

## Evaluation of the Emergence Key Drivers of Creative Accounting in the Future of Financial Reporting Legitimacy

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Research Paper

### INTRODUCTION

Today, accounting is shifting from objectivist to behavioral approaches. It aims to address the flaws of positivism in classical paradigms (Baird, 2020).

This level of accounting is always hidden from auditors and regulators. There are no standards in this area. This allows for money laundering and fraud in financial statements. This negative approach is more important due to representation issues. Situations that raise managers' motivations to prioritize their interests, by knowing accountants are aware of financial statement distortions (De Barma and Roy, 2023).

Therefore, creative accounting may exploit gaps in accounting rules. This could help managers and increase their desire for creative accounting (Akpamoku and Yomorin, 2018).

Disclosure requirements supply stakeholders with consistent information. In a competitive market, firms without voluntary disclosure will struggle. They will find it hard to gain trust, get an edge, and win more market share (Mikaoui et al., 2022).

Thus, due to the rise of creative accounting, reporting will likely lose legitimacy. Stakeholders will see unstable information quality. Based on the topics in this section, the main research questions are:

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What are the key drivers of creative accounting in the accounting literature?

What effects can result from using a matrix evaluation to find creative accounting in financial reports?

The first research question) what are the key drivers of creative accounting?

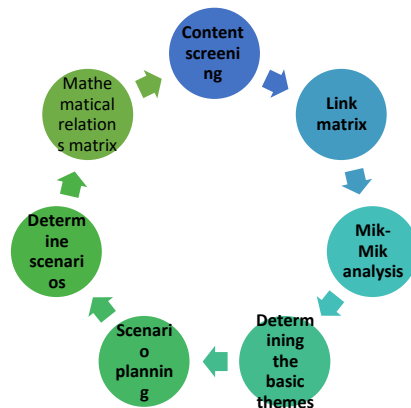
The second research question) what are the scenarios related to the creative accounting functions of companies?

The third research question) what is the most likely scenario affecting the legitimacy of financial reporting of companies?

## **MATERIALS AND METHODS**

Based on the present study, which aims to evaluate the key drivers of the emergence of creative accounting in the future of the legitimacy of financial reporting of companies, this study should be considered part of applied research in terms of results, and because to identify the drivers through thematic analysis, an interview tool was used for the emergence new themes used in the context of the study should be considered as exploratory studies. In terms of the type of data, this study should be considered as a hybrid study, because it uses qualitative and quantitative data collection processes to achieve the research objectives.

It is important to mention that the present study uses a separate method for answering the formulated questions for each section. Because the qualitative part, relies on the typology of theme analysis, it uses the style of Atrid-Sterling (2001) to be able to identify the key drivers of the emergence of creative accounting in the form of analytical themes, then in the quantitative part, through matrix processes, about the evaluation scenario of the key drivers. In the emergence of creative accounting, it affects the future of the legitimacy of financial reporting of companies.



## RESULTS AND DISCUSSION

This study, with the support of conceptual grounding through thematic analysis, identified the key thematic drivers of the emergence of creative accounting, by conducting 12 interviews with experts, a framework based on 3 overarching themes; It created 6 organizing themes and 26 basic concepts that were considered as the basis of generalization to the quantitative analysis processes of the study to implement the research questions. For this purpose, by performing the process of fuzzy Delphi analysis, the main axes of the drivers in the emergence of creative accounting were confirmed in terms of reliability.

The results of the study based on the answer to the second question of the research showed that this study was selected as the basis of the scenario based on the two axes of governance drivers and internal control drivers that were determined through the fuzzy Dimetal process. Then, based on the creation of a 24x24 mutual matrix, the basic themes were explored as the key drivers of the emergence of creative accounting, to determine, based on that, which of the drivers is in which state in terms of strengthening the stimulation of the emergence of creative accounting; The static effect is the driver of creative accounting and the non-stimulator of creative accounting. The results indicated the existence of 12 key drivers as effective drivers for the emergence of creative accounting, which were considered as the basis for determining the matrix scenarios. Therefore, according to the combination of vertical and horizontal axes, the final evaluation matrix of creative accounting functions is presented in the form of the following figure:

## CONCLUSION

This study uses a mixed method for data collection. Its research philosophy is inductive and comparative. Also, the nature of the goal, this

study is exploratory and the development result. The qualitative section had 12 academics and 25 financial managers from Tehran Stock Exchange firms. This study uses a series of matrix processes in its quantitative part. They can determine possible scenarios about creative accounting. It tests the top 25% of the matrix on the legitimacy of future financial reports by companies. 12 expert interviews form the basis of the qualitative findings. A framework for 3 main themes shows 6 organizing themes and 26 basic themes. On the other hand, the quantitative part identified 4 matrix quadrants. They based their decisions on the two axes of governance and internal control drives. Creative accounting is most important in the second quadrant of the Tyransid matrix. It is about how structural centralization weakens internal control. This scenario can affect the ethical legitimacy of financial reporting. This study shows that internal control is key to companies' financial performance. It can boost compliance with stakeholders' rights. It will filter out any deviations in operations and financial reports. But, when managers influence internal auditors, their independence declines. This harms the effectiveness of this key internal control unit.

**Keywords:** Creative Accounting; Financial Reporting Legitimacy; Scenario Planning.

**JEL Classification:** M41.

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