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The Impact of Managerial Discretion in Value Creation in Managerial Firms of Cameroon

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Abstract: *This study focuses on the analysis of the impact of managerial discretion on the creation of shareholder value in managerial firms in Cameroon. Thus, in order to achieve this objective, we opted for a quantitative approach based on the administration of a questionnaire after a sample of 166 Public Limited Companies located in the Coastal and Central regions for the simple reason that these regions regroup, according to the 2016 statistics of the National Institute of Statistics (INS) of Cameroon, more than 69% of companies in Cameroon. Thanks to the SPSS software, the analysis of the collected data was done following two techniques. Firstly, the cross sorting. Secondly, on the question of explanatory analysis, we used logistic regression. The results show that the creation of shareholder value is an increasing function ofthe managerial latitude of managers.*

Keywords—Public Limited companies; managerial discretionary space; shareholder value creation; Entrenchment; Cameroon

1. Introduction

The financial scandals observed in the 2000s with the bankruptcy of emblematic firms such as Enron and Parmalat have brought the importance of improving governance back into focus (Song and Thakor, 2006; Khanchel, 2009). Thus, several developed countries, motivatedby the desire to restore investor confidence in stock markets, have strengthened governance mechanisms, particularly at the legislative level (Sarbanes-Oxley Act in the United States and the Financial Security Act in France). "Good governance" rules published or proposed by various regulatory or professional bodies such as the OECD (Organisation for Economic Co- operation and Development) have also appeared (Mbaduet et al, 2019). OECD defines corporate governance as the system of management and control of companies. That is, a set of relationships between the company's management, its board of directors, its shareholders and its other stakeholders. According to Charreaux (1997), governance is "the set of mechanisms which have the effect of delimiting the powers and influencing the decisions of managers, in other words, which "govern" their conduct and define their discretionary space".

Our research is in line with this research framework but it is unique in its envisaged problem: would managerial discretion contribute to the improvement of shareholder value creation in managerial firms in Cameroon? Our research has two fundamental objectives. The first is to provide theoretical insights into the relationship between managerial discretion and shareholder value creation. The second is to verify whether these theoretical predictions remain valid in the Cameroonian context and establish the link between managerial discretion and shareholder value creation in Cameroonian managerial firms.

2. Théorical framework

Several theories help explain the discretionary space of the manager and its impact on the creation of shareholder value.

2.1 Agency theory and managerial discretion

The separation between the ownership of the firm and its management creates an agency relationship. This theory, developed by Ross (1973) and then by Jensen and Meckling (1976), constitutes the anchor point for the study of the power relationship between the providers of capital and the managers. The objective of Jensen and Meckling (1976) was, in particular, to build a theory of organizations in order to "clearly explain how the rules of the organizational game affect the manager's ability to solve problems, increase productivity and achieve his objective". They describe the relationship between shareholders (principal) and managers (agent) as an "agency relationship". The underlying normative objective was, then, to study how capital providers could best control a manager to whom they would delegate managerial power so that the latter would use the resources they would contribute in their sole interest. The underlying ontological hypothesis was that of a divergence of interests between a maximizing and opportunistic manager wishing to rob the capital providers for his personal interest and the objectives of the latter wishing to maximize the financial profitability of their investments (Boyer, 2005).

