

**IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON CREATIVE ACCOUNTING  
AND FINANCIAL REPORTING QUALITY****Prof. İsmail BEKÇİ (Ph.D.)\*** **Prof. Korhan KARACAOĞLU (Ph.D.)\*\*** **Assoc. Prof. Eda KÖSE (Ph.D.)\*\*\*** **Res. Asst. HümeYra YILDIZ\*\*\*\*** **ABSTRACT**

*This study investigates the mediating role of corporate social responsibility in the relationship between creative accounting and financial reporting quality. Data were collected through a survey of bank employees and analysed using structural equation modelling. The results indicate that creative accounting positively influences financial reporting quality through key determinants such as disclosure quality, internal control, and ownership structure. However, the ethical dimension, another determinant of creative accounting, does not exhibit a statistically significant effect on financial reporting quality. Furthermore, “corporate social responsibility disclosures do not mediate the relationship between creative accounting and financial reporting quality”. These findings contribute to the existing literature by providing theoretical and practical insights into the complex interactions among corporate social responsibility, creative accounting, and financial reporting quality, highlighting areas where ethical considerations and transparency play pivotal roles in organizational reporting practices.*

**Keywords:** Creative Accounting, Financial Reporting Quality, Corporate Social Responsibility.

**JEL Codes:** M21, M41, G34.

**1. INTRODUCTION**

Today, financial statements and financial outputs based on accounting processes provide stakeholders with information on the financial position of the firm. Stakeholders make many decisions based on the data obtained from these financial statements (Haruna and Emmanuel, 2017). Therefore, in order for stakeholders and other information users to make decisions about the firm, the information in the financial statements should accurately reflect the financial position. However, in recent years, the

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failures of companies such as “Enron, WorldCom, BCCI, Robert Maxwell Pension Funds, Global Crossing, Adelphia, Tyco, and Arthur Andersen” have raised questions about the reliability of financial reports (Ramly and Tas, 2010). Despite the existence of “International Financial Reporting Standards (IFRS)” or accepted accounting principles for the preparation of financial statements, it is sometimes impossible to prevent manipulative behavior of financial statement preparers to influence the decisions of financial statement users (Leyira and Okeoma, 2017). When these behaviors are done in accordance with accounting principles, they are known as “creative accounting (CA)”. CA can be defined as manipulation of accounts, creation of numbers, or manipulation of financial statements (Bernstein, 1987).

The concept of “Financial Reporting Quality (FRQ)” is crucial to ensure an accurate and honest representation of a company's financial position (Shahzad, Rehman, Hanif, Asim and Baig, 2019). FRQ encompasses key attributes such as relevance, comparability and understandability that enable users of financial reports to make informed decisions and avoid financial manipulation. This accuracy and fairness are central to maintaining the integrity of financial reporting. FRQ is important not only to reflect a company's true financial position, but also to avoid distortions that can lead to poor economic decisions. Researchers have emphasized the role of CA in influencing FRQ. While some see CA as a way to improve financial reporting through accurate and transparent representation of information, others argue that it can distort financial reports even when it does not clearly violate accounting rules. The tension between CA's potential to improve company image and the risk of manipulating financial statements highlights the complexity of its relationship with FRQ (Abed, Hussin, Haddad, Al-Rahmani and Ali, 2022a).

“Corporate Social Responsibility (CSR)” is an important concept not only for a better life but also central to contemporary governance. In the literature, CSR is defined in various forms: Daft (2006) continues to define CSR as making decisions and taking actions to organize and create wealth by meeting societal needs and interests; Kotler and Lee (2005) define CSR as using the firm's resources to improve the welfare of society. In academic lists, important issues related to CSR such as ecological management, proliferation, competitive advantage, efficiency, sustainability, challenges in the performance of ethics and participation in social responsibility initiatives are frequently included. CSR studies often focus on developments such as social activities, growth, economic, employees and volunteerism (Bachtijeva and Tamulevičienė, 2021). However, existing research often underemphasizes the relationship between CSR and financial reporting. Accordingly, it will contribute to the literature by explaining the links between CSR and not only social benefit but also financial information quality and market efficiency.

