

Earning Persistence in Turkey: Evidence from Turkey's Largest Industrial Enterprise

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Abstract

The paper examines the persistence of earnings on Tüpraş during the period 1993-2014. Tüpraş is the largest industrial enterprise in Turkey. Following Resende (2006), a simple theoretical framework justifies an autoregressive formulation for excess earnings. A strong form of persistence can then be related to the presence of a unit root. The results from ADF unit root tests obtained for two different measures of earnings (Value added and Earnings) excess profitability mostly favour the presence of a unit root. Therefore, despite an apparently more competitive environment in the Turkish economy one can still observe extremely persistent earnings.

Keywords: TUPRAS, Earnings Persistence, Accounting Quality.

1. Introduction

Quality is the suitability of the system to the conditions and demands (Crosby, 1979). In other words quality is a degree of perfection (Uzay, 2011). Accounting standards aim to provide a high quality of accounting information to the people related. Accounting quality is a trust to financial statements and in a country there is a direct relationship between accounting quality and the quality of financial information and quality assurance (Uzay, 2010).

The main purpose of improving accounting standards is to develop an internationally and uniform acceptable high quality financial reporting standards.

By this way generally International Financial Reporting Standards-IFRS consolidate accounting quality (Iatris, 2010). "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit." (IASB, 2010)

In many studies the word accounting quality is seen but there is no exact definition of what accounting quality (Verleun et al, 2011).

Some of the definition about the accounting quality is as below:

Accounting quality is described as providing the financial situation, activity results and cash flow of the firms to the users when needed while giving economic decisions (Kargin and Arıcı, 2015). Accounting quality is described as the suitability of the information in financial statements to the needs of users (Gençoğlu and Ertan, 2012). Accounting quality is defined as the capability of accounting measures to show a firm's economic position and performance (Barth, Landsman and Lang, 2008). Earning persistence is one of the ways which is used to characterize accounting quality. In their study Dechow, Ge and Schrand (2010) express that the accounting system is indicator of earnings persistence. Moienadin and Tabatabaenasab (2014) define the earnings persistence as sustainability and endurance of the current earnings.

This study aims to measure accounting quality by persistence of earnings on TUPRAS firm in Turkey. Operating four oil refineries, with a total of 28.1 million tons annual crude oil processing capacity, Tüpraş is Turkey's largest industrial enterprise. In addition, a majority stake (79,98 %) in shipping company DİTAŞ and 40% share ownership of petrol retailer Opet, creates synergies and adds value to the operations. The roots of Tüpraş, an integrated petroleum company with a large market share, corporate reliability, production complexes and affiliates, dates back to İPRAŞ (İstanbul Petrol Rafinerisi A.Ş.) founded by the U.S. Caltex Company. In 1983, İPRAŞ and three other publicly owned refineries were brought under the Tüpraş umbrella by arrangements made for a more effective operation of State Economic Enterprise¹. To study persistence on the largest firm in Turkey, our paper as follows; Section 2 presents literature review, Section 3 presents data, methodology and the results. The last section concludes.

2. Literature Review

In their study Christensen, Lee, Walker and Zeng, C. (2015) examine how managerial financial reporting incentives affect accounting quality changes by adopting International Financial Reporting Standards (IFRS). As a conclusion they find out that adopting IFRS doesn't have a positive effect.

¹ <http://www.tupras.com.tr/detailpage.tr.php?IDirectoryID=103>

Gençoğlu and Ertan (2012) explain the concept of accounting quality and the factors which affect the accounting quality. In their study Kargın and Arıcı (2015) aim to measure the accounting quality in capital market. And it is concluded that the accounting information is generally of high quality.

In their study Aslan and Gözbaşı (2015) study on the profit persistence in energy industry in Turkey. They find out that because of the intense rivalry in Turkey, a lower persistence of profits (earnings) is seen in developing market.

