THE POSITION OF THE C.E.O. IN THE CYCLE OF THE ENTRENCHMENT

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Abstract:

The objective of this paper is to study the position of the C.E.O. in the cycle of the entrenchment, taking note of the effectiveness of the mechanisms of control internal and external leaders, we set out in this framework, if the Board of Directors uses its power to review the performance as an indicator of the wealth of shareholders, leaders can be maintained or revoked.

Keywords: The Entrenchment Managerial, The Council of Administration, CEO, The performance.

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Introduction

When the property and management functions are separated, the interests of shareholders and those leaders may diverge. In particular, theories of property rights, transaction costs and the Agency studied the shareholder relationship leader described as confrontational as each of the two parties continued divergent personal goals. These theories assume that the leader has a passive behaviour. However, and despite the fact that it flows from these theories, the theory of rooting assumes that a leader has an active behaviour. In fact, this theory tries to show how the actors or organizational modes are not efficient continue to exist on supposed markets competitive (Hill et Jones, 1992). It also explains how mechanisms supposed to strengthen the efficiency of organizations can be used by players to entrench their functions (Alexandre and Paquerot, 2000). Parties continued divergent personal goals. These theories assume that the leader has a passive behaviour.

In this sense, Entrenchment translated will agent escape, at least partially, control of the principal (the shareholders), to be granted greater personal benefits (either as compensation in cash, or as in-kind benefits) (Pigé, 1998).

. The entrenchment managerial is defined as being all the means that can be used by leaders to conquer, retain or increase their power (Paquerot, 1997).The entrenchment which is part of the theory of the Agency as well as cost transaction, assumes that the actors dévoloppent of strategies to maintain their place in the Organization and squeezing out competing possible (Alexandre and Paquerot, 2000). For the leader himself, entrenchment is the desire to increase its freedom of action, and\/or increase its annuities (G.Charreaux, 1997c). Thus, leaders will be able to make their expensive replacement for the Organization of which they are part. A leader would therefore tend to root to increase his power with the firm and the benefits from (job security, pay, other benefits). (Gharbi, h., 2002).

This research has the objective to study and clarify the position of the C.E.O. in the cycle of the entrenchment. This objective leads to various questions about? How CEOs estimated in the cycle of the entrenchment? What are the evaluation criteria for CEOs by the performance?

The first section is devoted to a review of the literature of the theoretical perspectives used to study the evaluation of leaders. The second section focuses on explaining the entrenchment managerial by the performance.

1. The evaluation of leaders

The evaluation function of leaders is often described as having two broad categories of mechanisms, respectively the Board of Directors and the financial market

1.1.The Council of Administration (CA)

The CA is the structure of corporate governance, it has a mostly disciplinary function. The role of the CA is multiple:

- Ratify and control the important decisions taken by management.
- Nommer leaders.
- Evaluer leaders.
- Déterminer the Executive compensation.
- Révoquer appropriate leaders.

In theory, many authors, as Charreaux (1997a) see CA as a tool of control internal corporate governance which has a power important and which has several functions to preserve the interests of the shareholders and to resolve conflicts between the latter and the leaders. It is therefore a body to ensure the best selection of competent leaders. The CA is by encouraging the latter to perform and direct the company to increase its value.

Ginglinger (2002)[1] mentions that "CA occurs when the performance of the firm are deemed unacceptable, to revoke the leader or revise its earnings." The assessment by the CA is complex. On the one hand the effort does occur to a long horizon and irreversible decisions of previous leaders facing the present situation. "On the other hand, the consequences of the decisions of the leaders and the environment of the firm are nested, and requires a permanent comparison with competing firms"[2].

[1] Ginglinger E.(2002), "L'actionnaire comme contrôleur", Revue Française de Gestion, vol.28, n°141, novembre/décembre p37-55

[2] P45 in Ginglinger E.(2002)

Some research has thus shown the difficulty to monitor the behaviour of the leaders due to problems of asymmetry of information[3]. This research highlighted the difficulty to assess the features of the leaders in terms of capabilities, skills, risk aversion, of intent to resignation … .etc., on recruitment or promotion.

