SUSTAINABILITY AND EARNINGS QUALITY: THE ROLE OF ACADEMIC ACCOUNTING PROFESSION

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ABSTRACT

The recent scandals highlight the association between business failure, governance failure and reporting failure. Post these debacles, organizations have a heavier responsibility in terms of transparency when carrying out their activities. Management will have to answer to the consequences of their decisions in an environment that is placing greater emphasis on accountability. So, there has been an increase in corporate social responsibility and sustainability reports.

The quality of earnings is a focal question when it comes to assess the quality of accounting information and financial reporting. Therefore, it is a fundamental condition for market transparency and a metric in performance evaluation.

In this paper, we discusses the notion of sustainability, the association with the concept of earnings quality and the contribution that the academy, within both research and teaching realms, can make towards addressing this perceived imbalance.

Keywords: Sustainability; earnings quality; corporate social responsibility; research and teaching realms.

1. INTRODUCTION

The notion of enterprise sustainability is rooted in the wider concept of sustainable development. There are many competing definitions of sustainable development but, arguably, the foremost is to define sustainable development as one "which meets the needs of the present without compromising the ability of future generations to meet their own needs"[4].

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According to this definition, sustainability implies that the present generation take immediate action to avert the risk of causing irreversible ecological damages and, also means taking account of the wider and longer term consequences of decisions. In practical terms, this means taking into account the consequences of economic decisions on the natural environment, on economic and on the social conditions in which people live and work.

Sustainability is a vital issue for business. To corporations, sustainability is about developing a corporate strategy that responds to stakeholders' expectations while ensuring long-term performance and profitability. Organizations will not survive if they are not profitable, efficient and ethical. This suggests that long-term viability must be equated to growth in shareholder value, an indicator of long term performance.

Attention to the social, environmental and economic effects on business performance is increasing from investors, governments, suppliers, customers, NGOs and society in general. As a result, professional accountants in business (PAIBs) are among those who are being called on to take a more active role in sustainable development.

Without doubt, the issue of sustainability needs to move rapidly into the agenda of professional accountants.

The recent scandals, such as, Enron, WorldCom, Global Crossing, Adelphia Comumnications, HIH, Tyco, Vivendi, Royal Ahold e HealthSouth, highlight the association between business failure, governance failure and reporting failure. Post these scandals, organizations have a heavier responsibility in terms of transparency when carrying out their activities. Business will have to answer to the consequences of their decisions in an environment that is placing greater emphasis on accountability.

In fact, post Enron and WorldCom debacles, among others, there has been a particularly dramatic increase in the production of substantial corporate social responsibility and sustainability reports. Significantly, issues of reputation, risk management and competitive advantage, rather than the discharge of accountability, appear to be the driving forces behind such a phenomenon.

So, we must ask ourselves: As academics what can we do? Can we design the curricula in order to develop capabilities allowing professional accountants to be ready to promote high levels of corporate accountability and transparency? And if so, what is/are the "building blocks", the integrative notions?

Let us assert with the professionals that "the most fundamental issue for the profession is getting the point across that there is a link between financial performance and sustainability in terms of a return in investment" (IFAC, 2006: 8), in order words, the sustainability of performance, the quality of earnings.

In fact, the focal attribute of the earnings quality concept relies in capturing the sustainability of earnings, in an accrual basis. In the terms of Penman and Zhang (2002: 237), reported earnings can be of good quality if it is a good indicator of future earnings. As often referred to in financial analysis (Mulford and Comiskey, 1996), high-quality earnings are considered as been "sustainable earnings". Correspondingly, when an accounting treatment produces unsustainable earnings, it is usually to deem those unsustainable earnings to be of poor quality.

Besides that, when it comes to assess the quality of accounting information and financial reporting the quality of earnings is the primary question. Earnings quality is a fundamental condition for market transparency and a metric in performance evaluation. Evaluating the quality of earnings will help the financial statement users to make judgments about the "certainty" of current income and the prospects for the future.

However, the quality of earnings is difficult to define and, although there are no definitive criteria by which to evaluate it, there are many factors that can be considered in assessing the quality of earnings.

So, in this paper we discuss the notion of sustainability, the association with the concept of earnings quality, taken as the "building block", a point that highlights the contribution of the academy, within both research and teaching realms, can make towards addressing accountability and transparency in knowledge economy. We also highlight the main dimensions of "earnings quality" concept: (i) informative content for investors and other stakeholders; (ii) information about the risk profile of a company and its management; (iii) degree of conservatism and objectivity; (iv) variability of earnings; (v) monetary content of earnings; (vi) earnings persistence. These accounting dimensions capture the intrinsic nature of the underlying factors of quality, namely: (a) ethical issues, corporate governance and control structure; (b) competitive environment and (c) other company specific factors.

