

## ACCOUNTING RISKS AND THEIR IMPACT ON BUSINESS SUSTAINABILITY AMID GEOPOLITICAL UNCERTAINTY IN THE MIDDLE EAST: AN ANALYTICAL CONCEPTUAL STUDY

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### Abstract

This study examines the impact of accounting risks on business sustainability amid geopolitical uncertainty in the Middle East. It aims to develop a conceptual framework that links geopolitical instability to key accounting risks namely measurement, disclosure, fraud, and non-compliance and assesses their effects on sustainability dimensions: economic, social, environmental, and governance. The research adopts a conceptual analytical methodology, relying on a comprehensive literature review of academic sources and institutional reports. It identifies how geopolitical events such as conflicts, sanctions, and regulatory shifts exacerbate accounting risks and distort financial information, undermining effective decision-making and stakeholder trust. The findings reveal that geopolitical uncertainty significantly intensifies accounting risks, leading to reduced reporting reliability, impaired governance, and weakened long-term business viability. The study highlights the mediating role of accounting information quality in either amplifying or mitigating these effects. Key recommendations include enhancing risk management systems, improving transparency through integrated reporting, strengthening governance frameworks, and tailoring accounting standards to the region's unique geopolitical context. The study emphasizes the importance of resilient accounting practices as a foundation for sustainable business operations in volatile environments.

Keywords: Accounting Risks, Business Sustainability, Geopolitical Uncertainty, Risk Management, Financial Reporting

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### 1. Introduction

The global business landscape is experiencing unprecedented volatility, fueled by technological disruption and intensifying geopolitical tensions. This instability is acutely felt in the Middle East, a region defined by persistent political conflict, economic sanctions, and shifting alliances. These geopolitical dynamics fundamentally destabilize the institutional and economic foundations for business, introducing profound uncertainty that complicates strategic planning and financial decision-making (Calderon & Zeidan, 2017; Arezki et al., 2021).

Within this context, a critical yet underexamined consequence is the exacerbation of accounting risks. Accounting risks encompass the potential for material misstatements in financial reporting due to error, omission, or manipulation, which can mislead stakeholders and degrade decision quality (AICPA, 2013). These include risks related to measurement (e.g., unreliable fair value estimates), disclosure (e.g., biased or incomplete reporting), fraud, and non-compliance with standards (Healy & Palepu, 2001; Hoogendoorn, 2008). Geopolitical volatility amplifies these risks through currency

fluctuations, market disruptions, regulatory unpredictability, and institutional weaknesses that erode transparency and internal control (Lennox & Wu, 2018; Transparency International, 2023). In the Middle East, these vulnerabilities are compounded by weaker governance structures, regulatory fragmentation, and prevalent informal business practices (Hussain & Mirza, 2020). Sudden policy shifts, international sanctions, and extreme commodity price volatility further distort financial reporting and undermine compliance and investor confidence (Al-Adeem & Al-Khulaifi, 2020; Bekaert et al., 2011).

The implications of heightened accounting risks extend beyond financial misrepresentation, directly threatening business sustainability. Inadequate accounting practices impair long-term strategic investment, erode stakeholder trust, obscure environmental and social liabilities, and weaken governance accountability (Eccles et al., 2014; Jensen & Meckling, 1976). This creates a critical intersection between the reliability of financial information and the broader sustainability agenda encompassing economic, environmental, social, and governance (ESG) performance (Elkington, 1997) that demands urgent scholarly investigation.

Despite its significance, the existing literature remains fragmented. Studies typically examine accounting risks or geopolitical factors in isolation, often neglecting their interaction within the unique institutional context of the Middle East. This gap limits the development of robust frameworks for managing financial integrity and advancing sustainable business practices in politically volatile environments.

Therefore, this study is motivated by the pressing need to construct a coherent conceptual understanding of how geopolitical instability intensifies accounting risks and how these risks subsequently affect business sustainability in the Middle East. The core research problem is the absence of integrative models that delineate the causal pathways and mediating mechanisms linking these complex variables. To address this, the study is guided by the following central research question: How do accounting risks, amplified by geopolitical uncertainty in the Middle East, affect the sustainability of business operations across economic, social, environmental, and governance (ESG) dimensions?

