Journal of Money and Economy
Vol. 19, No. 3, Fall 2024
pp. 333-350

Original Research Article

Concentration and Earnings Forecast Accuracy: The Role of Financial Reporting Quality

Ommolbanin Dadar[*] **Amir Nouri Khanghah**[†]

Received: 29 Apr 2025 Approved: 05 Jun 2025

Identifying the key determinants influencing the quality and accuracy of earnings forecasts is of critical importance. Existing literature has established a significant association between market concentration and earnings forecast accuracy; however, the precise mechanisms through which concentration affects forecast accuracy remain underexplored. This study examines the relationship between market concentration and earnings forecast accuracy, with particular emphasis on the role of financial reporting quality.
The data for this research is derived from the financial statements of 164 companies from 2012 to 2021. A panel data analysis was conducted to test the hypotheses.
The results indicate a significant negative relationship between concentration indicators (lower competition) and the accuracy of earnings forecasts. Furthermore, financial reporting quality has a significant positive relationship with forecast accuracy. Although the moderating role of financial reporting quality is confirmed in highly concentrated industries (with less competition), it does not offset or reverse the negative impact of market concentration on earnings forecast accuracy.

Keywords: Industry Market Concentration, Earnings Forecast Accuracy, Financial Reporting Quality
JEL Classification*:* G19 ,G32 ,C33

1 Introduction

One of the fundamental requirements of capital markets is earnings forecasting by managers. The accuracy of these forecasts reflects the usefulness of earnings information in predicting future outcomes (Perssoner et al., 2023). Stakeholders primarily rely on information provided by companies through interim reports, annual reports, management interviews, official updates, and management forecasts (Brown et al., 2015). Researchers

[*] Assistant Professor, Department of Finance .ST.C, Islamic Azad University,Tehran, Iran, (Corresponding Author); n.dadar@iau.ac.ir
[†] Master of financial management, Islamic Azad University, Tehran, Iran; Amir.nouri2016@gmail.com

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

in accounting and finance have demonstrated significant interest in how financial analysts use accounting figures. They argue that investors globally incorporate earnings forecasts provided by financial analysts and corporate managers into their valuation models. Consequently, these forecasts influence investors' decisions regarding how financial resources are allocated in capital markets, ultimately impacting market efficiency (Iqbal et al., 2022). Therefore, identifying the key factors that influence the quality and accuracy of earnings forecasts is of great significance. In explaining these factors, product market competition and the extent of its impact are among the issues that, despite increasing globalization and narrowing market gaps, have received relatively little attention in recent years.

In empirical studies on market structure, market concentration is often used to evaluate the degree of market competition. As a structural variable, it is widely used to assess the extent of market competitiveness (Luo et al., 2019).

In a competitive product market, firms experience intense rivalry in both production and sales, often resulting in products with minimal differentiation or competitive advantage. As competitive intensity declines, the market may shift toward a monopoly or oligopoly structure. Profitability is often considered a primary indicator of a firm's competitive advantage. External pressure on managers tends to enhance their motivation to manage operations efficiently and to forecast earnings with greater accuracy.

Competition in the product market enhances the relevance of accounting information by influencing the predictive power of earnings. This improvement provides investors with better information for making economic decisions, which can affect their risk tolerance and expectations. As a result, these factors are reflected in the valuation of firms. The predictive power of earnings is especially important because investors view it as a key metric for assessing a company's value and forecasting future cash flows.

Financial reporting entails communicating accounting information to current and prospective users, enabling them to assess a company's financial position and cash flow potential. One of the significant impacts of high-quality accounting information is the reduction of information asymmetry, along with improved firm performance and earnings predictability. The quality of financial reporting reflects the proper functioning of firms and the greater usefulness of financial statements for forecasting future earnings. As a result, decision-makers require more sensitive and higher-quality information to make accurate decisions. It is widely believed that as the quality of financial reporting improves and credible standards and principles are consistently

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

applied in the preparation and presentation of financial reports, information risk decreases, enabling users to make more optimal decisions.

