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Managerial Entrenchment and Firm Performance: Evidence from Moroccan Listed Companies

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Abstract

Purpose: Grounded in agency and entrenchment theories, this study assumes that CEOs' propensity to entrench themselves can affect firm performance. The purpose of this article is to investigate the relationship between dimensions and mechanisms through which managers entrench themselves and influence firm performance.

Methodology: The article uses OLS regression to explain the assumed relationships between managerial entrenchment and firm performance. The study is based on a sample of 55 Moroccan listed companies over the period 2010–2015.

Findings: Taken together, the findings contribute to a better understanding of the effect of several entrenchment pathways on firm performance. These findings imply that managerial entrenchment is not necessarily detrimental, as suggested by some governance theories. On the contrary, it can have a beneficial effect on wealth creation.

Research limitations/implications: This study faces several limitations. The first appears in the sample size of its quantitative element. The second is related to the variables used to measure managerial entrenchment. The current research explores the effects of the most commonly used measures and some non-retained measures could be pertinent in verifying the assumed relationships.

Originality/value: This analysis is one of the few studies conducted in the African countries that scrutinize the impact of managers' entrenchment determinants (ownership, duality, age, and tenure) on firm performance.

Keywords: managerial entrenchment, CEO ownership, duality, CEO characteristics, firm performance.

JEL: G32, G34, M12, M14

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Introduction

During the 1930s turmoil, Berle and Means (1932) raised the unfavorable management to the shareholders of the largest listed companies of the time. The reason the authors gave was the dismemberment of the ownership function into a decision-making function delegated to the management team and a control function to be borne by the shareholders (Charreaux, 2002). This problem was later taken up by Jensen and Meckling (1976), leading to the development of agency theory, which considers the manager as an opportunistic and self-interest agent, whose interests may disagree with shareholders' expectations.

Faced with this situation, aggrieved shareholders will find in the developments of governance theories a set of mechanisms that enables them to limit the extent of managers' discretionary power and force them to align their actions with shareholders' interests. However, companies' bankruptcies such as Enron (2002) and WorldCom (2003) in the United States of America, or Crédit Lyonnais (1993) and Vivendi (2002) in France, are interpreted as the failure of these monitoring mechanisms surpassed by managerial behaviors.

Since then, a large strand of literature demonstrates that governance systems are never perfect and that managers' latitude enables them to get around, weaken, or even annihilate the control mechanisms that the shareholders have put in place (Very, 2004). Based on the entrenchment theory, these analyses try to explain how these mechanisms, which are supposed to improve organizational efficiency, can be used by managers to entrench themselves and extend their discretionary power. Thus, managers would act to neutralize the discipline imposed on them or take advantage of its limitations to derive greater personal benefits, increase their executive authority, and ultimately reduce the probability of their replacement.

Accordingly, we consider that there is a number of determinants that can explain this entrenchment (CEO ownership, age, tenure, and the combination of the chair and CEO roles) and have consequently impact on firm performance. Therefore, since our hypothesis concerns the impact of entrenchment determinants on firm performance, the empirical hypothesis testing used OLS regression performed with SPSS 21 software, with a sample drawn from the Moroccan listed companies' dataset.

Applying this framework to the specific case of Moroccan listed companies is justified by two main reasons. First, as an emerging economy, Morocco differs from developed countries where previous studies have been conducted. Morocco is a bank-based

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economy with a relatively small number of listed companies (as of July 2016 there were 75 companies). Second, the country has a high level of ownership concentration. Indeed, many listed companies that feature as market leaders not only on the local market but also in the African continent are state-owned or family-owned (Rossow, 2005). Such a situation implies CEOs retain their position for a longer time and are older than their counterparts in privately controlled enterprises, which makes managerial entrenchment a common phenomenon.

Overall, our findings demonstrate that depending on the measurement used, managerial entrenchment has both positive and negative consequences for firm performance. We found that both "CEO ownership" and "CEO Tenure" are positively related to firm performance, while "duality" unfavorably affects performance. However, the latter seems to be neutral towards "CEO age."

