

EARNINGS MANAGEMENT IN RESPONSE TO THE OIL PRICE SHOCK OF 2014: EVIDENCE FROM OSLO STOCK EXCHANGE

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INTRODUCTION

- OIL PRICE DROP 2014
- FINANCIAL REPORTING
- PURPOSE OF PAPER:
 - EXAMINING ACCOUNTING CHOICES AT OSE AS RESPONSEN TO THE OIL PRICE SHOCK OF 2014
 - OSLO STOCK EXCHANGE, SMALL, HOWEVER, NORWAY 5TH/3RD LARGEST OIL/ GAS EXPORTER, 2ND LARGEST IN EUROPE CONCERNING NUMBER OF ENERGY COMPANIES, 2ND LARGEST IN THE WORLD CONCERNING OIL SERVICE COMPANIES
 - 1/3 OF OSE MARKET CAP IS IN THE OSLO ENRGY INDEX

LITTERATURE

- HUGE LITTERATURE IN EM
 - REAL EM VS ACCRUAL EM – HERE ACCRUAL
- SIMILAR STUDIES CONCERNING THE FINANCIAL CRISIS
- SIMILAR STUDIES REGARDING THE OIL INDUSTRY (PERSIAN GULF CRISIS, HURRICANE KATRINA, ARAB SPRING)
- MIXED FINDINGS – AMBIGUOUS!
- OUR TWIST: HOW DO OIL COMPANIES REACT TO AN OIL PRICE DROP

HYPOTHESES AND METHODOLOGY

- WE DEVELOP AND ARGUE FOR
 - H1: MORE EM DURING CRISIS THAN DURING PERIOD PRECEDING THE CRISIS
 - H2: COMPANIES ENGAGE IN INCOME-DECREASING EM IN 3Q AND 4Q IN 2014
- DATA
 - FINAL SAMPLE OF 34 COMPANIES AND 782 FIRM-QUARTER OBSERVATIONS
- MODELS
 - MODIFIES JONES (1995)
 - KOTHARI ET AL (2005)
 - CIMINI (2015)

EMPIRICAL RESULTS

- TABLES
- H1, BOOTSRA TAPPING PROCEDURE
 - ALL THREE MEASURES OF EM DISPLAY INCREASE IN EM IN THE CRISIS
 - NOT SURPRISING, CONSISTANT WITH E.G. DECHOW ET.AL. (2012)
 - LARGE DISCRETIONARY ACCRUALS IN THE 3Q & 4Q OF 2014
- H2, THE DUMMIES FOR 3Q AND 4Q ARE SIGNIFICANT AT 5% LEVEL
 - CONFIRM USE OF INCOME DECREASING EM AT THE BEGINNING OF THE CRISIS
 - SEEMS AS USE OF THE CRISIS..
 - BIG BATH STRATEGY?
 - NO SIGNS OF SIMILAR PRACTICE IN 2015 AND 2016

DISCUSSION / CONCLUSION / IMPLICATIONS

- SEEMS AS THE UNCERTAIN MACROECONOMIC ENVIRONMENT LEAD TO BOOKING LARGE INCOME-DECREASING ACCRUALS IN 3Q & 4 Q 2014
 - WE ATTRIBUTE THIS TO THE BIG BATH STRATEGY – CAN BE QUESTIONED
- SUPPORTING SEVERAL STUDIES ON DOWNWARD EM IN TIME OF CRISIS. HOWEVER, CONTRADICTING OTHERS.
 - OUR STUDY FOCUS ON THE MOST AFFECTED INDUSTRY
- INVESTORS ON ALERT – BOTH IN GOOD TIMES AND BAD