INTERNATIONAL RESEARCH REGARDING CREATIVE ACCOUNTING

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Although creative accounting practices are not at all recent, only since 2000 this phenomenon has been widely publicized because of the financial scandals that had erupted worldwide. Obviously, creative accounting practices came to be used with nonchalance at enterprise level, irrespective of their size or the industry within which they operate, fact that appears from different studies undertaken globally in recent years. Even though there are many studies based on the creative accounting phenomenon and on other subjects deriving from it, we considered both interesting and necessary an analysis of the articles that tackle different aspects concerning creative accounting, published after 1990 until now within the highest rated journals in the field of accounting.

The main objective of this study is to identify the main research areas in order to emphasize the main existent shortcomings and to outline possible solutions concerning future research directions in this field. Of course, from this main objective derive a few sub-objectives which we will try to achieve by means of the quantitative study.

The quantitative study is based on the analysis of researches performed in the field of creative accounting and its aim is to observe their evolution within the concerned period of time, to analyze the main research directions approached, but also to study the predominant research current and the main type of research applied. Moreover, within this stage we have also analyzed the geographical areas on which the studies performed within the selected articles were based. The present study is far from being exhaustive, but it surely represents a starting point and an informative source for future research in the field of creative accounting.

We may conclude that most of the researches conducted within the creative accounting field fall within the main research current, which in our case is positivism. Concerning the type of research, we can observe that the vast majority of articles are of empirical nature, but many theoretical studies have also been published.

Keywords: creative accounting, corporate governance, true and fair view, creative accounting techniques, research current

JEL Classification: M40, G34

I. Introduction

Taking into account that we live in a world where almost everything can be sold and bought, where the resources decrease with every passing day while population needs are continuously increasing, we cannot live without accounting. ‘The main objective of accounting regulations is to obtain a true and fair view upon the enterprise’s financial position and its performances, so that the information to be sufficient, accurate and reliable for all users.’ (Pușcașu 2010: 327).

Nonetheless, accounting, whose purpose is believed to be the representation of organizational reality, suffers from the ambiguity of its condition, and therefore the users of accounting information are often deceived by the performance of managers or directors. Everything is based on the ‘skill and imagination of the operator’ that uses the knowledge and experience in the field combined with an optimal dose of ingenuity, but also the gaps within legislation in order to make certain arrangements resulting in profit maximization or earnings per share maximization, in order to improve the company’s image and liquidity, or simply to reduce costs or debt ratio. All these accounting tricks are just some of the techniques used by accounting professionals and even
managers, often in collaboration with auditors, to create the desired image of the company. In this case we speak of creative accounting practices, a phenomenon that has developed with predilection after the 80s, leading to real conflicts between the legal and economic substance of accounting. Considering that since the late nineteenth century we have been both witnesses and actors in a process of business globalization, we have witnessed various changes and rapid developments in most activity branches, which had significant implications and influences on economic and financial spheres, this context leading to the urgent need of continuous information. Despite the fact that companies have multiple sources of information at hand, accounting information is, however, the most important source of information concerning accounting activity, which is used by both managers and directors, and other categories of stakeholders such as investors and creditors.

We consider that certain aspects of the creative accounting sphere are current issues for the Romanian economy, especially when the creative accounting practices can have a negative effect on companies’ long-term performance and may mislead some categories of stakeholders such as investors, creditors or shareholders, whose decisions rely on an accurate information concerning the financial and accounting statements.

II. Research methodology

In order to carry out the proposed literature review and also to achieve the objectives set out above, we went over a number of five stages which will be briefly described below.

The first stage consisted of selecting the journals which represented the searching base of the most relevant articles concerning the topic covered by the study performed. As a result of this analysis we selected 14 international accounting journals, 9 of which are ISI indexed journals.

The second stage consisted of selecting the articles published during 1990-2010 within the journals chosen for the study. The search was performed according to the following keyword ‘creative accounting’. The third stage consisted of the actual selection of the articles relevant for the study, eliminating from our database the articles that refer to other aspects concerning accounting and those that fell outside the previously established period of time (1990-2010). The next step in this stage was represented by a brief analysis of the sample of selected articles, which after this stage was reduced to 57, from which 35 (61.4%) were published in ISI indexed journals.