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Numerous studies have been conducted on how CA practices affect financial reports in various countries (Okolie, Chukwuma, Eneh and Ejike, 2023; Abed et al., 2022a; Jarah, Al Jarrah, Al-Zaqeba and Al-Jarrah, 2022). There are many studies examining the relationship between corporate governance and financial reporting concerning CA (Odo and Ugwu, 2020; Haouam and Feddaoui, 2013). For example, a study conducted in Kosovo, Abdurrahmani and Dogan (2021) found that managerial ethics has a significant impact on CA, but it negatively affects the corporate performance of creative accounting. Ismael (2017), in his research with auditors and academics, found that CA practices have a negative impact on financial reporting characteristics. Ezghayer (2022) examines the partition between FRQ and the parts of CA and finds that all of the data, except ownership structure (OS), such as compliance, availability, understandability and comparability, have positive and significant effects on FRQ. In recent years, research on the relationship between “CA and CSR” has become more prevalent. In this context, the hypothesis formulated in compliance with the subject and purpose of the research is as follows:

**“H<sub>1</sub>: CA positively affects FRQ.”**

CA has four fundamental components that affect the FRQ; “ethical issues (EI), disclosure quality (DQ), internal control (IC), and ownership structure OS (Abed et al., 2022a). Adherence to ethical accounting standards is necessary in the preparation process of financial reports to ensure that financial information is reliable, relevant, timely, accurate, and understandable (Tassadaq and Malik, 2015). Among the basic principles of ethical standards that financial report preparers must adhere to are honesty, impartiality, confidentiality, professional competence, and behavior (Ismael, 2017). It has been noted that when business managers embrace EI, transparency in financial reports increases significantly, leading to a considerable positive impact on FRQ (Saleh, Jawabreh and Abu-Eker, 2023). In line with this, the hypothesis formulated is as follows:

**“H<sub>1a</sub>: The EI of CA positively affects FRQ.”**

Another component of CA in enhancing the FRQ is DQ, which is based on providing financial information to users for making accurate decisions. In this context, it is necessary to disclose financial information clearly and comprehensibly. Yekini and Jallow (2012) defined DQ as the extent to which information can be used to understand, appreciate, and comprehend the social activities undertaken by individuals and business managers regarding the scope of CSR data. In this information asymmetry, DQ emphasizes the direct relationship between CA and firm value (Abed, Hussin, Ali, Maha and Elina, 2022b; Mudel, 2015). Accordingly, the formulated hypothesis is as follows:

**“H<sub>1b</sub>: The DQ dimension of CA positively affects FRQ.”**

High-quality financial reporting is contingent upon the establishment of an effective and sustainable IC mechanism (Sumaryati, Novitasari and Machmuddah, 2020). Enterprises with robust IC mechanisms are less prone to material errors and incorrect financial disclosures. The IC structure of enterprises plays a significant role in preventing misstatements in financial reports and mitigating manipulations (Abed et al., 2022a). Moreover, the absence or weakness of IC diminishes the objectivity and quality of financial reports, thereby adversely affecting FRQ (Ayagre, Ishmael and Joseph, 2014). Brauweiler, Yerimpasheva and Bagalbayeva, (2019) emphasized the vital importance of adopting IC in enhancing the FRQ. In this context, the formulated hypothesis is as follows:

**“H<sub>1c</sub>: The IC dimension of CA positively affects FRQ.”**

OS, the final component of CA, exerts different effects on firms. The extent of OS, which is of significant, is shaped by differences in capital structures and shareholder composition (Mudel, 2015). Shareholder attributes significantly affect the dynamic between FRQ and OS (Abed et al., 2022a). Ramly and Tas (2010) find a negative correlation between financial disclosure and OS, while Yasser, Al Mamun and Ahmed (2017) report a positive relationship between OS and FRQ. Existing literature generally suggests an inverse relationship between CA and OS, suggesting that OS reduces the extent of CA practices while simultaneously improving FRQ (Nagata and Nguyen, 2017; Mudel, 2015). In compliance with this, the hypothesis is formulated as follows;