## **2. Theoretical Background**

### **2.1 Accounting Risks in Volatile Environments**

The literature defines accounting risks as events or circumstances that negatively affect the quality and reliability of financial information, potentially leading to material misstatements and misguided economic decisions (Jensen & Meckling, 1976; Dechow et al., 1996). Scholars categorize these risks into four primary types: (1) measurement risks arising from unreliable asset valuations and estimates; (2) disclosure risks related to incomplete, biased, or opaque reporting; (3) fraud risks involving intentional manipulation of financial statements; and (4) non-compliance risks with accounting standards and regulations (Kothari et al., 2005; Healy & Palepu, 2001; ACFE, 2022; Hoogendoorn, 2008). In unstable geopolitical contexts, these risks are significantly amplified by factors such as currency volatility, regulatory uncertainty, and weakened institutional oversight.

### **2.2 The Evolution of Corporate Sustainability**

The concept of corporate sustainability has evolved from a narrow focus on financial performance to a broader, integrated framework encompassing Environmental, Social, and Governance (ESG) dimensions (Elkington, 1997). This paradigm emphasizes long-

term value creation through sound governance, social equity, and environmental stewardship. Within the Middle Eastern context, sustainability challenges are particularly acute, characterized by issues such as water scarcity, socioeconomic inequality, and governance deficiencies, which create unique pressures for businesses operating in the region (Hussain & Mirza, 2020).

### 2.3 Geopolitical Instability as a Contextual Disruptor

Research on geopolitical instability examines the impact of political tensions, armed conflicts, economic sanctions, and commodity price volatility on business environments (Calderon & Zeidan, 2017; Arezki et al., 2021). These factors not only disrupt corporate operations and investment flows but also introduce significant complexities into accounting and financial reporting processes. Challenges include difficulties in asset valuation, increased susceptibility to fraud, and obstacles in complying with rapidly changing local and international regulations (Lennox & Wu, 2018; Transparency International, 2023).

### 2.4 The Interplay: Geopolitical Instability, Accounting Risks, and Sustainability

Recent studies suggest a complex, interactive relationship where geopolitical crises intensify accounting risks through multiple channels: exchange rate volatility, political pressure on disclosures, increased fraud opportunities, and non-compliance with dynamic accounting rules (Hoogendoorn, 2008). This deterioration in financial reporting quality subsequently impairs organizational performance across economic, social, and environmental dimensions (Eccles et al., 2014). A key mediating variable in this relationship is accounting information quality. High-quality, transparent, and reliable financial information enables organizations to better manage external shocks and supports informed decision-making for sustainable business continuity (Healy & Palepu, 2001; Bushman et al., 2004).

### 2.5 Conceptual Gap and Framework Development

The literature reveals a significant gap: the absence of a coherent conceptual model that integrates geopolitical instability, accounting risks, information quality, and multi-dimensional sustainability outcomes into a single analytical framework. Such a model is necessary to explain the causal pathways and mitigating factors in conflict-affected regions. Building on the principles of Creating Shared Value (Porter & Kramer, 2011) and integrated reporting (Eccles et al., 2014), this study proposes a framework that elucidates how external political shocks exacerbate accounting vulnerabilities, how these vulnerabilities threaten ESG performance, and how robust accounting information systems can function as a vital stabilizing mechanism. This direction offers substantial theoretical and practical contributions for enhancing resilience and promoting sustainable practices in geopolitically volatile environments like the Middle East.

## 3. Methods

### 3.1 Research Design

This study adopts a conceptual-analytical research design. Given the exploratory nature of the topic and the identified gap in empirical studies that integrate geopolitical uncertainty, accounting risks, and business sustainability within the Middle Eastern context, this approach is deemed appropriate. The primary objective is to construct a coherent conceptual framework through a systematic synthesis and critical analysis of

existing literature, rather than to test hypotheses with primary data. This foundational step is necessary to map the complex interrelationships between the core constructs before empirical validation can be pursued.