The remainder of the paper is organized as follows. In Section 2 we discuss the emerging trends in CSR research and ethical issues as a drive to sustainability: the significance of critical engagement. Afterwards, in line with the literature, we analyse the relevance of earnings quality concept (Section 3), we present the underlying factors of earnings quality (Section 4), and we discuss the dimensions of quality of earnings (Section 5). In Section 6 we analyse the importance of sustainability within a corporate model. Then, we discuss the role of the academy (Section 7). In Section 8, we discuss and conclude the paper.

2. EMERGING TRENDS IN CSR RESEARCH AND ETHICAL ISSUES: THE SIGNIFICANCE OF CRITICAL ENGAGEMENT

Corporate social responsibility has long been the subject of much investigation and debate among both researchers and practitioners. It has been defined as the obligation of a business "to use its resources in ways to benefit society, through committed participants as a member of society, taking into account the society at large… independent of direct gains of the company" (Kok *et al.*, 2001: 288).

The corporate social responsibility or the socially responsible behaviour was first taken as risk minimiser: minimiser of specific risks. Such risks have not a price in the market, in line with portfolio theory. So in such "studies" the investors are unwilling to pay an additional price for a corporate behaviour, which can be, described as "socially-responsible". In this theoretical context, there exist a trade-off between actions and the costs of conformity with environmental and social requirements.

However, in the last decade or so, this vision has been questioned in the literature and in *praxis*. In fact, firms began to voluntarily promote environmental and social actions. The underlying motivation for such actions is centred in sustainability of competitive advantage.

The investors' attitude towards friendly social behaviour has also changed. That change can be revealed, for example, in the growing preference for funds socially responsible. In the United States, between 1997 and 1999, the value of those funds grew 180%, while the market as a whole grew 40%. The consideration of economic, environmental and social factors in the strategies of companies and it valuation by the market had it repercussion in the creation, in 1999, of Dow Jones Sustainability Index (DJSI). These data reaffirms the growing importance of the adoption by companies of strategies socially responsible as a condition to assure its long-term sustainability. In this context, the underlying argument is not much rooted in the "right to operate", as pointed by the theory of legitimacy (see, Dowling and Pfeffer, 1975; Lindblom, 1994; Pfeffer and Salancik, 1978), but instead, in the sustainability of earnings as a condition for survival and growth.

The notion of investment socially responsible is difficult to delimitate and quantify. However, we can describe it by means of groups of indicators. Among the most common aspects captured by those, we point out the following ones in conformity with GRI (Global Reporting Initiative), KPI's (Key Performance Indicators), EMAS (Echo-Management & Audit Scheme): environmental issues, relationships with the community, absence of military contracts, products quality, relationships with the consumers, relationships with the employees, philosophy of the company. These no-financial indicators are relevant for the appreciation of the social and environmental actions of the company, but they don't supply for themselves, nor a "score", nor the evidence that a good social and environmental action contributes to the creation and appropriation of value by the company.

In response to numerous demands requiring corporations to play a more active role in the overall welfare of society, many businesses have in recent years given considerable attention to the social impact of their economic activities. This has induced some organizations to introduce codes of ethical conduct and to engage in certain purely social endeavors (Boo and Koh, 2001; Lewin, 1983). The academic community has attempted to address this problem by discussing social and ethical issues in business ethics courses or business-and-society courses or by infusing them throughout the business school curriculum.

Research in this area has followed several streams. One line of research has attempted to develop various conceptual models for analyzing the relationship between business and its larger environment (Angelidis and Ibrahim, 1991; Carroll, 1979, McMahon, 1986; Quazi and O'Brien, 2000). Another body of research has focused on the relationship between corporate social responsibility and an organization's financial performance (Graafland, 2002; McGuire et al., 1988; Roman et al., 1999; Ullman, 1985). A third line of research has been devoted to the ethical attitudes and behaviour of corporate executives. Of particular interest to researchers is the impact of management or organizational characteristics on corporate social responsibility orientation of the firm (CSRO).

3. THE RELEVANCE OF EARNINGS QUALITY CONCEPT

The evaluation of an enterprise's performance has been a theme always present, so much in research as in practice. The information about performance, such as on earnings and its components, is a primary focus of financial reporting (FASB, 1978 § 43 and 44). The same is requested, namely, to appreciate the potential variations in the resources that the company can come to control in the future (IASC, 1989 § 17). In this context, such information is supplied by accrual accounting (FASB, 1978, IASC, 1989). The investors, creditors and other users, use such information – or the information about the performance variability, for IASB (IASC, 1989) -, as a basis to appreciate the enterprise capacity to generate cash flows from its base of resources. In fact, the evidence supports the assertion, that cash flows are the primitive element that investors price, and that accruals quality is identified as a measure of information risk associated with the key accounting number-earnings (see, namely, Francis *et al.*, 2005: 296).

