The mediation effect of Firm Profitability for the Relationship between Managerial Entrenchment and Firm Value: An Empirical Study

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Abstract:

The previous studies about the relationship between managerial entrenchment and firm value are indecisive as these studies implicitly presume that the relationship between managerial entrenchment and firm value is a direct relation. The point that has received less attention in the existing literature is that the relationship between managerial entrenchment and firm value can be mediated by a contextual variable which has a direct relationship with firm value such as firm profitability. The purpose of this paper is to investigate the direct effect of the managerial entrenchment on firm value and identifies the mediation effect of firm profitability on the relationship between managerial entrenchment and firm value. To test the study hypotheses, the researcher relied on a sample of 113 Egyptian listed corporation (678 observations) and belonging to 13 non-financial sectors over the period from 2014 to 2019. Using path analysis model, the results show that there is a negative and significant relationship between managerial entrenchment and firm value. And also reveal that there is a positive and significant relationship between managerial entrenchment and firm profitability and a negative and insignificant relationship between firm profitability and firm value. And these results assure that there is no mediation effect of firm profitability on the relationship between managerial entrenchment and firm value. Here, adopting earnings management by the managers may be the reason for the absence of the indirect relationship between managerial entrenchment and firm value.

Keywords: Managerial Entrenchment, Firm Profitability, Firm Value, Agency Theory, Stewardship Theory, Path Analysis, ROA, Tobin's Q.

1. Introduction and Research Problem

Managers possess an area of latitude in business enterprises to take decisions about specific policies of investment that compatible with their competence, therefore managers would adopt this latitude to achieve self-benefits in detriment of the stockholders of the firm or reduce the exerted effort. This motivates managers to adopt strategies of entrenchment to enable them to expand their area of latitude and annihilate the effectiveness of the external or internal control mechanisms that put in place to ensure that managers' decisions are aligned with interests of shareholders in the firm (Rodrigues and Antonio, 2011). When the stockholders are enforced to accept the management's discretionary behavior -which is contradictory to the value creation- we can say that there is managerial entrenchment (Shleifer and Vishny, 1989).

There are several definitions of managerial entrenchment; Weisbach (1988: 435) defined entrenchment as *"managerial entrenchment happens when managers acquired great authority which enables them to exploit the firm to achieve their own interests instead of shareholders' interests"*. Another common definition is stated by Berger et al. (1997: 1411) defined entrenchment as "*to what extent managers fail to experience discipline from the full range of control mechanisms and corporate governance, including monitoring by the board, the threat of dismissal or takeover, and performance based compensation and stocks incentives"*.

Studies of the relationship between managerial entrenchment and firm value have showed mixed results. Some studies provide evidence on a positive relationship while others provide evidence on a negative relationship. The phenomenon of managerial entrenchment is relatively new concept in the organizational theories; its' theoretical foundations are based on perspective initially highlighted by the agency theory (Jensen and Meckling, 1976) and stewardship theory (Donaldson and Davis, 1991).

From the perspective of agency theory, Managerial entrenchment could allow managers to attain their private benefits and to extract wealth at the expense of outside shareholders (Bebchuk et al., 2009). Therefore, managerial entrenchment might have adverse effect on the behavior of the management. Thus, according to agency theory, management entrenchment stems from the desire of the manager to escape, at least partially, from the shareholder's domination in order to obtain more private benefits (Pigé, 1998). According to agency theory, Managers' entrenchment is harmful for firms, since it allows part of the control exercised by shareholders to be disengaged and allow managers to undertake specific investments to their competences (Shleifer and Vishny, 1989; Morck et al., 1988). Therefore, managers' entrenchment is perceived as contrary to the interests of the shareholders and the effectiveness of the organizations (Jensen, 1993). Therefore, entrenchment is perceived as contrary to the interests of shareholders and the effectiveness of organizations (Jensen, 1993).

On the other hand, the stewardship theory holds that the superior firm value is associated with having a large number of executives on the board since these executives have a better understanding of the business environment and its complexities, and are in a better position to manage the firm's decisions than non-executives, and therefore can make the best investment decisions (Donaldson, 1990; Donaldson and Davis, 1991).

The stewardship theory suggests that autonomy based on trust should be given to the executives, which reduces the cost of controlling and monitoring the behavior of those managers. This is based on that, the attainment of organizational success satisfies the wishes and personal needs of the executives of the firm, which automatically helps align the interests of executives as stewards of the firm assets with those of the shareholders, thus to maximize the firm's long term value (Bathula, 2008). Charreaux (1996) refers that entrenchment is not necessarily ineffective (to be contrary to shareholders' interests and the organizations' effectiveness). It can be useful, if it is able to create value for the firm which reflects positively on shareholders (Paquerot, 1996), or avoids significant losses in value in the middle term or even short term (Alexandre and Paquerot, 2000) or provides to the firm vital relational networks to assure its survival or its development (Pigé, 1998).

