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**Corporate Governance and Product
Market Competition**

Ekta Selarka



MADRAS SCHOOL OF ECONOMICS
Gandhi Mandapam Road
Chennai 600 025
India

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Ekta Selarka

Assistant Professor, Madras School of Economics

ekta.selarka@gmail.com; ekta@mse.ac.in

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Abstract

On one hand product market competition acts as an ultimate solution to align interests of managers and shareholders, and on the other hand, competition alone may not be sufficient because it may not prevent managers from expropriating the competitive return after the capital is sunk. These hypotheses motivate us to investigate the interaction between corporate governance and product market competition in India where predominance of owner-managers might cause corporate governance reforms to have a slow impact. Using a cross section of publicly listed firms in India we attempt to capture various attributes of corporate governance by constructing an index of corporate governance based on board structure, ownership structure, audit quality and investor information disclosure. The index is then used along with traditional measures of competition to analyze the question of whether corporate governance and competition are complements or substitutes. In general the empirical analysis suggests that relying on product market competition to improve corporate governance of firms may not be appropriate in the Indian setting and therefore, direct corporate governance reforms seem to be necessary and effective.

Keywords: *Corporate Governance Index, Product market competition, Market-to-book value ratio, Tobin's q, Performance, Profitability, India.*

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