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FINANCIAL LEVERAGE AND MANAGERIAL EFFICIENCY OF LARGE-SCALE ENTERPRISES IN CAMEROON

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ABSTRACT

This is a quantitative study to investigate the effect of financial leverage on the managerial efficiency of large-scale enterprises in Cameroon. The study made use of the panel data spanning from 2013 to 2019 over a sample of 300 large-scale enterprises. The study's objective was achieved empirically by using the two step generalised methods of moment system GMM estimation techniques and the pooled ordinary least square and the random effect estimation techniques for robust check. The result indicated that financial leverage is a significant positive determinant of managerial efficiency among large-scale enterprises in Cameroon. In light of the findings, the study recommends that enterprises should invest in managerial training programs to equip managers with the latest tools, knowledge, and strategies that can help improve managerial efficiency and, consequently, the financial performance of enterprises.

KEYWORDS: *Financial leverage, Managerial efficiency, Large scale Enterprises in Cameroon*

1. INTRODUCTION

The financial leverage as a concept has been widely discussed in corporate finance, particularly regarding its effect on the managerial efficiency of enterprises. Financial leverage refers to the use of borrowed funds to finance business operations and investments with the expectation of generating higher returns (Modigliani & Miller, 1958). Considering that financial leverage can enhance profitability by providing necessary capital for expansion, excessive reliance on debt may increase financial risk and affect managerial decision-making (Jensen & Meckling, 1976). In large-scale enterprises, the relationship between financial leverage and managerial efficiency is critical, as it determines the firm's ability to optimize resource allocation, maintain financial stability, and achieve sustainable growth (Myers, 1977). In this context, Managerial efficiency refers to the ability of management to effectively utilize available financial and non-financial resources to maximize shareholder value while minimizing costs (Berger & Bonaccorsi di Patti, 2006). Efficient management ensures that enterprises operate within optimal financial structures, reducing agency conflicts and enhancing operational performance (Harris & Raviv, 1991). However, the extent to which financial leverage influences managerial efficiency remains a subject to be debated, as it can either discipline managers by imposing debt obligations or constrain decision-making due to financial distress risks (Rajan & Zingales, 1995).

Large-Scale Enterprises in Cameroon, play an important role in economic development, job creation, and industrial growth. These enterprises often rely on various financing sources, including internal and external which are equity and debt respectively, to fund their operations. Given the economic and financial landscape in Cameroon, to be knowledgeable about how financial leverage affects managerial efficiency is essential for policymakers, investors, and corporate leaders. This study aims to assess the effect of financial leverage on the

managerial efficiency of large-scale enterprises in Cameroon, contributing to the existing literature by providing empirical evidence from a developing economy

The research will examine key indicators of financial leverage which are; debt-to-equity ratio and debt to Asset ratio, in relation to managerial efficiency, whose indicators are Asset Utilization ratio (AUR) and Operating Expense Ratios(OER). By examining these relationships, this study seeks to provide insights into whether financial leverage enhances or hampers managerial efficiency in large-scale enterprises operating in Cameroon. The findings will offer valuable implications for corporate governance, financial management, and policy formulation in the country.

The next section of this study reviews relevant literature on financial leverage and managerial efficiency, followed by the research methodology detailing the data sources and analytical techniques, empirical results and discussion of the study, including conclusion and recommendations.

2. LITERATURE REVIEW

The investigation of the relationship between financial leverage and managerial efficiency has attracted scholars attention, especially in developing economies like Cameroon where enterprises face unique challenges. This section reviews key studies on the two core variables which are financial leverage and managerial efficiency and also discusses the methodologies used in prior research, with an emphasis on econometric models. The review concludes with insights into how these variables interact in the developing contexts like Cameroon, laying the foundation for the empirical investigation of large-scale enterprises in the country.

Managerial efficiency refers to the ability of managers to optimally allocate resources, both human and financial, towards achieving the enterprises' strategic objectives. Aghion and Tirole (1997) highlight the importance of proper delegation and coordination in achieving managerial efficiency, suggesting that managers must align resources with organizational goals to improve productivity. However, in developing countries, managerial inefficiencies often arise due to poor governance structures misaligned incentives, and a lack of professional training (Sarkar and Sarkar 2000).