The rest of this article is organized as follows. The first section gives a brief outline of the relevant literature and derives hypotheses. The second section describes the sample, data, and estimation method used in the study. Finally, the results are discussed in the third section, and the last section highlights our conclusions.

Literature Review and Hypotheses

Before proposing the explanatory model of managerial entrenchment determinants that could impact the performance of Moroccan companies, we will first specify what we mean by managerial entrenchment. Then, we will conduct a literature review on this impact, paying particular attention to managerial ownership – CEO duality and two main CEO characteristics – as determinants of this entrenchment.

Managerial Entrenchment: Concept Presentation

Entrenchment is a relatively new concept in economics, business, and management, although it has been known for a long time in political science. Its theoretical foundations are based on perspective initially highlighted by the agency theory.

Originally developed by Shleifer and Vishny in 1989, the entrenchment theory provides a better understanding of CEO dominance in corporate governance. This theory assumes that – to seem indispensable for shareholders and make their dismissal difficult – managers take advantage of the latitude of action they have owing to information asymmetry and control system failure.

In a broad sense, executive entrenchment reflects managers' desire to free themselves, at least partially, from shareholder control to obtain greater personal benefits (Pigé, 1998), reduce the risk of dismissal, and increase discretionary power (Pichard-Stanford, 2000; Zenou, 2006).

To do this, managers ensure their entrenchment by making idiosyncratic investments, whose steering and profitability are conditioned by his presence at the head of the company or low-visibility investments with less easily observable performance. Another way is to maintain an information asymmetry with different stakeholders by using implicit contracts or by increasing the complementarity of company assets with specific skills or information which only the manager holds. In so doing, the manager removes any competition from the managerial market by controlling the information that potential competitors may have about the firm (Stiglitz and Edlin, 1995).

Entrenchment Effect on Firm Performance

Shareholders fear a situation in which the executive officer pursues interests that would disagree with theirs and undertakes actions to bring these interests to fruition, as such a behavior is not without effect on wealth creation. In this sense, while most reflections on the subject focus on behavior inconsistent with the principle of value maximization, some others consider that managements' discretionary latitudes may also be consistent with the principle of effectiveness (Castanias and Helfat, 1992; Charreaux, 2008).

Therefore, managerial entrenchment is not necessarily ineffective, be it from the shareholders' viewpoint or, more broadly, from the viewpoint of all company partners.

Entrenchment as Opportunism Detrimental to Firm Performance

Coming from the disciplinary perspective of corporate governance, this conception of managerial behavior enshrines an opportunistic agent motivated by the desire to free oneself from shareholder demands to maximize own personal utility (Jensen and Meckling, 1994).

Thus, according to the agency theory, the shareholder–managers relationship is often accompanied by conflicts detrimental to organizational effectiveness. These conflicts of interest come generally from differences in risk aversion and the planning horizon between the two parties (Byrd, Parrino, and Pritsch, 1998). Indeed, if diversification enables shareholders to cut the risk of their portfolio, then job security and reputation in the managerial labor market are the main risks incurred by managers (Fama, 1980).

Hence, shareholders are more prepared to support higher levels of risk than managers, who are more sensitive to company results' volatility. Therefore, it is in the managers' interest to undertake low-risk investments with short-term profitability and take over a portion of the generated annuities from shareholder expense.

Similarly, other literature raises the fact that adverse selection and moral hazard problems of managerial conduct causes information asymmetries. In the quest for further entrenchment, managers may take advantage of information asymmetries to maximize their self-interest and reduce threats of potential rivals and opponents (Stiglitz and Edlin, 1995). In most cases, these asymmetries can be achieved through strategies implemented by managers whose profitability depends on their skills and the information they control. Such strategies are characterized by a lack of visibility, which is synonymous with the destruction of shareholder value since the generated wealth appropriation depends on this lack of visibility.

Entrenchment as a Prerequisite for Corporate Performance

In contrast to the typically negative conception, some other studies argue that entrenchment practices are not always bad and costly for shareholders. Pichard-Stamford (2002) indicates that managerial entrenchment is not necessarily incompatible with the value maximization perspective. On the contrary, it is often to be a necessary precondition for inspiring and motivating CEOs to build competencies and management skills needed for firm development. Thus, contrary to traditionally conflict-centered theories, the managerial rents model makes the case for the alignment of management interests with those of the shareholders, and it highlights the CEOs' value-creating capabilities. Therefore, firm-level performance becomes the manifestation of CEOs' cognitive abilities and distinctive features.

