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SUSTAINABILITY SMOOTHING: CONCEPT, REASONS, AND MEASURES TO REDUCE IT

Jamal Noori Dahham Al-Halbousy
University Presidency - Finance Section, University of Anbar, Master of Accounting
jamal.noori@uoanbar.edu.iq
Mohammed Ataallah Ali
Baghdad Oil Training Institute- Finance Section, Master of Accounting. Correspondence
mhmedata15@gmail.com
Mohammed Falah Al-Mohammadi
College of Administration and Economics - University of Baghdad- accounting department, Master of Accounting
mohammed.ali1206@coadec.uobaghdad.edu.iq

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Abstract:

The research aims to correct the course of sustainability reports by identifying weaknesses in these reports and suggesting appropriate treatments for them, because the purpose of preparing sustainability reports is to display the extent to which companies are committed to the requirements of sustainable development, and not to show companies in a beautiful way that they are environmentally friendly and socially friendly, Even if these companies are on the contrary, and have negative harmful effects on the environment and society, The importance of the research stems from the importance of sustainability reports as a means through which the sustainability of companies and their contribution to sustainable development can be assessed, This requires that these reports be more objective and reflect the true image of the company and not present what the company wants to show to stakeholders, The research was based on the deductive approach in clarifying the research topic (Sustainability Smoothing: concept, reasons, and measures to reduce it) and based on the following : through scientific references and previous accounting studies that dealt with the subject of the study scientifically. The most important desired effects of the research are to shed light on this negative phenomenon and urge the issuers of sustainability standards to develop their own standards in line with the requirements of achieving sustainable development and protecting the environment and society.

Keywords: Sustainability Smoothing, Income Smoothing, Sustainability Accounting

Paper type; *Conceptual paper*.

1- INTRODUCTION:

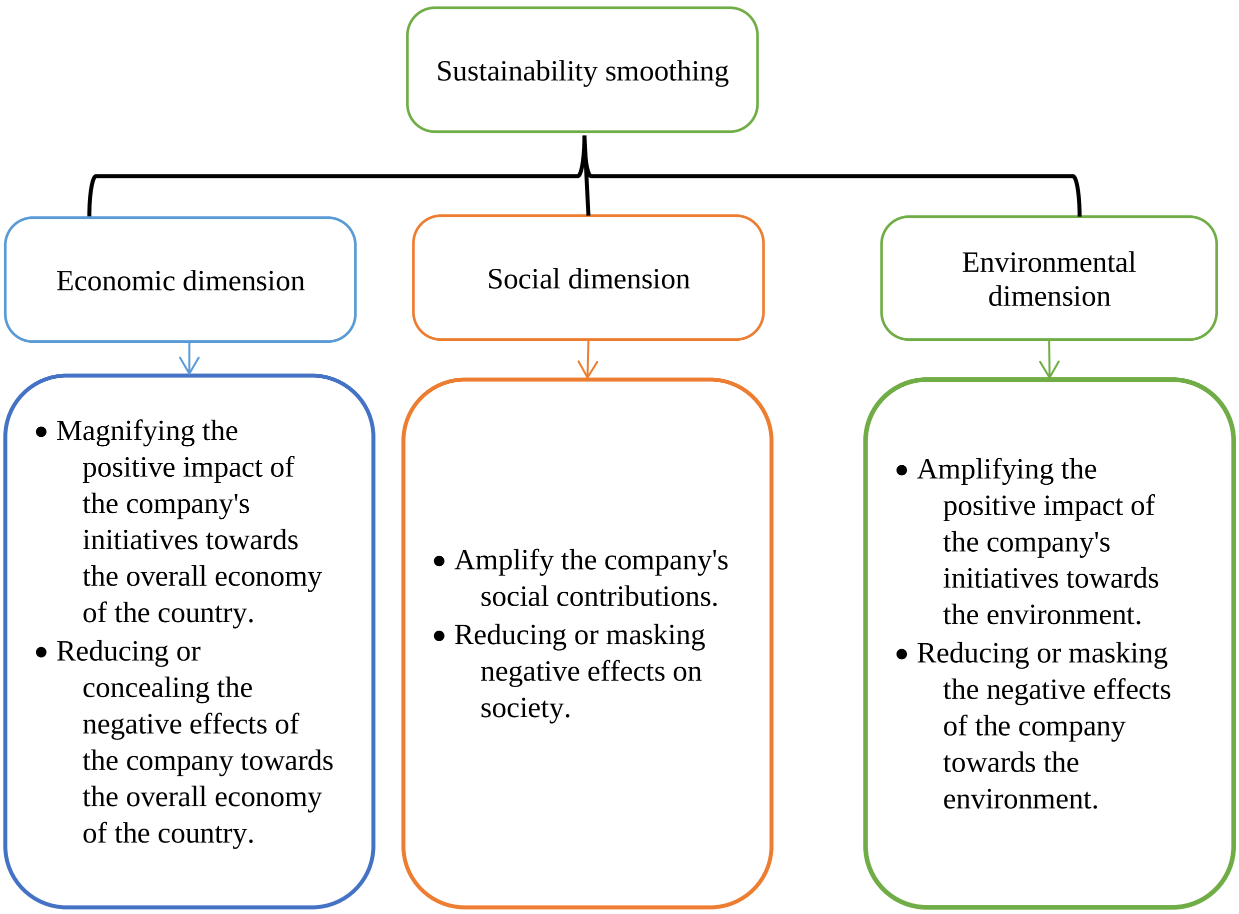
The planet cannot tolerate more compliments in the field of sustainability. Environmental problems such as global warming and social problems such as health problems are exacerbating, and there is no doubt about the importance of preparing sustainability reports in companies, which it is hoped will encourage sustainable development in light of the direction of the companies' management towards preparing these reports in order to improve its image in front of stakeholders, Global initiatives for such reporting have emerged such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), However, these global initiatives contain some weaknesses that companies can use to show themselves in a beautiful and environmentally friendly manner, even if they are far from that, Relying on sustainability reports in evaluating companies' performance contains many risks, including: focusing on the concept of weak sustainability in preparing sustainability reports instead of focusing on the concept of strong sustainability, and the multiplicity of metrics used in preparing these reports (monetary, quantitative and descriptive) and this affects the objectivity of measurement Due to the dimensions of sustainability, in addition to the fact that these reports may reach tens of pages in some companies and this causes the problem of (Information Overload) which affects the qualitative characteristics of accounting information such as relevance and relative importance, The lack of unified global standards for sustainability, and the flexibility of the global initiatives that currently exist, as companies can take advantage of this flexibility to practice paving sustainability Smoothing, The research aims to correct the course of sustainability reports by identifying and addressing weaknesses in these reports, Because the purpose of its preparation is to display the extent to which companies are committed to the requirements of sustainable development, and not to show companies in a beautiful way that they are friendly to the environment and society, even if these companies are on the contrary, and have negative harmful effects on the environment and society.

