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Industry competitiveness using Herfindahl and entropy concentration indices with firm market capitalization data

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Abstract

While previous studies of industry concentration have traditionally utilized sales or market share data, no studies that we are aware of have been done with market capitalization data. If the markets are successful at valuing a firm's current and future prospects, it can be argued that concentration indices and other metrics based on the market value of the firms in an industry should be a good proxy for market power within an industry. This study presents a study of the market concentration using the Herfindahl and entropy concentration indices for 13 industries.

Notes

- ¹ Future research can explore the use of enterprise value instead of market capitalization.
- ² CRSP has had data accuracy problems with delisting codes and values used to compute survivor bias free industry indexes (Shumway, [1997](#)). Recently, CRSP has spent a great deal of time correcting these problems. Even so, CRSP data have to be watched carefully for problems, especially with recent data.
- ³ See Nawrocki ([1999](#)) for a survey of semi-variance and downside risk measures.
- ⁴ See Whitelaw ([1994](#)) for a description of the methodology for computing conditional returns and the monthly SD and semi-deviation statistics.
- ⁵ Generally, the Durbin–Watson statistics indicates no autocorrelation in all of the regressions reported in this study.
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Related Research Data

[The Critical Choice Between the Concentration Ratio and the H-Index in Assessing Industry Performance](#)

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[Trends in Industrial Concentration in Japan, 1983–92](#)

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[Concentration trends and profitability in the US manufacturing sector: 1970—84](#)

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[The Delisting Bias in CRSP Data](#)

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[Estimating the Herfindahl Index from Concentration Ratio Data](#)

Source: Journal of the American Statistical Association

[Entropy Measure of Diversification and Corporate Growth](#)

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[Concentration of sales and assets of the top 25 Fortune 500 firms: 1967–90](#)

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[A Brief History of Downside Risk Measures](#)

Source: The Journal of Investing

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Aggregate Industry Cost Functions and the Herfindahl Index

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Entropy, Markov Processes and Competition in the Brewing Industry

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