

# **Investigating the relationship between business strategy, market competition and earnings management**

Siamak Shalchi Tabrizi\*, Mohammad Kavosi- Kalashomi,

**The aim of this study is to investigate the relationship between business strategy, market competition and earnings management in listed companies in Tehran Stock Exchange. In this study has been used Porter's (1980) typology to examine whether the companies that follow this strategies to achieve the ultimate objectives predetermined such as, the expected profitability and obtaining a wide share of the market. Therefore, it seems that business strategy is one of the underlying determinants of earnings management. Basically, such strategies explain how to compete in a business by considering the competitive forces. In another sense, business strategy can be influenced significantly by market competitions, and interact with each other. In this research, real earnings management considered as dependent variable; also cost leadership strategy, differentiation strategy and market competition considered as independent variables. In order to measure market competition, the Herfindal- Hirschman index used to measure industry- level competition and share index used to measure the competitive position of firms in a given industry (firm-level competition). The sample includes 122 manufacturing companies listed in the Tehran Stock Exchange during period the beginning of 1388 until the end of 1393. The statistical model is multiple linear regression model and panel data is to test the hypotheses. In the end, the results show that there is a positive and significant relationship between cost leadership strategy and real earnings management, consistent with this finding there is a positive and significant relationship between differentiation strategy and real earnings management too. For cost leaders, the market competition further increases the level of real earnings management; it means that there is a significant relationship between the interaction of market competition and cost leadership with real earnings management. In**

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**contrast, there is also considering positive and significant relationship between differentiation strategy with real earnings management, the results showed a significant relationship between the interaction of market competition and differentiation with real earnings management.**

**Keywords : Business strategy, Differentiation strategy, Real earning management, Market competition, cost leadership strategy.**

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