### 3.2 Research Scope and Object of Analysis

The scope of this research is explicitly bounded by the Middle Eastern regional context, characterized by its unique geopolitical volatility. The object of analysis is not a population of entities but the corpus of scholarly and professional literature pertaining to the three core variables: (1) Geopolitical Instability, (2) Accounting Risks, and (3) Business Sustainability (conceptualized through ESG dimensions). The "sample" consists of the selected literature that informs the framework development.

### 3.3 Data Collection Techniques

Data collection was conducted through a systematic synthesis of secondary sources. This technique involved:

- 1) Source Identification: A comprehensive search for relevant materials from:
- 2) Academic Databases: Peer-reviewed journals in accounting, finance, corporate governance, and sustainability.
- 3) Institutional Reports: Publications from the World Bank, International Monetary Fund (IMF), Association of Certified Fraud Examiners (ACFE), and Transparency International.
- 4) Standard-Setting Bodies: Frameworks and guidelines from the International Accounting Standards Board (IASB), Global Reporting Initiative (GRI), and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- 5) Selection Criteria: Focus was placed on recent publications (primarily from the last decade) and seminal works to capture both evolving dynamics and established theories.
- 6) Literature Review Process: A structured review aimed at extracting theoretical perspectives, empirical findings, and conceptual linkages related to the research variables.

### 3.4 Operational Definitions of Research Variables

For analytical clarity, the key variables within the conceptual framework are operationally defined as follows:

- 1) Geopolitical Uncertainty: The condition arising from events such as armed conflicts, economic sanctions, abrupt policy shifts, and regional tensions that create an unpredictable operating environment for businesses.
- 2) Accounting Risks: The potential for material deficiencies in financial reporting, categorized as:
  - a. *Measurement Risk*: Inaccuracy in asset/liability valuation.
  - b. *Disclosure Risk*: Omission or obfuscation of material information.
  - c. *Fraud Risk*: Intentional misstatement or manipulation.
  - d. *Non-compliance Risk*: Failure to adhere to applicable accounting standards.
- 3) Business Sustainability: Organizational performance and resilience measured across the integrated dimensions of Environmental stewardship, Social responsibility, and sound corporate Governance (ESG).

- 4) Accounting Information Quality (Mediating Variable): The degree to which financial information possesses the attributes of accuracy, transparency, timeliness, and completeness, which determines its usefulness for decision-making.

### 3.5 Data Analysis Technique

The analysis employs a qualitative thematic synthesis and comparative analysis. The procedure involves:

- 1) Extraction and Coding: Identifying and categorizing key insights, arguments, and evidence from the collected literature according to the predefined variables and their potential relationships.
- 2) Theme Development and Synthesis: Integrating coded information to identify recurring themes, theoretical consensus, contradictions, and critical gaps in the existing body of knowledge.
- 3) Framework Construction: Logically assembling the synthesized themes to develop a conceptual model. This model visually and narratively illustrates the proposed pathways through which geopolitical uncertainty exacerbates accounting risks, and how these risks, mediated by the quality of accounting information, impact ESG-based sustainability outcomes.

The analytical process is iterative, ensuring the framework is grounded in a multidisciplinary understanding of the subject matter. This methodological approach provides the necessary foundation for future empirical research aimed at validating the proposed relationships.

## 4. Results and Discussion

### 4.1 Results

This conceptual analysis reveals that geopolitical instability in the Middle East acts as a primary catalyst that exacerbates accounting risks, which subsequently undermines business sustainability. The key findings are synthesized and presented in Table 1, which summarizes the mechanisms of influence and supporting evidence.

