

**REVIEW OF THE LITERATURE ON THE DISCRETIONARY POWER  
OF MANAGERS: AN ATTEMPT AT TRANSPOSITION TO THE  
SPORTS ORGANIZATION**

**REVUE DE LA LITTERTURE SUR LE POUVOIR DISCRETIONNAIRE  
DES DIRIGEANTS : ESSAIDE TRANSPOSITION SUR  
L'ORGANISATION SPORTIVE**

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## Abstract

Review of the literature on managerial discretion: an attempt at transposition to the sports organization Faced with the different mutations that the sports sector is experiencing in a general way and particularly the field of professional soccer, it is judicious to approach the mode of governance of companies in other sectors. Especially since in the current context, the flow of capital that transits through this sector is becoming astronomical, which requires a drastic financial regulation. A normative approach seems obvious to avoid the stereotypes of the scandals that have marked history (Enron, WorldCom and Tyco). These scandals can be explained in large part by the behaviour of managers, largely supported by their discretionary powers. In light of these findings, several questions arise: should the power of managers be further reframed? Is it necessary to strengthen management control mechanisms given the complexity of financial arrangements? In this sense, the present article tries to review the literature, thus attempting to transpose, if necessary, the different mechanisms on sports organizations.

**Keywords:** agency cost, entrenchment, governance, stewardship, upper echelon

JEL Classification : G1, G2 ...

## Résumé

Face aux différentes mutations que connaît le secteur sportif d'une manière général et particulièrement le domaine du football professionnel, il est judicieux d'approcher le mode de gouvernance des entreprises d'autres secteurs. D'autant plus que dans le contexte actuel les flux des capitaux qui transitent par ce secteur deviennent faramineux, ce qui nécessite une régulation financière drastique. Une approche normative semble évidente pour éviter les stéréotypes des scandales qui ont marqué l'histoire (Enron, WorldCom et Tyco). Ces scandales s'expliquent pour une grande partie par le comportement des dirigeants épaulé largement par leurs pouvoirs discrétionnaires. Devant ces constats plusieurs questions se posent : faut-il recadrer davantage le pouvoir des dirigeants ? Est-il nécessaire de renforcer les mécanismes de contrôle de gestion vue la complexité des montages financier ? Dans ce sens, le présent article essaie de faire une revue de la littérature, tentant ainsi de mener un essai de transposition, éventuellement, des différents mécanismes sur les organisations sportives.

**Mots-clés :** coût d'agence, enracinement, gouvernance, pouvoir, intendance, échelon supérieur

Classification JEL : G1, G2 ...

## Introduction

The emergence of the concept of corporate governance since the 1990s is induced to regulate the discretionary power of managers, and the source of several financial scandals. Corporate governance can be defined as the set of "systems defining, delimiting and influencing the powers and decisions of managers" (Charreaux, 1996). The manager plays an important role in the organization, as he or she is an important factor in the value creation process, but also influences the distribution of value among the different stakeholders (Bancel, 1999).

Several theoretical approaches have developed explanations for the conflicts of interest between the manager and the various stakeholders. The theories of property rights, agency costs and transaction costs describe the relationship between the manager and the stakeholders as conflictual because each stakeholder tries to achieve its own interests even at the expense of the others. Moreover, these theories consider the behaviour of the manager as passive. However, the entrenchment theory conceives of the manager in a radically different way from other theories. Indeed, it assumes that the leader has an active behaviour that maximizes the creation of value. Entrenchment theory attempts to explain why organizations endure even in different forms of inefficiency (Hill and Jones, 1992). In this sense, the entrenchment theory explains the manoeuvres deployed by managers to neutralize, at least partially, the control of the principal in order to obtain a set of advantages (Pigé, 1998).

**The question is To what extent the maneuvers of the leaders allowing neutralizing the mechanisms of control allow to impact the performance of the organizations?**

This article attempts to shed light on the manoeuvres used by managers to neutralize management control mechanisms. First, we shed light on the contribution of the rooting theory by exposing the different strategies applied to be able to neutralize the mechanisms of the management control. Then, we expose the criticism of the rooting theory and the agency of the stewardship theory and the upper echelon in the explanation.

### 1. Theoretical contributions of rootedness

Improving the performance of a company necessarily requires an understanding of how organizations function. The latter depends essentially on the management control system set up by the managers. In this logic, the theory of corporate governance provides answers to the different interactions between the different stakeholders. Managers are at the centre of theoretical debates and may be motivated to undertake entrenchment strategies to increase their utility and reduce the risk of possible ouster.