Higher-quality financial reporting enhances the precision of analyses and forecasts while reducing forecast dispersion.

Previous research has shown that firms in highly concentrated industries with greater market power tend to exhibit abnormal earnings, higher informational certainty, more stable future income, and lower idiosyncratic risk—factors that attract greater analyst following and lead to lower forecast dispersion and error in earnings forecasts (Haw et al., 2015). In industries where a firm's income is unstable and future performance is uncertain, financial analysts may be more inclined to acquire private information on volatile firms, thus contributing to more accurate earnings forecasts.

2 Theoretical Framework and Literature Review

2.1 Product Market Competition and Earnings Forecast Accuracy

Market concentration describes the level and nature of competition within an industry. Two important aspects of this definition are the number of firms operating in the market and the distribution of market power among these firms (Mehregan & Teymoori, 2020). Industry market concentration refers to the proportion of total market output that is controlled by a small number of firms within that industry. A firm's market power can be understood as its ability to set product prices above competitive levels to increase profitability. In simpler terms, market power reflects a company's capability to price its products higher than the equilibrium price determined by competition. How market power is exercised varies across different markets and is directly related to the market structure.

The existence of potential for exerting market power reduces market competitiveness, which is the foundation for the development and growth of any economic environment. Some economists define market power as the ability to shift prices from competitive levels to non-competitive, profit-maximizing levels.

During periods of intense product market competition, which is often associated with the risk of future stock price declines, managers may be under pressure to manipulate earnings to influence current and potential investors through their effect on stock prices and by reporting favorable earnings. This strategy is employed so that financial analysts can more effectively forecast future performance. A key challenge in financial markets is to explain current actions that may lead to stock price declines in subsequent periods. Stock

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

prices are important in two main respects: first, they assist investors in forecasting and identifying the determinants of stock returns; and second, they help policymakers understand the formation of monopoly power in the market and the reasons behind the dominance of one or more firms or industries, enabling more informed policy decisions (Grinstein and Larkin, 2020).

One of the key competitive advantages for firms in the stock market is their level of profitability. When managers face external pressures, their incentives for earnings management tend to increase (Ojaghi et al., 2021). Product market competition influences managerial incentives by encouraging innovation and improving product returns, thereby enhancing performance growth through productivity improvements and innovative activity.

In financial literature, the relationship between product market competition and earnings forecast ability can be interpreted through the lens of agency theory. According to agency theory, shareholders and investors are interested in maximizing the returns on their investments and the market value of securities. However, this objective does not necessarily align with the utility-maximizing goals of managers.

In competitive markets, business unit managers attempt to preserve their competitive advantage and avoid drawing the attention of rivals by making available information more complex and less accessible. According to this perspective, firms facing higher competitive pressure may reduce the quality of their disclosures, including forecasted earnings, to limit the availability of sensitive information to their competitors. Moreover, managers may withhold high-quality information to protect their positions or employment by creating an opaque informational environment, which makes performance evaluation more difficult. From this viewpoint, product market competition can lead to less accurate and more dispersed earnings forecasts by management (Iqbal et al., 2022).

However, in the absence of strong corporate governance mechanisms, it is argued that a competitive market alone can align managerial behavior with shareholder value maximization. Competitive pressure may compel managers to enhance the quality of reported information to attract scarce economic resources. By doing so, they reduce information asymmetry, mitigate adverse selection risks, and ultimately lower the firm's cost of capital. According to this perspective, increased competitive pressure in the product market may lead to improved accuracy in management earnings forecasts (Fazlzadeh & Abdi, 2018).

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

2.2 Financial Reporting Quality, Product Market Competition, and Earnings Forecast Accuracy

One of the main objectives of financial statements is to provide information about a company's financial position, performance, and flexibility. This enables users of the financial statements to compare different businesses and make informed economic decisions (Rahmanian & Beidgoli, 2022).