Jensen and Meckling (1976) emphasized the role of agency theory, noting that conflicts between managers and shareholders (agency costs) can reduce managerial efficiency and affect enterprise's financial performance. Similarly, Berger and DeYoung (1997) argue that inefficiencies in managerial decisions such as excessive risk-taking or cost-cutting without strategy, can negatively impact financial performance, particularly in environments with weak regulatory oversight.

In the African contexts, Doumbia (2013) found that firms often face managerial inefficiencies due to limited technical know-how and resource constraints, which can reduce productivity and competitiveness. Additionally, Gupta and Fields (2016) suggest that managers in developing economies struggle with external factors, such as infrastructure deficits and market volatility, which exacerbate inefficiencies.

The relationship between financial leverage and managerial efficiency has been extensively examined in corporate finance literature, with studies highlighting both positive and negative effects of financial leverage on the enterprise managerial efficiency. In the context of large-scale enterprises in Cameroon, understanding this relationship is necessary, given the unique economic environment and the important role these enterprises play in the national economy.

Financial leverage, which is the use of debt to finance a firm's operations and investments, can influence managerial efficiency through many ways. Guo et al. (2021) investigated this relationship and found an inverted U-shaped association between financial leverage and enterprise's managerial efficiency, suggesting that enterprises with optimal capital structures achieve higher managerial efficiency levels. Their study also highlighted the mediating role of cash holdings, indicating that appropriate cash management practices can enhance the positive effects of financial leverage on om managerial efficiency.

Similarly, Coleman and Baidoo (2019) examined non-financial companies in Nigeria and Ghana and discovered a significant interaction between financial leverage and managerial efficiency. Their findings suggest that firms engaged in international activities are more likely to incorporate debt into their capital structures, which can influence their managerial efficiency.

Kijkasiwat et al. (2022), analyzed the relation between corporate governance and firm performance, considering the mediating role of financial leverage across developed and emerging economies. Their findings suggest that

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excess leverage can negatively affect firm performance, emphasizing the responsibility of the managers to manage leverage levels effectively. This study provides insights into how financial leverage influences the managerial efficiency, which is relevant to understanding managerial efficiency in leveraged large scale enterprises.

Bene and Messi (2022) examined the relationship between financial leverage and corporate investment in Cameroon. Their study revealed that leverage positively influences investment, but this relationship is non-linear, taking the form of an inverted "U." At low levels of debt, leverage positively impacts investment, but beyond a certain point, additional debt may hinder investment activities. This finding is relevant in understanding how leverage decisions affect managerial efficiency in allocating resources for investment in a large-scale enterprise. Linus (2024) explored the effect of financial inclusion on enterprise performance in Cameroon, considering corporate governance as a mediating factor. The study found that higher levels of financial inclusion, particularly access to savings and credit, were associated with improved enterprise profitability. furthermore, this positive relationship was mediated by corporate governance, suggesting that effective governance structures can enhance the benefits of financial leverage on managerial efficiency. This shows that with the assistance of management to the financial leverage endeavours, managerial efficiency is improved.

3. RESEARCH METHODOLOGY

This study seeks to analyse the effect of financial leverage on the managerial efficiency of large-scale enterprises in Cameroon. In order to empirically achieve the objective, this study adopts the approach of the model of Petkevich and Prevost (2018), and Bhagat et al (2011), as they argued that high-ability managers have a significant presence in corporate financing policies. In addition, it was also argued that managerial decisions are resulting in reducing long-term debt. The concept managerial efficiency is multifaceted, meaning it can only be adequately measured using so many indicators (see appendix 1: indicators of managerial efficiency). Financial leverage was captured as sum of total debts over the sum of total equity and assets while managerial efficiency was measured as an index using principle component analyses (PCA). The two indicators of managerial efficiency adopted were AUR and OER. Asset utilization ratio was computed as sum of operating income over assets over the given time period while OER was computed as ratio of operating expenses over operating income over a given period of time. The time spanned from 2013 to 2019. In order to construct the managerial efficiency index, the principle component analyses (PCA) was employed since PCA is designed to model relationships between indicators and the construct. The index of managerial efficiency was generated using the formula below. It is assumed that $\boldsymbol{i}$ designated sectorial dimension and MER is the values of the composite index generated. The mathematical exposition for the index is given by:

$$\boldsymbol{MER_{it}} = \frac{\sum_{k=1}^{K}\sum_{jk=1}^{JK} P_{jk}^{k} L_{JK}^{K}}{K} \qquad 3.1$$

