Governance, Managers' Entrenchment and Performance: Evidence in French Firms Listed in SBF 120

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ABSTRACT

Research on managerial entrenchment is quickly gaining attention because of its implications for performance. This concept belongs to the field of corporate governance and little has been studied about it. This paper seeks to investigate the impact of managerial entrenchment on firm performance surrounding seniority and discretionary accruals using a sample of 40 French companies listed on the SBF 120 for the period 2002-2009. We find a significant relationship between management entrenchment, as measured by discretionary accruals, seniority and characteristics of board of directors. This reveals that board of directors contributes to the control of managers. The test of management entrenchment's effect on performance remains statistically significant for all measures of firm performance (Return on Assets, Return on Equity, Tobin's Q and Market to Book).

1. Introduction

Does management entrenchment matter for firm performance? Do external and internal governance mechanisms influence this relationship? Research in corporate governance and management has studied extensively these important questions, because of its implications for firm value. By describing measures' management entrenchment in terms of seniority and discretionary accruals, we extend the earlier literature on managerial behaviour. According to agency theory, we are considering a conflict of interest problem result when managers serve as shareholders' agents may engage in behaviour that provides them with personal benefits at the expense of shareholders and than to take actions that do not maximize the welfare of the principal (Berle and Means, 1932; Jensen and Meckling 1976; Jensen 1986). These potential conflicts lead to the development of corporate governance control mechanisms and disciplinary measures to sub-optimal managerial behaviour, improve corporate governance and than firm performance. Entrenchment theory has just explained the efficiency of control mechanisms highlighted by agency theory as mechanism supposed strengthened the efficiency of the organization, analyzing the manager's strategies, their influences on the system of control and thus the firm performance.

Entrenchment is defined as a voluntary of manager to neutralize the control mechanisms which are imposed by the principal; what to allow granting itself more important personal advantages (Walsh and Seward 1990). A manager is considered as entrenched when he cannot be easily dismissed by the board of directors. The subjects on the phenomenon of managers' entrenchment are multiple and the result obtained from the analysis of the impact of managerial entrenchment on firm performance yields mixed findings. There is a certain difference following the contexts of empirical study and the variables of measures. The study of problem entrenchment presents certain interest and the high frequency of the manager's rational behaviour challenges the majority of economists and financiers. However, the question of the influence of managerial entrenchment on firm performance has received much less attention in the extant literature.

The aim of this work consists at first to study managers' entrenchment by analyzing various variables influencing the latter positively or negatively. Secondly, we are going to examine the relationship between managerial entrenchment and firm performance using a sample of 40 French companies listed on the SBF 120 for the period 2002-2009. To achieve this objective, we would try to confront various theories to argue the effects of entrenchment and understanding the different modalities, objective and determining. The diversity of the ideas developed in the theoretical and empirical works leads to several questions, the central of our research is: In what measure can the entrenchment influence the performance of French companies under the constraint of governance control systems over the managers?

The remaining structure of this article is organized as follows: Section 2 reviews of the extant corporate governance literature on managerial entrenchment and its effects on firm performance and develops the hypotheses. Section 3 describes the data, retained variables, econometric approaches and major empirical results. Section 4 concludes with some implications of the findings and recommendations for future research.

2. Theoretical framework and hypothesis development

A growing body of literature has been examined empirically the relation between manager's entrenchment and firm performance with mixed findings. Jensen and Ruback (1983), Shleifer, and Vishny (1989), suggest that entrenched managers extract private benefits by undertaking inefficient projects and larger advantages from shareholders, and thus obtain more latitude in determining corporate strategy. However, several researchers also showed that the entrenchment may accumulate to the CEOs who hold important participations of the equity of their company (Daily and Johnson., 1997; Matta and Beamish., 2008; McClelland O'Brien Brien., 2011). On the one hand, CEO's entrenchment allows them to have certain power to formulate and apply strategies, and negotiate the results which benefit the company. On the other hand, the power of the CEO was also shown to be associated with care of individual programs, often to the detriment of shareholders (for example, Stulz, 1988). These CEOs with high level of power have a greater capacity to avoid the discipline of the board of directors, shareholders, and therefore of market control.