In highly competitive markets, when one company discloses extensive information, it often leads other companies to do the same. In these environments, firms are likely to adopt proactive disclosure strategies to capture the attention of potential investors and the general public. As a result, companies are more inclined to implement active disclosure policies. High-quality disclosure means that managers provide accurate and timely information about the firm's activities and events to investors and other stakeholders. This level of transparency enhances stakeholders' understanding of the company and facilitates more efficient decision-making. Therefore, information disclosure is essential for effective communication between companies and investors (Mousavi & Ghasemi Panah, 2021).

Regarding the influence of financial reporting quality, two contrasting perspectives exist on the effect of product market competition on managerial behavior. The first perspective supports the bright side of product market competition, viewing it as an external disciplinary mechanism. This view argues that intense product market competition disciplines managers, enhances economic efficiency, reduces managerial slack and agency conflicts, mitigates opportunistic managerial behavior, and ultimately improves financial reporting quality. In contrast, the second perspective advocates the dark side of product market competition, contending that it exacerbates managerial slack and agency problems, diminishes firm efficiency, increases managerial opportunism, leads to aggressive accounting practices, and deteriorates financial reporting quality. In this regard, Iqbal et al. (2022) conducted a detailed study on the relationship between product market competition and financial reporting quality. They examined the impact of competition, measured by the Herfindahl-Hirschman Index (HHI) and the Lerner Index, on reporting quality, using a composite metric based on both accrual quality and discretionary accruals. Their findings suggest that intense product market competition acts as a disciplining force on opportunistic managerial behavior and leads to improved financial reporting quality.

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

2.3 Previous Studies

Iqbal et al., (2022) examined the relationship between industry market concentration and earnings forecast accuracy, taking into account the role of financial reporting quality. Their findings indicate that high market concentration enhances the financial reporting quality of Chinese firms, which in turn improves the accuracy of earnings forecasts. The study also presents significant implications for current and potential investors, financial analysts, and relevant governmental regulatory bodies.

Gil (2021) investigated the relationship between product market competition, earnings management, and accounting comparability. The results revealed a negative association between competition and accounting comparability, supporting the agency problem perspective. Additionally, product market competition was found to be positively related to earnings management. Therefore, the authors suggest that regulatory authorities should closely monitor firms operating in highly competitive industries and consider measures to mitigate the decline in accounting comparability within these sectors.

Mu et al., (2016) investigated the impact of industry concentration on the market's ability to forecast firms' earnings. Their study, which analyzed earnings response coefficients as a proxy for future earnings evaluation across 55 countries, examined the effects of monopolistic versus competitive industry structures. The results indicated that industry concentration significantly enhances investors' ability to predict firms' earnings. Additionally, the findings revealed that the informativeness of product markets and intra-industry information dissemination intensifies the positive relationship between industry concentration and the earnings response coefficient. The results showed that these relationships are stronger in countries with highly concentrated industries.

Moradi and Abolghasemi (2023) examined the relationship between product market competition, real earnings management, and accounting comparability. The study found no significant relationship between product market competition, as measured by the Herfindahl-Hirschman Index, and real earnings management or accounting comparability. However, using the Lerner Index as a proxy, the results demonstrated a significant negative relationship between product market competition and real earnings management, along with a significant positive relationship between product market competition and accounting comparability.

Golestaneh and Ghaderi Azar (2022) examined the impact of industry concentration on the market's ability to forecast future earnings of companies

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

listed on the Tehran Stock Exchange. The study's findings indicated that the predictability of accounting earnings is not significantly affected by industry concentration. Additionally, past, current, and future accounting earnings do not significantly impact firm returns when influenced by industry concentration. However, industry market power can significantly affect firm returns through prior year accounting earnings, while current and future earnings do not demonstrate such an effect. Ultimately, the study concluded that industry competition influences the predictive power of current-year earnings in explaining firm returns, but does not affect the relationship between prior or future earnings and firm returns.

3 Research Hypotheses

Hypothesis 1:

There is a significant relationship between market concentration (Concentration index of 4 major firms) and earnings forecast accuracy.