Similarly, the stewardship theory holds that the managers who are stewards need the freedom and discretion to manage the firm and bring all the intrinsic motivation they naturally have (Donaldson and Davis, 1991). Far from being opportunistic, their vocation is to contribute to long-term firm development, while serving the general interest of all stakeholders.

Likewise, the upper-echelons theory (Hambrick and Mason, 1984) casts additional light on managerial attributes and cognitive attitudes. Within this perspective, firm performance is viewed as a reflection of CEOs' characteristics. In practice, this implies that CEOs' strategic choices affect overall organizational performance. To complement this traditional model, Hambrick (2007) envisions "managerial discretion" and "executive job demands" as a potentially important moderator of upper echelons predictions.

Thus, with high discretion executives facing heavy job demands, managerial characteristics will be a better predictor of firm performance (Hiebl, 2013).

An additional argument comes from the work on reputation, according to which the main objective of a CEO is to enhance own reputation by developing an aspect of own managerial skill set and expanding own professional horizons. In this case, the firm performance would be for him/her the reflection of own increasing reputation value, whether from the viewpoint of external career development or internal sustainability (Holmström, 1999).

Entrenchment Determinants and Firm Performance

Based on the above, the opinions about the effect of managerial entrenchment on company performance appear heterogeneous. This section examines the determinants of this entrenchment that may explain the heterogeneity and particularly focus on managerial ownership, CEO duality, and two main CEO characteristics: age and tenure.

Managerial Ownership

The subject literature recognizes managerial ownership as both a financial incentive mechanism and a lever for managerial entrenchment. Thus, according to the "convergence of interests" thesis, the more important managerial ownership is, the greater the alignment of interests between executives and shareholders, which should lead to agency costs reduction.

Indeed, several authors describe executive ownership as a governance mechanism that prevents agency conflicts by aligning managers with shareholder interests. For example, Jensen and Meckling (1976) argue that the costs of deviating from value maximization decline as managerial ownership increases. In other terms, the greater the share of capital held, the more the managers' choices will be made in favor of their perceived benefits as shareholders. However, lower shareholding would lead the agent to prefer personal interests, not without effect on shareholders' wealth.

In contrast, the literature on managerial entrenchment asserts that when this equity participation becomes more important, the executive escapes from shareholders' monitoring (Shleifer and Vishny, 1989; Chen and Hambrick, 2012). Thus, the greater the percentage of equity owned by the executive, the more will be his/her ability to withdraw from shareholder control and manage the firm according to own interests rather than owners' objectives.

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Therefore, we may conclude that the executive shareholder is confronted with a trade-off between the advantages s/he can derive from the dominant position (e.g. benefits in kind, remuneration) and the advantages as a shareholder. Thus, we support the proponents of the beneficial effect of managerial ownership by assuming the following hypothesis.

H1: Managerial ownership positively influences firm performance.

CEO Duality

Besides capital ownership, managerial entrenchment can also be fostered by combining the chair and CEO roles (Krause, Semadeni, and Canella, 2014). This dual leadership structure allows the CEO to consolidate structural and informational domination over the board and free oneself from directors' supervision (Dalton and Dalton, 2011).

In fact, the Chairperson's position confers on the manager important prerogatives in relation to both the agenda and the debate in board meetings, and it gives one the ability to speak on behalf of the board (Finkelstein and D'Aveni, 1994; Cannella & Holcomb, 2005). Moreover, by serving on the nominating committee, the manager may be heavily involved in the directors' selection process and therefore favor internal directors or external candidates with informal or social dependence (functional background, friendship ties, elite school alumni). Such directors may feel socially obligated toward the CEO who favored their appointment (Wade, O'Reilly, and Chandratat, 1990; Stern and Westphal, 2010), which reduces the board's effectiveness and vigilance.

Regarding these arguments, we may expect that managerial entrenchment – favored by the accumulation of functions – negatively influences firm performance, hence we propose the following hypothesis.

