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CEO power, product market competition and firm value

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ABSTRACT:

This study empirically investigates the effect of product market competition on the relation between CEO power and firm value. Using an index of power that encompasses structural, ownership and expert dimensions of CEO power and industry adjusted Tobin's Q to measure firm value, I find that CEO power has a positive and significant effect on firm value. However, this effect is driven by product market competition as CEO power has a positive effect on firm value only in high competition markets and no effect on firm value in low competition markets. I also find that CEO power is positively associated with firm value in high competition markets when corporate governance is strong indicating that competition and corporate governance are complements. Overall, the results indicate that product market competition motivates powerful CEOs to use their powers to make value increasing decisions.

Key words: CEO power, firm value, market competition

JEL classification: G32; G34; G38; J31; J33

1. Introduction

CEO power has attracted researchers from many areas of economics, finance, management and social psychology. The position of a CEO is regarded as a source of power (Hamori and

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