and Patel (2011), such extensive reliance on Hofstede and Gray's cultural dimensions can also be viewed as an obsession with categorization, quantification, and narrowly focused cultural dimensions in accounting research, which often do not adequately capture the complex and dynamic construct of culture. To obtain sharper insights, it is important to broaden theoretical and methodological perspectives by examining various factors that may influence professional judgments and earnings management. Therefore, the objective of this paper is to provide some holistic theoretical and methodological suggestions to enhance research on earnings management.

In particular, this paper recommends that this strand of research be extended by examining the influence of relevant personality variables on accountants' judgments on earnings management. Personality is defined as "the dynamic and organized set of characteristics possessed by a person that uniquely influences his or her cognitions, motivations, and behaviors in various situations" (Ryckman, 2007, p. 4). While culture has an impact on individuals and addresses how, in general, an individual should behave in a particular role or status in a given society, personality "speaks to differences in behaviours or responses by individuals in the same roles or statuses in a given society" (Harrison, 1993, p. 325). For example, Hofstede, Hofstede, and Minkov (2010, pp. 4–7), by comparing individuals' thinking, feeling, and potential acting to the way that computers are programmed, distinguishes between human nature, culture, and personality. Fig. 1 (adopted from Hofstede et al., 2010, p. 6) shows the pyramid of 'Three Levels of Uniqueness in Mental Programming' and illustrates that personality is on top of the pyramid. Fig. 1 also shows that personality is both inherited and learned, which means that personality is shaped by both genetic and environmental influences (Triandis & Suh, 2002). Importantly, Fig. 1 highlights that personality is specific to individuals.

As such, national culture differences try to explain differences in judgments across cultures, whereas personality variables provide clearer insights into differences among individuals (Cable & Patel, 2000). Despite the influence of culture on personality, personality is not merely

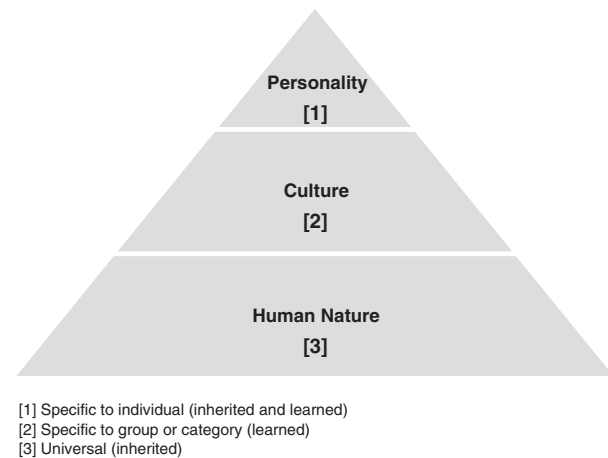


Fig. 1. Hofstede's 'three levels of uniqueness in mental programming'.

"culture in microcosm," and studies focusing on personality may provide different and sharper results than studies that focus on culture (Rohner, 1984, p. 123; Triandis & Suh, 2002). Therefore, this paper suggests that a focus on the influence of relevant personality variables is also likely to provide sharper insights into the judgments of individuals in the context of earnings management.

The study of personality variables is relevant in the field of accounting, as it is likely to provide valuable insights into factors that may influence judgments and behaviors of accountants (Taggar & Parkinson, 2007). However, prior research has largely failed to recognize the importance of personality variables in accounting research. For example, Taggar and Parkinson (2007, p. 135) conclude that "there is a limited amount of research published where personality is used to address accounting issues." Additional calls have been made in accounting to acknowledge the importance of personality and to examine the influence of personality variables on accountants' judgments (Andon, Chong, & Roebuck, 2010; Heidhues & Patel, 2012, p. 162; So & Smith, 2003; Wheeler, 2001).

This paper responds to these calls by providing suggestions to examine the influence of personality variables on accountants' judgments related to earnings management. For this paper, two relevant personality variables have been selected, namely, Construal of Self and Regulatory Focus Theory. Both Construal of Self and Regulatory Focus Theory have been, primarily in psychology literature, proven as valid and relevant for cognition, judgments, goal pursuit, decisions, and behavior (Brockner & Higgins, 2001; Cesario, Higgins, & Scholer, 2008; Crowe & Higgins, 1997; Gardner, Gabriel, & Lee, 1999; Higgins, 1998; Higgins & Silberman, 1998; Leonardelli, Lakin, & Arkin, 2007; Markus & Kitayama, 1991, 2010; Singelis, 1994). Construal of Self is a relevant personality variable because it focuses on individuals' notions of themselves in relation to others and distinguishes between independent and interdependent Construal of Self (Markus & Kitayama, 1991). The second relevant personality variable selected in this paper, Regulatory Focus Theory, distinguishes between two self-regulatory systems to pursue specific goals or desired end-states, known as promotion-focus and prevention-focus (Higgins, 1997, 1998). It is suggested that both Construal of Self and Regulatory Focus Theory are likely to provide additional insights into factors that may influence judgments on earnings management.

A further theoretical suggestion of this paper relates to the selection of countries in which to examine accountants' judgments, earnings management, and ethical issues. Prior literature has, to a large extent, focused on the United States context. However, while these studies have provided valuable insights, the findings may not be generalizable and transferrable to other countries, as has often been presumed

(Chand & Patel, 2011, p. viii; Psaros, Patel, & Warnakulasuriya, 2003). The literature on earnings management can be broadened by conducting studies in countries with different contextual environments. Specifically, it is suggested that accounting research may focus on countries in which earnings management and ethical issues have not been rigorously examined. Moreover, given the recent globalization and the need for greater comparability of accounting information, it is important to gain insights into factors that may influence earnings management from a global perspective. Examples of countries to examine include emerging countries, members of transition economies such as China and the former Union of Soviet Socialist Republics (USSR), and countries included in the Continental European accounting model such as France and Germany.

Additionally, measurement of professional judgments in ethical contexts remains an important methodological issue in accounting. For example, accounting research has largely evoked and relied on the Defining Issues Test (DIT), which is based on Kohlberg's (1969) stage theory of ethical development (Rest, Cooper, Coder, Masanz, & Anderson, 1974; Rest, Narvaez, Thoma, & Bebeau, 1999b).³ Kohlberg's theory posits that ethical judgment has six sequential stages, with higher stages representing higher levels of ethical reasoning (Kohlberg, 1973). The DIT is an instrument to measure individuals' ethical reasoning and to assess Kohlberg's stages (Rest, Narvaez, Thoma, & Bebeau, 1999b). However, measuring ethical reasoning using the DIT has been criticized. Criticism includes the existence of gender bias, cultural bias, and that context-specific instruments may be more relevant in professional settings (Gilligan, 1982; Patel, 2006, p. 35; Welton, Lagrone, & Davis, 1994). It is therefore suggested that accounting research applies more relevant measurement scales to accountants' judgments.

Furthermore, some prior research has at times applied unidimensional ethics measures, largely by asking respondents on a single scale whether the ethical issues embedded in scenarios are ethical or unethical (Patel, 2007). This paper suggests that research measuring complex constructs of accountants' judgments applies a combination of unidimensional measure and 'Multidimensional Ethics Measure' (MEM). The MEM was developed by Reidenbach and Robin (1990) and has been tested for reliability and validity in accounting contexts. Specifically, the MEM is based on three philosophical dimensions, namely, moral equity, relativism, and contractualism, and therefore provides a sharper theoretical underpinning for measuring ethical issues. The application of MEM enables researchers to address some of the limitations of Rest's DIT, such as the criticism that the DIT may be inappropriate in professional settings (Cohen, Pant, & Sharp, 2001; Dellaportas, Cooper, & Leung, 2006). Moreover, evidence shows that a combination of unidimensional measure and MEM provides greater explanatory power and deeper insights into accountants' judgments than do simplistic unidimensional ethics measure (Patel, 2007).

An additional methodological suggestion of this paper is to measure "holier-than-thou" perception bias of professional accountants to better understand accountants' judgments and ethical issues in the context of earnings management. "Holier-than-thou" perception bias means that individuals consider themselves as far more ethical than their peers (Tyson, 1990). Prior research has not rigorously examined and measured this important bias. The measurement of "holier-than-thou" perception bias is relevant because individuals considering themselves as more ethical than their peers may not see any pressure to improve their own ethical behavior. Individuals may also justify their own unethical behavior as necessary to compete with their peers and as such, "holier-than-thou" perception bias may foster an unethical organizational culture (Patel & Millanta, 2011; Tyson, 1990). Importantly, this perception bias is a widespread phenomenon and individuals seem to chronically feel "holier-than-thou" (Epley & Dunning, 2000). It is therefore likely that "holier-than-thou" perception bias is also embedded in accounting environments and that measurement of this

bias will provide additional insights into factors that may influence accountants' judgments on earnings management.

2. Kohlberg's stage theory of ethical development, the Defining Issues Test and the Four-Component Model

This section provides a brief discussion of Kohlberg's (1969) stage theory of ethical development, the Defining Issues Test (Rest, Narvaez, Bebeau, & Thoma, 1999a; Rest et al., 1974) and the Four-Component Model (Rest, 1983), all of which have been extensively evoked and applied in accounting research (Abdolmohammadi et al., 2009; Brandon, Kerler, Killough, & Mueller, 2007; Dellaportas et al., 2006; Johnson, Fleischman, Valentine, & Walker, 2012; Tsui, 1996; Tsui & Windsor, 2001; Welton et al., 1994). Kohlberg's (1969) stage theory of ethical development is one of the most cited ethical judgment and decision-making models and continues to be discussed in almost every contemporary developmental psychology textbook (Gibbs, Basinger, Grime, & Snarey, 2007). Kohlberg's theory, with its sequential stages of cognitive ethical development, may be regarded as a hierarchy of ethical development through which individuals progress upwards. Table 1 (adopted from Kohlberg, 1976, pp. 34–35) provides the key features of the model and shows that the model is comprised of three levels, namely, preconventional, conventional and post-conventional or principled. Moreover, each level is comprised of two stages. The second and third columns in Table 1 indicate what is considered as ethically right at each stage and the reasons for individuals' ethical positions, respectively. The final column of Table 1 shows the social perspectives of each stage.