Hypothesis 2:

Financial reporting quality affects the relationship between market concentration (Concentration index of 4 major firms) and earnings forecast accuracy.

4 Research Methodology

This study is applied in terms of its objective, descriptive in nature, and correlational in method. It employs a library-based approach, using reports and other sources for data collection. The main goal of the study is to examine the impact of industry market concentration and earnings forecast accuracy, considering the moderating role of financial reporting quality.

Given the nature of the research, the data were collected on a daily and panel (pooled) basis, and inferential statistical methods were employed to analyze the relationships between variables.

The temporal scope of this study covers the years 2012 to 2021 (1391–1400 in the Iranian calendar). The spatial scope (statistical population) includes 164 companies listed on the Tehran Stock Exchange that met the following criteria during the 10-year study period:

1) The companies' fiscal years end in Esfand (March) each year.
2) No trading suspensions longer than three consecutive months during the study period.
3) Companies must not operate in the insurance or investment sectors.
4) The company's shares must have been actively traded throughout all years of the study period.

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

In panel data methodology, the combination of cross-sectional and time-series observations mitigates heteroscedasticity issues, reduces multicollinearity among variables, and enhances the efficiency of estimations by increasing the degrees of freedom.

5 Research Model

In this study, to test the hypotheses, the following econometric models are employed based on the methodology of Karpoff et al. (2021):

Model 1:

$$ERROR_{it} = \beta_0 + \beta_1 CH4_{it} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 MBV_{it} + \beta_5 LOSS_{it} + \beta_6 LEV_{it} + \beta_7 FE_{it} + \varepsilon_{it}$$

Model 2:

$$ERROR_{it} = \beta_0 + \beta_1 CR4_{it} + \beta_2 FRQ_{it} + \beta_3 CR4_{it} * FRQ_{it} + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \beta_6 MBV_{it} + \beta_7 LOSS_{it} + \beta_8 LEV_{it} + \beta_9 FE_{it} + \varepsilon_{it}$$

Where:

- **ERROR:** Forecast error of earnings for firm *i* in year *t*;
- **CR4:** Market concentration (based on the four-firm concentration ratio) for firm *i* in year *t*;
- **FRQ:** Financial reporting quality for firm *i* in year *t*;
- **SIZE:** Firm size for firm *i* in year *t*;
- **ROA:** Return on assets for firm *i* in year *t*;
- **MBV:** Market-to-book value ratio (growth) for firm *i* in year *t*;
- **LOSS:** Loss indicator for firm *i* in year *t*;
- **LEV:** Financial leverage for firm *i* in year *t*;
- **FE:** Forecast error, defined as the absolute difference between forecasted earnings per share (FEPS) and actual earnings per share (AEPS), scaled by the stock price at the beginning of the period;
- **εit:** Regression error term.

6 Research Variables

6.1 Dependent Variable

The dependent variable in this study is earnings forecast accuracy (ERROR), which is calculated using the following formula:

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

$$ERRORE_{it} = |\frac{AP_{i,t} - FP_{i,t}}{AP_{i,t}}|$$

$AP_{i,t}$ denotes the actual net income of firm *i* in year *t*, and $FP_{i,t}$ represents the forecasted net income for firm *i* in year *t*.

This measure captures the absolute deviation between forecasted and actual earnings, scaled by actual earnings, and serves as a proxy for the accuracy of managerial earnings forecasts.

6.2 Independent Variable

The independent variable in this study is **industry market concentration**, which is measured using the following index:

- Four-Firm Concentration Ratio (CR4):
  This ratio is defined as the proportion of total industry sales accounted for by the four largest firms in the industry (based on firm size).

6.3 Moderating Variable

In this study, the moderating variable is financial reporting quality (FRQ). The quality of accruals is used as a proxy to measure financial reporting quality, as accruals are a primary component for forecasting future cash flows. When the estimation error of accruals is low, earnings serve as a better indicator of future cash flows. Furthermore, accruals enhance the informational value of earnings by reducing the effect of volatile cash flows. Therefore, high-quality accruals result in more reliable estimates and, in turn, improve the quality of financial reporting.