The evolution of the leaders by the CA is delicate in light of the complexity of the managerial tasks. In addition, the CA has information on the decisions and actions of the leaders. It takes what theorists call a moral hazard delegating their power of decision to the principal executive officer of the company. The importance of such a risk may also depend on the dispersion of capital.

If the CA decides the leadership change and to choose a successor, it is better able to analyze the profile of the candidate, to define the needs of the firm, however the CA seeks to recruit the leader more than the structure of the firm and the most qualified. Another quality sought by recruiters is also the reputation of the leader.

The leader promoted to the head of the company is known to the CA and chosen by him, the variable compensation becomes less necessary because of the low risk of adverse and moral selection. On this occasion, the importance of the power of the CA would lead them to curb their need to control the leaders by the variable compensation through the inherent asymmetry of information reduction, as Parise demonstrates that the experience of the directors in recruitment of leaders play an important role in the success of the selection of a new leader well selected is often hired to achieve profound changes or to make up for the inability of the leadership internal to the challenge. As the risk of the adverse and moral selection are important, the variable compensation becomes an element of control and essential incentive. This proposal would be in the sense of the theory of Agency. A major compensation plan can be used to attract the most suitable candidate that which will be available to the company knowledge and services to enable it to increase its performance.

[3] Zajac, E.J.(1990),"CEO selection, succession, compensation and firm performance : a theoretical integration and empirical analysis", Strategic Management Journal, vol 11, n°3, p217-230

In theory, the CA must encourage the leader to maximize value creation to ensure consensus among the various partners of the company and its leader and, therefore, to act in the interests of the shareholders[4].

Theoretically, the role of the CA was not defined in the same way by the various authors. Bancel (1997), for example think that the protection of the assets of the undertaking and the evaluation of the leaders are also part of the liability of the CA.

Of after the recent work, such as those of Ploix (2003), the CA is required to ensure a dual mission: evaluation of leaders and the transparency of information, Ploix (2003) think that the mission of the control exercised by the CA is possible if the leaders are sufficiently informed, through the various reports on the various accounting documents business and finance. She thinks that an effective CA must include leaders who are recruited following a number of criteria including essentially the jurisdiction, the presence, involvement, independence and especially the availability.

1.2.The financial market

The financial market plays a major role when when the test of legitimacy is the performance. The financial market allows the evaluation of the information extracted on the business (Gomez, 1996). It also provides an evaluation of the performance of the leaders. For Fama (1980), the existence of an efficient financial market is a means of effectively controlling leaders, it is called market discipline. The means that can be used to control are derived from financial markets that can punish a poor performance of a business or a strategic error of the leader, through a fall in stock at any time. In addition, the possibility of occurrence of OPA may pose a threat to the incompetent leaders so replacement of the leader should be concluded for a positive impact on stock prices.

The OPA Act as a direct and indirect threat to incompetent leaders or too little concerned with the interest of the shareholders. The mere threat of a takeover bid can compel leaders fearful of losing their jobs to maximize shareholder value.

[4] Paquerot and Carminatti-Marchand(2000), "Composition des conseils d'administration française : évolution depuis 1995"

Shleifer a. and R.W. Vishny (1989) proposed that hostile takeover can be discipline operations carried out by high-performance leadership teams to remove less efficient the market leaders and may be strategies of rooting by leaders who want to keep their place at the head of the company. Knowing that the discipline of financial market, reduced asymmetry of information management leaders and the returns they expect from the investment projects. Monitored necessarily leaders must act to maximize the wealth of the actionnaires(Jensen and Meckling, 1976).The work of a leader will be measured primarily by its impact on the wealth of the shareholders (the value of their capital actionnarial).