H2: CEO duality negatively affects firm performance.

CEO Age

The psychological analysis of managers' behavior in search of entrenching themselves shows the importance of CEO age as a measurement of their entrenchment level (Thomas, Litschert and Ramaswamy, 1991). In fact, over time, CEOs' judgments and decisions change with their dwindling reputation in the managerial labor market and the likelihood to legitimately position themselves in this market as retirement age approaches.

The various literature examining the impact of CEO age on the value creation process yields contrasting judgments. First arguments, based on the cognitive dimension of

the manager, find that age progression accompanies the accumulation of critical resources and capacity in favor of value creation (Hambrick and Mason, 1984; Finkelstein and Hambrick, 1990). Leader aging would then be synonymous with the development of professional networks and the acquisition of knowledge and skills fully compatible with the firm and its environment.

In contrast, other studies highlight that firm performance deteriorates with CEOs' aging. Indeed, as retirement approaches, the CEO begins to view the risk of replacement as a growing possibility (Goyal and Park, 2002), while his/her attractiveness on the managerial labor market decreases with time. In such circumstances, the manager may intend to maximize own utility at the expense of shareholder interests and make decisions that only the manager can implement. Moreover, evidence from the upper echelon theory shows that CEO age is related to risk propensity and short planning horizons (Hambrick and Mason 1984; Hambrick and Fukotomi, 1991). Indeed, the approaching end of a career may encourage managers to favor medium- and short-term investments over investing for the longer term in order to improve immediate accounting results and receive compensation as soon as possible (Dechow and Sloan, 1991; Smith and Watts, 1992).

Therefore, we expect that CEO aging will be negatively correlated with firm performance:

H.3: CEO age negatively affects firm performance.

CEO Tenure

The literature review shows that CEOs' tenure is the most advanced explanatory determinant of managerial entrenchment. With increasing seniority, the manager would have the necessary time to consolidate own discretionary power by building a network of collaborative stakeholder relationships and establishing implicit contracts (Combs et al., 2007). Through these relationships, the CEO manages to make difficult his/her replacement and enhance entrenchment (Hermalin and Weisbach, 1988). Moreover, the long tenure provides CEO the influence over the selection of directors in order to populate the board with supporting members (Prevost, Rao, and Hossain, 2002).

Likewise, the literature on the upper echelons theory states that firms led by executives with long tenures will tend to show a weakened performance. Several factors account for this tendency. On the one hand, as a CEO gains the latitude of action and power against the board and shareholders over their tenure (Hambrick and Fukutomi, 1991), they are less concerned with job security and more willing to engage in discretionary inefficient investments. On the other hand, CEOs' inertia and risk-aversion increase

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with tenure. The CEOs with long tenures seem to be more conservative in decision--making, with a strong disposition to preserve the status quo and maintain existing strategies (Hambrick and Mason, 1984; Hambrick and Fukutomi, 1991). Conversely, firms with CEOs with shorter tenures will show higher performance. In fact, the CEOs' latitude seems to be more constrained by outsiders and board members' monitoring, which will most likely lead to better overall decisions (Hambrick, Geletkanycz, and Fredrickson, 1993). Besides, CEOs with short tenures tend to undertake bolder and more aggressive investment decisions to signal to the market their competence and superior ability, which in turn impact firm performance.

On the other hand, the stewardship theory assumes the close alignment between CEO (steward) interests and those of their firm. This unselfish and altruist behavior implies that the steward (CEO) makes beneficial decisions on behalf of the firm. Therefore, principals should focus on encouraging managers' stewardship, particularly through a longer tenure and environment that is conducive to such pro-organizational behavior and consequently enhance firm performance (Davis, Schoorman and Donaldson, 1997; Cruz, Gómez-Mejia, and Becerra, 2010). Furthermore, the uncertainty and complexity in the decision-making process would require a manager with specific cognitive skills that can only be acquired and reinforced with time spent running the business.

In accordance with these two contrasting views, we support the stewardship theory by assuming the following.

H4: CEO tenure positively impacts firm performance.

In the end, we summarize our assumptions in the Table 1.