However, "lower" quality of earnings, are not necessarily indicative of poor financial reporting or the misapplication of accounting policies, judgments, and estimates. In many cases, the "lower" quality earnings items relate to transactions that by their nature are more subjective or have a higher degree of risk or uncertainty, and besides that, accounting standards by design are flexible.

Even if it is true, earnings quality analysis has been regarded as the portfolio manager's best defence against low quality financial reporting. In particular, in order to identify companies that are expected to under-perform relative to the market portfolio managers have used earnings quality analysis extensively. And it has undoubtedly been useful in providing advanced warning of a number of accounting-related scandals, including Enron, Microstate, and Cendant. In the other hand, research also shows that measures of earnings quality are useful in identifying stocks that are likely to outperform the market.

The results of Graham *et al.* (2005) study indicate that financial officers believe that earnings, not cash flows, are the key metric considered by outsiders. Managers are focused on short-term earnings benchmarks, especially the seasonally lagged quarterly earnings number and the analyst consensus estimate. Managers also work to maintain predictability in earnings and financial disclosures. This finding could reflect superior informational content in earnings over the other metrics.

Several studies document the benefits of the accrual process, finding that earnings is a better measure of performance than the underlying cash flows (e.g., Dechow, 1994; Dechow *et al.*, 1998 and Dechow and Dichev, 2002), that earnings explain more of the cross-sectional variation in stock returns or stock prices relative to operating cash flows (e.g. Bernard and Stober, 1989; Dechow, 1994; Barth *et al.*, 2001; Liu *et al.*, 2002). Being the accrual accounting more ambitious than a "cash-flow-oriented accounting system" (Beaver and Demski, 1979: 43, *apud* Canadas, 2003: 219).

Dechow (1994) finds that accruals improve earnings' ability to measure performance relative to cash flows. Sloan (1996) finds that the accrual portion of earnings is less persistent than the cash flow portion. This suggests that firms with high levels of accruals have low quality of earnings. Dechow and Dichev (2002), analysing the interrelations between accrual quality, level of accruals, and earnings persistence also suggests a reconciliation of the findings of Dechow (1994) and Sloan (1996). Their reconciliation is based on the observation that a high level of accruals signifies both earnings that are a greater improvement over underlying cash flows, and low-quality earnings.

This emphasis on earnings is noteworthy because cash flows continue to be the measure emphasized in the academic finance literature. This might indicate that earnings have more information content about firm value than do cash flow.

In the path of Sloan (1996), academic researchers are currently focusing on the development of simple empirical models that objectively assess *earnings quality* in order to predict future return performance, (see, for example, Penman and Zang, 2002; Richardson *et al.*, 2005 and 2006 and Chan *et al.*, 2006). These studies findings, support the assertion that companies with relatively high (low) levels of accruals tend to underperform (outperform) for periods of 12-36 months after the disclosure of detailed financial data. The implication of this is that measures of earnings quality can be used to form profitable investing and trading strategies and more effectively managing risk.

4. THE UNDERLYING FACTORS OF EARNINGS QUALITY

There are characteristics affecting the quality of earnings that can be considered by financial statement users to assist in the evaluation of particular earnings components. It is an oversimplification to refer to the quality of earnings as "good" versus "bad", or even "high" versus "low". Quality of earnings is relative and covers a wide spectrum.

Indeed, there is no single characteristic by which to measure the quality of earnings. There are certain characteristics, indicators, and questions that can and should be considered to assess the quality of earnings.

4.1. ETHICAL ISSUES, CORPORATE GOVERNANCE AND CONTROL STRUCTURE

Agrawal and Chadha (2005), cited by Byard *et al.* (2006), consider that, in the United States, many recent financial reporting scandals are attributable to poor corporate governance oversight of the financial reporting process. Many of the examples of reporting failure evidence a failure to act ethically by at least some of the participants, such as, misleading auditors, auditors looking the other way, disguising transactions, withholding information, providing unbalanced advice, abuse of trust, and missing insider information. Participants have been seen as following self-interest without concern for the interest of the company or its shareholders. Where the participants are members of a professional body, they have been seen as ignoring the body's ethical guidance.

Active stakeholders and lobby groups have successfully exerted pressures on management for improved corporate behaviour. So in response to these financial reporting scandals, regulators and major security exchanges comissions have implemented new rules designed to improve the quality of corporate governance, e.g., by requiring audit committees to be fully independent[5]. Implicit in these regulatory changes is a belief that such measures will eventually improve the quality of information available to the users of financial reports (e.g., financial analysts).

