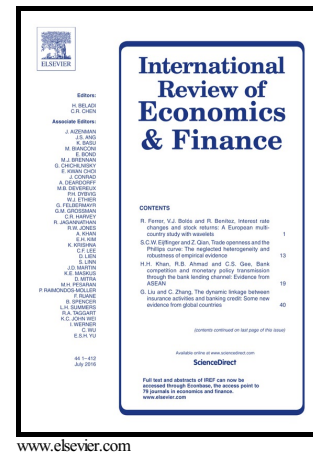


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# **Nonlinear Relationship between CEO Power and Capital Structure: Evidence from China's Listed SMEs**

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## **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.

Keywords: CEO power, Capital structure, Leverage, Agency theory, SMEs

## **1. Introduction**

Previous literature has intensively explored the relationship between corporate capital structure and diversified characteristics from industry and firm-level. Yet, firms that are similar in terms of these fundamentals often choose different corporate leverage (Cronqvist, Makhija, & Yonker, 2012). This has led researchers to recently study the impact of personal characteristics of the firms' top executives, because top executives are seemed to be typically important factors with regard to financial decisions (Bertrand & Schoar, 2003; Liu & Jiraporn, 2010; Cronqvist et al., 2012) and other strategic choices (Finkelstein, 1992). However, the

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