Table 1. Journals selected and the articles corresponding to each publication

<table>
<thead>
<tr>
<th>No.</th>
<th>Crt.</th>
<th>The name of the international journal included in the study</th>
<th>No. of articles</th>
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<tbody>
<tr>
<td>1.</td>
<td></td>
<td>Critical Perspectives on Accounting (CPA)</td>
<td>14</td>
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<tr>
<td>2.</td>
<td></td>
<td>Abacus – A Journal of Accounting Finance and Business Studies (ABA)</td>
<td>12</td>
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<tr>
<td>3.</td>
<td></td>
<td>Journal of Business Finance &amp; Accounting (JBFA)</td>
<td>10</td>
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<tr>
<td>4.</td>
<td></td>
<td>International Journal of Accounting (IJA)</td>
<td>6</td>
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<td>5.</td>
<td></td>
<td>Accounting, Organizations and Society (AOS)</td>
<td>5</td>
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<tr>
<td>6.</td>
<td></td>
<td>European Accounting Review (EAR)</td>
<td>5</td>
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<tr>
<td>7.</td>
<td></td>
<td>Journal of Accounting and Public Policy (JAPP)</td>
<td>2</td>
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<tr>
<td>8.</td>
<td></td>
<td>Journal of International Accounting, Auditing and Taxation (JIAAT)</td>
<td>2</td>
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<tr>
<td>9.</td>
<td></td>
<td>Management Accounting Research (MAR)</td>
<td>1</td>
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<tr>
<td>10.</td>
<td></td>
<td>Journal of International Financial Management &amp; Accounting (JIMFA)</td>
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<tr>
<td>11.</td>
<td></td>
<td>Journal of Accounting Research (JAR)</td>
<td>0</td>
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<tr>
<td>12.</td>
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<td>Accounting and Finance (AF)</td>
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<tr>
<td>13.</td>
<td></td>
<td>Journal of Accounting and Economics (JAE)</td>
<td>0</td>
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<tr>
<td>14.</td>
<td></td>
<td>Accounting Forum (AFo)</td>
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Stage four consists of a detailed analysis of the 57 articles selected from the above mentioned publications, the aim being to identify the main lines of research they cover. Therefore, we made a classification of 10 research topics which will be presented below. Thus, we followed the main issue covered within each article, some of which can be included in several of the 10 research topics. Moreover, an important step in this stage was to determine the research current of each article, the type of research used, but also the geographical area on which the study focuses. Regarding the main topic covered, we identified the following research directions: true and fair view, financial reporting, corporate governance, creative accounting techniques, consistency or inconsistency of accounting standards, ethical behavior within companies, financial scandals: prevention measures and control solutions, information asymmetry: managers versus stakeholders, audit independence, reform of accounting. Concerning the research current we identified: the main research current (positivist) and the alternative research current (critic or interpretative). Finally, the geographical area is an aspect we have pursued within our analysis, which helped us identify the following main areas the studies focused on: Australia and New Zealand, Great Britain, United States of America, Canada, Asia and Europe (except Great Britain). The fifth stage is closely related to the previous stages, also within this stage we interpreted results obtained, drawing, thus, some conclusions concerning the aspects observed during the study, but also the objectives we proposed to achieve.

III. Results and discussions

3.1. The development of international research concerning creative accounting

Within this quantitative analysis, the first feature that we focused on was the article’s year of publication, a relevant issue in determining the development of international research concerning creative accounting during the analyzed period (1990-2010). After analyzing the articles from the 14 international journals, we have noticed that the number of articles did not vary significantly from one year to another, but there is the situation in which in some years one has not published any relevant articles on the theme concerned (1990 and 1997). We noticed that the largest number of articles is published in 2006 (6 items), and at the opposite pole is, of course, the year 1997, when no articles have been published. It is worth mentioning that the researchers’ interest for this subject related to creative accounting increased after 2000, when the largest financial scandals burst, scandals which were based including on creative accounting practices. Thus, before 2000, 18 articles have been published (31.5%), and from 2000, including, 39 articles have been published (68.5%).

![Figure 1. The development of international research concerning creative accounting](image)

3.2. The main research directions in the field of creative accounting
The second feature that we considered important in conducting this study is the *main topic* covered by the articles from the selected sample. There were 10 main themes which will be briefly described, mentioning the number of articles that belong to each theme, emphasizing, at the same time, the degree of importance that researchers have granted to these issues. After analyzing the 57 articles from the sample selected, we identified 10 research areas: *true and fair view*, *financial reporting*, *corporate governance*, *creative accounting techniques*, *consistency or inconsistency of accounting standards*, *ethical behavior within companies*, *financial scandals: prevention measures and control solutions*, *information asymmetry: managers versus stakeholders*, *audit independence*, *reform of accounting*. In what follows, we will reflect the distribution system of the articles from the analyzed sample according to the research themes they approached concerning the creative accounting phenomenon.