Table 1. Predicted relationship between firm performance and managerial entrenchment item

Hypothesis	Managerial entrenchment item	Expected influence on firm performance
H1	CEO ownership	Positive
H2	CEO duality	Negative
H3	CEO age	Negative
H4	CEO tenure	Positive

Source: own elaboration.

Research Design

Sampling and Data Sources

We tested our hypotheses by using a sample of Moroccan companies listed on the Casablanca Stock Exchange. Among the 75 listed companies from 2010 to 2015, banking and financial sectors were deliberately excluded owing to their atypical financial and governance structure (Faccio and Laefer, 2000). Moreover, firms with missing data were also excluded, which left the study with the final sample size of 55 firms of 1320 firm-year observations (330 values for dependent variables and 990 for independent and control variables).

Table 2. Sample selection and composition.

Panel 1: Final sample		
Number of firms	75	
Excluding		
Banking and financial sectors	18	
Missing data	2	
Final sample	55	
Panel 2: Industrial composition		
Sectors	**Number**	**Percentage**
Chemicals	2	3.64%
Construction & Building Materials	6	10.91%
Distributors	7	12.73%
Electrical & Electronic Equipment	1	1.82%
Electricity	1	1.82%
Engineering & Equipment Industrial Goods	2	3.64%
Food Producers & Processors	9	16.36%
Forestry & Paper	1	1.82%
Holding Companies	2	3.64%
Hospitality	1	1.82%
Materials, Software & Computer Services	7	12.73%

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Mining	3	5.45%
Oil & Gas	3	5.45%
Pharmaceutical Industry	2	3.64%
Real estate	4	7.27%
Telecommunications	1	1.82%
Transport	2	3.64%
Utilities	1	1.82%

Source: own elaboration.

The measurement period included the six-year period 2010–2015, with a time lag between the dependent variable and the independent and control variables. This way avoided the risk of reverse causality (Lee and Park, 2008) and allowed time for the independent variables to reveal their impact on corporate performance. Moreover, according to Fredrickson, Hambrick, and Baumrin (1988), CEOs are vulnerable when their tenure is less than or equal to three years. Thus, CEO leadership and power development begin after three years of tenure. Hence, data on managerial entrenchment and control variables were collected for the period 2010–2012. The data required to calculate company performance were collected for the period of 2013–2015.

The data required for the empirical analysis were extracted from the Casablanca Stock Exchange website and from the corporate governance and annual reports of companies. The missing data were obtained from financial databases (e.g. Zonebourse, Bloomberg, Reuters) and financial newspapers. The numerous cross-checks conducted between these different sources increased the internal validity of our database and guaranteed the credibility and high quality of our empirical material.

Definition and Variables Measurement

The variables included in our analysis could be divided into three groups:

- *dependent variables*: the firm performance variable is reflected through two accounting-based measures (ROA and ROE), and our study takes ROA as the measurement of firm performance while using the ROE as a proxy variable for the robust test;
- *independent variables*: managerial entrenchment is measured with four dimensions of CEO ownership, duality, age, and tenure;

- *control variables*: firm performance is influenced by other factors besides managerial entrenchment so it is customary to control for the effect of these external factors to avoid any spurious relationship, which made us follow previous studies (Surroca and Tribó, 2008) to include "firm size" and "debt structure" in order to separate their effects from the explanatory variables.

We present the calculation of these variables in detail in Table 3.

Table 3. Summary presentation of the variables of the study

Variables	Acronym	Operationalization
Dependent variables		
Corporate Performance	ROE	Return on equity (ROE): net income divided by the value of its total shareholders' equity.
	ROA	Return on assets (ROA): defined as net income divided by total assets.
Explanatory variables		
CEO ownership	**CEO_OWN**	The percentage of ownership held by executive directors.
CEO duality	**DUALITY**	A binary variable coded (1) if chair and CEO roles are combined; otherwise (0).
CEO age	**CEO_AGE**	The age of the manager.
CEO tenure	**CEO_TENURE**	The number of years passed in occupying the post of CEO.
Control variables		
Firm size	**FIRM_SIZE**	Natural logarithm of the total assets.
Debt structure	**DEBT**	Ratio total debt over total asset.