Several theoretical studies showed that managerial opportunism is a key determiner of economy. The models of moral hazard with informational asymmetries indicate that managers prefer to pursue short-term results profits which serve their own interests to the detriment of the long-term results profits which would be optimal for their companies. As well, Narayanan (1985) and Holmstrom and Ricart I Costa (1986) show that managers with private information on a project, trying to improve their reputation, and thus, they have an incentive to accelerate the efficiency on the project to the detriment of the long-term performance. Campbell and Marino (1994) support that managers turn to the selection of the myopia investments because they want to make their superior capacities who's known superior to the labour market, by hoping that they can leave the company before their bad choices become visible. The objectives of the chairman can diverge from those of the shareholders when the CEO sees its probability to be replaced becomes more and more important and he is going to follow his personal interests and to choose the least risky strategies of investment. Gompers et al. (2003), Cremers and Nair (2005), and Masulis et al. (2007) study the market for corporate control and suggest that managerial entrenchment has a negative effect on operating performance and firm value.

Several scholars examine the link between corporate governance and firm value, explain that a stronger corporate governance is associated with a higher firm valuation (e.g. Cremers and Nair., 2005; Core et al., 2006; Bebchuk et al., 2009). According to Jensen (1993) and Ashbaugh-Skaife et al. (2006) corporate governance mechanisms can be classified into a number of categories such as regulatory mechanisms, disclosures, shareholder rights, ownership structures, and board monitoring. Collins and Huang (2011) stipulate that Shareholder rights reveal the balance of power between managers, shareholders and, thus, the degree of managerial entrenchment. On the one hand, corporate governance emphasizes provisions that limit shareholder rights and provide anti-takeover defences as important factors that influence firm performance. On the other hand, entrenched managers and boards of directors place several restrictions on shareholders' ability to replace managers and directors by both internal and external takeover (Shivdasani 1993; Huimin Chung et al. 2012). Ashbaugh-Skaife et al. (2006) show that credit ratings are positively related to takeover defences.

Other studies revealed that the oldest CEOs less may for the financing of the long-term investments such as the research and development publicity and the investment in capital (Barker and Mueller., 2002; Dechow and Sloan., 1991). More than, Lévesque and Minniti., (2006) and Matta and Beamish (2008) explain that the company having certain level of risk can also decrease with the CEOs age such as international acquisitions or behaviour

entrepreneurial. Child (1974) noticed that the age of the CEO was negatively correlated to multiple measures of company's growth. Similarly Norburn (1986) believe that the administrators of companies in the growing industries tend to be much younger than the administrators of companies of the industries in decline. Davidson et al. (2007); Matta and Beamish, (2008) speak of potential problems of agency increases according the age of the CEO towards the pension. There is an obvious link between CEO's age and entrenchment, Ocasio, (1994) point out that CEO's turnover increases with age.

Although, to our knowledge, there is no study which tested directly the affirmation according to which manager's opportunism drives to the failure of company to invest for the long term, there are several studies which bound the propensity to give up investments long term. Mannix and Loewenstein (1994) shows that when the CEOs expect to leave the company, they tend to concentrate more on the short-term earnings. An important measure of the degree of manager's entrenchment is the case in which the replacement of the latter is involuntary, (Antia et al., (2010). On the other hand, Breton-Miller and Miller (2006) state that during the last 20 years, CEO's seniority decreased on average about 8 unless 4 years and, consequently, the pressure on the CEOS to obtain fast results increased in a spectacular way. It can explain why there are so numerous acquisitions to increase income (Morck et al. 1990). While, Hambrick et al. (1993) support that entrenchment becomes heavy when CEOs seniority is longer than usually because a long lasting of a CEO increases the commitment to the status quo and decreases the voluntary to adopt the most recent techniques, Antia et al. (2010) argue that seniority has a significant effect as in statistics and in economic terms, on several measures of the stock exchange security. Companies with older managers or occupied their posts for long date during a long time, may be less estimated than companies with young CEOS or managing directors who did not serve their current jobs for long time (Antia et al., 2010).

