OPPORTUNISTIC BEHAVIOUR AND SHAREHOLDING OF COMPANY DIRECTORS

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INTRODUCTION

Nowadays, the intensity of conflicts of interest between owners and those mandated to run the company has increased significantly in the face of the complexity and development of information and management systems around the world. Conflicts between shareholders and managers are at the centre of this system and the ideal situation that would suit everyone would be one that would align these interests and reduce conflicts as much as possible. A number of researchers have worked on this subject, including JENSEN and MECKLING (1976), and have concluded that one of the best solutions is for managers to acquire a stake in the share capital of a company. We wanted to apply this theory to the Malagasy context and that is why the topic of management shareholding and opportunistic behaviour was addressed.

The research theme mentioned above has led to the following problem: To what extent does the participation of managers in the social capital of companies reduce their opportunistic behaviour? In order to do so, a hypothetico-deductive approach based on the case of some thirty capital companies based in Madagascar was used. A questionnaire containing about forty questions was drawn up using the SPHINX PLUS 2 software, which allows correlation tests to be carried out in order to validate the hypothesis: "the more the participation of managers in the capital increases, the more their opportunistic behaviour decreases". Thus it will be treated successively in this article, materials and methods, results and discussions.

MATERIALS AND METHODS

Literature review

Opportunistic behaviour of the leader can be defined as behaviour that consists of seeking his or her personal interest through cunning and various forms of cheating and fraud. Opportunism is based on incomplete, distorted or falsified disclosure of information by an agent, including information about his or her abilities, preferences or intentions, and thus on the existence of information asymmetries between agents" (Coriat and Weinstein, 1995). "Opportunism means cheating and transgression of ethics" (Williamson, 1985).

The problem of "opportunistic" managerial behaviour has its roots in the work of Berle and Means (1932) in their book The Modern Corporation and Private Property. The emergence of conflicts of interest is the central theme of their work, where they note that the dispersion of ownership among an increasingly diffuse shareholder base has caused a great separation between the ownership function of the firm and the control function. The separation of the ownership and management functions is the source of divergences of interest in the management of the company, which turn into a conflict of interest. It pits shareholders against managers in the
dichotomous appreciation of decisions or policies carried out by managers. They are recurrent. This opposition is due to the fact that each group tries to maximise its own usefulness to the detriment of the other, which leads to conflicts between owners and managers. (Derhy, 1997). This is the case of the agency relationship (Jensen, Meckling, 1976), which covers not only the relations shareholder-managers but also all those where there is a delegation or mandate and formal or tacit contract, i.e. a relationship between a superior and subordinate or a customer and his bank or a doctor and his patient or a student and his teacher.

The agency relationship is problematic in the first instance when the interests of the two parties diverge, which is the case when one considers that each seeks to maximise his or her personal interest. Then when information is imperfect and in particular when there is an asymmetry of information between the parties, which is also the general case.

In this context, the principal or principal is confronted with two types of risks due to the behaviour of the agent or mandatory. The first type of risk is called ex ante opportunism. The agent generally has more information than the principal, so a CEO is better informed about the company than the shareholder. The agent will take advantage of this information to make an adverse selection, in particular by adjusting the contract between him and the principal to his advantage;

The second type is known as ex post opportunism. In this case, the agent will use his best information or powers to circumvent the contract or mandate. This is also known as moral risk or moral hazard.

The conflict of interest between managers and shareholders also results from their strategic differences in their relationship with the company, according to studies by Jensen and Meckling (1976) and Fama (1980on):

The opposition between the investment made by the shareholder and the management exercised by the manager. In other words, the opposition between financial capital and human capital. The first brings its resource in a perspective of optimum valuation with a consequent taking of risks, while the second carried by a strategy of conservation of its position favours a less risky investment, therefore better controlled but less important profits.

The inscription of the two protagonists in two different perspectives of valuation of their own interests. The manager trying to maximise his own usefulness in the company through investments in line with his ambition to increase his notoriety and to keep the benefits in kind (company cars, business trips and meals, private club, etc.), which are a source of increase in the company’s expenses; whereas the shareholder favours maximising the value of the firm and maximising the potential of its assets for an optimum valuation of his investment with a parallel reduction in expenses. Thus the value of the financial capital, which represents the share, is reduced by the share of all these advantages added to the bonus that managers grant themselves in return for their human capital.

The differing assessment of the duration of the existence of each of the two players in the company and the profitability of their respective presence. The manager’s random presence, linked to the company’s performance, will tend to favour short-term investments whose profitability is better controlled in order to align them with the periods during which his performance is evaluated.