2-1 Sustainability Smoothing Concept

The concept of smoothing sustainability in sustainability reports is similar to the concept of smoothing income in the income statement in principle, both of which aim to provide misleading information to stakeholders, Income smoothing is defined as "an intentional adjustment of the declared income with the aim of reaching the desired level and expresses the administration's desire to reduce abnormal deviations in income to the extent possible or permitted under the accepted principles of accounting and management" (Belkaoui 2000:48), It is also defined as "administrative behavior that seeks to reduce fluctuations in the financial performance of companies, especially income from it, so that this behavior is also seen as an optional and not mandatory process, and that the management of companies is doing it to present a better picture about their performance to the users of the financial statements (Al-Matarna, 2014: 12).

Income smoothing is also defined as "a process by which corporate managers use accounting techniques to smooth out fluctuations in unwanted profits from one accounting period to another using accounting principles (Oyeyemi OGUNDAJO et al., 2021:295), Income smoothing can be said as "an attempt by management to reduce abnormal changes in profits to the extent permitted by accounting principles" (Abogun et al., 2021,297), Based on the foregoing, researchers the smoothing for sustainability is a managerial behavior that seeks to reduce the negative indicators of the company's sustainable performance (environmental, social and economic) and enhance the positive indicators of sustainability, by exploiting the flexibility available in preparing sustainability reports, to present a better picture about its sustainable performance in front of users' sustainability reports, The researchers see the possibility of clarifying the concept of the smoothing for sustainability through the following scheme:

Scheme (1) Sustainability smoothing Concept



Prepared by researchers

2-2 The motives and objectives of smoothing for sustainability

The motives and objectives of smoothing for sustainability are not very different from the motives and goals of smoothing the income, which can be summed up by the company's attempt to improve its image and present it with a strong position in front of stakeholders. and The increase in the realized and expected profits through the increase in accruals and reserves, Reducing the cost of capital by obtaining low interest financing, Reducing the risks of investing in the company (Al-Shammari, 20:2016), The researchers believe that the motives and objectives of smoothing for sustainability are summarized as follows:

1- Improving the company's appearance in front of stakeholders.
2- Increasing the company's profits by reducing environmental fines and taxes.
3- Obtaining funding from entities supporting sustainability activities.
4- Get special privileges.

2-3 Techniques smoothing Sustainability

2-3-1 The first Technique: - smoothing sustainability by reducing or minimizing the positive effects that the company causes in sustainability, the first example in the first example, the Global Reporting Initiative (GRI) (24,2016, GRI 101), and this flexibility can be used to hide some of its positive effects. .

2-3-2 The second Technique :- smoothing to sustainability by dwelling on the positive effects, as sustainability reports in some companies can reach tens of pages, and this negatively affects the relative importance of the information contained in the report, and causes the problem of (Information Overload) and thus mislead the users of these Reports (Ali and Abdullah, 2021:30).