Where; $\mathrm{MER}_{\boldsymbol{it}}$ represents managerial efficiency index for all the four sectors considered**;** K is the number of indicators which is two; P is the proportion attributed to each component; L is the explained variance of the indicators. The index of managerial efficiency was normalised within the range of 0 to 1. The reason for normalising the scores is to get rid of the negative value, which poses interpretation challenges. In other words, by so doing we get rid of the negative values of the index by adjusting the scores within the range of 0 to 1. But the managerial efficiency is therefore continuous in nature.

The mathematical exposition for the normalised index procedure is outline below:

$$\boldsymbol{\overline{NMER}_{it}} = \frac{(MER - \mathrm{r(min)})}{(\mathrm{r(max)} - r(\mathrm{min}))} \qquad 3.2$$

Where r(max) is the maximum value while r(min) is the minimum value of MER raw scores.

The empirical model is specified as follow.

$$NMER_{it} = \alpha + \vartheta_1 NMER_{it-1} + \vartheta_2 FinL_{it} + \vartheta_3 CSEC_{it} + \vartheta_4 IDSEC_{it} + \vartheta_5 SSEC_{it} + \vartheta_6 T + \vartheta_7 BRA_{it} + \varepsilon_{it} \quad 3.3$$

$$NMER_{it} = \alpha + \vartheta_2 FinL_{it} + \vartheta_3 CSEC_{it} + \vartheta_4 IDSEC_{it} + \vartheta_5 SSEC_{it} + \vartheta_6 T + \vartheta_7 BRA_{it} + \varepsilon_{it} \quad 3.4$$

$$NMER_{it} = \alpha + \vartheta_2 FinL_{it} + \vartheta_3 CSEC_{it} + \vartheta_4 IDSEC_{it} + \vartheta_5 SSEC_{it} + \vartheta_6 T + \vartheta_7 BRA_{it} + \varepsilon_{it} \quad 3.5$$

Where NMER stands for managerial efficiency and it is an index computed using PCA and normalised: FinL stands for financial leverage and is considered as endogenous independent variable due to the interaction between financial leverage and managerial efficiency. The causation between financial leverage and managerial efficiency may result to possible endogeneity issues, if not carefully address it will result to ill-fated estimators. The control covariates in the model are summarised in Table 3.1. While $\boldsymbol{\varepsilon_{it}}$ captured the idiosyncratic terms which are other omitted variables which can as well effect managerial efficiency, though are assumed to have mean value of 0 and standard deviation of value 1. The parameters v1, V2, V3, V4, V5, and V6 in equation 3.3 are to be estimated in managerial efficiency function by employing the two-step system GMM-estimator (Generalized method of

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moment) developed by Blundell and Bond (1998), which relies on using instrumental variables to account for endogeneity. This estimation techniques also handle omitted variable bias and with robust standard errors. The parameters in equation 3.4 and 3.5 were estimated using pooled ordinary least square (POLS) and random effect estimation technique respectively to test for the robustness of the models.

Table 1: Description of Variables used in the study

Variable	Code	Measurement Level	Apriori
Dependent Variable			
Managerial Efficiency	NMER Index	Continuous	
Endogenous Variable			
Financial Leverage	fin l Index	Continuous	+/-
Control Variables			
One Year Lag of Managerial Efficiency	L.NMER	Continuous	+/-
Sector of activity(1= Commercial, 0 otherwise)	Commercial	Binary	
Sector of activity(1= Industrial, 0 otherwise)	Industrial	Binary	
Sector of activity(1= Primary, 0 otherwise)	Primary	Binary	
Sector of activity(1= Services, 0 otherwise)	Services	Binary	
Branch of activity	BRA	Continuous	
Year	T		

