Does Power Differential between Board Chair and CEO Matter?

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Abstract

Different with western companies, the board chair is the top decision maker of the business and the CEO is the executive of the decision among Chinese companies. So we assess the degree to which power differential between board chair and CEO may influence their companies' capital structure. To test power gap effect, we focus on firms in which the CEO and board chair are separated. Using a China sample of 8,022 firm-year observations, our results indicate that increasing power differential between board chair and CEO is negatively associated with capital structure deviation degree and positively with capital structure adjustment speed. We also find this relationship is more significant when the firm is non-state-owned enterprise. Our results add to the literature examining the role and influence of power differential and suggest power gap between board chair and CEO may be an efficient governance mechanism to companies.

Keywords: Power Differential Target, Capital Structure, Deviation Degree, Adjustment Speed

1. Introduction

The key to modern corporate governance is to establish effective supervision and incentive mechanism to motivate the company's agents to make decisions that maximize shareholder value. The influence of CEO duality on the value of the company is an important topic. According to the "China Corporate Governance and Development Report 2014" data, chairman and CEO separation ratio has stabilized to 75% among China's listed companies by the end of 2013. In Chinese modern enterprises, the board chairs represent the interests of the board of directors and shareholders and own the highest decision-making power, and CEO is the dominant executive. In reality, there are many competition and conflicts between board chair and CEO. The disunion seriously affects the corporate governance mechanism and development. Whether the power distribution between board chair and CEOcan impacts the company behaviors and the degree to which power gap between board chair and CEO may effectively improve corporate governance are important issues in corporate governance research.

On the other hand, financing decision is the basis of enterprise operation and development, determining whether the enterprise can survive and develop successfully, and is the premise of other activities. While the capital structure decision-making is the core part of financing decision. Dynamic capital structure theory (Fischer et al., 1989) believes that the there is an optimal capital structure in which average cost of company is lowest. But in reality, capital structure may deviate from the optimal capital structure because of some reasons. And enterprise will adjust the proportion of debt and equity to approach the optimal capital structure. In fact, as a result of the existence of principal-agent problems, managers' interests are often not completely consistent with shareholders' interests, and this problem also exits in the decision of capital structure adjustment. Morellec et al. (2012) believes that there is agency conflict between shareholders and managers, so when enterprises have higher debt levels, corporate free cash flow decreases, which can effectively restrain managers to spend cash, thus maintaining high debt level can constrain the behavior of the managers. And from the perspective of managers, managers have power to distribute the enterprise resources, and are important policy makers.

How to build a reasonable corporate governance mechanism to promote managers to make decisions from the shareholder interests or effectively supervise and incentive managers are important research issues in the field of capital structure decision. Existing research literatures focus on external factors of enterprises, corporate governance and internal control to explore the influence factors of the enterprise capital structure. Few literatures focus on the most important leaders in corporate governance and decision-making—chairman and CEO. The board of directors represents the interests of the shareholders, and the chairman is the representative of the board of directors, he is the "head leader" of the enterprise.CEO is the representative of the managers, the "second leader" of the enterprise. Chairman and CEO are important decision makers of corporate capital structure, so the power balance of the shareholders and managers can be measured by the power gap between the chairman and CEO. Thus, in a firm, CEO behavior is influenced not only by his own power and motivation, but also power gap between chairman and CEO.

Therefore, different from the previous literature, this paper focuses on whether the power gap between chairman and CEO will affect the decision-making of corporate capital structure. We choose the A-share listed firms in Shanghai and Shenzhen stock markets from 2009 to 2015whose chairman and CEO are not the same person as the research sample to explore the influence of power gap between board chair and CEO on the firm capital structure.