Based on Kohlberg's theory of ethical development, Rest et al. (1974) developed the Defining Issues Test (DIT). The assumption of the DIT is that ethical dilemmas are interpreted differently by people at different development stages. Based on subjects' responses on ethical dilemmas, a quantified index is calculated that assesses Kohlberg's stages. This index, the P index, indicates the importance that individuals give to Stage 5 and Stage 6 of Kohlberg's theory (Rest, 1983, p. 584). Note that a revised version of the DIT, the DIT2, has been developed (Rest, Narvaez, Thoma, & Bebeau, 1999b). The DIT2 has updated dilemmas and items, a shortened test, and provides clearer instructions (Rest, Narvaez, Thoma, & Bebeau, 1999b). Also note that Rest (1983) developed the Four-Component Model, which "continues to be used as a means to understand and explain the construct measured by the DIT" (Thoma, 2006, p. 72). Specifically, the Four-Component Model posits that four major processes contribute to the ethical functioning of individuals, namely, moral sensitivity (Component I), moral judgment (Component II), moral motivation (Component III), and moral character (Component IV). As shown in Table 2 (adopted from Bebeau, Rest, & Narvaez, 1999, p. 22), *moral sensitivity* is the interpretation of a specific situation, *moral judgment* relates to judging which action is ethically right or wrong, *moral motivation* is the prioritizing of moral values over personal values, and *moral character* means to have the strength and courage to act according to one's goals (Bebeau et al., 1999). It has been pointed out that deficiency in any of the four components may result in 'ethical failure' (Bebeau, 2002; Bebeau et al., 1999). Table 2 provides additional details on the Four-Component Model (Bebeau et al., 1999, p. 22).

To enhance the quality of research related to ethics, including research in accounting contexts, it is important to address key criticisms of Kohlberg's stage theory of ethical development and of Rest's DIT. Criticisms of Kohlberg's ethical development stages include that it may have a Western bias, that a seventh stage should be included that involves dialogs with particular others about ethical principles, and that the theory has a gender bias toward the male perspective (Gilligan, 1982; Habermas, 1979, p. 93; Snell, 1996). The DIT has been criticized because it may inaccurately reflect ethical reasoning in a professional setting and because the dilemmas are fixed and limited (Dellaportas et al., 2006; Shawver & Sennetti, 2009). Moreover, the DIT has been criticized for cultural biases (Ma & Cheung, 1996). For example, Tsui (1996)

³ In this paper, the terms 'ethical' and 'moral' are used synonymously.

Table 1
Kohlberg's Ethical Judgment Stages.
Adopted from Kohlberg (1976, pp. 33–34).

Content of stage			
Level and stage	What is ethically right	Reasons for doing right	Social perspective of stage
<i>Level I: Preconventional</i> Stage 1: Heteronomous morality	To avoid breaking rules backed by punishment, obedience for its own sake, and avoiding physical damage to persons and property.	Avoidance of punishment, and the superior power of authorities.	<i>Egocentric point of view.</i> Does not consider the interests of others or recognize that they differ from the actor's; does not relate two points of view. Actions are considered physically rather than in terms of psychological interests of others.
Stage 2: Individualism, instrumental purpose, and exchange	Following rules only when it is to someone's immediate interest; acting to meet one's own interests and needs and letting others do the same.	To serve one's own needs or interests in a world where you have to recognize that other people have their interests, too.	<i>Concrete individualistic perspective.</i> Aware that everybody has his or her own interest to pursue and that these conflict, so that right is relative (in the concrete individualistic sense).
<i>Level II: Conventional</i> Stage 3: Mutual interpersonal expectations, relationships, and interpersonal conformity conscience	Living up to what is expected by people close to you or what people generally expect of people in your role as son, brother, friend, etc. "Being good" is important and means having good motives, showing concern about others.	The need to be a good person in your own eyes and those of others. Your caring for others. Belief in the Golden Rule.	<i>Perspective of the individual in relationship with other individuals.</i> Aware of shared feelings, agreements, and expectations which take primacy over individual interests. Relates points of view through the concrete Golden Rule, putting yourself in the other person's shoes.
Stage 4: Social system and conscience	Fulfilling the actual duties to which you have agreed. Laws are to be upheld except in extreme cases where they conflict with other fixed social duties. Right is also contributing to society, the group, or institution.	To keep the institution going as a whole, to avoid the breakdown in the system "if everyone did it," or the imperative of conscience to meet one's defined obligations.	<i>Differentiates societal point of view from interpersonal agreement or motives.</i> Takes the point of view of the system that defines roles and rules. Considers individual relations in terms of place in the system.
<i>Level III: Post-conventional, or principled</i> Stage 5: Social contract or utility and individual rights	Being aware that people hold a variety of values and opinions, and that most values and rules are relative to your group. These relative rules should usually be upheld, however, in the interest of impartiality and because they are the social contract.	A sense of obligation to law because of one's social contract to make and abide by laws for the welfare of all and for the protection of all people's rights. A feeling of contractual commitment, freely entered upon, to family, friendship, trust, and work obligations	<i>Prior-to-society perspective.</i> Perspective of a rational individual aware of values and rights prior to social attachments and contracts. Integrates perspectives by formal mechanisms of agreement, contract, objective impartiality, and due process. Considers moral and legal points of view; recognizes that they sometimes conflict and finds it difficult to integrate them.
Stage 6: Universal ethical principles	Following self-chosen ethical principles. Particular laws or social agreements are usually valid because they rest on such principles. When laws violate these principles, one acts in accordance with the principle. Principles are universal principles of justice.	The belief as a rational person in the validity of universal moral principles, and a sense of personal commitment to them.	<i>Perspective of a moral point of view</i> from which social arrangements derive. Perspective is that of any rational individual recognizing the nature of morality or the fact that persons are ends in themselves and must be treated as such.

applied the DIT and found based on Hofstede's theory of cultural differences that auditors from Hong Kong had a lower P index than did auditors from the United States. The results thus indicate that subjects from Hong Kong possess lower ethical reasoning as compared to their counterparts from the United States. However, since the DIT was developed using the societal values of Western nations, the results of Tsui's (1996) study "may be explained by the potentially theoretical irrelevance of measuring ethical reasoning with the DIT in Asian and other developing countries" (Patel, 2006, p. 35). This paper advocates the use of Multidimensional Ethics Measure (MEM) in accounting research to overcome some of the limitations of the DIT.

3. Theoretical and methodological limitations of prior studies

3.1. Studies at national and group-levels

A significant number of studies have examined the influence of national culture on earnings management, relying largely on simplistic theoretical dimensions developed by Hofstede (1980) and operationalized in accounting contexts by Gray (1988). Examples of these studies include Braun and Rodriguez (2008), Clikeman, Geiger, and O'Connell (2001), Doupnik (2008), Guan and Pourjalali (2010) and Nabar and Boonlert-U-Thai (2007). For example, Braun and Rodriguez (2008) examined the relationship between Gray's accounting values and earnings management. Using a sample of thirty-one countries, Gray's accounting values were quantified to examine differences in levels of earnings management between countries. In another study, Doupnik (2008) examined the influence of national culture on earnings management across a sample of thirty-one countries.

Specifically, Hofstede's dimensions were used as a proxy for national culture. The findings of Doupnik's (2008) study show that earnings smoothing, as a form of earnings management, is increasing in societies that score higher on Hofstede's dimension of Uncertainty Avoidance.

However, Hofstede's dimensions and Gray's accounting values have been extensively criticized. Criticisms include that Hofstede (1980) equates nation with culture and that the data collected by Hofstede (1980) is outdated. It has also been argued that the simplistic dimensions largely fail to capture the richness and complexity of culture and that these dimensions do not take into account relevant insights and literature from other disciplines such as psychology and sociology (Baskerville, 2003; Briley, Morris, & Simonson, 2000; Heidhues & Patel, 2011; McSweeney, 2002; Patel, 2003). Moreover, studies that uncritically apply and adopt Gray's framework, such as the study by Braun and Rodriguez (2008), have been criticized for "an 'overgeneralisation' of theoretical approaches based on assumptions of scientific legitimacy and respectability" (Heidhues & Patel, 2011, pp. 276–277).

It is acknowledged that prior research provides valuable contributions by focusing on the influence of national culture on earnings management, and as such examines differences at a national and group level. However, this strand of research can be further extended by focusing on relevant personality variables, which may provide sharper insights into judgments at individual levels. Two relevant personality variables, Construal of Self and Regulatory Focus Theory, will be explained in a later section of the paper. How these personality variables might influence accountants' judgments on earnings management is also demonstrated and exemplified.

Table 2
Rest's Four-Component Model.
Adopted from Bebeau et al. (1999, p. 22).

Component	Definition
<i>Component I: Moral sensitivity</i> (interpreting the situation)	Moral sensitivity is the awareness of how our actions affect other people. It involves being aware of the different possible lines of actions and how each line of action could affect the parties concerned (including oneself). Moral sensitivity involves imaginatively constructing possible scenarios (often from limited cues and partial information), knowing cause-consequent chains of events in the real world, and having empathy and role-taking skills. Moral sensitivity is necessary to become aware that a moral issue is involved in a situation.
<i>Component II: Moral judgment</i> (judging which action is morally right or wrong)	Once a person is aware that various lines of action are possible, one must ask which line of action is more morally justified. Even at an early stage, people have intuitions about what is fair and moral, and make moral judgments about even the most complex of human activities. People have many values (e.g., careers, affectional relationships, aesthetic preferences, institutional loyalties, hedonistic pleasure, excitement). Why place a high priority on moral values over these other values? Some evil people in the world (e.g., the professional assassin) may be explained not in terms of deficiencies in Components 1 and 2, but in terms of the low priority given to moral values. We do not have to infer that the assassin is deficient in terms of Component 1 (i.e., that he does not realize that shooting someone affects his/her welfare), nor do we have to infer that the assassin is deficient in terms of Component 2 (i.e., that he does not understand that cooperative arrangements have conditions of reciprocity). Rather, we are more likely to explain the assassin in terms of his values (i.e., he just does not care to do the fair, decent thing – other values are more important to him).
<i>Component III: Moral motivation</i> (prioritizing moral values over other personal values)	A person may have the first three components, but if he or she is lacking in Component 4, the person will wilt under pressure or fatigue, will not follow through, will be distracted or discouraged, and moral behavior will fail. Component 4 presupposes that one has set goals, has self-discipline and controls impulse, and has the strength and skill to act in accord with one's goals.
<i>Component IV: Moral character</i> (having the strength of your conviction, having courage, persisting, overcoming distractions and obstacles, having implementing skills, having ego strength)	

3.2. Studies conducted in the United States

A number of prior studies, including Elias (2002), Elias (2004), Greenfield, Norman, and Wier (2007), Johnson et al. (2012), Smith and Rogers (2000) and Stanga and Turpen (1991), have focused on ethical issues in the context of earnings management. Despite the valuable contributions of previous studies, a limitation of these studies is that to a large extent the United States as a member of the Anglo-American accounting model has been examined. This includes studies conducted within the United States, as well as cross-national studies that have included United States data. The easy availability of relevant data for the United States may be one reason to explain this extensive focus (Bushman & Smith, 2001; Sarkar, Sarkar, & Sen, 2008). Researchers often assume that findings from the United States are generalizable and transferable to other countries, either within Anglo-American

countries or outside the Anglo-American cluster (Chand & Patel, 2011, p. viii; Psaros et al., 2003). This paper rejects such simplistic assumptions and suggests that future studies examine factors that may influence accountants' judgments and earnings management in additional countries.