**Table 1.** Synthesis of Findings: Geopolitical Instability, Accounting Risks, and Sustainability Impact

Dimension of Accounting Risk	Mechanism of Amplification by Geopolitical Instability	Impact on Business Sustainability (ESG Dimensions)	Key Supporting Literature
Measurement Risk	Armed conflict and sanctions cause severe volatility in asset values (property, plant, investments) and exchange rates, complicating fair value estimation.	Economic: Erroneous asset valuation distorts financial performance, impairing investment decisions and capital efficiency.	Lennox & Wu (2018)
Disclosure Risk	Political and economic pressures incentivize firms to omit or distort material information to avoid scrutiny or protect interests, reducing transparency.	Governance & Social: Loss of credibility and stakeholder trust; weakened accountability mechanisms.	Healy & Palepu (2001)

Dimension of Accounting Risk	Mechanism of Amplification by Geopolitical Instability	Impact on Business Sustainability (ESG Dimensions)	Key Supporting Literature
Fraud Risk	Weakened regulatory oversight and institutional frameworks in unstable settings create opportunities for financial manipulation.	Governance & Economic: Erosion of financial statement integrity destroys investor confidence and increases cost of capital.	ACFE (2022)
Non-Compliance Risk	Rapid, unpredictable changes in regulations (e.g., new sanctions, amended standards) create confusion and hinder adherence.	Economic & Governance: Exposure to legal penalties, fines, and reputational damage, threatening operational viability.	Hoogendoorn (2008)
Cross-Cutting Impact via Information Quality	The aggregation of the above risks degrades the overall quality (accuracy, completeness, timeliness) of accounting information.	All ESG Dimensions: Poor-quality information undermines strategic decision-making, obscures environmental/social liabilities, and cripples effective governance, ultimately threatening long-term resilience.	Eccles et al. (2014); Jensen & Meckling (1976)

Source: Conceptual synthesis based on analyzed literature (2024).

The findings confirm that the deterioration in accounting information quality serves as a critical mediating variable. It determines the severity with which amplified accounting risks transmit geopolitical shocks into tangible negative outcomes across all sustainability dimensions.

## 4.2 Discussion

The findings elucidate a complex, self-reinforcing cycle where geopolitical turbulence distorts the accounting infrastructure of firms, thereby compromising their sustainability foundations. The discussion interprets these results within the broader scholarly and practical context.

The escalation in measurement risk is not merely a technical accounting issue but a direct reflection of the distorted economic reality in conflict zones. The inability to reliably value assets erodes the very basis of financial reporting, leading to a loss of investor confidence and constrained access to capital, as theorized in environments of high information asymmetry (Lennox & Wu, 2018). This directly attacks the economic pillar of sustainability.

Similarly, heightened disclosure risk underscores a strategic dilemma for firms operating under duress. While opaque reporting might offer short-term tactical protection, it fundamentally erodes trust with stakeholders—a key social and governance asset. This aligns with Healy & Palepu's (2001) assertion that the quality of disclosure is a function

of the institutional environment, where political pressures can override transparency incentives.

The significant rise in fraud risk is a alarming indicator of institutional decay. It points to the collapse of effective internal and external monitoring mechanisms in unstable regions, as noted by the ACFE (2022). This not only increases direct financial losses but also inflicts severe, long-term damage to corporate reputation and market integrity, undermining all facets of sustainability.

Furthermore, non-compliance risk highlights the operational paralysis induced by regulatory unpredictability. Firms struggle not out of negligence but due to the sheer pace and complexity of change, leading to unavoidable violations that carry heavy costs (Hoogendoorn, 2008). This challenges the governance capacity of firms and calls for more adaptive regulatory approaches.

Central to mitigating this cycle is the mediating role of accounting information quality. The analysis confirms that firms prioritizing transparent, accurate, and complete reporting—even amidst chaos—can partially decouple sustainability performance from geopolitical shocks. High-quality information acts as a stabilizing tool, enabling better crisis navigation, maintaining stakeholder dialogue, and supporting accountable governance (Eccles et al., 2014). Therefore, strengthening accounting information systems is not just a compliance exercise but a core strategic imperative for resilience.

In conclusion, this discussion affirms that managing accounting risk in the Middle East is inextricably linked to managing geopolitical risk. It calls for an integrated response: firms must fortify internal controls and ethical reporting cultures, while regulators and international bodies need to develop more stable, harmonized, and context-sensitive frameworks. Such collaborative, multi-level governance is essential to support sustainable business practices in the world's most volatile regions.