In their study Barth, et al. (2008) express that accounting quality and international standards are in interaction and they find out that businesses which harmonize with IFRS affect the accounting quality of the businesses positively.

Bryce, Ali and Mathe (2015) aim to find out if accounting quality is affected by the adoption of IFRS. They find out that accounting quality doesn't improve after adopting IFRS in Australia.

In their study Ruch and Taylor (2014) want to find out the effects of accounting conservatism on financial statements. The aim of these studies is to show how conservatism influences earning persistence and the presence of earning management. They find out that accounting conservatism less positive effects on earnings quality than negative effects. Also they come to a conclusion that conditional conservatism

In their study Can and Ozturk, they search the profitability indicators of firms in Istanbul Stock Exchange (BIST). They aim to find out if these firms are economically sustainable or not. As a result they find out that both firms and sector in Turkey are under intense competition and because of this it is difficult for them to get profits in the long term.

In their study Zohdi, Shourvarzi and Mehrtash, (2014) have a hypothesis that accounting standarts can affect earnings persistence. To evaluate their hypothesis, they search the earnings persistence of the companies by taking in to consideration the profits of each year. They find out that accounting standards have an effect on the earnings persistence.

Yel (2012) aims to show if there is a relationship between earnings quality and stock returns in Istanbul Stock Exchange Market or not. After her analyses, she expresses that generally if earnings are persistence, they are of better quality.

In their study Kargın, Aktaş and Arıcı (2015), aim to search the effect of corporate governance on the quality of financial reporting via earnings persistence. They find out that the applications of corporate governance increase the quality of financial reporting.

In their study Nahandi Baghbani, and Bolouri, (2012) aim to search there a relationship between earnings management and accounting conservatism in Iranian Firms. The results of their study show that there is a negative relationship between earnings management and accounting conservatism.

In their study Kargın and Arıcı (2015) aim to measure the accounting quality in capital market. And it is concluded that the accounting information is generally of high quality.

3. Data, Methodology and Results

The Tupras firm level data is obtained from the annual surveys of the 500 largest firms conducted by the Istanbul Chamber of Industry (ICI), which includes accounting data on gross value added and profits before taxes over the period 1993-2014 (See Fig.1 and 2).

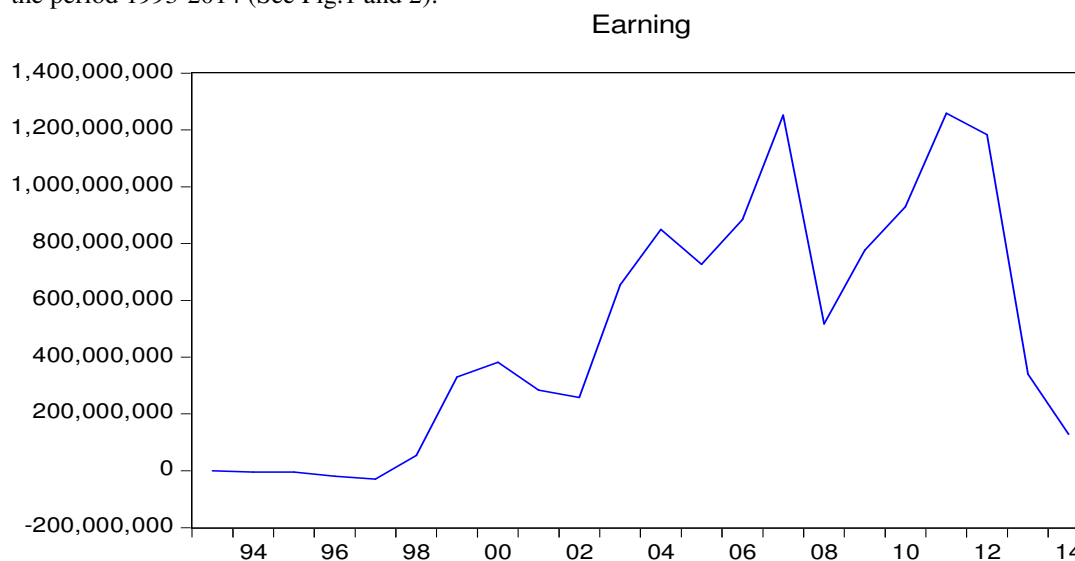


Figure 1. Tupras Earnings (1993-2014)

It is possible to construct simple theoretical frameworks that provide foundations for the empirical

analysis of earning persistence.