In the Egyptian context, empirical evidence about the relationship between managerial entrenchment mechanisms and firm value is limited. For example, Abou salem and Elwan (2018) use 606 Egyptian firm-year observations from 2010 to 2015 to test the effect of managerial entrenchment mechanisms on firm value. They point out that some of the results of the study provide empirical support for the expectations of the agency theory that managerial entrenchment mechanisms can have negative impacts on the behavior and incentives of the management. Therefore, the management entrenchment is against the shareholders' interests and the organizations' effectiveness. While some of the study results provide empirical support for the expectations of the stewardship theory that the managerial entrenchment mechanisms are not necessary to be ineffective as it can be useful if it is able to maximize the firm value. The above-mentioned discussion presents that previous studies have not reached a consensus about the impact of managerial entrenchment on firm value.

The entrenchment literatures presented by previous studies remain limited since firm profitability (a contextual variable that has a direct relationship to firm value) might mediate the relationship between managerial entrenchment and firm value. The profitability reflects -of many- the management's effectiveness in utilizing the resources entrusted to the manager during his tenure. The firm's profitability reflects the extent to which the firm successfully conducts its operations and activities and also in using its resources in a profitable manner (Abul-Ezz, 2007). Therefore, profit maximization is considered the most important indicator of measuring the firm's economic performance and productive efficiency, because profit maximization increases the market return of the invested capital by increasing the rate of the return realized on those funds consequently a higher market value (Humaid, 2001).

Some studies conducted in industrialized economies, where by, many firms are not owner-led but manager-led which causes principal-agent problem. The principal-agent problem arises from conflict of interests between the manager and the owner in combination with information asymmetries. Holmström and Milgrom (1987) as a manager cannot be completely monitored by an owner; he is expected to lead the firm less efficient than an owner, as he maximizes his own utility and not necessarily the firm's profitability.

Brousseau (1993) states that the concept of the "managerial entrenchment" is closely related to the concept of the "moral hazard", which indicates that the managers desire to pursue short-term profits which achieve their own benefits instead of striving for long-term profits which would be optimal for their firm as a whole (Moussa et al., 2013). In addition, Narayanan (1985) and Holmstrom and Costa (1986) refer that entrenched managers prefer to make investment decisions that offer relatively faster paybacks to boost their compensations and reputations more rapidly. Thus, managers with private information on a project, trying to improve their reputation, and thus, they have an incentive to accelerate efficiency in the project at the expense of the long-term profitability.

On the other hand, the managerial entrenchment is not always harmful to the shareholders' wealth. The managers can maintain their position as long as they generate a minimum of profitability to the shareholders. Castanias and Helfat (1992) assure that the installation of the specific investments by the managers allows generating revenues profitable to the shareholders. Those authors estimate that the accumulation of the managerial capital during his mandate period promises to the shareholders certain profitability from the undertaken investments. Castanias and Helfat (1992) also assure that the shareholders can benefit from the strategy of the managerial entrenchment in profiting from the creation of the managerial revenues specific to the knowledge and to the competences of the current manager.

This study contributes to literature by introducing a mediator variable (firm profitably to mediate the relationship between managerial entrenchment and firm value) not just the direct relationship between them. Therefore, given the existence of empirical evidence regarding the relationships among managerial entrenchment and both firm value and firm profitability, it can be said that the relationship between managerial entrenchment and firm value may be affected by a third variable, which is firm profitability. Accordingly, the main research questions of the current study can be stated as follows:

1) Is the relationship between managerial entrenchment and firm value affected by firm profitability in the Egyptian listed corporation?

2) What are the direct effects of managerial entrenchment on firm value?

3) What are the indirect effects of managerial entrenchment (through: firm profitability) on firm value? And this question leads **to the following two questions:**

- What are the direct effects of managerial entrenchment on firm profitability?
- What are the direct effects of firm profitability on firm value?

The remainder of this paper is organized as follows: section 2 presents literature review and hypotheses development. Section 3 discusses research method. Section 4 reports measurement. Section 5 presents empirical findings. Section 6 presents the discussion. finally section 7 provides discussion.

