



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Department of Accounting

“A new measure of competition based on 10-K filings: Derivations and implications for financial statement analysis”

Prof Russell Lundholm
University of Michigan

Date: 26 April 2012
Time: 4.00-5.30pm
Venue: OLD.3.21

Abstract

In this paper we develop a measure of competition based on management’s disclosures in their 10-K filing and find that firms’ rates of diminishing marginal returns on new and existing investment vary significantly with our measure. We show that these firm-level disclosures are related to existing industry-level measures of disclosure (e.g. Herfindahl index), but capture something distinctly new. In particular, we show that the measure is associated with the rates of diminishing marginal returns *within* industry, something that traditional industry-level measures of competition cannot do by construction. We find limited and indirect evidence that management strategically makes misleading statements about their competitive landscape. However, on the whole, we find that the disclosures about competition in the 10-K are useful, and relate to firm performance in ways that suggest they meaningfully measure firm-level competition.