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Article

Power to the CEO? Sources of CEO Power and Its Influences on Strategic Choices and Firm Performance

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Power to the CEO? Sources of CEO Power and Its Influences on Strategic Choices and Firm Performance

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Abstract

Power relations in the upper echelon have been a focal point in strategic management literature. However, the dynamic environment requires rapid decision making, raising the question of whether to centralize power in the CEO. In that respect, this thesis aims to identify the sources of CEO power and its impact on strategic choices and firm performance. A total of 22 empirical and conceptual papers are categorized into a review framework based on Finkelstein's (1992: 507-510) power dimensions to compare earlier studies and disclose differences in operationalization and research approaches. Additionally, this paper introduces a new dimension of CEO power by incorporating principles of leadership psychology into the corporate-governance-power literature. Considering the power composition, this thesis analyzes three strategic decisions and the resulting firm performance by explaining findings from an agency- and stewardship perspective. The results demonstrate that CEO power is multifaceted, and variations in operationalization impair comparability of literature. Furthermore, powerful CEOs exhibiting stewardship behavior should be granted autonomy to drive firm performance while those acting as agents require close monitoring and balance from an equally influential board.

Keywords: CEO power; Power dimensions; Review framework; Corporate governance; Strategic choice.

1. Introduction

Jeff Bezos, Jamie Dimon, and Elon Musk. Known for their unconventional strategic decisions, these chief executive officers (CEO) are listed among the most powerful ones, driving their companies' performance incomparably high (Bosilkovski, 2018). Their success stories raise the question of whether power centrality enhances firm outcome or remains the exception. Literature often has a pessimistic view and argues that powerful CEOs have a detrimental effect on firm performance (Haleblian & Finkelstein, 1993: 859; Jiraporn, Chintrakarn, & Liu, 2012: 141). However, today's agile environments, especially in times of crisis, require rapid decision making and determined actions (Han, Nanda, & Silveri, 2016, 400). To stay competitive, firms deploy different corporate governance systems, thereby the role of the CEO relative to other executives and the distribution of power is an essential aspect that has been a focus of strategic management literature (Adams, Almeida, & Ferreira, 2005, 1403). This thesis contributes to research in that field, by scrutinizing whether to leave all *power to the CEO*.

Consistent with the literature on this topic (Haleblian & Finkelstein, 1993: 848; Haynes & Hillman, 2010: 1151; Tang, Crossan, & Rowe, 2011: 1480), the thesis follows Finkelstein's (1992: 506) understanding of power "as the capacity of individual actors to exert their will". The individual actor is the CEO, who usually holds the most powerful position in a company (Daily & Johnson, 1997, 98). CEO power is also referred to as CEO dominance (Brown & Sarma, 2007: 363; Tang et al., 2011: 1480) or CEO centrality (Jiraporn et al., 2012, 140).

This thesis aims to disclose the sources of CEO power and investigates the influences of CEO power on a company's strategic choices and firm performance under consideration of extant literature and empirical study findings.

To begin with, Section 2 provides a theoretical and conceptual background to guide through and support the findings of this thesis. More precisely, Section 2.1 contrasts the agency theory (Jensen & Meckling, 1976) with the stewardship theory (Davis, Schoorman, & Donaldson, 1997) to offer a broader view on the utilization of power in the context of strategic choices. Section 2.2 introduces Finkelstein's (1992:

508) power dimensions as a review framework. In particular, this section should explain the methodology and adapt the more general framework to the context of CEO power.

The research question of this paper is addressed in Section 3 while applying the concepts introduced in the previous sections. Thereby, Section 3.1 presents sources of CEO power and organizes them into the four power dimensions introduced by Finkelstein (1992, 508), namely structural power, ownership power, expert power, and prestige power. The categorization of power into these four dimensions is preferable due to the broad implementation of Finkelstein's approach in former literature (Chikh & Filbien, 2011: 1223; Haynes & Hillman, 2010: 1155; Tang et al., 2011: 1487) and the confirmation that this classification is empirically valid (Daily & Johnson, 1997, 98). Under the mentioned review framework, this section studies papers that are structured according to all power dimensions or focus only on a limited number of dimensions and discusses the use of different measures. Moreover, the framework also tries to allocate research papers that do not follow this classification. Furthermore, a new additional dimension - internal power - is suggested to expand the existing framework by Finkelstein (1992, 530). After analyzing a CEO's power composition, Section 3.2 focuses on three strategic choices a company's CEO can take and examines the role of power in these choices and its influences on firm performance. Various findings should be explained with the help of either the agency theory or the stewardship theory, depending on the context. The highlighted choices include strategic change, capital structure decisions, and acquisition decisions. The reason why these three strategic decisions are analyzed, lies on the fact that these choices are focal points in most conceptual or empirical papers that are frequently cited or published in top journals. This section only includes papers that either examine the influence of CEO power on one of the strategic choices, or papers which add the resulting impact on firm performance to their study. Papers that investigate the direct influence of CEO power on firm performance do not contribute to answering the research question and can, therefore, not be considered within the scope of this thesis.

While the previous chapters aim to collate the principal literature findings, Section 4 offers a more practical insight. A case study of the CEO of Tesla, Elon Musk, should exemplify the sources of power of a current CEO and put the previously analyzed strategic choices into a practical context. Section 5 discusses the main findings of the thesis and mentions some limitations. Consequential further research opportunities are derived in that regard. Finally, Section 6 concludes this thesis and attempts to answer the posed research question.

2. Theoretical Background and Review Framework

2.1. Agency Theory vs. Stewardship Theory

2.1.1. Agency Theory

The agency theory is often cited whenever managerial behavior is of greater significance. Originated from organi-

zational economics, the agency theory contributes to strategic management research by explaining managers' decisions (Donaldson, 1990, 377). Jensen and Meckling (1976, 308-309) define the agency relationship as a contractual agreement between two parties. The principal - the owner or stockholder in most cases - delegates some decision-making authority to the agent, who is the CEO in the context of this thesis. The agent is morally responsible to act on the shareholders' behalf. As both parties are presumably utility maximizers, the theory suggests that the agent will deviate from the principal's best interest when the opportunity arises (Davis et al., 1997, 22). This attributes to the assumption that agents are rational, opportunistic, and self-interested actors (Donaldson, 1990, 371-372). Agents' decisions that reduce the welfare of the principal are referred to as agency costs. They can be minimized by board independence and monitoring of agents, a market for corporate control, and agent equity ownership (Dalton, Hiitt, Certo, & Dalton, 2007, 40). Thereby, agents should be incentivized to align their interests with the principals.

In accordance with agency theory, powerful CEOs whose interests diverge from the shareholders' welfare have the means to assert their decisions and are likely not acting upon the principal's benefit (Combs, Ketchen Jr, Perryman, & Donahue, 2007, 1301-1302). On these grounds, agency theory offers an interesting foundation for research on CEO power, especially on the influences of power on CEOs' strategic choices and firm performance.

Although agency theory provides an insight into the agent-principal relationship, some authors argue that the assumption of self-interested agents is not always accurate and does not fully capture the complexity of organizations (Eisenhardt, 1989, 71). Hence, this thesis presents another contradicting view to broaden the theoretical foundation for the research question: the stewardship theory.

2.1.2. Stewardship Theory

Stewardship theory is derived from organizational behavior research (Donaldson, 1990, 377). Contrasting to agency theory, the interests of the actors are not divergent but convergent. In stewardship theory, the stewards are depicted as collectivistic, pro-organizational, and trustworthy (Davis et al., 1997, 20). Their utility is maximized when they protect and maximize the principal's wealth. Thus, even when personal interests deviate from the organizational needs, stewards would align their decisions to shareholders' benefits (Davis et al., 1997: 24-26; Donaldson, 1990: 377). With an intrinsically motivated manager that realizes personal gains through putting organizational needs first, control and monitoring could destruct performance and lower the stewards' motivation. Unlike suggested by agency theory, stewards perform best when granted autonomy and trust (Davis et al., 1997, 25).

Juxtaposing the stewardship theory and the agency theory, Davis et al. (1997, 27-31) characterize three contrasting psychological factors, namely motivation, identification, and the use of power. As research on this thesis revolves around

Table 1: Comparison of Agency Theory and Stewardship Theory. Based on Davis et al. (1997, p.37).

	Agency Theory	Stewardship Theory
Origin	Organizational economics	Organizational behavior research
Actors	Rational, self-interested, risk averse	Rational, collectivistic, pro-organizational, trustworthy
Relationship	Principal-agent Interest divergence	Principal-steward Interest convergence
Motivation	Extrinsic	Intrinsic
Identification	Disassociation from organization	Identification with organization
Power	Institutional	Personal

CEO power, these three factors are shortly highlighted to further the understanding thereof.

Firstly, agents are extrinsically motivated by quantifiable rewards, whereas stewards seek personal growth and self-actualization.¹ Secondly, agents avoid taking responsibility for organizational problems and do not identify with the company. Stewards, by contrast, attribute overall success or failure to themselves and thus work toward organizational goals. Lastly, power poses a critical aspect in the principal-manager relationship (Davis et al., 1997, 31). In a principal-agent relationship, power motives stem from the legitimate position in the firm. Power in principal-steward relationships is based on personal characteristics and firm culture.

This comparison between both theories already shows the importance of considering multiple theories in strategic management research. Otherwise, generalizability is not feasible (Eisenhardt, 1989, 71). Table 1 summarizes the mentioned main differences between the introduced theories.

2.2. Review Framework: Finkelstein's Power Dimensions

Power is a phenomenon that is difficult to measure (Finkelstein, 1992, 511). Early literature relied on perceptual measures of power that comprise prevailing views of actors in an organization but alleviate objective results and validity. Hence, more objective measures were developed that consider the managers' formal positions and informal relationships within and across firm. These indicators, however, can only provide indirect information as they are detached from the actual sources of power (Finkelstein, 1992, 511). To harness the benefits and limit the adverse effects of both types of indicators, it is expedient to consider perceptual as well as objective measures. This approach was followed by Finkelstein (1992, 511). Therefore, this thesis uses Finkelstein's (1992: 507-510) dimensions of top managers' power as a framework to present different sources of power and empirically valid measures thereof. The four defined dimensions are structural power, ownership power, expert power, and prestige power. Figure 1 provides an overview of the dimensions and breaks them down into the individual measures used by Finkelstein (1992, 512-516). A

¹In the following, the term *agents* refers to agency theory, while the term *stewards* denotes stewardship theory.

closer examination of the individual aspects follows in the subsequent sections. Many researchers rely on these measures and engage in research on all four introduced power dimensions (Chikh & Filbien, 2011: 1223; Daily & Johnson, 1997: 98; Oler, Olson, & Skousen, 2009: 431), whereas others purposely exclude some dimensions (Adams et al., 2005: 1408; Haleblan & Finkelstein, 1993: 851; Sheikh, 2019: 362; Tang et al., 2011: 1487).² While this framework initially examines top managerial power, this thesis narrows it down to only CEO power. It reviews the literature on sources of CEO dominance as the CEO is believed to hold the most powerful position in an organization (Daily & Johnson, 1997, 98). This should contribute to a further cohesive analysis of CEO strategic choices and firm performance in the subsections of Section 3.2.

The review framework aims to disclose literature about CEO power transparently. It integrates 22 research papers that contain the keywords *CEO power*, *dominance*, and *centrality*. Through the detailed breakdown of each dimension, differences between the research approaches become apparent. The varying measures capture different aspects of power, which impede comparability and could affect the results. This literature review might help to recognize correlations between the papers and gives an overview of different measures used by the literature. A summary of all analyzed papers, that attempt to measure CEO power, is presented in Appendix 1. It discloses which power dimensions each author uses and provides additional annotations.

According to Finkelstein (1992, 508-510), structural power is the most cited type and refers to hierarchical or formal power. It can directly be obtained from the formal position within an organization. Ownership power is determined by the ownership position in the firm and the relationship to the founders. Another power source is the ability to handle uncertainty of the company's external environment and the manager's expertise in firm-specific topics, also referred to as expert power. Finally, prestige power derives from personal reputation or status.

Together, these four dimensions form important organizational sources of management power (Finkelstein, 1992, 510). Often, the operationalized measures are combined to

²The reasons for an exclusion of one dimension from the research will be discussed in the respective subsection of Section 3.1.

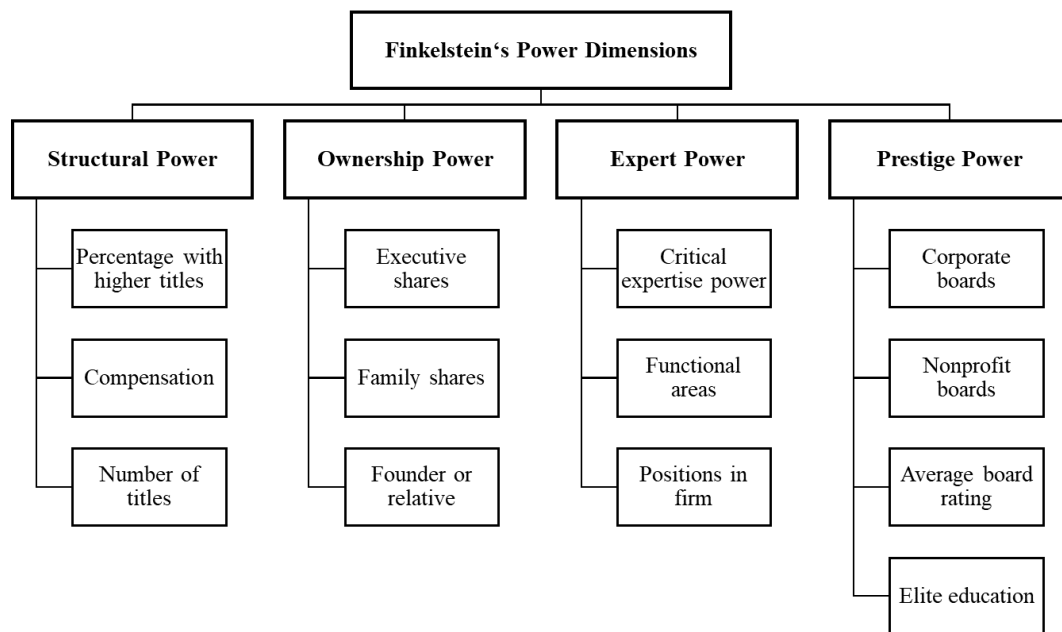


Figure 1: Finkelstein's Power Dimensions and Measures. Own Illustration.

one single power index by various researchers who examine the influences of CEO power on strategic choices and firm performance (Haleblian & Finkelstein, 1993: 851; Haynes & Hillman, 2010: 1155; Tang et al., 2011: 1488). Although some reviewed papers are not structured according to Finkelstein's power dimensions or use different measures for CEO power, this thesis tries to categorize them accordingly in this framework and provides a comprehensive literature review on the sources of CEO dominance. Each dimension will be first attuned to the context of CEO power and examine literature that uses the same or similar measures to Finkelstein's (1992: 510) to quantify it. Then, additional measures will be added, and varying viewpoints will be discussed.

3. Sources of CEO Power and Influences on Strategic Choices and Firm Performance

3.1. Sources of CEO Power

3.1.1. Structural Power

Structural Power relates to the formal position within a company and is also referred to as hierarchical or legitimate power (Daily & Johnson, 1997, 99-100). Due to their role, CEOs already have high structural power over other executives (Finkelstein, 1992, 509). Hence, independent of their behavior, subordinates attribute value and accuracy to CEOs' choices (Daily & Johnson, 1997, 100). In addition, structural power can also appear indirect, in the form of information advantages or resource control over other managers. Finkelstein (1992, 509, 512) argues that greater structural power correlates with greater control over co-workers' actions and less dependence on them. Table 2 summarizes all

measures used by the analyzed literature. Finkelstein (1992, 512) suggests three variables to measure structural power as presented in Figure 1.

Percentage with higher titles

Percentage with higher titles captures the hierarchical authority of a manager in the top executive team. The CEO gets a rating of 0, and the rating increases with decreasing power of the manager (Finkelstein, 1992, 512). Two analyzed papers use this indicator (Haleblian & Finkelstein, 1993: 852; Tang et al., 2011: 1489). As this thesis concentrates on CEO power only, this measure is briefly addressed for the sake of completeness but will not be further investigated.

Compensation

The variable *compensation* measures the CEO's total cash compensation relative to the other top executives. It expresses the CEO's standing in the firm and captures the CEO's relative power (Finkelstein, 1992, 512). Some researchers directly refer to and adopt Finkelstein's compensation variable (Daily & Johnson, 1997: 99, 101; Haleblian & Finkelstein, 1993: 851-852; Tang et al., 2011: 1487-1489). Others use this measure without explicit reference (Brown & Sarma, 2007, 363). Primarily more recent authors, like Chintrakarn et al. (2015, 106) and Jaroenjitrkam et al. (2020, 730), alter this variable to measure CEO power related to compensation following Bebchuk et al. (2011, 202): *CEO pay slice (CPS)*. Bebchuk et al. (2011, 202) define CPS as the CEO's captured fraction of the top-five executives' total sum of compensa-

Table 2: Measures of Structural Power. Own Illustration.

Author	Measure/Variable
Finkelstein (1992)	Percentage with higher titles, compensation, number of titles
Haleblian and Finkelstein (1993)	Percentage with higher titles, compensation, number of titles
Daily and Johnson (1997)	CEO duality, interdependent directors, compensation ratio measure
Adams et al. (2005)	CEO concentration of titles
Brown and Sarma (2007)	CEO compensation
Oler et al. (2009)	Board chair
Haynes and Hillman (2010)	Duality, non-affiliated director, interdependent directors
Bebchuk, Cremers, and Peyer (2011)	CPS
Chikh and Filbien (2011)	CEO duality
Dutta, MacAulay, and Saadi (2011)	Excess pay
Tang et al. (2011)	Percentage with higher titles, compensation number of titles
Jiraporn et al. (2012)	CPS
Tien, Chen, and Chuang (2013)	CEO duality, directorship
Baldenius, Melumad, and Meng (2014)	Influence over board composition
Chintrakarn, Jiraporn, and Singh (2014)	CPS
Chintrakarn, Jiraporn, and Tong (2015)	CPS
Han et al. (2016)	CPS, CEO duality, triality, dependent directors
Li, Munir, and Abd Karim (2017)	Title, CPS
Sariol and Abebe (2017)	CEO duality
Sheikh (2019)	CPS, CEO duality, triality, board independence
Jaroenjitrkam, Yu, and Zurbruegg (2020)	CPS, CEO pay gap, CEO chair duality

tion. It is a proxy that measures the CEO's relative relevance regarding abilities, contribution, or power (Jiraporn et al., 2012, 146). Higher values of CPS signify greater power. Alternatively, Jaroenjitrkam et al. (2020, 730) complement CPS with *CEO pay gap*, the difference in compensation between the CEO and the median of the top five executives. Daily and Johnson (1997, 100) propose that highly compensated CEOs - relative to other managers - might have the means to influence the board of directors. Hence, this could increase their structural power.

Number of titles

Finkelstein's (1992: 512) last introduced variable is the *number of titles*. It states the number of titles the manager has, while more titles indicate higher power. Especially CEOs who also serve as board chairperson were found to be more powerful than those who do not (Harrison, Torres, & Kukalis, 1988, 223). Two analyzed papers directly use this variable (Haleblian & Finkelstein, 1993: 851-852; Tang et al., 2011: 1487, 1489). Most researchers specify the measure and use *CEO duality* instead. CEO duality is a binary variable that takes the value 1 if the CEO serves as board chairperson and 0 otherwise (Daily & Johnson, 1997, 106). It strengthens structural power and increases decision-making ability as board and executive power is centralized in the CEO (Chikh & Filbien, 2011:1223; Tien et al., 2013: 428). Oler et al. (2009, 435) measure the same phenomenon under the proxy *board chair*. An extension of the CEO duality variable, which approximates Finkelstein's (1992: 512) measure, is introduced

by Adams et al. (2005, 1409): *CEO concentration of titles*. The dummy variable indicates whether the CEO simultaneously also holds the title of board chairman and president with the value 1, and 0 otherwise. Han et al. (2016, 376) and Sheikh (2019, 363) employ both aforementioned variables under *CEO duality* and *CEO triality*.

Further insights into structural power

The board composition is an aspect that has to be considered when examining the CEO's structural power (Daily & Johnson, 1997, 100-101). The board has a monitoring and control function over the executives. Depending on the board composition, the CEO has varying influence. If the CEO appoints the directors - interdependent directors - they might show loyalty and thus, increase the CEO's structural power (Baldenius et al., 2014, 64). Contrarily, independent directors - not nominated by the CEO - can mitigate this power base (Sheikh, 2019, 363). Additionally, just as CEOs can act as board chairperson, Tien et al. (2013, 427-428) argue that they may serve as executive directors instead. Likewise, the board's control function is limited, and CEOs enjoy greater dominance.

3.1.2. Ownership Power

Ownership power emerges from the CEO's ability to act on behalf of the shareholders (Finkelstein, 1992, 509). Thereby, a pivotal factor is the manager's standing in the agent-principal relationship. CEOs with significant shareholdings are likely to be more powerful, as they can influence decisions, reduce uncertainty from the board, and gain

Table 3: Measures of Ownership Power. Own Illustration.

Author	Measure/Variable
Finkelstein (1992)	Executive shares, family shares, founder or relative
Daily and Johnson (1997)	CEO shareholdings, founder status
Adams et al. (2005)	CEO founder
Oler et al. (2009)	Shares owned, founder of the firm
Haynes and Hillman (2010)	CEO equity holdings
Chikh and Filbien (2011)	Family firm, CEO ownership
Tang et al. (2011)	Executive shares, founder or relative
Han et al. (2016)	Ownership, founding family
Li et al. (2017)	Founder, ownership
Sariol and Abebe (2017)	CEO founder status
Park, Kim, Chang, Lee, and Sung (2018)	Ownership
Sheikh (2019)	Founding family
Jaroenjitrkam et al. (2020)	Ownership

ownership control (Park et al., 2018, 923). Also, being the founder or the relative of a firm's founder might raise the CEO's ownership power. Through the strengthened interaction and long-term relationship with the board members, the CEO can exercise control. Finkelstein (1992, 513) introduces three indicators of ownership power that are delineated in Figure 1. Table 3 presents all reviewed literature that measures this dimension.

Executive shares

The variable *executive shares* is the most direct measure of ownership power and reveals the percentage of a company's shares owned by an executive and immediate family (Finkelstein, 1992, 513). Out of all analyzed papers, Tang et al. (2011, 1489) were the only researchers to use precisely this variable. Similarly, but adjusted to the context of CEO dominance, Daily and Johnson (1997, 106, 108) define their measure *CEO stock ownership* as the percentage of the company's outstanding shares held by the CEO. Oler et al. (2009, 435) and Chikh and Filbien (2011, 1228) also follow this approach. Some authors construct a dummy variable that takes the value 1 if the CEO's shareholdings are above a certain threshold, namely above 20% for Jaroenjitrkam et al. (2020, 731) and 5% according to (Park et al., 2018, 926), or if the CEO's stock ownership exceeds the industry median (Han et al., 2016, 376).

Family shares

The measure *family shares* captures the percentage of a firm's shares owned by the manager's extended family. The family functions as a foundation of the executive's support system, therefore this variable comprises an additional ownership power aspect (Finkelstein, 1992, 513). However, other authors did not adopt this indicator for their research. One reason could be the lack of disclosed data in the firms'

proxy statements (Tang et al., 2011, 1488).

Founder or relative

Ownership power may also be enhanced by the CEO's relationship to other influential executives. Finkelstein (1992, 513) captures this phenomenon with the categorical measure *founder or relative*. There are two types of associations: a) the CEO is the firm's founder or related to the founder; b) the CEO shares the same last name as another executive, indicating a family relationship. Daily and Johnson (1997, 106) and Tang et al. (2011, 1489) apply this variable without modification, whereas several authors reduce it to record only the first association (Chikh & Filbien, 2011: 1228; Han et al., 2016: 376; Sheikh, 2019: 363). Association b) could bias the measure as some names are very common, thus sharing the same name does not necessarily confirm a family relation (Finkelstein, 1992, 513). Others find a binary variable that states the CEO's founder status (Adams et al., 2005; Oler et al., 2009: 435; Sariol & Abebe, 2017: 1408).

3.1.3. Expert Power

Unlike the two dimensions mentioned above, structural and ownership power, expert power emerges from informal factors. Thus, it does not depend on the CEO's hierarchical position in the organization (Oler et al., 2009, 433-434). Rather, it relates to the CEO's ability to deal with environmental uncertainty (Daily & Johnson, 1997, 102-103). Relationships within and across the firm borders may enable the CEO to address those uncertainties more efficiently. Moreover, extensive firm-specific knowledge and considerable functional experience could decrease dependence on others and allow for control over the task environment (Daily & Johnson, 1997, 102-103). Together, these sources might enhance expert power and expand the CEO's capacity to influence strategic choices (Finkelstein, 1992, 509-510). Finkelstein (1992, 513-515) determines expert power with

Table 4: Measures of Expert Power. Own Illustration.

Author	Measure/Variable
Finkelstein (1992)	Critical expertise power, functional areas, position in firm
Haleblian and Finkelstein (1993)	Critical expertise power, functional areas, position in firm
Daily and Johnson (1997)	Number of functional areas
Oler et al. (2009)	Tenure, prior functional experience (number of prior positions)
Chikh and Filbien (2011)	Tenure, acquisition experience
Tien et al. (2013)	Tenure
Han et al. (2016)	Tenure
Sariol and Abebe (2017)	Tenure
Park et al. (2018)	Tenure
Sheikh (2019)	Tenure
Jaroenjitrkam et al. (2020)	Tenure

three variables, which can be found in Figure 1. For a list of all variables used by the analyzed authors, see Table 4.

Critical expertise power

To create this variable, Finkelstein (1992, 514) first identifies the core environmental requirements of companies. Then, he assesses which functional areas the managers are conversant with. *Critical expertise power* is then derived by allocating the requirements with the executive's experience. For instance, in the context of acquisitions, the requirements for critical expertise could lie in the CEO's prior acquisition experience, as measured by Chikh and Filbien (2011, 1224). Haleblian and Finkelstein (1993, 852-853) also use this variable to indicate expert power.

Functional areas

Managers with experience in a range of functional areas might be better at handling different stakeholders (Finkelstein, 1992, 515). Hence, the variable *functional areas* counts the different fields an executive gained experience in. It is applied by Haleblian and Finkelstein (1993, 853) and Daily and Johnson (1997, 107), too.

Positions in firm

The breadth of interactions with stakeholders increases with the number of positions a manager has had within the firm (Finkelstein, 1992, 515). Contacts established in earlier years (Haleblian & Finkelstein, 1993, 853) and knowledge gained in prior positions (Oler et al., 2009, 434) may help the CEO manage environmental uncertainty and enhance expert power.

Further insights into expert power

More recent literature covers another aspect of expert power that has not been captured by Finkelstein (1992, 513-515). While he considers the manager's prior positions in a company to measure expert power, he does not take into account the years that an executive has already served as the CEO. The manager's tenure as a CEO seems to be related to the degree of obtained power (Park et al., 2018: 923; Tien et al., 2013: 427). Thereby, several factors act simultaneously. Longer tenure provides more opportunities to establish valuable relationships with important decision-makers (Oler et al., 2009, 434). It may also increase the CEO's competence and expertise (Park et al., 2018, 923). Due to accumulated firm-specific knowledge, the CEO might exert influence on the board (Tien et al., 2013, 427) and weaken its monitoring ability (Sheikh, 2019, 363). These factors lead to the assumption that longer CEO tenure correlates with higher CEO power (Han et al., 2016, 376). To measure this indicator, several authors use the variable *tenure* that counts the number of years the CEO has held the position (Chikh & Filbien, 2011: 1228; Jaroenjitrkam et al., 2020: 731; Park et al., 2018: 926; Sariol & Abebe, 2017: 41; Tien et al., 2013: 432). Others construct a dummy variable equal to 1 if the CEO tenure is above the industry median and 0 otherwise (Han et al., 2016: 376; Sheikh, 2019: 363).

As mentioned in Section 2.2, some authors do not measure all four power dimensions. Adams et al. (2005, 1408) only focus on structural power and include aspects of ownership power. Tang et al. (2011, 1487-1488) argue that the aforementioned dimensions are more proximal measures of CEO power than expert power or prestige power. Further, expert power measures are often associated with ambiguity and lack of data which puts validity into question and are therefore excluded from their research.

Table 5: Measures of Prestige Power. Own Illustration.

Author	Measure/Variable
Finkelstein (1992)	Corporate boards, nonprofit boards, average board rating, elite education
Haleblian and Finkelstein (1993)	Corporate boards, nonprofit boards, average board rating, elite education
Daily and Johnson (1997)	Service on corporate boards, nonprofit boards, degrees from elite educational institutions
Oler et al. (2009)	Elite education, other boards
Chikh and Filbien (2011)	Elite education, outside boards

3.1.4. Prestige Power

This review framework examines prestige power as the last identified power dimension by Finkelstein (1992, 508) Like expert power, it derives from informal sources, such as personal prestige or status (Oler et al., 2009, 434). The manager's reputation might act as a facilitator in dealing with uncertainty from the institutional environment (Finkelstein, 1992, 510).³ The two focal components of prestige – the role of outside directorship and education – are captured by Finkelstein's (1992: 515-516) four indicators that are displayed in Figure 1. Table 5 contains a list of authors that measure prestige power.

Corporate boards

This variable reflects the number of corporate boards of directors, on which a manager sits (Finkelstein, 1992, 515). Service on other boards can help handle inter-organizational dependencies and encourages interaction with other prestigious executives (Daily & Johnson, 1997, 102). Intensive exchange with other board directors might enhance the CEO's knowledge and provide important information timely that otherwise would not be accessible (Finkelstein, 1992, 510) Additionally, social networks with other high-status actors can enhance the CEO's reputation (Haleblian & Finkelstein, 1993, 852). *Corporate boards* is often used to measure prestige power (Chikh & Filbien, 2011: 1228; Daily & Johnson, 1997: 106; Haleblian & Finkelstein, 1993: 852). A higher number of directorships should imply higher prestige power for the respective executive (Finkelstein, 1992, 515).

Nonprofit boards

Like corporate boards, this variable measures the number of boards a manager serves on. But here, it records nonprofit board memberships. While this can create relationships and ease information exchange, it might also enhance the CEO's reputation as community service is essential for membership in the managerial elite (Finkelstein, 1992, 515). Daily and Johnson (1997, 106) and Haleblian and Finkelstein (1993,

852) seem to differentiate between for-profit and nonprofit directorships in their research as well.

Average board rating

Average board rating averages the stock ratings for all companies that the manager has external directorship in (Haleblian & Finkelstein, 1993, 852). It is an additional indicator of the executive's prestige. By measuring the firms' financial standing, directorship in a renowned organization should reflect the CEO's own prestige (Finkelstein, 1992, 515-516). This variable has not received further attention from other researchers.

Elite education

The educational background could also serve as an indicator for prestige power (Finkelstein, 1992, 516). Some schools are commonly perceived as elite and prestigious, and their reputation transfers to the individual. Having attended such an elite educational institution enables meeting other influential executives and establishing valuable connections (Daily & Johnson, 1997, 102). The variable *elite education* can take values from 0 to 3, indicating whether the manager had no formal higher education at all, graduated from a non-elite school, attended an elite school for one degree, or completed undergraduate and graduate education at an elite institution (Finkelstein, 1992: 516; Haleblian & Finkelstein, 1993: 852). Finkelstein (1992, 538) provides a list of elite educational institutions. However, it should be noted that this list only points out universities in the United States. Depending on the geographical context, other institutions might deserve closer attention. Chikh and Filbien (2011, 1228), for instance, research in a French context, thus, they deem attendance at a prestigious French school as an appropriate reference for *elite education*. Most authors modify this measure into a dichotomous variable with the value 1 if the CEO holds at least one degree from an elite institution and 0 otherwise (Chikh & Filbien, 2011: 1228; Daily & Johnson, 1997: 107; Oler et al., 2009: 435).

³The institutional environment encompasses the society that can support or legitimate the company, like governments, financial institutions, and further external actors (Finkelstein, 1992, 510).

Further insights into prestige power

Out of all power dimensions, prestige power is ignored the most by literature. It is harder to operationalize and the data basis is often insufficient (Tang et al., 2011, 1487-1488). Moreover, it is not as effective in predicting executive effects in firms (Sariol & Abebe, 2017, 41). Han et al. (2016, 375) and Sheikh (2019, 362) omit the prestige dimension with the rationale that it is not a proximal measure relative to the other dimensions. Adams et al. (2005, 1408), Park et al. (2018, 926), and Tien et al. (2013, 426) do not provide further reasoning for neglecting this dimension.

3.1.5. Expanding the Framework: Internal Power

The previous sections show that Finkelstein's (1992: 508) four power dimensions capture the multidimensional characteristic of power. Many researchers follow the same approach or use similar variables in their CEO dominance analyses. Power is difficult to quantify and can often only be measured indirectly via various proxies. Moreover, there is no unified variable that captures it completely. Hence, studies vary based on the definition and measurement of CEO power. While many authors do not directly associate their power measures to one of the four dimensions, this thesis allocates them accordingly. Throughout the examination of literature for the review framework, a limitation of Finkelstein's (1992: 510) approach became apparent. The four dimensions define organizational sources of CEO power. However, power can also emerge from the CEO's personality traits. Based on the findings gathered from reviewing the literature, this thesis introduces personal sources of power in a new additional dimension to expand the framework: Internal power.

Internal power derives from personal sources and comprises personality and behavioral traits. Different concepts such as CEO overconfidence (Brown & Sarma, 2007, 361), hubris (Park et al., 2018, 920), entrenchment (Baldenius et al., 2014: 61; Finkelstein & D'Aveni, 1994: 1079), charisma (Khurana, 2004, 154), and narcissism (Chatterjee & Hambrick, 2007, 355) are mentioned by other authors and could attribute to a CEO's power base. In contrast to the aforementioned dimensions, internal power characterizes the CEO and is often not expressed as a power relation between the executives (Tang et al., 2011, 1481).

Nevertheless, it should be noted that there is no clear separation of the internal power sources from some of the other dimensions. Furthermore, this new dimension is even harder to assess and is thus only introduced as a proposal that could be further researched.

Overconfident CEOs overestimate their own abilities and outcomes regarding their decisions (Brown & Sarma, 2007, 361-363). Hence, they behave irrationally (Hackbarth, 2008, 843). They influence strategic decisions due to their inner conviction regardless of the accuracy of their assessment. Thereby, they either attribute greater potential to decisions or fail to perceive some risk factors involved in their strategic choice (Hackbarth, 2008, 845). While CEO power might

derive from overconfidence, this does not imply that all dominant CEOs are overconfident (Brown & Sarma, 2007, 364). This is an important notion because it shows that managers do not all have the same personality traits. Some might enhance their power base through personal sources, but it does not necessarily influence each CEO's strategic choice. Therefore, overconfidence should be included whenever the context suggests. Closely connected thereto is CEO hubris. It is a cognitive bias expressed in a CEO's excessively high self-confidence and pride (Hayward & Hambrick, 1997, 106). Hubristic CEOs could be detrimental to firm performance as they believe that there is no misconduct in their actions and that they pursue shareholder interest, even if it involves value-destroying decisions (Park et al., 2018, 919). However, quantifying personality traits is difficult (Brown & Sarma, 2007, 363). Hayward and Hambrick (1997, 113-114) identify three proxies to measure CEO hubris based on recent organizational success under the CEO, media appraisal for the CEO, and compensation relative to the second-highest paid executive. The latter is similar to measures of structural power.

When CEOs choose to pursue their own interests rather than maximizing shareholder value, they are entrenched (Weisbach, 1988, 435). Baldenius et al. (2014, 59, 61-63) argue that an entrenched CEO can exert power when combined with high discretion. Managerial entrenchment is, in that sense, not really a source of CEO power but contributes to the powerful CEO's selection of a strategic choice and influences the firm's performance. Literature has researched the relationship between entrenchment, power, and strategic decision (Baldenius et al., 2014: 61; Bebchuk et al., 2011: 213; Finkelstein & D'Aveni, 1994: 1080; Weisbach, 1988: 435). Therefore, it is shortly mentioned here. Especially Finkelstein and D'Aveni (1994, 1080) highlight its positive association with CEO duality, which was introduced as a source of structural power earlier.

Charismatic or narcissistic CEOs tend to take ventured actions (Tang et al., 2011, 1481). Narcissism makes them believe that they have a certain power level and influence over others (Chatterjee & Hambrick, 2007, 355). Like overconfident managers, narcissistic CEOs likely overestimate positive outcomes and have an optimistic view of their actions. They have an inflated self-image and seek attention and approval (Chatterjee & Hambrick, 2007, 357), which could contribute to a powerful CEO's strategic decision making and implementation. Contrarywise, charismatic leaders receive power as others believe in the CEOs' abilities and overrate their impact (Khurana, 2004, 26-27). They are granted greater autonomy and face high expectations from others (Khurana, 2004, 154) which might contribute to their bold actions.

This section should highlight the importance of analyzing the CEOs' personality and investigating whether it enhances their power base. As a basic introduction into internal power, this thesis could initiate further research to find possible measures to operationalize these personal sources. Whenever it is appropriate, authors should consider these personality traits in their research on CEO dominance and influences on

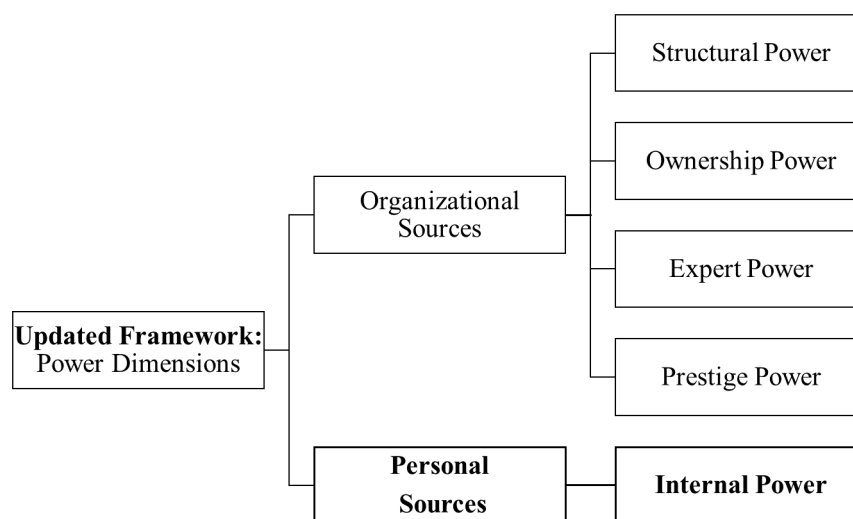


Figure 2: Updated Framework: Power Dimensions. Own Illustration.

strategic outcomes alongside Finkelstein's (1992: 508) organizational sources of power. This thesis, therefore, suggests expanding the framework by adding the dimension of internal power. Figure 2 presents an updated illustration of the power framework.

3.2. Influences of CEO Power on Strategic Choices and Firm Performance

3.2.1. Strategic Change and Firm Performance

Thus far, this thesis has provided an overview of the multiple facets of CEO power. Power is multidimensional and the different sources together influence CEOs' strategic choices in various situational contexts (Finkelstein, 1992, 507). To generate an understanding of how such an influence might look like, and consequently, what impact it might have on firm performance, three strategic choices will be examined, starting with strategic change.

Strategic change comprises two components: Strategic variation refers to the departure from a firm's past resource commitments. Strategic deviance, by contrast, implies a deviation of resource allocation from the industry central tendency (Carpenter, 2000, 1182). The absence of strategic change – conformity – is the tendency to follow the established strategy within an industry (Finkelstein & Hambrick, 1990, 487-488). Many firms follow the central tendency because it enhances organizational legitimacy, reduces uncertainty, and eases access to resources (Geletkanycz & Hambrick, 1997, 660-661), which leads to the emergence of an industry norm (Tang et al., 2011, 1482). It acts as a reference point for executive decision-making and often channels varying opinions (Tang et al., 2011, 1483). In return, conformity does not allow for superior performance. Instead, firms setting themselves apart from the competition are more likely to succeed (Tang et al., 2011, 1484). Hence, some organizational actors would want to deviate from industry norms.

Their ability to push through their decision might depend on their power relative to the others involved in decision-making (Tang et al., 2011, 1483). In particular, the focus lies on the CEO vis-à-vis the board.

According to agency theory, CEOs acting as agents are risk-averse and self-interested (Eisenhardt, 1989, 59-60). With strategic change comes high uncertainty. The variation of existing strategy or deviation from the norm requires additional effort and poses new risk factors (Carpenter, 2000, 1182), whereas commitment to the status quo is likely to be the safer option (Haynes & Hillman, 2010, 1151). Besides, CEOs could be opposed to strategic change, as it has the potential to impact their pay or employment negatively (Carpenter, 2000, 1182). The agent's interest diverges from the company interests, represented by the board that promotes strategic change as a result of weak performance or an agile environment (Haynes & Hillman, 2010, 1160). Hence, CEOs may commit to the existing strategy and choose conformity over strategic change. If CEO power is higher relative to board power, the CEO's decision might prevail (Haynes & Hillman, 2010, 1151). Haynes and Hillman (2010, 1150-1152) test the influence of board capital on strategic change and find out that CEO power moderates these effects. A diverse board therefore produces less strategic change under high CEO power. Interestingly, they figured while disaggregating the influences of CEO power and board capital, both powerful CEOs and diverse boards have a positive main effect on deviation, indicating a preference to deviate from the norm (Haynes & Hillman, 2010, 1158). This leads to the assumption that CEOs might oppose the board as a way to exert power (Haynes & Hillman, 2010, 1159) which is consistent with the agency perspective of principal and agent having differing goals (Eisenhardt, 1989, 58).

Corresponding to Haynes and Hillman's (2010: 1158) notion that powerful CEOs' might prefer to deviate from in-

dustry norms when the choice is not based on a response to the board's decision, Tang et al. (2011, 1480) contemplate the situation where the CEO promotes strategic deviance and moderate the effects with the board. As mentioned above, industry norms often act as a reference point for the top management teams' (TMT) decision-making. To assert deviating, the CEO must have enough power to weaken the impact of the industry's central tendency and to counteract (Tang et al., 2011, 1483). The firm's choice to deviate thus reflects the unilateral preference of the dominant CEO (Eisenhardt & Zbaracki, 1992, 25). This tendency is consistent with Daily and Johnson's (1997: 100) finding that CEOs can exercise power due to their formal position. From an agency perspective, CEOs have an information advantage combined with expertise, which allows them to make decisions (Shapiro, 2005, 276). Assuming that CEOs act as stewards allows for the thought that CEOs might want to deviate from the norm to enhance firm performance by setting the strategy apart from competitors. When granted trust (Davis et al., 1997, 25), they could use their critical knowledge for their firm's benefit.

It is difficult to argue whether deviation results in better or worse performance than conformity (Deepphouse, 1999, 160). It should be noted that performance implications relating to deviation and persistence should include environmental uncertainty and be adjusted to the focal industry (Geletkanycz & Hambrick, 1997, 675-676), which hinders generalizability in this context. However, similar strategies are likely to produce similar performance. Strategic change, by contrast, is riskier. Thus, it can be argued that deviance tends to result in extreme outcome, either extremely high or extremely low performance, whereas conformity rather yields average performance (Tang et al., 2011, 1484).

However, Tang et al. (2011, 1485) argue that a powerful board could weaken the influence of dominant CEOs on strategic deviance and firm performance. To get the board's approval, the TMT must ensure that deviating is in the firm's best interest, regardless of the accuracy of this claim. A powerful board may be able to reduce the information asymmetries through effective monitoring and detect diverging interests. Hence, the TMT might be afraid to lose the board's trust and rather not propose the CEO's deviant strategy (Tang et al., 2011, 1485). While the moderating effect of boards on CEO power-strategic deviance was not statistically significant, Tang et al. (2011, 1493, 1496-1497) found support that the influence of powerful CEOs on firm performance is more positive when coupled with powerful boards, whereas in combination with less powerful boards the effects are more negative.

This leads to the assumption that a balance of power yields the best outcome. Considering previous literature results, it appears that dominant CEOs would prefer deviating from the norm or changing past strategic orientation, either because it reflects their interest or due to an alignment of interests, such as linking CEO payment to strategic change (Carpenter, 2000, 1194).

3.2.2. Capital Structure Decisions and Firm Performance

Modigliani and Miller (1958, 268) argued that under perfect capital market conditions, the market value of a firm is independent of the choice of capital structure. Since then, literature has tried to explain that frictions and market imperfections do matter in finding the optimal capital structure (Li et al., 2017, 1).⁴ Recently, especially the influences of managerial traits and relative power in this context have received greater attention. Thereby, agency theory has gained strong empirical support (Jiraporn et al., 2012, 140).

The central tenet of agency theory is that the capital structure is determined by agency costs that arise from the separation of ownership and control (Fama & Jensen, 1983, 301-302). In firms with agency conflicts, CEOs might rather adopt leverage levels that enhance their benefit instead of maximizing shareholder-value (Jiraporn et al., 2012, 140). While agency theory recognizes a departure from the optimal capital structure, it is equivocal whether agency costs lead to an adoption of leverage below or above the optimum (Chintrakarn et al., 2014, 564). On the one hand, CEOs might adopt little leverage because interest payments constrain the availability of free cash flow for consumption (Jiraporn et al., 2012, 140). Besides, debt financing increases the likelihood of bankruptcy, and consequently, dismissal (Chintrakarn et al., 2014). Another reason could be the CEO's under-diversification. Adoption of lower leverage could reduce firm risk (Jiraporn et al., 2012, 144). On the other hand, CEOs could consolidate their voting power by increasing the leverage level as it reduces the total value of equity (Stulz, 1988, 26-27). Furthermore, CEOs might adopt higher leverage when they engage in empire building (Li et al., 2017, 3).

Leverage is a means of alleviating agency costs. By raising debt, agency conflicts can be mitigated as CEOs have to increase ownership. Moreover, increased leverage urges executives to align their interests and be more efficient (Jiraporn et al., 2012, 143-144). Dominant CEOs have the ability to assert their preferences and thus influence the firm's choice of capital structure in a way that benefits their personal interests. To circumvent these disciplinary mechanisms, powerful CEOs might choose to reduce leverage, expressing an inverse association between CEO power and leverage level (Jiraporn et al., 2012, 150). This suggests that CEO power is negatively associated with the adoption of leverage.

To test this relationship, Jiraporn et al. (2012, 148) run a regression analysis with the firm's leverage level as the dependent variable and CPS to measure CEO power, while controlling for firm-specific characteristics. The results show a negative and significant coefficient for CPS, supporting the proposition.

However, Chintrakarn et al. (2014, 564) argue that the association between CEO dominance and capital structure is non-monotonic. Thus, leverage choice might depend on the

⁴Agency based models suggest that firms should adopt more debt to be profitable (Li et al., 2012: 140).

degree of power a CEO obtains. According to them, leverage positively correlates with CEO power at lower levels. This association turns negative beyond a certain threshold, indicating that CEOs choose sub-optimal capital structure when their power is sufficiently consolidated (Chintrakarn et al., 2014, 565). They find an inverted U-relationship. For lower levels of CEO power, the CEO has less ability to manipulate the capital structure. Thus, the firm adopts higher leverage to align shareholders' and agents' interests and reduce agency costs. But with sufficient power, the CEO has enough discretion to reduce the debt level and avoid disciplinary and control mechanisms (Li et al., 2017, 4). Chintrakarn et al. (2014, 565) use CPS to capture CEO dominance. Their descriptive analysis shows that the average CPS is 0.338. Hence, the average CEO's compensation represents 33,8% of the top five executives' compensation. To analyze the impact of CEO dominance on leverage choices, they run a fixed-effects regression analysis with total debt ratio as the dependent variable and CPS, as well as the quadratic term of CPS as measures for CEO power. The coefficients are both significant but positive for CPS and negative for the squared term. These results reveal that the influence of CEO power on leverage turns from positive to negative at a certain turning point. They calculate that the negative association between CEO power and leverage only accrues after the CPS level exceeds 0.343 (Chintrakarn et al., 2014, 565-566). Thus, agency problems lead to self-serving behavior only if the CEO possesses enough power. Li et al. (2017, 10) confirm the nonlinear relationship with their analysis of the association between CEO power and leverage choice in the context of emerging markets, particularly Chinese small and medium-sized enterprises. Similarly, they conduct a regression analysis with capital structure as the dependent variable and control for firm-specific characteristics. To capture CEO power, however, they construct a power index out of the four variables: founder, title, ownership, and compensation pay slice (Li et al., 2017, 4-5).⁵ They find that - with 0.262 - the average CPS is much lower than for Western firms (Li et al., 2017, 7). Nonetheless, the results are equivalent.

Since more dominant CEOs tend to choose sub-optimal leverage and consequently exacerbate agency conflicts, it is conceivable that it might adversely impact firm value. Especially capital structure changes should have a more negative effect on firm performance and reduce firm value if the CEO is more powerful (Jiraporn et al., 2012, 156). Based on Chintrakarn et al. (2014, 565), one could argue that for lower power levels, performance does not differ much from other firms but it could deteriorate as the CPS threshold is exceeded.

3.2.3. Acquisition Decisions and Firm Performance

Because acquisition decisions are one of the most important investment decisions for a company (Chikh & Filbien,

2011, 1222), this paper investigates the influences of CEO power on them as a final strategic choice. The most apparent motive for takeover is the creation of synergies to enhance firm value (Brown & Sarma, 2007, 360). Stewardship theory suggests that the CEO will act on behalf of the shareholders and maximize their wealth (Davis et al., 1997, 24). However, empirical studies show that the takeover is, on average, value destructive for the acquiring firm's shareholders (Brown & Sarma, 2007, 360). Nevertheless, CEOs might still pursue an acquisition because they gain personal benefits (Oler et al., 2009, 430). According to agency theory, CEOs have the potential to act in self-interest as their actions and motive behind it cannot be fully controlled (Fama & Jensen, 1983, 304). Through the takeover, firm size increases, which in turn can lead to decreased employment risk (Oler et al., 2009, 432) and higher compensation (Dutta et al., 2011, 259). Additionally, it can enhance the CEO's influence, wealth, and status (Brown & Sarma, 2007, 360). Especially engaging in diversifying acquisitions would be beneficial for the CEO but also aggravate agency conflicts. Through increased complexity and lack of transparency, the information-asymmetry is enlarged, and managers have the potential to maximize their welfare (Oler et al., 2009, 432).

By the definition of power in this thesis, powerful CEOs have the capacity to impose their decisions (Finkelstein, 1992, 506) and consequently pursue their interests. This allows for the assumption that CEO power is positively associated with the likelihood of a firm conducting an acquisition.

While Brown and Sarma (2007, 370, 376) find support for the influence of CEO power on firm acquisition behavior, they further argue that CEO dominance is especially important in pursuing diversifying acquisitions. A weakness of their study is the conclusion that a more powerful CEO is generally more likely to conduct an acquisition without differentiating between the sources of power. Brown and Sarma (2007, 359) test their hypothesis only with one measure for CEO power based on executive compensation. As seen in Section 3.1.1, this variable only captures the structural power dimension. Besides, they do not address whether powerful CEOs are more likely to engage in value destructing acquisitions. Oler et al. (2009, 431) show that different power sources have varying implications by breaking down the relationship between CEO dominance and acquisition decisions to each of the four power dimensions. They find support for each of the following claims (Oler et al., 2009, 436). First, they suggest that critical knowledge and an influential network should similarly facilitate the conduction of acquisitions. Hence, the probability of an acquisition announcement is positively associated with expert and prestige power (Oler et al., 2009, 434). Next, they hypothesize that the probability of an acquisition announcement decreases with structural power. CEOs who simultaneously are board chairs are already overloaded with information and are occupied enough. Last, ownership might incentivize the CEO to act for the firm's benefit, and CEOs who are also the company's founder would rather prefer to keep the original structures. Thus, the likelihood of an acquisition announcement is expected to decrease

⁵The power index partially recalls the multidimensional character of CEO power by including structural- and ownership power sources.

with CEO ownership power (Oler et al., 2009, 434-435).

Further, Oler et al. (2009, 434-435, 437) test for the relatedness between the acquiring firm and the target for each power source, which provides information about the likelihood of pursuing value destroying takeovers, such as diversifying acquisitions that could have a negative effect on firm performance. Overall, their results allow the presumption that higher relatedness positively correlates with higher CEO power on all power dimensions. However, their hypotheses are only partially supported, or in the context of structural power not supported. Empirical results by Dutta et al. (2011, 276) show that market participants tend not to act negatively to acquisition announcements by firms with powerful CEOs, indicating that these takeovers are likely not value-destructive. Moreover, the acquirer's long-term performance is not significantly adversely affected by the powerful CEO's acquisition decision.

This suggests that although dominant CEOs decide whether to pursue an acquisition for their personal welfare, they do not tend to conduct value-destroying takeovers (Dutta et al., 2011, 276). This might reflect the trade-off between dominant CEOs' motives behind an acquisition. They could act as agents who are incentivized to align interests through linking compensation or personal reputation to firm performance. Contrarily, powerful CEOs might maximize firm welfare as stewards, as it also enhances their own benefits. For instance, if the CEO is also the corporate founder of the firm.

4. Add-On: Case Study of Elon Musk

This paper has disclosed sources of CEO power and examined three different strategic choices which are influenced by a dominant CEO under consideration of conceptual and empirical study findings. An analysis highlighting the role of CEO power in a company should exemplify a practical application of the developed theoretical findings. After comparing current cases of firms with powerful CEOs that pursued all three strategic choices, this thesis portrays Elon Musk, the CEO of Tesla, Inc.

Elon Musk is an entrepreneur, engineer, inventor, and investor (Kurtuy, 2021). While he possesses some degree of formal structural power due to his position as Tesla's CEO, his compensation does not really reflect his dominance. As of 2020, he does not receive any cash base salary. Before then, he would have earned 23,760\$, which is the Californian minimum wage requirement, but he never claimed it (Amend. No. 1 Annual Report Tesla, 2020, 13). All executive officers at Tesla receive a relatively low base salary. However, the CEO's ratio compared to the median annual total of the other executives is 0.00:1 now and was 0.41:1 in 2019. Musk's compensation is tied to Tesla's performance (Amend. No. 1 Annual Report Tesla, 2020, 6), which aligns the CEO's and firm's interests. Elon Musk is a director and he used to be chairman of the board but had to step down due to SEC allegations regarding a tweet in April 2019 (Amend. No. 1 Annual Report Tesla, 2020, 4). Without this CEO duality, the

board has better monitoring and control functions over him. However, Elon Musk seems to have a high degree of ownership power. One source thereof is his shareholdings. He owns 22.4 % of shares outstanding of the common stocks. For comparative purposes, all 12 current executives and directors together, including the CEO, own 24.3% (Amend. No. 1 Annual Report Tesla, 2020, 25). Besides, Musk is also one of the founders, the largest stockholder of the firm, and he has a brother on the board who might be particularly loyal. The CEO is experienced in different functional areas, which expresses his expert power. He is CEO, chief technology officer, chairman at SpaceX, and chairman at SolarCity. He (co-)founded multiple companies, such as The Boring Company, Neuralink, PayPal, and Zip2, all operating in different industries. Moreover, his tenure as Tesla's CEO is 13 years, and he has been CEO of SpaceX since 2002 (Amend. No. 1 Annual Report Tesla, 2020, 1). His prestige power is demonstrated through his directorship at Endeavor Holdings since April 2021. Furthermore, Musk holds a bachelor's degree in physics and business from the University of Pennsylvania, a private Ivy League school (Amend. No. 1 Annual Report Tesla, 2020, 1).⁶ Lastly, Elon Musk might derive some internal power from his personality traits. He seems to be overconfident and optimistic, which could be seen in his grand visions and choice of ventures, like spacecraft manufacturing at SpaceX and advancing the development of sustainable electric vehicles at Tesla. Also, his compensation is entirely tied to Tesla's performance, which could be interpreted as high confidence in the firm's success and also attracts attention to his name. He has frequently been in the news for various achievements (Kurtuy, 2021) and was temporarily the richest person in the world (Frank, 2021).

Elon Musk has accumulated power through all introduced dimensions and thus influences the firm's strategic choices. The following insights concern Musk's actions as CEO of Tesla. Tesla is an example of positive deviance from the industry norm. It revolutionizes the car manufacturing industry and contributes to sustainable, emission-free mobility (Tesla, 2021b). Moreover, Tesla is highly innovative and departs from the standards on all levels, like the car design, the online distribution (DeGraff, 2015), and the engagement to build all-electric vehicles. Musk himself is frequently the driving force behind innovation and leads the designs, manufacturing and engineering of the company's vehicles and other products (Tesla, 2021a).

To analyze Tesla's capital structure under Elon Musk as CEO, the quarterly debt/equity ratio over the time period 2016-2020 is calculated (de Wet, 2006, 2). All relevant data is retrieved from Tesla's quarterly and annual reports, and

⁶Ivy League schools are some of the most prestigious universities, also mentioned in Finkelstein's (1992: 538) list of elite educational institutions.

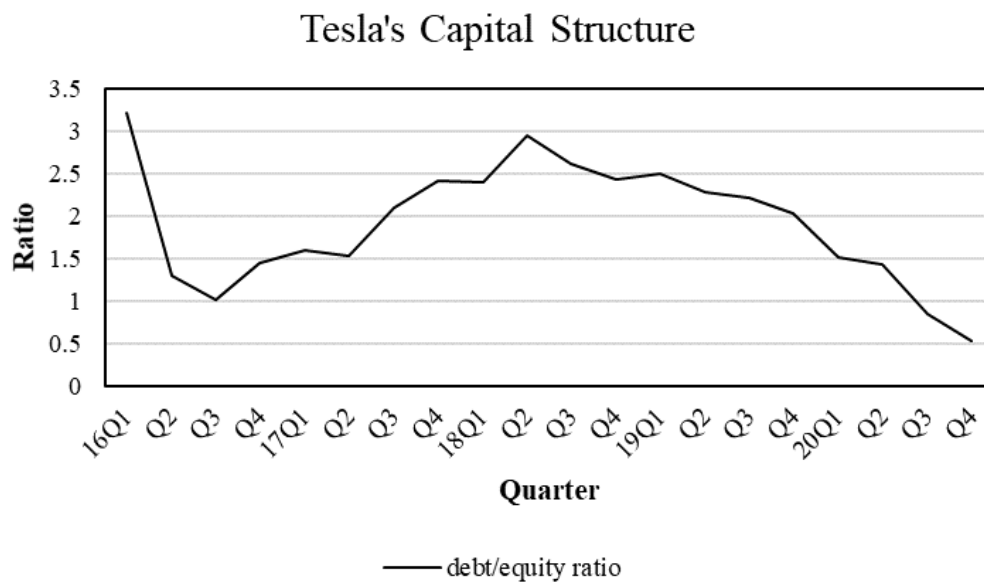


Figure 3: Tesla’s Capital Structure. Own Illustration.

the ratio is calculated as shown in Equation (1):

$$\text{debt/equity ratio} = \frac{\left(\begin{array}{l} \text{current portion of debt and finance leases} \\ + \text{debt and finance leases, net of current portion} \end{array} \right)}{\text{total stockholders' equity}} \quad (1)$$

The precise numbers are presented in Appendix 2. Figure 3 plots the associated graph. Tesla’s debt/equity ratio was highest in the first quarter (Q) of 2016 with 3.21, indicating that the leverage was 3.21\$ of debt to 1\$ of equity. In the next two quarters, the ratio strongly declined to 1.01 but increased again during 2016 Q4 - 2018 Q2, with a new peak at 2.95. Since then, Tesla’s debt/equity ratio almost monotonically decreased and reached 0.85 in 2020 Q3. At this point, debt was lower than equity for the first time. This trend seems to continue as the ratio dropped to 0.53 in 2020 Q4. The development of the ratio since 2018 Q2 is consistent with findings of the literature. The proportion of equity increases with Elon Musk as a powerful CEO. Thereby, risk can be reduced (Jiraporn et al., 2012, 144), and lower leverage dilutes the control- and disciplinary mechanisms (Li et al., 2017, 4). Nevertheless, this observation should not induce false conclusion. While a correlation is noticeable, it does not imply a causal effect of CEO power on Tesla’s capital structure. Other factors, like the industry, development of the share price, and other external influences also play a role in Tesla’s choice of capital structure.

Lastly, this section investigates Elon Musk’s acquisition behavior by looking at the widely discussed takeover of SolarCity, a company that specialized in solar energy generation, in June 2016. It was an all-stock transaction worth over \$2.5 billion (Song, 2019, 536). Tesla’s official motives for

the takeover were expanding the product range, enhancing efficiency, and cost reduction while SolarCity should boost its marketing methods (Guo, 2019, 286). Additionally, management believed that the acquisition would create synergy effects. But at the takeover announcement, Tesla’s stock price immediately dropped over 10%, leaving shareholders skeptical (Kolodny, 2019). Apparently, Elon Musk knew that SolarCity had liquidity issues at the time of the takeover and still pursued the acquisition without informing the shareholders (Kolodny, 2019). Instead, he overestimated the financial welfare to get them on board. Hence, it can be argued that this acquisition was mainly driven by Musk to gain personal benefits and reflected a conflict of interests between the CEO and shareholders (Song, 2019, 537). As Elon Musk was the main shareholder and chairman of SolarCity during that time, he could consolidate his power in both companies (Guo, 2019, 286) and increase his stock ownership of Tesla’s common stocks (Song, 2019, 537). Meanwhile, predominantly minority shareholders sustained damage through this takeover. It was very risky, as SolarCity had huge debt, and profitability was not in prospect for a long time (Song, 2019, 537-538).

The case study of Elon Musk shows that the theoretical findings of extant literature are still applicable to current CEO practices. His power can be retrieved from the power dimensions by Finkelstein (1992, 508) and his personality shows signs of possible internal power sources that were introduced as an expansion of the framework. Moreover, the propositions regarding the strategic choices could be largely supported by his and the firm’s actions. Nevertheless, this is only one example of a well-known CEO and does not guarantee an externally valid fact as the unique composition of CEO, firm, and action within an environment yields disparate observa-

tions. Still, the case study provides insights into the integration of theory and practice and offers a method of studying powerful CEOs.

5. Discussion and Outlook

After analyzing conceptual and empirical papers about CEO power and providing a case study that applies theory to practice, this section discusses the main findings of this thesis. Finkelstein's (1992: 508) four power dimensions were used as a review framework to organize literature on this topic. Thereby, each section disclosed different sources of power and discussed the utilization of various variables to measure it. The analysis shows that many authors operationalize CEO power with the same variables. However, the extent and composition of the measures for CEO dominance differ, which can be seen in Tables 2–5. More recent literature tends to focus on one or few measures per dimension, whereas older papers adopt more. Besides, the tables also show which variables prevail in recent studies. For structural power, CPS and CEO duality seem to be primarily used, which are slight modifications of Finkelstein's (1992) measures. Ownership power is still mostly operationalized with ownership and founder status. In contrast, the new source CEO tenure is considered for expert power. Prestige power still consists of elite education and directorship on outside boards. Appendix 1 reveals that structural power is the most cited dimension, either alone or in combination with the other three. It also points out that prestige power is omitted by most authors, especially lately in newer research, as it is not effective in predicting executive influences in the firm (Sariol & Abebe, 2017, 41), and the database is often insufficient (Tang et al., 2011, 1488). This trend has already become visible in Table 5.

Finkelstein (1992, 510) remarks on a limitation of this framework which also became apparent while reviewing the literature. The power dimensions only include organizational sources without consideration of the CEO's personality traits. Hence why this thesis expands the framework by introducing internal power as a fifth dimension. However, these sources are difficult to operationalize, and it would be beyond the scope of this paper to further investigate their role in CEO dominance.

While analyzing the influences of CEO power on three strategic choices and firm performance, it appears that the CEO does have an impact and that the degree thereof is enhanced by power but simultaneously reduced by equally powerful adversaries, like the board. Effective monitoring aligns the CEO's and the firm's interests to produce better performance (Tang et al., 2011, 1497). Regarding capital structure decisions, agency theory suggests that dominant CEOs choose suboptimal leverage levels (Chintrakarn et al., 2014, 564). Empirical studies find that less dominant CEOs adopt higher leverage while powerful CEOs tend to reduce the debt level as soon as their power is sufficiently consolidated (Li et al., 2017, 4). Finally, dominant CEOs seem to pursue acquisitions for their own benefits but they do not tend to conduct

value destructing takeovers (Dutta et al., 2011, 276). The case analysis of Elon Musk reflects the findings of the literature.

Before highlighting the contributions to the literature in Section 6, this section points out some limitations of this thesis and derives further research opportunities.

Firstly, the focus on CEO power only does not fully cover the impacts on firm outcome. Further research could investigate the interplay between a dominant CEO and the TMT. Moreover, the shortly addressed interaction between powerful CEOs and boards in Section 3.2.1. should receive further attention. Corporate governance (Sheikh, 2019, 359), powerful boards (Pearce & Zahra, 1991, 149), and market power (Jaroenjitrkam et al., 2020, 720) could have moderating effects on CEO power that may impact the CEO's strategic choices.

Secondly, the concept of CEO power is difficult to quantify, and results depend on the choice of proxies to measure the sources (Brown & Sarma, 2007). Hence, generalizability and comparability of different studies are restricted. Future research could disaggregate the construct of power and study the individual influences thereof on a CEO's strategic choices (Oler et al., 2009, 431). This might offer some managerial implications as it helps to identify where interests need to be aligned.

Thirdly, especially nowadays, there is an urge for self-portrayal and attention-seeking in a fast and well-connected environment. CEOs attain some degree of fame which might reinforce the need to include internal power in further research. Together with the high accessibility to critical information and an international network, future research could investigate whether the importance of some sources is shifted nowadays.

Finally, the agency theory turned out to be the theoretical foundation that derives and explains most of the empirical findings cited in this thesis. Although the need to oppose the agency perspective with the stewardship theory was recognized, the lack of implementation of the latter in extant literature narrowed the insights thereof in this paper. Literature should start to more frequently adopt this stewardship view in explaining executives' actions to capture the complexity of organizations better (Eisenhardt, 1989, 71). This again would provide insightful managerial implications.

6. Conclusion

This thesis aimed at identifying the different sources of CEO power and determining how it influences strategic choices and firm performance. To answer the research question, it first provided a review framework following Finkelstein's (1992: 508) work. Within this framework, 22 research papers were organized according to four power dimensions, and similarities and differences in their approaches were identified. Each section included a summary of the authors who address the respective power dimension. The framework showed how multifaceted CEO power is and

made transparent which authors try to capture this complexity, omit a certain dimension, or apply only one source. Appendix 1 provides a list of all analyzed papers. As far as is known, this compilation of CEO power literature under one review framework has not been done by previous authors yet, and thus constitutes this paper's main contribution to the literature. In a second step, this thesis expanded the framework by adding the internal power dimension. Sources derived from personality traits should not be neglected by research on the dominance of CEOs as they could influence the actual exercise of power (Brown & Sarma, 2007, 364). Together, these five dimensions contribute to a CEO's power and influence strategic decisions. Hence, this thesis provided the investigation of CEO power sources before further analyzing the association between CEO dominance and selected strategic choices. In each case, CEO power seems to impact strategic decision-making, which can also be seen in the case study of Tesla's CEO, Elon Musk.

On the one side, the agency theory suggests that agents maximize their welfare, although this could adversely affect firm value (Combs et al., 2007, 1301-1302). Powerful CEOs have the means to assert their will and could thus be detrimental to firm performance. They could impede strategic change to ensure their employment and compensation or promote it when their pay is coupled to performance (Carpenter, 2000, 1182). Furthermore, they might adopt suboptimal leverage choices. Powerful CEOs could alleviate debt to dilute monitoring and disciplining, which increases agency costs (Jiraporn et al., 2012). Finally, power plays an important role in acquisition behavior. Especially less justifiable takeovers that only serve for the CEO's empire-building are mostly value-destructive for the shareholders (Brown & Sarma, 2007, 360). On the other side, the stewardship theory emphasizes the virtue of centralizing power in CEOs. With aligned interests, they could enhance performance (Davis et al., 1997, 25) as decision-making is consolidated and faster. A bold CEO with high expertise might surmise a needed deviation from industry norms and encourage strategic change. Only with sufficient power, this decision can be asserted (Tang et al., 2011, 1483). The analysis of capital structure decisions revealed that powerful CEOs exacerbate agency conflicts and reduce firm value (Jiraporn et al., 2012, 142), a fact that does not leave much room for a stewardship explanation. Lower levels of power might be less obstructive as an interest alignment could be achieved externally through adopting more leverage (Chintrakarn et al., 2014, 565). Lastly, literature argues that powerful CEOs do not necessarily conduct destructive takeovers for their own welfare (Dutta et al., 2011). Oler et al. (2009, 431) highlight that the source of power differently impacts the CEOs acquisition behavior. CEOs with high ownership power might want to maximize firm welfare and are less likely to conduct acquisitions (Oler et al., 2009, 434-435).

The juxtaposition of the driving forces behind a powerful CEO's decision-making raises the question of whether to leave *power to the CEO*. Different contexts yield disparate answers and literature does not reach an agreement (Tang et

al., 2011, 1497). Based on the findings delineated in these sections, this thesis concludes that powerful CEOs should be monitored to identify their motives. As steward behavior becomes clear, they should be granted the needed autonomy to drive firm performance, whereas self-interested agents need to be disciplined by an equally powerful board. Human action is inconclusive, hence, there is no universally valid answer to the question but the right strategic interaction with powerful CEOs might open up new opportunities.

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