2-4 Factors Influencing Sustainability smoothing Practice

Income smoothing has many factors that facilitate its occurrence, including first: the flexibility of applying accounting principles, second: the weakness of external audit, and third: the profitability of companies (Al-Shammari, 2016: 25), and therefore researchers believe that the factors that facilitate the practice of smoothing sustainability can be identified as follows:

- Flexibility of standards for preparing sustainability reports: As explained in the previous paragraph, standards for preparing sustainability reports contain some flexibility, which companies can exploit in order to conduct a sustainability preparation.
- Weakness of external audit: There are no international standards for auditing sustainability reports, so the audit of these reports depends largely on the experience and competence of the auditor and is subject to appreciation and personal judgment more than in the financial statements, The external audit is the process of examining information through survey to verify the integrity of the financial statements related to sustainability reports and their compliance with the standards applicable by the company, which the auditor needs to express his opinion on the quality of the information obtained through the financial statements and the extent to which they can be relied upon. (Al-Attar et al., 2018: 38)
- Corporate profitability: Profitability is a primary goal for all companies and is necessary for their survival and continuity in carrying out their activities, and a tool for measuring the efficiency of the company’s management in using the resources available to it (Sayeh, 2014: 8) The greater the company's profits, the greater the need for a sustainability smoothing action in order to evade fines and environmental taxes.

In addition to the previous factors, there are other factors that are unique to sustainability reports, which are:

- Lack of appropriate and approved measurement tools to measure the dimensions of sustainability at the macroeconomic level: For example, there is no indicator in these reports that measures the costs of non-sustainability borne by society and the planet due to the inefficiency of companies in managing their activities.Therefore, what cannot be measured cannot be reported and that damage is neglected, especially in companies whose activities have a significant environmental and social impact, such as oil companies.
- Focusing on the concept of weak sustainability instead of focusing on the concept of strong sustainability in preparing these reports: In other words, sustainability at the macro level (strong sustainability) refuses to compensate for the loss in a certain capital with a profit in another capital, for example, for a company that raises pollutants harmful to the health of society by distributing humanitarian aid to the surrounding community, The damage to some capital cannot be compensated in cash or replaced, and sometimes the cost of repair or replacement is exorbitant or not possible due to the scarcity of the damaged capital, Thus, from the point of view of total sustainability accounting, the costs that the company incurs to compensate society (social contributions) are not considered sustainability costs, and according to the point of view of total sustainability accounting, only prevention costs are considered sustainability costs such that a company purchases equipment to prevent the emission of pollutants, the cost of this equipment is considered costs Sustainability Therefore, this type of sustainability is called Strong Sustainability.

  As for the current sustainability reports, they focus on weak sustainability. For example, the Standard (201-1 Economic Value) of the Global Reporting Initiative (GRI) standards requires calculating societal investments within the economic value added, That is, if the company provides compensation or distributes food baskets to the community or contributes to planting trees (or any other type of social contributions made by companies), According to this criterion, it is required to consider these costs as societal investments and to be calculated within the added economic value, even if these costs are the costs of addressing an external failure, Therefore, this type of sustainability is called Weak Sustainability because it accepted the recognition of social contributions as compensation (replacement) for the damage that those companies caused to society.
- Orientation of non-profit organizations issuing sustainability reporting standards towards the commercial aspect, For example, the Global Reporting Initiative (GRI) provides reporting assistance services for companies wishing to prepare sustainability reports, The support varies according to the amount paid by the company, and the price policy can be found on the official website of the (GRI) organization.

2-5 Sustainability smoothing Processing Methods

- Adoption of the qualitative characteristics of accounting information approved by the International Accounting Standards Board (IASB), which includes relevance ,faithful representation, characteristics Enhancing in sustainability reporting, avoidance of excessive narrative of sustainability activities.
- Sustainability standards issuers should take into account the specialization of the industrial sector, and organize sustainability indicators according to the relative importance of each sector.
- Issuing specialized standards for auditing sustainability reports, To be a road map for the auditor's work and reduce the scope of diligence and personal judgment.
- Introducing auditors to specialized courses on how to verify the accuracy of the results shown in the sustainability reports For example: an indicator of the quantities of greenhouse gas emissions, where the auditor must be aware of how the units of measurement of these emissions are used; What are the measurement devices used, the accuracy of these devices, and the maintenance periods for these devices, In order to verify the accuracy of the results shown in the sustainability reports.
- Focusing on the concept of strong sustainability and developing appropriate sustainability measurement tools such as the SVA$ scale, which was developed to be able to critically measure the costs of non-sustainability borne by society and the planet due to the inefficiency of companies in managing their activities (186,2021, Abdullah&Ali), and this is done according to the following equation:

Sustainable Value Added (SVA$) = Total Value Added - Unsustainable Costs (Opportunity Cost).

As the use of a comprehensive monetary scale contributes to limiting the multiplicity of measures currently used in the preparation of sustainability reports (monetary, quantitative and descriptive).

- It is necessary for another party (other than the one that issued the standards) to provide a service of assistance in preparing reports, and to prevent the issuing bodies of standards for preparing sustainability reports and responsible for evaluating reports to provide this service as it may affect the impartiality of preparing and evaluating reports.

2-6 CONCLUSIONS

The Sustainability Smoothing is more dangerous than the Income Smoothing, because the Income Smoothing affects the company’s profits and is therefore affected by a specific group of stakeholders, As for the Sustainability Smoothing, it affects the three dimensions of sustainability (environmental, social and economic) and thus affects an unlimited group of stakeholders.

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