

## The Effect of Corporate Social and Environmental Responsibilities on Moral Sensitivity

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### Abstract

Considering the importance of moral considerations in the accounting profession and significant effect of accountant decisions on interests of users of financial statements and other stakeholders, the need to examine moral considerations in this profession is increasing. In this regard, this study evaluates the "moral sensitivity" of accountants who face a complex decision about earnings management and effect of non-financial elements of organizational goals such as social and environmental responsibilities, experience, and religious beliefs on "moral sensitivity" of accountants and then examine the relationship between moral sensitivity and moral judgment. The information obtained from 102 questionnaires completed by professional accountants and accounting students indicates that the presence of non-financial elements in organizational goals such as social and environmental responsibilities increases moral sensitivity of accountants. Based on the results of this study, companies are encouraged to consider non-financial elements including social and environmental responsibilities as well as financials issues in setting goals. Moreover, moral sensitivity of professional accountants is significantly lower than the accounting students, and those who have higher levels of religious beliefs have a higher moral sensitivity. Meanwhile, it was found that moral sensitivity has a direct relationship with negative moral assessments of earnings management. In other words, when the moral sensitivity is higher, the earnings management practice is judged more unethical.

**Keywords:** Moral Sensitivity, Social and Environmental Responsibilities, Experience, Religious Beliefs, Moral Judgment

### Introduction

Accountants continuously have to make many complex accounting decisions that have somehow merged with moral concepts. Although accountant decisions must be in line with legal and legitimate goals of the organization, they should, at the same time, take into account the effects of their decisions on welfare of other stakeholders and corporate environment as well as on integrity of financial reporting. In fact, professional accountants are involved with judgment and selection of accounting procedures every day, and ethics and moral judgment in the field of accounting research are at the beginning of the path. This is our task to think about improvement of this path (Talebniya & Salman Panah, 2011).

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Following several major accounting scandals around the world, such as Enron, WorldCom, Arthur Anderson, etc., studies emphasizing the moral considerations in accounting have attracted the attention of scholars. These scandals clearly show that accounting students as well as professional accountants should be aware of ethics of accounting. As a result, in academic papers and professional circles, discussions were held on ethics of accounting and its training (Sharp, 2006).

Considering the critical role of accounting in economic and social progress of society and the importance of true information for investors and creditors, ethics is central to accounting. Unfortunately, the recent events of accounting in the world and study of the reporting process in Iran and other countries indicate moral deficiencies in this profession (Sepasi & Hosseini, 2015).

Moral problems not only affect the financial sector, but also they have spread throughout the world and have put humanity in decline. In the financial sector, this is more intense due to money and personal interests; because of its sensitivity, any scandal is seen faster than other sectors. Studies conducted in the past on "ethical behaviour" have focused on "moral judgment" and generally ignored "moral sensitivity," while "moral sensitivity" is preceded by moral judgment (Jordan, 2007).

One particular feature of decision-making environment of professional accountants is that they face complex problems which challenge their cognitive capabilities. Because in many cases where accountants are faced with large amounts of information, they only consider the information that relates to current plans and objectives, while ignoring other information, even if related to their decisions (Jordan, 2009). This phenomenology is known as "selective perception."

Since the achievement of the organization's predetermined goals is one of the main criteria for performance evaluation systems in companies (Agha Kazem Shirazi, 2019), organizational goals attract attention of accountants due to their importance and, of course, their relationship with rewards and job performance, thus affecting the accountants perceptions of the information environment. Achieving short-term financial goals can limit the scope of accountant attention to only realization of short-term criteria, which in turn results in reducing moral sensitivity and ignoring ethical details. Therefore, overemphasis on short-term goals can lead accountants to ignore important moral failures and not be able to behave appropriately (Bazerman, 2011).

Since non-financial goals such as social and environmental responsibilities can widen the scope of attention of accountants and increase their awareness and attention to ethical implications of their decisions, it is expected that "moral sensitivity" will be in higher levels when organizational goals include non-financial items such as social and environmental responsibilities.

Based on what is said about the phenomenon of selective perception, it is also expected that the ethical sensitivity of professional accountants compared with accounting students will be lower. Experienced accountants may involve technical and strategic issues at a price not paying attention to ethical issues in their mental pattern, which will reduce the ethical sensitivity of future decisions. Considering that accounting students will be specialists in this profession, it is very important and vital to study effective factors on ethical perception of accounting students (Ho, 2007).