Given the importance of contextual factors such as political, economic, social, and historical influences on judgments, the literature on earnings management is likely to be enhanced by extended coverage of the contextual environments of diverse countries. In particular, it is suggested that studies focus on countries in which ethical issues have not been rigorously examined. For example, it has been shown that German students are generally less objecting to earnings management than are United States students, possibly because the teaching of business ethics for accounting students is more prevalent in the United States than in Germany (Portz, Strong, & Hoffmann, 2008). This argument is consistent with Becker and Messner (2005), who note that the examination of ethical issues related to accounting is an underexplored topic in Germany. As such, it is important that future studies extend country selection to examine earnings management and ethical issues in countries for which accounting ethics is an underexplored topic.

It has also been suggested that misapplications of United States accounting standards may have had some role in the current financial crisis (Kothari & Lester, 2012). For example, it has been shown that 'fair value accounting' can be a "convenient earnings management tool" (Dechow et al., 2010). Importantly, the financial crisis is not constrained to United States accounting standards and the United States, but rather is a global phenomenon. For example, European countries such as Greece, Spain, Ireland, and Cyprus are particularly strongly influenced by the Global Financial Crisis, resulting in discussions about bankruptcy and exclusion from the Euro-Zone (Grigoriadis, 2011). The misapplication of accounting standards and earnings management are thus crucial global issues, further supporting the suggestion that country selection should be extended from the United States to a global level.

3.3. Studies applying unidimensional ethics measures

A further limitation of previous ethics research in accounting is that these studies largely relied on a unidimensional ethics scale to measure judgments. Unidimensional scales are single item bipolar scales, frequently asking subjects to indicate their judgments on a Likert scale ranging from ethical to unethical (Patel, 2007). Examples of studies that have measured judgments on unidimensional scales include Cohen, Pant, and Sharp (1995), Fischer and Rosenzweig (1995), Geiger et al. (2006), Kaplan (2001b) and Merchant and Rockness (1994). One of the earlier studies, by Merchant and Rockness (1994), examined judgments of managers, controllers, and internal auditors regarding the acceptability of various earnings management scenarios on a unidimensional 5-point Likert-scale. Moreover, Geiger et al. (2006) examined the influence of national culture on judgments on the acceptability of earnings management using a simplistic unidimensional scale.

Such studies provided some valuable insights into ethical issues in accounting contexts, however, the reliance on unidimensional measures represents a limitation. Professional judgments are complex and multidimensional, and are unlikely to be captured by simplistic unidimensional measures (Patel, 2007; Sparks & Pan, 2010). As Cohen, Pant, and Sharp (1993) argued, asking unidimensional questions for complex ethical constructs affects the reliability and validity of those measures. For example, "the complex and multi-faceted dynamics of professional judgments, particularly in relation to ethical issues in accounting, cannot be adequately captured on unidimensional scales" (Patel, 2007, p. 94). Further, "many of the methods employed to operationalize ethical judgment remain troublesome, especially those involving single-item scales" (McMahon & Harvey, 2007, p. 27). An additional limitation of unidimensional ethics measures is that they do not allow insights into *why* individuals make specific judgments. It is therefore suggested that sharper and more valid and relevant measures are

needed to complement unidimensional ethics measures. Specifically, richer insights into the complexities of professional judgments in ethical contexts may be gained by Multidimensional Ethics Measures (MEM). The next sections provide some theoretical and methodological suggestions to enhance the quality of research on accountants' judgments and earnings management.

4. Recommendations to enhance research on professional accountants' judgments and earnings management

4.1. Importance of personality variables

Earlier sections of this paper suggested the importance of examining relevant personality variables for studies on professional judgments and earnings management. In the following sections, details on Construal of Self and Regulatory Focus Theory as relevant personality variables are provided. It is also shown how Construal of Self and Regulatory Focus Theory may be used in theory development and hypotheses formulation in accounting research.

4.1.1. Construal of Self

Construal of self focuses on individuals' notions of themselves in relation to others and can influence cognition, emotion, relationships, and motivation (Markus & Kitayama, 1991, 2010; Singelis, 1994). Specifically, Construal of Self distinguishes between independent Construal of Self and interdependent Construal of Self.⁴ Individuals with independent Construal of Self focus primarily on autonomy and their individualistic characteristics. In contrast, individuals with interdependent Construal of Self focus largely on collectivistic, group-, and relationship-oriented characteristics (Markus & Kitayama, 1991, 2010). Note that the counterparts to the individual level of independent and interdependent Construal of Self are individualism and collectivism on the cultural level (Gudykunst et al., 1996; Lu & Gilmour, 2007; Singelis, Bond, Sharkey, & Lai, 1999). As such, Construal of Self is likely to provide sharper insights into judgments on an individual level.

Importantly, despite the focus on autonomy by individuals with independent Construal of Self, other individuals are still important for social comparison and self-evaluation. For example, individuals with independent Construal of Self consider themselves as a "little fish in a big pond" when comparing themselves to peers who performed well, resulting in experiencing negative self-evaluation. In contrast, if they compare themselves to peers who performed poorly, individuals with independent Construal of Self consider themselves as a "big fish in a little pond," thereby experiencing positive self-evaluation (Cheng & Lam, 2007). This finding is consistent with the idea that individuals with independent Construal of Self try to distinguish themselves from others and consider themselves as unique individuals.

In contrast, individuals with interdependent Construal of Self perceive themselves as closely connected to others, in particular to in-group members (Markus & Kitayama, 1991, 2010). The selection of in-group members is highly selective and depends on the sharing of a common fate. Examples of individuals with whom an individual with interdependent Construal of Self may share a common fate, and as such are in-group members, are family-members, friends, and co-workers (Markus & Kitayama, 1991). The relationship with in-group members is of the highest importance, as individuals with interdependent Construal of Self largely define themselves with the group (Markus & Kitayama, 1991, 2010).

⁴ It is acknowledged that a categorization into independent and interdependent Construal of Self may be a simplification of real-life scenarios and may neglect contextual factors. For example, societies and individuals may have both Construal of Self within them and the 'activation' of either construal may depend on current motives which disallows an explicit categorization into one of the two categories of Construal of Self (Gardner et al., 1999; Singelis et al., 1999).

Importantly, individuals with independent and interdependent Construal of Self differ in their pursuit and promotion of goals. The most important goal for individuals with interdependent Construal of Self is harmonious interpersonal relationships (Markus & Kitayama, 1991). Individuals with interdependent Construal of Self focus on the promotion of others' goals and rank in-group goals higher than personal goals (Downie, Koestner, Horberg, & Haga, 2006; Markus & Kitayama, 1991). Indeed, in some cases, the pursuit of the goals of others becomes a personal goal, in order to maintain connections with others (Downie et al., 2006; Markus & Kitayama, 1991). In contrast, individuals with independent Construal of Self focus on the pursuit and promotion of personal goals (Downie et al., 2006; Markus & Kitayama, 1991, 2010). Recall that individuals with independent Construal of Self are characterized by autonomy and separateness. As such, individuals with independent Construal of Self choose goals that are likely to distinguish them from others (van Horen, Pöhlmann, Koeppen, & Hannover, 2008).

The previous discussion of Construal of Self as a personality variable suggests, for example, the following in the context of earnings management. Individuals with independent Construal of Self may try to distinguish themselves from others by receiving a higher financial compensation and by pursuing personal goals such as financial advancement. This focus on personal goals and distinction from others by individuals with independent Construal of Self may encourage them to engage in earnings management to ensure personal benefits such as an increase in compensation or bonuses. Indeed, one of the incentives for engaging in earnings management is a possible increase of compensation or bonuses (Burgstahler & Dichev, 1997; Doupnik, 2008; Elias, 2002). For example, a bonus may be paid to a manager or an accountant if the specified financial targets of the company are achieved. Note that sufficient incentives, such as financial incentives, may contribute to influence a usually ethical individual to behave unethically (Aquino & Freeman, 2009, p. 391). As such, an individual with independent Construal of Self may be likely to engage in and accept earnings management if it results in a direct financial benefit for the earnings manipulator.

In contrast, individuals with interdependent Construal of Self focus on the promotion of others' goals and rank goals of in-group members, such as colleagues, higher than personal goals (Downie et al., 2006; Markus & Kitayama, 1991). Integration of adults into social networks can motivate ethical conduct and can either support or undermine ethical behavior (Thompson, 2009, p. 159). This suggests, in the context of earnings management, that individuals with interdependent Construal of Self may be likely to engage in and accept earnings management if it results in a financial benefit for a person closely related to them, such as a close colleague. The previous discussion shows how Construal of Self may be used in theory development in studies examining accountants' judgments on earnings management. This theory development may lead to hypotheses such as the following:

H1a. Professional accountants with a stronger independent Construal of Self are more accepting of and more likely to engage in earnings management if it results in a personal financial benefit for the individual engaging in earnings management.

H1b. Professional accountants with a stronger interdependent Construal of Self are more accepting of and more likely to engage in earnings management if it results in a financial benefit for an individual closely related to the individual engaging in earnings management.

Note that Construal of Self has been applied in accounting contexts. For example, Patel and Psaros (2000) operationalized Construal of Self to examine the perceptions of external auditors' independence. The results of the study provide evidence that significant differences exist among final year undergraduate accounting students from the United Kingdom, Australia, India, and Malaysia. However, the study by Patel and Psaros (2000) may be criticized for not explicitly measuring Construal of Self. Heinz et al. (2013) examine the influence of Construal of

Self on professional accountants' judgments on earnings management and suggest that the limitation of the study by Patel and Psaros (2000) may, for example, be overcome by measuring Construal of Self using the Self-Construal Scale from Singelis (1994).