Risky strategies generate the possibility of having uncertain results and CEOs have often a specific human capital to the company which can be lost when they are dismissed of their functions because of the risk inconvenience of these uncertain results. Thus CEO's seniority and firm performance have a negative relation. If there are an instability in the environment of a company, the most seniority managers and who tend to become more favourable to maintain their status quo are negatively affect the performance. Our arguments are strongly reflected the conclusions of Henderson et al. (2006) on the relation between seniority and firm performances in two different industries. On the one hand they noticed that firm performances decreased with seniority as more as dynamic industry. On the other hand, companies performances increased with seniority in the most stable industry what aligns with researches of McClelland et al. (2010), " *In theory, it can be insufficient to point out that an older manager will affect negatively firm performance* ". He examines the influence of CEO's career horizon measured by his age and seniority on the future firm performance.

The discretionary accruals increases with CEO seniority who they will more susceptible to manipulate the results, as mentioned in the works of Francis et al. (2005); Easley and O Hara(2004), a better quality of the accounting information can reduce the cost of the capital by decreasing the systematic risk of actions to not informed investors. Davidson et al. (2007) point out that labour market as a disciplinary mechanism is more effective in the case of junior executives at the beginning of their career. Davidson et al. (2007) notice that companies, where CEOs are close to the retirement age, have big values of accruals discretionary. This is coherent with the notion which managers' approach pension is not very worried by the future profits of the company.

At the first time, we are going to study manager's entrenchment from the age, duality of the functions, CEO turnover as well as the composition of the board of directors. This composition is defined by variables size, independences of the board and the duality of the functions. At second time, we are going to study the effect of manager's entrenchment on firm performance of listed companies.

CEO Age: Oldest manager is harder to control. Age reflect his experience in the firm management, quality of his human capital and thus its capacity of potential entrenchment. Paquerot (1997) used this variable in his study and find three age groups < 55 years, 55 < age < 65ans and 65ans < age. The manager's age can be an important variable since it is possible that the oldest avoid the most risked operations in case to not destabilize their power already threatened by the voluntary of shareholders to engage younger one. Pigé (1998) found that CEO's longevity expressed by its age is an entrenchment indicator.

Thus, the formal representation of the first hypothesis of this study is as follows:
Hypothesis1. (H1): *Ceteris paribus, CEO age has an effect on Managers' Entrenchment.*

CEO Turnover: Fang Hu et al. (2012**)** suggests that management turnover is a significant mechanism of a firm's governance system. Several studies argue that when ownership and control are separated, management turnover gives stakeholders an incentive to monitor managers carefully and therefore to ensure that the firm is run efficiently.Thus, the relationship between management turnover and firm performance is a good means to evaluate the effectiveness of a firm's governance system.(e.g., Banker and Datar, 1989; Bushman et al., 2004; Engel et al., 2003; Holmstrom and Milgrom, 1991; Murphy and Zimmerman, 1993; Weisbach, 1988). Likewise from an empirical studies realized in the United States, (Charreaux and Pitol-Belin (1990) and Walsh and Seward (1990) show that more poor performance are, in fact, more likely to respond to poor performance by replacing the CEO. Fisman et al. (2004) confirm a greater improvement of corporate performance after the dismissal of the entrenched managers. Thus the negative turnover–performance relationship represents an efficient incentive mechanism.

Thus, the formal representation of the second hypothesis of this study is as follows:
Hypothesis2. (H2): Ceteris paribus, CEO turnover has an effect on Managers' Entrenchment.
CEO Duality: Two conflicting perspectives exist for CEO duality: agency and stewardship theories. In the one hand, agency theorists highlight the necessity of separation between roles of CEO and board chair (Mallette and Fowler, 1992).thus duality encourages potential entrenchment (Kang and Zardkoohi., 2005; Lam and Lee., 2008; Booth et al. 2002) show that CEO/Chair duality provide the CEO more power over the decisions and practices of the board, potentially making disparity on the part of outsiders. Jensen (1993) explains that dual function allows the CEO to effectively control information available to other board members. This CEO/Chair duality results in a lack of the CEO's monitoring. Hence, the deficiency of CEO's monitoring, involve an intensify agency costs of managerial decision making. Therefore, board independence and other monitoring mechanisms become more significant mechanisms in the control of agency problems. These arguments imply a negative relationship between CEO duality and firm performance (Basak et al., 2012). On the other hand, stewardship theory corroborates the positive influence of CEO duality on firm performance. Advocates of the latter recommend that duality incentives CEOs to supply their firms more vigorously, improves organizational efficiency in corporate leadership, and consequently maximize shareholder value (Stoeberl and Sherony, 1985; Anderson and Anthony., 1986; Donaldson and Davis., 1991; Finkelstein and D'Aveni., 1994; Dahya et al., 1996; Brickley et al., 1997; Bhagat and Black., 2001).