The contribution of this paper is threefold. First, this study contributes to executive power literature. This paper defines the research object as the chairman and CEO, which is in line with the reality that the chairman and CEO are the top leaders in the enterprise in China. This paper enriches the cognition and understanding of executive power by combining the theory of social norms and the theory of organizational hierarchy when studying the impact of power on executive decision-making. Second, based on the measurement of executive power by Finkelstein (1992), we construct the measurement index of power differential. Thus, in some cases, future research may benefit from measurement of power gap. Third, this study contributes to the literature on corporate capital structure. This study explores the impact of informal mechanisms in enterprises on capital structure and how power disparity to improve corporate governance.

This study also has important practical significance. Western countries are typical of low-power distance society. Members in organizations are more inclined to accept equal power levels. China is a society with a high power distance. People are more advocated and sensitive to power and can accept higher levels of social power (Shao et al., 2013).Power plays a very important role in the business decision-making process. Based on the unique cultural background in China, this paper studies the role of power disparity in capital structure decision-making. This research is helpful to further optimize the allocation of top management team, improve the governance mechanism, and improve the efficiency of decision-making and supervision of listed companies, and ultimately promote the enterprise value, protect the interests of investors.

2. Background and Literature Review

The board of directors is the core of modern corporate governance structure, and the governance efficiency and effectiveness of the board of directors are important issues in theoretical and practical areas. Corporate governance studies have found that the characteristics, structure of board and capital of board can influence the corporate governance efficiency and have the important impact on the enterprise value. Based on the characteristics, structure and capital of the board, research on corporate governance mechanism provides a good explanation to how to improve the effect of corporate governance. But there is a shortage in these studies, that is, the board of directors tends to focus on members of the board of directors, but ignored the very important decision maker—CEO, and the interactive impact between CEO and the board of directors on enterprise management and financial decision-making. From the reality, the relationship between CEO and the board of directors is very close. According to agency theory, the CEO is self-interest and risk-averse behavior, goal of CEO tend to deviate from the maximize shareholder value. When CEO has a stronger power, CEO can play a leading role in the process of the appointment of the members of the board of directors, support close-knit candidates to join the board of directors, finally influence the quality of the business decisions. Therefore, in the study of the effect of corporate governance and the decision-making behavior of the board of directors, CEO power must be considered.

Studies on executive power research have found that executive power can have a significant impact to salary system, corporate strategy, investment behavior, corporate innovation, corporate governance, corporate performance, financial report and so on.CEO is always the executive leader of the team, so a lot of studies focus on CEO and CEO power is used to directly measure the power of the executive team.

Overall, based on managerial power theory, the study found that the greater power executive team or CEO has, the more likely they are to make decisions to maximize their own interests. The result is also consistent with the agency theory predictions. However, there are still some shortcomings. First of all, the definition of executive members mainly aims at the CEO or the entire top management team, and neglects the power distribution within the top management team and the relative power between the members. Secondly, the existing study has multiple dimensions and indicators to measure power, resulting in inconsistent conclusion. Finally, the research of top management team of power mainly based on the principal-agent theory and managerial power theory, and research mainly focus on the negative consequences of power, lack of attention to the positive role of power.

Financing decision as the basis of enterprise production and operation, determining whether the enterprise can survive and develop smoothly, and is the premise of other activities. The capital structure decision-making is the core part of enterprise financing decision. A large number of studies have shown that there is an optimal or target capital structure in the enterprise. Due to various reasons, the enterprise capital structure may deviate from the target capital structure, but in the process of dynamic development, the enterprise can adjust the proportion of debt and equity to reach the target capital structure, then reduce the enterprise cost, improve enterprise management and enhance corporate value. What factors can determine the speed of the enterprise capital structure adjustment to approach the target is becoming important topic and research hotspot in the research of the capital structure. Existing research shows that the company internal and external factors, such as firm characteristics (Drobetz and Wanzenried, 2006), profitability (Brendea, 2014), macroeconomic operation (Cook and Tang, 2010), institutional environment (Huang et al., 2014) have a significant impact on corporate capital structure adjustment speed. In addition to the above factors, while the capital structure policy is decided by the executives, so the capital structure dynamic adjustment process and speed are also affected by executives adjust intend. If the enterprise executives and shareholders exist serious agency problem, and shareholders can't execute effective supervision and incentive constraints, the enterprise may not adjust capital structure.