As corporate experience in business ethics audit cycles grows, the auditors will be allowed to contribute more substantially to the preparation of subsequent generations of business ethics policies and codes of business conduct. Nevertheless, in this context of "Ethical Expressions", there are imprecise terminologies in accounting, needing to be clarified. In this sense, Rosthorn (2000) looks at some recent initiatives and draws conclusions about these imprecise terminologies, so he define:

- Ethical Accounting as the process through which the company takes up a dialogue with major stakeholders to report on past activities with a view to shaping future ones;
- Ethical auditing as a regular, complete and documented measurements of compliance with the company's published policies and procedures;
- Ethical book-keeping as a systematic, reliable maintaining of accessible records for corporate activities which reflect on its conduct and behaviour.

Recent studies shows that governance affects both the quality of earnings and firms' public accounting disclosures. For example, Dechow *et al.* (1996), Peasnell *et al.* (2000), and Klein (2002b), find that less earnings management is associated with better-governed firms. In other hand, Zaid (1997), cited by Rosthorn (2000), showed that in a sample of 15 internal auditors, 25% of them reported giving "high" importance to accommodating changes in social values and expectations into professional and legal auditing standards. In fact, they consider that codes of business conduct, ethical policies and procedures, a better ethical accounting and auditing play an important role in the control of business risk. In this way, it is possible to mitigate business risk and protect the licence to operate. Consequently the respect to these ethical issues improves the quality of information available to the users of financial reports and contributes to the "sustainability of earnings".

Beasley (1996) also show that better governance is associated with a lower incidence of financial statement fraud. Ajinkya *et al.* (2005) also find that governance affect the voluntary managerial forecasts. The authors document that better-governed firms that issue voluntary forecasts of future earnings tend to issue more precise forecasts.

While prior studies focus on how governance quality affects firms' disclosure practices, the study of Byard *et al.* (2006) extend this analysis by adopting a user's perspective. In fact, they try to show that better corporate governance is ultimately associated with better firm information environment from a user's (e.g., analysts') perspective. In their research, they use four measures of corporate governance quality: the independence of the board, the independence of the audit committee, the size of the board, and the presence or absence of

[5] For example, the Sarbanes Oxley Act of 2002 requires the audit committee to be fully independent. The Securities Exchange Comissions wordlwide have adopted new corporate governance rules, which require that audit, compensation, and nominating committees all be fully independent.

a dual chief executive officer (CEO). The authors find that analysts' forecast accuracy is positively related to firms' governance quality, after controlling for firms' ownership structure and other determinants of analysts' forecast accuracy. They show that analyst forecast accuracy increase with the independence of the board, decreases with board size, and decreases when the CEO also serves as chairman of the board. The study of Byard *et al.* (2006) is useful to regulators and policy makers once indicates the specific governance mechanism critical in promoting transparency, that benefits the users of firms' disclosures, and adds to the growing literature on the impact of corporate governance quality on firms' transparency and disclosure and on earnings quality.

In line with white paper of Camelback Research Allianc, Inc, the company's corporate governance and control structure (CGCS) refers to the various checks and balances that exist within the company in order to ensure that management acts in the best interests of its shareholders. In this regard, material earnings management and fraudulent accounting are only possible when the CGCS is ineffective. Some of the more important issues include:

- The composition and experience of the board (and especially its audit committee)
- The audit firm and audit opinion
- The experience and tenure of the CFO, controller and accounting staff
- Option and bonus plan parameters (including any re-pricings)
- Signs of excessive perks/compensation for executives
- Signs of shareholder discontent
- Signs of poor internal controls

4.2. COMPETITIVE ENVIRONMENT

The environment in which the company operates also has the potential to impact earnings quality either positively or negatively. For example, rapid technological change in the computer hardware industry can quickly lead to a buildup of obsolete or impaired inventory. In contrast, technological change impacts the manufacturing sector much more slowly and is therefore much less of a factor in assessing earnings quality for manufacturing firms. Similarly, companies in high-growth industries tend to be more susceptible to material earnings quality problems relative to companies in more stable-growth industries. The most important issues to consider with regard to the competitive environment include:

- The competitive state of the industry
- Economic conditions
- Rapid changes in technology that may impact the company's products
- The regulatory environment (including any special requirements and any adverse regulatory actions)

4.3. OTHER COMPANY SPECIFIC FACTORS

Finally, there are a variety of company-specific factors that can also impact earnings quality. The following list provides high level view of a few of the more important company-specific issues to consider when assessing earnings quality:

- The complexity of transactions and account valuations
- The breadth and depth of the company's customer base
- The level and change in legal expenses

- The company's debt rating
- The nature of any debt covenants
- Liquidity and solvency measures
- The existence of related party transactions
- The timing of the issuance of financial statements
- The growth rate of the company

Only to refer the last factor mentioned above, the competitive strategy literature (Porter, 1980, 1985) argues that firms pursuing a revenue-growth strategy are different from those following a cost-reduction strategy, and that revenue-supported earnings growth is likely to be more sustainable than earnings growth supported through cost reductions. This suggests that persistence of earnings is higher when earnings growth is supported by revenue growth (Ghosh *et al.,* 2005: 34).