Despite various studies on the role of ethics in accounting, the effect of religious beliefs of accountants in Iran has not been examined on their moral sensitivity. Therefore, one of the main objectives of the present study is to investigate the relationship between religious beliefs of accountants and their moral sensitivity.

Following this article, the theoretical foundations, backgrounds and research hypotheses have been explained. The methodology section introduces the sample and the method of measuring variables and by present of testing hypothesis, results clarified.

## Literature Review

Considering the importance of moral considerations in the accounting profession and significant effects of accountant decisions on interests of users of financial statements and other stakeholders, the need to examine moral considerations in this profession is increasing. In this regard, this study evaluates the "moral sensitivity" of accountants who face a complex decision about earnings management and effect of non-financial elements of organizational goals such as social and environmental responsibilities, experience, and religious beliefs on "moral sensitivity" of accountants and then examines the relationship between moral sensitivity and moral judgment.

For this purpose, this study uses the Rest's model (1986) to evaluate moral behaviours of professional accountants and accounting students; however, the main focus of this study is on the first component of the model, i.e. moral sensitivity.

### *The Rest's Four-Component Model*

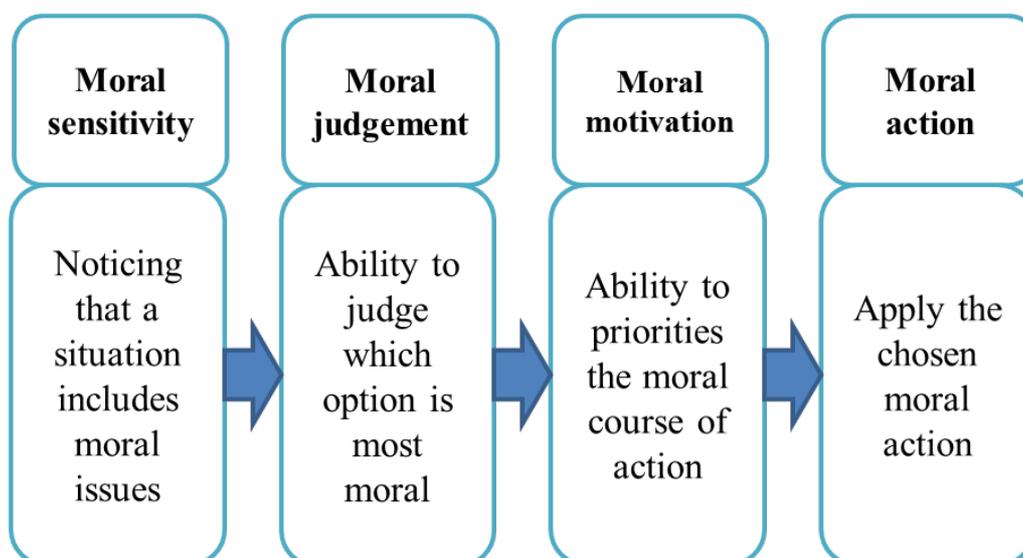
The Rest's four-component model is based on a fundamental assumption that moral judgment process is rational. The Rest's four-component moral model attempts to answer the question that what happens psychologically when a moral behaviour is formed. Rest believes that four components are required in order to form a moral behaviour:

Component 1: people must be able to understand the moral situation (moral sensitivity)

Component 2: people must make a moral judgment about that situation (moral judgment)

Component 3: people must measure their moral values versus other competing values (moral intention or motivation)

Component 4: people must perform a moral practice (moral behavior).



**Figure 1.** The Rest's Four-component Model

People may lose the ability to behave morally due to failure in any of these four components. The first component, moral sensitivity, occurs when one determines that a

behaviour or decision can have implications for other people. According to Rest's model, moral sensitivity is the first logical step in moral reasoning.

The Rest's model has been used in many business ethics studies. This model represents a step-by-step process for moral reasoning, which allows researchers to study various dimensions of moral reasoning.

As Hall (1992) notes, "we should be more concerned, perhaps, about the person who passes by a moral dilemma without recognizing it than we are about the person who consciously and callously commits a wrong. In the long run, moral insensitivity could be our biggest problem."

Common organizational goals can weaken "moral sensitivity" through focus of accountants on achieving these goals and ignoring ethical issues (Bazerman & Tenbrunsel, 2011).