These various elements of conflicts of interest can lead managers to adopt fraudulent behaviour.

According to the Institute of Internal Auditor (ITA) and the Association of Certified Fraud Examiners (ACFE), fraud is the deliberate deception of others to obtain an improper benefit, or to circumvent legal obligations or organizational rules. Fraudulent behavior therefore involves a factual and intentional element as well as a process of concealing the unauthorized act (IFACI, 2010). According to the French Institute of Audit and Internal Control (IFACI), fraud can be defined as any illegal act characterized by deception, concealment or breach of trust without violence or threat of violence. Fraud is perpetrated by individuals and organizations in order to obtain money, goods or services or to secure personal or commercial advantage (IIA/IFACI, 2009).

Fraud can originate from a single individual, a group of individuals or an organization that may be internal or external. It may be an act of a prohibited nature or an intentional omission. When we speak of fraud we have in mind malicious acts where the actor tends to deceive others by lies and falsifications, of any kind, in order to acquire an irregular profit in the form of personal or commercial advantage.

The fraudster may not be pursuing material profit, but seeking personal recognition to satisfy his ego, protecting the interests of his organisation by falsifying accounting documents, making false tax returns or, if necessary, resorting to corruption to obtain advantageous contracts or to preserve the reputation or market share of his company.

For example, fraud, which could involve managers, can take the form of the following acts:

**Conflicts of interest:** the executive is involved in interests with a partner of the company that may influence its decisions, anti-competitive agreements, insider trading (use of confidential information in securities transactions).

**Corruption:** bribes and kickbacks, dispersal of sensitive information, agreements with a supplier or customer.

**Abuse of company assets:** fraudulent use of company resources for personal purposes.

**Manipulation of the financial statements:** fictitious entries or omission of accounting records.

**Communication of fraudulent information:** false supporting documents, false services invoiced to the company, undervaluation of charges, overvaluation of assets, undervaluation of debts.

**Computer fraud:** manipulation of information.

Nevertheless, not all individuals are opportunists, and sometimes only some are. It is a priori impossible to distinguish opportunists from others. One cannot rule out the possibility of opportunistic behaviour on the part of the Leader. However, the reality of corporate life has shown through various examples that these perceptions of opposite and conflicting departures have been transformed and brought closer together under the effect of the evolution of the elements of appreciation, a consequence of the pressure of the constraining mechanisms, of
corporate governance, which leads to a discernment between opportunistic and potentially conflicting behaviour.

Thus the conflict of interest is always present and leads to a distortion of the objectivity of control, through the mechanisms of corporate governance, because of this "a priori" which would imply fundamentally opportunistic human behaviour (Donaldson, 1990).

According to Berle and Means (1932), the company should cease to have as its sole objective the maximisation of shareholder value, since shareholders in managerial companies are only passive players in ownership, and they should not be the only ones concerned with the appropriation of the profit generated. And that, consequently, the company must adopt a partnership approach that must take into account the interests of all stakeholders (Charreaux, 2004).

Even Williamson, in 1999, in his acceptance of the concept of the cognitive-strategic approach to governance, revised the narrow nature of his own explanations of the leader's behaviour, usually placing it within a disciplinary and contractual vision.

But in the face of these divergences if the interests of the agent and the principal are identical or convergent, the moral hazard of Jensen and Meckling (1976) is eliminated, and the agent's opportunistic behavior will decrease. These two authors argue that the greater the participation of managers in the firm's capital, the greater the firm's value and performance. The development of stock options, i.e. stock options, employee profit-sharing or employee share ownership are the most common and obvious manifestations of this. This development in the modification of the shareholding structure has been apparent since the end of 1989, starting in the United States. This change in share ownership has affected both its composition and its behaviour (Derhy, 1997).

In theory, management and employee shareholding makes it possible to align the interests of these players with those of the shareholders. The manager or the employee shareholder will thus be motivated to maximize the value of the company, and limit value-destroying decisions (alignment theory). However, when his shareholding increases, the manager can exert an influence on the governance of the company. He is then in a position to take private profits, in the form of excessive remuneration or benefits in kind. It may also adopt a strategy of entrenchment by anaesthetizing governance mechanisms such as the board of directors, the executive labour market or the takeover market (Mork, Shleifer and Vishny 1988). This entrenchment strategy reflects the desire to retain power and control over the company.

