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THE ROLE OF CORPORATE GOVERNANCE IN LIMITING CREATIVE ACCOUNTING PRACTICES

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Abstract:

This research explored the importance of governance in organizations and how it can limit creative accounting techniques from academics' and specialized accountants' perspectives in Lebanon. The researchers used quantitative data to analyze and evaluate the validity of the research hypotheses statistically. For data collection, a survey questionnaire was created using previous studies and relevant literature, and a random sample of 384 academics and accounting professionals in Lebanon was randomly selected. Out of 384 questionnaires distributed, 347 valid questionnaires were returned, resulting in a 90% response rate. For Statistical analysis, the researcher used the Statistical Package for Social Sciences (SPSS) to verify suggested hypotheses. The researchers found that corporate governance principles, including transparency, disclosure, and stakeholder participation, significantly limit creative accounting practices. The research concluded with recommendations for companies, employers, accountants, and Lebanon's Association of Certified Accountants.

Keywords: Cybersecurity; Business; Finance; Corporate governance; Relevance of Accounting Information Value

INTRODUCTION

Research on business and finance has a long tradition. The business and finance world faces rapid changes because of recent money and economic crises. These crises affected many areas, especially accounting and auditing. Because of this, it has become important for companies to use modern rules and techniques. This is to improve their performance, quality, service efficiency, and control and accountability processes (*Global Risks Report 2024 | World Economic Forum*, 2024)

There are many examples of these crises, such as the collapse of socialist systems in Eastern Europe. Also, there were money crises in Southeast Asia, Latin America and Russia during the 1990s. The American economy also faced impacts from money and accounting failures at major global American companies like Enron and WorldCom. There was chaos in global financial markets, among other money and economic crises. The reason behind this was a lack of accountability, transparency, and governance processes (Cole et al., 2021).

Many previous research agreed on that companies are managed as well as monitored through "corporate governance". Its rules emphasize the board of directors' responsibilities to ensure shareholder rights and fairness in the company. This supports transparency and disclosure processes, especially for publicly traded companies. The study aims to increase accounting awareness and support modern accounting culture trends. This helps avoid bad and unethical practices that can lead to severe consequences for institutions and the national economy. Therefore, corporate governance is important to prevent institutional administrative troubles and financial failure. It maximizes performance and market value, ensuring growth continuity and avoids accounting and financial pitfalls (Jhunjhunwala, 2023).

2.0 LITERATURE REVIEW

2.1 Corporate Governance

The business world has become increasingly complex due to various reasons, including scientific progress, globalization, and technological revolutions that have changed economic and social systems. Despite these reasons, the driving force behind this complexity is the innate human desire for progress and civilization (Ghauri et al., 2021).

2.2 The Concept of Corporate Governance

According the literature review, Corporate governance refers to "the processes, principles, and values that guide a company's management and control." It concerns how a company's management interacts with various stakeholders, such as employees, customers,

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and the wider community, and how decisions affect them are made. In fact, corporate governance aims to encourage transparency, accountability, fairness, and responsibility in institutional decision-making and ensure that the interests of all stakeholders are considered. It also involves ensuring that a company's operations are conducted ethically and in compliance with relevant laws and regulations." (Aeron, 2024). Governance has become one of the leading topics in the practical and administrative arenas. To understand the nature of corporate governance, we must first understand the meaning of governance in general, linguistically and technically.

According to previous work completed by Almaqtari et al., "Corporate governance is the laws and standards that define the relationship between a company's management on the one hand, and shareholders and stakeholders or parties related to the company on the other hand, where the other stakeholders include workers, employees, customers, creditors (such as banks and bondholders), suppliers, regulators, and the community at large" (Almaqtari et al., 2020).

2.3 Creative Accounting

Researchers and scholars have defined creativity in different ways, each one defined it according to their perspective and in line with their research and scientific orientations. The most important classifications of these definitions are described by Walia (2019) as follows:

- Definitions that focus on the creative person in terms of personal and cognitive characteristics are adopted by psychologists.
- Definitions that focus on the creative process in terms of the stages it goes through and its connection to problem-solving thinking patterns adopted by cognitive psychologists.
- Definitions that focus on the creative product are more common because they reflect the tangible aspect of the creative process.

To define creativity, it can be understood as a combination of personal characteristics, emotional inclinations, and cognitive abilities that enable an individual to generate new ideas. There are different types of creativity depending on the specific field being studied. In the field of accounting, creativity is necessary to provide accurate, reliable, and relevant information for decision-making. Creativity can also be described as developing new and valuable ideas to address specific problems or integrating and rearranging existing knowledge in new ways. It can improve organizational performance, training outcomes, and employee satisfaction, ultimately contributing to increased productivity. Additionally, creativity involves perceiving a new phenomenon, identifying the problem, and engaging in creative thinking to find a suitable solution. While creativity and innovation are often used interchangeably, the difference lies in creativity, which involves generating a new idea or solution, while innovation consists in implementing a creative idea (Runco et al., 2020).