5. THE DIMENSIONS OF QUALITY OF EARNINGS

In line with the literature, we highlight six main dimensions of the earnings quality concept: (i) informative content for investors and other stakeholders; (ii) information about the risk profile of a company and its management; (iii) degree of conservatism and objectivity; (iv) variability of earnings; (v) monetary content of earnings; (vi) earnings persistence.

The Dimensions of Quality of Earnings	Author	Comment/Explanation
Informative content for investors and other stakeholders	Imhoff and Thomas (1989); Collins *et al*., 1994; Givoly and Hayn, 1993; Gonedes, 1975; Hoskin *et al.*, 1986; Ramesh e Thiagarajan,1993; Ramakrishnan and Thomas, 1993; Ronen and Sadan, 1981; Kormendi e Lipe, 1987; Kothari, 1992; Hayn, 1995; Barth et *al.*, 1992 ; Collins *et al*., 1997 ; Collins *et al.*, 1999; Subramanyan e Wild, 1993.	Earnings quality concept in terms of informative content, is a way to assess the relevance and reliability of earnings, associate quality of earnings to "market valuation" quality. That is, a result of higher quality is more valued by capital market. Earnings of larger quality have a stronger repercussion in the stock prices than earnings of lower quality. However, earnings appear to explain only a small fraction of the total variation in returns. In recent years different explanation have been offered in order to explain the weak association between earnings and returns: - Earnings do not reflect the underlying economic events in a timely manner and, therefore, are not synchronized with stock price movements. - The distinction between *timeliness* and *noise in earnings*, is not linear; - Earnings contain transitory components that are either value-irrelevant or should have only a limited valuation impact; - Certain specifications of the earnings variable (levels *versus* changes, deflation by price or earnings, etc.) also appear to have an effect on the measured <u>earnings response coefficient</u>. - Reported losses are perceived by investors as temporary. They are thus more weakly associated with returns than profits.

The Dimensions of Quality of Earnings	Author	Comment/Explanation
Information about the risk profile of a company and its management	Levitt, 1998; Bernard and Schipper , 1994.	Several authors, attending to the financial analysts' practice associates the quality of earnings to the "quality of the accounting practices" and the amount of information evidenced in the annual reports. The companies communicate information through recognition in the financial statements or disclosure in the footnotes. The strategy of companies' report, and the interaction among the two components mentioned, influences the usefulness of the information for the users. The quality of the information/earnings disclosures may be assessed by the practices of disclosure and recognition, with clear emphasis in these last ones. In fact, when earnings management is growing the quality of the report is in decline.
Degree of conservatism and objectivity	Bliss (1924); Watts (2003); Basu (1997); Penman and Zhang (2002); Bliss (2002).	Accounting conservatism is defined by the adage: "anticipate no profit, but anticipate all losses". Conservatism is define as the practice of reducing earnings (and writing down net assets) in response to "bad news", but not increasing earnings (and writing up net assets) in response to "good news". Conservatism's influence on accounting practice has been both long and significant. Basu (1997: 8) argues that conservatism has influenced accounting practice for at least five hundred years. Penman and Zhang (2002) define quality of earnings in terms of the change in a firm's conservative accounting (CA) over one time period. Using the words of Brief (2002), the basic idea is that the difference between net assets reported using CA and the net assets that would have been reported by a less conservative accounting (LCA) system is an "earnings reserve", and the degree of conservatism is defined as the ratio of the earnings reserve to net operating assets under CA. The quality of earnings depends on the change in the degree of conservatism over one time period. When conservatism or objectivity is impaired, earnings quality is compromised. Many companies manipulate accounting numbers in order to facilitate the financial reporting goals established by management. In this regard management has many competing motivations that drive their choice of accounting policies and influence their periodic estimates.
Variability of earnings	Siegel (1987); Ball and Watts (1972); Brooks and Buckmaster (1976);	The quality of earnings has been equally considered as a function of the stability and tendency of earnings's growth. In this sense,

