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The impact of market competition on the relation between CEO power and firm innovation

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Highlights

- The relationship between CEO power and firm innovation is explored
- Managerial power is treated endogenously using instrumental variable method
- CEO power leads to more patents and citations
- CEO power is beneficial only in the presence of market competition

Abstract: This study empirically investigates the effect of market competition on the relation between CEO power and firm innovation by explicitly recognizing the endogeneity of CEO power. Results from the instrumental variable (IV-GMM) regressions indicate that powerful CEOs produce more patents and citations relative to other CEOs. However, the relation between CEO power and innovation is driven by competition in product markets as CEO power has a positive and significant effect on innovation only in high competition markets and is not related

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