

## OF THE THEORY OF THE AGENCY TO THE THEORY OF ENTRENCHMENT MANAGERIAL

**Kammoun Chafik\***

**Boujelbène Younes\*\***

### **Abstract:**

The objective of this paper is to study and compare different theories to argue the trajectories of rooting. The diversity of ideas developed in theoretical work shows that rooting is for leaders to enhance their presence in the enterprise (for themselves) by making it costly to their removal. It leads to wonder about the terms and trajectories of rooting and on the extent of effectiveness of control systems imposed on the leaders.

**Keywords:** The Entrenchment Managerial, The theory of Agency, Leader, Shareholder.

\* Faculté des Sciences Economiques et de Gestion de Sfax, Université de Sfax, Tunisie, Route de Gremda km 2, Aein cheikhrouhou, Sfax 3032, Tunisie.

\*\* Faculté des Sciences Economiques et de Gestion de Sfax, Université de Sfax, Tunisie, Institut Supérieur, D'administration des affaires de Sfax, Route de, l'aérodrome km 4, Sfax BP 1013 Sfax 3018. Tunisie.

### 1. Introduction

Most recent research on the governance of the company, identified by Gillan (2006) focus on the actors and the mechanisms of governance encompass topics such as the role of the CEO (Goyal & Park, 2002), the composition of the Board, the remuneration of managers, but on the relationship between corporate governance and performance . "The main issue which meet these research the nature of the practices to be implemented to develop a governance" "effective" and reach of "good performance", including financial terms between quotation marks covered by various definitions.

According to the theory of corporate governance, leaders can actively construct, because of their central place in the modern business organization, a strategy to get the achievement of satisfying their personal interests. In these circumstances, corporate governance can be defined as a set of mechanisms which discipline leaders. According to the definition of Shleifer and Vishny (1997), corporate governance includes the ways in which the company capital providers can ensure the profitability of their investment. This definition limits the scope of governance conflict of interest between managers and shareholders.

Charreaux (1997a) favours the approach that the major financial decisions are related to problems of control and discipline of the leaders. Variety of purposes - maximization of entrenchment , maximization of discretionary space - match various funding policie

According to the definition of Charreaux (1997b), corporate governance expands the sphere of players involved in the conflict of interest: bankers, employees, clients or public authorities.

The study of the literature on the governance of the company is nevertheless reveal a lack of research on the structural effects of the developments in the governance of business organizations, both in their forms in their methods of operation.

We will have the opportunity during this research to analyze the modalities strategic of the entrenchment managerial.

The Agency theory presents the conflicts that may arise between the leaders and the shareholders of a company. The goal of the leaders is to persuade shareholders that it is best suited to manage the business (Shleifer and Vishny, 1989), the objective of each of the

stakeholders is to maximize its utility function. In the event that the objective would be to maximize its usefulness, Myers (1984) defines an organizational surplus consists of various attributes (their objective being to maintain this level of power and maximize their level of remuneration, consumption of goods and services without enveloped). Given enough binding, to the organizational surplus, monitoring activity related to debt, the leader will establish the following hierarchy: cash flow, capital increase and debt, however, it may be noted that this type of behaviour may be limited by implement the shareholder of leaders control structures, more, suggests that the leader to increase discretionary space and its latitude managerial will try to bypass certain mechanisms of governance.

The decline relatively important for the performance of the company will produce a rapid change in all or part of the management team (Finet, Labelle, 2004). However, leading teams maintain their level of power and this despite low levels of performance. In this case, it is said that the leader is grounded (he circumvented all or part of the control mechanisms to which it is submitted).

The entrenchment managerial is understood as a strategy set up to get essential (Pigé B., 1998) to reduce the risk of revocation and increase its discretion (J.P. Pichard-stamford, 2000), it is also a technique to make expensive replacement for the Organization to which it belongs (Shleifer and Vishny, 1989; H. Alexander and M. Paquerot, 2000).

