

CEO Power and Labor-friendly Policy

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Abstract

Employees are increasingly viewed as one of the most significant factors for a firm's competitive success but how powerful CEOs influence the quality of the workplace has been largely overlooked by previous literature. Our study finds that powerful CEOs invest less in labor-friendly policies. However, they invest more in the labor welfare policies when the bargaining power of labor is high in industries such as mobile industries, competitive markets, and innovation-intensive firms. In each of these markets, we find powerful CEOs' labor friendliness positively affects firm value. Our study suggests that industry heterogeneity is an important factor in understanding the relation between CEO power and labor-friendly policy.

JEL Classifications: G30, J30, J53

1. Introduction

In today's competitive market success depends more on novelty, rapidity, and adaptability, which are mostly derived from a firm's human capital (Pfeffer, 1994, 1998). Employees are considered as a strategic asset that are closely involved with the firm's operations to execute the firm's strategies to create a value (Faleye and Trahan, 2011). Adopting labor-friendly culture is therefore the foundation of a firm's profit chain, from which employee productivity and retention follow (Faleye and Trahan, 2011). However, investment in employee friendly workplace requires devotion of significant resources which results in inferior financial performance unless productivity and other gains outweigh the costs. Therefore, corporate endeavours prioritizing employee concerns may hit a ceiling due to the profit maximization goal of shareholders. Boards of directors thus face ambiguity in understanding distinct stakeholders' concerns (Boulota, 2012). Among top managers, CEO plays a critical role in making decisions that affect long-term value (Crossland et al., 2014). Arguing that a CEO with substantial power possesses significant discretion to influence the quality of

workplace and firm value, this study examines whether granting a CEO more power is associated with the firms' investment in labor-friendly policies.

There has been growing attention directed at the impact of CEO power on the firms' operation. The principal-agent literature documents the benefits and costs of granting power to a CEO. Powerful CEOs possess significant knowledge of the firm's resources and business and have greater familiarity with the firm's abilities (Finkelstein and D'Aveni, 1994; Boyd, 1995; Adams et al, 2005; Lewelyn, 2012; Han et al., 2016; Li et al., 2018). Hence, it is conceivable that granting a CEO more power increases firms' propensity to better understand employee demand and design employee-welfare practices to enhance employees' loyalty, commitment and productivity. There is also an agency view where CEOs use their power to fulfil their personal interests and pursue labor-friendly program to enlarge their own power (Cennamo et al., 2009). When a CEO undertakes labor-friendly program, employees get positive perceptions of the CEO's capabilities, put a blind eye to managerial excesses and attribute merits to the CEO. Consequently, they grant the CEO greater control over organizational resources and decision processes.

However, powerful CEOs are risk takers and quickly make decisions for getting ahead of the changes and threats from rivals. Investment in employee friendly workplace takes a long run perspective, requires devotion of significant resources and creates a sense of entitlement among workers which reduce the firm's operating flexibility and the ability to adapt quickly to the changing market condition (Faleye and Trahan, 2011). They might also view this as depriving them of the free cash flows, they could otherwise invest. In this study,

we test the above hypotheses by investigating the impact of CEO power on labor-friendly policy.

In examining the CEO power and employee welfare policy nexus, we consider industry heterogeneity because industry is an important part of the milieu within which organizational policies and practices are framed and executed (Datta et al., 2005). Organizational resources can be a source of sustainable competitive advantage when they create value and allow a firm to excel in its competitive industries (Batt, 2002; Datta et al., 2005). Industry characteristics affect the relative importance and value of employee welfare schemes. In some industries demand for skilled labor is very high and firms rely on them to obtain the firm-specific payoffs and economic efficiency. Investment in employee-friendly policy is therefore more beneficial in those industries (Datta et al., 2005). The benefits and costs of having a powerful CEO also vary with the industry condition (Han et al., 2016; Li et al., 2018). When a firm operates in a stable market with highly predictable cash flows, the benefits of CEO power through managerial autonomy is lower and dominated by the potential agency costs of exercising low-quality projects. CEO power is beneficial for a firm operating in the markets where there are positive investment opportunities and the firm faces high potential entry threats. In such kind of contexts firms get the benefits from powerful CEOs' broad base of knowledge and the timeliness of the response to the industry problems (Han et al., 2016; Li et al., 2018).

We consider three settings to examine whether the impact of CEO power on employee-friendly workplace is influenced by industry heterogeneity. The first setting is labor mobility which is the flexibility of workers to walk away from an industry for better opportunities (Donangelo, 2014)¹. High mobile industries lack full control over labor, as employees look for better option across industries (Donangelo, 2014)². Employees gain bargaining power through their ability to withhold critical labor inputs (Rajan and Zingales, 1998) which increase the relative benefit derived from investing more on employee-friendly policy.

The second setting we consider is that of competitive industries. In competitive market, firms need to shift production and organizational process more frequently to meet changing market condition (Datta et al., 2005; Li et al. 2018). This requires broader skill sets and the ability and willingness to succeed in challenging circumstances. Thus, high industry competition magnifies the value of human capital and investment on employee-friendly policies. The third setting we consider is that of innovation intensity. Firms that invest more on innovation is strongly associated with the introduction of the new and improved processes and products and depend largely on highly skilled employees because of their unique technical skill that is very difficult to replace (Hitt et al., 1996; McWilliams and Siegel, 2000). Innovation intensive firms are thus associated with a greater need to adopt more employee-friendly policies.

¹ As an example: doctors, nurses and health technicians have significant levels of industry-specific skill, so health care industry is less mobile whereas workers in the wholesale trade (salesperson, computer analysts, operation managers etc) is relatively more mobile as their skills are less industry-specific.

² Workers in occupations concentrated in a few industries are associated with low LM, while workers in occupations dispersed across the economy are associated with high mobility

We hypothesize that CEO power is beneficial to employees operating in these industries. First, powerful CEOs' firm-specific knowledge allows them to evaluate the level of productivity and the industry demand for labor. Second, they can quickly undertake more employee welfare program to obtain competitive advantage in the dynamic market (Li et al., 2018). Third, the cost of CEO power is likely to be reduced as competitive market, innovation intensity and mobile industries put them under pressure to optimize their decisions, increase efficiency and make value increasing decisions (Guadalupe and Wulf, 2010; Giroud and Mueller, 2010, Donangelo, 2014; Han et al., 2016).