Agency theory has notably approached the relationship between capital providers and managers from a contractual perspective. The contract would make it possible to fix the reciprocal obligations of the two parties, and thus to make them respectable. It would set out the rights and duties of each party. However, in view of the proven incompleteness of contracts and their impossibility of guaranteeing absolute control of managers, the capital providers, often organised within specific bodies, have pushed for the implementation of disciplinary mechanisms aimed at controlling the actions of managers. Despite these, recent studies on governance (Mbaduet et al., 2019; Aboubakar et al., 2021) show that managers would continue to exhibit opportunistic behaviours and act in their own interest, especially to maximise their pecuniary utility. In particular, they would use their discretionary power, resulting from the imperfection of shareholder control mechanisms, to grant themselves privileges and in particular substantial amounts of remuneration. In the framework of agency theory, managers have considerable latitude to define investment policy. They can use it to show opportunism by reducing their effort or by enriching themselves at the expense of their principal (Paquerot, 1997). To take advantage of this, managers must have discretionary power, which is itself synonymous with the concept of managerial latitude introduced by Charreaux (1996): this discretionary power refers to the area of power of managers that escapes the control of one or other of the stakeholders. It therefore goes beyond the simple framework of shareholder- manager relations to encompass all of the firm's partners or stakeholders. Moreover, managers also use entrenchment to widen their discretionary space and maintain their position in the company.

2.2 Entrenchment theory and executive discretionary space

According to the theory of entrenchment developed by Schleifer and Vishny (1989) the entrenchment of a manager is defined as manoeuvres on the part of the latter to maintain his position in the company, in particular by increasing the cost of his replacement by the capital providers. It allows a manager to increase his managerial latitude by using different means (manipulation of information, investment decisions, control of resources, etc.). The consequences of managerial entrenchment have been considered positively and negatively in the financial literature (Schleifer and Vishny, 1989). We will discuss the implications of these different perspectives on the managerial latitude of executives.

2.2.1 Entrenchment, managerial latitude and performance: a positive view

The opportunistic vision of the leader, seeking to appropriate rents at the expense of other stakeholders, which is at the center of the contractual theories of organizations, is rejected by Castanias and Helfat (1992). The latter emphasize the role of rent creator of the manager and reverse the traditional analysis of the manager as an agent of the shareholders. In their theory, the role of takeovers is not to discipline non-performing managers. On the contrary, these takeovers allow managers (and shareholders) of other firms to expropriate successful managers. Castanias and Helfat (1992) point out that the presence of managers on the board of directors is a means of preserving this specific human capital. Similarly, anti-hostile takeover measures (golden parachutes or specific investments) are no longer perceived as vectors of entrenchment. But they are means of preserving specific managerial capital. They allow the interests of managers to be aligned with those of shareholders, so that profitable investments can be undertaken. Other studies have also postulated a possible compatibility between managerial embeddedness and organizational effectiveness (Kanchel, 2009, and Wanda, 2010). Demsetz (1998) considers that "embeddedness better safeguards the interests of the leader, encourages him or her to increase firm-specific human capital, and can help create investment opportunities that benefit shareholders." Garvey and Swann (1994), from a different perspective, justify entrenchment in managerial behaviour as a means of internalising the externalities that characterise a world of incomplete contracts. In such a framework, there is no reason why entrenchment behaviour and the existence of managerial discretion should be ineffective. According to Pigé (1998), the manager increases his social capital by seeking to build relational networks. The company benefits through either better commercial performance (the manager obtains orders more easily thanks to his relational network), or a better social climate and greater staff productivity (the manager enjoys strong internal legitimacy and has in-depth knowledge of his company and its organizational system), or better internal and external coordination. Thus, a manager who has achieved a good past performance is favourably evaluated by his shareholders. In return, the latter exercise less strict control. The manager can more easily reward the other actors of the company and at the same time reinforce his relational networks. On the other hand, if the manager's past performance is not good, he will be strongly controlled and therefore his roots will be weakened.

Here, the entrenchment of the manager could allow him to create more value for the shareholders. From a normative perspective, the entrenchment of managers would, in this case, be combated.

2.2.2 Entrenchment, managerial latitude and performance: a positive view

The leader undertakes a strategy that aims to preserve the value of his personal wealth, to maintain himself at the head of the firm and eventually, to allow him to derive non-pecuniary profits from the exercise of his management function. Obviously, all these elements converge towards the adoption by the leader, of a strategy of "entrenchment", whose objective is the maintenance in the management in order to draw the maximum rents from the hierarchical position occupied.

