

DIVIDEND POLICY, MANAGERIAL ENTRENCHMENT AND FINANCIAL PERFORMANCE : MEDIATION-MODERATION ANALYSIS

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ABSTRACT

Purpose : The purpose of this paper is to investigate the direct and indirect links between managerial entrenchment and financial performance using dividend policy. In this paper we address the practice of mediation and moderation analysis. This study was based on a sample of 200 firms over 2010 /2021. The direct, mediating and moderating objects were examined according to multiple regression methods. The findings of this study suggest that higher levels of managerial entrenchment were found to be associated with lower FP engagement. The present study confirms previous findings who indicate a positive relationship between FP and ME and contributes additional evidence that suggests DP moderate this relationship.

Keywords: Dividend Policy, Managerial Entrenchment Financial Performance.

INTRODUCTION

In order to achieve the company's main objectives to maximize the wealth of its owners, the company's financial performance must be excellent. Nevertheless, in reality, the company's financial performance is influenced by many factors Bathala & Moon et al., (1994).

Do over-entrenched and under-entrenched managers act differently and, consequently, have a dissimilar effect on the soundness of the firm's performance structure? Are over-entrenched managers more secure in their jobs as compared to under-entrenched managers? Do managers with above normal entrenchment levels extract higher pay levels than those with below normal entrenchment levels? How does excess managerial entrenchment, whether positive or negative, affect firm performance? Our research attempts to answer these questions by investigating the effect of excess managerial entrenchment on the soundness of the firm's internal monitoring and future firm performance.

Berger, Ofek, & Yermack (1997) define entrenchment as the failure of the assigned corporate governance codes to impose managerial discipline. Thus, entrenched managers may be incentivized to pursue their own interests and extract private benefits rather than maximizing Bilel, (2020).

shareholders' welfare. Gompers, Ishii, & Metrick (2003) present their governance index (G-index) based on 24 governance provisions. The authors imply that a direct relationship exists between the G-index and agency costs Chakroun & Salhi et al., (2019). Consequently, an inverse correlation between the G-index and firm performance is highlighted. Bebchuk, Chen, & Ferrell (2009) demonstrate that the converse relationship between the G-index and firm value is essentially driven by six anti-takeover provisions that comprise the entrenchment index (E-index) Dah, (2016). The E-index is composed of golden parachutes, poison pills, staggered boards, supermajority requirements for charter

amendments, supermajority requirements for merger amendments, and limits to shareholder bylaw amendments Ghoul & Guedhami et al., (2017). Accordingly, in this paper, we employ the E-index presented to measure managerial entrenchment and, accordingly, answer the posited research questions Gitman & Juchau et al., (2015).

The remainder of the paper is organized as follows. In Section 1 we provide Theoretical framework. Section 2 discusses the Literature review. Section 3 presents the Research design. Section 4 presents our empirical results. Finally, Section 5 concludes Gujarati & Porter (2003).

THEORETICAL FRAMEWORK

The relationship between managerial entrenchment and financial performance is explained by two economic based theories: agency theory and signaling theory. Agency theory is developed by followed by who introduced the agency problem Gul & Usman et al., (2018).

Signaling theory: As a result to signaling theory, if managers expect a high firm increase rate in the future, they will try to signal this to investors via financial report statements Hachana & Hajri (2008). The firm stimulate the provision of signals or information because there is information asymmetry between the firm and outsiders. Compared to outsiders (investors and creditors), the company is more knowledgeable about the company's profile and prospects Jarboui & Hlima et al., (2022). Therefore, information asymmetry needs to be dimmed so that information about company prospects can be conveyed transparency to investors. Corresponding to the signalling theory, a firm's investment spending sends a signal that the company will grow in the future, driving up stock prices as a component of the firm value calculation Kouaib & Amara (2022).

Signal theory and development potential are related in that high firm growth. Managers try to invest their money in the goal of receiving a respectable income in the future. Because a company's capacity to generate profits grow with its rate of expansion Lambert (2006).

Agency theory: Agency theory has its roots in the information economics literature. As such, accounting and other information is placed into an explicit decision-making setting Lanis & Richardson (2012).

Inside companies that separate ownership management from management, agency problem has the potential to occur (Chandra et al., 2015). This agency problem takes place when the manager (agent) acts in line to his interests paying no attention to the interests of the owner (principal) Lin & Wang et al., (2014). To minimise this agency problem and to increase the owner's wealth, the company must induce additional costs named agency costs. These are the costs of monitoring management actions, ensuring that managers do not take dishonest actions, provide incentives for managers. One way that can be done to reduce agency problems and agency costs is that firms can increase institutional ownership and insider ownership so that the company's financial performance will improve Mafrolla & D'amico (2016).

LITERATURE REVIEW

Relationship between managerial entrenchment and financial performance: A greet number of literature has been published on the relationship between ME and Financial performance. In fact demonstrated that there is a positive and significant relationship between managerial entrenchment and financial performance based on the ROA and Tobin's Q indices, separately Nabela & Widyawati (2022).

published a paper in which investigates the differential impact of positive and negative excessive managerial entrenchment on the CEO turnover-performance sensitivity, CEO compensation, and firm performance. The authors find that excess CEO entrenchment has an inverse correlation with firm performance and firm value. Overall, they propose that excessive managerial entrenchment has a converse impact on board monitoring and shareholders' welfare Njoku & Lee (2024).

analyzed the relationship and concluded that there is a significant negative relationship between the managerial entrenchment measured through CEO share and financial performance measured through ROA and Tobin's Q.

In another major study Priyatna & Kartikasari et al., (2023) investigate the differential impact of positive and negative excessive managerial entrenchment on the CEO turnover-performance sensitivity, CEO compensation, and firm performance. The study suggests that an increase in excess CEO entrenchment reduces the likelihood of CEO turnover due to poor performance. Concerning the same idea demonstrates a converse association between managerial entrenchment and firm value during both recessionary and normal economic conditions Ross, (1973).

In the same vein, examine in a study the relationship between entrenchment and performance. The results in this paper suggest that controlling shareholders entrench themselves further by selecting both board members that are more likely to make decisions favoring controlling shareholders and those that are less likely to monitor when divergence is higher Salehi & Mahmoudabadi et al., (2021).

Because of the ambiguity in the relation, we posit the following hypothesis:

H₁: ME has a positive effect on financial performance

Relationship between managerial entrenchment and dividend policy: Another strand of the literature tackles the impact of managerial entrenchment on DP. In this context, previous studies have reported that dividend policy can have a significant influence on ME. documented that Dividend policy have the potential to influence Salhi & Riguen et al., (2020).

Concerning the idea of the relationship between managerial entrenchment and dividend policy indicates that the presence of women managers (WM) decreases

Based on the literature review, we expected that the managerial entrenchment should have a significant effect on dividend policy Setiawan & Bandi et al., (2016).

H₂: Managerial entrenchment has a positive effect on dividend payouts

Managerial entrenchment and financial performance : the moderation role of dividend policy Dividends can be realised as the portion of a firm's earnings that is allocated to shareholders. One of the encouraging indicators for managers to invest money is high level of dividend distribution that will be offered by a high dividend policy. In addition, the value of firm increase along with the share of its price Waseem & Shaukat et al., (2023).

The study of found that dividends can be a positive signal for parties concerned with the current and future condition of the company Companies that pay dividends occasionally can be interpreted as having better financial performance than companies that do not regularly pay dividends. In the same vein, in a study investigate the effect of dividend policy on firm performance and value in the Korean market. The study argue a significant impacts of cash dividend payment on firm value, while dividend yield and dividend policy exhibit varying associations.

In the same vein, test and analyze the impact of dividend policy and capital structure on firm value with growth opportunity as a moderating variable. This study argue that

dividend policy which is proxied dividend payout ratio (DPR) has a significance impact on firm value.

Our third hypothesis is formulated as follows.

H3: dividend policy moderates the relationship between managerial entrenchment and financial performance

RESEARCH DESIGN

This section details the suggested empirical study methods. These cover the sample selection and the justification for such selection. The empirical model identification, variable measurements, and the model valuation method are also examined here.

Sample data: The aim of this survey aims to analyze the moderating effect of corporate governance on the link between corporate social responsibility and financial performance in France. The period of analysis concealed five years between 2010 and 2021. France is a typical country in such a comparative study between common law and civil law legal systems. We chose this country for several reasons. First, corporate social responsibility has been a major issue and is widespread in several countries (e.g. France) located in European markets. Second, France has different cultures and traditions. The final sample consists of 200 French firms (2400 firm-year observations). Firms in this database were excluded from the sample because they are financial institutions. Banks, insurers, and other financial firms are excluded because they are subject to specific accounting standards. Not all of the necessary financial data are available for every firm over such a long period. Table 1 offering the distribution of the listed firms of our test. Thus, 200 French companies will make up our sample build, as described in Table 1 below. Our database has been gathered from the DataStream database Wei & Wu et al., (2011).

Sample selection: (French firms)	
<i>Simple</i>	Number of firms
Initial sample	250
Firms with missing data	(18)
Financial firms	(32)
Final sample	(200)
Duration of study	12
Total observations	2.400

Variables measures

Financial Performance Measure (FP): In line to (Jyoti & and Khanna, 2021), measuring the financial performance of firms is less difficult than measuring their sustainability performance. Many studies have proved that financial accounting returns (specifically ROA, ROE, and ROCE) and Tobin's q (Elsayed & Paton, 2005) are the most used financial performance variables (Elsayed & Paton, 2005). In this present paper, the suite variables have been used to measure financial performance: ROA (Return on assets), ROE (Return on equity), ROCE (Return on capital employed).

Managerial entrenchment: Following prior empirical studies and , the following four variables are used for the analysis of principal components to calculate a single index for measuring the ME.

- CEO duality is used as an indicator of ME, in a way that if the CEO is the director of the board, it will be 1, otherwise 0.
- CEO tenure is the number of years an individual is present as the CEO in the board of directors.

- CEO seniority: Logarithm of seniority years of CEO in the company before being promoted to CEO.
- CEO-age: Logarithm of manager’s age.

Dividend policy: Dividend policy is measured as the dividend payout ratio. It is measured using the ratio of total cash dividends divided by total sales for the period Jabbouri (2016) It is defined as the ratio of total dividends to operating profits – profits before interests and taxes.

Control variable: We include a set of control variables that explain the effects. The selection of controls is in line with previous studies studying the ME. We included the following firm indicators.

- Firm size (SIZE) is measured as the natural log of total assets and is used to control for side effects. Based on prior research , , .
- Return on assets (ROA) is measured as pre-tax income divided by a total asset
- Leverage (LEV) is measured as total debt divided by total equity, and is included as a control variable as firms that have higher debt-to-equity ratios are more efficient at reducing corporate taxes.

Variables	definition	Author
DP	Total cash dividend divided by total sales revenues of the period	(Jabbouri, 2016)
FP	Q TOBIN : (market value of equity ÷ book value of debt)/book value of total assets	(Chakroun, S, Salhi, B, Amar, A.B, & Jarboui, A, 2020)
ME	Dummy variable that takes the value of 1 if at least two of the three entrenchment proxies’ defined above are equal to 1 and 0 otherwise.	Invalid source specified., Invalid source specified.
ROA	Pretax income/total assets	(Mafrolla & D’Amico, 2016)
LEV	Total debt/total equity	(Gupta & Newberry, 1997) (Lanis & Richardson, 2012)

Empirical results

Descriptive statistics: Table 2 provide descriptive statistics for our variables. It shows the summary statistics for the dependent variable, the independent variable, and the mediating variable. In other words, Table 3 illustrates the descriptive statistics of DP, financial performance, and ME. The sample comprises 200 French firms from 2010 through to 2021. The table presents the summary statistics. It displays the mean, median, and standard deviation, as well as the 1st percentile and 99th percentile values for the key variables. Over the period 2010–2021, The average dividend payout was 28.8 per cent, while the value of dividend payouts was close to the Max (58.5.29 per cent) . The dividend payout was higher than in a previous study by (2016) for the period from 2006 to 2012. However, this dividend ratio was close to the dividend payout of 22.49 per cent in China. The mean (max) of financial performance in frensh companies was 1.72 (8.87).

The inclusion of such variable is essential to control for potential confounding effects arising from omitting relevant variables that explain firm performance.

<p>Table 3 DESCRIPTIVE STATISTICS</p>
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Variables	Mean	Min	Max	SD
DP	0.288	0	0.585	0.196
FP	1.72	0.88	8.87	0.93
ME	0.1633	-1.456	1.83	0.2688
SIZE	7.189	6.124	7.888	0.175
LEV	0.197	0	0.678	0.143
ROA	0.077	0.024	0.107	0.011

The firm size (average total sales) has a mean of nearly 7 and a corresponding max of 8. We found that the average mean and max of corporate leverage (long-term liabilities divided by lagged total assets) are 0.2 and 0.6, respectively. The mean value of ROA is 7%. This result indicates that the french firms can generate earnings of 7% from the assets held, implying that the sample firms tend to realize profits rather than losses. This rate is lower than the 10% found

Results of structural equation model: Table 4 provides information regarding the correlations between variables of this study. The correlation matrix of the variables is illustrated in this table. As a rule of thumb, a correlation of 0.70 or higher in absolute value may cause multi-collinearity between variables . The highest correlation coefficient is 0.33 (0.461) via the relationship between DP and FM (DP and ME) . In addition, According to a VIF value of less than 10 is acceptable; the VIF values among our variables are all lower than 2. We can confirm the absence of multi-collinearity between variables of our model. Thus, the correlation between the explanatory variables introduced at the level of the different empirical models can be deemed acceptable.

	DP	FP	ME	SIZE	ROA	LEV	VIF
DP	1						1.43
FP	0.332	1					1.24
ME	0.461	0.337 ***	1				
SIZE	0.339**	0.247	0.342	1			1.54
ROA	0.68	0.461	0.653	0.031	1		1.66
LEV	0.067	0.641	0.231	0.112**	0.461**	1	1.12

	Model (1) FP(TQ)		Model (2) FP(TQ)	
	Coefficient	z-statistique	Coefficient	z-statistique
Constant	0.234***	3.05	0.184***	3.25
ME	0.244***	4.88	0.154***	5.42
SIZE	0.000***	6.23	0.362***	6.23
LEV	0.000***	8.99	0.347***	5.67
ROA	0.013***	2.65	0.000***	3.67
DP			0.345***	2.89
ME*FP			0.275 **	3.1
Firm fixed effect	YES		YES	
Years fixed effect	YES		YES	

R²	0.546	0.4332
N.Ob	2400	2400

Note(s): CG: Corporate governance; FP: Financial performance measured with Tobin's Q; CSR: Corporate social responsibility score; SIZE: Firm size calculated as a natural logarithm of total assets; LEV: Firm leverage calculated as the ratio of total debt to total assets, VIF: Variance inflation factor. ***significant at 1% level; **significant at 5% level; *significant at 10% level.

Table 5 displays the findings from the estimation of the research model. We note that all continuous variables are winsorized at 1% and 99% of their distribution to avoid the influence of outliers. To test our research hypotheses, we use a sample of Saudi firms during the period 2010–2021, with 200 observations.

Discussion of findings: Table 5 displays the findings from the estimation of the research model. We note that all continuous variables are winsorized at 1% and 99% of their distribution to avoid the influence of outliers. To test our research hypotheses, we use a sample of Saudi firms during the period 2010–2021, with 200 observations.

The direct relationship between ME and firm financial performance: Table 5 provides evidence of the basic results. The model (A) is significant because it indicates 0.337 % R² significant at 1% level. Thus financial performance is an important determinant of ME. Table 5 shows, as predicted, that ME is positively and significantly associated (at the 1% level) with FP TQ (β 10.244, Z 4.88), as the proxy variables of firm financial performance.

The coefficients associated with the variable SIZE and the variable DEBT are positive and statistically significant at a threshold of 1% respectively (β 2 0.000, Z 6.23), (β 3 0.000, Z 8.99). As for control variables, the results show that the firm size and the firm leverage have a positive impact on financial performance. This result allows us to see that companies that need external financing from banks, for example, have an interest in using accounting discretion to obtain, loans under the best conditions (Mard, 2004). The coefficient associated with the ROA variable is positive and statistically significant at a threshold of 1% (β 4 0.018, Z 2.65). Our results corroborate those reported more recently by Achour and Boukattaya (2021) who have demonstrated the existence of a positive and significant relationship between CSR score and the ROA of French-listed firms; These results support the previous studies which suggest that larger firms generate greater competition than their smaller rivals. This advantage allows them to achieve scale economies and gain more power in the market . As a result, we can say that the more the company performs, the more the company manages its results upwards.

CONCLUSION

This paper analyzes the effect of different levels of excessive entrenchment on the firm's performance. In doing so, we examine the moderating role of dividend policy.

Our investigation reveals the presence of a differential impact for positive and negative managerial entrenchment on firm's performance.

The purpose of the current study was to determine the effect of dividend policy on the relationship between managerial entrenchment and Financial performance. Based on a sample comprized of the frensh firms over the 2010-2021 period, one of the more significant findings to emerge from this study is that dividend policy moderate the relationship between managerial entrenchment and FP. The findings of this study suggest that higher levels of managerial entrenchment were found to be associated with lower FP engagement. The present study confirms previous findings who indicate a positive relationship between FP and

ME and contributes additional evidence that suggests DP moderate this relationship. Hence, our contribution consists in proposing the establishment of dynamic links between ME and FP and dividend policy. The empirical results of this study provide an answer to the question about both the relation between corporate social responsibility and ME and the effect of dividend policy on this relationship. Our findings have practical implications that may be of interest to the academic researchers, practitioners, who are interested in discovering fp practices and her relationship with ME. In fact, researchers must evaluate the presence of dividend policy and its impact on this relationship. Then, this study has some social implications because it is proved empirically that firms with a higher level of fp are the firms that have a higher level of ME. The scope of this study was limited in terms of the sample date, we suggest this study in other context.

This opens the door for future research to determine the optimal level of managerial entrenchment.

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