2.4 Motivations for Creative Accounting

There have been differing perspectives in the world of management and accounting regarding the importance of creative accounting. Some researchers view it positively, while others view it negatively. The positive view considers that creative accounting helps find unconventional accounting solutions and procedures that aid in decision-making. It can also provide users with high-quality, useful, and beneficial accounting information and works on innovation and development in accounting methods and procedures. On the other hand, the negative view involves following tricks, deception methods, and manipulating numbers to present a situation that serves certain parties' interests and hides certain facts (Andreassen, 2020).

2.5 Creative Accounting Practices

Previous research views creative accounting practices as a way to influence financial statements from different perspectives. These methods can be classified based on their compliance with accounting principles, with some methods following Generally Accepted Accounting Principles (GAAP) to hide the company's economic performance. These methods can only be applied in form without substance, either intentionally to deceive or due to a misunderstanding of the standards. Additionally, the same research found that creative accounting includes non-accounting methods such as manipulation through transactions with related parties or sister companies (Remenarić et al., 2018).

2.6 Activating Corporate Governance Pillars to Limit Creative Accounting Practices

This is done through self-education undertaken by users of financial information to raise their accounting level or through entities concerned with the integrity and transparency of financial statements and the information they contain, whether governmental or private sector entities. "The education process is carried out by presenting educational accounting programs, sending explanatory messages, or holding discussion sessions for users of financial information that explain the creative practices employed by some companies and the latest developments in auditing and accounting" (Johan et al., 2020).

Accounting associations can conduct workshops to educate accountants and auditors and provide them

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with the necessary guidance to limit creative accounting practices. Business ethics should also be activated through professional regulation, establishing a code of professional conduct, and forming a professional ethics committee. Corporate governance, an integrated control system governed by internal and external control principles and mechanisms, is one of the most important means to form a defensive line against systematic creative accounting and data manipulation (Okougbo et al., 2021).

2.7 Research Question

Based on the short preview above, the current research aims to answer the main following question:
To what extent do the principles of corporate governance (disclosure, transparency, and the role of stakeholders) contribute to limiting creative accounting practices from the perspective of academics and accounting experts in Lebanon?

2.8 Significance of the Research

The study is considered significant due to the novelty of the concept of creative accounting in Lebanon. It will raise awareness among professionals and academics to further research the relationship between corporate governance principles and the quality of accounting information regarding creative accounting practices. Additionally, the research will help bridge gaps in previous research and contribute to the accumulation of knowledge in the field.

3.0 MATERIALS AND METHOD

3.1 Research Methodology

The researcher elaborates on the method adopted to obtain the research goals in this section. This study adopted the descriptive analytical approach. This approach is defined as "the approach that studies a phenomenon, event, or currently existing issue, where information can be obtained from it to answer research questions without the researcher's intervention." Previous research completed by AbuHamda et al. (2021, p. 71) stated, "Quantitative and qualitative methods are the engine behind evidence-based outcomes."
The study population consisted of all accounting experts (2,514 experts) in Lebanon and academics specializing in accounting. However, there are no up-to-date statistics on their numbers.

3.2 Research hypothesis

The study hypotheses were built based on the research problem, as the study hypotheses are immediate answers to the phenomenon and expected solutions to the problem. By studying them, the possibility of rejection and acceptance becomes clear. The researcher suggests this main hypothesis to reach the results:

- There is no statistically significant relationship at the significance level (0.05 ≥ α) between the principles of corporate governance (disclosure, transparency, and the role of stakeholders) and creative accounting practices (on the statement of financial position and the income statement), from the point of view of accounting experts and academics in Lebanon.

Additionally, for quality purposes, the researcher proposes more sub-hypotheses that are driven from the main one:
The first sub-hypothesis: "There is no statistically significant relationship at the level (0.05≥ α) between disclosure and creative accounting practices (on the statement of financial position and on the income statement) from the point of view of accounting experts and academics in Lebanon."
The second sub-hypothesis: "There is no statistically significant relationship at the level (0.05 ≥ α) between transparency and creative accounting practices (on the statement of financial position and on the income statement) from the point of view of accounting experts and academics in Lebanon."
The third sub-hypothesis: "There is no statistically significant relationship at the level (α≥ 0.05) between the loss of stakeholders and creative accounting practices (on the statement of financial position and on the income statement) from the point of view of accounting experts and academics in Lebanon."

Results and Data Interpretation

In this section, the researcher presents the results of the study based on the proposed question and research hypothesis. The main hypothesis of the study stated, "There is no statistically significant relationship at a significance level of (0.05≥ α) between corporate governance and creative accounting." The researcher also relies on the following one to reach the results:
The first sub-hypothesis: "There is no statistically significant relationship at a significance level of (0.05≥ α) between disclosure and creative accounting."
To test the hypothesis, the researcher used the simple linear regression method. The results were as shown in the following table:

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Table (22): *The Relationship between Disclosure and Creative Accounting.*

Independent Variable	**Unstandardized Coefficients**		**t-test**		**ANOVA**		**Correlation Coefficient**	
	B	Std. Error	t	Sig.	F	Sig.	R	R^2
Constant	1.909	.311	6.144	.000	50.99	.000	.359	.129
Disclosure	.520	.073	7.141	.000				

The critical F-value at degrees of freedom (1, 345) and a significance level of 0.05 equals 3.87. The critical t-value at degrees of freedom (346) and a significance level of 0.05 equals 1.96. Source: Compiled by the researcher based on the statistical software SPSS.