Accounting decisions are often complex, involve a wide range of information and include contradictory economic and moral goals. Considering such an environment, ability of accountants to recognize the ethical implications of their decisions seems to be more important than impaired ethical judgments and low level of their moral reasoning. For this reason, this study focuses on moral sensitivity of accountants.

Accountants often define success from the perspective of organizational goals; since these goals are usually tied to short-term financial goals (such as achieving the predicted earnings by analysts), accountants are motivated to focus on short-term profitability as a definition of success (Graham et al., 2005). The decision making pattern of these accountants may be surrounded by technical and strategic knowledge and there may be no place for ethical information. This creates a filter for the type of accountants' perception of decision-making environment. In this case, accountants will consider only those decision features that are consistent with their pattern (such as characteristics related to short-term profitability of the organization) and ignore other features, including ethical considerations. Conversely, if organizational goals are developed in a way that involve long-term elements like social and environmental goals and ethical considerations, it can develop accountant definition of success. As a result of developing definitions of success beyond the short-term goals, accountants will not rely only on their mental pattern in making decisions and deliberately process more information about that decision.

Non-financial goals of an organization can put accountants in an unusual decision-making position, since social and environmental responsibility of organizations is not usually considered as part of everyday accounting decisions of an accountant. Therefore, accountants can no longer act on the same usual decision-making pattern, but must consider organizational goals in order to identify the issues involved in the decision. In this case, moral considerations are taken into account as decision-related elements. Therefore, non-financial goals tie accountants' definition of success to social, environmental and ethical goals and reduce their reliance on past decision-making patterns. As a result, accountants can better understand the ethical and social issues associated with their decisions, which will increase their moral sensitivity.

Religion as a kind of ideology is not only a criterion and a judge of individual and collective human behaviours, but at the same time and in some other way, it is also effective on formation of human behaviours (Bastami, 2010). Weaver and Agle (2002) put forward a theoretical framework for understanding the effect of religion on business ethics and concluded that religion is effective on business ethics, while religion is a prominent component of individual identity.

When religion is the main axis for individual identity, deviation from expectations of religious roles creates higher levels of cognitive and emotional distress, thus motivating a person to maintain his or her behaviour consistent with the expected religious role (Weaver & Agle, 2002). According to this theory, previous research has shown that people who have

high level of religiosity tend to maintain a traditional view on ethical issues and have more conservative ethical standards than those with lower levels of religiosity (Barnett et al., 1996). Wen et al. (2019) shows that high levels of religious beliefs in the organization prevent the occurrence of undesirable and unethical behaviours.

In general, accountants have a dual role: protecting the interests of users of financial statements and protecting the interests of the company. Prominence of organizational interests can undermine the interests of users of financial statements and thereby reduce moral sensitivity of accountants. Experienced accountants may involve technical and strategic issues in expense of ethical issues in their mental pattern, which will reduce moral sensitivity in future decisions. For this reason, the present study tends to provide evidence that moral sensitivity of professional accountants (i.e. those who have developed their decision making pattern with work experiences) and accounting students is different.

### *Earnings Management*

This section explains the underlying concept of this study, i.e. earnings management, and why this concept is a good subject for testing moral sensitivity.

Earnings management provides the context for assessing the level of moral sensitivity of accountants. Earnings management is a complex decision that involves not only managing or not managing earnings, but also deciding how to do it. This complex subject in fact reflects on the issues faced by accountants on a daily basis. The decisions on earnings management include both economic issues and ethical issues, and its prevalence in the daily work of accountants, causes this concern as to whether ethical aspect of these decisions is respected (Jensen, 2005).

One of the main concerns of accountants is the increasing pressure to meet market expectations (including earnings per share predicted by analysts and earnings per share of the past year) (Graham et al., 2005). When actual results do not meet expectations, accountants can use earnings management to achieve predefined benchmarks. They have several methods to change the reported financial figures in their own favour. Badertscher (2011) presents the three main ways that accountants can choose to make targeted changes in reports as follows:

Making changes in order of interest through accruals using the authorities that are permitted under the accepted accounting principles (For example, increase in revenue of current year by reducing the estimated reserve for doubtful claims)

Changing the timing or structure of an operating, investing or financing decision (for example, increase in revenue of current year through the restructuring of a transaction and issuance of a special discount to change the sales date from the beginning of next year to the end of current year)