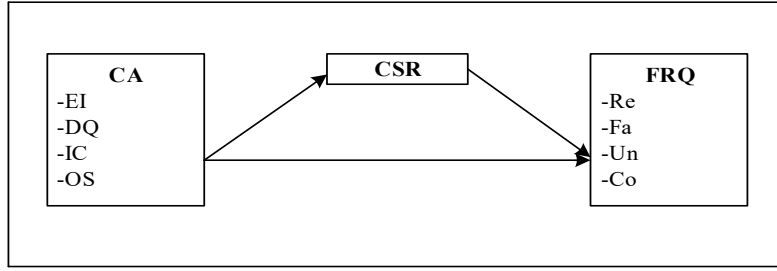
**“H<sub>1d</sub>: The OS dimension of CA positively affects the FRQ.”**

CSR activities strengthen the image of a business among stakeholders and serve as a strategic tool to reduce financial performance fluctuations (Mutuc, Lee and Tsai, 2019). Businesses using CA methods generally exhibit lower levels of CSR (Hasan and Hussein, 2022). The regulatory role of CSR is essential in offsetting the negative impacts of CSR on stakeholders. As a result, managers using CSR strategies are likely to increase their CSR efforts to protect the company image (Abed et al., 2022b). CSR reflects a company's commitment to create sustainable benefits for stakeholders and enhance social welfare (Lin, Hung, Chou and Lai, 2019). It plays an important role in business growth and development, with companies tending to achieve long-term success by focusing on CSR. Increased social responsibility awareness positively affects financial performance and profitability (Basar, 2014). However, no existing literature addresses the mediating role of CSR in the impact of CSR on FRQ. CSR is likely to increase FRQ by constraining CA practices, emphasizing the importance for managers, regulators and stakeholders to acknowledge its potential mediating role. Accordingly, the research hypothesis is formulated as follows:

**“H<sub>2</sub>: CSR mediates the relationship between CA and FRQ.”**

The research framework includes “CA” as the independent variable, “CSR” as the mediating variable and “FRQ” as the dependent variable.

**Figure 1. Conceptual Model Of The Research**



### 3. METHOD

#### 3.1. Subject and Purpose of the Research

CA is implemented to present the financial position of the firm as desired by the managers. This research aims to examine the determinants of CA and its effects on FRQ in the banking sector, focusing on investigating the impact of CA practices. It also examines whether CSR mediates the relationship between CA and FRQ. Therefore, the study examines the impact of CA on banks' FRQ and the mediating role of CSR in this relationship.

#### 3.2. Population and Sample of the Study

The sample of the study consists of bank employees as in similar studies in the literature. The population of the study consists of bank employees operating in Isparta. There are a total of 604 bank employees in this province (Türkiye Bankalar Birliği, 2023). The research was conducted by applying a survey to 241 bank employees working in various positions in banks in Isparta between May and July 2024, using “face-to-face and online” methods. Data was collected using survey research using random sampling to reach the target respondents.

#### 3.3. Research Method

The questionnaire used in the research was divided into two parts: descriptive statements and statements specifically designed to test the hypotheses of the study. In the study, five-item questions were formulated for each analysis while preparing the questionnaire. The survey questions were based on the questionnaire form in Abed et al. (2022a).

The data collected during the study were first analyzed using “SPSS 20 software” to assess data distribution, response rates and coding accuracy. Following this preliminary analysis, a two-stage evaluation was conducted with “AMOS” software. Initially, a “confirmatory factor analysis (CFA)” was conducted to validate the overall measurement model. Then, hypotheses were analyzed within the context of “structural equation modeling (SEM)”.

### 3.4. Descriptive Questions of the Study Number (Frequency) and Percentage Information

The descriptive questions aimed to collect information about the participants' gender, age, education and professional experience. The frequency and percentage distributions of descriptive questions regarding the participants are presented in Table 1 below.