Thus, the formal representation of the third hypothesis of this study is as follows:
Hypothesis3. (H3): Ceteris paribus, duality of the general manager has an effect on Managers' Entrenchment.
Board independence: Agency theorists highlight that independent directors, given to their independence and their skills, constitute an incentive control mode of the managers' management. Fama and Jensen (1983) state, that the board of directors constitutes the best internal control mechanism for monitoring top management's behaviour. Nevertheless, according to entrenchment theory, this role can be neutralized, particularly when principal teams intervene in the appointment of these external directors and attempt to alter their representation inside the board of directors. On the other hand, empirical studies find that firm performance is correlated to board independence; there is a positive relation between the abnormal returns associated with specific firm events and outside board membership (Booth et al., 2002; Byrd and Hickman., 1992).

Thus, the formal representation of the fourth hypothesis of this study is as follows:
Hypothesis4. (H4): Ceteris paribus, independent directors has an effect on Managers' Entrenchment.
Board size: Board Size'effect has been examined in many prior empirical papers, with mixed Findings. On the one hand, Chaganti and Mahajan (1985) and Dalton et al. (1998), point out that large boards are helpful for the diversity of experiences the members carry to the board decision making. They advocate that a larger board is more effective in preventing corporate bankruptcy. In the contrary, several scholars suggest that larger board size imply not only inefficient communication between board members, but also difficulty consensus to achieve. Using a sample of 1252 companies over the period 1996-2004, Cheng et al. (2008) emphasize that large boards, is negatively correlated with the annual return on assets. Lau et al. (2009) propose, in case to discipline a failing managers, the small size of board of directors is recommended be more helpful. The authors quote as an example the decision to dismiss the CEO entailing the board's unanimity, which can be, often, painless to have in this kind of board' size.

Thus, the formal representation of the fifth hypothesis of this study is as follows:
Hypothesis5. (H5): Ceteris paribus, board size has an effect on Managers' Entrenchment.

Based on these arguments, the last hypothesis of this study is as follows:

Hypothesis6. (H6): *Ceteris paribus, Managers' Entrenchment, measured by both the discretionary accruals and the seniority of the managers, has an effect on firm performance.*

3. Empirical study
3.1. Descriptive analysis
To make an appropriate study of the impact governance, entrenchment on firm performance 40 firms located in the France over the period 2002-2009 are selected (see Appendix 1 for the sample). Data is taken from annual reports, Paris Market Exchange and websites of selected firms. Models to be tested are the followings:

1. $ENT_{it} = \delta_{it} + a_1 AGE_{it} + a_2 ROT_{it} + a_3 CUM_{it} + a_4 TAI_{it} + a_5 IND_{it} + a_6 EL_{it} + a_7 TA_{it} + \varepsilon_{it}$

2. $PERF_{it} = \delta_{it} + a_1 ANC_{it} + a_2 AD_{it} + \varepsilon_{it}$

Where subscripts i denotes individual French firms (i = 1,2, . . . ,40), t time period (t = 2002,…,2009). α are the parameters to be estimated. ε is the error term. Performance (PERF): In this study, we employ four measures. These include ROA (Return on Assets: Profit to Total Assets), ROE (Return on Equity: Profit to Total Shareholders' Equity), TQ (Tobin's Q: ([equity market value + liabilities book value] over [equity book value + liabilities book value]) and MB (Market to Book ratio: (the company's market capitalization can be divided by the company's total book value from its balance sheet). Entrenchment of Managers (ENT): the management entrenchment measured by both the discretionary accruals (AD) as used in Kothari el al. (2005)[1] and the seniority of the managers (ANC) of the firm i in the year t. Firm size (TA): the natural log of book value of assets as at the end of each fiscal year. Age of the CEO (AGE): natural logarithmic (Ln) of the age of the CEO. Board size (TAI): size of the board of directors of the firm i in the year t measured by the number of administrators. Independent directors (IND): the number of independent directors scaled by the size of the board. Board duality (CUM): dummy variable having the value 1 if there is separation of the function of chief executive officer and chairman of the board of directors of the firm i in the year t, and 0 otherwise. Turnover of the CEO (ROT): Turnover of the manager over the study period (2002-2009) and Leverage (EL): the ratio of book value of debt and book value of assets.

