

Nonlinear relationship between CEO power and capital structure: evidence from China's listed SMEs

Abstract

This paper investigates the relationship between decisionmaking power of chief executive officers (CEOs) and corporate capital structure in the context of emerging market characterized by deep collectivism and less prescriptive regulatory and legislative environment. Using a sample of 297 firms listed on Shenzhen Stock Exchange SMEs Board from 2009 to 2013, it finds a hump-shaped association between CEO power and leverage suggesting a strong nonlinearity between these two variables. Furthermore, the results show that the entrenchment effect of CEO power on firm leverage becomes more fiercely in state-owned firms. Our findings are robust to alternative calculation procedures for the CEO power index and to alternative estimation techniques. The shareholders and policy makers might leverage our findings to improve the performance of CEOs in the Chinese small and medium-sized enterprises.