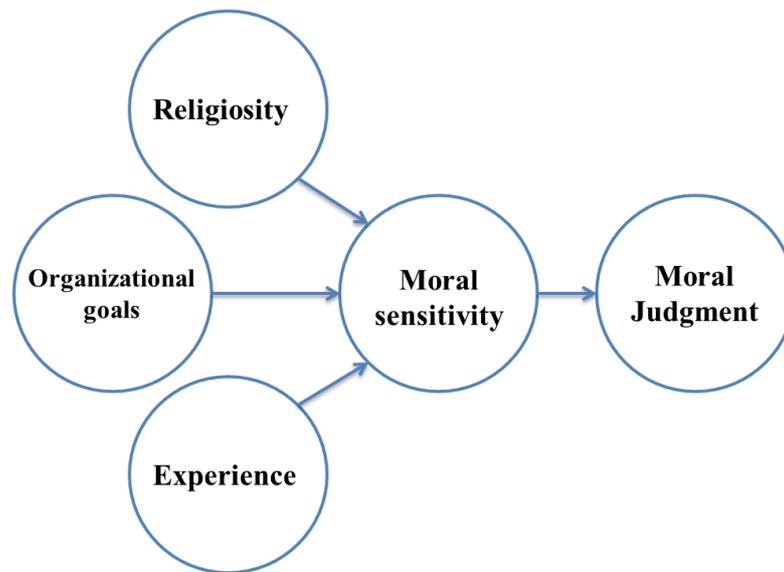
Changing accruals in order of interest, beyond the accepted accounting principles (for example, increasing revenue of current year by deliberately refusing to record the cost of services received in the current year)

Changes beyond the accepted accounting principles are a violation of accounting rules and, if deliberately done, they are classified as fraud. Although a certain standard has not prohibited accountants from the first two groups of earnings management methods, the guidelines and standards have not completely ignored them. Professional rules and regulations require accountants to be accountable for financial reports and act based on integrity (IFAC, 2012). Accountants should also not report information in a way that misleads users.

In general, earnings management decision is both complex and morally unacceptable. On the one hand, earnings management can lead to misleading information (for example, earnings management can show economic health of a company above its actual level), which is on the contrary to professional principles and rules; on the other hand, there is no standard

or law that explicitly prohibits accountants from earnings management. Accountants should assess potential bias that earnings management makes in financial statements and make decisions about its acceptability. The focus of this study is on corporate incentives to manage profits. In particular, this study focuses on application of earnings management to achieve financial goals.

Wen et al. (2019) showed a relationship between the type of corporate ownership and earnings management methods.



**Figure 2.** Conceptual Framework of Research

### *Hypotheses*

Regarding the points mentioned in the previous sections and the need to address moral decision making among accountants, and also considering the focus of this study on the first component of the Rest's moral decision-making model, i.e. moral sensitivity and effective factors, the following hypotheses are developed:

**H1:** Inclusion of non-financial elements such as social and environmental responsibilities in organizational goals increases the ethical sensitivity of accountants.

**H2:** moral sensitivity of accounting students is higher than moral sensitivity of professional accountants.

**H3:** moral sensitivity of people who have higher levels of religious beliefs is higher.

**H4:** there is a positive and significant relationship between moral sensitivity and negative moral evaluation of earnings management.

### **Material and Methods**

One of the features of a scientific study which tends to find truth is to use a proper research method. This depends on the nature of objectives and subject and implementation. This section first introduces the research design and then statistical population and sample. Subsequently, data collection instruments and methods for determining the reliability and validity of scales are presented. In addition, statistical methods used to analyse the data are investigated.

According to the type and nature of the problem, objectives and questions of the study, the research method was descriptive. Both types of data collection method, i.e. archival study and field study, were used.

Since the main purpose of this study was to investigate the effect of organizational goals, religiosity and experience on moral sensitivity of accountants, moral sensitivity of accountants was considered as dependent variable and organizational goals, religiosity and experience were considered as independent variables. In the fourth hypothesis, moral sensitivity was considered as an independent variable and moral judgment was considered as a dependent variable.

To measure moral sensitivity of accountants through the questionnaire, participants were asked to study the designed scenario (as described below) and judge morality of each of the suggestions made in the scenario, and determine the effect of each factor that were considered when deciding. To measure religiosity of participants, the Allport and Ross religious orientation questionnaire was used, which was translated to Persian by Janbozorgi (1999); this questionnaire has been used in previous studies and its validity and reliability have been confirmed. To measure experience, the participants were divided into two groups of professional accountants and accounting students. Two different scenarios were designed to measure organizational goals, as described below. Cronbach's alpha was used to assess reliability of the questionnaire. Considering that the calculated alpha coefficient was greater than 0.7, the data collection instrument had acceptable reliability.