3. Theory and Hypothesis

China is a society with profound cultural connotations. It has been deeply influenced by Confucianism for thousands of years. Confucianism emphasizes "respect for seniority" and "loyal to monarch". The strict hierarchy of ideas has become a system and social norms restricting people's behavior, and lead to high power distance in China. Because Confucian hierarchy has a far-reaching impact on people, people in China are more sensitive to power and tend to be more compliant and maintain good relationships with authoritative people. Therefore, the power level has formed a kind of social norm in China. As the company's top leader, board chair and CEO are responsible for corporate innovation activities. So does the power gap between the chairman and CEO can affect the capital structure? This paper attempts to give the answer to this question.

Power gap between chairman and CEO can change enterprise capital structure adjustment intention. Enterprise can choose financing and distribution policy to adjust capital structure. In modern company, CEO has the power to allot the key resources, and is an important policy maker. With the defense motivation of management, CEO will choose financing decision and distribution policy that are beneficial to reinforce his position. Because of asymmetric information and principal-agent problems, self-interest and defensive motivation CEOs will select capital structure that is beneficial to their management (Walter, 2003). So when capital structure deviates from the target capital structure, CEOslack willingness to adjust capital structure. According to the managerial power theory (Bebchuk, 2002), executive power is the executive's capacity to enforce their will, and reflect the deep influence to the decision and supervision of the board of directors or meeting of shareholders. When CEO power is high, CEO can have deeper influence on the board, and are more likely to choose lower capital structure. Therefore, in the top management team, power balance can weaken the power of CEO, and strengthen capital structure adjustment willingness. On the one hand, if the chairman's power is higher than CEO, chairman can form effective supervision on CEO, play a leading role in the decision-making, and reduce the self-interested behavior of CEO. However, if the power of CEO is too big, even more than the power of the chairman, CEO behaviors can't be supervised and CEO is capable to seek power rent, make capital structure decisions that conform to maximize his own interests. On the other hand, if there is a certain gap between the chairman and CEO, chairman of the board of directors can improve the interest consistency of CEO and enterprise by appointment, evaluation and incentive mechanism, promote CEO adopt a more reasonable debt levels, and speed up the adjustment speed when actual capital structure deviates from its target capital structure. Second, the power gap between the chairman and CEO can improve the ability of the enterprise capital structure adjustment.

China is a typical high power distance society, has the very strong authoritarian culture. Power gap between board chair and CEO is in line with the China social norms so that team order and stability can be maintained.

According to social norms theory, the reason why society can develop steadily is that people agree and comply with certain standards. If members violate social norms, they will be excluded and punished by the groups. Social norms vary from culture to culture. For China, the certain power gap between superiors and subordinates will be regarded as conforming to the social norms. Under the social norms, the subordinates will not have a threat to their positions and interests (Zhang et al. 2009). For the superiors, the non-threatening subordinates are more popular, and the leaders can give the subordinates a higher appraisal score. In this case, top management team is more harmonious and has fewer conflicts. When power gap between upper and lower levels does not meet the social norms, it is easy to cause team conflicts and friction. For example, Zhang et al. (2009) found that if the subordinate is older, has a longer working life, and has a higher level of education, subordinates turnover rate is higher. Therefore, based on the social norm theory, we believe that the power gap between the chairman and CEO is in line with China's social norms and is conducive to maintaining the order of the team. Such a stable and harmonious organizational environment can have a positive effect. According to the hierarchical theory, the rank in enterprise is advantageous to role specialization among executive members, and promotes the clear internal division of working(Halevy et al., 2011). It can effectively improve the efficiency of communication and work (Anderson and Brown, 2010), and avoid confusion or excessive interference. It can also effectively avoid CEO having the more power than chairman, and finally improve work efficiency. Therefore, when the greater the power gap between the chairman and CEO, top managers can communicate easier, reduce the degree of information asymmetry and finally optimize the corporate governance. The good corporate governance can send positive signals to the capital market, improve enterprise's financing ability, which can reduce the enterprise capital structure adjustment cost, and eventually to speed up the company's actual capital structure to the target capital structure adjustment speed.
Based on the above analysis, we predict our hypothesis:

H1: The power gap between board chair and CEO can reduce degree of deviation from the optimal capital structure.
H2: The power gap between board chair and CEO can improve the optimal capital structure adjustment speed.