4.1.2. Regulatory Focus Theory

This paper also suggests the use of Regulatory Focus Theory as a relevant personality variable to examine accountants' judgments. Regulatory Focus Theory distinguishes between two self-regulatory systems to pursue specific goals or desired end-states, namely, promotion-focus and prevention-focus (Higgins, 1997, 1998).⁵ Promotion-focused individuals are concerned with how they ideally would like to become, and emphasize accomplishment and advancement. Individuals with promotion-focus generally pursue their goals through 'eager' strategic means. For example, they might try to be very inclusive, so as not to miss anything that could allow advancement. As such, these individuals try to eliminate "errors by omission" (Molden & Higgins, 2008). In contrast, individuals with prevention-focus are concerned with how they think they ought to be. They emphasize security and safety and use 'vigilant' strategic means to pursue their goals (Higgins, 1997). Prevention-focused individuals tend to be very exclusive, so as not to do anything that might influence their security and as such, they seek to eliminate "errors by commission" (Molden & Higgins, 2008).

Importantly, success and failure are perceived differently under promotion-focus (gain vs. non-gain) and prevention-focus (non-loss vs. loss). Individuals with promotion-focus perceive success in the presence of a positive outcome (a gain) (Higgins, 1997). For example, success for promotion-focused individuals may be the consumption of fruits and vegetables to have optimal health (presence of positive outcome) (Latimer et al., 2008). Failure is perceived as the absence of a positive outcome (a non-gain) (Higgins, 1997). In contrast, individuals with prevention-focus perceive success as the absence of a negative outcome (a non-loss) (Higgins, 1997). An example of success for prevention-focused individuals may be the consumption of fruits and vegetables to avoid illness (absence of negative outcome) (Latimer et al., 2008). Failure is perceived as the presence of a negative outcome (a loss) (Higgins, 1997).

In short, promotion-focused individuals are concerned with gain/non-gain situations and with the presence and absence of positive outcomes. In contrast, prevention-focused individuals are concerned with non-loss/loss situations and with the absence and presence of negative outcomes. This discussion shows that individuals with a promotion-focus and those with a prevention-focus may behave similarly to achieve specific goals. However, the reasons and motivations for that behavior may differ because promotion-focused and prevention-focused individuals perceive success differently.

In an accounting context and specifically in relation to professional judgments on earnings management, the previous discussion of Regulatory Focus Theory as a personality variable suggests that promotion-focused individuals may consider earnings management resulting in an increased profit as a success. This suggestion is in line with the idea that promotion-focused individuals perceive success as the presence of a positive outcome. As such, promotion-focused individuals may be likely to engage in and accept earnings management if it results in an increase of net income. In contrast, prevention-focused individuals may consider earnings management resulting in an eliminated net loss as a success. This is in line with the idea that prevention-focused individuals perceive the absence of negative outcomes as a success. As such, prevention-focused individuals may be likely to engage in and accept

earnings management if it results in an eliminated net loss. In this example, an increase of net income is taken as a proxy for presence of positive outcome and an eliminated net loss is taken as a proxy for absence of negative outcome. The previous discussion on Regulatory Focus Theory may lead to relevant hypotheses for studies examining accountants' judgments on earnings management such as the following:

H2a. Professional accountants with a stronger promotion-focus are more accepting of and more likely to engage in earnings management if it results in an increase of net income in the financial statements.

H2b. Professional accountants with a stronger prevention-focus are more accepting of and more likely to engage in earnings management if it results in an elimination of net loss in the financial statements.

Fig. 2 shows the relevant personality variables of Construal of Self and Regulatory Focus Theory and their key characteristics. It also shows the methodological suggestion of this paper to measure accountants' judgments using a combination of a unidimensional ethics measure and MEM.

Fig. 3 provides a summary of the exemplified theory development for Construal of Self and Regulatory Focus Theory. It also demonstrates and exemplifies how theory development can generate hypotheses for Construal of Self and Regulatory Focus Theory for studies examining accountants' judgments on earnings management.

4.2. Extension of country selection

As discussed earlier, one of the limitations of the current literature examining earnings management and ethical issues is that these studies have been conducted to a large extent in the United States, a member of the Anglo-American accounting model. This paper suggests that accounting research examining earnings management could deepen the focus on countries other than the United States as well, to gain further insights into this topic. Given the importance of contextual factors such as political, economic, social, and historical influences on professional accountants' judgments, the literature is likely to be enhanced by considering different countries' contextual environments. In particular, it is suggested that future accounting research focuses on countries in which ethical issues have not been rigorously examined.

Moreover, by extending country selection for study beyond the United States, a global understanding of various factors related to earnings management can be gained. The pace of globalization has led stakeholders to seek "greater clarity, comparability and simplicity in understanding organizational processes and in evaluating firm performance," which has also intensified discussions on the standardization of financial reporting globally (Bhimani, 2008, p. 446). However, despite possible global standardizations, accounting standards generally provide substantial discretion for financial statement preparations and require extensive application of accountants' judgments (Ball, 2006; Burgstahler, Hail, & Leuz, 2006). As such, it is important to consider various national accounting environments and differences in accountants' judgments to better understand differences in accounting practices (Heidhues & Patel, 2012, p. 158). In addition, the role that accounting played in the current financial crisis, such as through the misapplication of accounting standards, and the global contagion of the crisis, also suggests that there is a need to extend country selection to gain a deeper global perspective on earnings management.

Examples of countries to examine include emerging countries, members of transition economies and countries being included in the Continental European accounting model.⁶ Emerging countries provide an interesting setting in which to examine earnings management because of the various differences between emerging and developed

⁵ It is acknowledged that a categorization of individuals into promotion-focused and prevention-focused may be a simplification of real-life scenarios and may neglect contextual factors. Indeed, as, "both nurturance and security are necessary for survival, each focus is present in all people to some degree" (Cesario et al., 2008, p. 445). Regulatory focus can differ across individuals in the form of a chronic regulatory focus, but regulatory focus can also be present in momentary situations (Higgins, 1997).

⁶ Note that the classification of countries as developed or emerging is not based on strict criteria but has rather evolved over time (International Monetary Fund, 2011, p. 169).

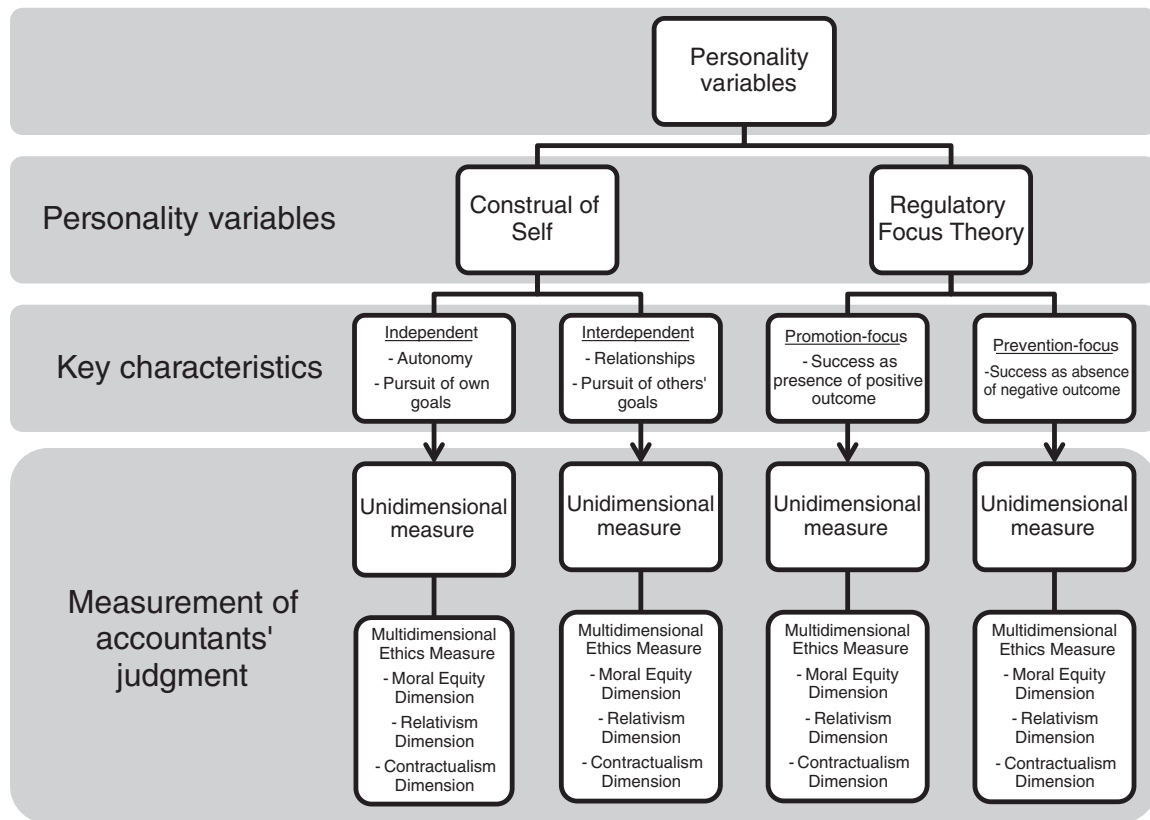


Fig. 2. Influence of personality variables on accountants' judgments.

countries on factors related to earnings management, such as quality of enforcement, investor protection, and ownership and control structures (Sarkar et al., 2008). For example, legal protection of minority investors in emerging markets is generally considered weak, resulting in greater expropriation of minority investors (Coffee, 2005; Kim & Yi, 2006). These factors are likely to influence accountants' judgments and earnings management, and emerging markets may thus represent useful environments for the examination of earnings management.

As for emerging markets, little is known about earnings management in transition economies. A transition economy is characterized by a move from a centrally planned to a market economy (The World Bank, 2002, p. x). Members of transition economies provide specific institutional settings within which to examine judgments and earnings management. For example, the transition process requires the restructuring of social institutions, the development of capital markets, and the introduction of new accounting regulations (Hellström, 2006). China represents an example of a transition economy. It is the world's second largest economy and plays a major part in the business world (The World Bank, 2012). Given the economic development and the role China is expected to play in the future globally, China provides an interesting setting to examine earnings management. For example, an issue that has been frequently associated with China that may influence accountants' judgments and earnings management is auditor independence (Chu, Du, & Jiang, 2011; DeFond, Wong, & Li, 2000; Yang, Dunk, Kilgore, Tang, & Lin, 2003). The suggestion of this paper to extend country selection to transition economies is consistent with the calls of other researchers to examine earnings management in China and in other transition economies (Li, Selover, & Stein, 2009).