The disciplinary role of the stock market serves as ultimate system at two levels. First, the shareholders who are unhappy can sell their securities, thus lowering the value of the business. It may causes several adverse consequences for leaders: decrease of their pay if they hold stock or if their remuneration is indexed on the course. Thus the recruitment of a leader better paid, which implies higher skills, produced a rising prices, investors anticipate a future increase of the performance of the company. Second, the image of the financial market, the disciplinary role of harvest controls is justified in several ways (Derhy, 1996): the threat of OPA forced leaders to manage the business in the best interests of shareholders. In addition, this threat encourages leaders to pass to the financial market information that might allow a correct evaluation of the company: "the assessment by the stock market reflects the value of the" (Charreaux, 1997c) managerial decisions.

2. The entrenchment managerial by the performance

The criteria for evaluation of the leaders on the performance were much studied in the literature, but little work has been devoted to the identification of entrenchment of the leaders by the performance.

2.1. The CEOs and performance of firms

The theory of governance, centred on the analysis of the discretion of the leaders and the existing link between latitude and performance company, aims to minimize the cost of Agency and transactions between owners and managers by implementing control mechanisms ensuring the performance of firms. Literature on governance (or Government of the company) has preferred a particular issue: how to ensure that the leaders of the firm acted in the best interests of the owners (Performance of the firms)?

For after the study by Barnhart and Rosentein (1998) on the relationship between the holding of shares by the leadership and performance of firms. Barnhart and Rosentein (1998) have found that the detention of actions by the leadership to improve the performance of firms.

Bhagat, Cary and Elson (1999) conducted a study on the relationship between the proportion held by the leadership and performance of firms. They have led to the existence of a positive relationship between the value of the shares held and the performance of firms. Agency costs arise once the interests of business leaders align not necessarily to those (s) owner (s) and prefer to take advantage of the benefits in kind, advance their personal interests and make decisions which their allow their rooting against the performance of firms. As its environment, the leader will claim internal control mechanisms, its incentive to improve the performance of its business, will fall to favour other objectives such as those disproportionately increase his personal satisfaction (pay, special advantages). It is important to note that, in this theoretical framework, the bad performance of the firms result from their choice of leaders. The worst performing leaders are eliminated in favour of more efficient teams.

The theory of human capital has been the subject of relitigation of the heterogeneity of the practices of remuneration existing (Baker, Jensen, Murphy,) 1988. It remains, however used for example to study the impact of the level of training of executives and their professional experience in the performance of their firm (Dimov, Sherperd, 2005).

The objective of these compensation practices is to make more intimate the relationship between the performance of firms and executive compensation to counter the discretion of the latter on the process of pay (Tosi and Gomez-Mejia, 1989); Hall and Liebman, 1998; (Finkelstein and Boyd, 1998).

To avoid redundancy, leaders submit performance to their presence. Thus, they increase their managerial skills and are that the company cannot be effective without them. To bring leaders to efforts in their favour and to improve the performance of firms, we can define three types of contracts of remuneration that have induced effects:

- 1ére type of contract entitled by a fixed salary encourages non-pecuniary levies and reduction of the risk of the firm.

- 2éme type of contract, compensation based on stock market data is for part unrelated to the efforts of the leader
- 3éme type of contract, compensation indexed results provides a strong incentive to the manipulation of these.

The benefits of these types of compensation contract, include the following:

- Attirer the most competent leaders.
- Les incentive to behave in the interest of the owners.
- Minimiser agency costs.

2.2. The reputation of CEO

The reputation of the leaders is defined by the assessment that the market of his ability and his skills. It can affect the ability of the leader to appeal to different sources of funding, and their power of negotiation with the different partners. In an imperfect market, characterized by asymmetric information, the leaders are concerned with the signal to the market of work on their skills. Leaders are encouraged to take the decisions that promote their reputation at the expense of the interests of the other partners of the company. This will have an effect on their reputation and therefore, on their future earnings. Managers reputation can be affected by generous compensation plans.

Leader remaining still, according to theorists of entrenchment, able to manipulate the information communicated to market leaders, with a view to reputation (Hirshleifer, 1993), therefore it is the objective of maximization of the répuationnel capital can be achieved by manipulating the information.

