Examination of Sustainability Status of Company Profits:
A Sectoral Research for BIST Companies

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Extensive Summary

Introduction

Starting from the 18th century, the business concept has changed with the industrialisation period that affected a lot of places in the world, mainly Europe. As a result of this, the competition between companies has turned out to be much more difficult.

According to Schumpeterian economy approach, the companies aiming to gain a sustainable competitive advantage by making innovations are able to get a monopoly power this way, and thus, they can keep their profits above the industry average for a long time. In the process named as “creative destruction” by Schumpeter, innovations will lead monopoly power, monopoly power will lead excessive profit and excessive profit will lead copyists. Under these conditions, the competitive uncertainties that the companies will face cannot be suppressed with the strategic management techniques. Because of the fact that the competitor companies will respond excessive profit with copying, these excessive profits will never be permanent and soon will decrease to the average level. With every innovation presented in the long run, this cycle will repeat.

Methodology

In order to test the profit sustainability of a company within Schumpeterian economy model, Dennis C. Mueller formulated an autoregressive model. The inference of the model is based on specific assumptions. According to this, profit is consists of three elements. These are; return of competition, permanent profits provided in the long run and short-term permanent revenues that are assumed to be zero in the long run.

There are few studies associated with the persistence of profits in literature. In most of these studies, persistence of profits in the long run is explained by natural entry barriers to the industry and industry concentration. However, evidence of persistence of profits resulted from the characteristics of the companies in only limited studies.
In recent years, a few studies revealed that unit root study gives better results than Mueller’s model. In almost all of these studies based on the time series and panel data unit root analysis methods. Because of this, it is prefer to perform panel unit root analysis method in this study.

In order to test the persistence of profits, null and alternative hypothesis is determined. These hypotheses are as follows:

\( H_0 \): Competition is not intense and profits is persistent in investigated sector.

\( H_a \): Competition is intense and profits is not persistent in investigated sector.

In this study, long term sustainability performance of profitability indicators belong to companies which traded on Istanbul Stock Exchange analyzed by panel data unit root analysis method. In this context, 201 companies data which could be obtained from BIST have been classified under 15 sectors and then test statistics have been calculated.

Findings and Discussions

According to analysis results, it is tested that gross profit margin for companies in the banking, the services and the holdings sectors; return on assets for companies in the glass – ceramic sector; pretax profit margin and net profit margin for companies in the main – metal sector are tend to persistent in the long term.

When considering average CIPS test statistics it is also tested that the competition intensity is seen in all sectors. In addition to these results, competition intensity in sectors can be compared relatively with the help of average CIPS test statistics. According to this, it has been assessed that while the sectors which have the highest competition intensity are holdings, textile – weaving, paper – packaging – printing, food – beverage and information technologies and communication respectively; sectors which have the lowest competition intensity are glass – ceramic, main – metal and services respectively.

When considering CADF test statistics, it is tested that approximately 29% for return of assets, 28% for return of equity, 35% of gross profit margin, 28% of operating margin, 24% of pre-tax profit margin and 24% of net profit margin are determined that can be maintained in the long term.

In conclusion, when assessing statistics on the companies which achieved sustainable profitability in terms of all indicators, it has been concluded that companies can achieve sustainable profits approximately 17% of banking, 23% of information technologies and communication, 33% of glass – ceramic, 31% of financial services, 19% of financial investment, 20% of food – beverage, 40% of services, 17% of holdings, 18% of paper – packaging – printing, 25% of chemistry – petroleum – rubber and plastic, 29% of metal products – machine, 25% of main – metal, 44% of automotive and supply industry, 39% of stone – soil – cement and 11% of textile – weaving sectors.

The results obtained from the assessments for both sector and company level indicate that a significant portion of the companies operating in Turkey carry on their activities under intense competition, so they hardly could maintain their profits in the long term. Therefore, it is considered that these results are of importance for evidence about the lack of profit resources number of companies in Turkey.