This entrenchment strategy entails agency costs, including monitoring costs and opportunity costs. Supervisory costs are associated with the systems put in place by shareholders to encourage managers to manage in accordance with their interests (cost of operating supervisory bodies, reporting, auditing, etc.). As for opportunity costs, they are related to the gap between the strategy adopted by managers and the one that would maximise shareholders' wealth.

Shleifer and Vishny (1989), Morck, et al, (1990) and Paquerot (1997) have considered entrenchment as a source of inefficiency. They found that it has negative effects on shareholder wealth. This is explained by the spoliation of the latter by the managers, who will carry out investments below the optima (or over or under-investment) . The managers give priority to their personal interests and put the maximization of the company's value in second place. This is detrimental to the company.

According to Pigé (1998), "as the executive becomes more and more entrenched and frees himself from internal control mechanisms, his incentive to increase the performance of his company will fall to the benefit of other objectives such as those of increasing his personal satisfaction excessively. This temptation will be all the stronger when the executive is close to the end of his or her term of office and when, consequently, his or her decision-making horizon no longer coincides with that of the shareholders.

2.3. Stewardship theory and executive discretionary space

While agency theory is particularly well suited to situations in which managers display individualistic behaviour and a desire to maximise their own utility function, stewardship theory is no less well suited to situations in which the manager gives priority to the general interest. Such a situation becomes conceivable when the manager is not opportunistic, when his own interests converge with those of the shareholders, when the principal-manager relationship is based on trust and when the latter can derive personal satisfaction from the very success of the organization he leads (Donaldson and Davis, 1994).

As stewards, leaders need to have their "hands free" in order to bring all the intrinsic motivation they naturally have to their duties (Donaldson and Davis, 1991). Far from being opportunistic, their vocation or utility function is to contribute to the long-term development of the company while serving the general interest (Davis, Schoorman and Donaldson, 1997). This conjunction of interests can benefit shareholders through improved dividends and share price (Davis, Schoorman and Donaldson, 1997). Consequently, the theory of stewardship is concerned with the behaviour of the manager; it assumes freedom of decision and is based on an ethical reflection which aims at the general interest.

For this theory, there is no inherent problem with the leader's motivation: the perspective is therefore more one of knowing how the organization will help the leader exercise his or her power and responsibilities, rather than focusing on monitoring his or her behavior. Governance must therefore enable the leader to exercise his or her authority and responsibilities and thereby gain the recognition of other stakeholders, particularly shareholders. Stewardship theory supplements some of the omissions of agency theory by taking into consideration other factors, of a different nature (Davis, Schoorman and Donaldson, 1997). Some of these are psychological and include intrinsic rewards (autonomy, knowledge enhancement, variety and content of work), identification drives (willingness and pride of belonging) and the need for influence and personal power (not related to the hierarchical position of the leader, but rather to the respect and expertise derived from the collective success of the firm). The other factors can be described as contextual and depend on the importance attached to ethical values and trust, depending on environmental turbulence and the various cultures involved. The manager's discretionary latitude should therefore not be systematically limited, but on the contrary extended. This makes it possible to establish a more efficient organization in the shared interest of the various stakeholders and shareholder groups. Thus, proponents of stewardship theory consider that managerial discretion is not necessarily detrimental to performance, especially if power and authority are held by one person (Donaldson and Davis, 1991; Donaldson and Davis, 1994; Davis, Schoorman and Donaldson, 1997).

3. METHODOLOGY

3.1 SAMPLE AND DATA COLLECTION

In order to study the role of managerial latitude on shareholder value creation, we selected a sample of 166 managerial firms. Indeed, we faced a panoply of difficulties: the refusal of access in several companies because of the pandemic of COVID-19 was our main difficulty; in some structures, the questionnaire was asked and it was necessary to wait for days or an appointment and thus the paroxysm was always without favorable follow-up. The refusal of some managers to collaborate under the false pretext that the information we wanted to collect was confidential. The data was collected in two regions of the country (Littoral and Centre) because according to the 2016 statistics of the INS, 69% of businesses in Cameroon are in these two regions. Regarding data collection, a questionnaire was administered between February and May 2021. The interest of administering the questionnaire is that it offers relevant and usable data. Indeed, Thiétart (2007) states that "it is a data collection tool well suited to quantitative research since it allows for the processing of large samples and the establishment of statistical relationships or numerical comparisons".

3.2 Empirical model and operationalization of variables

Our econometric model is inspired by the work of Bouras and Gallali (2017); Li et al , (2017); Khanchel (2009); Mbaduet et al, (2019) and is as follows:

$Y1\ (1,0) = b0 + b1\ x1 + b2\ x2 + b3\ x3 + \beta i$ that is:

$RENTAB\ (1,0) = \beta 0 + \beta 1SEP + \beta 2RD + \beta 3OB + \beta 4PCHE + \varepsilon i$

With

RENTAB: the financial profitability of the company, which measures the creation of shareholder value being a dichotomous or binary variable measured as follows:

RENTAB =1, if the financial profitability is increasing RENTAB =0, if the financial profitability is decreasing SEP: the seniority of the executive in his position; RD: the use of debt

OD: the number of external members of the bord

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PCHE: The percentage of capital held by the executive β0 represents the constant term;

β1 to β4, the regression coefficients and ε, the error term

The percentage of capital held by the manager: it is measured by the fraction of capital held by the manager (PCHE). Demsetz (1983) shows that a significant fraction of the capital held by the manager enables him to reinforce his power of control and encourages him to defend his own interests to the detriment of those of the other shareholders.

The number of outside directors on the board of directors: It is measured by the number of outside directors present on the board of directors (OD). According to Weisbach (1988), inside and outside directors have different interests in the firm. In this sense, outsiders have an interest in removing the non-performing manager in order to safeguard their reputation, while insiders have no interest in removing the manager because their career is closely linked to the manager. Thus, to increase his managerial discretion, the manager can easily "retain", in various ways, the internal directors by informal contracts in the form of career promise, job security or benefits in kind (Charreaux, 1997). Moreover, the manager can increase the asymmetry of information to disrupt their control of the real conditions in which the company develops (Charreaux, 1997).

The seniority of the executive in his position: Speaking of the seniority of the executive we were inspired by the Cameroonian law which define the mandate of the executives for the periods of three years.

The use of debt: this is measured in three ways, depending on whether the company does not use debt at all, uses it often or uses it very often, since the use of debt influences the accounting returns.

Shareholder value creation: this is measured by the financial profitability of the company. We will use an accounting indicator because the majority of the companies in our sample are not listed on the stock exchange. It is the return on equity (ROE) because, not only does it give a better appreciation of financial performance than other ratios (Tsoutoura, 2004), but it is based on information that is simple to analyze.

Variables	**Definition**	**Type of variables**	**Measures**	**Reference authors**
SEP	the seniority of the executive in his position	Nominal	1= Less than 3 years 2= between 3 and 6 years 3= between 6 and 9 years 4= more than 9 years	Gomez Aguilar, 2007 Elili, 2009 Sellami, 2010
RD	The company's recourse to debt	Nominal	1= Not at all 2= Often 3=Very ften	Charreaux, 1996 Khanchel, 2009; Poulain Rhem, 2003
OB	The number of external members of the bord	Metric	Number of outside directors on the Board	Mbaduet et al, 2019 Feudjo, 2006 Elili, 2009
PCHE	The percentage of capital held by the executive	Metric	The percentage of capital held by the executive	Mbaduet et al, 2019 khanchel, 2009 Ckouekam, 2015
RENTAB	the financial profitability of the company	Dichotomo us	1= increasing profitability 0= decreasing profitability	Mbaduet et al, 2019 Wanda, 2001, Abdoul-Nasser, 2018

Source: Author’s construction

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3.3 Data processing method: Logistic regression

In accordance with our objectives and taking into account the nature of our dependent variables, which in this case are dichotomous, i.e. they take the values 1 and 0, the entities whose profitability is increasing will take the value 1 and 0 in the opposite case. This operationalization led us to opt for logistic regression as a method of data processing, which is designed to bring out the marginal effects and the odds ratios for each variable in the model.

4. RESULTS AND DISCUSSIONS

We will present on the one hand the descriptive statistics and on the other hand the analysis of the link between the discretionary space of the manager and the performance of the firm.

4.1 Descriptive statistics

Our sample is well dispersed from the point of view of the seniority of the respondents in management positions in their companies. Those who have been in management for less than 3 years represent 38.6% and this is the modality with the highest frequency. Those who have been in the position between 3 and 6 years represent 31.9% while those who have been in the position between 6 and 9 years represent 10.2% of the sample. The oldest, i.e. those who have been in the job for more than nine years, represent 19.3% of the executives in our sample.
Regarding the presence of external directors, it was found that this is low in Cameroonian public companies because 65.1% of companies have less than 2 external directors, this is explained by the fact that the majority of companies have less than 5 board members. This is due to the fact that the majority of companies have fewer than five board members, which means that they are not far from the 33% ratio of external directors recommended by the Viénot II report. On the other hand, 28.3% of companies have between 2 and 5 external directors, while 6.6% of companies have more than 5 external directors.
Speaking of the ownership of capital by managers, our survey reveals that in 31.3% of cases, managers hold shares in the companies they manage. This is in line with the agency theory because, in theory, the shareholding of the managers allows to align the interest of these actors with that of the shareholders. The shareholder manager will thus be motivated to maximize the value of the company and limit value-destroying decisions (alignment theory). However, when the share he holds increases, the manager can exert an influence on the governance of the company. He is then in a position to allocate private benefits to himself, in the form of excessive remuneration or benefits in kind. They may also adopt a strategy of entrenchment by numbing governance mechanisms such as the board of directors, the executive labour market or the takeover market (Mork, Shleifer and Vishny, 1988). In Cameroonian managerial firms, 21.7% of managers hold more than 10% of their firm's capital. This brings them closer to the alignment theory. This low participation can be explained by the fact that we are in public limited companies and in these types of companies the shareholding is diffuse and the managers are not the main shareholders (Mbaduet et al., 2019).
In terms of shareholder value creation, with reference to the work of Bello (2017) and Mbaduet et al, (2019), we have adopted financial profitability as the measurement indicator and the following table emerges:

Table 2: Characteristics of shareholder value creation

	Workfo r ce	Percenta ge	Valid percentag e	Cumulati ve percentag e
downward	27	16,3	16,3	16,3
Stable	62	37,3	37,3	53,6
Valid upward	77	46,4	46,4	100,0
Total	166	100,0	100,0	

The table shows that for 16.3% of the companies, the financial profitability varied downwards against 46.4% which varied upwards.

4.2 Existence of a positive relationship between managerial latitude and shareholder value creation

4.2.1 The results of the logistic regression

The results presented are from the SPSS 26 software is as follows:

Table 3: Model Summary.

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	144,597 [a]	,104	,166

From the summary table of the model, we note that the Nagelkerke R2 is equal to 0.166, which may be sufficient for our model given the exploratory and innovative nature (Desjardins, 2005) of our study in the Cameroonian context.

Thus, the model explains 16.6% of the variance of the dependent variable, namely the creation of shareholder value.

Similarly, the model ranking table below reveals that our model is true 81.9% of the time. In other words, when the manager has a high level of discretionary space, he will be motivated to create more value for the company in 81.9% of the cases.

The table of variables in the equation shows that the manager the manager who has between 5 and 10 years of experience have 4.98% chances to increase the creation of shareholder value and those with more than 10 years have 16.16% chances to increase the creation of shareholder value.

In fact, the longer the manager is and therefore the more managerial latitude he has, the more likely he is to create value for the shareholder. Speaking of the share of capital held by the manager, the reading of the table reveals that the managers having between 3 and 5% of the capital have 12.34% of increasing the creation of shareholder value while those who have more than 10 years have 18.1% of chances to increase the creation of shareholder value.

The significance of the Wald statistical test consolidates these results because it reveals that the share of capital held by the manager influences the increase in value creation with a significance level of 2.1% at 3 degrees of freedom, and the seniority of the manager in the position influences the increase in value creation with a significance level of 2.9% at 3 degrees of freedom, which is much higher than the 5% threshold previously set.

In summary, it appears that the above model explains 16.6% of the variance in the increase in profitability of managerial firms in Cameroon. Thus, we assert that the more discretionary space the manager enjoys, the more value he creates for the shareholder.

4.3 Discussion of the result

This result implies the rejection of the presumptions of the agency theory. Indeed, proponents of the latter (Jensen and Meckling, 1976) have stipulated that managers follow "self-serving" objectives at the expense of shareholders' interests, which undermines firm performance. However, the result found is consistent with Donaldson and Davis (1991) who argued that managers are good stewards of the firm and follow the interests of shareholders. Thus, we can conclude that value creation in Cameroonian managerial firms constituting our sample increases if the manager has sufficient managerial latitude. In fact, in managerial companies, the board of directors exercises control over the shareholder and when this control is very strong, the latter may lose motivation and interpret it as a lack of confidence, on the other hand, when he is given some room for maneuver, this may push him to align his interest with that of the shareholders and take decisions in line with the interests of the latter. This result can be explained by the characteristics of the ownership structure of Cameroonian firms.

Our results are also in line with Castanias and Helfat (1992) whose main contribution is the reversal of the traditional problematic of the analysis of the role of the manager based on opportunism; the central aspect seems to them to be the primary function that he assumes in the process of value creation, an important spring of the latter being the protection of managerial capital. The system of governance must also serve to protect the interests of managers. Seen from this angle, entrenchment, far from leading to an expropriation of shareholders, by allowing the manager to make a return on his investment in specific managerial capital, also leads to the satisfaction of shareholders' interests; this return is achieved by preserving sufficient discretionary space to allow the creation of managerial rents. As the authors point out, contrary to the traditional agency theory focused on conflicts, the managerial rent model favors the alignment of shareholders' and managers' interests and emphasizes the managers' capacities to create rents through their strategic and operational decisions. This result reinforces those of Mbaduet et al. (2019) who show that in Cameroon the manager's shareholding positively influences firm performance.

5. Conclusion

The objective of this study is to investigate the impact of managerial discretion on shareholder value creation in managerial firms in Cameroon. To do this, we first reviewed the literature on the relationship between these variables. Indeed, previous studies, both theoretical and empirical show that there is no consensus on the relationship considered. Certainly, according to the agency theory, managers give priority to their personal objectives. This leads them to use their discretionary power to preserve their personal interests, which is detrimental to the creation of shareholder value. On the other hand, the managerial stewardship theory assumes that managers are good stewards of the firm and therefore their interests converge with the interests of shareholders which leads to improved performance.

Secondly, we studied the impact of managerial discretion on value creation in a sample of managerial firms in Cameroon. Our results show that shareholders can trust the manager on the condition that they grant him a considerable share of the firm's capital (more than 10%). By granting him long terms, and even if he becomes entrenched, the manager will seek to create value for the firm, in order to increase his wealth but also that of the other shareholders. This result can be explained by the fact that the Cameroonian economic fabric is characterized by the preponderance of companies whose capital is majority owned by the manager or their family..

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