Several studies seem to indicate a non-linear relationship between executive shareholding and firm performance. The association is initially positive, but the link between executive shareholding and performance is negative at a certain level of executive ownership. This relationship has been observed by Han and Suk (1998), Mc Connell and Servaes (1990) in the United States, as well as Craswell et al (1997) in Australia and Hu and Zhou (2008) in China. Similar relationships, although more complex, are obtained by Morck et al (1988) and Hermelin and Weisbach (1991). In the Spanish context, Alonso-Bonis and Andrés-Alonso (2007) find that directors' shareholding is positively associated with performance, and seems to ensure better control of the firm.

Several researches have analysed the link between employee ownership and company financial performance. Hollandts and Guedri (2008) find a positive relationship in a sample of 150 French listed companies. Ginglinger et al (2011) also observe this positive relationship on companies in the SBF 120 index for employee ownership values below 3%. On the other hand, when employee ownership exceeds 10%, the relationship with financial performance appears negative. Similarly, Kim and Ouimet (2014) observe in the United States that small employee share award programs (less than 5% of capital) have a positive impact on company shareholder value, while larger programs have more mixed effects. A non-linear relationship is also observed in the United Kingdom by Florackis et al (2009). They show an alignment effect for executive share ownership values below 15%, whereas no relationship with financial performance is observed when executive share ownership is high.

Faced with this literary context, we have conducted empirical studies to verify whether these assertions are true in the Malagasy context. We have therefore adopted a positivist approach.

This research was carried out in a Malagasy context following a hypothetico-deductive approach and the following hypothesis was put forward: the more the manager's share in the company's capital increases, the more his opportunistic behaviour decreases.

A sample of some thirty limited companies was included in this study, since they are constituted with consideration of the capital contributed by the partners or shareholders and make it possible to easily assess the manager's participation in the ownership of the companies concerned. Among the capital companies are public limited companies (S.A.), single-person public limited companies (S.A.U.), limited liability companies (S.A.R.L.) and single-person limited liability companies (S.A.R.U.). The 30 companies that responded favourably to the survey questionnaire are divided as follows: 12 public limited companies (SA) and 18 private limited companies (SARL). These companies operate in the services sector in order to isolate certain effects that could compromise the results of the analyses and to homogenise the conclusions.

A survey was carried out among the sample of companies thus defined and the questionnaire drawn up under the SPHINX PLUS 2 software consists of about thirty questions divided into two main parts. One part concerns general information on the company, which is made up of questions of a general nature such as: company name, legal status, main activity, sector of activity, age of the company, share capital, shareholding structure... Another part includes financial aspects focusing mainly on the formation of turnover and results achieved.

Two variables were cross-tabulated in this study to validate the above hypothesis. The first concerns the level of the manager's participation in the company's share capital and the second measures the margin rate. The latter, defined as the ratio between the company's results and its turnover, was chosen particularly insofar as it makes it possible to assess the level of conflict of interest between managers and shareholders and
subsequently the opportunistic behaviour of executives. Indeed, the manager tries to maximise his utility function for the highest possible turnover while the shareholders seek to maximise the value of the company for a higher result. The higher the margin rate, therefore, the better the governance, the less opportunistic behaviour and the shareholders are reassured. Otherwise, there would be opportunistic behaviour on the part of executives to the extent that certain expenses related to their personal needs are inflated. Managers would not seek to maximize profit but rather the firm's sales, they tend to maximize the value of the firm's sales rather than profit (W.J. Baumol, 1990). Moreover, several studies have shown that their revenues are more closely correlated with sales than with profit. A high level of turnover benefits the manager more in terms of prestige than profit, which essentially remunerates the shareholders.

A first way for them to divert profits from the company is to grant themselves multiple benefits in kind as well as significant emoluments. Executives have significant discretionary power and control many expenses that satisfy their desires for income, prestige, power and security—-from which they derive direct satisfaction (Williamson O. E., 1999).

A high turnover reflects a strong market share giving managers significant negotiating power. They thus push back the risk of new competitors entering the market and reduce the risk associated with managing the company. Managers derive value satisfaction from the firm's total revenues. They therefore maximize a utility function whose only argument will be the turnover, to the detriment of the profits sought by the shareholders.

Shareholders, on the other hand, seek to maximize the value of the company and hope that the company will be able to generate more profits in line with the remuneration of their financial contributions. In view of the above, the margin rate is therefore an important indicator of the level of conflicts of interest between management and shareholders.

The Survey Population was stratified into five homogeneous groups. Two variables were analyzed. On the one hand, the variable "P", which represents the percentage share of the executive in the social capital represented by the workforce : \(-\infty; 0\] ; \(0; 5\] ; \(5; 10\] ; \(10; 15\] ; \(15; 20\] ; \(20; 25\]. On the other hand, there is the margin rate variable "T", the terms of which are represented by the numbers of employees below : \(0; 5\] ; \(5; 10\] ; \(10; 15\] ; \(15; 20\] ; \(20; 25\]. A Pearson independence test on these two variables was conducted to identify the level of correlation that might exist between them and to validate the hypothesis posed at the beginning of this article.