### **1.1. Rooting manoeuvres in organizations**

This strategy essentially consists of increasing the cost of transferring discretionary power from one leader to another by developing strategies. These strategies allow leaders to maintain their position by creating "organizational slacks". These manoeuvres proliferate the discretionary power of leaders. Leaders, as very particular agents, can manipulate organizational resources to entrench themselves and increase their power and various benefits.

Agency and transaction cost theory attempt to explain the level of efficiency of the organization. Thus, the organization is seen as a nexus of contracts that try to minimize transaction and agency costs in order to endure. However, entrenchment theory attempts to justify the existence of some organizational and even actor inefficiency in supposedly competitive markets, apart from agency and transaction costs [C.W.L.Hill, T.M.Jones 1992]. The entrenchment theory explains how the search for organizational efficiency leads to the reinforcement of the discretionary power of managers in their functions. Managers can take advantage of a situation of information asymmetry to dissuade partners and management teams from applying for the position of director [J.E.Stieglitz, A.S.Edlin 1992]. In this sense, the investment policy constitutes a real lever of entrenchment. Managers seek to make information incomprehensible in order to oust competing management teams (Paquerot, 1997) by using different means:

- By modifying structures (Charreaux 1997);
- By promoting growth (Paquerot 1997; Rose & Shepard, 1997),
- By re-electing implicit contracts (Charreaux 1997).

Hirshleifer (1993) distinguishes three categories of information manipulation:

- The first is aimed at improving short-term performance indicators, so as to create visibility bias.

- The second is to advance the arrival of favourable news and delay unfavourable news.

- the third is related to imitation or differentiation behaviours, which consist either in copying the decisions of the most reputable managers or in avoiding being assimilated to the least competent managers. Moreover, the development of investment in a specific sector allows the development of specific skills, which enables managers to oust competing management teams considered as human capital with low marginal productivity. Boot (1992) shows that firms with highly specific assets are subject to fewer takeovers than those with moderately specific assets. The agency and transaction cost theory interprets hostile takeover strategies as manoeuvres capable of eliminating the least efficient managers from the market by the most efficient management teams. On the contrary, the entrenchment theory performs a re-reading of hostile

takeovers. Indeed, hostile takeovers can constitute opportunities for managers who are not very concerned with the interests of shareholders but who wish to reinforce their position within the organization through an improvement in discretionary power [A. Shleifer, R. W. Vishny, 1988, 1989, 1991].

Rooting strategies aim to develop discretionary space via human capital and even the organization's own resources. To do this, managers tend to eliminate management control mechanisms by developing partners' dependence on resources that managers control. The entrenchment theory postulates that control mechanisms will not be effective enough to constrain the power of managers to manage the organization for the benefit of shareholders. In this case, it is necessary to question the sine qua non conditions for the effectiveness of the management control system.

### **1.2. Control mechanisms: what are the conditions for their effectiveness?**

Managers tend to increase the asymmetry of information towards the different partners and controllers, which allows them to take root and increase their discretionary space. The managers are at the centre of the contract, which allows them to control and, above all, to withhold information and thus constrain the role of the controllers.

Rooting theory treats the competence of controllers differently from transaction cost and agency theory. Even if controllers have intrinsic competence, this does not allow them to judge organizational efficiency in situations of informational asymmetry caused by managerial discretion. The behaviour and motivations of controllers to perform their tasks within organizations is subject to debate between the two theories. The agency theory explains that controllers tend to reduce their incentives as long as they have the opportunity to reduce their transaction costs while enjoying the benefits of actions taken by other controllers.

In addition, the scenario of collusion with managers or struggles with other actors, potential or existing controllers, should not be overlooked, as this favours opportunism on the part of controllers. Clashes between different controllers for resources can paralyze the control system. Leaders may promote struggles to better disrupt the systems that should control management. Leaders often foster hostility between different partners to gain a large measure of power. The rooting theory orients the discourse in the "political" sense of the term in order to analyse the behaviour of managers. This reflection leads to the problem of the independence of controllers, in other words the power relations between managers and controllers. Sometimes, despite the independence of controllers, they cannot oppose the entrenchment of managers. The synergy between the human capital and the assets of the firm makes it possible

to limit the risk of dismissal of the managerial team, which makes it possible to limit the competing teams of managers. The absence of a substitute to replace the management teams forces the partners to accept the opportunistic behaviour of the managers. This implies a cost transfer to shareholders, as the cost of control becomes very prohibitive. The objective of the managers is not to maximize the profitability of the company but to satisfy the minimum profitability constraint. In this case, the controller has no interest in dismissing the management team, because in this case the rent resulting from the complementarity between the human capital and the assets of the organization disappears. This makes control more prohibitive for the organization. Conversely, the degree of embeddedness is used, among other things, to measure the effectiveness of management control.