2. literature review and hypotheses development:

First: The direct effect of managerial entrenchment on firm value:

Bebchuk, Cohen, and Ferrell (2009), use six anti-takeover provisions to construct managerial entrenchment index, document that there is a negative relationship between managerial entrenchment and firm value. Pointing out that an entrenched manager who faces less pressure from corporate governance mechanisms may adopt corporate policies that destroy value. Chang, Xin and Zhang, Hong Feng (2013) supports this view referring that the changes in the managerial entrenchment indicator have a negative and significant impact on the changes in firm value after controlling for the impact of past changes in firm value on the changes in the entrenchment indicator.

On the other hand, Lehn, Patro, and Zhao (2007) found that after controlling the firm's historical values, the negative relationship between managerial entrenchment and firm value disappears, indicating that the entrenchment index is related to the firm's current value mainly through the firm's past valuation. They point out that managers of firms with low historical valuation may adopt more anti-takeover provisions to further entrench themselves, instead of the adoption of more anti-takeover provisions which entrenches management and thus decreases firm value.

Using a sample of 40 French companies listed on the SBF 120 starting from 2002 up to 2009, Moussa et al. (2013) test whether board characteristics are related to entrenchment of managers and how the proxies of entrenchment affects firm performance measured by Tobin’s Q. They find that entrenchment has a negative impact on Tobin’s Q.

Ammari et al. (2016) investigates the relationship between CEO Entrenchment and performance from a sample of 1.040 annual observations concerning 138 CEOs of French-listed firms for the 2000-2013 periods. They find that CEO Entrenchment has a positive relationship with market-based measures of performance (i.e. Tobin's Q). This assures that the entrenchment is beneficial to shareholders' wealth and creates significant managerial incomes for the firm. Therefore, the first hypothesis can be formulated as follows:

H_1: There is no relationship between Managerial entrenchment and firm value.

Second: The Indirect Effects of Managerial Entrenchment on Firm Value:

A. The Direct Effects of Managerial Entrenchment on Firm Profitability:

According to the agency theory, relationship between the shareholders and the managers is often accompanied by conflicts detrimental to organizational effectiveness. These contradictions in interests come from differences in the risk aversion and planning horizon between the both (Byrd, Parrino, and Pritsch, 1998). Indeed, if diversification enables shareholders to minimize their portfolio risk, then reputation and job security in the labor market are the main risks incurred by managers (Fama, 1980). Hence, shareholders are more willing to prefer higher levels of risk than managers, who are more sensitive to the firm's volatility results. Therefore, it is in the interest of the managers to make low-risk investments with short-term profitability and take over a part of the generated annuities from the expenses of the shareholders.

Similarly, other literature raises the fact that agency problem (e.g. adverse selection moral hazard and problems) of managerial behavior causes information asymmetries. In pursuit of further entrenchment, managers may take advantage of information asymmetries to minimize threats of potential Competitors and opponents and to maximize their own benefit (Stiglitz and Edlin, 1995). In most cases, these asymmetries can be attained through strategies implemented by managers whose profitability relies on their skills and the information they own. Such strategies are characterized by a lack of visibility, which is synonymous with the destruction of shareholder value since the generated wealth allocation depends on this lack of visibility. Thus, in contrast to traditional conflict centered theories, the managerial rents model makes the case for the alignment of management interests with those of the shareholders, and it highlights the value-creating capabilities of the executives. Therefore, firm level performance becomes the manifestation of executives' cognitive abilities and distinctive features.

In contrast, some other studies argue that managerial entrenchment is not always costly and harmful for shareholders. Pichard-Stamford (2002) indicates that managerial entrenchment is not necessarily incompatible with the perspective of profit maximization. On the contrary, it is often to be a necessary precondition to motivate executives to build competencies and management skills necessary for the firm's development.

Similarly, the stewardship theory holds that the managers who are stewards need the discretion and freedom to manage the firm and bring all the intrinsic motivation they naturally own (Donaldson and Davis, 1991).

Executives far from being opportunistic, their aim is to contribute to long-term firm development and serving the general interest of all shareholders.

Surroca and Tribó (2008) used a sample of 358 companies, from 22 different countries, for the period of 2002 up to 2005, and they found that entrenchment has a negative impact on a firm's financial performance measured by ROA.

Using a sample of 40 French companies listed on the SBF 120 for the period of 2002 up to 2009, Moussa et al. (2013) test whether board characteristics 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 ROA. They find that entrenchment has a negative impact on ROA.