Additional countries to be examined with respect to earnings management are those included in the Continental European accounting model. Characteristics of the Continental European accounting model are, for example, a focus on debt financing, conservative reporting requirements, and the close relationship between tax and financial accounting (Doupnik & Perera, 2012, p. 41). It is important to examine

countries with different characteristics and contextual factors because factors such as shareholder- versus stakeholder-oriented corporate governance may influence earnings management (Geiger & van der Laan Smith, 2010). For example, research provides evidence that motives for earnings management for firms from France, a country classified as a member of the Continental European accounting model, are generally related to contractual debt costs and effective tax rate (Othman & Zéghal, 2006).

A further example of a country typically classified as a member of the Continental European accounting model is Germany. Business ethics and ethical issues in accounting contexts such as earnings management have not been rigorously examined in Germany (Antal, Oppen, & Sobczak, 2009; Becker & Messner, 2005; Palazzo, 2002; Portz et al., 2008). Indeed, it has been suggested that Continental European accounting model countries generally have received little attention in the current earnings management literature (Othman & Zéghal, 2006; Zéghal, Chtourou, & Sellami, 2011). As such, a shift from the focus on the United States toward members of the Continental European Accounting model, emerging countries, and transition economies is likely to provide greater and broader global insights into earnings management and extends existing research. The next sections provide some methodological suggestions, including advocating the use of Multidimensional Ethics Measure (MEM) and measuring "holier-than-thou" perception bias.

4.3. Multidimensional Ethics Measure (MEM)

As discussed in earlier sections, some researchers have measured accountants' judgments using unidimensional ethics scales. This paper criticizes this reliance on unidimensional ethics scales and suggests including Multidimensional Ethics Measures (MEM) in studies examining earnings management. Particularly, a combination of unidimensional measure and the MEM developed by Reidenbach and Robin

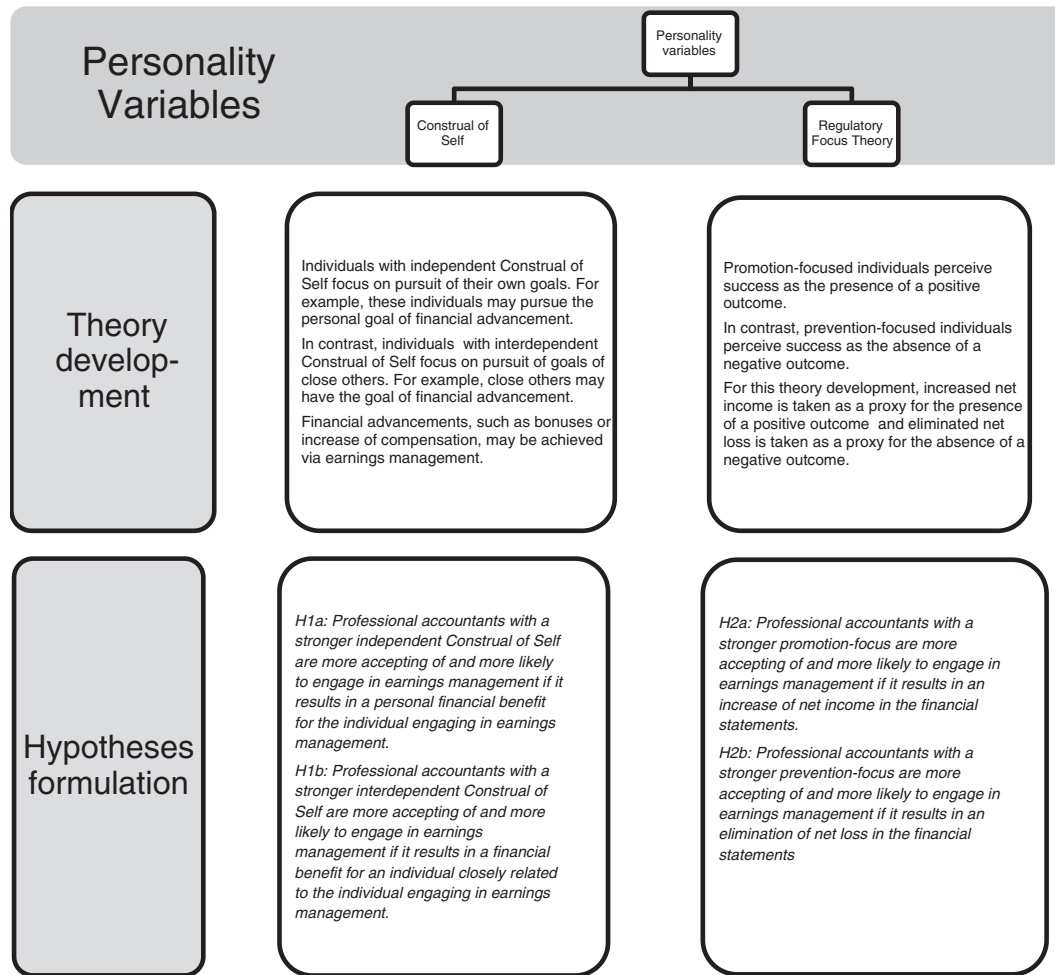


Fig. 3. Exemplified theory development and hypotheses formulation for Construal of Self and Regulatory Focus Theory.

(1990) is recommended to measure accountants' ethical judgments on earnings management.

The MEM is based on three important ethical philosophies and as such is not constrained to the ethical philosophies of deontology and teleology (Robin, Reidenbach, & Babin, 1997). Specifically, the MEM is comprised of eight items based on the philosophical dimensions of moral equity, relativism, and contractualism (Reidenbach & Robin, 1990). These three dimensions also capture the complex construct of accountants' judgments on ethical issues (Flory, Phillips, Reidenbach, & Robin, 1992; Patel, 2007). The first dimension, moral equity, is concerned with individuals' perceptions of fairness and justice. Moral equity is mainly drawn from the philosophy of justice theory. The theory of justice is largely based on Aristotle's "principle of formal justice," which points out that equals ought to be treated equally, and unequals ought to be treated unequally (Reidenbach & Robin, 1990). The following four items of the MEM comprise the moral equity dimension: fair/unfair, just/unjust, acceptable/unacceptable to my family and morally right/not morally right.

The second dimension, relativism, refers to the notion that ethical rules depend on social and cultural systems. The relativism dimension "seems to be more concerned with the guidelines, requirements, and parameters inherent in the social/cultural system than with individual considerations" (Reidenbach & Robin, 1990, p. 646). As all values largely depend on culture, there are no 'universal' ethical rules. Therefore, business and accounting activities may have different ethical evaluations across cultures and subcultures. The following two items comprise the

relativism dimension of the MEM: traditionally acceptable/unacceptable and culturally acceptable/unacceptable.

The third dimension, contractualism, is derived from the philosophy of deontology. For deontologists, implied obligations, duties, and ethical rules are the basis for actions. The most prominent ethical rule, the 'categorical imperative', comes from Immanuel Kant. It states, "Act only according to that maxim by which you can at the same time will that it should become a universal law" (Kant, 1959, p. 39). Specifically, the contractualism dimension relates to the social contracts that exist between business and society. This dimension is particularly relevant to business and society because most business transactions incorporate either implicit or explicit contracts. The contractualism dimension is comprised of the following two items: violates/does not violate an unspoken promise and violates/does not violate an unwritten contract.

The MEM has been applied previously in accounting contexts and has been tested for validity and reliability (Cohen, Pant, & Sharp, 1996, 1998; Cruz, Shafer, & Strawser, 2000; Flory et al., 1992; Patel, 2007; Shawver & Sennetti, 2009). Moreover, prior research provides evidence that the explanatory power of the MEM is greater than a unidimensional ethics measure (Patel, 2007). This paper suggests a combination of a unidimensional measure and the MEM to capture accountants' judgments. The application of both measures is likely to provide sharper and richer insights into judgments. Importantly, the MEM enhances understandings of accountants' judgments by showing not only *what* individuals judge about a specific situation, but also *why* they do so (Reidenbach & Robin, 1990).

4.4. “Holier-than-thou” perception bias and earnings management

Evidence shows that individuals frequently hold inaccurate self-perceptions and make inaccurate self-reports (Balcetis, Dunning, & Miller, 2008; Dunning, Heath, & Suls, 2004; Epley & Dunning, 2000; Moore & Small, 2007). One form of inaccurate self-reports that might influence accountants’ judgments is “holier-than-thou” perception bias (Epley & Dunning, 2000; Patel, 2007; Patel & Millanta, 2011; Tyson, 1990). “Holier-than-thou” perception bias means that individuals consider themselves as far more ethical than their peers (Patel, 2007; Patel & Millanta, 2011; Tyson, 1990). This perception bias is a widespread phenomenon and individuals seem to chronically feel “holier-than-thou” (Epley & Dunning, 2000). “Holier-than-thou” perception bias is a relevant issue because individuals considering themselves as more ethical than their peers may not see any pressure to improve their own ethical behavior. Further, they may justify their own unethical behavior as needed to compete with their peers (Tyson, 1990).

It is important to examine “holier-than-thou” perception bias because its presence may affect the reliability and validity of findings related to accountants’ judgments. Moreover, this perception bias may lead to an unethical organizational culture (Patel & Millanta, 2011; Tyson, 1990). In the context of earnings management, for example, individuals may be more accepting of earnings management if they perceive that their colleagues are doing the same. Accountants under pressure from clients may also engage in earnings management to retain those clients and to increase their share of revenue for the accounting firm. The revenue generated for the firm is generally a relevant criterion for the promotion of individuals within the firm. This acceptance of or engagement in earnings management may lead to the rationalization by accountants that their behavior is necessary to compete with their colleagues in the promotion process. This example clearly shows the importance of “holier-than-thou” perception bias in organizational accounting settings.

The “holier-than-thou” perception bias in accounting contexts is measured by providing respondents with relevant earnings management scenarios and asking two associated questions. The first question asks whether the respondent would act in the same way as the individual in the scenario. The second question asks whether their peers would act in the same way as the individual in the scenario. The difference in the mean responses between these two questions indicates the presence of a “holier-than-thou” perception bias (Cohen et al., 1995, 1996; Patel, 2003, 2007; Patel & Millanta, 2011; Tyson, 1992). The incorporation of this measure in research instruments can provide useful insights into this bias. Moreover, research instruments incorporating questions regarding this perception bias is in contrast to a large number of prior studies on accountants’ judgments and earnings management that have asked respondents only about their own judgments.

5. Conclusions

Given the criticisms regarding the quality of financial reporting during the current Global Financial Crisis and the importance of earnings management for the accounting and business world, the objective of this paper was to provide some suggestions to guide future research on the controversial topics of accountants’ professional judgments and earnings management. Limitations of prior studies on earnings management were evaluated and categorized into three components, namely, studies at national and group levels, studies conducted in the United States, and studies applying unidimensional ethics measures. Based on this evaluation, this paper provided four theoretical and methodological suggestions for extending and enhancing research on accountants’ professional judgments and earnings management.