## **2. Entrenchment explained by ownership structure**

Rooting strategies can be favoured by the distribution of ownership within an organization. This distribution makes it possible to give more legitimacy to the management control system and conversely to reduce the entrenchment phenomenon and vice versa. Theoretically, shareholders can constrain the discretionary power of managers to prevent any possibility of entrenchment. This manoeuvre is possible through a system of independent control supported by an effective distribution of property rights within the firm. R. la Porta [1998] demonstrates that the concentration of shareholders and the presence of institutional shareholders are supposed to have positive effects on the firm's performance. Similarly, the existence of external directors who are more competent than internal directors constitute a lever for the management control of the managers.

### **2.1. The insufficiency of diffuse shareholding: towards a concentration of ownership**

Several authors suggest a concentration of capital as a guarantee of the effectiveness of management control. In this sense, investment in management control generates large-scale productive returns. All the more so since majority owners have the evidential strength to be able to limit the phenomenon of free riders, especially when it comes to collusion between small owners and controllers. Exclusive control in the assembly favours the choice of large owners and improves the effectiveness of management control [H. Demsetz 1983, A. Shleifer, R.W. Vishny 1986, M. Jensen 1990, C. Knoeber 1996]. However, the power of large owners is exposed to the risk of neglecting the potential loss linked to the disappearance of managerial rent. Indeed, the change in management teams risks making the compatibility between human capital and the specificity of the organization's assets disappear. In this case, the organization is no longer a node of contracts but rather a node of specific investments. This observation

makes the possibility of instant imitation by the market very difficult [R.Rajan, I, Zingales 1998]. In this sense, large owners are more prone than small ones to the risk of losing managerial rent as a result of replacing entrenched management teams in the short term. This consideration of entrenchment theory calls into question the positive effects of ownership concentration advocated by agency and transaction cost theory. The presence of institutional shareholders helps to promote management control and therefore the performance of the company. Institutional shareholders have sufficient resources to activate the control levers with the objective of maintaining the organization's performance at a given level. In addition, they have special skills (internal or external) to understand information about the company and its environment.

The entrenchment theory puts forward an explanation that is totally contrary to that of agency. Indeed, shareholders will be more averse than others to a decline in performance that can be explained particularly by the loss of managerial rent. The latter, even if they are entrenched, have no alternative but to support the managers to avoid a possible drop in profitability. This dichotomy can only be reduced by management ownership. According to agency theory, the divergence can be minimized by granting managers ownership rights to reduce the effects of the information asymmetry of moral hazard. This strategy reduces the cost of control of the owners and the opportunism of the managers towards them [M.C.Jensen, W.H.Meckling 1976]. In the logic of entrenchment, even by granting ownership rights, managers will use them to further develop their discretionary powers to the detriment of the firm's performance [G.Charreaux 1991]. To avoid this limitation, it seems appropriate, according to agency theory, to integrate the role of the board of directors as a complement to the ownership structure.

## **2.2. Le conseil d'administration : un levier complémentaire du contrôle de gestion**

Agency theory analyses the impact of the board of directors in three ways:

- The distribution of directors between external and internal: independence issue;
- The percentage of capital held by the directors: incentive issue
- The percentage of capital held by the directors: the problem of incentive;
- The nature of the directors: competence issues.

The composition of the board of directors impacts the effectiveness of management control [J.P. Pichard-Stamford 1997]. According to agency theory, inside directors have the power to control the decisions of the management team. However, the hierarchical dependence on managers could jeopardize their careers, if not the quality of management control. On the other hand, outside directors can compensate for this insufficiency by their independence. In this

case, the directors can oppose the decisions of the most questionable managers [M.S.Weibach 1988, L.Godard 1996, J.Caby, G.Hirigoyen 1997].

The entrenchment theory challenges the position of the agency theory in that the independence of external directors is questionable. Indeed, managers will try to paralyze the management control system by putting in place directors who will validate their decisions [J.P. Pichard-Stamford 1997]. Consequently, the absence of a hierarchical or commercial link does not guarantee the independence of the directors from the managers. In addition, the problem of free riders reappears, as outside directors are no longer encouraged to act as internal directors, because in the majority of cases, outside directors are appointed on the proposal of managers [G. Charreaux, J. P. Pitol Belin 1990].