4. Research Design

4.1 Data and Sample

To test our hypothesis, we choose A-share listed companies in Shanghai and Shenzhen stock exchanges from 2009 to 2015 as a sample to examine the impact of the power gap between chairman and CEO on the capital structure. The purpose of this paper is to examine the impact of the power gap between the board chair and CEO, so we exclude the sample that chairman and CEO is the same person. Finally, we exclude observations with missing variables and obtain 8,022 observations as our sample. We obtain institutional investor data from Wind database and other data from CSMAR database. In order to control the impact of outliers, we win sorize all continuous variables at the 1st and 99th percentiles.

4.2 Capital Structure Deviation Degree

Drawing on the previous literature, we use the model(1) to calculate the target capital structure-Lev^*. Then we define capital structure deviation degree as the diffidence between the real capital structure and the target capital structure, that is *MOD_LEV=|LEV-LEV*|*.

$$LEV_t^* = bX_{t-1} \quad (1)$$

In this model, X_{t-1} is the variables that can influence the capital structure. X_{t-1} concludesthe enterprises size, tax shield, profitability, the proportion of fixed assets, and the medium leverage ratio in the same industry.

To test Hypothesis 1, we build the following model (2):

$$MOD\_LEV = a + b_1POWER + b_2SIZE + b_3LEV + b_4GROWTH + b_5ROA + b_6TAN$$
$$+ b_7BOARDSIZE + b_8CR1 + b_8INST\_HOLD + b_9SOE + åIND + åYEAR \quad (2)$$

The independent variable is capital structure deviation degree, and is defined as $|LEV_t - LEV_t^*|$. The dependent variable is Chairman-CEO power gap. We also control the enterprises size, leverage ratio, growth opportunity, profitability, the proportion of fixed assets, the size of board, concentration of ownership institutional investor

holding, the nature of property rights. In addition, we also include industry and year fixed effects to control for differences between industries and year and any potential cross-sectional dependence of residuals.

4.3 Capital Structure Adjustment Speed

Drawing on the previous literature, we use the model(3) to calculate the capital structure adjustment speed.

$$LEV_t - LEV_{t-1} = \textit{l}\left(LEV_t^* - LEV_{t-1}\right) + m_t \quad (3)$$

In model (3), LEV_t is leverage ratio in the year of t. LEV_{t-1} is leverage ratio in the year of t-1. LEV_t^* is the target capital structure of listed companies estimated by the model (1). Regression coefficient $\textit{l}$ is the capital structure adjustment speed. To test the influence of Chairman-CEO power gapon capital structure adjustment speed, we put power gap into the model (3). The new model is as follows:

$$LEV_t - LEV_{t-1} = \left(g_0 + g_1 POWER\right)\left(LEV_t^* - LEV_{t-1}\right) + m_t \quad (4)$$

The Regression coefficient g_1 is the effect of power gap on capital structure adjustment speed. g_1 is positive, indicating that Chairman-CEO power gap have a positive effect on capital structure adjustment speed. g_1 is negative, indicating that Chairman-CEO power gap have a negative effect on capital structure adjustment speed.

4.4 Test Variable—Power Gap between Board Chair and CEO

The Chairman-CEO power gap is the core explanatory variable of this paper. This paper draws on Finkelstein's (1992) division of executive power, examines the individual power of the chairman and CEO from the three dimensions of ownership power, expert power and prestige power, and then calculates the Chairman-CEO power gap.