Ammari et al. (2016) investigates the relationship between CEO Entrenchment and performance from a sample of 1.040 annual observations concerning 138 CEOs of French-listed firms for the period 2000 up to 2013. They find that CEO Entrenchment has a positive relationship with operating measures of performance (ROA). This proves that the entrenchment is beneficial to shareholders' wealth and creates significant managerial incomes for the firm.

The study of Salehi et al. (2020) which conducted on a sample consists of 103 listed companies on the Tehran Stock Exchange are selected during 2012 to 2017, found that there is a positive and significant relationship between managerial entrenchment and financial performance based on the ROA index. Therefore, the hypothesis can be formulated as follows:

H_2: There is no relationship between managerial entrenchment and firm profitability.

B. The Direct Effects of Firm Profitability on Firm Value

Profitability is very crucial for any firm. Through profitability, investors will be able to buy more shares of the firm due to the enhanced reputation, and if the demand for the shares increases and the shares prices increase as a result, the value will increase. Profitability enhances the firm's stability and enables it to withstand negative economic shocks. Profitability also increases the benefit of shareholders through increased firm value and dividend and the interest of shareholders through corporate social responsibility (Bhutta and Hasan, 2013). Therefore, the firm's management trusts and believes that achieving regular profits will attract more investors to invest in the firm, which in turn will increase firm value (Bhutta and Hasan, 2013).

The emergence of joint-stock companies has led to the separation of ownership from management and thus the owners' need for a team of professional managers as agents to manage the entity's business activities in return for an income from the owners (Abou-Salem, 2017). Management of any firm should pursue the objectives of the owners as they are the main stakeholders to the long-term survival and sustainability of the firm. The objectives of the management should reflect the objectives that the owners are striving to achieve. The management's objective is the criterion on which the various decisions of the firm are taken (Hindi, 1999).

Profit maximization objective is closely related to owners and this objective still occupies a prominent place in the evaluation of management performance from the viewpoint of owners. The profitability of the firm reflects the effectiveness of management in using the resources that management has entrusted its management during a period. Thus, the level of profitability reflects the extent to which the firm successfully performs its activities and operations and uses its resources in a profitable manner (Abul-Ezz, 2007). Therefore, profit maximization is considers the most important indicator of measuring the firm's economic performance and productive efficiency, since profit maximization increases the market return of the invested capital by increasing the rate of the return realized on those funds consequently a higher market value (Humaid, 2001).

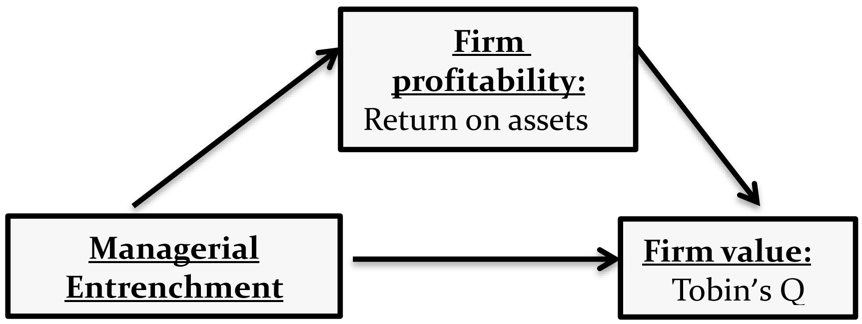
Sabrin et al. (2016) research sample was taken from manufacturing various industry sub-sectors listed in Indonesia Stock Exchange during the period 2009 to 2014. The results of data analysis holds that Profitability has effect the firm value because the firm value has positive sentiment on the achievement of profit to justify the payment of dividends, so the stock price will increase because the company showed a positive signal to pay dividends.

Bambang et al. (2021) research sample was taken from manufacturing industrial firms listed on the Indonesia Stock Exchange (IDX) during the period 2016 - 2018. The study used panel data which is a combination of cross section and time series data, with data analysis using multiple regressions. The results showed that Firm growth and profitability had a positive effect on the firm value. Therefore, the hypothesis can be formulated as follows:

H_3: There is a positive relationship between firm profitability and firm value.

Figure (1) shows the general framework of the present study hypotheses regarding direct relationships among variables: managerial entrenchment mechanisms, firm profitability and firm value.

Figure (1) the general framework of the study



The mediation effect of firm profitability on the relationship between managerial entrenchment and firm value can be tested through the following hypothesis:

H_4: There is no mediation effect of firm profitability on the relationship between managerial entrenchment and firm value.