According to objectives, it was necessary to distribute questionnaires between the two groups of "professional accountants" and "accounting students". Regarding the first group, an electronic questionnaire was randomly sent to 500 members of the Iranian Association of Professional Financial Managers; of these, 46 questionnaires were responded. For the second group, top national universities were listed; among 21 universities listed, the questionnaire was sent electronically to undergraduate and Ph.D. accounting students at 7 universities, and eventually 56 questionnaires were responded. Regarding the fact that some students attend a career in accounting at the same time as studying at a university, those respondents who had more than two years of experience (10 people) were included in the first group. Thus, of 102 questionnaire completed, 56 were related to the professional group and 46 were related to the students group.

To complete the questionnaire, each participant responded the questions related to personal data, and studied information about the scenario designed for a formal company operating in the field of information technology and informatics. In this scenario, the participant was put in a complex decision making position through a conversation between the financial manager and the CEO at the end of the fiscal year about profitability of the company that, in addition to professional and financial dimensions, also had moral dimensions. In this conversation, it turned out that current year profit, contrary to analysts' forecasts, was lower than last year, and financial manager made suggestions to CEO for managing earnings and increasing profits to the expected level. The participant should assess and judge about morality of any suggestion made by the financial manager. In the next section of the questionnaire, the participant was asked to answer questions that measured moral sensitivity and religious beliefs.

In order to measure the effect of non-financial considerations in organizational goals on moral sensitivity of accountants, two different scenarios were developed. In one of the scenarios, the company was introduced in a way that emphasis of its organizational goals was on short-term financial goals (such as achieving the earnings predicted by analysts); in another scenario, the company was introduced in a way that its organizational goals emphasized both financial goals and non-financial goals (such as social and environmental responsibilities). Therefore, participants randomly were assigned into two groups according to

which scenarios they had studied; thus the difference in moral sensitivity of the two groups could be examined.

To test hypotheses 1 and 2, the independent t-test was used because they tended to compare the mean of an attribute in two independent groups. To test hypotheses 3 and 4, Pearson correlation coefficient was used, because they tended to examine the relationship between two variables.

## Results and discussion

Before addressing the results of hypotheses, Table 1 summarizes the indexes related to descriptive statistics of the studied sample, including measures of central tendency and dispersion for the studied variables.

In tables 2 and 3, other explanatory information is given about respondents.

**Table 1.** Descriptive statistics of variables

Variable	Mean	Variance	Std.	Skewness	kurtosis
Moral sensitivity	40.87	106.211	10.31	-0.485	-0.670
Religiosity	32.57	55.535	7.45	-0.233	-0.517
Moral judgment	13.79	13.036	3.61	-0.341	-0.003

**Table 2.** Distribution of respondents by gender

Gender	Frequency	Frequency percentage
Male	56	%55
Female	46	%45
Total	102	%100

**Table 3.** Distribution of respondents by job position

Gender	Frequency	Frequency percentage
Specialist	26	%25
Senior specialist	15	%15
Director manager	29	%28
Unemployed	32	%31
Total	102	%100

To test significance of difference in moral sensitivity of accountants in presence of non-financial elements in organizational goals compared to absence of non-financial elements in organizational goals as noted in hypothesis 1, the independent t-test was used. As shown in Table 4, the mean score of moral sensitivity in presence of non-financial elements such as social and environmental responsibilities in organizational goals was 45.39 and the mean score of moral sensitivity in absence of non-financial elements in organizational goals was 37.45 and this difference was significant ( $p < 0.01$ ). Thus, moral sensitivity of accountants is significant higher in presence of non-financial elements in organizational goals than absence of non-financial elements. The table below summarizes the results of this test.

**Table 4.** T-test results for the difference in moral sensitivity

Variable	Group	Mean	Std.	t	Df	p-value
Moral sensitivity	Presence of non-financial elements	45.39	1.39	-4.151	100	0.001
	Absence of non-financial elements	37.45	1.29			

To test significance of difference in moral sensitivity of professional accountants and accounting students as noted in hypothesis 2, the independent t-test was used. As shown in Table 5, the mean score of moral sensitivity of professional accountants was 36.66 and the mean score of moral sensitivity of accounting students was 46 and this difference was significant ( $p < 0.01$ ). Thus, moral sensitivity of accounting students is significant higher than professional accountants. The table below summarizes the results of this test.

