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Does Entrenched Manager Like Bond?

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Abstract
Prior research has documented both positive (John and Litov, 2009) and negative (Berger, Ofek, and Yermack, 1997) relation between managerial entrenchment and the use of debt. This paper takes further investigation of the impact of corporate governance on the firm's leverage by taking into account the substitution effect of different governance mechanics. Consistent with John and Litov (2009), we find that antitakeover provisions have a positive effect on firm's leverage. However, this effect disappears when we control for the interaction between antitakeover provisions and board power, measured by the board independence. More specifically, we find that entrenched managers, proxied by a number of antitakeover provisions, operate a firm with a higher leverage only if they are exposed to greater board power. The result on this positive relationship between firm's leverage and the interaction of board power and antitakeover provisions continues to hold even after we consider other governance variables.

Keywords: Antitakeover Provisions, Board Power, Firm Leverage

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