Financial reporting quality, based on accrual quality, is measured using the model introduced by McNichols (2000), as follows:

$$\Delta wc_{i.t} = \alpha_0 + \beta_1 CFO_{i.t-1} + \beta_2 CFO_{i.t} + \beta_3 CFO_{i.t+1} + \beta_4 rev_{i.t} + \beta_5 ppe_{i.t} + +\varepsilon_{i.t}$$

Where:

- CFO: Cash flows from operations, extracted from financial statements;
- Δrev: Change in sales revenue for the current year;
- ppe: Net property, plant, and equipment for the current period.

In the above model, Δwc (change in working capital) is calculated as the sum of the changes in accounts receivable (ΔAR), inventory (ΔInventory), and other current assets, minus the change in accounts payable (ΔAP). The formula is expressed as:

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

$$\Delta WC_t = \Delta \text{AR} + \Delta \text{Inventory} - \Delta \text{AP} + \text{other Asset(net)}$$

7 Research Findings

7.1 Descriptive Statistics

To analyze the data, descriptive statistics of the variables, such as measures of central tendency, dispersion indicators, and skewness, were calculated. These statistics are presented in Table 1.

Table 1
Descriptive Statistics of Variables

Variable Name	Abbreviation	Mean	Median	Std. Dev.	Skewness	Kurtosis	Min	Max
Earnings Forecast Accuracy	ERROR	0.54	0.51	0.36	-0.01	1.41	0.02	1.00
Market Concentration (Top 4 Firms)	CR4	0.76	0.86	0.23	-0.71	1.92	0.33	1.00
Financial Reporting Quality	FRQ	-0.10	-0.08	0.07	-0.92	2.94	-0.27	-0.01
Firm Size	SIZE	14.72	14.47	1.51	0.62	2.72	12.40	18.11
Return on Assets	ROA	0.14	0.11	0.13	0.64	2.53	-0.05	0.43
Market-to-Book Ratio	MBV	4.46	2.88	4.12	1.77	5.32	0.92	16.57
Financial Leverage	LEV	0.553	0.554	0.19	-0.11	2.12	0.19	0.88
Loss Indicator	LOSS	0.09	0	0.28	2.82	8.96	0	1
Forecast Error	FE	5.62	5.58	0.83	0.27	2.50	4.18	7.36

Source: research findings

Based on the results in Table 1, the accuracy of profit forecasting, which is estimated by the difference between the forecasted and actual profits published by the company, and reflecting the forecasting error, is equal to 0.54 with a median of 0.51. This indicates that the accuracy of profit forecasts is low. The average concentration of the top 4 firms, as indicated by the concentration index, is 0.76. The lower the concentration level, the closer the market is to perfect competition. The average financial reporting quality of the companies is 0.10, with a median of -0.08, and a standard deviation of 0.07.

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

8 Hypothesis Test 1 (a)

8.1 Model Selection

Before estimating the model, it is important to note that the correlation among the explanatory variables in the research models, which are specified simultaneously, is less than 70%. Therefore, there is no issue of multicollinearity among variables. Additionally, other classical regression assumptions, such as the absence of multicollinearity, autocorrelation, and heteroscedasticity, were examined.

There are two general approaches to selecting the model for panel data. In the first case, the intercept is assumed to be the same for all firms using the pooled method. In the second case, the intercept differs for each firm leading to the selection of the fixed-effects panel model.

To distinguish between these two cases, we use the F-Limer test.

Table 2
Model Selection Test

Test Hypothesis	Test Statistic	Degree of Freedom	P-Value	Test Result
First	F-Limer Test	2.59	9.162	0.005
	Hausman Test	22.38	8	0.004
Second	F-Limer Test	2.47	9.16	0.008
	Hausman Test	83.67	10	0.000

Source: research findings

As shown in Table 2, the p-value for both the F-statistic and the chi-squared statistic is less than 0.05. Therefore, the null hypothesis of equal intercepts is rejected, favoring the use of the panel method. Consequently, the Hausman test is conducted to choose between the fixed-effects and random-effects models. The results of the Hausman test indicate that the appropriate method is the fixed-effects panel model.