4.4.1 Ownership Power

This paper measures the ownership power of the chairman and CEO based on founders, executive shares and directors of the corporate shareholder. (1) Founder. Drawing on the method of Liuet al. (2014), if the chairman and CEO are the managers of the company when the company IPO, then he is a founder, then we define his score as 1, otherwise 0.And we construct a dummy variable, if chairman's score is greater than CEO's, then *POWER_FOU* is 1, otherwise is 0.(2) Executive Shares. We separately account for the shareholding percentage of the chairman and CEO. If the chairman has a larger shareholding percentage than CEO, then the dummy variable *POWER_SHA* is 1, otherwise is 0. (3)Directors of Corporate Shareholder. If chairman or CEO is director of corporate shareholder, then we define his score as 1, otherwise is 0. And we construct a dummy variable, if chairman's score is greater than CEO's, then *POWER_ISC* is 1, otherwise is 0.Finally we add three dummy variables up to form the Chairman-CEO ownership power gap-*POWER_OWN*.

4.4.2 Expert Power

This paper measures the expert power based on tenure, professional title and functional areas. (1)Tenure. Calculate the number of years for the chairman and CEO working in their respective positions. If chairman has a longer tenure than CEO, then the dummy variable *POWER_TEN* is 1, otherwise is 0. (2)Senior Professional Title. If a manager is senior engineer, senior architect, senior accountant, senior economist, senior international business division, certified public accountant, certified public assets estimator, lawyer, professor, associate professor, researcher, associate researcher and two academician, then senior professional title is 1, otherwise is 0. And we construct a dummy variable, if chairman's score is greater than CEO's, then *POWER_PRO* is 1, otherwise is 0.(3)Functional Areas. This item is a straight count of the number of different functional areas a manager had experience in. If chairman has more functional areas than CEO, then *POWER_JOB* is 1, otherwise is 0.Finally we add these three dummy variables up to form the Chairman-CEO expert power gap-*POWER_EXP*.

4.4.3 Prestige Power

This paper uses three indicators as the key components of prestige. (1) Education Background. We define Dr. degree is 5, master degree is 4, bachelor degree's 3, junior college degree is 2, and high school or secondary is 1.If chairman has a higher degree than CEO, then *POWER_DEG* is 1, otherwise is 0. (2) Boards Number. This variable is the total number of corporate boards that manager serving as. If chairman has more boards number than CEO, then *POWER_JOB* is 1, otherwise is 0. (3) Political Status.

If chairman has higher political status than CEO, then *POWER_POL* is 1, otherwise is 0.Finally we add up three dummy variables to form Chairman-CEO prestige power gap-*POWER_PRE*.

The above three dimensions reflect different sides of the power gap between the chairman and CEO, but each dimension has some limitations and is not comprehensive enough. Therefore, we draw on the method of Quan et al. (2010), and we generate two comprehensive index. (1) We give the same weight to the nine indicators, and calculate the comprehensive indicator 1-*POWER_SUM*.Its value ranges 0-9 points. (2) We give different weights to each indicator and synthesize the comprehensive indicator 2-*POWER_PCA*.In addition, we control variables may influence capital structure and also control the annual and industry fixed factors. The definition of variables is shown in Table 1.

Table1 Variable Definitions

Variables	Definitions
LEV*	is the optimal capital structure, calculate by model (1).
MOD_LEV	is the absolute value of real capital structure min optimal capital structure.
DELTA_LEV	isequal to real capital structure in year t min capital structure in year t-1.
DEV	is equal to optimal capital structure min capital structure in year t-1.
POWER_OWN	is a count variable equal to the sum of *POWER_SHA, POWER_FOU, POWER_ISC*.
POWER_EXP	is a count variable equal to the sum of *POWER_TEN, POWER_PRO, POWER_FUN*.
POWER_PRE	is a count variable equal to the sum of *POWER_DEG, POWER_JOB, POWER_POL*.
POWER_SUM	is a count variable equal to the sum of *POWER_OWN, POWER_EXP, POWER_PRE*.
POWER_PCA	is a continuous variable that is calculated by Principal Component Analysis.
SIZE	is a continuous variable equal to the log of total assets.
LEV	is a continuous variable equal to long term debt plus current liabilities divided by total assets.
GROWTH	is a continuous variable equal to the log of the ratio of sales in t to sales in t-1.
ROA	is a continuous variable equal to earnings before interest and tax divided by total assets.
TAN	is a continuous variable equal to fixed assets divided by total assets.
BOARDSIZE	is a count variable equal to the number of the board of directors.
CR1	is a continuous variable equal to the percent of total common stock outstanding that is owned by the first majority shareholder.
INST_HOLD	is a continuous variable equal to the percent of total common stock outstanding that is owned by institutional owners.
SOE	is an indicator variable equal to one if the company is state-owned and equal to zero other-wise.