The entrenchment theorists assume that the internal quarry is the only concern of the leaders. The entrenchment strategy assumes that the reputation is specific to the business. Leaders have interest to properly perform their end role to promote their human capital which is a function of their réputation(Fama,1980). However, leaders can be directed to an external career strategy, build reputation is not specific to the company. The duration of the mandate of the leader in the business is only one medium available to acquire a certain reputation and this with the objective of the leader is therefore an objective of value, maximizing its reputational capital.

The overlapping of mandates of the leader is before all a reputation effect measured by Kaplan and Reishus (1990) and Paquerot (1996) through a positive influence on the business performance.

This theory of reputation can bring the leaders to have an attitude of manipulation to increase their reputation to better leverage their human capital and to expand their horizons manager.

2.3. The revocation and succession of the CEO.

It is very difficult to distinguish between resignation and revocation, revocation is external to the leader and appropriate to him. According to several researchers, the revocation of the leader would announce as an indicator determining the roots of the leaders. One of the essential tasks of the CA is the selection and removal of leaders.

The leader is prompted to increase its rooting to reduce his risk of revocation, making it therefore more expensive by the shareholders. The revocation "*is the translation of the exercise by the partners of their right to monitor the management of the company and to the replacement of leaders in which they have confidence.*"

There are two types of revocation:

- La revocation so-called "adnutum": in this case, people with the power of removal may do so at any time and without having to be justified

- La revocation for cause: in this case, the people with the power of removal must provide a reason; If they do not the revocation will remain valid, but the leader will be able to obtain compensation.

In both cases, will let a reasonable "notice" to the leader and to give the opportunity to submit its observations, otherwise it may obtain compensation.

Revocation may pose some difficulties, when the leader is an employee of the association. If he is paid for a separate effective work of its executive functions, its revocation will have no impact on the maintenance of his contract of employment. If this contract is suspended time of its mandate, the leader would normally find his position as an employee. The replacement of a leader can have effects harmful both on the strategy of entrenchment of the leaders on its organizational structure, it is the behavior of the leader that is put forward, the partners based on a challenge it in the exercise of its functions to its revocation. The fault is usually in breach of the law, any decisions or instructions received. In any case, the revocation is generally based on a fault of management of the leader which can sometimes be compromised the social interest. As shareholders, lenders creditors can encourage

the CA to change leader (Schleifer, Vishny, 1997), for example, where the non-repayable debts by the company, they have the power to cause deposit balance, if the company continues its activity, banks often become shareholders and are involved in the appointment of a new leader in most of the cases the revocation of the leader in place (Gilson, 1990).

Conclusion

Our research has developed the importance on the theory of rooting of the leaders, she explained that the leader is always seeking enlargement of its discretionary space. As opposed to the theory of the Agency and incentives that offer different mechanisms of control and incentives to increase the efficiency of the management of the leaders, the theory of rooting relativizes the role of these mechanisms. It is assumed that they are not always sufficient to compel the opportunistic behaviour of the teams managerial (Alexandre and Paquerot, 2000).

Thus, potentially aggrieved shareholders are in the development of the theories of the Agency and incentives a set of control systems allowing, on the one hand, discipline leaders and on the other hand, to limit the scope of their authority in a manner that they manage the firm in accordance with the expectations of their major. In this design, the Board of Directors is, according to the theory of the Agency, the main internal control mechanism of the leaders. It presents a specific influence on the management of the firm control systems and important disciplinary power to deter the leaders to manage the organization in the interest of the shareholders. This aspiration has theoretically supported by Hermalin and Weishach (2003). They report that the Board of Directors accepts mission is to reduce the problems of Agency between shareholders and managers. This prediction of the theory of Agency was recently validated by Lefort and Urzua (2008). They confirm the fact that the Board of Directors as a mechanism of control that appears to reduce the costs of Agency between shareholders and managers.

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