RESULTS

The quantitative information gathered from the survey questionnaire made it possible to calculate the margin rates and to establish a first trend. This made it possible to construct a cross-analysis grid to check whether there was indeed a relationship between the share of capital held by managers and their opportunistic behaviour. The chi-square calculation or Pearson's independence test rated \(x^2\) was subsequently carried out. It allows us to know whether there is a relationship between two variables and is done in stages. The following table was derived from the questionnaire analysis.

**Table 1 Cross tabulation of staff numbers**

<table>
<thead>
<tr>
<th>PT</th>
<th>0</th>
<th>5</th>
<th>10</th>
<th>15</th>
<th>20</th>
<th>25</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>(0; 5)</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>(5; 10)</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>(10; 15)</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>(15; 20)</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>0</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>(20; 25)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>4</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>3</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors

Respondents' responses to the questionnaire can be analysed in three steps. The first concerns the case of four enterprises with a zero participation in the capital of the directors. The second relates to a participation ranging from 0 to 15% and the third to a participation exceeding 15%.

For the first four companies where managers have no shares, the margin rates recorded are at the lowest end of the scale. The \(\frac{1}{4}\) are below 5% and the rest are between 5% and 10%. This situation clearly reflects the opportunistic behaviour of managers who are more concerned with high turnover to satisfy their own utilities to the detriment of the profits made, on the basis of which the cash flow capacity will be calculated. Dividends to be distributed to shareholders or partners will, in fact, be deducted on the basis of the cash flow and a number of elements including the payment schedules of debts and future investments to be made.

Fixed charges and in particular wage costs are inflated at the level of these companies. Indeed, managers offer their employees and staff extra pay and many different types of benefits. The number of individuals recruited also proves to be disproportionate to the real needs of the company insofar as managers seek instead to satisfy their desire to command as many individuals as possible and to satisfy their needs for prestige and esteem: confidence and self-respect, recognition and appreciation of others (MASLOW Abraham, 1943).

It is also noted for these four companies the existence of certain expenses that do not have a direct impact on the realization of profits, but which satisfy the usefulness of the managers and reflect, in a way, their opportunistic behavior. This is the case for the financing of sponsoring activities and activities of a more social nature. Even if the amount is not really significant in relation to the total expenses incurred, the managers of these companies are more sensitive to financing these activities.

As soon as the managers acquire a stake in the capital, a significant increase in margin rates is recorded. For the seven companies with management shareholdings of between 1% and 5%, six of them achieved a margin rate of between 6% and 15% and one of less than 20%. Similarly, there was a marked increase in the margin rates for the 6-10% and 11-15% tranches of equity holdings, and the higher the level of equity holdings, the higher the margin rates. The latter even reached more than 20% for a participation between 11 and 15%.

The improvement in margin rates means a clear improvement in the management of the company and a good control of expenses and consequently a less opportunistic attitude on the part of management. In most of the 20 companies concerned, fixed costs, including wage costs, are reduced to a minimum.
threshold in order to keep the company safe from risks. According to the replies to the questionnaire, managers are less sensitive to activities that are not directly linked to the financial profitability of the company, and it can thus be stated that there is an alignment effect for managers' shareholding values below 15%.

For the third and final tranche of shareholdings of between 16 and 25%, there was a sharp fall in the margin rates, which this time fell to less than 15%. And for the participation between 21 and 25%, the margin rates could not even exceed 10%. This new situation leads to the conclusion that from a 15% shareholding onwards, the margin rates fall and the behaviour of the managers changes again and no longer follows the previously mentioned hypothesis.

This situation leads us to carry out the correlation test in two steps. The first relates to an equity investment below 16% and the second relates to an equity investment below 26%. Since the questionnaire was drawn up using SPHINX PLUS 2 software, the data processing in this respect was carried out automatically.

For the first case where P is between 0 and 15%, the calculated Chi 2 was 24.4 with a degree of freedom of 12 and an uncertainty coefficient of 2%. If the uncertainty coefficient is assumed to be equal to 5%, the Chi 2 in the table is equal to 21.03. Since the calculated Chi 2 is higher than that of the table, it can be concluded that there is a correlation between the share of shares owned by managers and the margin rate: the higher the shares, the higher the margin rates, which allows us to state from a transitivity relationship that the opportunistic behaviour of managers decreases according to their participation in the company's share capital. The initial hypothesis is therefore validated.