The Dimensions of Quality of Earnings	Author	Comment/Explanation
	Lipe (1990); Elgers and Lo (1994); Imhoff (1992); Pincus (1983).	earnings are considered of good quality if they are a good indicator of future earnings, for that it should have low volatility. Thus we consider high-quality earnings to be "sustainable earnings", as often referred to in financial analysis. However, we should not confuse earnings stability with artificial smooth. It is important to detect if the stable behaviour of earnings is a result of manipulation or if it is a consequence of right management decisions.
Monetary content of earnings	Bernstein and Siegel (1979); Comiskey (1982); Siegel (1987); Lang and McNichols (1990); Klein and Todd (1993); Chasteen *et al.* (1995); Liu and Ziebart (1991, 1993); Bernard and Stober (1989); Sloan (1996); Dechow (1994); Richardson *et al*. (2005 and 2006).	Monetary content of earnings as attribute of the earnings quality is associated with "earnings manipulation" consider that, under the "quality of earnings" explanation, accruals have a smaller impact on prices than cash flows (or no impact at all) since accruals are either subject to manipulation (e.g., inventories), or represent only very indirect links to future cash flows (e.g., depreciation). The monetary content of earnings relate to the part of the same materialized in the cash flows generated in the period. Sloan (1996) provides evidence that accrual and cash flow components of current earnings have different implications for the assessment of future earnings, for example, high earnings performance that is attributable to the cash flow component of earnings is more likely to persist than high earnings performance that is attributable to the accrual component of earnings.
Earnings persistence	Beaver (1999); Penman and Zhang (2002); Ghosh *et al.* (2005); Dechow and Dichev (2002).	High-quality earnings are "sustainable earnings", as often referred to in financial analysis. Or, in the terms of Penman and Zhang (2002: 237), reported earnings can be of good quality if it is a good indicator of future earnings. The persistence of earnings and earnings management are amongst the most frequently used measures of earnings quality. One of the earnings quality's attributes is the concept of earnings permanence. The permanent earnings are ones that the market considers that it will last long in time, that is, that will be repeat in future periods. The earning transitory are waited to be transitory. Therefore, the characteristic that distinguishes both types of earnings is it recurring or not recurring nature. It is that difference among the permanent and transitory component of earnings that drive the analysts and investors to appreciate it differently.

We summarize the n-dimensional nature of the quality of earnings concept in the following figure (Figure 1):

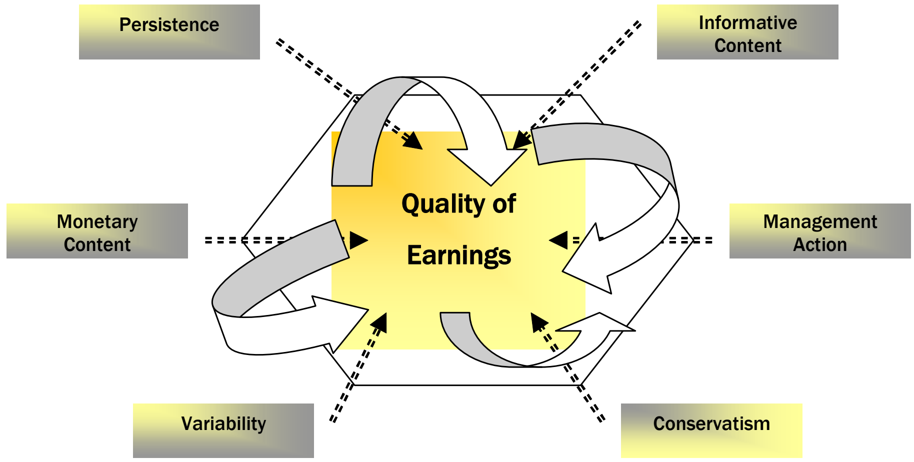

Figure 1: The Dimensions of Earnings Quality

So, if we look to the monetary content vertex, we must consider that earnings will be of higher quality as they approach its cash component, that it's part materialized in the cash flows generated in the period. In another terms, earnings are of higher quality as they approach its cash component, since the accrual component of earnings is less persistent, more subject to potential manipulations and variability and therefore, less reliable.

The monetary content of earnings, as the other dimensions can be captured by the "quality of market valuation".

In fact, a vast group of investigators associates quality of earnings to "market valuation" quality, that is, a result of higher quality is more valued by capital market: earnings of larger quality have a stronger repercussion in the stock prices than earnings of lower quality. Nevertheless, a significant number of studies show a weak association between earnings and returns.

According to Ghosh *et al.* (2005: 34) the persistence of earnings and earnings management are amongst the most frequently used measures of earnings quality (e.g., Dechow and Dichev, 2002).

In highest, being usually recognized the importance of the earnings persistence in the evaluation of the firm performance, we can consider the earnings quality concept, or the concept of "earnings power", as representative of the lucrative capacity of the company in the long term (see, FASB 1978 § 47 and 48). So, sustainability is central to the firm, because the fundamental purpose is to maximize shareholder value on a long term basis.