## 5. Conclusion

In conclusion, this study, which examined the impact of geopolitical uncertainty on accounting risks and business sustainability in the Middle East, demonstrates that the volatile geopolitical environment poses a real challenge to the quality of financial information and directly impacts companies' ability to achieve sustainability. The study demonstrated how fluctuations in political conflicts, economic sanctions, and changes in government policies play a pivotal role in increasing measurement, disclosure, fraud, and non-compliance risks. This undermines confidence in financial reporting and, consequently, negatively impacts companies' economic, social, environmental, and governance performance.

The importance of this study lies in highlighting the complex interrelationship between political uncertainty, accounting risks, and business sustainability, an area that has not been adequately addressed in previous literature, especially in the Middle East regional context. The study also highlights the pivotal role of accounting information quality as a mediating factor that can mitigate the negative effects of these risks, opening new avenues for understanding how to enhance the transparency of financial institutions and their ability to adapt to unstable environments. By developing a conceptual framework that clarifies these relationships, the study provides a solid knowledge base that can be relied upon to guide future research and formulate administrative and regulatory policies that seek to enhance corporate resilience and sustainability in the face of geopolitical challenges.

Based on the research findings and in-depth analysis of the relationship between geopolitical uncertainty and accounting risks and their impact on business sustainability, several important recommendations emerge at various levels:

- 1) Recommendations for companies and institutions:
  - a. Strengthening accounting risk management systems: Companies should develop and enhance effective systems to monitor and assess risks associated with geopolitical uncertainty, particularly in the areas of asset measurement, financial disclosure, anti-fraud, and compliance with standards. These systems should include the use of advanced analytical tools that enable early detection of potential risks.
  - b. Improving the quality of accounting information: High-quality accounting standards should be adopted to ensure accuracy, transparency, and reliability in financial reporting, to provide reliable information for stakeholders and support strategic decision-making. • Training personnel to deal with unstable environments: It is essential to implement ongoing training programs aimed at qualifying accountants and financial managers to understand the challenges of geopolitical uncertainty and its impact on accounting work, enhancing their ability to adapt and respond quickly.
  - c. Developing corporate governance policies: Internal control mechanisms, transparency, and compliance with ethical and professional standards should be improved to ensure integrity in financial operations and protect investor rights.
- 2) Recommendations directed at regulatory bodies and government agencies:
  - a. Updating and adapting regulatory frameworks: Regulators should draft or amend legislation and accounting standards to be more flexible and commensurate with the nature of the risks posed by volatile geopolitical situations, while providing clear guidance on how to deal with the effects of sanctions and political changes.
  - b. Enhancing regional and international coordination: Encouraging cooperation between countries in the Middle East and international organizations to standardize standards and improve information exchange, thus contributing to reducing accounting risks associated with unstable environments. • Supporting oversight and inspection mechanisms: Increasing the capacity of regulatory bodies to monitor the implementation of standards and compliance, as well as combating corruption and financial fraud, especially in sectors exposed to significant political and economic influences.
- 3) Recommendations for investors and stakeholders:
  - a. Integrating geopolitical risk analysis into decision-making processes: Investors and stakeholders should adopt a comprehensive assessment of political uncertainty risks and their accounting implications within investment and financing strategies.
  - b. Demanding greater transparency and integrated reporting: Investors should encourage companies to adopt integrated sustainability reports that include economic, social, and environmental aspects, with a focus on accounting risks associated with the political environment.

Given the limited empirical studies in this area, the study recommends conducting field research based on quantitative and qualitative data from Middle Eastern companies to evaluate the hypotheses of the proposed conceptual framework and identify the practical mechanisms companies use to manage accounting risks under the influence of geopolitical variables. The scope of the research could also be expanded to include a

comparison between countries with different political environments within and outside the region, to identify the factors that enhance or mitigate the impact of these risks on business sustainability.

Ultimately, this study emphasizes the importance of adopting a comprehensive approach that integrates effective accounting risk management with improved financial information quality and corporate governance to ensure that companies remain able to address the complex political and economic challenges in the Middle East and achieve long-term sustainable development.

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