Source: own elaboration.

Methods

Given the characteristics of the database, the research objectives, and the literature reviewed above, we considered the following models:

Model 1: $ROA_{it} = \beta_0 + \beta_1 x CEO_OWN_{it-3} + \beta_2 x DUALITY_{it-3} + \beta_3 x\ CEO_AGE_{it-3} + \beta_4 \mathrm{x} SENIORITY_{it-3} + \beta_5 x FIRM_SIZE_{it-3} + \beta_6 \mathrm{x} DEBT_{it-3} + \varepsilon_{it-3}$,

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Model 2: $ROE_{it} = \beta_0 + \beta_1 xCEO_OWN_{it-3} + \beta_2 xDUALITY_{it-3} + \beta_3 xCEO_AGE_{it-3} + \beta_4 x\ SENIORITY_{it-3} + \beta_5 xFIRM_SIZE_{it-3} + \beta_6 xDEBT_{it-3} + \varepsilon_{it-3}$.

The first model tested the relation between managerial entrenchment and ROA, while the second model used ROE as a proxy variable for firm performance to check for robustness.

Results and Discussion

Descriptive Statistics

The considered framework highlighted the impact of managerial entrenchment on corporate performance. Thus, the collected data shed light on the profile and intrinsic characteristics of Moroccan managers. Therefore, the descriptive analysis focused on manifestations of managerial entrenchment and the above control variables.

Table 4. Descriptive statistics

Continuous Variables	Minimum	Maximum	Mean	Standard deviation
CEO ownership	00%	99.99%	16.01%	0.2583
CEO age	33	75	56.17	9.0370
CEO tenure	4	35	16.59	8.0780
Firm size	7.6918	10.6734	9.2427	0.3253
Debt structure	0.0083	0.7714	0.3378	0.1678
Dichotomous variable	**Description**		**Absolute frequency**	**Relative frequency (%)**
CEO duality	Cumulating roles (1)		30	54.55%
	Separating roles (0)		25	45.45%

Source: own elaboration.

The average age of managers was 56 years and their average tenure was 16.59 years. The classification into age groups (Table 5) showed that up to 80% of managers were over the age of 50, which reflected the necessary seniority to hold such top management positions. Indeed, as managers get older, their personal maturity, knowledge of business, management principles, and successive experiences gather to make them credible contenders for the top positions in a company.

Table 5. CEO by different age groups

Age interval	Absolute frequency	Relative frequency (%)
< 40 years old	04	07.27%
41–50 years old	07	12.73%
51–60 years old	26	47.27%
60 years old and more	18	32.73%
Total	**55**	**100.00%**

Source: own elaboration.

A similar representation of manager tenure (Table 6) showed that just over 70% of individuals had less than 20 years of seniority as CEOs. While the group of those with over 30 years of tenure represented no more than 5.45%.

Table 6. CEO by different tenure groups

Tenure interval	Absolute frequency	Relative frequency (%)
< 10 years	14	25.45%
10–20 years	25	45.45%
21–30 years	13	23.65%
30 years and more	03	05.45%
Total	**55**	**100.00%**

Source: own elaboration.

The results also provided information on the combined roles of chief executive and board chairman. Out of the 55 firms surveyed, 45.45% chose to separate the two roles. Concerning control variables, firm size computed using the logarithm of total assets (average value over the period 2010–2012) had an average of 9.24, whereas the debt structure ratio was 33.78%.

Analysis

The validity of an OLS method for estimating regression coefficients was based on a set of assumptions and conditions that helped to ensure that these parameters were correctly estimated. To satisfy these requirements, our study checked the most common

and important assumptions that included inspecting the data and residuals (Farrar and Glauber, 1967).

One of such assumptions was the normality of residuals, evaluated with the Shapiro--Wilk test. As shown in Table 7, this test reached non-significant results (p-value > .05), which supports the normality of residuals.

Table 7. Normality test

Models	Shapiro-Wilks	
	Statistic.	Sig.
Model 1	.980	.469
Model 2	.974	.604

Source: own elaboration.