At the organizational level, sustainability, it is often argued, is about long-term viability. Organizations will not have a long-term future if they cannot be profitable, efficient and ethical. This suggests that the importance of long-term viability is best observed via the long-term investment decisions, the growth strategies of companies.

In this sense, the concept of sustainability appears to be having a profound effect on the way professional accountants must perform in organizational settings. It became recruitment essential, and a driver of corporate change: The concept of sustainability is a driving force, which brought about other changes within the corporate model (see section 6). So, we may asset that sustainability must be seen as a central concept in the design of academic curricula (section 7).

6. THE IMPORTANCE OF SUSTAINABILITY WITHIN A CORPORATE MODEL

Sustainability is quite simply a vital issue for business and the concept is about developing a corporate strategy that responds to stakeholders' expectation while ensuring long-term performance and profitability.

Competitive advantage is now firmly driving the corporate agenda. Boards of directors need to be able to show that any voluntary action they endorse will ultimately enhance shareholder value. They also need to understand how social and environmental impacts can enhance or endanger shareholder value.

Nick Shepherd, President of the Canadian-based consulting and training company, EduVision, believe that are wider stakeholders interests and intangible assets involved in this issues. He explained, "These issues tend not to sit on the balance sheet but they are the issues which enable business to survive in the long term". He added that for him, sustainability is a simple concept. "It is the capability of a corporate organization to add value and to continue to exist as an entity". Intangible efforts on behalf of sustainability need to be recognized and understood.

Many companies and public sector organizations have made sustainability an integral part of their business strategy. The primary business drivers of sustainability are accountability and transparency, governance and reporting, risk and management, and finding sources of competitive advantage. All of these activities are in the domain of the PAIB.

However, sustainability is a difficult concept. It is difficult, because one can never really measure it. Only very few concepts have gained as much attention, both in science and public arenas, as the concept of eco-efficiency (Figge and Hahn, 2001).

Korhonen (2003: 26) notes that eco-efficiency and business-environment win-win are now commonly discussed in the literature to consider the economics of sustainable development, and in particular whether companies can gain in monetary terms, reduce costs or find new market opportunities through the practice of sustainability (Porter and van der Linde, 1996; Walley and Whitehead, 1996). These concepts are gaining increasing attention in the literature on sustainable development, environmental and ecological economics and business environmental strategy.

As Jones (1999) points out, whereas the market power of large companies provides the necessary discretionary resources to allocate to CSR activities, a powerful combination of external financial hegemony and internal bureaucratic control conspire to prevent them being socially responsible in anything but an instrumental sense. Nevertheless, "sustaining a comparative advantage involves undertaking strategies that not only generate an abnormal level of return, but also insure its persistence" (Jacobsen, 1988: 415).

Accountants have a key role to play in contributing to the sustainability of the organization. The PAIB has a role to play in understanding, demonstrating and reporting the efficiencies that organizations can avoid, gaining from sustainable business practices. The pursuit of sustainability depends on the generation, analysis, reporting and assurance of robust and accurate information (both financial and non-financial). Hence, it is important that the PAIB gain an understanding of the concepts of sustainability and the challenges it poses in achieving long-term growth in shareholder /stakeholders value or value for money.

7. WHAT ROLE DOES THE ACADEMIC ACCOUNTING PROFESSION PLAY IN SUSTAINABILITY?

Sustainability presents both a challenge and an opportunity for the professional accountant in business (PAIB). The PAIB needs to recognize that individuals, societies and governments are increasingly interested in the environmental, social and economic impacts of enterprises and that PAIBs are likely to have an increasing role in meeting those concerns.

It is important to help them attain and refine the skills they will need to meet the expectations of them as qualified professionals. Academic accounting profession, in their teaching function, has the most direct opportunity of influencing the next generation of accountants, whether they become future accounting practitioners, researchers or managers. A number of writers (see, for example, Gioia, 2003; Swanson and Frederick, 2003) have accused modern day business education, in its elevation of the principles of property rights and narrow self-interest above broader values of community and ethics, of being complicit in creating a climate that breeds Enrons and WorldComs.

The PAIB, directly or in a supportive capacity, can help organizations embeding sustainability issues into strategic planning and its execution. The PAIB can also help overcome the various cultural, organizational and economic impediments to sustainability. For example, decisions are often made on a short-term basis and typically on the basis of incomplete or imperfect information, which excludes external and intagible costs and benefitis. The PAIB is well placed to encourage longer-term thinking and provide a more complete information package to decisions makers.

Recent business scandals have shaken the public's confidence and diminished investors' trust in the soundness of corporate decisions and the integrity of business managers and accountants. Managers are expected to monitor adequately their employees' performance, and enforce them to adhere to certain ethical standards.