First, prior research has frequently focused on group levels, by examining the influence of national culture on earnings management and relying heavily on Hofstede’s (1980) dimensions and Gray’s (1988) accounting values. This paper suggests extending this strand of research

by examining the influence of personality variables on accountants’ professional judgments to provide deeper insights into judgments at an individual level. For this paper, two relevant personality variables were selected, namely, Construal of Self and Regulatory Focus Theory. Both Construal of Self and Regulatory Focus Theory have been, primarily in psychology literature, proven as valid and relevant for judgments, decisions, and behavior. This paper outlined and exemplified how these personality variables might be used for theory development and hypotheses formulation for studies examining accountants’ judgments and earnings management.

Second, prior studies examining earnings management and ethical issues have been conducted to a large extent using United States data. It has frequently been presumed that findings for the United States context are generalizable and transferable to other countries, either within Anglo-American countries or outside the Anglo-American cluster. However, given the importance of contextual factors such as political, economic, social, and historical influences, the literature on accountants’ judgments and earnings management is likely to be enhanced by extended coverage of the contextual environments of a range of countries. In particular, it was suggested that future studies may focus on countries in which ethical issues in accounting contexts have not been rigorously examined. Moreover, the pace of globalization and the role that accounting played in the current financial crisis suggests that there is a need to extend country selection to gain global perspectives on earnings management. Countries that future studies may examine include emerging countries, members of transition economies such as China and countries included in the Continental European accounting model such as France and Germany.

Third, this paper discussed limitations of using simplistic unidimensional ethics measures for topics as complex as accountants’ professional judgments and earnings management. It was suggested that researchers may measure accountants’ judgments using a combination of unidimensional measure and Multidimensional Ethics Measure (MEM) (Reidenbach & Robin, 1990). The MEM is derived from three relevant ethical philosophies, namely, moral equity, relativism, and contractualism, and therefore provides a sharper theoretical underpinning to measure accountants’ judgments in ethical contexts. Furthermore, the application of a combination of a unidimensional measure and the MEM allows not only insights into *what* individuals judge about a specific situation, but also provides deeper insights into *why* individuals judge a particular activity as ethical or unethical. An additional benefit of using the MEM is that, for example, in contrast to Rest’s Defining Issues Test, context-specific scenarios can be developed for accounting settings.

Fourth, this paper suggested measuring “holier-than-thou” perception bias of professional accountants to broaden understandings of ethical issues and accountants’ judgments in the context of earnings management. “Holier-than-thou” perception bias refers to when individuals consider themselves as far more ethical than their peers (Tyson, 1990). This bias is important because individuals considering themselves as more ethical than their peers may not see any pressure to improve their own ethical behavior and they may justify their own unethical behavior as needed to compete with their peers. As such, “holier-than-thou” perception bias is likely to foster unethical organizational cultures. The measurement of this perception bias is also relevant because it may influence the reliability and validity of findings related to accountants’ judgments. In conclusion, it is important that researchers use holistic and richer theoretical and methodological perspectives to gain insights into the complex and controversial topics of accountants’ professional judgments, earnings management, and ethics. Some of the suggestions included in this paper may provide useful guidance for future studies examining these topics.

Acknowledgments

A previous version of the paper has been presented at the 1st Journal of International Accounting Research conference in Xiamen, China and

at the 9th Annual International Conference on Accounting in Athens, Greece. The authors gratefully acknowledge the comments of two anonymous reviewers and the editors. The first author acknowledges that the work on this paper was done while holding the Faculty of Business and Economics PhD Scholarship from Macquarie University, Sydney, Australia.

References

- Abdolmohammadi, M. J., Fedorowicz, J., & Davis, O. (2009). Accountants' cognitive styles and ethical reasoning: A comparison across 15 years. *Journal of Accounting Education*, 27, 185–196.
- Andon, P., Chong, K. M., & Roebuck, P. (2010). Personality preferences of accounting and non-accounting graduates seeking to enter the accounting profession. *Critical Perspectives on Accounting*, 21(4), 253–265.
- Antal, A.B., Oppen, M., & Sobczak, A. (2009). (Re)discovering the social responsibility of business in Germany. *Journal of Business Ethics*, 89(Supplement 3), 285–301.
- Aquino, K., & Freeman, D. (2009). Moral identity in business situations: A social-cognitive framework for understanding moral functioning. In D. Narvaez, & D. K. Lapsley (Eds.), *Personality, identity, and character: Explorations in moral psychology* (pp. 375–395). New York: Cambridge University Press.
- Balcetis, E., Dunning, D., & Miller, R. L. (2008). Do collectivists know themselves better than individualists? Cross-cultural studies of the holier than thou phenomenon. *Journal of Personality and Social Psychology*, 95(6), 1252–1267.
- Ball, R. (2006). International Financial Reporting Standards (IFRS): Pros and cons for investors. *Accounting and Business Research*, 36, 5–27 (Special Issue).
- Ball, R. (2009). Market and political/regulatory perspectives on the recent accounting scandals. *Journal of Accounting Research*, 47(2), 277–323.
- Ball, R., Kothari, S. P., & Robin, A. (2000). The effect of international institutional factors on properties of accounting earnings. *Journal of Accounting and Economics*, 29(1), 1–51.
- Barua, A., Lin, S., & Sbaraglia, A.M. (2010). Earnings management using discontinued operations. *The Accounting Review*, 85(5), 1485–1509.
- Baskerville, R. F. (2003). Hofstede never studied culture. *Accounting, Organizations and Society*, 28(1), 1–14.
- Bebeau, M. J. (2002). The Defining Issues Test and the Four Component Model: Contributions to professional education. *Journal of Moral Education*, 31(3), 271–295.
- Bebeau, M. J., Rest, J. R., & Narvaez, D. (1999). Beyond the promise: A perspective on research in moral education. *Educational Researcher*, 28(4), 18–26.
- Becker, A., & Messner, M. (2005). After the scandals: A German-speaking perspective on management accounting research and education. *The European Accounting Review*, 14(2), 417–427.
- Bhimani, A. (2008). The role of a crisis in reshaping the role of accounting. *Journal of Accounting and Public Policy*, 27(6), 444–454.
- Birnberg, J. G. (2011). A proposed framework for behavioral accounting research. *Behavioral Research in Accounting*, 23(1), 1–43.
- Brandon, D.M., Kerler, W. A., Killough, L. N., & Mueller, J. M. (2007). The joint influence of client attributes and cognitive moral development on students' ethical judgments. *Journal of Accounting Education*, 25(1–2), 59–73.
- Braun, G. P., & Rodriguez, R. P., Jr. (2008). Earnings management and accounting values: A test of Gray (1988). *Journal of International Accounting Research*, 7(2), 1–23.
- Briley, D. A., Morris, M. W., & Simonson, I. (2000). Reasons as carriers of culture: Dynamic versus dispositional models of cultural influence on decision making. *Journal of Consumer Research*, 27, 157–178.
- Brockner, J., & Higgins, E. T. (2001). Regulatory Focus Theory: Implications for the study of emotions at work. *Organizational Behavior and Human Decision Processes*, 86(1), 35–66.
- Burgstahler, D., & Dichev, I. (1997). Earnings management to avoid earnings decreases and losses. *Journal of Accounting and Economics*, 24(1), 99–126.
- Burgstahler, D. C., Hail, L., & Leuz, C. (2006). The importance of reporting incentives: Earnings management in European private and public firms. *The Accounting Review*, 81(5), 983–1016.
- Bushman, R. M., & Smith, A. J. (2001). Financial accounting information and corporate governance. *Journal of Accounting and Economics*, 32(1–3), 237–333.
- Cable, D., & Patel, C. (2000). Personality and cultural influences on aggressive financial reporting practices. *Asian Review of Accounting*, 8(2), 60–80.
- Cesario, J., Higgins, E. T., & Scholer, A. A. (2008). Regulatory fit and persuasion: Basic principles and remaining questions. *Social and Personality Psychology Compass*, 2(1), 444–463.
- Chand, P., & Patel, C. (2011). *Achieving global convergence of financial reporting standards: Implications from the South Pacific Region*. Bingley, UK: Emerald JAI Publishing.
- Cheng, R. W. -y., & Lam, S. -f. (2007). Self-construal and social comparison effects. *British Journal of Educational Psychology*, 77, 197–211.
- Chu, A. G. H., Du, X., & Jiang, G. (2011). Buy, lie, or die: An investigation of Chinese ST firms' voluntary interim audit motive and auditor independence. *Journal of Business Ethics*, 102(1), 135–153.
- Chung, R., Firth, M., & Kim, J. -B. (2002). Institutional monitoring and opportunistic earnings management. *Journal of Corporate Finance*, 8(1), 29–48.
- Clikeman, P.M., Geiger, M.A., & O'Connell, B. T. (2001). Student perceptions of earnings management: The effect of national origin and gender. *Teaching Business Ethics*, 5(4), 389–410.
- Coffee, J. C. (2005). A theory of corporate scandals: Why the USA and Europe differ. *Oxford Review of Economic Policy*, 21(2), 198–211.
- Cohen, J., Pant, L., & Sharp, D. (1993). A validation and extension of a Multidimensional Ethics Scale. *Journal of Business Ethics*, 12(1), 13–26.
- Cohen, J. R., Pant, L. W., & Sharp, D. J. (1995). An exploratory examination of international differences in auditors' ethical perceptions. *Behavioral Research in Accounting*, 7(1), 37–64.
- Cohen, J. R., Pant, L. W., & Sharp, D. J. (1996). Measuring the ethical awareness and ethical orientation of Canadian auditors. *Behavioral Research in Accounting*, 8, 98–119 (Supplement 1996).
- Cohen, J. R., Pant, L. W., & Sharp, D. J. (1998). The effect of gender and academic discipline diversity on the ethical evaluations, ethical intentions and ethical orientation of potential public accounting recruits. *Accounting Horizons*, 12(3), 250–270.
- Cohen, J. R., Pant, L. W., & Sharp, D. J. (2001). An examination of differences in ethical decision-making between Canadian business students and accounting professionals. *Journal of Business Ethics*, 30(4), 319–336.
- Crowe, E., & Higgins, E. T. (1997). Regulatory focus and strategic inclinations: Promotion and prevention in decision-making. *Organizational Behavior and Human Decision Processes*, 69(2), 117–132.
- Cruz, C. A., Shafer, W. E., & Strawser, J. R. (2000). A multidimensional analysis of tax practitioners' ethical judgments. *Journal of Business Ethics*, 24, 223–244.
- Dechow, P.M., Myers, L. A., & Shakespeare, C. (2010). Fair value accounting and gains from asset securitizations: A convenient earnings management tool with compensation side-benefits. *Journal of Accounting and Economics*, 49, 2–25.
- Dechow, P.M., & Skinner, D. J. (2000). Earnings management: Reconciling the views of accounting academics, practitioners, and regulators. *Accounting Horizons*, 14(2), 235–250.
- DeFond, M. L., Wong, T. J., & Li, S. (2000). The impact of improved auditor independence on audit market concentration in China. *Journal of Accounting and Economics*, 28(3), 269–305.
- Dellaportas, S., Cooper, B. J., & Leung, P. (2006). Measuring moral judgment and the implications of cooperative education and rule-based learning. *Accounting and Finance*, 46(1), 53–70.
- Doupnik, T. S. (2008). Influence of culture on earnings management: A note. *Abacus*, 44(3), 317–340.
- Doupnik, T. S., & Perera, H. (2012). *International accounting*. New York: McGraw-Hill.
- Downie, M., Koestner, R., Horberg, E., & Haga, S. (2006). Exploring the relation of independent and interdependent self-construals to why and how people pursue personal goals. *The Journal of Social Psychology*, 146(5), 517–531.
- Dunning, D., Heath, C., & Suls, J. M. (2004). Flawed self-assessment: implications for health, education, and the workplace. *Psychological Science in the Public Interest*, 5(3), 69–106.
- Elias, R. Z. (2002). Determinants of earnings management ethics among accountants. *Journal of Business Ethics*, 40(1), 33–45.
- Elias, R. Z. (2004). The impact of corporate ethical values on perceptions of earnings management. *Managerial Auditing Journal*, 19(1), 84–98.
- Epley, N., & Dunning, D. (2000). Feeling "holier than thou": Are self-serving assessments produced by errors in self- or social prediction? *Journal of Personality and Social Psychology*, 79(6), 861–875.
- Fischer, M., & Rosenzweig, K. (1995). Attitudes of students and accounting practitioners concerning the ethical acceptability of earnings management. *Journal of Business Ethics*, 14(6), 433–444.
- Flory, S. M., Phillips, T. J., Reidenbach, R. E., & Robin, D. P. (1992). A multidimensional analysis of selected issues in accounting. *The Accounting Review*, 67(2), 284–302.
- Gardner, W. L., Gabriel, S., & Lee, A. Y. (1999). "I" value freedom, but "we" value relationships: Self-construal priming mirrors cultural differences in judgment. *Psychological Science*, 10(4), 321–326.
- Geiger, M.A., O'Connell, B. T., Clikeman, P.M., Ochoa, E., Witkowski, K., & Basioudis, I. (2006). Perceptions of earnings management: The effects of national culture. *Advances in International Accounting*, 19, 175–199.
- Geiger, M.A., & van der Laan Smith, J. (2010). The effect of institutional and cultural factors on the perceptions of earnings management. *Journal of International Accounting Research*, 9(2), 21–43.
- Gibbs, J. C., Basinger, K. S., Grime, R. L., & Snarey, J. R. (2007). Moral judgment development across cultures: Revisiting Kohlberg's universality claims. *Developmental Review*, 27, 443–500.
- Gilligan, C. (1982). *In a different voice*. Cambridge, MA: Harvard University Press.
- Gray, S. J. (1988). Towards a theory of cultural influence on the development of accounting systems internationally. *Abacus*, 24(1), 1–15.
- Greenfield, A.C., Jr., Norman, C. S., & Wier, B. (2007). The effect of ethical orientation and professional commitment on earnings management behavior. *Journal of Business Ethics*, 83, 419–434.
- Grigoriadis, I. N. (2011). Greek tragedy. *World Policy Journal*, 28(2), 101–109.
- Guan, L., & Pourjalali, H. (2010). Effect of cultural environmental and accounting regulation on earnings management: A multiple year-country analysis. *Asia-Pacific Journal of Accounting & Economics*, 17, 99–127.
- Gudykunst, W. B., Matsumoto, Y., Ting-Toomey, S., Nishida, T., Kim, K., & Heyman, S. (1996). The influence of cultural individualism-collectivism, self construals, and individual values on communication styles across cultures. *Human Communications Research*, 22(4), 510–543.
- Habermas, J. (1979). *Moral development and ego identity Communication and the evolution of society*. London: Heinemann Educational Books.
- Harrison, G. L. (1993). Reliance on accounting performance measures in superior evaluative style – The influence of national culture and personality. *Accounting, Organizations and Society*, 18(4), 319–339.
- Healy, P.M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*, 13(4), 365–383.