Descriptive Statistics and Correlation Coefficients

Table 2 is the descriptive statistics for all firms in the primary analyses. The variable *LEV** has a mean value of 0.510, indicating the target leverage ratio is approximately to half. The mean of *MOD_LEV* is 0.166, indicating the capital structure deviation degree is 0.166. In three dimensions of power gap, *POWER_PRE* have the biggest mean, indicating difference between chairman and CEO is the largest in the dimension of prestige power. The mean of *POWER_SUM* is 2.815 and the mean of *POWER_PCA* is -0.004.

Table 2 Descriptive Statistics

Firm-Year Descriptive Statistics
2009-2015

Variable	N	Mean	Median	Std.Dev	Min.	Max.
*LEV**	8,022	0.510	0.49	0.11	-1.82	0.98
MOD_LEV	8,022	0.166	0.14	0.12	0.00	0.56
DELTA_LEV	8,022	-0.003	0.01	0.74	-46.77	37.27
DEV	8,022	0.007	0.04	0.82	-54.75	0.64
POWER_SUM	8,022	2.815	3.00	1.61	0.00	8.00
POWER_PCA	8,022	-0.004	-0.30	1.34	-5.44	11.71
SIZE	8,022	22.121	21.94	1.33	19.30	26.17
LEV	8,022	0.480	0.48	0.22	0.07	1.00
GROWTH	8,022	0.175	0.10	0.48	-0.59	3.19
ROA	8,022	0.039	0.03	0.06	-0.17	0.22
TAN	8,022	0.251	0.22	0.18	0.00	0.75
BOARDSIZE	8,022	9.016	9.00	1.79	5.00	15.00
CR1	8,022	0.361	0.34	0.16	0.09	0.76
INST_HOLD	8,022	42.479	42.97	23.04	0.68	89.25
SOE	8,022	0.562	1.00	0.50	0.00	1.00

Table 3 presents correlation coefficients for variables included in the primary analyses. *POWER_SUM*, *POWER_PC*, *POWER_OWN, POWER_EXP* and *POWER_PRE* are all negatively correlated with *MOD_LEV*, that is consistent with our H1.

Table 3 Correlation Coefficients

	MOD_LEV	OWER_SUM	OWER_PCA	OWER_OWN	OWER_EXP	OWER_PRE
MOD_LEV	1	-0.033***	-0.029***	-0.022*	-0.019*	-0.023**
POWER_SUM	-0.045***	1	0.556***	0.719***	0.614***	0.657***
POWER_PCA	-0.041***	0.560***	1	0.489***	0.523***	0.155***
POWER_OWN	-0.036***	0.736***	0.555***	1	0.281***	0.195***
POWER_EXP	-0.021**	0.635***	0.474***	0.297***	1	0.068***
POWER_PRE	-0.032***	0.653***	0.127***	0.189***	0.068***	1

4. Empirical Results

4.1Power Gap and Capital Structure Deviation Degree

Table 4 reports the OLS regression results for model (2): the impact of the power gap between chairman and CEO on capital structure deviation degree. Among them, the test variables are *POWER_SUM* in the first two columns and the test variables are *POWER_PCA* in the last two columns. As expected and consistent with our research, *POWER_SUM* and *POWER_PCA* are negative and significant. The results in Table 4 show that the power gap between the chairman and CEO has a significant impact on the corporate capital structure deviation degree. The bigger the power gap, the less deviation degree of the capital structure is. The empirical result is consistent with H1.