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

Table 3
Results of Hypothesis 1 Estimation

Variable	Coefficient	t-Statistic	p-value
CR4	0.36	13.55	0.000
SIZE	0.02	-3.03	0.002
ROA	-1.30	-18.16	0.000
MBV	0.09	5.37	0.000
LEV	-0.32	-7.18	0.000
LOSS	0.28	11.37	0.000
FE	0.06	4.72	0.000
C (Constant)	0.54	5.55	0.000
F-Statistic	221.90		0.000
R-squared	0.487		
Adjusted R^2	0.485		

Source: research findings

Based on the results, the p-value for the t-statistic associated with the CR4 market concentration index is less than 0.05 (0.000), indicating that the coefficient for market concentration (CR4) is statistically significant. The coefficient value is 0.36, and the t-statistic is 13.55, which lies in the rejection region for the null hypothesis. Therefore, the null hypothesis (H_0) is rejected, and the research hypothesis is confirmed.

However, it is important to note that an increase in market concentration implies less competition and a move towards monopoly. When examining the accuracy of profit forecasting, the difference between forecasted and actual profit reflects forecasting error. Since both indicators are inversely related, it can be concluded that as market concentration increases (i.e., less competition), forecasting errors increase, and the accuracy of profit forecasting decreases. Conversely, lower concentration (greater competition) leads to fewer forecasting errors and greater accuracy.

Thus, the results indicate a negative and significant relationship between market concentration (measured by CR4) and the accuracy of profit forecasting. This model was estimated using GLS (Generalized Least Squares).

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

8.2 Hypothesis 2 Testing

Table 5
Estimation Results of Hypothesis 2

Variable	Coefficient	t-Statistic	p-value
CR4	0.34	7.82	0.000
FRQ	-0.14	-0.47	0.072
CR4 * FRQ	-0.05	-0.13	0.025
SIZE	-0.02	-2.76	0.070
ROA	-1.31	-18.01	0.000
MBV	0.009	5.37	0.000
LEV	-0.32	-7.01	0.000
LOSS	0.28	10.27	0.000
FE	0.062	4.49	0.008
C (Constant)	0.52	6.61	0.000
F-Statistic	84.31		0.000
R-squared	0.3179		
Adjusted R^2	0.3141		

Source: research findings

Based on the results shown in Table 5, the interaction term CR4 × FRQ (representing the moderating effect of financial reporting quality on the relationship between market concentration and earnings forecast accuracy) has a p-value of 0.025, which is less than 0.05. This indicates that the interaction effect is statistically significant, and the null hypothesis H_0 is rejected—thereby confirming the research hypothesis.

The coefficient of the interaction term is negative (-0.05), suggesting that even in firms with high financial reporting quality, a higher market concentration (i.e., less competition) is still associated with greater forecast errors and lower earnings forecast accuracy.

In other words, while financial reporting quality does moderate the relationship between market concentration and earnings forecast accuracy, it is not strong enough to offset or reverse the negative effect of market concentration. High-quality reporting cannot completely neutralize the adverse impact of reduced competition in concentrated industries. This model was estimated using GLS.

9 Conclusion

The findings of this study regarding the relationship between market concentration and the accuracy and error of earnings forecasts highlight the

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

role of information asymmetry. Financial reporting quality can influence this relationship by providing more transparent and reliable information.

Based on the research results, since the metric used to assess the accuracy of earnings forecasts is the deviation between forecasted and actual reported earnings effectively representing forecast error, it can be concluded that greater market concentration (lower competition) is associated with higher forecast errors and lower forecast accuracy, and vice versa. The observed positive relationship between product market competition and earnings predictability suggests that in competitive environments, improved quality of accounting information, such as earnings quality, and reduced agency costs enhance investor confidence in the credibility of reported financial figures. Ultimately, this leads to increased predictive power of future earnings for users of financial statements.