M. Paquerot (1996) equates it to an excess of jurisdiction of the leader on the other partners of the company. That dominance may be legitimate or opportunists (M. Paquerot, 1996; Pigé B., 1998 and J.P. Pichard-stamford, 2000).

Accordingly, the central questions of our research:

- *Up to what point can the strategies of entrenchment deployed by the various leaders maintain their social positions?*

- *What are the modalities strategic of the entrenchment managerial ?*

This paper is organized as follows: The first section is devoted to a review of the literature of the theoretical perspectives used to study the process of the entrenchment managerial. The second section focuses on explaining the modalities strategic of the entrenchment managerial.

## 1. Process of the entrenchment managerial

M.Paquerot (1996) highlights three phases the Process of the entrenchment: a phase of upgrading of the leader, in which he begins a strategy of the entrenchment "neutral", a phase of reduction of the means of control, so the leader will proceed to a strategy of "offensive" entrenchment. Finally, a consumption phase during which, the leader will be interest to follow a strategy of the entrenchment "defensive" at the same time.

### 1.1. The phase of upgrading of the leader or "neutral" entrenchment

This first phase, the newly appointed leaders must be proven to the shareholders and various partners, the leader who wants to root to create value for its partners. In this part of the strategy, it must therefore be more powerful than the others and make the best use of the combination of its human capital and assets of the company shareholders expect its share good management of their firm.

The leader with the rights granted through his new position adopted behavior "ordinary" to respect the interests of the firm. It seeks to listen, to enforce, to establish its pouvoir.....Might as well talk about rooting of neutral type where he began to attach to the firm in accordance with the interests of shareholders (Gharbi Hela, 2002). This phase allows to accumulate the necessary authority on its partners to then move to the second phase of the strategy is to paralyse the organization control systems.

### 1.2. The phase of reduction of the means of control or "offensive" entrenchment

This second phase of the strategy should further increase the power of the leader with the partners, the leader must reduce the effectiveness of the controls exercised in carrying out specific personal skills investments or even with falling implicit contracts with other influential people within the company (executives, members of the CA.....)(Finet A., 2001). This phase usually requires développer the information asymmetry and the Elimination of competitors. Both of these elements may appear at the same time. The information asymmetry contributes largely to the paralysis of the control systems or the Elimination of competing agents. The latter makes it unnecessary to set up control systems, because it prevents the partners to apply a sanction (the replacement of the leader) by removing the possibility of finding a replacement at least as effective (Hill and Jones, 1992). The leader will be the need to

build a "reputation" (Paquerot, 1997), it can also carry out the duties of CEO and administration (Finkelstein and Aveni, 1994;) (Paquerot, 1997) and legitimacy to the administrators.

The leader can retain his position under the compulsion of a minimum performance, it could therefore be opportunism and the benefits provided through his position, through the informationnels... It is a behaviour proposed to characterize entrenchment offensive.

### 1.3. The phase of consumption or "defensive" entrenchment

In the third phase, the leader enjoys a position of entrenchment, it can then decide, according to its circumstances, to use its power in monetary forms, during this phase, it will begin to obtain personal benefits (increase in remuneration, benefit in kind.), it reacts to changes in the level of the internal and external environment to the firm, the increased pressures of actionnaires... where the leader is close to the end of its mandate, it will go through a fear about the loss, the fear is at the origin of a defensive entrenchment.

From this form of entrenchment, the leader may also choose to increase its power to remain in the position as long as possible or transmit its power to a successor he will be chosen, it will tend to undertake the defensive entrenchment to legitimize its choice to partners that are not necessarily satisfied.

## 2. The modalities strategic of the entrenchment managerial

The theory of the entrenchment highlights several strategies of domination of the leader on the other partners in the firm, These are the strategies of the entrenchment deployed by the various leaders to maintain their social positions. The leader to remain in his position to circumvent the objectives declared by public authorities. The various strategies implemented by leaders based on the choice of financing, asymmetry of information between the leaders and the actionnaires... etc.