Table 1 shows the classification of 40 firms by sectors. Table 2 contains the descriptive statistics for the variables that investigate the effect of governance, entrenchment on firm performance. It presents means, frequencies, maximums, minimums and standard deviation of all the variables. Table 3 presents the correlation coefficients of the variables used in our models. This symmetric matrix measures correlation on a scale with 1 indicating a perfect positive correlation, zero no correlation and -1 perfect negative correlation.

Table 1: Classification of firms by sectors

Sectors	Number of firms	Percent
Finance	06	15%
Industry	12	30%
Service	8	20%
Telecommunication	02	5%
IT	02	5%
Technology	03	7.5%
Real Estate	01	2.5%
Oil and Gas	01	2.5%
Chemicals	01	2.5%
Consumer good	04	10%
Total	40	100%

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[1] For more detail, see pages 11 and 12 in Kothari S. P., Leone A. J., and Wasley C. E., (2005), "Performance Matched Discretionary Accrual Measures", *Journal of Accounting and Economics*, 39, 163-197.

Table 2: Descriptive statistics

Size of the board of directors

Mean	Standard deviation	Minimum	Maximum
11.58	3.85	4	24

	Number	Frequence
size <5	03	7.5%
5<size<15	30	75%
15<size	07	17.5%
Total	40	100%

Independence of the board of directors

Mean	Standard deviation	Minimum	Maximum
5.95	2.66	01	18

	Number	Frequence
number<5	18	45%
5< number <10	21	52 .5%
10< number	01	2.5%
Total	40	100%

Board duality

Mean	Standard deviation	Minimum	Maximum
0.63	0.48	00	01

	Number	Frequence
Duality	26	65%
No duality	14	35%
Total	40	100%

Age of the CEO

Mean	Standard deviation	Minimum	Maximum
55.061	7.2996	38	74

	Number	Frequence
Age <50ans	06	15%
50<Age<60ans	22	55%
60ans<Age	12	30%
Total	40	100%

Seniority of the CEO

Mean	Standard deviation	Minimum	Maximum
12.62	8.27	01	41

	Number	Frequence
Durée<5ans	2	5%
5<durée<10ans	18	45%
10<durée	20	50%
Total	40	100%

Turnover of the CEO

Mean	Standard deviation	Minimum	Maximum
0.331	0.5511	0	02

	Number	Frequence
No trurnover	15	37.5%
1 trurnover	18	45%
2 trurnover	07	17.5%
Total	40	100%

Table 3: Cross correlation Matrix
Panel 1

	AGE	ROT	CUM	TAI	IND	TA	EL
AGE	1.0000						
ROT	-0.2016	1.0000					
CUM	0.2547	-0.3059	1.0000				
TAI	0.0962	-0.0612	0.0429	1.0000			
IND	0.0618	0.0757	-0.0965	0.4317	1.0000		
TA	0.1001	0.2006	-0.1121	0.3466	0.4803	1.0000	
EL	0.0427	0.0894	-0.0271	-0.3383	0.2345	0.3586	1.0000

Panel 2

	AGE	ROT	CUM	TAI	IND	TA	EL
AGE	1.0000						
ROT	-0.2016	1.0000					
CUM	0.2547	-0.3059	1.0000				
TAI	0.0962	-0.0612	0.0429	1.0000			
IND	0.0618	0.0757	-0.0965	0.4317	1.0000		
TA	0.1001	0.2006	-0.1121	0.3466	0.4803	1.0000	
EL	0.0427	0.0894	-0.0271	-0.3383	0.2345	0.3586	1.0000

Panel 3

	ANC	AD
ANC	1.0000	
AD	-0.0214	1.0000

Conforming to Kervin (1992), results in Table 3 indicate that all correlation coefficients are lower than 0.7. We conclude the absence of bi-variable multi-colinearity for all models.