To measure CEO power, we follow Finkelstein (1992) and construct a CEO power index based on six variables: founder, duality, triality, tenure, CEO ownership and dependent directors. Endogeneity might be an issue here since more variability in labor-friendly decision may lead to increase in CEO power (Hermalin and Weisbach, 1998). We approach this issue by Two Stage Least Square (2SLS) method using dead founder and state median power as the instruments following previous literature (Adams et al., 2005; Li and Jiraporan, 2010; Knyazeva et al., 2013; Han et al., 2016).

We test our predictions on a sample of 18,512 firm-year observations representing 2253 unique US firms over the period of 1996-2014. Our results show that there is a significant negative relation between CEO power and labor-friendly policy. This relation is robust to endogeneity and alternative measure of CEO power. However, powerful CEOs invest more in employee welfare policy in

mobile industries, competitive market and innovation intensive firms. We also find evidence that their investment in labor friendly policy in these markets improves firm value.

Examining how powerful CEOs impact labor friendly policy, we show that although CEO power has negative effect on labor-friendly policy, the effect is mitigated in mobile industries, competitive market and innovation intensive firms. In each of these markets they undertake more employee welfare policy and their employee friendliness positively affects firm value. Powerful CEOs are thus able to better react to the challenges from different situations. Our evidence reveals that firms can benefit from granting more power to a CEO, when the intensity of labor mobility, competition and innovation of the market is high.

Our paper contributes to a growing body of literature providing empirical evidence on the determinants of labor-friendly policy. Previous literature so far has examined the institutional pressures, market pressures, firm size, resource availability, female workforce, labor union, past performance etc as the determinants of labor-friendly policy (Hogarth et al, 2000; Bond et al., 2002; Dex and Smith, 2002). We examine how powerful CEOs, who possess significant power to influence the quality of workplace, influence labor-friendly policies. Prior studies examine the impact of CEO power on CSR, firm performance, risk taking, M&A deals, excess compensation etc (Adams et al., 2005; Bebchuk et al., 2011, Lewellyn, 2012; Jirapon and Chintrakarn, 2013; Li and Minor, 2016, Li et al., 2018). Our study explores how granting more power to CEO influences labor-

friendly policy. To the best of our knowledge, this study is the first to examine the relation between CEO power and labor-friendly policy. Our study also has important findings. Similar to Li et al. (2018) we show evidence when CEO power may have a “bright side”. We show that industry heterogeneity is an important factor in understanding the relation between CEO power and labor-friendly policy.

The remainder of the paper is organized as follows. Section 2 presents the data and research methodology, and section 3 describes the empirical results. Section 4 summarizes and concludes.

2. Data and Methodology

2.1 Data

We collect the financial data from COMPUSTAT Fundamental Annual database from 1996 to 2014 and governance data from ExecuComp and ISS database (formerly known as Risk Metrics). The data from ExecuComp is matched with COMPUSTAT and ISS database which results in a total of 43,210 firm-year observations. The resulting sample is then matched with the MSCI ESG STATS dataset which provides ratings given to firms in relation to their employee treatment. This sample is matched with institutional investors data, obtained from CDA/Spectrum, which provides quarterly reports on firms’ ownership structures. The last quarter of each year has been used for each institutional investor. We exclude financial firms (two digits SIC code between 60 and 69). Our final sample comprises 18,512 firm-year observations, representing 2253 unique US firms over the period 1996-2014.

2.2 Methodology

We formally test our hypothesis i.e. how firms with powerful CEOs affect labor-friendly policy using following regression:

$$Emp_Policy_{it} = \alpha_{i,t} + \alpha_2 CEO\ Power_{it-1} + \sum_{j=1}^N \alpha_j Control_{j,t-1} + Ind + Year + \varepsilon_{i,t}$$

where $\alpha_{i,t}$ and ε_{it} represent the intercept and residual term respectively. Standard errors are adjusted for potential heteroskedasticity and serial correlation and clustered by firm. To mitigate the influence of extreme values, all financial variables are winsorized at the 1% and 99% levels. Independent variables are lagged by 1 year. The dependent variable is labor-friendly policy, whilst the test variable is CEO power. Endogeneity might be a concern. We address this problem by means of Two Stage Least Square (2SLS) approach.

2.3 Variable Measurement

2.3.1 Dependent Variables

To measure how a firm treats its employees we use MSCI ESG STATS dataset which provides ratings given to firms in relation to their employee treatment. Bae et al. (2011) report that this is the most comprehensive dataset available of employee treatment standards and has been used in many studies as the proxy for employee treatment (Turban and Greening, 1997; Cronqvist et al., 2007; Landier et al., 2009). The database includes ratings on labor-related screens. The rating has two sub dimensions of employee relations: “strength” and “concern”. The “strength” dimension correlates more with “good” practices, while “concern” is related with “causing harm” practices (Boulouta 2013). Each

company scores 1 if it meets the strength/concern requirements and 0 otherwise. We construct an index of Emp_Policy by summing over the indicator variables in each category of the strength: union relations, cash profit sharing, employee involvement, retirement benefits, health and safety strengths, no-layoff policy, employee involvement, retirement benefit, labor management, supply chain labor standards, compensation, professional development and human capital management. A higher value of the index indicates better employee treatment.

2.3.2 Independent Variables

Finkelstein (1992) define CEO power by identifying four dimensions of CEO power: structural, ownership, expert and prestige power. We construct our CEO power measure emphasizing on their formal positions, expertise and ownership and calculate CEO power index aggregating all the components of CEO power. We estimate CEO structural power by founder³, duality (CEO also acts as a chairman), triality (CEO additionally holds other senior posts) and inside directors (Dependent directors above industry median). ‘CEO Ownership above industry mean’ and ‘Tenure above industry mean’ are used to measure CEO ownership and expert power. We calculate *CEO Power* index aggregating the six components of the CEO power; thus, the index value ranges from 0 to 6.