According the theory of entrenchment managerial, the leader has the opportunity to take root through three :

### 2.1. Specific investments of managers

To avoid redundancy and to strengthen its position in the Organization, leaders submit performance to their presence. Thus, they increase their managerial skills and are that the company cannot be effective without them. The leaders will often tend to make investments that value personal skills.

Shleifer and Vishny (1989), (see also Paquerot, 1997) describe managers themselves are rooted in making specific investments that make it costly to shareholders, their replacement. Investments are therefore considered specific: the leader in place is considered as the best manager of the investment. According to Morck, Shleifer and Vishny (1989), the specific investments can strengthen the entrenchment of the leaders by the growth investment, the diversification of the human heritage and finance and profitable acquisitions, such as buybacks of BIC. The leader can determine its acquisitions and its divestments to pursue its objective of entrenchment. Thus, the leader can be leads to separate the assets that it does not control or little to focus on those that he masters perfectly.

## 2.2. Financing policy

Has side the selection of investments, the modalities of their financing are a lever which allows managers to strengthen its emancipation for their partners. To reduce their exposure to the control, the opportunistic leaders will focus on the use of an increase of capital rather than to bank debt to finance its investments, that is to say they are focusing on internal funding to external financing. Indeed the increase in bank debt increases the level of dependency of the company to the Bank and greatly reduces the flexibility of the leader. Self-financing will therefore be the most responded financing, this trend is confirmed by Myers and Majluf (1984) in the theory of hierarchical funding. However, the behavior of hierarchical funding can result from conflict of interest between shareholders and leaders.

Leaders seek to avoid the disciplinary role of debt, that is why an increase of capital can allow opportunistic leader (with sufficient capital) to strengthen its roots through the purchase of shares of the company. Of course, one can argue like Charreaux (2007) that self-financing (internal financing) may be the method of financing best develop organizational capital and meet the cognitive vision of the leader.

## 2.3. The management of information system



The information asymmetry means that all economic agents have no information, the leader has the ability to manipulate to its advantage the accounting and financial information to shareholders, thus has a privileged information on the situation and the prospects for economic development and finance firm. In this way increases the asymmetry of information to shareholders and thus increases its rooting.

The leader can be opportunistic by manipulating the information it manages. Will he communicate that which serves its interests, thus confirm its expertise as a capability to better decipher information, that it itself encrypted. More a leader will increase its managerial specialization, more it will manage in his favour the information asymmetry and creates. For example, the presentation of balance sheet inexact, reporting inexact (Leser e., 2002), the evil representation of financial data and substantial information (Fay S, 2002) are the various methods of deception.

Opportunistic supposed leaders can take their informational advantage to their expensive replacement for the shareholders to maintain their positions. Their rooting in the business is operated in the intermediate of the realization of implicit contracts based on the confidence of the company managers or investment partners in activities specific to their skills (Shleifer and Vishy, 1989).

### Conclusion

Our theoretical contribution is the establishment of a review of the literature of the theoretical perspectives used to explain the entrenchment strategies deployed by the various leaders to maintain their social positions. Our research has developed the importance on the theory of entrenchment of the leaders, she explained that the leader is always seeking enlargement of its discretionary space. Furthermore, our research contributes to a better understanding of one of the most important explanations: rooting as part of agency theory, assumes that the actors develop strategies to retain their place in the Organization and squeezing out competing possible (Alexandre and Paquerot, 2000). Thus, they will be able to make their expensive replacement for the Organization of which they are part.

Our research, that is place in a personal reflection process is an important step, it could be extended (the point of departure for further research) by examining the effect of

financing policy (internal and external funding) on the strategy of rooting of the leaders. In this context, "Chapuis (2002, p. 62) *proposed a model where financing policy is considered a lever available to leaders*". Indeed, debt would then be a means of control for the leaders but a strategy of entrenchment the service of their network through the development arm of the company that he controls. Thus, by defining the means of financing, the company has a means of discipline that can encourage the leaders to work in the interest of the shareholders.

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