**Table 1. Frequency and Percentage Distributions of Descriptive Questions**

Descriptive Questions	Options	Frequency	Percentage
<b>Gender</b>	Male	132	54.8
	Female	109	45.2
	Total	241	100
<b>Age</b>	20-25	10	4.1
	25-30	58	24.1
	35-40	69	28.6
	40 and older	104	43.2
	Total	241	100
<b>Educational Status</b>	Undergraduate Degree	190	78.8
	Graduate Degree	51	21.2
	Total	241	100
<b>Professional Experience</b>	0-5 Years	55	22.8
	6-10 Years	56	23.2
	11-15 Years	68	28.2
	16 Years and longer	62	25.7
	Total	241	100

In Table 1 above, the frequency and percentage distributions of descriptive variables of bank employees participating in the survey in Isparta province, which constitutes the sample of the study, are presented. The first descriptive variable, gender, shows that out of 241 bank employees, 109 (45.2%) were female and 132 (54.8%) were male. In terms of age distribution, 10 participants (4.1%) were 25 years old or younger, 58 (24.1%) were between 25-30 years old, 69 (28.6%) were between 35-40 years old and 104 (43.2%) were 40 years old or older. Regarding educational background, 190 participants (78.8%) have a bachelor's degree and 51 (21.2%) have a postgraduate degree. Regarding professional experience, 55 bankers (22.8%) have 5 years or less, 56 (23.2%) have 6-10 years, 68 (28.2%) have 11-15 years and 62 (25.7%) have 16 years of experience.

## 4. FINDINGS

### 4.1. Normality Test

“Skewness and kurtosis values” were examined in this study to evaluate the normal distribution. According to “Tabachnick and Fidell” (2007), these values should be between “-1.5 and +1.5”, while Shao (2002) suggests a range between “-3 and +3”. The “skewness and kurtosis values” for each item in the scales fell within “Shao's range”, confirming that the data met the normal distribution condition for p.

### 4.2. Assessment of the Measurement Model and Validity and Reliability of the Scales

The measurement model assesses how well latent variables are measured by observed variables and measurement features. Before proceeding with “SEM”, the measurement model specifications must be satisfied. In this study, six reflective variables “EI, DQ, IC, OS, CSR, and FRQ” and a “CFA” were performed in AMOS. Factor loadings ranged from “0.57 to 0.95”, except for the “EI variable” which did not meet acceptable goodness-of-fit thresholds. Furthermore, one item was removed from the “DQ” dimension due to low factor loading. Model fit indices showed adequate fit with “CMIN=1389.484, DF=679, CMIN/DF=2.046,  $p < 0.000$ , CFI=0.932, RMSEA=0.066 and SRMR=0.048”. In this study, the goodness of fit statistics specified by Kline (2016) was reported. These indices achieved an acceptable fit.

The reliability of the scales used in the study was evaluated with “Cronbach's Alpha” and “Composite Reliability (CR) values”. A cut-off value of 0.70 was considered acceptable for both measures. “Cronbach's Alpha values” for the scales exceeded this threshold and CR values above 0.70 confirmed the reliability of the scales. In addition, CR value has recently been examined for the reliability of the scales. This value is expected to be above 0.70. Considering the results of this research in Table 2, it is seen that the values in question are above the relevant threshold value. Therefore, it can be said that the scales are reliable.

For convergent and discriminant validity, “AVE, MSV, and ASV” values of the variables were calculated. “AVE>0.5” for convergent validity; It is recommended to have “CR>0.7 and CR>AVE”, and for discriminant validity, “MSV<AVE, ASV<AVE and  $\sqrt{AVE}$ ” correlation between factors (Hair, Hult, Ringle and Sarstedt, 2014).