In other words, heightened competition in the product market alters the quality of earnings reported by management, thereby enhancing the usefulness and predictive ability of those earnings. From a theoretical standpoint, the negative relationship observed in the first hypothesis may stem from higher pricing power in more concentrated markets. Some studies argue that firms operating in more concentrated industries (with less competition) possess greater market power, abnormal profits, higher information certainty, more stable future income, and lower firm-specific risk. These characteristics tend to attract more analyst following and result in less dispersion and lower errors in earnings forecasts.

Conversely, other studies suggest that in industries with high market concentration, analysts' forecasts tend to be of lower quality due to reduced disclosure and lower information transparency. The findings of this study in the context of the Iranian capital market confirm that increased market concentration and reduced competition, resulting from monopolistic market conditions dominated by a few firms and limited competitiveness, lead to lower earnings forecast accuracy. In this regard, Iqbal et al., (2020) demonstrated that intense product market competition results in less dispersion and more accurate earnings forecasts. This positive effect arises from the strong disciplinary role of product market competition, which curtails managerial opportunism and mitigates agency problems.

The findings of the first hypothesis are consistent with the results of Iqbal et al., (2022), Gil (2021), and Moradi and Abolghasemi (2023) but contradict the findings of El Diri et al., (2020) and Golestaneh and Ghaderi Azar (2022).

Regarding the second hypothesis, the results indicate that an increase in financial reporting quality reduces earnings forecast error and enhances

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

forecast accuracy. This positive effect arises because higher levels of disclosure reduce forecast errors and dispersion, providing analysts with more transparent and reliable information and thereby decreasing information asymmetry. Thus, if financial reports disclosed by firms contain more accurate and reliable information, the earnings forecasts made by financial analysts based on those reports will be more accurate and less dispersed.

Although the moderating role of financial reporting quality was found to be statistically significant, it was not strong enough to reverse or neutralize the negative effects of industry market concentration. This result suggests that, in the Iranian capital market, monopolization of markets where a few firms dominate large market shares reduces competition and leads to higher earnings forecast errors. Even high-quality and transparent financial reports cannot offset these adverse effects, likely due to shareholders' limited attention to the quality of accruals and financial reporting.

The results of the second hypothesis are also aligned with the findings of Iqbal et al., (2022), Gil (2021), and Moradi, and Abolghasemi (2023).

In light of the first hypothesis, which shows that higher market concentration (i.e., lower competition) leads to reduced earnings forecast accuracy, it is recommended that shareholders prioritize investing in more competitive firms rather than in those dominating the market. Competitive firms tend to exhibit lower earnings dispersion and higher forecast accuracy. Furthermore, given the positive relationship between financial reporting quality and earnings forecast accuracy, it is advised that shareholders pay close attention to firms' accrual quality, as enhanced reporting and transparency can reduce forecast errors.

Considering the results of the second hypothesis, which shows that in highly concentrated industries with limited competition, financial reporting quality cannot effectively improve forecast accuracy, it is recommended that efforts be made to foster greater competition among firms in the Iranian capital market. Preventing market monopolization is crucial due to its impact on information asymmetry and the reduction of a competitive environment. Additionally, shareholders should place greater value on financial reporting quality, as an overemphasis on firms with larger market shares may ultimately lead to lower forecast accuracy.

Lastly, it is suggested that future research examine the relationship between environmental uncertainty and earnings forecast accuracy.

One of the main limitations of this study is the restricted sample, which includes only companies listed on the Tehran Stock Exchange with fiscal years ending in Esfand (March). Thus, caution should be exercised when

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

generalizing the findings to other firms. Moreover, market concentration was measured solely using the CR4 index (four-firm concentration ratio); therefore, broader conclusions on the topic require further investigation using alternative measures.