It is clearly acknowledged that the study of accounting is to be informed by perspectives from the social sciences, which in addition to the economic perspective may include behavioural, political and sociological perspectives. Additionally, it should be noted that the dramatic decline in the importance of professional accreditation as a factor influencing curriculum design in recent years, presents a real opportunity to rethink the predomonantly technicist driven core of the accounting curriculum. For Williams (2004a), accounting education can only be recovered as a worthy endeavour if it can free itself from the shackles of the vested interests of the accounting profession.

"Sustainability becomes a recruitment essencial" (IFAC, August 2006). An information paper by IFAC (IFAC, 2006), reported that "several interviewees pointed out that not only was a commitment to sustainability important for recruitment but how it was also an essential part of a company's offering". "People are more selective". "Graduates want to work for companies which have an image of being good corporate citizens". "Sustainability affects the type of professionals we are looking for. We are not only looking for professional accountants but also for engineers and environmentalists. Sustainability therefeore enables us to attract good people".

As Boyce (2004) points out, there is considerable scope for academics to develop a critical education programme, which introduces a much-needed moral foundation, in standard, or core, couses.

Be noticed as to how social and environmental accounting programmes in the UK have changed post-Enron and recent substantial survey of CSR education patterns in general within European business schools certainly suggests that the subject area is enjoying increased prominence.

Gioia (2003) produces strong evidence that student values and attitudes do change over the course of a complete (in this case, MBA) programme.

Recent events have led many scholars, practitioners, and media commentators, to question the ethical standards and training of accountants and, in this sense, Ibrahim *et al.* (2006) examined the ethical disposition of accounting students and practicing accountants in the northeastern and southeastern United States. The results reported reveal that practicing accountants are more economically driven than accounting students. On the other hand, the students are more ethically and philanthropically oriented than the executives. Finally, the data indicate that both groups have similar orientations toward the legal dimension of corporate responsibility. One interpretation is that the maturity and experience of practicing accountants provide a greater appreciation of the business world's economic "realities". In the meantime, it is possible that students are inherently less sensitive to the economic needs of business organizations and more concerned with ethical behavior and philanthropic activities. As another possible explanation, differences in responses may reflect a "generation gap", that is, the present generation of accounting students may hold certain values, which are widely different from those of the present generation of practitioners. Finally, the accreditation body for business programs in USA, the Association to Advance Collegiate Schools of Business (AACSB), has explicitly required the inclusion of a legal and regulatory perspective in business curricula. Not surprisingly, then, both students and practicing accountants are attuned and sensitive to the requirements of the legal and regulatory environment.

In summary, and in line with IFAC (August 2006), "the opportunity for the PAIB lies in:

Helping organizations address sustainability issues;

· Supporting organizations' efforts to engage, build and maintain relationships with stakeholders; and

· Managing sustainability related risks for investment purposes.

With skills in information, collection, analysis and reporting, and an understanding of the assurance process, PAIBs are well placed to help organizations meet the challenges of sustainability. It is for accountants to recognize this and assume this role, building their knowledge of sustainability and drawing on other expertise where necessary", it is for academics to design accounting courses in line with this request.

8. DISCUSSION AND CONCLUSION

Sustainability presents both new challenge and new opportunities for the PAIB. With the increasing importance attached to environmental protection and social responsibility, the PAIBs, especially those working for organizations with significant environmental or social impacts, will be involved with the measurement information systems and controls that must include environmental and social data, emphasizing the benefit of an integrated approach. The PAIB is well placed to provide the necessary coordination.

Post the recent scandals, organizations have a heavier responsibility in terms of transparency when carrying out their activities: In consequence, management will have to answer to the consequences of their decisions in an environment that is placing greater emphasis on accountability. When it comes to assess the quality of accounting information and financial reporting the quality of earnings is a focal question, as it is a fundamental condition for market transparency and a metric in performance evaluation.

And, the focal attribute of the earnings quality concept relies in capturing the sustainability of earnings, in an accrual basis.

In this paper we highlight the main dimensions of "earnings quality" concept: (i) informative content for investors and other stakeholders; (ii) information about the risk profile of a company and its management; (iii) degree of conservatism and objectivity; (iv) variability of earnings; (v) monetary content of earnings; (vi) earnings persistence. And these accounting dimensions capture the intrinsic nature of the underlying factors of quality, namely: (a) ethical issues, corporate governance and control structure; (b) competitive environment and (c) other company specific factors.

In this paper we also assert that academic accounting profession, within their teaching function, has the most direct opportunity to influence the next generation of accountants, whether they become future accounting practitioners, researchers or managers, and to help them attain and refine the skills they need as qualified professionals.

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