- Heidhues, E., & Patel, C. (2011). A critique of Gray's framework on accounting values using Germany as a case study. *Critical Perspectives on Accounting*, 22, 273–287.
- Heidhues, E., & Patel, C. (2012). Globalization and contextual factors in accounting: The case of Germany (vol. 23). Bingley: Emerald Group Publishing Limited.
- Heinz, Ph., Patel, C., & Hellmann, A. (2013). Influence of personality variables on German professional accountants' judgments on earnings management Unpublished Working Paper.
- Hellström, K. (2006). The value relevance of financial accounting information in a transition economy: The case of the Czech Republic. *The European Accounting Review*, 15(3), 325–349.
- Higgins, E. T. (1997). Beyond pleasure and pain. *American Psychologist*, 52(12), 1280–1300.
- Higgins, E. T. (1998). Promotion and prevention: Regulatory focus as a motivational principle. *Advances in Experimental Social Psychology*, 30, 1–46.
- Higgins, E. T., & Silberman, I. (1998). Development of regulatory focus: Promotion and prevention as ways of living. In J. Heckhausen, & C. S. Dweck (Eds.), *Motivation and self-regulation across the life span* (pp. 78–113). New York: Cambridge University Press.
- Hofstede, G. (1980). *Culture's consequences: International differences in work related values*. Beverly Hills, CA: Sage Publications.
- Hofstede, G., Hofstede, G. J., & Minkov, M. (2010). *Cultures and organizations – Software of the mind: Intercultural cooperation and its importance for survival*. New York: McGraw Hill.
- Ibrahim, S. S. (2009). The usefulness of measures of consistency of discretionary components of accruals in the detection of earnings management. *Journal of Business, Finance & Accounting*, 36(9–10), 1087–1116.
- International Monetary Fund (Producer) (2011). *World Economic Outlook 2011: A survey by the staff of the International Monetary Fund*.
- Jackling, B., Cooper, B. J., Leung, P., & Dellaportas, S. (2007). Professional accounting bodies' perceptions of ethical issues, causes of ethical failure and ethics education. *Managerial Auditing Journal*, 22(9), 928–944.
- Jiraporn, P., Kim, Y. S., & Mathur, I. (2008). Does corporate diversification exacerbate or mitigate earnings management?: An empirical analysis. *International Review of Financial Analysis*, 17, 1087–1109.
- Johnson, E. N., Fleischman, G., Valentine, S., & Walker, K. B. (2012). Managers' ethical evaluations of earnings management and its consequences. *Contemporary Accounting Research*, 29(3), 910–927.
- Kant, I. (1959). *Foundations of the metaphysics of morals* (L. W. Beck, Trans.). Indianapolis: Bobbs-Merrill.
- Kaplan, S. E. (2001a). Ethically related judgments by observers of earnings management. *Journal of Business Ethics*, 32, 285–298.
- Kaplan, S. E. (2001b). Further evidence on the ethics of managing earnings: an examination of the ethically related judgments of shareholders and non-shareholders. *Journal of Accounting and Public Policy*, 20(1), 27–44.
- Kaplan, S. E., McElroy, J. C., Ravenscroft, S. P., & Shrader, C. B. (2007). Moral judgment and causal attributions: Consequences of engaging in earnings management. *Journal of Business Ethics*, 74, 149–164.
- Kim, J.-B., & Yi, C. H. (2006). Ownership structure, business group affiliation, listing status, and earnings management: Evidence from Korea. *Contemporary Accounting Research*, 23(2), 427–464.
- Kohlberg, L. (1969). Stage and sequence: The cognitive-developmental approach to socialization. In D. A. Goslin (Ed.), *Handbook of socialization theory and research* (pp. 347–480). Chicago: Rand McNally College Publishing Company.
- Kohlberg, L. (1973). The claim to moral adequacy of a highest stage of moral judgment. *The Journal of Philosophy*, 70(18), 630–646.
- Kohlberg, L. (1976). Moral stages and moralization: The cognitive-developmental approach. In T. Lickona (Ed.), *Moral development and behavior: Theory, research, and social issues* (pp. 31–53). New York: Holt, Rinehart and Winston.
- Kothari, S. P., & Lester, R. (2012). The role of accounting in the financial crisis: Lessons for the future. *Accounting Horizons*, 26(2), 335–351.
- Latimer, A. E., Williams-Piehot, P., Katulak, N. A., Cox, A., Moward, L., Higgins, E. T., et al. (2008). Promoting fruit and vegetable intake through messages tailored to individual differences in regulatory focus. *Annals of Behavioral Medicine*, 35(3), 363–369.
- Laux, C., & Leuz, C. (2009). The crisis of fair-value accounting: Making sense of the recent debate. *Accounting, Organizations and Society*, 34, 826–834.
- Leonardelli, G. J., Lakin, J. L., & Arkin, R. M. (2007). A regulatory focus model of self-evaluation. *Journal of Experimental Social Psychology*, 43(6), 1002–1009.
- Li, S., Selover, D. D., & Stein, M. (2009). "Keep silent and make money": Institutional patterns of earnings management in China. *Journal of Asian Economics*, 22(5), 369–382.
- Lu, L., & Gilmour, R. (2007). Developing a new measure of independent and interdependent views of self. *Journal of Research in Personality*, 41, 249–257.
- Ma, H. K., & Cheung, C.-K. (1996). A cross-cultural study of moral stage structure in Hong Kong Chinese, English, and Americans. *Journal of Cross-Cultural Psychology*, 27(6), 700–713.
- Markus, H. R., & Kitayama, S. (1991). Culture and the self: Implications for cognition, emotion, and motivation. *Psychological Review*, 98(2), 224–253.
- Markus, H. R., & Kitayama, S. (2010). Cultures and selves: A cycle of mutual constitution. *Perspectives on Psychological Science*, 5(4), 420–430.
- McMahon, J. M., & Harvey, R. J. (2007). Psychometric properties of the Reidenbach–Robin Multidimensional Ethics Scale. *Journal of Business Ethics*, 72, 27–39.
- McSweeney, B. (2002). Hofstede's model of national cultural differences and their consequences: A triumph of faith – a failure of analysis. *Human Relations*, 55(1), 89–118.
- Merchant, K. A., & Rockness, J. (1994). The ethics of managing earnings: An empirical investigation. *Journal of Accounting and Public Policy*, 13(1), 79–94.
- Molden, D. C., & Higgins, E. T. (2008). How preferences for eager versus vigilant judgment strategies affect self-serving conclusions. *Journal of Experimental Social Psychology*, 44(5), 1219–1228.
- Moore, D. A., & Small, D. A. (2007). Error and bias in comparative judgment: On being both better and worse than we think we are. *Journal of Personality and Social Psychology*, 92(6), 972–989.
- Nabar, S., & Boonlert-U-Thai, K. K. (2007). Earnings management, investor protection, and national culture. *Journal of International Accounting Research*, 6(2), 35–54.
- Naser, K., & Pendlebury, M. (1992). A note on the use of creative accounting. *The British Accounting Review*, 24(2), 111–118.
- Nelson, M. W. (2003). Behavioral evidence on the effects of principles- and rules-based standards. *Accounting Horizons*, 17(1), 91–104.
- Nelson, M. W., Elliott, J. A., & Tarpley, R. L. (2002). Evidence from auditors about managers' and auditors' earnings management decisions. *The Accounting Review*, 77, 175–202 (Supplement).
- Nelson, M. W., Elliott, J. A., & Tarpley, R. L. (2003). How are earnings managed? Examples from auditors. *Accounting Horizons*, 17–35 (2003 Supplement).
- Niskanen, J., Karjalainen, J., Niskanen, M., & Karjalainen, J. (2011). Auditor gender and corporate earnings management behavior in private Finnish firms. *Managerial Auditing Journal*, 26(9), 778–793.
- Okamoto, N. (2011). Collective intentionality and aggressive earnings management: Developing Norman Macintosh's arguments in the debate over principles- versus rules-based accounting standards. *Critical Perspectives on Accounting*, 22(2), 236–242.
- Othman, H. B., & Zéghal, D. (2006). A study of earnings-management motives in the Anglo-American and Euro-Continental accounting models: The Canadian and French cases. *The International Journal of Accounting*, 41, 406–435.
- Palazzo, B. (2002). U.S.-American and German business ethics: An intercultural comparison. *Journal of Business Ethics*, 41(3), 195–216.
- Patel, C. (2003). Some cross-cultural evidence on whistle-blowing as an internal control mechanism. *Journal of International Accounting Research*, 2(1), 69–96.
- Patel, C. (2006). *A comparative study of professional accountants' judgments*. Oxford, UK: Elsevier JAI.
- Patel, C. (2007). A multidimensional measure in accounting ethics research. *International Journal of Accounting, Auditing and Performance Evaluation*, 4(1), 90–110.
- Patel, C., & Millanta, B. (2011). "Holier-than-thou" perception bias among professional accountants: A cross-cultural study. *Advances in Accounting, incorporating Advances in International Accounting*, 27(2), 373–381.
- Patel, C., & Psaros, J. (2000). Perceptions of external auditors' independence: Some cross-cultural evidence. *The British Accounting Review*, 32(3), 311–338.
- Peasnell, K. V., Pope, P. F., & Young, S. (2005). Board monitoring and earnings management: Do outside directors influence abnormal accruals? *Journal of Business Finance & Accounting*, 32(7–8), 1311–1346.
- Portz, K., Strong, J., & Hoffmann, J. (2008). German beer is good, what about German net income? Comparing U.S. and German accounting students perceptions of earnings management. In R. A. Oglesby, & M. G. Adams (Eds.), *Business research yearbook – Global business perspectives*, Vol. XV. (pp. 438–443): International Academy of Business Disciplines.
- Psaros, J., Patel, C., & Warnakulasuriya, S. (2003). A study of uncertainty expressions in Australian accounting and auditing standards. *Pacific Accounting Review*, 15(2), 1–28.
- Reidenbach, R. E., & Robin, D. P. (1990). Toward the development of a multidimensional scale for improving evaluations of business ethics. *Journal of Business Ethics*, 9(8), 639–653.
- Rest, J. (1983). Morality. (4th ed.) In P. H. Mussen (Ed.), *Handbook of child psychology*, Vol. III. (pp. 556–629) New York: John Wiley & Sons.
- Rest, J., Cooper, D., Coder, R., Masanz, J., & Anderson, D. (1974). Judging the important issues in moral dilemmas – An objective measure of development. *Developmental Psychology*, 10(4), 491–501.
- Rest, J., Narvaez, D., Bebeau, M. J., & Thoma, S. J. (1999a). *Postconventional moral thinking: A Neo-Kohlbergian approach*. Mahwah, NJ: Lawrence Erlbaum Associates.
- Rest, J. R., Narvaez, D., Thoma, S. J., & Bebeau, M. J. (1999b). DIT2: Devising and testing a revised instrument of moral judgment. *Journal of Educational Psychology*, 91(4), 644–659.
- Robin, D. P., Reidenbach, R. E., & Babin, B. J. (1997). The nature, measurement, and stability of ethical judgments in the workplace. *Psychological Reports*, 80, 563–580.
- Rohner, R. P. (1984). Toward a conception of culture for cross-cultural psychology. *Journal of Cross-Cultural Psychology*, 15(2), 111–138.
- Ryckman, R. M. (2007). *Theories of personality*. Belmont: Thomson Wadsworth.
- Sarkar, J., Sarkar, S., & Sen, K. (2008). Board of directors and opportunistic earnings management: Evidence from India. *Journal of Accounting, Auditing & Finance*, 23(4), 517–551.
- Shawver, T. J., & Sennett, J. T. (2009). Measuring ethical sensitivity and evaluation. *Journal of Business Ethics*, 88, 663–678.
- Singelis, T. M. (1994). The measurement of independent and interdependent self-construals. *Personality and Social Psychology Bulletin*, 20(5), 580–591.
- Singelis, T. M., Bond, M. H., Sharkey, W. F., & Lai, C. S. Y. (1999). Unpackaging culture's influence on self-esteem and embarrassment: The role of self-construals. *Journal of Cross-Cultural Psychology*, 30(3), 315–341.
- Smith, A., & Hume, E. C. (2005). Linking culture and ethics: A comparison of accountants' ethical belief system in the individualism/collectivism and power distance contexts. *Journal of Business Ethics*, 62(3), 209–220.
- Smith, A., & Rogers, V. (2000). Ethics-related responses to specific situation vignettes: Evidence of gender-based differences and occupational socialization. *Journal of Business Ethics*, 28(1), 73–86.
- Snell, R. S. (1996). Complementing Kohlberg: Mapping the ethical reasoning used by managers for their own dilemma cases. *Human Relations*, 49(1), 23–49.
- So, S., & Smith, M. (2003). The impact of presentation format and individual differences on the communication of information for management decision making. *Managerial Auditing Journal*, 18(1), 59–67.
- Sparks, J. R., & Pan, Y. (2010). Ethical judgments in business ethics research: Definition, and research agenda. *Journal of Business Ethics*, 91(3), 405–418.