3. Method:

Sample Selection

A convenient sample of non-financial firms starting with year 2014 up to 2019, with 678 firm-year observations, is selected. All firms should have been registered in the Egyptian stock exchange market during the study period. The total number of firms in the sample is 113 distributed over 13 sectors. Table 1 & 2 presents the distribution of the sample firms over the period of the study and the sectors they belong to.

Table 1. The percentage of sample size to the population

year	2014	2015	2016	2017	2018	2019
Total Egyptian companies listed on Egyptian stock exchange	214	221	222	222	220	218
number of companies within the banking and financial sectors	38	43	46	47	49	51
Number of non-financial companies (qualified population)	176	178	176	175	171	167
Number of companies within the sample	113	113	113	113	113	113
Percentage of sample companies to qualified population	64%	63%	64%	65%	66%	68%

Table 2. The distribution of firms according to their sectors

Qualified population	Number of companies in sample	number of observations	% sample size
Sector			
Construction & Materials	19	114	16.8%
Telecommunications, Technology	1	6	0.9%
Personal and household products	10	60	8.8%
Chemicals	7	42	6.2%
Industrial goods, services and Automobiles	11	66	9.7%
Oil and gas	2	12	1.8%
Real estates	15	90	13.3
Basic Resources	7	42	6.2%
Travel and Leisure	10	60	8.8%
Food and Beverage	19	114	16.8%
Utilities	1	6	0.9%
Media	1	6	0.9%
Healthcare and Pharmaceuticals	10	60	8.8%
Total	113	678	100%

Models (Path analysis purposes)

Path analysis model is used to study the mediation effect of firm profitability on the relationship between managerial entrenchment and firm value. The main difference between path analysis and the regression analysis is that in path analysis the researcher can find direct relationship between independent and dependent variable and the indirect relationship between independent and dependent variable through mediator variable. While the regression models enable the researcher to investigate only the effect of independent variables on dependent variables. Thus, path analysis models usually test more complex models than regression models. Path analysis can be viewed as a special case of structural equation modeling (SEM). The path means: the line linking one variable to another. The path is determined by specific direction and specific value called the path coefficient (quoting from Abou-Salem, 2017).

In order to test the hypotheses of the current study, the researcher relies on a one-way causal model (Recursive Causal Model) among the set of variables included in the study (managerial entrenchment, firm value and, firm profitability) where those variables will be arranged according to their causal priority within this model, and the one-way causal model is one of the path analysis Models that includes one direction for the paths from the independent (cause) variables to the dependent variables (effect). Under this model, there are no reciprocal causation relationships between the variables (quoting from Abou-Salem, 2017).

Models

Table 3. Structural equations to test the hypotheses of the study

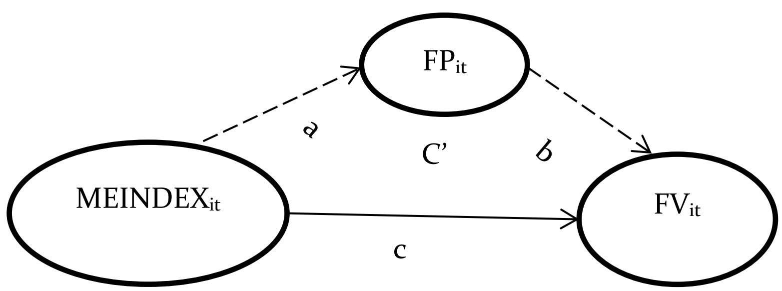
Research hypothesis	Structural equations
Model 1	$FV_{i,t}=\beta_0+\beta_1\ MEINDEX_{it}+\sum \beta_K\ COV_{it}+£_{it}$
Model 2	$FP_{i,t}=\alpha_o+\alpha_1\ MEINDEX_{it}+\sum \alpha_n\ COV_{it}+£_{it}$
Model 3	$FV_{i,t}=\gamma_o+\gamma_1\ FP_{it}+\sum \gamma_m\ COV_{it}+£_{it}$

FV_{it}	Firm Value for firm i in year t.
$MEINDEX_{it}$	Managerial Entrenchment mechanisms for firm i in year t.
FP_{it}	Firm profitability for firm i in year t.
$\sum COV_{it}$	Control variable for firm i in year t.
β_o, α_o, γ_o	Regression constant.
β_1, α_1, γ_1	Direct effect coefficients that reflect the direct paths between the study variables.
$\alpha_1 \times \gamma_1$	The coefficient of indirect effect between managerial entrenchment and firm value mediated by firm profitability.
B_k, α_n, γ_m,	Regression coefficient of control variable.
£	Random error.

