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Do Macro-economic Crises Determine Accounting Value Relevance?

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Abstract

We investigate whether the value relevance of earnings and book values in Turkey significantly changed across periods of financial uncertainty. Our enquiry differs from the mainstream literature that posits a unidirectional association determined by the 'quality' of individual firm accounts towards price. We find divergence in accounting value relevance components across the 1997–2012 period. Dominant value relevance shifts from earnings and negative interest rates in hyper-inflation, to the balance sheet after IFRS in 2005. On the other hand, the global financial crisis (GFC) is associated with diminished accounting value relevance for all variables. Policy issues are raised about value relevance consistency, the use of negative (low) interest rates as fiscal policies and the asymmetric application of market based valuations in emerging economies.

Keywords:

Notes

1 For example, earlier studies show that the association is affected by firm earnings persistence, net book values and systematic risk (Collins & Kothari, [1989](#); Easton & Zmijewski, [1989](#); Kormendi & Lipe, [1987](#)), the presence of losses (Hayn, [1995](#)), and firm size (Easton & Zmijewski, [1989](#)). Later research focuses on value relevance after firm adoption of IFRS (see review by Brüggemann et al., [2013](#)).

2 Hugo Stinnes ... 'grew rich during inflation by going into debt and having the debt virtually wiped out by that inflation.' (Fisher, [1928](#), p. 7).

3 Whittington, Saporta, and Singh ([1997](#)), noting the high levels of Turkish hyper-inflation, illustrate the impact of inflation adjustments on listed firms. They find decreases in mean net assets growth from 57.7% to 28.8%, sales growth from 56.2% to 3.2%, earnings before tax/net assets ratio from 32.4% to 12.3%, and earnings after tax/net worth from 25.5% to 9.4%.

4 Resulting from incompliance with IMKB listing rules.

5 Up until 2009 Q2, financial statements were announced to the public by means of IMKB Daily Bulletins after the second trading session ended and then disclosed on the IMKB website. Since the financial statements are effectively disclosed to the public with a one day lag, the price impact is adjusted to take this into account.

6 As another robustness test we replicated the inflation adjustments of Filip and Raffournier ([2010](#), Eq. 2, p.92). We obtained the same reversal impact, with adjusted earnings OLS coefficients of 0.31 (-0.29) and adjusted earnings change coefficients of 0.02 (-0.02), significant at the 5% level.

7 CMB regulates the principles and procedures of preparation, presentation and announcement of financial statements prepared by the entities with the Communiqué No: XI-29, 'Principles of Financial Reporting in Capital Markets' (the Communiqué). The

Communiqué is effective for the annual periods starting from 1 January 2008 and supersedes Communiqué No: XI-25, 'The Accounting Standards in the Capital Markets'. According to the Communiqué, entities shall prepare their financial statements in accordance with International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, under the oversight of the Turkish Accounting Standards Board (TASB).

8 An interesting alternative perspective is that the main objective of financial reporting is to maintain financial stability in markets, rather than provide information to investors. This issue and the political role that the European Commission played in lobbying for reclassification under IAS39 during the GFC are discussed in André, Cazavan-Jeny, Dick, Richard, and Walton ([2009](#)).

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