

COMPETITION, EARNINGS MANAGEMENT, AND CORPORATE GOVERNANCE

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ABSTRACT

This paper seeks to demonstrate that there is a causal link between competition among firms of an industry and their degree of earnings management. We further explore the interaction between competition and corporate governance on earnings management. The study is conducted on 770 firms listed in the National Stock Exchange (NSE) during the period 2012 to 2018. The dependent variable for the study is discretionary accruals, a measure of earnings management. Discretionary accruals is calculated using the modified Jones model. The main explanatory variable for the study is Herfindahl-Hirschman industrial concentration index (HHI), a proxy for competition. We take the percentage of shares held by promoter(s)/promoter groups as a measure of corporate governance. We say that concentrated ownership structure is negatively related with corporate governance. Our study reveals that competition positively and significantly affects the level of earnings management. With respect to corporate governance operating in low and high level of competition, the study reveals that it has distinct effects in the two levels of competition.

Keywords: *Earnings Management, Competition, Market Concentration, Absolute Discretionary Accruals, Promoters' Shareholding, Corporate Governance*

JEL Classification: *G30, M41, M48, L6*