The concept of corporate governance has come into the spotlight after the big accounting scandals. Corporate governance represents the manner in which a company is managed and controlled, and this aspect is closely related to the creative accounting practice; ownership structure, the board of directors’ structure, the frequency of these bodies’ meetings, they all can encourage but also discourage accounting manipulation.

We tend to agree with the authors who claim that certain changes within the company – including the structure of certain departments – and a rigorous control can significantly reduce the use of creative accounting techniques.

Concerning the main objective, respectively outlining a clear image of corporate governance starting from creative accounting, in order to achieve it we conducted a qualitative study, we decided to analyze one of the main research directions, namely corporate governance, as we considered it a current issue with great impact on creative accounting. Our study is based on corporate governance seen as a possible solution to reduce creative accounting practices.

We used as research method the content analysis which developed in three stages, namely: pre-analysis, content exploitation, respectively processing and interpretation of results. Moreover, when conducting this qualitative study, we use both quantitative and qualitative analysis, using external observation (non-participant) method in collecting the necessary data. We also used the comparative method by studying the main lines of research in different periods (1990-2010).

These studies refer to creative accounting techniques, to conflicts of interest between managers, directors and shareholders, to joint ownership and control rights, to the lack of transparency regarding financial reporting and auditors’ independence – as evaluators of the financial and accounting information. Not all research directions have been sufficiently explored; therefore, in the future the researches must be continued and deepened.

We consider that a number of independent outside directors within the board could contribute to a better monitoring of the management team, leading to a lower possibility for the company to use creative accounting practices compared to the situation in which the board would be formed mainly from inside director.

Keywords: corporate governance, creative accounting, qualitative study, empirical study, theoretical study

JEL Classification: M40, G34

I. Introduction

1.1. Corporate governance – a bureaucratic layer or a method against creative accounting?

Currently, there is a strong trend of cross-disciplinary research and the concept of corporate governance is related to microeconomics, macroeconomics and also to law, sociology and psychology. The particular connection between corporate governance and creative accounting practices is the reason this concept caught our attention, namely how the structure of the Board of Directors of a company can encourage or discourage accounting manipulation. The topic came under the spotlight as a result of a chain of events, more specific a series of highly publicized scandals which have created anxiety and a lack of confidence on the international capital market.

Everything started when Enron collapsed – the company which became ‘a symbol of contemporary corporate fraud’ – and it continued with a significant number of companies that went bankrupt in an equally dramatic manner (WorldCom, Parmalat, Xerox). As a consequence
of the fact that companies used creative accounting practices, but also because the big audit firms overlooked or even collaborated to conceal tax frauds, doubts have emerged concerning the investors’ ability to take sound decisions based on information provided by companies and capital market.

1.2. Corporate governance and creative accounting
In recent decades, the concepts of corporate governance and creative accounting have often been associated with each other within economic debates. Along with business development, many companies have come to be managed and controlled by founding families, but the problem is not confined to the conflicts of interest arising among their members, but it extrapolates to other categories of stakeholders. Capital markets use financial information to establish the price for securities, and the investors rely on them in order to substantiate their decisions to buy, sell or keep securities. Market efficiency depends on the information flow provided to capital markets, and if the information is biased, the markets cannot determine the exact price of securities. Moreover, it appeared that sometimes managers manipulate financial statements to influence certain competitors on the capital market. On the other hand, the fact that managers use creative accounting techniques can affect the investors’ ability to properly assess the true value of the company which on long term may affect the company’s performance on securities market.

Moving from the management team and the Board of Directors’ structure to audit, we believe that the audit committee has an important role in discouraging creative accounting. As we know, the great financial scandals which burst worldwide were based on accounting manipulation practices, but also on collaborations with audit firms which, instead of acting as the ‘guardians’ of the financial markets, have come to overlook, to hide, and even to participate to some of the greatest frauds in history. Thus, reform measures for the companies’ governance systems were imposed. The most striking example is provided by the United States of America. As a result of the bankruptcies related to accounting scandals, the American parliament adopted a law in 2002 meant to strengthen the audit independence. The above mentioned law, known as the Sarbanes-Oxley Act (SOX) is a component of the legislative reform considered necessary after the US financial scandals. It represents ‘the foundation of the vision on management and control of a company and it imposes standards and regulations on the control framework of the financial system.’ (Cuc 2008: 84). This law tries to regain the confidence of the American investors (and not only) through measures that were included in five chapters, namely: Restriction – through strict regulation – of the activities of board members, Strengthening the internal control function, Strengthening the external control function, Transparency, Accountability and Penalties.

II. Research methodology
Regarding the research methodology, it is closely related to the established objectives. Thus, we started with a theoretical research (conceptual-descriptive), a qualitative research, in order to analyze different concepts, and we also used the comparative method to study the various approaches of these concepts, specific to our area of research. In addition, the analyzed information has also been obtained by means of document analysis (covering the specialty literature selected) or non-participant observation.