3.2. Econometric analysis and major findings
We will estimate models by using the method of moments in system (GMM in system) of Blundell and Bond (1998). This methodology takes into account the endogeneity, the GMM system uses as instruments lagged values of the variable. The GMM system controls for unobserved heterogeneity and for the persistence of the dependent variable. Overall, this estimator gives consistent estimates of parameters. The test for AR (2) in first differences is more important, because it will detect autocorrelation in terms of levels. The validity of the instrumental variables is tested using Sargan test of over-identifying restrictions and over a test of the absence of serial correlation of the residuals. Tables 4 and 5 present empirical results of the two models.

Table 4: Impact of governance measures on managers' entrenchment

	Seniority (ANC)	Accruals (AD)
Lag of dependant variable	0.1108 (3.59) ***	0.2382 (22.98) ***
AGE	0.2117 (12.33) ***	-0.0007 (1.03)
ROT	-7.4527 (17.97) ***	-0.0044 (1.15)
CUM	-0.4158 (0.71)	-0.0100 (3.70) ***
TAI	0.1226 (6.72) ***	0.0027 (1.53)
IND	-0.1741 (3.92) ***	-0.0050 (3.17) ***
TA	0.9264 (3.67) ***	0.0151 (2.09) **
EL	-0.1324 (1.33)	-0.0012 (1.76) *
Constant	-8.4037 (3.51) ***	-0.0776 (1.17)
Number of observation	240	240
Wald test	1717.10***	1214.19***
P-value Wald test	0.000	0.000
Sargan test	35.271***	21.120***
P-value Sargan test	0.118	0.390
AR (2) and P-value AR (2)	1.176 [0.239]	1.000 [0.316]

Note:

Table 4 present the results of hypotheses 1 to 5.

Accruals (AD) and Seniority of the managers (ANC) are the dependant variables. Firm size (TA), Age of the CEO (AGE), Board size (TAI), Independent directors (IND), Board duality (CUM), Turnover of the CEO (ROT) and Leverage (EL) are explanatory variables.

Wald χ^2 statistics: the test is a way of testing the significance of particular explanatory variables in a statistical model. AB test AR (2) refers to the Arellano–Bond test that average autocovariance in residuals of order 2 is 0 (H0: no autocorrelation).

Sargan: test for validity of over-identifying restrictions, distributed as indicated under null. This test of over-identifying restrictions is asymptotically distributed as χ^2 under the null of instrument validity

The numbers in parentheses are absolute value of t-statistics.

*, **, and *** indicate statistical significance at the 1%, 5%, and 10% level.

The Wald-test indicates fine goodness of fit. The Sargan and serial-correlation tests do not reject the null hypothesis of correct specification (P-value of Sargan test and P-value of AR (2) test of Arellano and Bond are larger than 5%), lending support to our estimation results.

With regards to board characteristics, the coefficient on age of manager (AGE) is positive (0.2117) and statistically significant at less than the 0.01 level for seniority and negative (-0.0007) and not statistically significant on accruals. Coefficients associated on turnover of manager (ROT) are negative (-7.4527 and -0.0044) across the two measures of managers' entrenchment and only statistically significant at the level of 1 % for seniority. Similar to expectation and conform to Dhaoui and Jouini (2011), the coefficient on board duality (CUM) is negative (-0.4158 and -0.0100) and statistically significant at the former of 1% for discretionary accruals. The coefficient on the size of board (TAI) is positive (0.1226 and 0.0027) and statistically significant at the level of 1% for seniority. Salas (2010) find a negative coefficient. Dhaoui and Jouini (2011) find a negative and insignificant coefficient for discretionary accruals and positive and insignificant

coefficient for manager's tenure. Statistically significant at the level of 1%, the coefficient on board independence (IND) is negative (-0.1741) for seniority and (-0.0050) for discretionary accruals. This is in accordance with Salas (2010) where entrenchment is measured sudden executive deaths. Black et al. (2006) support the idea that the presence of internal directors in the board reinforces the management entrenchment. Our findings confirm our hypotheses one to five.