- Stanga, K. G., & Turpen, R. A. (1991). Ethical judgments on selected accounting issues: An empirical study. *Journal of Business Ethics*, 10(10), 739–747.
- Sweeney, B., & Costello, F. (2009). Moral intensity and ethical decision-making: An empirical examination of undergraduate accounting and business students. *Accounting Education: an international journal*, 18(1), 75–97.
- Taggar, S., & Parkinson, J. (2007). Personality tests in accounting research. *Journal of Human Resource Costing & Accounting*, 11(2), 122–151.
- The World Bank (2002). *Transition — The first ten years: analysis and lessons for Eastern Europe and the former Soviet Union*. The World Bank. Washington, D.C.: The World Bank.
- The World Bank (2012). GDP (current US\$) retrieved September 2012. from http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?order=wbapi_data_value_2011+wbapi_data_value+wbapi_data_value-last&sort=desc
- Thoma, S. J. (2006). Research on the Defining Issues Test. In M. Killen, & J. Smetana (Eds.), *Handbook of moral development* (pp. 67–91). Mahwah, NJ: Erlbaum.
- Thompson, R. A. (2009). Early foundations: Conscience and the development of moral character. In D. Narvaez, & D. K. Lapsley (Eds.), *Personality, identity, and character: explorations in moral psychology* (pp. 159–184). New York: Cambridge University Press.
- Triandis, H. C., & Suh, E. M. (2002). Cultural influences on personality. *Annual Review of Psychology*, 53(1), 133–160.
- Tsui, J. (1996). Auditors' ethical reasoning: Some audit conflict and cross cultural evidence. *The International Journal of Accounting*, 31(1), 121–133.
- Tsui, J., & Windsor, C. (2001). Some cross-cultural evidence on ethical reasoning. *Journal of Business Ethics*, 31(2), 143–150.
- Tyson, T. (1990). Believing that everyone else is less ethical: Implications for work behavior and ethics instruction. *Journal of Business Ethics*, 9(9), 715–721.
- Tyson, T. (1992). Does believing that everyone else is less ethical have an impact on work behavior? *Journal of Business Ethics*, 11(9), 707–717.
- van Horen, F., Pöhlmann, C., Koeppen, K., & Hannover, B. (2008). Importance of personal goals in people with independent versus interdependent selves. *Social Psychology*, 39(4), 213–221.
- Van Tendeloo, B., & Vanstraelen, A. (2008). Earnings management and audit quality in Europe: Evidence from the private client segment market. *The European Accounting Review*, 17(3), 447–469.
- Welton, R. E., Lagrone, R. M., & Davis, J. R. (1994). Promotion the moral development of accounting graduate students: An instructional design and assessment. *Accounting Education*, 3(1), 35–50.
- Wheeler, P. (2001). The Myers-Briggs Type Indicator and applications to accounting education and research. *Issues in Accounting Education*, 16(1), 125–150.
- Yang, L., Dunk, A., Kilgore, A., Tang, Q., & Lin, Z. J. (2003). Auditor independence issues in China. *Managerial Finance*, 29(12), 57–64.
- Zéghal, D., Chtourou, S., & Sellami, Y. M. (2011). An analysis of the effect of mandatory adoption of IAS/IFRS on earnings management. *Journal of International Accounting, Auditing and Taxation*, 20(2), 61–72.