Concerning the qualitative study, we used as research method the content analysis which developed in three stages, namely: pre-analysis, content exploitation, respectively processing and interpretation of results. Moreover, when conducting this qualitative study, we use both quantitative and qualitative analysis, using external observation (non-participant) method in collecting the necessary data. We also used the comparative method by studying the main lines of research in different periods (1990-2010). At international level, the current state of knowledge concerning creative accounting area was delimited by means of a sample of 57 articles published in international journals. In order to conduct this study we selected 14 international accounting
III. Results and discussions

3.1. Analysis of the articles that include empirical research

Although every science begins by being descriptive and only later it tries to explain the facts it observed, in our study we considered important to firstly analyze the articles based on empirical studies, as they allow us to outline a more real and accurate view on corporate governance.

A. Corporate Governance and Performance of Malaysian Listed Companies

This study was conducted in 2006 by Cyril H. Ponnu from the Faculty of Business and Accountancy, University of Malaya. This empirical study was carried out on a sample of 100 listed Malaysian companies, of which 30 were large companies and 70 were medium-sized. Data was collected from the annual reports published by the Bursa Malaysia Securities Bhd for the financial year 1999 (prior to the implementation of the Malaysian Code on Corporate Governance issued in 2000) and the financial year 2005 (after the code was released). Thus, the sample was selected such as to allow the comparison of results before and after the implementation of the Code on Corporate Governance. The analysis was based on identifying the connection between the structure of corporate governance and the performance of the companies from the sample. Therefore, the author used an econometric model which had ROA and ROE indicators as dependent variables and duality (a binary variable which has a value of one when an individual has the joint title of chairman and CEO and 0 when these functions are separate) and the proportion of independent directors as independent variables.

The main results revealed that in 2005 there were more independent directors than in 1999. In addition, companies with duality had higher ROA than those with separate functions, the results showing that the separation of CEO and chairman improves firm performance in terms of ROE but not in terms of ROA. The results revealed that the companies that retained duality have better ROA than those who did not. ROE analysis shows the opposite result. In terms of board independence, the analysis showed that an increased proportion of independent directors leads to a better performance. The connection with the creative accounting sphere is more than obvious, since its techniques are based on these conflicts of interests, which only lead to a reduced long-term performance of the company. We support the idea that implementing a Code of Corporate Governance that would be respected within all departments of a company could significantly reduce creative accounting practices and increase company performance.

B. Separation of Ownership from Control and Acquiring Firm Performance: The Case of Family Ownership in Canada

This study was conducted in 2005 by the American researcher Walid Ben-Amar in collaboration with the Canadian researcher Paul André. This study investigates the relationship between ownership structure and acquiring company performance in the context of ownership concentration and separation between ownership and control rights. The study is based on a sample consisting of 238 events (mergers and acquisitions) performed within 138 Canadian companies. Data was obtained from the Securities Data Corporation Worldwide Mergers and Acquisitions database, but also from other studies previously conducted. The observations are for 1998-2000, and the companies selected were those who performed mergers or acquisitions greater than 10 million US dollars. The main information provided by this study refers to the fact that the abnormal results of the Canadian companies that performed acquisitions are positive in
the analyzed period. These results are even greater for the companies in which ownership is held by families. Moreover, it was shown that the separation of ownership and control rights does not affect the company and that corporate governance mechanisms influence in a positive manner the performance of the companies that perform acquisitions. The study reached the conclusion that there is a connection between ownership and the abnormal results of the companies that perform acquisitions.

C. Investigating the effect of board independence on performance across different strategies
This study, undertaken in 2006 by the Indonesian researcher Lindawati Gani in collaboration with the Canadian researcher Johnny Jermias, analyzes, as the title suggests, the influence the Board has on company performance. The sample on which the study relied consisted of 109 companies from the manufacturing industry listed in the Compustat S&P database for the period 1997-2001. In this study, the authors used an econometric model, having as variables: Competitive strategy, Board Independence, and Performance (represented by ROE and ROI). After analyzing this model, the results were consistent with the hypothesis that companies which follow a strategy of cost efficiency benefit more from an increased level of board independence than firms that pursue a strategy of innovation. Although it has been concluded that the relationship between Board independence and company performance differs across business strategies, other variables might also affect this relationship. Moreover, the results are valid only for the manufacturing industry and they cannot be extended to other industries without further research in those directions.

