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Market Competition, Government Efficiency, and Profitability Around the World

by Paul M. Healy, George Serafeim, Suraj Srinivasan and Gwen Yu

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Abstract

We examine how cross-country differences in product, capital, and labor market competition, and government efficiency affect the rate of mean reversion of corporate profitability. Using a sample of 42,337 unique firms from 49 countries, we find that corporate profitability mean reverts faster in countries where product and capital markets are more competitive. Moreover, holding constant product, capital, and labor market competition we find that profitability mean reverts faster in countries with less efficient governments. The findings suggest that country-level factors have an economically significant impact on the rate of corporate profitability mean reversion. The study has implications for forecasting profitability and equity valuation in a global context.

Keywords: Profit; Competition; Government and Politics; Labor; Markets; Capital Markets; Valuation; Forecasting and Prediction; Equity; Performance Efficiency; Product; Country;

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