**Table 2. Reliability and Validity of Scales and Correlation**

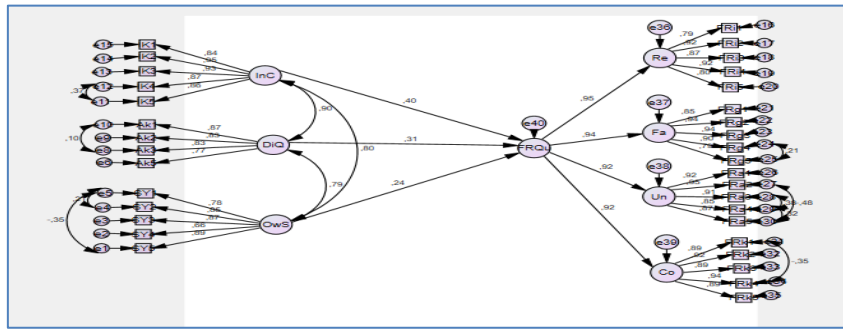
	Alpha	CR	AVE	MSV	ASV	$\sqrt{\text{AVE}}$	CoSR	DiQ	InC	OwS	RRe	FFa	UUn	CCo
<b>CoSR</b>	0.80	0.81	0.46	0.33	0.12	0.69	1							
<b>DiQ</b>	0.88	0.90	0.68	0.67	0.49	0.82	,475**	1						
<b>InC</b>	0.95	0.95	0.79	0.68	0.55	0.89	,483**	,816**	1					
<b>OwS</b>	0.90	0.91	0.66	0.56	0.51	0.81	,557**	,688**	,751**	1				
<b>Re</b>	0.93	0.93	0.74	0.69	0.61	0.86	,575**	,764**	,826**	,750**	1			
<b>Fa</b>	0.95	0.95	0.78	0.76	0.58	0.88	,571**	,708**	,763**	,711**	,870**	1		
<b>Un</b>	0.96	0.96	0.81	0.75	0.55	0.90	,544**	,670**	,726**	,662**	,805**	,856**	1	
<b>Co</b>	0.96	0.96	0.82	0.75	0.56	0.91	,531**	,726**	,777**	,667**	,830**	,811**	,864**	1

The AVE values of the variables are lower than the CR values and above 0.50, indicating convergent validity. However, the AVE value of the CSR scale is 0.46, which is below the expected threshold of 0.50. For such cases, Fornell and Larcker (1981) argue that convergent validity remains sufficient if the AVE is below 0.50 but the CR exceeds 0.60. As the CR of the CSR scale is 0.81, its convergent validity is still confirmed. Furthermore, AVE values exceeding MSV and ASV values indicate discriminant validity, which further supports the scales, as do  $\sqrt{\text{AVE}}$  scores exceeding inter-factor correlations.

### 4.3. Assessment of Structural Equation Modeling

“(SEM)” is a highly effective method for examining interdependent relationships between latent variables. Its primary purpose is to assess the fit of the proposed conceptual model to the data and the structural relationships between sets of latent variables. The analysis showed a direct relationship between the independent and dependent variables. For this study, both measurement and structural models were developed and estimated using “SPSS and AMOS software”. The goodness of fit indices for the “SEM” showed an acceptable fit. Specifically, the “CMIN statistic” was reported as 1151.384, with “degrees of freedom (DF)” of 508, resulting in a “CMIN/DF ratio of 2.267”. The corresponding p-value for this result was “ $p < 0.000$ ” and other fit indices included “CFI = 0.953, RMSEA = 0.073 and SRMR = 0.045”. These indices collectively indicated a satisfactory model fit as shown in Figure 2.

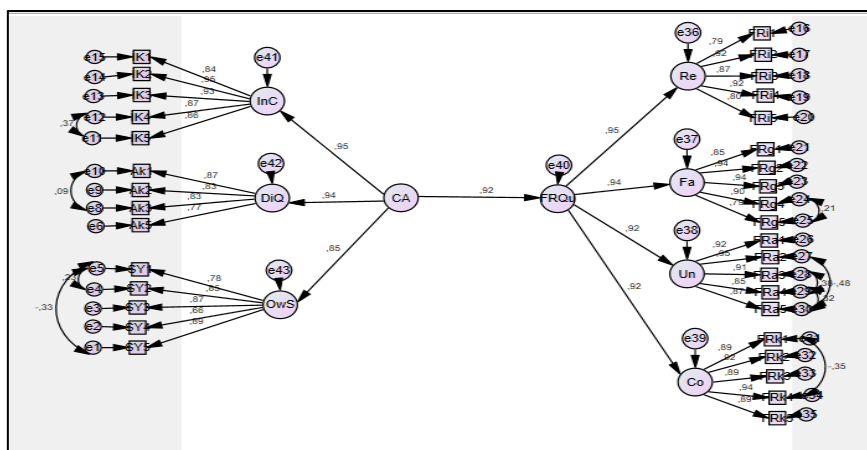
**Figure 2. Structural Model Among Variables**



This section shows the direct relationships between the determinants of CA and FRQ. The results of  $H_{1a}$  have not significant relationship between EI and FRQ. Therefore, the relationship between EI and FRQ was not supported. The result illustrates that  $H_{1b}$  indicates a positive and significant relationship between DQ and FRQ “( $\beta = 0.31$ ;  $p < 0.000$ )”. Therefore, the relationship between DQ and FRQ performance was supported. Furthermore, the result indicates that  $H_{1c}$  has a positive and significant relationship between IC and FRQ “( $\beta = 0.40$ ;  $p < 0.000$ )”. Therefore, the relationship between IC and FRQ was supported, whereas the results of  $H_{1d}$  have a positive and significant relationship between OS and FRQ “( $\beta = 0.24$ ;  $p < 0.000$ )”. Therefore, the relationship between OS and FRQ was supported, as presented in Figure 2.

We also considered the extent to which the three sub-dimensions of CA simultaneously affect the FRQ, called the latent variable of CA.

**Figure 3. PATH Analysis with SEM**

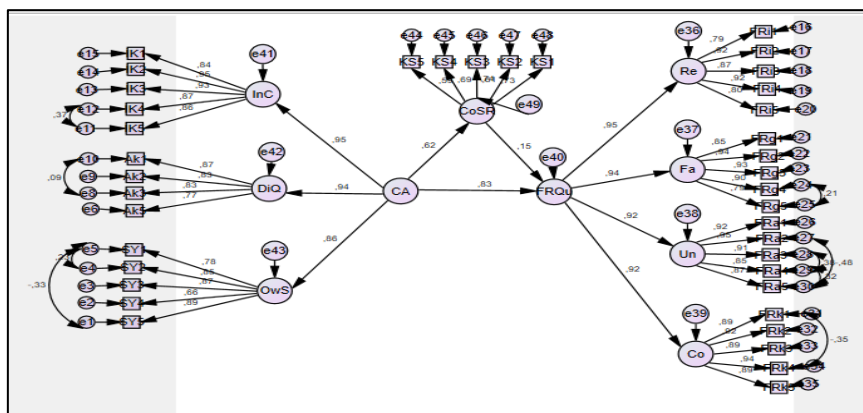


In the path analysis conducted with SEM for this research, the dependent variable is FRQ and the independent variable is CA. Figure 3 according, it was determined that there was a positive and significant relationship between CA and FRQ “( $\beta = 0.92$ ;  $p < 0.000$ )”. The goodness-of-fit of the SEM indicated an acceptable fit; specifically, the “CMIN statistic was 1153.637,  $DF = 510$ ,  $CMIN / (CMIN / DF = 1153.637 / 510 = 2.262)$ ”. The p-value associated with this result was “ $p < 0.000$ ,

CFI=0.935, RMSEA=0.073, SRMR=0.046". These indices were an acceptable fit. Accordingly, the research hypothesis ( $H_1$ ) implying that CA positively affects FRQ was accepted.

The mediating role of CSR in the impact of CA on FRQ was determined using the approach proposed by Zhao et al. (2010), which emphasizes assessing the importance of the indirect effect. In the study, it is recommended to use the "Bootstrap method" which gives more reliable results than the "Sobel test" (Zhao et al., 2010). If the confidence interval of the indirect effect does not include zero, the effect is considered significant and confirms the presence of a mediation effect (Hayes, 2009). Accordingly, the tests of possibilities for the research involving instrumental situations and the results of the analysis related to them are given in Figure 4.