D. Corporate Governance and Profit Manipulation: A French Field Study
The study published in 2005 in the international journal ‘Critical Perspectives on Accounting’ by the French researchers Caroline Lambert and Samuel Sponem analyzes the practices of profit manipulation and it examines the manner in which the Anglo-Saxon Corporate Governance model can lead to discourage these practices. The authors have used the results from 32 interviews applied in 13 companies. The study concluded that two of the factors underlying the accounting manipulation practices are the changes occurred in the corporate governance system and the shareholder pressure that accompanies them. Therefore, changing the rules of the game because of the increased shareholder pressure encourages management controllers to use their experience and knowledge to help managers manipulate profits. Management controllers are aware that they cannot focus only on financial aspects. The authors also raise the issue of implementing the Anglo-Saxon corporate governance model in countries that do not follow the same cultural patterns, indicating that this measure may entail unexpected consequences such as the multiplication of the accounting manipulation practices or the reduction of financial statements’ relevance.

3.2. Analysis of the articles that include theoretical research
Since we have already discussed the results of the four empirical studies, next we only have to extract the most relevant ideas from the theoretical studies.

A. The role of Information and Financial Reporting in Corporate Governance and Contracting
The article was published in 2009 by the researchers Christopher Armstrong, Wayne Guay and Joseph Webber, and its aim was to explore the importance of transparency regarding financial reporting in order to reduce the conflicts between managers, directors and shareholders, and also to diminish the differences between shareholders and other contractual parties (creditors). Moreover, a key topic approached in this study is the reduction of the creative accounting phenomenon by making certain modifications in the corporate governance system – such as: the presence of several independent directors within the Board of Directors, the separation of
ownership and control rights, by regulating the principle of transparency regarding financial reporting and by taking measures concerning audit independence.

B. Management accounting and corporate governance: An institutional interpretation of the agency problem
The study conducted by the British researcher Will Seal, published in 2006 within the international journal ‘Management accounting Research’ deals with the manner in which management accounting relates to corporate governance, especially after the collapse of Enron when certain ‘weaknesses’ have been found in accountants’ work. However, the authors believe that management accounting techniques can improve corporate governance practices. The article emphasizes the collapse of the US and the UK stock markets which brought into light many irregularities concerning corporate norms and the implementation of several unwise strategies. Because of these practices, most of them belonging to the creative accounting sphere, management accounting and corporate governance have begun to converge.

C. Corporate Governance and Accounting Systems
The French researcher Yvon Pesqueux published the article in 2005 within the international journal ‘Critical Perspectives on Accounting’ where corporate governance is seen as an ideological perspective of granting a special attention to the interests of leaders, since the accounting system is the field where these interests are validated. Corporate governance provides the illusion that the rules of a representative democracy are indeed implemented within companies on the market, which is only a mechanism for masking the power accumulated by the leaders of multinational companies. Therefore, the French researcher considering it the best mask for the interests of those in the top of the corporate pyramid and not a mechanism able to discourage creative accounting practices, to mitigate information asymmetry between various categories of stakeholders or to support the transparency of financial statements.

IV. Conclusions
As we can observe from the analysis of the previous articles, most of them focused on the connection between corporate governance and company performance, all of them making references to creative accounting techniques, to conflicts of interest between managers, directors and shareholders, to joint ownership and control rights, to the lack of transparency regarding financial reporting and auditors’ independence – as evaluators of the financial and accounting information. The fact that we chose to analyze the articles that focus on corporate governance is not random taking into account that we strongly support the idea that the best way to reduce the creative accounting practices involves certain modifications in the corporate governance system of each company. Nevertheless, in order not to be misunderstood, we must mention that changing the members or their number within the Board or eliminating the duality from companies is not enough. It is also important to carry out legislative changes, to harmonize accounting practices with the policies of the international specialized committees, and to cultivate a fair and transparent spirit in order to mitigate the discrepancies within companies and, of course, to eliminate the pressures which, most of the times, lead to a reckless behavior of the managers with long-term drastic consequences both for themselves and the performance of the entire company.

We can also conclude that not all research directions have been sufficiently explored; therefore, in the future the researches must be continued and deepened. Among them we can mention the information asymmetry between various categories of stakeholders, the reform of accounting, or the ethical aspects within companies. In addition, we observed that, although our study relied on articles published within international accounting journals, the scientists’ concerns converge with
those in other fields, stressing, thus, the multidisciplinary and interdisciplinary nature of the research concerning creative accounting and corporate governance.

Although our intention was to develop a complex study, we must say that this paper is not without limits, most of them being established mainly in order for us to be able to centralize a series of data meant to give us meaningful results, hoping that such research will be further conducted in the future. Among the limitations of this study we can mention the period of time (20 years) because we considered that the current studies, especially those conducted after the year 2000, reflect clearly enough the interest of the scientists for the concerned field and also the current state of knowledge. Another limit is represented by the international journals from which we selected the sample of articles necessary for our study. Although they are among the highest rated international accounting journals, they limit our research because most of the articles are written in English by researchers from USA or UK, many of them focusing their studies on these two particular geographical areas, almost ignoring other areas.

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V. References
Articles:

Websites: