Impact of Managerial Entrenchment on Firm Performance

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<tr>
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<th>ABSTRACT</th>
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<td>Article History:</td>
<td>This research attempts to analyze the impact of managerial entrenchment on firm performance in the context of KSE-100 index companies in Pakistan. The given study engages the CEO share as the measure of managerial entrenchment and investigate its impact on financial performance of companies. In pertinent to this, regression analysis has been utilized by employing the top performing corporations listed on KSE-100 index. For measurement of firm performance, this study employs the two variables used to quantify firm performance as “return on assets (ROA)” and “Tobin's Q”. This study comprises 318 observations, from 53 non-financial companies of Pakistan Stock Exchange (PSX), over 6 years period (2015-2020) from annual reports. The results of this study indicate 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. The study has some limitations. The future researchers can add other parameters of managerial entrenchment such as board independence, board compensation, tenor and management duality to get more insights on this association. The research findings are giving implications for managers, investors and shareholders. Managers may adopt techniques that allow them to strengthen their position thus gaining investors’ confidence. This research extends the literature by comprehensively employing the impact of managerial entrenchment on financial performance of companies in KSE-100 index companies that was predominately neglected by the previous researchers in context of Pakistan.</td>
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INTRODUCTION

Since the emergence of industrialization, companies entered into new phase for firm’s management consequently elevating the trend in organizations to appoint the managers to manage the company on the behalf of owners (Selehi & Alkhyyoon, 2022; Mohamed, 2021). Due to the split of ownership and administration, as representatives of the equity owners, managers are held accountable for running the companies (Fama & Jensen, 1983). Agency problem arises due to disintegration of ownership and management in an organization. (Boubakri & Ghouma, 2010; Gompers, Ishii, & Metrick, 2010; Paligorova & Xu, 2012) There are two dimensions to the problems caused by agency conflicts. Minority shareholders are expropriated due to conflict of interest among major and minor shareholders, which leads to management engaging in opportunistic behavior (Shleifer & Vishny,
1997). However, research reveals that administrators in firms with higher capital are to a lesser extent expected to take advantage of opportunities. (Habib & Hasan, 2017; Jha & Cox, 2015). Linking the above-mentioned discussion with the concept of Managerial entrenchment, the managerial entrenchment is a phenomenon that can be understood as a managerial power to expropriate wealth. It is a form of agency conflict between shareholders and managers (García-Sánchez, Hussain, Khan, & Martínez-Ferrero, 2020). It is a term used in business management to describe a situation in which managers exploit their organizational designation to act in ways which benefit them merely instead of the organization and the shareholders. In previous studies managerial entrenchment has been described as a corporate governance crisis that emerges when terminating/replacing the CEO is complicated and allows managers to involve in activities against the benefits of the owners (Morck, Shleifer, & Vishny, 1988). Entrenchment enables managers to perform inefficiently by instituting low-quality procedures and making impulsive choices, resulting in lower-value organizational output (Bloom, Genakos, Sadun, & Van Reenen, 2012). CEO share entrenchment is viewed to be negatively linked to business success, according to agency theory. (Fama & Jensen, 1983; Morck et al., 1988)

Entrenchment allows managers to focus on personal own interests, which might or might not be profit-raising for the organization (Baratiyan & Salehi, 2013). The incompetency of the applied corporate governance regulations to establish administrative authority is referred to as entrenchment (Berger, Ofek, & Yermack, 1997). Entrenched managers are incentivized to engage in their own interests instead of shareholder welfare. By inflating their salary levels, strong and authoritative CEOs are able to obtain personal benefits and managerial supremacy has a major influence on CEO salary (Eldenburg, Hermalin, Weisbach, & Wosinska, 2004). A decline in performance of the business is likely to add to the probability of CEO replacement. Nevertheless, when CEO gains more power and influence within the organization, the relationship between turnover and performance may become less sensitive, resulting in an over-entrenched CEO. Over-entrenched CEOs are more probable to be manipulating and influential, which is evident in their remuneration. The remuneration of the CEO grows with the growth of CEO's authority within the company. A greater firm valuation is linked to a strong corporate governance system (L. A. Bebchuk, Cremers, & Peyer, 2011; Eldenburg et al., 2004). Organizations with inadequate governance arrangements meet greater agency concerns and underperform as a result. Corporate boards are selected to uphold the fiduciary responsibility to safeguard the interests of stockholders. Family members are more likely to oversee, and rebuke connected agents because they have a longer investment horizon (Adams & Ferreira, 2007). A further agency dilemma develops in a company between large and small shareholders. Individual shareholders control almost two-thirds of East Asian businesses (Claessens, Djankov, & Lang, 2000). Families can gain control of a company through crossholdings or voting agreements which are later used to push a family representative to the highest managerial position (Pérez-González, 2006). The proportion of relatives in the panel structure is positively linked to excess board remuneration. However, not all family businesses pay their board members more than their contemporaries, but primarily those that appoint a non-family individual as CEO (Salehi, Mahmoudabadi, Adibian, & Ranjbar, 2020).
Thus, managerial entrenchment is defined as the number of shares in possession of board of directors and CEO thus employing the concentration of wealth in the top management leading towards the managers to focus on personal own interests, which might or might not be profit-raising for the organization (Fagbemi, Osemene, & Agbaje, 2020). On the other hand, firm’s performance is defined as reflects the ability of firms in using human resources and material resources to achieve the targets of the firm measure (Salehi, Mahmoudabadi, et al., 2020). In context of developing world, E-HRM has been introduced as a new concept on the performance of an organization thus in this context role of human resources is still very important (Zafar, 2021).

Based on agency theory, the previous studies provide an insight that CEO entrenchment in terms of the ownership share is negatively associated with firm performance because such a trait increases management's authority over stakeholders, and allows the appointed managers to focus on personal own gains, which may or may not be wealth-raising for the business (Baratiyan & Salehi, 2013; Eisenhardt, 1989; Jensen & Meckling, 1976). When one person or organization – known as the agent – is designated to make decisions on behalf of an individual or entity – known as the principal – the principal–agent problem arises. This occurs when agents strive to act according to their personal interests, which may be at odds with their principals'. When organizations progressively become submissive to managers with ownership stakes, challenges arise. Management is hardly supervised since shareholders are deterred from intervening (Seleh & Alkhyyoon, 2022; Mohamed, 2021).

As researchers, we expect that with completion of this study, we would be able to verify whether there is an impact of management entrenchment within a firm and its performance by observing Pakistan's top performing enterprises listed in KSE-100 index. Investors can utilize the findings of this study as a starting point to gain a better understanding and enhance their investing decision-making skills, allowing them to get the most out of their investment. The aim of the research is to analyze the relationship between the management entrenchment and firm performance. This study shall contribute to fill the existing literature gap and clarification of factors affecting the financial performance of businesses. This research also aims to identify the impact of stated indicators causing changes in firm performance. It also draws great implications for investors and shareholders. It provides support to managers that may choose procedures such as meeting the satisfaction of beneficiaries and some certain authorities in the firm, which may enable them to improve their financial position (Salehi, Mahmoudabadi, et al., 2020). Furthermore, companies can devise strategies that work for the benefit of the organization as a whole.

The rest of research paper is organized as follows. Section 2 of study comprises of the analysis of existing literature. Section 3 comprises of the research methodology which includes description of population, sample and operationalization of variables, hypothesis formation and econometric equations. Section 4 contains the results and their analysis along with graphical representation. Section 5 contains the discussion of results leading towards the section 6 that includes conclusion of the study comprising results of study implications, limitations, and recommendations for future studies.
LITERATURE REVIEW

Due to the separation of ownership and management, the agency theory refers to a situation where the owner appoints a manager and delegates the responsibilities and decision-making power to that individual. In such a situation, each involved entity tries to maximize their gains. Consequently, managers tend to manipulate stakeholders and erect organizational facades in order to satisfy conflicting expectations (García-Sánchez et al., 2020). The CG systems employs the process that ultimately lessens the agency problem by eliminating the information gap between the owners and management (Shleifer & Vishny, 1986). It engages the shareholders concern on priority basis leading towards gaining a competitive advantage in market thus gaining a firm’s value (Salehi, Mahmoudabadi, et al., 2020).

Managerial Entrenchment:

Consequently, entrenched managers tend to engage in their personal gains without being questioned or held responsible. Therefore, management entrenchment may perhaps increase agency costs and bring down the likelihood of terminating unqualified and unskilled CEOs. (Dah, Jizi, & Kebbe, 2020). To be more precise, the expansion of management entrenchment entails a rise in CEOs’ power within the organization. Being more entrenched causes the movement of managerial aims towards boosting CEO’s personal advantages. Management entrenchment and authority is a two-edged sword. It offers managers job safety and allows them to make long-term investment in risk-free projects. In high competition markets, the authority of CEO in a firm positively impacts the firm value (Sheikh, 2018). Thereby, offers lower shareholder protection by limiting managers to cater to more personal benefits. Managerial entrenchment has no influence on the relationship between risk-taking and merchandise competition in the market (Salehi, Daemi, & Akbari, 2020). A statistically substantial and encouraging impact of such managerial ownership is visible on firm’s performance which has been concluded using meta-regression analysis(Iwasaki & Mizobata, 2020). Family operated firms perceive external dangers and threats as an opportunity. Managerial entrenchment in family operated firms resulted in long-term investments in R&D. One strength that family firms possess is their commitment to embark on long-term investment commitments during an economic distress. (Sun, Lee, & Phan, 2019).

Managerial Entrenchment and Firm Performance:

A number of researches has explored the association between the managerial entrenchment and firm performance. The theoretical background lies in the concept of management ownership that entrenched managers prioritize their personal interest over the organization’s interest leading towards a drop in financial performance when directors are entrenched. According to Bolton (2014), performance indicators such as Tobin's Q, can be used by directors and managers to improve temporary corporate performance. Firm performance is also affected by external factors such as market development and corporate control. Effective CG recommends that a board should comprise of greater part of independent directors including the chairperson. These suggestions comply with “agency theory”, e.g., administrators struggling to fulfill personal pursuits (Shan, 2019).
Management competence and overconfidence are positively linked with financial performance and its improvement. Agency expenses have no bearing on business performance and managerial entrenchment is inversely related to firm performance, resulting in a drop in firm performance (Salehi & Moghadam, 2019). Entrenched managers engage less in manipulative activities in Iranian firms. (Salehi, Mahmoudabadi, & Adibian, 2018) when developing and implementing the firm’s capital structure policy, managers should keep in mind that credit risk is a significant consideration. To enhance firm performance, entrenched managers in corporate firms with a minimal credit risk ought to focus on providing a certain low level of debt ratio (Li, Niskanen, & Niskanen, 2018). Business performance and corporate governance have a positive association. CEOs prioritize their own benefits instead of the shareholders. An effective CG enhances the firm’s productivity and credibility. Excellent corporate governance can be practiced by hiring directors to examine and monitor the CEO’s activities and management. The association of governance and business performance is influenced by CEO entrenchment. Administrative mandate may struggle to perform well in companies with a high level of management entrenchment, demonstrating that CG has a considerable effect on business execution. (Sukhahuta, 2018) The efficacy of CG processes should be deemed conditional regarding the ownership structure of firms. The positive impact of CG on performance is maximum when ownership is held by local corporations or the government. (Abdallah & Ismail, 2017).

Industry revenue and management entrenchment grow during a recession period. They have contradictory influence on organizational value. The negative and unfavorable influence of entrenchment overshadows the positive effect of industry revenue. A downturn offers entrenched managers to obtain more personal benefits (Dah, 2016). No substantial connection exists among governance structure and business performance. This result is coherent with concurrent conditions. (Akbar, Poletti-Hughes, El-Faitouri, & Shah, 2016). Efficient composition of directors is vital to agency theory's recommendation to resolve the difficulties emerging due to segregation of ownership and control. (Conheady, McIlkenny, Opong, & Pignatel, 2015). Private equity firms have better management compared to government, family, and private firms of developing and developed countries. (Balsmeier & Czarnitzki, 2017) Standard agency problem exists due to the lesser division of ownership concentration which is governed by a ‘personal gain of control’. (Bloom, Sadun, & Van Reenen, 2015). Corporations with a larger number of independent and unbiased directors have additional external funding sources, more “short-term debt”, and higher “long-term debt” than short-term liabilities and have external equity than long-term debt. (Alves, Couto, & Francisco, 2015). Firms with debt financing have meaning thereby higher leverage than those without it and that the use of debt is linked with the risk of private ownership. Investment composition of corporations is affected by the private ownership activities of owners that have surplus management rights (Paligorova & Xu, 2012). Firm performance is negatively associated with CEO turnover.

Likewise, CEOs’ organizational authority, political affiliations, and in-service authority can enhance their capability to be protected against spontaneous replacement. Additionally, two aspects of CEO ownership authority, the government held securities and acting as the ambassador of the major shareholder, tends to be beneficial in decreasing the possibility of enforced CEO takeovers. (Pi &
Segregation of control allows the appointed manager to pursue personal interests, even if costs the owners. (Mustapha & Ahmad, 2011). Ownership pattern in firms is linked with decreased intentional revelations. The evaluation is based on the assumption that ownership pattern of the board increases agency costs (Akhtaruddin & Haron, 2010). Shareholders’ interests are more efficiently fulfilled when shareholder protection is not assigned to CEOs. Appointed managers might exploit associations with stakeholders as an efficient entrenchment approach (Cespa & Cestone, 2007). The decrease of possibility of CEO takeover is common in family firms which have a poor performance record, leading to entrenchment of family members appointed as CEO. Stock prices fluctuate based on changes in the ownership. (Hillier & McColgan, 2005). Household oriented corporations perform well compared to the firms having non-family ownership. When a family affiliate serves as CEO, firm performance is healthier. Generally, results suggest family ownership is a beneficial organizational arrangement (Anderson & Reeb, 2003). Shareholder wealth is increased when ownership concentration decreases. The fluctuations in the share prices are linked to the equity stake of deceased holders of a firm. Firms become targets of takeover offers because of shareholder mortality, with only three-quarters of bids being successful and the rest being unfavorable (Slovin & Sushka, 1993).

**Hypothesis Development:**

Henceforth, on the basis of above-mentioned discussion, we narrate that entrenched managers are likely to impact the firm performance with the proposition of following hypothesis:

\( H_1: \) Managerial Entrenchment has an influence on financial performance of businesses.

\( H_0: \) Managerial Entrenchment does not have an influence on financial performance of businesses.

**RESEARCH METHODOLOGY**

**Sample Data**

The targeted population for this study were the listed companies in KSE-100 Index in the Pakistan Stock Exchange spanning the period of six years from 2015-2020. The sample size for the study was 53 companies of the non-financial sector were selected. The data has been collected from the annual reports and website of non-financial firms of KSE-100 Index. This gives us the final observations of 318 firm year observations from the fiscal years of 2015-2020.

**Conceptual Framework**

The conceptual framework depicted below shows the relationship among independent and dependent variables. The independent variable is Managerial Entrenchment which is measured on CEO share. The dependent variable includes Financial Performance which is evaluated based on two indicators. “Return on assets (ROA)” determines profitability of businesses and “Tobin’s Q” ratio determines decision making of the firm.
Figure 01 represents the conceptual framework of having two models. In the model (1) the impact of managerial entrenchment is tested on Return on Assets (ROA) and in (2) model the impact of managerial entrenchment is tested on Tobin’s Q Ratio.

Model of the Study

To assess the hypothesis, below-mentioned regression model is used:

\[
ROA_{it} = \alpha_1 + \alpha_2 \text{Management Entrenchment}_{it} + \alpha_3 \text{Institutional Ownership}_{it} + \alpha_4 \text{Ownership Concentration}_{it} + \alpha_5 \text{Debt}_{it} + \alpha_6 \text{Dividend}_{it} + \alpha_7 \text{Size}_{it} + \alpha_8 \text{Investment}_{it} + \varepsilon_{it}
\]

\[
\text{Tobin’s } Q_{it} = \alpha_1 + \alpha_2 \text{Management Entrenchment}_{it} + \alpha_3 \text{Institutional Ownership}_{it} + \alpha_4 \text{Ownership Concentration}_{it} + \alpha_5 \text{Debt}_{it} + \alpha_6 \text{Dividend}_{it} + \alpha_7 \text{Size}_{it} + \alpha_8 \text{Investment}_{it} + \varepsilon_{it}
\]

Each econometric model is applied once for “return on assets (ROA)” and for “Tobin’s Q ratio” measurement.
Variables & its Measurements

The following variables are included in the study. Their measurement is described below:

Table 1 Variables & its Measurements

<table>
<thead>
<tr>
<th>Variable</th>
<th>Measurement</th>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent Variable</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management Entrenchment</td>
<td>CEO Share = number of shares in possession of board of directors and CEO</td>
<td>(Fagbemi, Osemene, &amp; Agbaje, 2020)</td>
</tr>
<tr>
<td><strong>Dependent Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Performance</td>
<td>Return on Assets = profit before tax deduction ÷ recorded value of total assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tobin’s Q Ratio = Market Capitalization of Firm ÷ recorded value of total assets</td>
<td>(Salehi, Mahmoudabadi, et al., 2020)</td>
</tr>
<tr>
<td><strong>Control Variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>Institutional Ownership = proportion of total shares of firms owned by other institutions</td>
<td>(Salehi, Mahmoudabadi, et al., 2020)</td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>Ownership Concentration = number of shares possessed by major shareholders</td>
<td></td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>Debt Ratio = total debt ÷ total assets</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>Dividends = Dividend per individual Share ÷ EPS</td>
<td></td>
</tr>
<tr>
<td>Firm Size</td>
<td>Firm Size = Net sales of a corporation</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>Investment = fixed assets ÷ total assets</td>
<td></td>
</tr>
</tbody>
</table>

RESULT AND DISCUSSION

Research Findings:

This study has been conducted to investigate the impact of managerial entrenchment on firm performance by employing the multiple variable regression analysis test was employed carried out using Stata. The data is evaluated to see how the independent and dependent variables are related.

Descriptive statistics

The table 3 presents the descriptive statistics of the variables used for the measurement of the managerial entrenchment and firm performance. This table also includes the independent variables of interest in the study that is CEO share. The total observations, mean, standard deviation, minimum and maximum value of each variable can be observed in this table.

Table 2 Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobin’s Q Ratio</td>
<td>318</td>
<td>1.007</td>
<td>0.9423</td>
<td>0</td>
<td>3.9403</td>
</tr>
<tr>
<td>ROA</td>
<td>318</td>
<td>11.1408</td>
<td>14.2352</td>
<td>-33.93</td>
<td>78.2</td>
</tr>
<tr>
<td>CEO Share</td>
<td>318</td>
<td>0.1253</td>
<td>0.2131</td>
<td>0</td>
<td>0.9468</td>
</tr>
</tbody>
</table>
The explanatory figures are shown in the table above, which include information on the average, standard deviation, least, and highest values of data. The greatest standard deviation is for investment equivalent to 46.9062 and the lowest standard deviation is for board independence equivalent to 0.1501. The descriptive figures for the variables under study are also shown in the table above. The mean “Return on Assets” of the KSE-100 index companies is 0.1064, while the average “Tobin's Q Ratio” is 1.007. This suggests that, as compared to market valuation, public companies perform significantly better in terms of asset profitability. The study comprises of 01 independent variable, 02 dependent variables and 06 control variables.

**Normality of Data for Dependent Variable**

The dependent variables of the study are tested for normality using multiple tests.

The normality of the predictand variables – “ROA” and “Tobin’s Q” is verified through the Shapiro Francia and Shapiro Wilk normality tests after generating a Histogram. The dependent variable Return on Assets exhibits an asymmetric pattern which is marginally positively biased on the right side, indicating a non-normal dissemination of values. The "return on assets" dataset is positively skewed. Tobin’s Q Ratio has a normal distribution. The value in random sampling from a population that diverges irregularly from other values is called an outlier. “Return on Assets” and “Tobin’s Q Ratio” are dependent variables in the study. Both the variables were tested for outliers. Both the dependent variables have multiples outliers. Winsorization is a statistical transformation that reduces the impact of potentially erroneous outliers by restricting extreme values in statistical data. The outliers in the subject datasets were removed using winsorization. Normality of data for “Return on Assets” has been achieved through transformation of variable using SPSS.

The new NROA and NTOBINSQ variables show a bell-shaped symmetric distribution shape, as seen in the histogram and box plot above, indicating that the dataset is normally distributed.

**Shapiro-Wilk Test for normality**

A statistical procedure known as Shapiro-Wilk test is used for determining if a continuous variable has a normal distribution.

\[ H_0: \text{The sample data for “ROA” and “Tobin’s Q” follows a normal distribution.} \]

\[ H_1: \text{The sample data for “ROA” and “Tobin’s Q” does not follow a normal distribution.} \]

**Table 3 Swilk Test ROA and Tobin’s Q**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>W</th>
<th>V</th>
<th>z</th>
<th>Prob&gt;z</th>
</tr>
</thead>
<tbody>
<tr>
<td>NROA</td>
<td>317</td>
<td>0.99917</td>
<td>0.185</td>
<td>-3.972</td>
<td>0.99996</td>
</tr>
<tr>
<td>NTobinsQ</td>
<td>317</td>
<td>0.99852</td>
<td>0.331</td>
<td>-2.603</td>
<td>0.99538</td>
</tr>
</tbody>
</table>
The p-value for swilk test run on Return on Assets is 0.999 and 0.995 for Tobin’s Q Ratio. Since the p-value yielded by the procedure is greater than the significance level, we accept $H_0$ and decide that data is normally distributed for both the dependent variables.

**Shapiro-Francia Test for normality**

The *Shapiro–Francia* test is a statistical procedure for determining if a population is normal based on sample data. The normality of the dataset is indicated by the p-values. The conclusion has been drawn as both the p-values are lesser than the chosen level of significance decided for this study.

**Return on Assets**

**Table 4 Sfrancia ROA and Tobin’s Q**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>$W^*$</th>
<th>$V^*$</th>
<th>$z$</th>
<th>Prob&gt;z</th>
</tr>
</thead>
<tbody>
<tr>
<td>NROA</td>
<td>317</td>
<td>0.99982</td>
<td>0.043</td>
<td>-6.96</td>
<td>1.0000</td>
</tr>
<tr>
<td>NTobinsQ</td>
<td>317</td>
<td>0.99990</td>
<td>0.025</td>
<td>-7.867</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

$H_0$: The data for “ROA” and “Tobin’s $Q$” is normally distributed.

$H_1$: The data for “ROA” and “Tobin’s $Q$” is not normally distributed.

The p-value for the Sfrancia test on “Return on Assets” and “Tobin's Q Ratio” is 1. As the p-value is greater than the threshold of significance, we acknowledge the null hypothesis and infer that data for both dependent variables is regularly distributed.

**Multicollinearity**

Multicollinearity occurs when multiple predictor variables are linearly connected. The predictor and predictands should not have Multicollinearity. As the “Variance Inflation Factor (VIF)” estimates are smaller than 10, all the predictor variables are independent, and therefore Multicollinearity is not present. A value of less than 5 is, nonetheless, ideal.

**Table 5 VIF Before**

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Share</td>
<td>22.67</td>
<td>0.0441</td>
</tr>
<tr>
<td>Ownership Control</td>
<td>22.57</td>
<td>0.0443</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>1.16</td>
<td>0.8585</td>
</tr>
<tr>
<td>Dividends</td>
<td>1.05</td>
<td>0.9514</td>
</tr>
<tr>
<td>Firm Size</td>
<td>1.05</td>
<td>0.9552</td>
</tr>
<tr>
<td>Investment</td>
<td>1.03</td>
<td>0.9742</td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>1.03</td>
<td>0.9784</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>7.22</td>
<td></td>
</tr>
</tbody>
</table>
To attain an ideal value of VIF, a control variable – Ownership Control has been dropped.

**VIF After**

**Table 6 VIF After**

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Share</td>
<td>1.15</td>
<td>0.8682</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>1.16</td>
<td>0.8585</td>
</tr>
<tr>
<td>Dividends</td>
<td>1.05</td>
<td>0.9515</td>
</tr>
<tr>
<td>Firm Size</td>
<td>1.05</td>
<td>0.9556</td>
</tr>
<tr>
<td>Investment</td>
<td>1.03</td>
<td>0.9742</td>
</tr>
<tr>
<td>Debt Ratio</td>
<td>1.03</td>
<td>0.9784</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.08</td>
<td></td>
</tr>
</tbody>
</table>

**Autocorrelation**

The auto correlation of a variable measures the link between its current and previous values.

H\( _0 \): Data is auto correlated.

H\( _1 \): Data is not auto correlated.

**Bgodfrey Test for Return on Assets**

**Table 7 Bgodfrey Test ROA and Tobin’s Q**

<table>
<thead>
<tr>
<th>Lags(p)</th>
<th>Chi2</th>
<th>df</th>
<th>Prob&gt;chi2</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5.779</td>
<td>1</td>
<td>0.0162</td>
</tr>
<tr>
<td>1</td>
<td>0.262</td>
<td>1</td>
<td>0.6089</td>
</tr>
</tbody>
</table>

We reject H0 since the p-value of our test results is less than 0.05, implying that the data set for Return on Assets has auto correlation. A test p-value of 0.6089, higher than the significance level, indicates that the data set for Tobin’s Q Ratio does not have autocorrelation.

**Heteroscedasticity**

The data must be homoscedastic. The graphical representation of residuals above displays an outward pattern, indicating that the variances of the residuals are not equal which deduces that the data set is heteroskedastic. The Breusch Pagan test for random effects is then used to ensure that the results are legitimate.
Breusch-Pagan Test

Table 08 Breusch-Pagan Test ROA

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi2(1)</td>
<td>0.24</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.6207</td>
</tr>
</tbody>
</table>

Breusch-Pagan Test for Tobin’s Q Ratio

Table 09 Breusch-Pagan Test Tobin's Q

<p>| | |</p>
<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi2(1)</td>
<td>0.04</td>
</tr>
<tr>
<td>Prob &gt; chi2</td>
<td>0.8496</td>
</tr>
</tbody>
</table>

H₀: Dataset is homoscedastic
H₁: Dataset is heteroskedastic

As the significant value of the Breusch Pagan test is 0.6207 for “ROA” and 0.8496 for “Tobin's Q” Ratio, both of which are higher than the significance level, 0.05, we accept the null hypothesis to conclude that the data is homogenous and does not follow heteroscedasticity.

Regression Analysis

Selection of Regression Model:

The Hausman test facilitates in the selection of a “fixed effects” or “random effects model” for panel data.

Return on Assets – Dependent Variable 01

Table 10 Hausman Test ROA

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hausman Test</td>
<td></td>
</tr>
<tr>
<td>Chi2 (4)</td>
<td>261.47</td>
</tr>
<tr>
<td>Prob&gt;chi2</td>
<td>0.000</td>
</tr>
</tbody>
</table>

H₀: The ideal model for dataset is “random effects”
H₁: The ideal model for dataset is “fixed effects”

The p-value is zero, which is less than the threshold of significance of 0.05. Consequently, we dismiss our null hypothesis in preference of the substitute, leading to the conclusion that the “fixed effect model” is suitable for examining the impact of “Return on Assets” on the independent variable.
Table 11 Regression Analysis ROA

|                  | Coeff.    | Std. Err.  | P>|z| |
|------------------|-----------|------------|-----|
| NROA              |           |            |     |
| CEO Share        | -0.015851 | 0.0007112  | 0.027|
| Institutional ownership | 0.0001767  | 0.00036  | 0.624|
| Debt Ratio       | 0.024704  | 0.0085636  | 0.004|
| Dividends        | -0.00002107 | 0.0001582 | 0.184|
| Firm Size        | 1.09e-13  | 9.73e-14   | 0.263|
| Investment       | -0.00000412 | 0.0000853 | 0.629|
| R-Square         | Within    | Between    | Overall | 0.0687 | 0.0799 | 0.0319 |

The link between “Return on Assets” and Management Entrenchment explains a 3.19 percent variation in Return on Assets in this model, with R Square= 0.0319. The independent variable has a considerable impact on “Return on Assets” because “Management Entrenchment” (as measured by CEO Share) has a P value less than 0.05. Control variables – institutional ownership, investment, and dividends have a negligible impact on “Return on Assets”.

Tobin’s Q Ratio – Dependent Variable 02

Table 12 Hausman Test Tobin’s Q

<p>| | | | |</p>
<table>
<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hausman Test</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chi2 (4)</td>
<td>6.33</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob&gt;chi2</td>
<td>0.2750</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

H₀: The ideal model for dataset is “random effects”

H₁: The ideal model for dataset is “fixed effects”

A test-value of 0.2750 is higher than the level of significance. Therefore, we accept the null hypothesis and conclude that the random effect model is appropriate for investigating the impact of Tobin’s Q Ratio on our independent variable.

Random Effects Regression Model

Table 13 Regression Analysis Tobin’s Q

| NTobinsQ            | Coef.    | Robust Std. Err. | P>|z| |
|---------------------|----------|------------------|-----|
| CEO Share           | -7.62e-08 | 2.79e-08         | 0.006|
| Institutional ownership | -59.95509   | 235.58888        | 0.799|
| Debt Ratio          | 2304.962  | 3876.743         | 0.552|
| Dividends           | 619.2781  | 166.31111        | 0.000|
| Firm Size           | -16659.71 | 25430.9          | 0.512|
| Investment          | 74.07569  | 5.322973         | 0.000|
| R-Square            | Within    | Between          | Overall | 0.0805 | 0.1641 | 0.1312 |
Based on this model, R Square = 0.1312, implying that the association of “Tobin's Q” ratio and “Management Entrenchment” justifies a 13.12% variation in Tobin's Q Ratio. Because Management Entrenchment has a P value lesser than 0.05, it is determined that the independent variable has a robust significant impact on “Tobin's Q”. The effect of control variables such as “institutional ownership”, “debt ratio”, and “dividends” on “Tobin's Q” is inconsequential. Autocorrelation assumptions had not been met previously. As a result, the final regression model, which contained catering autocorrelation, was run with the VCE (robust) command. The standard errors are robustified by this command. The regression models yield p-values of 0.0054 for “Returns on Assets” and 0 for “Tobin's Q”, respectively. We reject the null hypothesis since both values are less than the chosen level of significance, 0.05. The study's empirical findings reveal that entrenched managers have an influence on an organization's performance and fiscal stability. This argument is because most appointed managers prioritize their own personal interests over the needs and performance of the company. With a test value of 0.027, it is evident that the CEO share considerably impacts the dependent variable "Return on Assets." The sample data provides adequate evidence against the null hypothesis. CEO Share is statistically meaningful for both dependent variables. For CEO share versus Tobin's Q Ratio, a p-value of 0.006 and a less than significance level of 0.05 suggests that the variable has a substantial effect on Tobin's Q Ratio.

CEO Share has a negative coefficient for both "Return on Assets" and "Tobin's Q Ratio."

When the predictor variable rises, the response variable tends to decline, indicating a negative coefficient value. The coefficient value represents how much the average of the dependent variable changes when the independent variable is changed by one unit while the other variables under study stay unchanged. It has become evident that management entrenchment significantly influences firm performance. Results of the study align with the existing literature presented by (Salehi et al., 2018), (Salehi, Mahmoudabadi, et al., 2020) and (Salehi, Daemi, et al., 2020). For this study, Hausman Test (Hausman, 1978) was run to select the regression model suitable to be used to obtain comprehensive results(Shan, 2019),(Salehi et al., 2018).

We observed that autocorrelation occurred in the disturbed component by analyzing the Bgodfrey Test. The autocorrelation was not catered individually but instead through a regression test run at the end.

**Independent Variable:**

A test value of 0.027 of CEO share has a substantial impact on the dependent variable "Return on Assets." As the p-value generated by regression test is lesser than the chosen level of significance, the collected test data gives adequate confirmation against the null hypothesis for the entire population. CEO Share is statistically significant for both the dependent variables. A p-value of less than 0.05 for CEO share versus Tobin's Q Ratio indicates that the independent variable has significant effect on Tobin's Q Ratio. Both "Return on Assets" and "Tobin's Q Ratio" have a negative coefficient value for
CEO Share. A negative coefficient value suggests that when the independent variable rises, the dependent variable typically falls.

Control Variables:

As far as the control variables are concerned, it is evident from results of the study that w.r.t the ROA the impact of Institutional ownership, firm size and dividends are insignificant on ROA as p value is less than 0.05. The coefficients for Institutional ownership and Firm Size are negative with respect to Tobin’s Q Ratio. Other control variables including the debt ratio, investment, ownership concentration yield a positive coefficient value. A significant positive value indicates that as the independent variable's value rises, the dependent variable's mean rises as well. Managerial entrenchment is not the only factor affecting firm performance.

Discussion

The research examined the impact of managerial entrenchment on firm performance in the context of Pakistan. Based on the results presented earlier, it has become evident that management entrenchment significantly influences firm performance. The negative relationship between CEO shares as a measure of managerial entrenchment has a significant impact on Return on Assets as a measure of Firm performance. Furthermore, CEO share has a negative significant impact on Tobin’s Q as another measure of firm performance stating that fact that as the CEO share increases, the performance of company starts decreasing. The results of this study state the facts that managers may adopt the techniques that allow them to strengthen their position, such as satisfying beneficiaries and concerned groups within the company (Salehi, Mahmoudabadi, et al., 2020) leading towards the concept of ownership concentration. In terms of businesses where ownership concentration gets increase it may lead towards the agency concept where owners work for their own stake. The inverse relationship between managerial entrenchments on firm performance, as proven by the hypothesis acceptance indicates that firms with high managerial entrenchment face lower performance. This suggests that firms can better perform if they have less CEO share complying the agency theory where administrators struggle to fulfill their personal pursuits. Results of the study align with the existing literature (Salehi, Mahmoudabadi, et al., 2020).

Likewise, CEOs’ organizational authority, political affiliations, and in-service authority can enhance their capability to be protected against spontaneous replacement. Additionally, two aspects of CEO ownership authority, the government held securities and acting as the ambassador of the major shareholder, tends to be beneficial in decreasing the possibility of enforced CEO takeovers. (Pi & Lowe, 2011). The incompetency of the applied corporate governance regulations to establish administrative authority is referred to as entrenchment (Berger, Ofek, & Yermack, 1997). The results of this study are in accordance with the agency theory as entrenched managers are incentivized to engage in their own interests instead of shareholder welfare. By inflating their salary levels, strong and authoritative CEOs are able to obtain personal benefits and managerial supremacy has a major influence on CEO salary (Eldenburg, Hermalin, Weisbach, & Wosinska, 2004).
Thus, segregation of control allows the appointed manager to pursue personal interests, even if costs the owners thus deteriorating the firm’s performances. (Mustapha & Ahmad, 2011).

**CONCLUSION AND POLICY IMPLEMENTATION**

This section elaborates on the study's implications and is followed by the overall conclusion of the study.

**Theoretical Implications**

This study adds a contribution to the managerial entrenchment literature by investigating the associations between managerial entrenchment and firm performance. Also, the study has identified the underlying path in this linkage as the firm’s continuous improvement. This research extends the literature by comprehensively employing the impact of managerial entrenchment on financial performance of companies in KSE-100 index companies that was predominately neglected by the previous researchers in context of Pakistan.

**Practical Implications**

The research findings are giving implications for managers, investors and shareholders. Managers may adopt techniques that allow them to strengthen their position, such as satisfying beneficiaries and concerned groups within the company in their decision-making process thus gaining investors’ confidence. As, investors are mindful that an appropriate corporate governance process could serve a key role in mitigating the effects of organizational disputes, resulting in enhanced business performance and as a result, increased capital leading towards the firm performance. Concluding, directors are offered as corporate governance to align management policy-making procedures with the interests of equity owners to progress the business’s efficiency and performance. Additionally, the results of this study serve as a springboard for additional in-depth research into the behavior of managerial practices. This research can be highly useful to family-owned businesses since it can assist them to better comprehend the disadvantages of having relatives as directors in businesses.

**Limitations and Directions for Future Research**

This study has some limitations that arises recommendations for future researchers. Firstly, the results of this study are applicable to KSE-100 index companies, its findings can only be applied or utilized by businesses included in the KSE-100 listed companies. Future researchers can make a comparison of before COVID and after COVID time period. Additional control parameters, such as board independence, board compensation, Board tenure and management duality to get more insights. The prospective responsibilities of internal management and auditors in the relationship between administrative entrenchment and business performance can be evaluated in upcoming research studies to make them more comprehensive. It is recommended that firms oversee the managerial activities of designated managers on a frequent basis.
Conclusion

With the theoretical foundation of agency theory, the purpose of this study was to investigate the impact of managerial entrenchment on firm performance in the context of developing country i.e., Pakistan by employing sample size of 53 non-financial firms listed in KSE-100 index and thereby contributes to the current literature through focusing on top performing companies of Pakistan listed on KSE-100 index. The methodology employed in this research is fixed effects” or “random effects model for panel data to evaluate the impact of managerial entrenchment on financial performance. The methodology provides the sufficient evidence that there is a significantly negative impact of CEO share on the Return on Assets and on Tobin’s Q of the firms listed in KSE-100 index. We find a linkage of company performance and managerial entrenchment based on statistical findings as exists a negative correlation between the variables signifying that appointed managers prioritize their own personal interests over the needs and performance of the company. Such managers are most likely to be involved in actions that are related to their interests. Based on the results presented by previous researchers, it has become evident that management entrenchment significantly influences firm performance. Results of the study align with the existing literature presented by previous scholars in the context of developing country(Salehi, Mahmoudabadi, et al., 2020).

Keeping in view the impact of other control variables, this study elaborates that institutional ownership, firm size and dividends are insignificant employing that irrespective of the size of the firm, dividend payments and type of ownership the performance of the company starts deteriorating based on agency theory. Hence, the coefficients for Institutional ownership and Firm Size are negative with respect to Tobin’s Q Ratio. This relation has been supported by previous researchers in their studies (Mahmoudabadi, et al., 2020). Thereby concluded in context of CG mechanism, a transparent procedure needs to be employed by including the independent directors that could significantly impact the decision-making process and hence concluding the firm performance (Abed Al-Nasser & Ahmed, 2017). In this regard, ownership concentration could be viewed as a corporate governance process for improving a company's financial performance (Pederson, Heenan, & Salamie, 2000).

REFERENCES