Paths design

I will rely on path analysis method to test of the hypotheses of the study by constructing direct and indirect paths between the study variables

Figure 2: shows the general framework of the present study hypotheses regarding direct relationships between variables.



The direct relationship between managerial entrenchment and firm value

The indirect relationship between managerial entrenchment (through: firm profitability) and firm value

4. Variables measurement

Table 4. Components of Managerial Entrenchment indicator (Afifi, 2017).

Items of Managerial Entrenchment	**Range of Entrenchment**	
	One	**Zero**
Board of Directors Independence	If percentage of non-executive members in board of directors is less than 50%.	Otherwise
CEO Duality	If the CEO is also chairman of board of directors.	Otherwise
CEO Tenure	If the term of mandatory member as a CEO is more than three years (As corporate governance requires that the duration of the contract of the member of the executive shouldn't exceed 3 years unless there obvious and specific reasons declared in the firm general assembly).	Otherwise
Managerial Ownership	If percentage of executive managerial ownership of shares in the firm is more than the median of that percentage at the selected sample.	Otherwise
Financial Leverage	If percentage of leverage of the Firm is less than the median of that percentage at the selected sample.	Otherwise
Independent variable		
managerial Entrenchment range	the maximum limit for the value of the indicator (5).	the Minimum limit (zero).

Table 5. The operational definitions of the variables of the study

Variables: Variable's Name	Variable's Symbol	Operational Definition
Dependent variable		
Firm Value	$Tobin'q_{it}$	Measured by = ((book value at the end of the year of total assets – book value at the end of the year of owners' equity) + (number of outstanding shares * price per share)) / the book value at the end of year of total assets.
Mediator variable		
Firm Profitability	ROA_{it}	Measured by Net income at the end of the year / total assets.
Control variables		
Firm size	$FSIZE_{it}$	Measured as the natural log of year-end total assets for firm i at year t.
Audit firm	BIG4	It is measured by a dummy variable takes value one if the auditor belongs to the BIG4 and zero otherwise.
Firm age	AGE_{it}	It is measured by the number of years from incorporation to the current period.

5. Empirical findings

Descriptive statistics

Descriptive statistics provide simple summaries about the sample and the observations that have been made. It is used to present background information on the data used in the study before testing study hypotheses. Table (6) presents descriptive statistics for the full sample of 678 firm-year observations.

By looking at the descriptive statistics of the managerial entrenchment variable included in Table 6, we find that entrenchment at the level of the sample companies during the study period ranged between o and 5, with mean of 2.4749 and a standard deviation of 1.1588 approximately.

The descriptive statistic Table clarifies that the mean of Tobin's q in Egyptian companies is 1.3365 and falls between 0.1924 and 14.7777. Which indicates that the average market value ratio to book value of the firms in the sample is greater than one (>1) in the other word, the average market value of the firms in the sample is greater than its book value. It also shows that the mean of ROA in Egyptian companies is .0369 and falls between -1.1667 and 0.4828.

Correlation Analysis

The Pearson correlation matrix is the primary tool for discovering the problem of duplication between explanatory variable. The Pearson correlation matrix at the level of the study sample companies (as shown in Table 7), shows that the duplication does not represent a problem in the current study, as all the correlation coefficients between the explanatory variable in the current study are less than 0.80 (Gujarati, 2003). Pearson correlation is used to test the correlations among all variables of the study models. Correlation coefficients were calculated for the full sample, Table (7) provides the correlations for variables included in these models.

The correlation matrix in Table (7) reveals that there is a negative and significant relationship between managerial entrenchment and firm value (at the level of 1%), and a positive and significant relationship between managerial entrenchment and firm profitability, while there is a negative and significant relationship between firm profitability and firm value suggesting that the profit may be a factious and the manages used earning management to attain their own interest in the determent the shareholders interest.

Table 6 presents the descriptive for the variables and the proportions for dummy variables.

Variables	N	Mean	Std. Deviation	Minimum	Maximum
Entrenchment	678	2.4749	1.1588	0	5
Firm value:					
Tobin's Q	678	1. 3337	1.1795	0.1924	14.7777
Firm profitability:					
Return on Assets	678	0.0369	0.1385	-1.1667	0.4828
Control variable:					
Firm Age	678	40.7389	19.9833	13	116
Firm Size	678	20.4296	1.4648	16.9589	24.9021

variables	**Frequency**		**Percentage (%)**	
	Variable =0	**Variable= 1**	**Variable = 0**	**Variable = 1**
Big 4	471	207	69.5%	30.5%

***All numbers are rounded to 4 digits.**

Table 7. Correlation matrix

	Variables	1	2	3	4	5	6
1	Entrenchment	1					
2	Firm value	-0.110^{***}	1				
3	Firm Profitability	0.205^{***}	-0.341^{***}	1			
4	Firm size	-0.307^{***}	-0.045	0.218^{***}	1		
5	Firm age	-0.157^{***}	0.114^{***}	-0.032	0.051	1	
6	BIG4	-0.250^{***}	-0.065^{*}	0.004	0.319^{***}	-0.035	1

Notes: * ، ** and ***correlations significant at the 10% ، 5% and 1% levels respectively.

The mediation analysis

Table 8. Path analysis results (ROA)

	Coef.	Std. Err.	ROA	
			Sig. of Std. Coeff.	
			Z value	P value
Managerial index:				
MEINDEX	0.0293	0.0038	7.77	0.000
Control variable:				
Firm age	0.0002	0.0002	0.10	0.919
BIG4	-.0032	0.0094	-0.34	0.000
Firm size	0.0232	0.0030	7.62	0.733
R-squared				0.1243
RMSEA (Root mean squared error of approximation)				0.000
chi2				0.000
Number of observations				678

Coefficient, Standard error and, Confidence Interval numbers are rounded to 4 digits.

<u>Table 9. Path analysis results (Tobin's Q- paths)</u>

	Tobin's Q				Indirect Tobin's Q			
	Coef.	Std. Err.	Sig. of Std. Coeff.		Coef.	Std. Err.	Sig. of Std. Coeff.	
			Z value	P value			Z value	P value
Managerial index:								
MEINDEX	-0.0834	0.0307	-2.71	0.007	-0.0015	0.0088	-0.17	0.867
Firm Profitability:								
ROA	-0.0504	0.2999	-0.17	0.867	0	0	0	0
Control variable:								
Firm age	0.0064	0.0016	3.95	000	-1.0600	0.0000	-0.09	0.931
BIG4	-0.1657	0.0737	-2.25	0.0025	0.0002	0.0011	0.15	0.867
Firm size	0.0195	0.0247	0.79	0.432	-0.0012	0.0069	-0.17	0.880
R-squared:					0.0476			
RMSEA (Root mean squared error of approximation):					0.000			
chi2:					0.000			
Number of observations					678			

6. Discussion

It is clear from the previous Tables (Table 8 and 9) that; there is a negative direct and significant impact (at the level of 1%) of managerial entrenchment on firm value (Coeff. = -0.0834 and P-value = 0.007), which means that the greater managerial entrenchment, the greater firm value. This result is consistent with the agency theory which reveals that Managerial entrenchment has negative impacts on the behavior and incentives of the management as it allows managers to attain their own private interests and to extract wealth at the expense of other shareholders. And the finding of (Bebchuk, Cohen, and Ferrell, 2009) who Pointing out that an entrenched manager who faces less pressure from corporate governance mechanisms may adopt corporate policies that destroy value.

There is a positive and significant relationship (at the level of 1%) between managerial entrenchment and firm profitability (Coeff. = 0.0293 and P-value = 0.000), which means that the higher managerial entrenchment the higher firm profitability. This result is consistent with findings (Castanias and Helfat, 1992) who assured that the shareholders can benefit from the strategies of entrenchment in profiting from the creation of the managerial revenues specific to the competences and the knowledge of the managers and also they assure that the installation of the specific investments by the managers allows generating revenues profitable to the shareholders. These authors estimate that the accumulation of the managerial capital during his mandate period promises to the shareholders certain profitability from the undertaken projects.

The firm profitability has a negative and insignificant impact on firm value (Coeff. = -0.0504 and P-value = 0.867), this mean that the manager may adopt earnings management strategy and the profit was factious which may not lead to maximizing firm value, since entrenched managers are more motivated for adopting earnings management strategy. Consequently, high earnings management indicates the possibility that the management will enjoy with high levels of entrenchment to achieve short term goals. Thus, the reported profit figure, which provides a basis for determining the firm value, does not really reflect the reality of the firm and therefore, the effect of the reported profit figure on firm value may be weak (Banko et al., 2013).

The indirect effect of managerial entrenchment (through: firm profitability) on firm value is negative and insignificant (Coeff. = -0.0015 and P-value = 0.867), this means that firm profitability has no mediation effect on the relationship between managerial entrenchment and firm value. Here, adopting earnings management by the managers may be the reason for the absence of the indirect relationship between managerial entrenchment and firm value. As, in high earnings management firms, profitability increase the negative effect of managerial entrenchment on firm value while in low earnings management firms, profitability decrease the negative effect of managerial entrenchment on firm value. Therefore the high levels of earnings management lead to a reduction in the expected role of profitability as a mediating variable between managerial entrenchment and firm value (Banko et al., 2013).