Following previous literature, we control for several variables that can affect labor-friendly policy. Firms make several decisions throughout their business cycle. We include firm age to control for this (current year-established

³ We thank Murali Jagannathan for providing these data.

year). Small firms have incentives to increase their growth by investing in labor-friendly policies but may lack enough fund whilst larger firms are more publicly visible, so they are under intense public-pressure to adopt a labor-friendly culture (Cowen et al., 1987). To control for firm size, we include logarithm of total assets (*Firm Size*). Firms with lower market-to-book ratios tend to invest more in employees to be more highly valued. Therefore, we include M-B ratio, measured as the market value of equity over the book value of equity. Availability of fund allows a business to invest cash into growth opportunities, so we include FCF, measured as cash flow from operation divided by total sale. Greater use of leverage increases expenses and the risk of bankruptcy; and provides less incentive to invest in employee welfare program. We include the leverage ratio, measured as total debt divided by total assets (*Leverage*). To represent future investment opportunities (Titman, 1984), we include, *R&D Intensity* (the ratio of R&D expenses to total assets). Lastly, previous literature has found that corporate governance attributes such as board size and ownership structure affect the firm's social program (Johnson and Greening, 1999; Ibrahim et al., 2003; Oh et al., 2011). We therefore include the board size, shareholdings owned by block holders and institutional investors.

2.4 Industry Hetrogeneity

2.4.1 Labor Mobility (LM)

To construct the measure of LM we follow Donangelo (2014) using workers data from Bureau of Labor Statistics (BLS) from 1997 to 2014. LM measure is constructed in two stages, at the occupation level and the industry level. At first,

concentration ratio is calculated, to measure workers intrinsic flexibility to switch industries, at the occupation-level:

$$CONC_{j,t} = \left(\frac{emp_{i,j,t}}{\sum emp_{i,j,t}} \right)$$

where $emp_{i,j,t}$ is the number of workers assigned to occupation j who are employed in industry i at time t .

Then the occupation-level CONC is aggregated into industry, weighting by the wage expense related to each occupation:

$$LM_{i,t} = \left(\sum_j CONC_{j,t} * \frac{emp_{i,j,t} * wage_{i,j,t}}{\sum_j emp_{i,j,t} * wage_{i,j,t}} \right)^2$$

where $wage_{i,j,t}$ is a measure of the average annual wage paid to workers in industry i that are assigned to occupation j in year t .

2.4.2 Market Competition

We use two primary measures to capture a firm's product market conditions. First, we use the Herfindahl Index (*H-Index*) defined as the sum of the squared market shares for all firms in an industry group (Giroud and Mueller, 2011; Grullon and Michaely, 2014; Han et al., 2016). We create an indicator *High_competition* variable that equals one when *H-Index* is below the sample median for a given year. Second, we use a text-based measure of product market fluidity following Hoberg et al. (2014). It measures the change in a firm's product space due to moves made by competitors. This measure is constructed using words in a firm's product description section in its 10-K and how they are similar to the change in rival firms' product words from rival firms' 10-Ks. Greater similarity implies that a firm faces greater threats from its rivals. We

create an indicator *High_competition* variable that equals one if firm level fluidity is greater than sample median fluidity.

2.4.3 Innovation Intensity

Our first measure of innovation intensity is the ratio of R&D expenditures to total assets (following Faleye and Trahan, 2011). We create an indicator *R&D_dummy* that equals one when *R&D* is above the sample median for a given year. Our second measure of innovation is IP-intensive industries following Chen et al. (2018), which is defined as industries that produce or use significant amounts of intellectual property and rely most intensely on patents, copyrights and trademarks to protect them. In a report by the ESA and USPTO, 75 four-digit NAICS industries are identified as IP-intensive industries. We create a dummy variable *IP_Intensive_dummy* which equals one if it is one of the 75 IP-intensive industries identified by the ESA and USPTO.

2.5 Sample Profile

Table 1 summarizes the descriptive statistics of the sample. Panel A of table 1 reports the summary statistics of the components of the CEO Power index. In 64% of the firms, the position of CEO and chair of the board is combined and in 34% of firm-year observation, the CEO-Chair holds other titles. The CEO is the founder or a descendant of the founder 23.4% of the time, has an average tenure of twelve years, and owns a little more than 1.1% of the firm. The *CEO power* index shows a mean value of 1.61 and the index ranges from 0 to 6. These measures are like prior studies (Li et al, 2018; Han et al., 2016).

Panel B of table 1 reports descriptive statistics of the full sample. In terms of dependent variable, the mean *Emp_Policy* Index is 0.36 with a minimum and maximum value of 0 and 9. *Leverage ratio* average 20.1%. The average corporate board is made up of 10 members. *M_B ratio* and *Firm Age* have mean values of 1.824 and 13, respectively. These values are consistent with prior research (Li, 2008; Gomeriz and Baleesta, 2014).

Panel C shows that firms with high CEO Power are bigger and older and high market to book ratio and associated with more debt and are less employee friendly. Panel D of table 1 shows the correlations among the individual components that comprise our *CEO Power Index*. Although almost all the components are significantly correlated with one another, most correlations are not high. Overall, it appears our individual components are detecting different aspects of CEO power. The highest correlation between the other variables is not high, therefore, it does not raise concerns for multicollinearity in our study.

Table 1. Descriptive Statistics

The table provides summary statistics for data employed in the analysis. The appendix provides a detailed description of the construction of the variables. The sample consists of an unbalanced panel of 18512 observations from 2253 firms for the period 1996-2014. Data on governance are obtained from Execucomp and ISS, financial information data from Compustat and ownership structures data from CDA/Spectrum. 'Founder' is an indicator variable that equals one if any source explicitly mentions that the current CEO is one of the original founders of the firm at the time the company was founded. 'Duality' is an indicator variable that equals one if CEO is also the chairman of the board; *Triality*, is a dummy variable which is one if CEOs hold more than two titles and zero otherwise; *CEO Ownership* is the proportion of ownership held by CEOs; *CEO Ownership above industry median* is an indicator that equals one if the ownership of CEOs is greater than industry median; *Tenure* is the number of years the CEO has served as CEO; *Tenure above industry median* is a dummy variable that equals one if the tenure of CEO is above the industry median; *Board Dependency Ratio* is the ratio of inside directors divided by board size; *Board Dependency above industry median* is an indicator that equals one if the ratio of the board dependency is greater than industry median dependent directors. *CEO Power* is an index which is an aggregate measure of the five components of CEO power and thus the index value ranges from 0 to 5. *Board Size* is the total number of directors on the board; *Firm Size* is the log of total assets; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *M_B* is ratio of the market value of total assets to book value of total assets; *Leverage* is the ratio of long-term debt to the totals assets; *FCF* is the ratio of CFO to sales; R&D is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by blockholders; *Emp_Policy* is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. The continuous variables are winsorized at 1% level, Asterisks indicate significance at the 0.01 (***), 0.05 (**) and 0.1 (*) level.

Panel A: Summary Statistics of CEO power components				
Variable	Mean	Std. Dev.	Min	Max
Founder	0.234	0.423	0	1
Duality	0.639	0.480	0	1
Triality	0.336	0.472	0	1
CEO_Ownership	0.011	0.042	0	1
CEO Ownership above industry median	0.242	0.428	0	1
CEO Tenure	11.552	8.108	-16	61
CEO Tenure above industry median	0.458	0.498	0	1
Board Dependency Ratio	0.274	0.163	0	1
Board Dependency above industry median	0.460	0.498	0	1
CEO Power	1.610	1.322	0	6
Panel B: Summary Statistics of full sample				
Variable	Mean	Std. Dev.	Min	Max
Board Size	9.556	3.277	2	55.000
CEO Age	49.302	19.242	0	96.000
Firm Size	7.372	2.118	1	12.382
Firm Age	17.252	7.403	1	26.000
M_B	1.824	1.213	1	7.950
Tobins Q	4.549	4.112	-8.378	14.394
Leverage	0.201	0.194	0	0.901
FCF	-0.019	0.481	-3.877	0.465

R&D	0.030	0.066	0	0.416
Inst_Ownership	0.597	0.308	0	1.126
Block_Ownership	0.175	0.143	0	0.588
Emp_Policy	0.362	0.816	0	9.000
Dummy Death	0.292	0.455	0	1.000

Panel C: T-test of differences in means

Firm Characteristics	Low Power	High Power	Mean Difference	P-value
Firm Size	7.145	7.557	-0.408***	0
Firm Age	16.023	18.555	-2.532***	0
M_B ratio	1.725	1.907	0.1823***	0
Board Size	9.534	9.565	-0.031	0.451
Leverage	0.193	0.205	-0.008***	0
R&D intensity	0.033	0.027	0.007***	0
Emp_Policy	0.042	0.017	0.032***	0

Panel D: Correlation matrix of CEO Power components

	Founder	Duality	Triality	CEO_Ownership	CEO Tenure	Dependency ratio
Founder	1					
Duality	0.006	1				
Triality	-0.141	0.259	1			
CEO_Ownership	0.208	0.009	-0.057	1		
CEO Tenure	0.432	0.016	-0.070	0.160	1	
Dependency	0.273	-0.188	-0.240	-0.001	0.189	1

Panel E: Correlation between the variables of the full sample

	Board Size	CEO Age	Firm Size	Firm Age	ROA	M_B	Debt_TA	R&D_TA	Inst_Ownership	Block_Ownership	CEO Power	Emp_Policy
Board Size	1											
CEO Age	0.029	1										
Firm Size	0.378	0.092	1									
Firm Age	0.187	0.101	0.281	1								
ROA	0.022	0.054	0.318	0.101	1							
M_B	-0.070	0.001	-0.195	0.151	0.008	1						
Debt_TA	0.050	0.002	0.176	0.001	-0.038	-0.153	1					
R&D_TA	-0.148	-0.059	-0.323	-0.064	-0.360	0.279	-0.145	1				
Inst_Ownership	-0.105	0.065	0.056	0.035	0.087	-0.025	0.031	-0.025	1			
Block_Ownership	-0.187	0.037	-0.142	-0.083	-0.018	-0.085	0.065	0.009	0.709	1		
CEO Power	-0.042	0.138	-0.075	0.039	0.016	0.025	-0.054	-0.011	-0.043	-0.042	1	
Emp_Policy	0.059	0.010	0.096	0.052	0.038	0.052	-0.024	0.068	-0.037	-0.058	-0.051	1

3. Empirical Results

3.1 CEO Power and Labor-friendly Policy: Ordinary Least Square (OLS)

In table 2 we present the results of Ordinary Least Square (OLS) regression relating our labor-friendly measures to CEO power index. As the table shows, Emp_Policy index is negatively related to CEO power and the co-efficient is significant at the 1% level. In terms of control variables, we find that bigger, older and innovation intensive firms are more labor-friendly. This suggests that powerful CEOs invest less in employee friendly program.

Table 2. CEO Power and Labor-friendly Policy (OLS)

This table represents OLS regression results for the relationship between CEO Power and labor-friendly policy. The dependent variable is *Emp_Policy* which is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *Firm Size* is the log of total assets; *M_B* is ratio of the market value of total assets to book value of total assets; *FCF* is the ratio of CFO to sales; *Leverage* is the ratio of long-term debt to the totals assets; *R&D* is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by blockholders; *Emp_Policy* is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***) , 0.05 (**) and 0.1 (*) level.

Variables	Emp_Policy
CEO Power	-0.0304*** (-4.820)
Board Size	0.0106*** (3.683)
CEO Age	-5.99e-05 (-0.116)
Firm Age	0.0117*** (7.569)
Firm Size	0.0632*** (8.735)
M_B	0.0166** (2.172)
FCF	0.0407** (2.073)
Debt_TA	-0.00897 (-0.175)
R&D_TA	1.272*** (6.390)
Inst_Ownership	0.0360 (0.865)
Block_Ownership	-0.412*** (-5.199)
Constant	0.578 (1.457)
R2	0.21
Observations	18,512
Year Effect	Yes
Industry Effect	Yes

3.2 CEO Power and Labor-friendly Policy: Endogeneity Issue

There is a correlation between CEO power and employee policy. Reverse causality is a major concern since employees appreciate labor-friendly program and boards may give successful CEOs more power (Adams, 2005; Kim and Liu, 2011; Faleye and Trahan, 2011; Li et al., 2016). It is hard to distinguish the impact of powerful CEOs from firm characteristics that have empowered them (Hermalin and Weisbach, 1998). There may also exist omitted time-varying variables that affect both labor-friendly program and CEO power. We approach this issue by Two Stage Least Square (2SLS) method.

Following previous literature, I use two instruments: dead founder and state median CEO power (Adams et al. 2005; Kedia and Rajgopal, 2009; Knyazeva et al., 2013; Dougal et al., 2015). Our first instrument is dead founder which takes the value of one if the founder died before the firm enters our sample. Since dead founders cannot be CEOs it is an exogenous event that affects the probability of a current CEO being the founder or chair or president and is less likely to influence labor-friendly policy. As our second instrument, I consider state median CEO power as the geographical peer effects have been shown to influence corporate governance and actions. State median CEO power is a measure of state expectation or pressure for exerting more power to CEOs. We report the 2SLS regression results in table 3. From the first-stage regressions (reported in the first column), state power and dead founder are significantly correlated (1% significant) with CEO power. The F-statistics 26.31 of the significance of the instrumental variable is much greater than 10, suggesting the soundness of the instruments. Sargan (1958) over-identifying restriction tests

shows the p values of the over-identifying restrictions test is 0.13, therefore, the tests fail to reject the joint exogeneity of the instrument. Hence, our instrument is valid.

Column 2 of table 3 reports the second stage regression model where dependent variable is *Emp_Policy* and independent variable is the predicted *CEO power*. The results show that predicted *CEO power* has a significant ($p < 0.10$) negative impact on employee policy. This result suggests that our main finding is robust after addressing the reverse causality relation between CEO power and labor-friendly policy.

Table 3. CEO Power and Labor-friendly Policy (2SLS)

This table represents 2SLS regression results for the relationship between CEO Power and Emp_Policy. Column 1 reports first stage regression and second stage is reported in column 2. Dependent variables in column 1 and 2 and 3 are CEO Power, Emp_Policy and Tobins Q respectively. *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio; *Emp_Policy* is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees; Tobins Q is the ratio of the MKT assets to Book assets; *State Power* is the state median CEO power; *Death_dummy* is a dummy variable that takes the value of one if the founder died before the firm enters our sample; *Firm Size* is the log of total assets; *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *M_B* is the ratio of the market value of total assets to book value of total assets; *Leverage* is the ratio of long-term debt to the totals assets; *FCF* is the ratio of CFO to sales; *R&D* is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by blockholders. Asterisks indicate significance at the 0.01 (**), 0.05 (*) and 0.1 (*) level.

	1 st Stage	2 nd Stage
VARIABLES	CEO Power (1)	Emp_Policy (2)
State_power	0.0637***	
Death_dummy	-2.908 -0.358*** (-7.478)	
Power_hat		-0.104* (-1.857)
Board Size	-0.00929** (-2.419)	0.00929*** -3.338
CEO Age	0.00713*** -9.721	-0.000111 (-0.190)
Firm Age	0.00768*** -2.643	0.0135*** -6.902
Firm Size	-0.0232** (-1.988)	0.0660*** -10.31
M_B	0.0312** -2.394	0.00967 -1.273
FCF	0.0791** -2.442	0.0505** -2.188
Leverage	-0.182** (-2.042)	0.016 -0.3
R&D	-0.488 (-1.478)	1.267*** -6.671
Inst_Ownership	0.097 -1.472	0.00892 -0.231
Block_Ownership	-0.18 (-1.323)	-0.394*** (-5.263)
Constant	1.036*** -3.417	0.660** -2.147
R2	0.08	0.22
Observations	22,342	15,056
Partial F-statistics	26.31	
Sargan Test (p-value)	0.13	
Year Effect	Yes	Yes
Industry Effect	Yes	Yes

3.3 Robustness Check-Alternative CEO Measures

We create an indicator variable that equals one if CEO power index is above the industry median CEO power index and reported the results in the column 1 of the table 4.

We also consider alternative CEO power measure as each component of the CEO power may be correlated or may differently affect the CEOs' influence in the firm (Li et al., 2016). Following Bebchuk et al. (2011), we construct CEO pay slice which reflects the CEO's relative standing and the ability to extract rents. CEO Pay Slice is measured as the CEO's total compensation as a fraction of the total compensation for the firm's top five executives (following Bebchuk et al., 2011). We create an indicator variable that equals one if CEO Pay Slice is above the industry median pay slice.

Table 4 presents the regression results. The coefficient on *CEO power* is negative and significant at 1% and 10% level respectively. Therefore, our result is robust to alternative measure of CEO power.

Table 4. CEO Power- Labor-friendly Policy (Robustness Check)

This table represents regression results for the relationship between CEO Power and Emp_Policy. Dependent variable in column 1 and 2 is Emp_Policy. *Emp_Policy* is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. In column 1, *CEO Power* above the industry CEO Power index is used to measure CEO power. *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. In Column 2, *CEO Power is measured by* CEO Pay_Slice which is an indicator variable that equals one if CEO Pay Slice is above the industry median. CEO Pay Slice is measured as the CEO's total compensation as a fraction of the total compensation for the firm's top five executives. *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Size* is the log of total assets; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *ROA* is the net income divided by total assets; *M_B* is the ratio of the market value of total assets to book value of total assets; *Leverage* is the ratio of long-term debt to the totals assets; *FCF* is the ratio of CFO to sales; *R&D* is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by block holders. The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***), 0.05 (**) and 0.1 (*) level.

Variables	CEO_Power	
	over industry mean Emp_policy	CEO Pay_Slice Emp_policy
CEO Power	-0.0553*** (-3.458)	-0.0800* (-1.724)
Board Size	0.00936*** (3.287)	0.00946*** (4.076)
CEO Age	-0.000283 (-0.564)	-0.000443 (-0.881)
Firm Age	0.0202*** (2.644)	0.0201*** (3.252)
Firm Size	0.0111*** (7.239)	0.0109*** (8.513)
M_B	0.0784*** (9.571)	0.0800*** (16.66)
FCF	0.0181 (0.968)	0.0164 (0.980)
Leverage	-0.0589 (-1.112)	-0.0518 (-1.210)
R&D	1.308*** (6.444)	1.314*** (9.002)
Inst_Ownership	0.000417 (0.0101)	0.00471 (0.149)
Block_Ownership	-0.340*** (-4.322)	-0.344*** (-5.339)
Constant	0.0425 (0.113)	0.0416 (0.176)
R2	0.22	0.22
Observations	18,814	18,778
Year Effect	Yes	Yes
Industry Effect	Yes	Yes

3.4 CEO Power and Labor-friendly Policy: Bargaining Power of Labor

In this section we examine the relation between CEO power and labor-friendly policy when bargaining power of labor is high: high mobile industries, competitive industries and innovation intensive firms.

3.4.1 CEO Power and Labor-friendly Policy: Labor Mobility

We test the effect of LM on the relation between powerful CEOs and labor-friendly policies by estimating regressions that include an additional term interacting the CEO power and high mobility dummy variable. The results are reported in table 5. As the table shows, *CEO power* and *high mobility* interaction term is significantly ($p < 0.10$) positive. This suggests that powerful CEOs undertake more labor-friendly policies in high mobile industries.

In table 6 we report how powerful CEOs' employee friendliness in mobile industries affects firm value. We find a significant positive coefficient on the *CEO power* and *Emp_policy* interaction term (10%). This suggests, in high mobile industry powerful CEOs create value by undertaking labor-friendly policies.

Table 5. CEO Power- Labor-friendly Policy: Labor Mobility

This table represents 2SLS regression results for the relationship between CEO Power and firm value. The dependent variable *Emp_Policy* is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. High mobility dummy variable is an indicator variable that equals one when LM is over the sample median for a given year. LM is constructed following Donangelo (2014). *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *Firm Size* is the log of total assets; *M_B* is the ratio of the market value of total assets to book value of total assets; *FCF* is the ratio of CFO to sales; *Leverage* is the ratio of long-term debt to the totals assets; *R&D* is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by block holders; *Emp_Policy* is the difference between total Strength and total concern. The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***) , 0.05 (**) and 0.1 (*) level.

VARIABLES	Emp_Policy
CEO Power	-0.156** (-2.518)
High_Mobility	-0.251** (-2.318)
CEO Power times High_Mobility	0.0933* (1.948)
Board Size	0.00946*** (3.398)
CEO Age	-0.000108 (-0.185)
Firm Age	0.0136*** (6.922)
Firm Size	0.0657*** (10.26)
M_B	0.00893 (1.175)
FCF	0.0512** (2.219)
Debt_TA	0.0179 (0.335)
R&D_TA	1.275*** (6.710)
Inst_Ownership	0.00803 (0.208)
Block_Ownership	-0.394*** (-5.253)
Constant	0.845*** (2.661)
R2	0.19
Observations	15,056
Year Effect	Yes
Industry Effect	Yes

Table 6. CEO Power, Labor-friendly Policy, Firm Value: Labor Mobility

This table represents 2SLS regression results for the relationship between CEO Power and firm value. The dependent variable is *Emp_Policy* which is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. Tobins Q is the ratio of the MKT assets to Book assets; *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. High mobility dummy variable is an indicator variable that equals one when LM is over the sample median for a given year. LM is constructed following Donangelo (2014). *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *Firm Size* is the log of total assets; *M_B* is the ratio of the market value of total assets to book value of total assets; *FCF* is the ratio of CFO to sales; *Leverage* is the ratio of long-term debt to the totals assets; R&D is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by block holders. The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***), 0.05 (**) and 0.1 (*) level.

VARIABLES	High_Mobility	Low_Mobility
	Tobin's Q	Tobin's Q
CEO Power	-0.0812** (-2.266)	-0.00831 (-0.210)
Emp_policy	-0.111 (-1.514)	-0.124 (-1.423)
CEO Power times Emp_policy	0.0801** (2.552)	0.0500 (1.435)
Board Size	0.00645 (0.426)	-0.0266 (-1.568)
CEO Age	-0.00133 (-0.420)	-0.00169 (-0.564)
Firm Age	0.0228* (1.718)	0.0115 (0.782)
Firm Size	0.220*** (4.968)	0.404*** (9.177)
FCF	0.262** (2.189)	-0.213* (-1.671)
Debt_TA	0.889*** (2.986)	0.132 (0.378)
R&D_TA	2.996*** (2.672)	1.769 (1.131)
Inst_Ownership	0.198 (0.849)	-0.338 (-1.446)
Block_Ownership	0.0522 (0.121)	1.040** (2.269)
Constant	3.235 (0.902)	-0.844 (-0.242)
R2	0.24	0.35
Observations	7,991	6,246
Year Effect	Yes	Yes
Industry Effect	Yes	Yes

3.4.2 CEO Power and Labor-friendly Policy: Product Market Competition

In this section we investigate whether CEO power is more beneficial for labor in competitive market and the results are depicted in table 7. We run 2SLS regressions after including two new variables: *High_competition* and the product of the *CEO power* and *High_competition*. In column 1, we report CEO power-labor-friendly regression that include competitive industry measured by H-index. In column 2 competitive industry is measured by market fluidity. The interaction variable in both columns enters with a positive sign and significant at 10% and 5% level respectively. This suggests that firms confronting high competition, powerful CEOs devote significant resource to improve employees' lives/working condition.

In table 8, we report how powerful CEOs employee friendliness in competitive market affects firm value. Results show that in competitive market powerful CEOs' investment in labor is associated with significantly (5% and 10% respectively) high Tobins Q. Therefore, in competitive industries, powerful CEOs add value to firm by undertaking labor-friendly policies.

Table 7. CEO Power- Labor-friendly Policy: Mkt Competition

The dependent variable in column 1 and 2 is *Emp_Policy* which is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. High competition variable in column 1 is measured by H-index which is an indicator variable that equals one when H-Index is below the sample median for a given year. In column 2, High competition indicator variable in column 2 equals one when firm level fluidity is greater than sample median fluidity. *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *Firm Size* is the log of total assets; *M_B* is the ratio of the market value of total assets to book value of total assets; *FCF* is the ratio of CFO to sales; *Leverage* is the ratio of long-term debt to the totals assets; R&D is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by block holders. The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***), 0.05 (**) and 0.1 (*) level.

VARIABLES	H-Index	Fluidity
	Emp_Policy	Emp_Policy
CEO Power	-0.147** (-2.432)	-0.0960** (-2.247)
High_competition	-0.241** (-2.110)	-0.146 (-1.527)
CEO Power times High_Competition	0.0900* (1.840)	0.0879** (2.055)
Board Size	0.00932*** (3.350)	0.00863*** (3.131)
CEO Age	-0.000113 (-0.194)	0.000141 (0.237)
Firm Age	0.0136*** (6.934)	0.0123*** (6.610)
Firm Size	0.0662*** (10.34)	0.0794*** (12.56)
M_B	0.00953 (1.256)	0.0110 (1.464)
FCF	0.0493** (2.138)	0.0329 (1.485)
Leverage	0.0145 (0.271)	-0.0191 (-0.363)
R&D	1.266*** (6.667)	1.321*** (6.955)
Inst_Ownership	0.00867 (0.224)	-0.0225 (-0.585)
Block_Ownership	-0.393*** (-5.246)	-0.330*** (-4.399)
Constant	0.724** (2.343)	0.166 (0.551)
R2	0.21	0.23
Observations	15,056	15,132
Year Effect	Yes	Yes
Industry Effect	Yes	Yes

Table 8. CEO Power, Labor-friendly Policy, Firm Value: Mkt Competition

The dependent variable in column 1 and 2 is *Emp_Policy* which is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. Tobins Q is the ratio of the MKT assets to Book assets; *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. High competition variable in column 1 is measured by H-index which is an indicator variable that equals one when H-Index is below the sample median for a given year. In column 2, High competition indicator variable in column 2 equals one when firm level fluidity is greater than sample median fluidity. *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *Firm Size* is the log of total assets; *M_B* is the ratio of the market value of total assets to book value of total assets; *FCF* is the ratio of CFO to sales; *Leverage* is the ratio of long-term debt to the totals assets; R&D is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by block holders. The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***) , 0.05 (**) and 0.1 (*) level.

VARIABLES	Tobins Q	Tobins Q	Tobins Q	Tobins Q
	High_HHI (1)	Low_HHI (2)	High_Fluidity (3)	Low_Fluidity (4)
CEO Power	-0.225 (-1.368)	-0.291* (-1.830)	-0.104** (-2.428)	-0.0147 (-0.425)
Emp_policy	-0.693** (-2.149)	-0.0501 (-0.175)	-0.189** (-2.270)	-0.0390 (-0.510)
CEO Power times Emp_policy	0.312** (2.036)	-0.0156 (-0.117)	0.0636* (1.828)	0.0383 (1.220)
Board Size	-0.0138 (-0.826)	0.0478*** (3.235)	-0.0306* (-1.801)	0.0124 (0.821)
CEO Age	-0.000338 (-0.111)	-0.00197 (-0.650)	0.00215 (0.610)	-0.00463 (-1.635)
Firm Age	0.00840 (0.533)	-0.0117 (-0.717)	0.0255* (1.645)	0.0113 (0.836)
Firm Size	0.168*** (3.710)	0.369*** (7.832)	0.254*** (5.669)	0.244*** (5.233)
FCF	0.0598 (0.470)	0.315** (2.034)	-0.128 (-1.082)	0.566*** (3.455)
Debt_TA	0.519 (1.608)	0.0418 (0.124)	0.115 (0.354)	2.061*** (6.390)
R&D_TA	3.200*** (2.998)	1.697 (0.808)	-0.566 (-0.508)	10.81*** (6.521)
Inst_Ownership	-1.191*** (-4.993)	-0.835*** (-3.548)	-0.318 (-1.262)	-0.0481 (-0.212)
Block_Ownership	0.826* (1.797)	0.912** (2.024)	1.405*** (2.769)	-0.237 (-0.585)
Constant	3.962*** (6.048)	2.840*** (4.390)	1.844 (0.625)	3.989* (1.655)
R2	0.1	0.17	0.24	0.25
Observations	6,479	6,693	5,826	8,059
Year Effect	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes

3.4.3 CEO Power and Labor-friendly Policy: Innovation Intensive Firms

We test the effect of innovation intensity on the relation between powerful CEOs and labor-friendly and report the results in table 9. Column 1 reports CEO power-labor-friendly regression that include innovation intensity measured by R&D_dummy whereas column 2 reports innovation intensity measured by market fluidity. In these regressions, the coefficient of the interaction variable (product of CEO power and R&D Intensity) enters with a significantly positive sign, 1% and 5% level respectively. Therefore, our results provide evidence that powerful CEOs invest more in employees in innovation intensive market.

In table 10, we report how powerful CEOs' employee friendliness in innovative market affects firm value. Results show that in innovation intensive market powerful CEOs' investment in labor is associated with significantly high (10% and 1% respectively) Tobins Q. This suggests that powerful CEOs add value to firm by undertaking labor-friendly policies in innovation intensive industries.

Table 9. CEO Power-Labor-friendly Policy: Innovative Firms

The dependent variable in column 1 and 2 is *Emp_Policy* which is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. Innovation intensity variable in column 1 is measured by R&D dummy that equals one when R&D is above the sample median for a given year. In column 1, Innovation intensity equals one if R&D is above the sample median for a given year. In column 2, Innovation intensity IP Intensive dummy which equals one if it is one of the 75 IP-intensive industries identified by the ESA and USPTO. *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *Firm Size* is the log of total assets; *M_B* is the ratio of the market value of total assets to book value of total assets; *FCF* is the ratio of CFO to sales; *Leverage* is the ratio of long-term debt to the totals assets; R&D is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by block holders; The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***) , 0.05 (**) and 0.1 (*) level.

VARIABLES	R&D_dummy	IP Intensive_dummy
	Emp_Policy	Emp_Policy
CEO Power	-0.191*** (-3.309)	-0.0619 (-1.166)
Innovation_Intensity	-0.313*** (-2.843)	-0.153 (-1.121)
CEO Power times Innovation_Intensity	0.202*** (4.047)	0.123** (2.143)
Board Size	0.00887*** (3.190)	0.0131*** (4.353)
CEO Age	-0.000164 (-0.282)	-0.000392 (-0.615)
Firm Age	0.0141*** (7.229)	0.0134*** (6.426)
Firm Size	0.0613*** (9.760)	0.0647*** (9.688)
M_B	0.0134* (1.779)	0.0132 (1.630)
FCF	0.0218 (0.966)	0.0114 (0.473)
Debt_TA	0.0352 (0.659)	0.0205 (0.361)
Inst_Ownership	0.00600 (0.155)	0.0239 (0.579)
Block_Ownership	-0.403*** (-5.385)	-0.421*** (-5.280)
Constant	0.898*** (2.881)	0.683** (2.129)
R2	0.21	0.21
Observations	15,056	13,968
Year Effect	Yes	Yes
Industry Effect	Yes	Yes

Table 10. CEO Power, Labor-friendly Policy, Firm Value: Innovative Firms

The dependent variable in column 1 and 2 is *Emp_Policy* is the summation of indicator variables from MSCI ESG STATS dataset reflecting firms' relationship with employees. Tobins Q is the ratio of the MKT assets to Book assets; *CEO Power* is an index which is an aggregate measure of the five indicators- whether CEO is founder, chairman, CEO holds both chairman and president positions, tenure of CEOs is above the median tenure of CEOs and ownership of CEOs is above the industry median of the CEO's ownership, dependent directors ratio of the firms is above the industry median dependent ratio. In column 1, Innovation intensity equals one if R&D is above the sample median for a given year. In column 2, Innovation intensity IP Intensive_dummy which equals one if it is one of the 75 IP-intensive industries identified by the ESA and USPTO. *Board Size* is the total number of directors on the board; *CEO Age* is the age of the CEO; *Firm Age* is the difference between the first year when the firm appears in CRSP and the current year; *Firm Size* is the log of total assets; *M_B* is the ratio of the market value of total assets to book value of total assets; *FCF* is the ratio of CFO to sales; *Leverage* is the ratio of long-term debt to the totals assets; R&D is the ratio of research and development expenditures to total assets; *Ins_Investors* is the fraction of shares owned by institutional investors; *Block_Ownership* is the fraction of shares owned by block holders; The continuous variables are winsorized at 1% level. Standard errors are adjusted for potential heteroskedasticity and serial correlation and they are clustered by firm. Asterisks indicate significance at the 0.01 (***) , 0.05 (**) and 0.1 (*) level.

Variables	High_R&D intensity	Low_R&D intensity	High_IP_Intensity	Low_IP_Intensity
	Tobin's Q	Tobin's Q	Tobin's Q	Tobin's Q
CEO Power	-0.0768 (-1.363)	-0.0258 (-0.883)	-0.00635 (-0.180)	-0.0804* (-1.929)
Emp_policy	-0.201** (-2.132)	-0.0704 (-1.034)	-0.169** (-2.223)	-0.0329 (-0.392)
CEO Power times Emp_policy	0.0726* (1.858)	0.0343 (1.261)	0.0835*** (2.606)	0.0186 (0.547)
Board Size	0.00483 (0.253)	0.00825 (0.646)	0.0276* (1.773)	0.00710 (0.428)
CEO Age	-0.000662 (-0.153)	-0.00126 (-0.540)	-0.00384 (-1.324)	0.000135 (0.0395)
Firm Age	-0.0177 (-0.918)	0.0217* (1.763)	-0.0121 (-0.828)	0.0347** (2.261)
Firm Size	0.245*** (3.882)	0.240*** (6.430)	0.352*** (8.663)	0.197*** (4.179)
FCF	-0.0851 (-0.647)	-0.0788 (-0.576)	-0.178* (-1.658)	0.584*** (3.846)
Debt_TA	1.018** (2.492)	1.274*** (4.609)	0.287 (0.995)	0.904** (2.545)
Inst_Ownership	-0.236 (-0.663)	-0.397** (-2.224)	0.0965 (0.439)	-0.513** (-1.966)
Block_Ownership	0.464 (0.713)	1.006*** (2.950)	-0.515 (-1.211)	1.381*** (2.879)
Constant	6.750** (2.256)	4.103 (1.606)	3.243*** (7.352)	2.325*** (4.505)
R2	0.26	0.32	0.12	0.08
Observations	3,962	9,792	8,537	5,700
Year Effect	Yes	Yes	Yes	Yes
Industry Effect	Yes	Yes	Yes	Yes

4. Summary and Conclusions

In this study we empirically investigate the relation between CEO power and labor-friendly policy. We also examine whether granting a CEO more power helps firms to adopt more employee-friendly policy in industries where bargaining power of labor is high such as high mobile industries, competitive industries and innovation intensive firms. Our study considers a two-stage least squares approach to control for the potential endogeneity between CEO power and labor-friendly policy.

Based on a sample of 18,512 firm-year observations representing 2253 US firms over the period of 1996-2014, we find that there is a significant negative relation between the CEO power and labor-friendly policy. We also find that powerful CEOs invest more in employee welfare in mobile industries, competitive market and innovation intensive firms and this investment is associated with high market value. Our study suggests that firms can benefit from granting more power to a CEO, when the intensity of labor mobility, competition and innovation of the market is high.

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