**Table 5.** T-test results for the difference in moral sensitivity of groups

Variable	Group	Mean	Std.	t	Df	p-value
Moral sensitivity	professional accountants	36.66	9.76	-5.083	100	0.001
	Accounting students	46	8.54			

To test the relationship between moral sensitivity and religiosity, Pearson correlation coefficient was used. Table 6 lists the results of this test.

**Table 6.** Correlation coefficient of moral sensitivity and religiosity

Variable	Moral sensitivity
Religiosity	0.56**

\* $p < 0.05$ ; \*\* $p < 0.01$

As shown in Table 6, correlation coefficient between moral sensitivity and religiosity ( $r = 0.56$ ) is positive and significant ( $p < 0.01$ ). Thus, moral sensitivity is higher in people with higher religious beliefs.

To test the relationship between moral sensitivity and moral judgement, Pearson correlation coefficient was used. Table 7 lists the results of this test.

**Table 7.** Correlation coefficient of moral sensitivity and moral judgment

Variable	Moral sensitivity
Moral judgment	0.45**

\* $p < 0.05$ ; \*\* $p < 0.01$

As shown in Table 7, correlation coefficient between moral sensitivity and moral judgment ( $r = 0.45$ ) is positive and significant ( $p < 0.01$ ). Thus, there is a direct relationship between moral sensitivity and negative moral evaluations of earnings management. In other words, when the moral sensitivity is higher, the earnings management practice is judged more unethical.

## Conclusion

With regard to the results of the first hypothesis, it can be argued that if the goals outlined by a company include both financial and non-financial goals, moral sensitivity of accountants

increases, and this can reduce the adoption of unethical decisions of accountants. According to Bazerman (2011), the results of this hypothesis show that organizational goals attract the attention of accountants due to their importance and, of course, their relationship with reward and job performance. This affects perceptions of the information environment. Achieving short-term financial goals can limit the scope of accountant attention to only realization of short-term criteria, which in turn results in reducing moral sensitivity and ignoring ethical dimensions. Thus, it can be suggested to companies that, when drawing their goals and perspectives, it is important to pay attention to non-financial elements, including social and environmental responsibilities.

According to the second hypothesis, moral sensitivity of accounting students is significantly higher than moral sensitivity of professional accountants. This is consistent with Jordan (2009) who argued that professional accountants compared to accounting academics pay more attention to financial goals and less attention to moral goals.

The third hypothesis shows that moral sensitivity is higher in people with higher religious beliefs. Moreover, the fourth hypothesis shows a direct relationship between moral sensitivity and negative moral evaluations of earnings management. That is, when the moral sensitivity is higher, the earnings management practice is judged more unethical. Consistent with Montenegro (2017) who found a positive relationship between religiosity of managers and increase in quality of financial reporting by reducing the actions related to earnings management, managers with higher religiosity are less likely to make unethical decisions. According to Sepasi and Hasani (2015), religious level of managers is one of ways that can create value added by reducing agency problem resulting from increase in moral sensitivity and decrease in unethical decision of managers.

To investigate moral behavior in accounting, all components of moral decision-making process should be studied. Studies conducted on moral behaviour has focused on moral judgment and generally ignored moral sensitivity, while moral sensitivity is prior to moral judgment. By focusing on the first component of the Rest's model, i.e. moral sensitivity, and identifying effective factors on moral sensitivity of accountants such as organizational goals, religious beliefs and experience, this study tended to add to knowledge of this area.

Based on the results of this study, companies are encouraged to consider non-financial issues including social and environmental responsibilities and moral considerations as well as financials and short-term goals in setting goals. In addition, regulatory and supervising institutions can also set requirements or incentives in this regard. Companies can also largely avoid the decline in moral sensitivity of accountants over the time as a result of the phenomenon of selective perception through in-service training and courses of professional ethics.

Any study has its own limitations due to conditions and facilities available for its implementation. This study as any other research on this subject is not an exception. Generally, in field studies, there are some limitations that are uncontrollable due to the presence of external and internal variables affecting the dependent variable. Moreover, a limitation of this study can be the fact that the authors could not attend the real workplaces and study a large number of participants in real environments. This research depicts imaginary situations and prompts respondents to imagine themselves in this situation and answer questions accordingly. Therefore, respondents may act in a manner other than what is stated in the questionnaire if they encounter a real situation.

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