In order to assess the degree of correlation existing between the variables cited in the hypothesis, it was necessary to calculate Cramer's V. The closer this indicator is to 1, the stronger the correlation. In our case, it is equal to 0.58 higher than ½, which leads us to conclude that there is a strong dependency between the acquisition of management interests in the company's capital and their opportunistic behaviour.

The theory of alignment is therefore verified for this first case. The managers, once in possession of a certain number of shares, feel more secure in their jobs and try to prove to the shareholders the benefits of the decisions taken regarding their integration among the owners. The feeling of belonging to this group thus pushes them to align their interests with those of the shareholders, which reflects the good results obtained in the modalities considered in this first case.

In the second case, where the directors' equity interest is between 0 and 25%, the same analysis approach was adopted. The results of the Chi 2 Test were as follows: The calculated Chi 2 is equal to 26.91, the degree of freedom to 20 and the degree of uncertainty to 13.8%. If the latter is assumed to be 5%, the Chi 2 read from the table is equal to 31.41.

Since the calculated Chi 2 is much lower than the theoretical Chi 2, the dependence between the two variables is not obvious. The initial hypothesis is no longer verified for all modalities. The correlation test confirms the analysis of the answers provided by the respondents carried out previously.

From a shareholding of more than 15% in the social capital, a rather opportunistic behaviour of the managers is recorded.

**Discussions**

Several reflections have been made in relation to this unstable behaviour of managers. Not only is it no longer a question of them having a stable position within the company, but the level of shareholding gives them the power to bypass the control markers put in place within the company, and we are talking about the theory of the entrenchment of managers.

The rooting thesis was developed by A. Shleifer, R.W. Vishny and R. Morck (1989). It questions the foundations of contractual theories in general and agency theory in particular. This theory seems to offer an appropriate framework for the analysis of managers' opportunistic strategies and their consequences on control systems and corporate performance. Managers thus adopt strategies that make them indispensable in the eyes of shareholders (Parrat Frédéric, 1999). In this respect, managers play a key role in certain areas, including the following:

Idiosyncratic (or executive-specific) investments: Investments are said to be idiosyncratic or executive-specific if their replacement leads to a loss of value for shareholders. Making these investments allows executives to reduce the risk of being replaced. They thus obtain higher compensation in the form of salaries or non-monetary benefits and increase their decision-making latitude.

Manipulating information: By playing on information, executives seek to increase their discretionary latitude in order to appropriate the maximum amount of annuities while avoiding being revoked. In fact, executives increase their value in the labour market by investing in projects whose profitability depends on specific information controlled by executives, or by investing in activities characterized by greater information asymmetry. This strategy amplifies the uncertainty perceived by rival management teams, which will thus have less incentive to replace current executives.

The control of resources: Managers know that it is in their interest not to depend on external resource providers on the one hand and on the other hand, to represent themselves a factor of production that is difficult to substitute. This is why they opt for self-financing and recourse to capital increases with new shareholders. This allows them to escape the discipline exercised by existing creditors and shareholders.

Relationship networks: The manager will try to build a relational network with his collaborators and with the employees, by granting a lot of benefits in kind or overpayments, as well as by promising abundant promotions. This often leads to increasing the size of the firm and the number of hierarchical levels. Employees will then have an interest in ensuring that the manager is not replaced, and may even work to keep him/her within the organization. The Manager may also establish relations with the directors or favour a rooting based on the shareholder relationship network, by linking relations with one or more groups of shareholders or by increasing as much as possible his participation in the capital of the company he manages.
CONCLUSION

Executive shareholding is currently an important area of debate for corporate governance researchers. It calls into question the foundations of contractual theories in general and agency theory in particular. This theory seems to offer an appropriate framework for the analysis of managers' opportunistic strategies and their consequences on control systems and corporate performance. The empirical study carried out in this sense in a Malagasy context concerning some thirty capital companies and in particular the tests established have indeed demonstrated the existence of a strong correlation between the level of participation of managers in the social capital of a company and their opportunistic behaviour: the more the degree of participation increases to the limit of 15%, the more opportunistic behaviour decreases. Above this rate, the assumption is no longer valid and the executive will tend to take root.

This article has tried to highlight the logical relationship between company performance and the notion of good governance and it has been shown that the acquisition of up to 15% of the capital by managers allows the interests of managers to be aligned with those of shareholders and this is the ideal situation. The writing of this article leaves other managers to be aligned with those of shareholders and this is 15% of the capital governance and it has been shown that the acquisition of up to between company performance and the notion of good governance.

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