Table 5: Impact of managers' entrenchment on firm performance measures

	ROA	ROE	QT	MB
Lag of dependant variable	0.0077 (10.26) ***	0.1411 (2.50) **	0.0876 (3.92) ***	0.2069 (9.34) ***
Seniority : ANC	-0.0134 (7.19) ***	-0.2522 (2.21)**	-0.0357 (4.76) ***	-0.8825 (8.24) ***
Accruals : AD	-0.5447 (6.55) ***	4.6682 (2.13) **	-5.2415 (3.26) ***	-2.6003 (6.28) ***
Constant	0.1076 (3.22) ***	5.5169 (4.81) ***	1.3182 (11.45) ***	40.8837 (7.71) ***
Number of observation	240	240	240	240
Wald test	323132.32***	$1.18 \ 10^{11}$***	204994.04***	$1.52 \ 10^{8}$***
P-value Wald test	0.000	0.000	0.000	0.000
Sargan test	27.503***	25.934***	31.798***	22.233***
P-value Sargan test	0.121	0.168	0.328	0.285
AR (2) and P-value AR (2)	1.152 [0.249]	0.836 [0.403]	1.262 [0.207]	1.265 [0.205]

Note:
Table 5 present the results of hypothesis 6.
ROA (Return on Assets), ROE (Return on Equity), TQ (Tobin's Q) and MB (Market to Book ratio) are dependant variables. Wald χ^2 statistics: the test is a way of testing the significance of particular explanatory variables in a statistical model. AB test AR (2) refers to the Arellano–Bond test that average autocovariance in residuals of order 2 is 0 (H0: no autocorrelation). Sargan: test for validity of over-identifying restrictions, distributed as indicated under null. This test of over-identifying restrictions is asymptotically distributed as χ^2 under the null of instrument validity
The numbers in parentheses are absolute value of t-statistics.
*, **, and *** indicate statistical significance at the 1%, 5%, and 10% level.
The Wald-test indicates fine goodness of fit. The Sargan and serial-correlation tests do not reject the null hypothesis of correct specification.

The empirical investigation includes four regressions with four different proxies for firm performance in order to trace any Impact of managers' entrenchment on firm performance. With regards to the impact of managers' entrenchment on firm performance, we find mixed findings. Consistent with theory, Seniority of managers affects negatively and statistically significant Return on Equity (-0.2522), Return on Assets (-0.0134), Tobin's Q (-0.0357) and Market to Book (-0.8825). This negative result is consistent with findings of Cremers and Nair (2005), Breton-Miller and Miller (2006) and Masulis et al. (2007). Discretionary accruals affect positively and statistically significant Return on Equity (4.6682) and negatively and statistically significant Return on Assets (-0.5447), Tobin's Q (-5.2415) and Market to Book (-2.6003). We find that entrenchment has a negative impact on Return on Assets, a result which is consistent with previous literature (Jensen and Ruback, 1983). The results on Tobin's Q and Market to Book conform to those using ROA. This is in accordance with Surroca and Tribo (2008) where entrenchment is measured by Anti-takeover, Shareholders Rights, One Share-OneVote, Managown Entrench, and Manager Tenure. Davidson et al. (2007) find a positive relationship between Discretionary accruals and performance. The overall results, so far, suggest that although managers' entrenchment relationship with firm

performance seems to be non - existent. This finding is in accordance with our sixth hypothesis according to which Managers' Entrenchment has an effect on firm performance.

4. Concluding remarks

The international financial crisis that began in 2007 in the United States of America resulted in many firm closures over the world. Performance of firms started to shiver, putting threats to the global economy. This study was an attempt to understand the phenomenon of managerial entrenchment. The relationship between managers' entrenchment and performance continues to be a fundamental issue in the corporate governance literature. Findings of this literature are often inconclusive. Specifically in this study, in 40 French firms, we investigate whether board characteristics (external directors, Board duality, Board size, age of the CEO and Turnover of the CEO) are related to entrenchment of Managers measured by both the discretionary accruals and the seniority of the managers and how those proxies of entrenchment affects firm performance measured by Return on Assets, Return on Equity, Tobin's Q and Market to Book ratio.

Funding

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Appendix 1: Sample of 40 French firms

Accor	Groupe Danone
Air France KLM	Havas International
Air Liquide	Imerys
Alcatel Lucent	JC Decaux
Alstom	Oreal
Altran Technologies	Lafarge
April Group	Lagardere
Atos Origin	Michelin
Axa	Natexis
Bic	Neopost
Bonduelle	Nexans
Carrefour	Renault
Ciments Français	Schneider Electric
Credit Agricole	Thales
Dassault Systemes	Total
Eads	Trigano
Eiffage	Valeo
Faurecia	Vallourec
Fimalac	Vinci
GFI informatique	Vivendi Universal