**Figure 4. CSR's Mediation Model**



Considering the results obtained, in the structural model established regarding the mediating role of CSR, the effect of CA on FRQ is still significant " $(\beta=0.83; p<0.000)$ ". Moreover, the effect of constructive accounting on CSR is also significant " $(\beta=0.62; p<0.000)$ ". Again, the effect of CSR on FRQ is significant " $(\beta=0.15; p<0.004)$ ". Goodness of fit statistics for the mediation model is also good/acceptable. "CMIN statistic was 1403.774, DF=683, CMIN=(CMIN/DF=1403.774/683= 2.055)". The p-value associated with this result was " $p<0.000$ , CFI=0.931, RMSEA=0.06, SRMR=0.05". However, it was observed that the mediating role of CSR in the relationship between CA and FRQ was not significant ( $b=0.092$ , 95% CI) " $(\text{BootLLCI } -.015, \text{BootULCI } 0.198)$ ". Based on these statistical findings, the  $H_2$  hypothesis that CSR mediates the relationship between CA and FRQ was rejected.

## 5. CONCLUSION

CA practices, often associated with accounting scandals, significantly impact financial activity reporting. This issue is of vital importance to regulators, auditors, investigators and stakeholders. CA involves manipulating performance indicators and legally altering the financial position. Many companies take advantage of the flexibility of accounting standards, potentially leading to bankruptcy, highlighting the importance of CA. Consequently, research on how CA affects firms has become increasingly prevalent in recent years.

The four hypotheses stating that “CA positively affects FRQ, DQ dimension of CA positively affects FRQ, IC dimension of CA positively affects FRQ and OS dimension of CA positively affects FRQ” were supported by the analysis results. However, the hypotheses stating that “EI dimension of CA positively affects FRQ and CSR mediates the relationship between CA and FRQ” were rejected. The confirmation of the hypothesis that “CA positively affects FRQ” is in line with the findings of Abed et al. (2022a) and Favour-Orluogwo (2023), both of which conclude that CA has a positive effect on FRQ. However, it contradicts the results of Popescu and Ashrafzadeh (2013), Tassadaq and Malik (2015), and Ismael (2017), who reported a negative effect of CA on FRQ. Similarly, the acceptance of the hypothesis “the DQ dimension of CA positively influences FRQ” is consistent with the findings of Paolone and Magazzino (2014) and Yasser et al. (2016), showing DQ as a significant determinant of FRQ. However, this result contradicts Gerwanski, Velte and Mechtel (2022), who suggest a limited control role of DQ.

The acceptance of the hypothesis stating that “the IC dimension of CA positively affects FRQ” is supported by the findings of Lim et al. (2017) and Muraina and Dandago (2020). These findings indicate that weak IC in banks can lead to increased errors and false financial disclosures, while firms with sound IC tend to exhibit higher FRQ. Similarly, the acceptance of the hypothesis “OS dimension of CA positively affects FRQ” is in line with Udin et al. (2017) who conclude that OS increases FRQ by reducing CA practices. However, this finding contradicts Mudel (2015) who argues that OS negatively affects FRQ due to low interest rates.

The hypothesis stating that “CA's EI positively affects FRQ” is rejected, departing from Akenbor and Tennyson (2014) who find that ethical practices positively affect FRQ. This discrepancy may be due to the violation of accounting principles and lack of accurate, consistent and transparent financial reporting to stakeholders as noted by Hunt and Vitell (2006). Additionally, it is possible to mention findings from Abed et al. (2022a), which suggest that as firms prioritize CSR, the relationship between EI and FRQ becomes stronger.

The hypothesis formulated in the research, implying that “CSR mediates the relationship between creative accounting and FRQ” was rejected. Since there is no existing research on this specific topic in the literature, the result could not be compared. However, there are studies that are related to this topic: Bachtijeva and Tamulevičienė (2021) found a negative relationship between CA practices and CSR, while Abed et al. (2022a) identified the regulatory effect of CSR on the relationship between CA and FRQ.

Limitations of this study include cultural differences in accounting practices and different applications of CA between developed and developing countries, which may affect FRQ. These limitations provide opportunities for future research. Future research could extend the study of CA and FRQ by including determinants of corporate governance. Future research is expected to contribute to

confirm the findings of this study. It is anticipated that future research will contribute to validating existing findings related to CA and shed light on the confirmation of research findings in future studies.

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