Moreover, to test for homoscedasticity, we conducted the Breusch-Pagan test to assess the null hypothesis that the residual variance was constant across the sample. Results using this instrument are provided in Table 8, and they indicate a non-significant p-value (p-value > .05), which meant that the variances were homogenous and the condition of homoscedasticity was satisfied.

Table 8. The Breusch-Pagan test

	Model 1	Model 2
Chi^2	40.39	40.38
$Prob>Chi^2$	.0000	.0000

Source: own elaboration.

To investigate for possible multicollinearity, two complementary tests were performed: Pearson's correlation coefficients and variance inflation factor (VIF). Table 9 displays that all the VIFs did not exceed the critical value of 10 (Neter, Wasserman, and Kunter, 1989). Similarly, the Pearson's correlation coefficients (Table 9) were below 0.7, which allowed us to eliminate any multicollinearity problems among independent variables.

Table 9. Ramsey RESET Test

	Model 1	Model 2
F-statistic	2.55	0.667
p-value	.083	.162

Source: own elaboration.

For autocorrelation in the residuals, we used the Durbin-Watson (D-W) test to assess residuals were independent of each other. Table 11 shows that the D-W statistics indicated there appeared no autocorrelation in our sample (both values tend toward 2).

Furthermore, the study checked for the specification of our OLS models with the Ramsey RESET test. Table 10 reveals that the F-statistics for our models were consequently 2.55 and 0.667, with consecutive p-values .084 and .120, which implied that at the 5% level, the null hypothesis was not rejected and that both models specifications were valid.

Table 10. Multicollinearity tests (variance inflation factor and Pearson's correlation matrix)

	VIF	(1)	(2)	(3)	(4)	(5)	(6)
(1) CEO ownership	1.077	1	0.280	-0.099	0.453**	-0.249	0.037
			0.054	0.514	0.002	0.088	0.807
(2) CEO duality	1.100		1	0.147	0.375*	-0.082	-0.069
				0.331	0.010	0.574	0.642
(3) CEO age	1.392			1	0.129	0.235	-0.134
					0.411	0.116	0.349
(4) CEO tenure	1.078				1	-0.225	-0.214
						0.133	0.158
(5) Firm size	1.238					1	0.268
							0.065
(6) Debt structure	1.177						1

** Correlation is significant at the 0.01 level
* Correlation is significant at the 0.05 level
Source: own elaboration.

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Empirical Findings

Regarding the R-squared and P-values resulting from both multiple regressions (Table 11), coefficients showed that both models were statistically significant – $p < .001$ for the first model and $p < .05$ for the second one – and explained 43% and 36% of the variance in absolute firm performance, respectively.

Table 11. Regression results

	ROA	ROE
CEO ownership	**0.420*** **	**0.429** **
	3.808	**2.490**
CEO duality	**-0.200** *	-0.143
	-1.788	-0.927
CEO age	0.068	0.031
	0.599	0.205
CEO tenure	**0.388*** **	**0.281** *
	3.506	**1.774**
Firm size	**0.191** *	0.025
	1.739	0.152
Debt structure	0.042	0.196
	0.917	1.288
R-squared	0.432	0.360
R2-adj	0.362	0.200
F	6.202	2.250
	0.000	0.049
D-W Stat.	1,751	1,961

Significance level: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Source: own elaboration.

Based on the regression results, both models showed a positive and significant effect of CEO ownership in both performance metrics. These findings agree with our hypothesis (H1) and with the literature on the interest convergence theory, which states that the greater the holdings of the managers, the smaller the gap between their personal

interests and the shareholder wealth maximization goal (Morck, Shleifer, and Vishny, 1988). The CEOs with greater holdings are much less likely to make decisions that undermine value creation because the incurred costs will proportionately affect their holdings (Darkos and Bekiris, 2010). Furthermore, we should also consider the agency cost savings fostered by interest convergence in family-owned businesses, which are dominant in the Moroccan economy. Moreover, ownership concentration in the hands of a family-member CEO is likely to limit struggles between divergent manager–shareholder interests and improve corporate performance (Anderson and Reeb, 2003).