7. Conclusion

Due to the existence of empirical evidence about the relationships among managerial entrenchment, firm profitability and firm value, this is a motivation for studying and testing the relationship between managerial entrenchment and firm value on the one hand, and studying and testing the effect of firm profitability on that relationship on the other hand. To test the study hypotheses, the researcher relied on a sample of 113 Egyptian joint stock companies listed on the stock exchange (678 observations) and belonging to 13 non-financial economic sectors over the period from 2014 to 2019.

Using path analysis model, the results show that there is a negative and significant relationship between managerial entrenchment and firm value. And also reveal that there is a positive and significant relationship between managerial entrenchment and firm profitability and a negative and insignificant relationship between firm profitability and firm value. And these results assure that there is no mediation effect of firm profitability on the relationship between managerial entrenchment and firm value. Here, adopting earnings management by the managers may be the reason for the absence of the indirect relationship between managerial entrenchment and firm value.

This study contributes to the existing literature by investigating the mediation effect of firm profitability on the relationship between managerial entrenchment and firm value. Previous studies have assured that there is a relationship between managerial entrenchment and firm value, but this effect may be due to the presence of another variable and since profitability directly affects the firm value, so profitability is taken as a mediator variable on the relationship between managerial entrenchment and firm value.

8. Future Research

The current study investigates the mediation effect of firm profitability on the relationship between managerial entrenchment and firm value; however, a multitude of research areas still exists. Further research is needed to investigate the mediation effect of firm profitability for the relationship between managerial entrenchment and firm value: does earnings management has an impact? By using earnings management as a moderator variable on this relationship.

Another area for research is to investigate the mediation effect of firm profitability on the relationship between managerial entrenchment (mechanism) and firm value.

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الأثر الوسيط لربحية الشركة على العلاقة بين التحصين الإداري وقيمة الشركة "دراسة امبريقيه"

ملخص:

الدراسات السابقة حول العلاقة بين التحصين الإداري وقيمة الشركة غير حاسمه لأن هذه الدراسات تفترض ضمنيًا أن العلاقة بين التحصين الإداري وقيمة الشركة علاقة مباشره. النقطة التي حظيت باهتمام أقل في الأدبيات الحالية هي أن العلاقة بين التحصين الإداري وقيمة الشركة يمكن التوسط فيها بواسطة متغير سياقي له علاقة مباشره بقيمة الشركة مثل ربحية الشركة. وبذلك تم تقديم هذه الدراسة لاستكمال العمل السابق ومعالجة أوجه القصور في الدراسات السابقة من خلال شرح الاختلافات في الدراسات السابقة وتقديم الأدلة التجريبية على هذه المسألة. باختصار، تبحث هذه الدراسة في دراسة التأثير المباشر للتحصين الإداري على قيمة الشركة وتحديد الأثر الوسيط لربحية الشركة على العلاقة بين التحصين الإداري وقيمة الشركة. وقد اعتمد الباحثون في قياس التحصين الإداري على مؤشر التحصين الإداري، وقد اعتمد الباحثون ايضا على معدل العائد على الأصول لقياس ربحية الشركة ونسبه توبين كيو لقياس قيمة الشركة. وقد تم استخدام نموذج تحليل المسار على عينه من 113 شركه مساهمه مصرية في الفترة من 2014 إلى 2019 (678 مشاهده) مقيده بالبورصة تنتمي الى قطاعات غير ماليه. تظهر النتائج أن هناك علاقة سالبه بين التحصين الإداري وقيمة الشركة. وتكشف أيضاً عن وجود علاقة موجبه بين التحصين الإداري وربحية الشركة وعدم وجود علاقة بين ربحية الشركة وقيمة الشركة وتتمثل نتيجة الدراسة المهمة في عدم وجود أثر وسيط لربحية الشركة على العلاقة بين التحصين الإداري وقيمة الشركة. توضح هذه النتائج أن وجود إدارة الأرباح من قبل المديرين هو سبب عدم وجود علاقة غير مباشره بين التحصين الإداري وقيمة الشركة.

الكمات الدالة: التحصين الإداري، ربحية الشركة، قيمة الشركة، نظرية الوكالة، نظرية الإشراف، تحليل المسار، معدل العائد على الأصول، نسبة توبين كيو.