The correlation coefficient value between disclosure and creative accounting was (0.359), and the determination coefficient value was (0.129), which means that disclosure explains 12.9% of the variance in the variable related to creative accounting. The regression coefficient of 0.52 indicates the degree to which disclosure influences creative accounting practices. To assess the significance of this effect, we calculated the t-test statistic, which came out to 7.141. Since this value exceeds the critical t-value at the 0.05 significance level, we can conclude that the effect of disclosure on creative accounting practices is statistically significant.

The second sub-hypothesis: "There is no statistically significant relationship at a significance level of (0.05≥ α) between transparency and creative accounting."

To test this hypothesis, the simple linear regression method was used, and the results were as shown in Table No. (23) below:

Table (23): *The Relationship between Transparency and Creative Accounting.*

Independent Variable	Unstandardized Coefficients		t-test		ANOVA		Correlation Coefficient	
	B	Std. Error	t	Sig.	F	Sig.	R	R^2
Constant	1.592	.317	5.031	.000	64.18	.000	.396	.157
Transparency	.594	.074	8.011	.000				

The critical F-value at degrees of freedom (1, 345) and a significance level of 0.05 equals 3.87. The critical t-value at degrees of freedom (346) and a significance level of 0.05 equals 1.96. Source: Compiled by the researcher based on the statistical software SPSS.

The correlation coefficient value between transparency and creative accounting was (0.396), and the determination coefficient value was (0.157), which means that transparency explains 15.7% of the variance in the creative accounting variable. The regression analysis showed a coefficient of 0.594 for the effect of transparency on creative accounting practices. This large positive value suggests that greater transparency is associated with an increase in aggressive accounting tactics by firms. To assess whether this relationship is statistically significant, we calculated a t-statistic of 8.011. Since this exceeds the critical t-value at the 0.05 significance level, we can infer that the observed effect is unlikely to be due to chance alone. In other words, the data provides strong evidence that higher levels of transparency requirements do indeed coincide with more prevalent use of creative accounting methods by companies. The positive correlation appears to be robust and meaningful.

The third sub-hypothesis:"There is no statistically significant relationship at a significance level of (0.05≥ α) between the role of stakeholders and creative accounting."

To investigate this hypothesis, we employed simple linear regression analysis. The results are presented in the following table.

Table (24): *The Relationship between the Role of Stakeholders and Creative Accounting.*

Independent Variable	Unstandardized Coefficients		t-test		ANOVA		Correlation Coefficient	
	B	Std. Error	t	Sig.	F	Sig.	R	R^2
Constant	1.579	.308	5.134	.000	68.70	.000	.407	.166

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Stakeholders' Role	.592	.071	8.288	.000

The critical F-value at degrees of freedom (1, 345) and a significance level of 0.05 equals 3.87. The critical t-value at degrees of freedom (346) and a significance level of 0.05 equals 1.96. Source: Compiled by the researcher based on the statistical software SPSS.

The correlation coefficient value between the role of stakeholders and creative accounting was (0.407), and the determination coefficient value was (0.166), which means that the role of stakeholders explains 16.6% of the variance in the creative accounting variable. The regression analysis yielded a coefficient of 0.592 for the effect of stakeholder roles on creative accounting practices. This sizeable positive value suggests that greater stakeholder involvement and oversight is associated with an increase in the use of aggressive accounting tactics by firms. To assess the statistical significance of this relationship, we calculated a t-statistic of 8.288. Since this value exceeds the critical threshold at the 0.05 significance level, we can infer that the observed effect is unlikely to be simply due to chance variation. In other words, the data provides strong evidence that heightened scrutiny and influence from stakeholders does indeed correlate with more prevalent creative accounting methods employed by companies. The positive correlation appears substantive and robust.

CONCLUSION

The analyses reveal the following findings. In the first place, there is a statistically significant relationship between disclosure requirements and the prevalence of creative accounting practices among firms. Additionally, the data provides strong evidence that transparency mandates are linked to an increased tendency for companies to employ aggressive creative accounting tactics. Moreover, the results indicate a strong correlation where greater stakeholder oversight and influence corresponds to more widespread use of creative accounting methods by corporations.

Based on the foregoing, the study was able to answer the problem by confirming the existence of an impact and role of corporate governance principles in limiting creative accounting from the perspective of academics and accounting experts in Lebanon.

RECOMMENDATIONS

This study also recommends the necessity of obligating companies to apply modern control methods due to their impact in limiting the use of creative accounting techniques and their role in reducing risk. The study also recommends that the audit committee discuss the change in applied accounting principles with the company's management and determine their impact on the financial reports.

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