Table 4 Power Gap and Capital Structure Deviation Degree-Overall Test

Var.	MOD_LEV			
	(1)	(2)	(3)	(4)
POWER_SUM	-0.004***	-0.004***		
	(-2.90)	(-2.62)		
POWER_PCA			-0.004***	-0.004**
			(-2.77)	(-2.33)
SIZE		-0.013***		-0.013***
		(-4.75)		(-4.60)
LEV		-0.067***		-0.068***
		(-2.85)		(-2.88)
GROWTH		-0.000		-0.000
		(-0.04)		(-0.12)
ROA		-0.151***		-0.151***
		(-3.34)		(-3.35)
TAN		-0.038**		-0.038**
		(-2.27)		(-2.29)
BOARDSIZE		-0.003**		-0.003**
		(-2.04)		(-2.10)
CR1		0.004		0.004
		(0.25)		(0.26)
INST_HOLD		-0.000*		-0.000*
		(-1.68)		(-1.84)
SOE		0.010*		0.009*
		(1.85)		(1.65)
Year fixed effects	YES	YES	YES	YES
Ind fixed effects	YES	YES	YES	YES
N	8,022	8,022	8,022	8,022
Adj R^2	0.022	0.071	0.022	0.076

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

4.2 Power Gap and Capital Structure Adjustment Speed

Table 5 reports the regression results for model (4): the impact of the power gap between chairman and CEO on capital structure adjustment speed. Among them, the test variables are *POWER_SUM* in the first two columns and the test variables are *POWER_PCA* in the last two columns. As expected and consistent with our research, the coefficient on interaction term *POWER_SUM*DEV* and *POWER_PCA*DEV* are positive and significant ($p<0.05$). The results in Table 5 show that the power gap between the chairman and CEO has a significant impact on the corporate capital structure adjustment speed. The bigger the power gap, the higher adjustment speed of the capital structure has. The empirical result is consistent with H2.

Table 5 Power Gap and Capital Structure Adjustment Speed

Var.	DELTA_LEV		
	(1)	(2)	(3)
DEV	0.084***	0.078***	0.085***
	(17.19)	(16.08)	(17.47)
POWER_SUM		0.001*	
		(1.68)	
*POWER_SUM*DEV*		0.001**	
		(2.30)	
POWER_PCA		-0.003***	-0.000
		(-2.68)	(-0.17)
*POWER_PCA*DEV*			0.008**
			(2.23)
CONSTANT	0.004	0.002	0.005
	(0.51)	(0.027)	(0.55)
N	8,022	8,022	8,022
Adj R2	0.053	0.055	0.053

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

4.3 Robustness Test

We replace dependent variables by using the mean leverage ratio and medium leverage ratio in the same industry as the target leverage ratio. Then define the capital structure deviation degree by calculating the difference between real capital structure and new capital structure. We find similar results to Table 4 using these two measures. The results are reported in table 6.