In terms of combining the CEO and chairperson roles, this variable appeared as negatively related to the ROA, while the ROE had a negative but insignificant relation with CEO duality. As we expected in hypothesis H2, this negative-sign relationship indicates that CEO duality negatively affects firm performance. Consistent with Agrawal and Knoeber (1996) and Dalton and Dalton (2011), this result supports the agency theory, which argues that combining the two roles increases information asymmetry in the board and extends managerial discretion, thus negatively influencing the monitoring effectiveness of the board. The individual serving as combined chair and CEO is more likely to make decisions based on personal biases ahead of the company's goals. This position allows such a manager to change the board structure by populating the board with supportive directors (Shivdasani and Yermack, 1999).

In terms of CEO characteristics, empirical findings are mixed. The results for manager tenure reveal positive and statistically significant effects on both performance measures. This finding agrees with previous studies (Zingale, 2000; Charreaux, 2008, Huang, Dong and Li, 2010), which state that CEOs with long tenures perform better than those with shorter tenure. As such, longer tenure gives managers greater incentives to make specific human capital investments and improve firm-specific skills, which should therefore improve corporate performance. Another way of looking at this finding is that – in the Moroccan economy of predominantly family-owned firms (Rossow, 2005) – the controlling family prefers hiring family executives in order to maintain control and perpetuate the family dynasty (Casson, 1999), which helps explain the longer tenure of such executives compared to their non-family-related counterparts, along with the ability of this agent-principal family contract to reduce agency conflicts and increase the overall firm performance (Fama and Jensen, 1983; Anderson and Reeb, 2003; Jensen and Meckling, 1976). Moreover, the family involvement in the monitoring of (especially non-family) CEOs provides pressures and incentives toward efficiency and performance.

On the other hand, the "CEO age" variable appears insignificantly related to both dependent variable measurements. Contrary to our assumption in hypothesis H3, the

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findings confirm neither the predictions assuming a cognitive bias in the aging manager nor those associating aging with managerial opportunism incompatible with the objective of value maximization.

Table 12. Results summary of study hypotheses

Hypothesis	Relationship	Expected outcome	Results
H1	CEO ownership	Positive	Positive
H2	CEO duality	Negative	Negative
H3	CEO age	Negative	Insignificant
H4	CEO tenure	Positive	Positive

Source: own elaboration.

Conclusion

The above-described study analyzed the impact of managerial entrenchment on firm performance. Our sample of 55 Moroccan listed companies makes this study one of the few conducted in the African countries in which managerial entrenchment is explored.

The basic premise was the traditional argument of the entrenchment theory (Shleifer and Vishny, 1989), which claims that manager attitudes and behaviors seeking to entrench the manager may affect firm performance.

Depending on entrenchment measurements, evidence shows that this entrenchment can have both positive and negative effects on firm performance. We can indicate three major findings from our empirical results. First, our study provides support for the agency theory in terms of managerial ownership and CEO duality. We found that CEO holdings reduce agency costs and enhance firm performance, while the executive--chairperson duality appeared to be negatively correlated with firm performance measured by ROA. Second, our results also indicated significant increases in firm performance with higher manager tenure, which is consistent with the literature on stewardship theory. Third, we found weak evidence that manager aging had any effect on firm performance.

In that regard, in the Moroccan context, our research provides insights to academics and practitioners into how performance can depend on managerial entrenchment

policy. In particular, our study may suggest a need for investors and corporate governance institutions to recognize the importance of managers' discretionary power in the understanding of governance mechanisms' effectiveness in terms of wealth-creation capability.

Limitations and Implications

Nevertheless, our research faces several limitations. The first being the quantitative data sample size. Indeed, to overcome data availability and accessibility problems, this study deliberately employs a sample drawn from the Moroccan listed companies. However, this choice offers only a relatively small field of investigation, especially after the exclusion of the banking and financial sectors. Thus, it would be interesting to use a larger sample size and see how our framework performs in such a new setting.

The second limitation refers to the variables used for modeling managerial entrenchment. Our research explored the effects of the most commonly used measures, and some non-retained measures could be pertinent in verifying the assumed relationships. Thus, further studies could include additional dimensions of managerial entrenchment in order to better understand and explain our assumptions.

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