References

Brown, L. D., Call, A. C., Clement, M. B., & Sharp, N. Y. (2015). Inside the "black box" of sell-side financial analysts. *Journal of Accounting Research, 53*(1), 1–47.

El Diri, M., Lambrinoudakis, C., & Alhadab, M. (2020). Corporate governance and earnings management in concentrated markets. *Journal of Business Research, 108*, 291-306. https://doi.org/10.1016/j.jbusres.2019.11.013

Fazlzadeh, A., & Abdi, S. (2018). Product market competition, accuracy of management earnings forecasts, and ownership type: Evidence from international firms. *International Business Management*, 1(1), 47–65. [In Persian]

Gil, J. (2021). Product market competition, earnings management, and accounting comparability. *Journal of Finance and Accountancy, 28*. https://www.aabri.com/manuscripts/203301.pdf

Golestaneh, J., & Ghaderi Azar, A. (2022). Investigating the impact of industry concentration on market's ability to forecast future earnings of listed firms in Tehran Stock Exchange. *Journal of New Research Approaches in Management and Accounting*, 6(84). [In Persian]

Grinstein, Y., & Larkin, Y. (2020). Corporate environmental policy and product market competition. *Finance Working Paper No. 702/2020*.

Haw, I.-M., Hu, B., & Lee, J. J. (2015). Product market competition and analyst forecasting activity: International evidence. *Journal of Banking & Finance, 56*, 48–60. https://doi.org/10.1016/j.jbankfin.2015.02.010

Iqbal, A., Ali, F., Umar, M., Ullah, I., & Jebran, K. (2022). Product market competition and financial analysts' forecast quality: The mediating role of financial reporting quality. *Borsa Istanbul Review, 22*(2), 248–256. https://doi.org/10.1016/j.bir.2021.10.003

Iqbal, A., Zhang, X., Tauni, M. Z., & Jebran, K. (2020). Principal–principal agency conflicts, product market competition and corporate payout policy in China. *Journal of Asia Business Studies, 14*(3), 265–279.

Luo, M., Chen, T., & Cai, J. (2019). Stock return predictability when growth and accrual measures are negatively correlated. *China Finance Review International, 9*(3), 401–422.

McNichols, M. F. (2000). Research design issues in earnings management studies. *Journal of Accounting and Public Policy, 19*(4-5), 313–345.

Mehregan, N., & Teymouri, Y. (2020). Industry concentration indices. *Encyclopedia of Economics*, 3(1), 1–3. [In Persian]

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

Moradi, M., & Abolghasemi, A. (2023). Product market competition, real earnings management, and accounting comparability. *Accounting and Management Perspective Quarterly*, 6(82). [In Persian]

Mousavi, S. A., & Ghasemi Panah, M. (2021). Investigating the relationship between financial constraints with product market competition and customer concentration: Case study of listed automotive firms in Tehran Stock Exchange. *Journal of Marketing Management*, 61(35). [In Persian]

Mu, H., Haw, I.-M., & Hu, B. (2016). The impact of industry concentration on the market's ability to anticipate future earnings: International evidence. *International Journal of Accounting and Information Management, 24*(4), 386–407. https://doi.org/10.2139/ssrn.1265972.

Ojaghi, S., Moradi, M., & Gorjizadeh, D. (2021). The relationship of accounting comparability between the profit value relevance and book value. *Technium Sustainability, 1*(1), 71–80.

Preussner, N. A., & Aschauer, E. (2023). The accuracy and informativeness of management earnings forecasts: A review and unifying framework. https://doi.org/10.1111/1911-3838.12294

Rahmanian, A., & Beidgoli, M. (2022). Investigating the relationship between product market competition and internal control quality, and their interaction with the auditor's opinion in listed companies on the Tehran Stock Exchange. *Business Studies*, 20(16), 119–132. [In Persian]

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]

[Downloaded from jme.mbri.ac.ir on 2026-10-10]

[DOI: 10.61882/jme.19.3.275]