Table 6 Alternative Measures of *MOD_LEV*

Var.	MOD_LEV_1		MOD_LEV_2	
	(1)	(2)	(3)	(4)
POWER_SUM	-0.004***		-0.004***	
	(-2.38)		(-2.45)	
POWER_PCA		-0.004**		-0.004**
		(-2.44)		(-2.43)
SIZE	-0.015***	-0.014***	-0.012***	-0.011***
	(-4.52)	(-4.36)	(-4.27)	(-4.08)
LEV	0.080***	0.079***	0.140***	0.140***
	(2.94)	(2.91)	(5.96)	(5.93)
GROWTH	0.003	0.003	0.003	0.002
	(0.69)	(0.63)	(0.81)	(0.72)
ROA	-0.153***	-0.154***	-0.153***	-0.153***
	(-2.80)	(-2.80)	(-3.38)	(-3.38)
TAN	-0.041**	-0.042**	-0.031*	-0.031*
	(-2.21)	(-2.22)	(-1.79)	(-1.80)
BOARDSIZE	-0.002	-0.002*	-0.003*	-0.003*
	(-1.61)	(-1.66)	(-1.83)	(-1.88)
CR1	0.007	0.007	0.009	0.009
	(0.38)	(0.38)	(0.51)	(0.51)
INST_HOLD	-0.000*	-0.000**	-0.000***	-0.000***
	(-1.92)	(-2.07)	(-2.61)	(-2.78)
SOE	0.010	0.008	0.012**	0.010*
	(1.55)	(1.31)	(2.00)	(1.75)
Year fixed effects	YES	YES	YES	YES
Ind fixed effects	YES	YES	YES	YES
N	8,022	8,022	8,022	8,022
Adj R2	0.100	0.100	0.102	0.102

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

5.2 Alternative Measures of Power Gap

We draw on Beck and Mauldin (2014) measure of CFO's power. We sort all firm-year observations into quartiles based on nine power indictors. Each set of quartile values ranges from 1–4. Then add nine power indictors up to board chair power and CEO power. Finally, we calculate the power gap *(POWER_DUM)* between the chairman and CEO. The results of the robustness test are shown in Table 7. The results in Table 7 provide support for H1 and H2.

Table 7 Alternative Measures of *MOD_LEV*

Var.	*MOD_LEV₁*		*MOD_LEV₂*	
	(1)	(2)	(3)	(4)
POWER_SUM	-0.004***		-0.004***	
	(-2.38)		(-2.45)	
POWER_PCA		-0.004**		-0.004**
		(-2.44)		(-2.43)
SIZE	-0.015***	-0.014***	-0.012***	-0.011***
	(-4.52)	(-4.36)	(-4.27)	(-4.08)
LEV	0.080***	0.079***	0.140***	0.140***
	(2.94)	(2.91)	(5.96)	(5.93)
GROWTH	0.003	0.003	0.003	0.002
	(0.69)	(0.63)	(0.81)	(0.72)
ROA	-0.153***	-0.154***	-0.153***	-0.153***
	(-2.80)	(-2.80)	(-3.38)	(-3.38)
TAN	-0.041**	-0.042**	-0.031*	-0.031*
	(-2.21)	(-2.22)	(-1.79)	(-1.80)
BOARDSIZE	-0.002	-0.002*	-0.003*	-0.003*
	(-1.61)	(-1.66)	(-1.83)	(-1.88)
CR1	0.007	0.007	0.009	0.009
	(0.38)	(0.38)	(0.51)	(0.51)
INST_HOLD	-0.000*	-0.000**	-0.000***	-0.000***
	(-1.92)	(-2.07)	(-2.61)	(-2.78)
SOE	0.010	0.008	0.012**	0.010*
	(1.55)	(1.31)	(2.00)	(1.75)
Year fixed effects	YES	YES	YES	YES
Ind fixed effects	YES	YES	YES	YES
N	8,022	8,022	8,022	8,022
Adj R2	0.100	0.100	0.102	0.102

*** p<0.01, ** p<0.05, * p<0.1

6. Conclusions

Using a sample of A-Share listed firms during 2009-2014 in China, we focus on firms that whose chairman and CEO is not the same person. We explore the influence of power gap between chairman and CEO on enterprise capital structure, and further investigate the effect the nature of property right and the size of board on the relationship of power gap and capital structure. The results show that the power gap is negatively related to the capital structure deviation degree, and positive correlate with capital structure adjustment speed.

The results show that the power gap can stimulate the willingness of CEO and improve the ability to adjust capital structure. In subsample analyses, we find three dimensions of power gap have different effects. Further analysis shows that the effects of Chairman-CEO power gap on capital structure deviation degree and capital structure adjustment speed are more significant in the state-owned enterprises. This means that the enterprise property rights have the important influence on relationship between power gap and governance effect.

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