Value Added

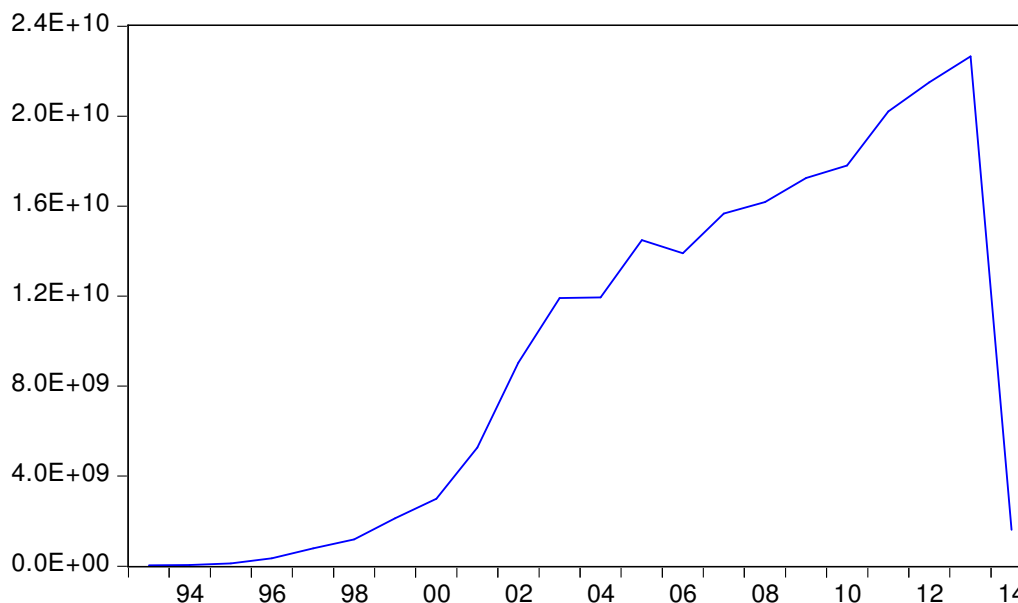


Figure 2. Tupras Value Added (1993-2014)

The basic steps can be summarized as follows. Let $\rho(t) \equiv \pi(t) - \pi p(t)$ denote firm's excess profits at period t , where $\pi(t)$ and $\pi p(t)$ represent firm's earning at period t and the long-run competitive rate-of-return respectively. One can consider two general classes of factors determining changes in $\rho(t)$ for both earning and value added (Resende, 2006).

Table 1. ADF Unit Root Test Results

Earning	Lag	t-Statistic
	1	-1.833202
	2	-1.538595
	3	-1.418959
	4	-1.484592

Value Added	Lag	t-Statistic
	1	-1.592352
	2	-1.682471
	3	-1.295461
	4	-1.461992

The overall evidence appears to favour the existence of a unit root and therefore an extreme form of persistence in earnings despite an apparently more competitive environment in Turkey.

4. Conclusion

The paper examined a strong form of non-stationarity referring to the existence of a unit root in the autoregressive process in time series associated with excess earnings for Tupras in Turkey. Despite the fact that a large proportion of the studied years could, in principle, be labelled as "competitive", the evidence indicated that an extreme level of persistence associated with the presence of a unit root in excess earnings cannot be discarded. This means that earnings persist as a result of barriers to enter market in Turkey.

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