



Control Mechanisms, CEO Power and Firm Value

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ARTICLE INF	ABSTRACT
<p><i>Article history:</i> Received: 2018/11/29 Accepted: 2019/11/24</p>	<p>This study investigates the effect that control mechanisms could have on CEO power and firm value relationship. CEO power is measured using three criteria, namely CEO tenure, CEO duality and board independence. Control mechanics are both internal and external. To proxy for internal and external controls, corporate governance and market competition are used, respectively. The sample consists of 122 firms listed in Tehran Stock Exchange from 2014 to 2018. Findings indicate that market competition and corporate governance have a positive effect on CEO power and firm value relationship.</p>
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1- Introduction

This study investigates the effect of control mechanisms on CEO power and firm value relationship. CEO power is measured using CEO tenure and duality and board independence. Control mechanisms are both internal and external, represented by corporate governance and product market competition respectively. Tobin's Q is used to proxy for firm value.

2- Hypothesis

We are supposed to examine the effect of control mechanisms on CEO power and firm value relationship. Two hypotheses are developed as follow:

H1: *Corporate governance improves CEO power and firm value relationship.*

H2: *Product market competition improves CEO power and firm value relationship.*

3- Methods

By purpose, this is an applied research and empirical in terms of methodology. We use multivariate regression to test the hypothesis. Data is gathered from CODAL database. Our sample is 122 firms listed with Tehran Stock Exchange from 2014 to 2018.

4- Results

Findings are indicative of positive effect of product market competition and corporate governance on CEO power and firm value relationship. The findings are further elaborated by referring to firm structure as opposed to firm management.

5- Discussion and Conclusion

Assuming that each firm needs two components of good structure and good management to benefit well from its potentials, one would conclude that in case of weak structure the contribution of management in overall success of a company would increase. Moreover, where there is a good structure set in place or in a well-structured company, management is not expected to be granted much authority to be able to either improve significantly or impair the structure. We found product market competition to be positively associated with CEO power and firm value relationship. Management power is a value creating mechanism in competitive situations. As for the second hypothesis, we found internal control mechanism, which is corporate governance, to be positively influencing CEO power and firm value relationship. Referring to firm structure as an important component in overall firm success, corporate governance empowers firm structure. Findings of the second hypothesis corroborate the explanation provided earlier. That is, for a firm to be successful, structure matters. That said, we conclude that CEO power contributes to firm value in cases where there is a good structure in place. Overall, to best benefit from CEO power, that is to either mitigate opportunistic behavior or enhance efficiency, we need a control environment to guide the higher authority to value creating activities.

Keywords: CEO Power, Product Market Competition, Corporate Governance, Firm Value.