![Figure 2: Article distribution according to the research themes concerning creative accounting](image)

*Source: Made by the author*

By making an analysis based on the above figure we can notice a high interest of the researchers for the *creative accounting techniques*, this theme being covered by 10 (17.55%) of the articles in the sample. Aspects related to the *consistency and inconsistency of the accounting standards* and to *corporate governance* were also dealt in a large number of articles, on each of these two themes identifying 8 (14.03%) relevant articles for the concerned period. Topics related to *financial reporting* and *financial scandals* were analyzed within 7 (12.28%) articles each. Further, *true and fair view* and *audit independence* were covered by a number of 6 (10.52%) articles each. The chart also reveals a lower interest manifested by the researchers for the topics related to *ethical behavior within companies*, *information asymmetry between managers and stakeholders* and also for *accounting reform*, each one of these themes being found in 2 articles (3.5%) of the analyzed sample. Overall, one can notice a relatively balanced concern for all research themes since there is no great difference between the number of items corresponding to each line of research.

### 3.3. The dominant research current

Before discussing the research currents within which the analyzed articles fall into, we must point out that, over time, researches conducted in the field of accounting were recorded in different research currents, starting with the *normative* current, and subsequently focusing on the *positivist* current. If we refer to the main research current, it is noticeable the shift from the normative current – which does not involve hypothesis testing and it relies primarily on reasoning and promotes subjective thinking – to the positivist current which appeared, in fact, as a response to the criticism brought to the normative current, and it focuses on the experimental testing of theories and the exposure of accounting practices through empirical approaches. As a result of the dissatisfaction with the limits of the positivist current, one registered an increased focus on alternative currents, such as *interpretative* and *critical*. More than 90% of the analyzed articles fall within the positivist current, while the articles that fall within the alternative currents are clearly less with a share of only 7.6%.
3.4. Type of research
In order to obtain a more complete quantitative study, we considered necessary to analyze the type of research concerning creative accounting used at international level. Firstly, it is important to delimit the two great directions within which the researches in the accounting field fall into, namely: researches of theoretical and empirical nature. According to this classification we divided the articles into two categories: 68.42% of the articles are of empirical nature, while 31.58% are of theoretical nature. We can notice here the same shift of supremacy, from a theoretical approach to an empirical approach, respectively from a qualitative to a quantitative research. These results are justified considering that before 2000 (when the burst of the financial scandals brought the creative accounting practices to the researchers’ attention) the researches were predominantly theoretical. Thus, after the year 2002 (the collapse of Enron), researchers have focused on testing previously formulated hypotheses, relying more on implementing specific methods and techniques for data collecting and processing.

3.5. The analyzed geographical area
Taking into account that more than 60% of the analyzed articles rely on empirical research, we considered relevant to examine the geographical areas on which they focus; therefore, we chose Australia and New Zealand, the United States of America, Great Britain, Europe (except Great Britain), Canada and Asia as the representative geographical areas of the current study.

As reflected in the figure above, most empirical studies analyze the creative accounting practices from Great Britain (12 articles – 30.77%), followed closely by those from the Australian territory (11 articles – 28.2%), Europe (8 articles – 20.51%), United States (5 articles – 12.82%), Asia (2 articles – 5.14%) and Canada (1 article – 2.56%).
IV. Conclusions
We may conclude that most of the researches conducted within the creative accounting field fall within the main research current, which in our case is positivism. Concerning the type of research, we can observe that the vast majority of articles are of empirical nature, but many theoretical studies have also been published. After analyzing the articles according to the geographical area, we found that most empirical studies focused on Great Britain (or a parallel between Great Britain and the United States), Australia or Europe (except Great Britain). Our analysis revealed that the United States are occupying only the fourth rank, but, in our opinion, this did not happen because there were not enough studies focusing on this geographical area, but because the selection of the articles was made according to the keyword creative accounting, which is a term used mainly in Europe and Australia, while the term mostly used in the US is earnings management.

Acknowledgements
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V. References
Articles:

Websites: