

Abstract

Using a novel approach towards competition and the Sarbanes Oxley Act (SOX) as a shock to internal governance we examine the interaction between product market competition and corporate governance mechanisms. Our results provide a support for notions of substitution model of dividends and firms' financial policies being shaped by competition environment. We find evidence that companies facing higher competition threats experience a larger profitability improvement, a notion that is inconsistent with a traditional substitution relationship of governance and competition.

JEL Classification D22, G32, G34, G35

Keywords Competition, Governance, Fluidity, Profitability, Financial Flexibility

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