The remuneration of the directors constitutes an incentive to block the decisions of the management team, provided that this remuneration is greater than the cost of the conflict between the two. The shareholding must be preponderant in the assets of the directors. Otherwise, the directors have no interest in blocking the decision-making process because the cost is far greater than the marginal gain. Moreover, directors find it difficult to accurately measure the impact of management decisions on the overall performance of the firm [A. Shleifer, R. W. Vishny 1989].

The entrenchment theory puts forward an explanation that is radically opposed to the agency theory. Indeed, the incentive through capital participation only increases dependence, especially when managers practice entrenchment strategies by crowding out competing teams. Finally, the intervention of outside directors, according to the agency theory, allows the uncertainty and thus the asymmetry of information generated by the managers to be reduced. In this sense, the competence of outside directors constitutes a lever for improving the overall performance of the firm. However, the entrenchment theory allows us to question the previous explanation in the sense that managers can develop informal relationships with outside directors, which undermines the effectiveness of management control.

### **3.From Stewardship Theory to Upper-Echelon Theory: Complementary Approaches to Explaining Managerial Latitude**

The psychological dimension of managers in the definition of the perimeter of discretionary power as well as the "contextualization" of the latter makes it possible to define the behavioural impact of managers on the performance of the firm. In this sense, the distancing from the different explanations of the agency theory and the entrenchment theory allows the development of other approaches such as the stewardship theory and the upper echelon theory.

### **3.1. Stewardship theory: a challenge to agency theory**

Stewardship theory assumes that performance improvement is an increasing function of the freedom granted to managers to exercise their discretionary powers. This theory supplements the agency theory by integrating several facets of analysis neglected by the latter. Some are psychological and include intrinsic rewards (autonomy, knowledge enrichment, variety, and content of work), identification (willingness and pride of belonging) and the need for influence and personal power (not related to the hierarchical position of the leader, but rather to the respect and expertise derived from the collective success of the company). The other factors can be described as contextual and depend on the importance attached to ethical values and trust, depending on the environmental turbulence and the various cultures involved. This conception assumes that far from being opportunistic, leaders are motivated by the improvement of the general interest. In this approach, the "ethical" dimension is primordial in order to create a climate conducive to winning the recognition of all stakeholders, and particularly that of shareholders [J.H. Davis, F.D. Schoorman and L. Donaldson, 1997]. A cooperative game allows for a convergence of principal and agent interests. The stakes of control are replaced by accompaniment.

### **3.2. Upper echelon theory: an analytical approach to managerial behaviour**

According to the theory of the managerial approach, the performance of the company is explained by a more or less important freedom of the management teams. In this case, the organization is only the reflection of the leaders, and the performance of the organization is the consequence of the singularity of the leaders. In this sense, it is appropriate to encourage the specificity of the leader in order to stimulate the organization more [L. Donaldson and J.H. Davis, 1991].

At the heart of this approach, M.A. Carpenter and B.R. Golden (1997) recommend proceeding by the logic of locus of control. Indeed, certain psychological aspects must prevail in leaders in order to measure their capacity to dominate or be dominated by environmental and organizational constraints. In this line, managerial discretion consists essentially in influencing the different aspects of management [D.C. Hambrick and S. Finkelstein 1987]. Managers who have limited action will never be motivated and have little involvement in significant organizational activities, which can negatively impact the company's performance. In this perspective, the analysis of the leader's contribution to performance improvement places an essential place on the criteria reflecting the leader's personal and managerial characteristics.

The approaches initially analysed (agency and rootedness theory) are based on different perceptions of managerial discretion. In this sense, discretion is used to achieve personal goals sometimes at the expense of the general interest. The stewardship and top-down approaches have a more peaceful perspective in the sense that managerial discretion is strongly explanatory of the degree of motivation and involvement of leaders, and therefore performance is strongly influenced by the locus of control of leaders.

### **Conclusion:**

The objective of this article is to study the impact of the manager's discretionary power on the performance of organizations. To do this, we first reviewed the various theoretical arguments dealing with the relationship that exists between these variables. Indeed, previous studies, both theoretical and empirical, show that there is no consensus regarding the relationship under consideration.

Certainly, according to the theory of the agency, the managers give priority to their personal objectives. This leads them to use their discretionary power to preserve their personal interests, which harms the performance of the company. On the other hand, the managerial stewardship theory assumes that the managers are good stewards of the company and therefore their interests converge with the interests of the shareholders which leads to improved performance.

The shareholders then grant significant leeway to the manager, and the latter is able to manage the company in the interests of the shareholders, even if this state of affairs leads him to take root. The managerial latitude of the manager acquired as a result of his discretionary power is therefore not an obstacle to performance, quite the contrary.

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