Note: Data of all variables used in analysis is compiled by the Author

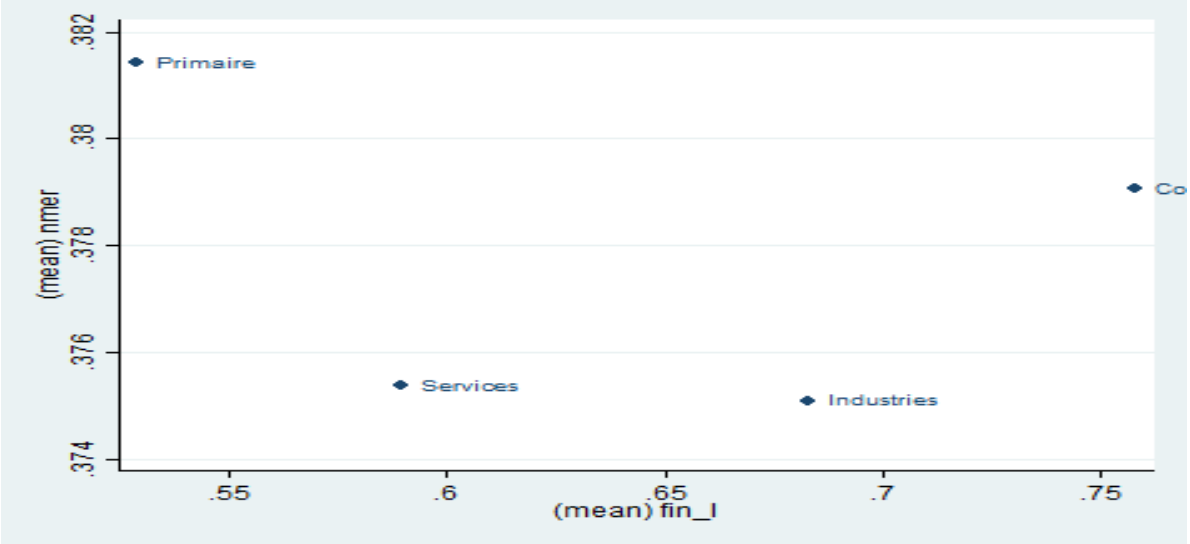


Figure 1. Trend Analysis for Managerial Efficiency and Financial Leverage

The trend analysis indicates that the mean for financial leverage was very low compared to the mean for managerial efficiency in the primary sector, which was very high. This suggests that, on average, companies in the primary sector had a low level of financial leverage, meaning they had a lower proportion of debt relative to their equity. However, their managerial efficiency was very high, indicating that they effectively utilized their resources, optimized operations, and demonstrated strong management practices. This could be due to factors such as efficient production processes, effective cost management, or expertise in the primary sector's specific operations. Additionally, the mean for both financial leverage and managerial efficiency in the service sector was moderate. So, on average, companies in the service sector had a balanced level of financial leverage and managerial efficiency. It implies that these companies maintained a reasonable level of debt relative to their equity while demonstrating satisfactory management practices. The moderate mean for both indicators could indicate a stable financial and operational situation in the service sector.

In addition, the commercial sector reveals that managerial efficiency and financial performance experienced a high mean, but the mean for financial leverage was even higher. This suggests that, on average, companies in the

commercial sector demonstrated strong management practices and achieved good financial performance. However, they also had a higher level of financial leverage compared to their counterparts in managerial efficiency and financial performance. This indicates that companies in the commercial sector relied more heavily on debt financing, potentially increasing their financial risk. More so, in the industrial sector, the trend analysis indicates that the mean for financial leverage was high and good, while the mean for managerial efficiency was low. This suggests that, on average, companies in the industrial sector had a higher proportion of debt relative to their equity, indicating a higher level of financial leverage. However, their managerial efficiency was relatively low, implying that they may have faced challenges in resource allocation, operational optimization, or effective management practices. Despite the lower managerial efficiency, the high mean for financial leverage suggests that companies in the industrial sector may have been able to generate sufficient returns or income to support their debt obligations.

Table 2: Measurement of Managerial Efficiency Index

Variable	Comp1	Comp2	Unexplained
Operating Efficiency Ratio (OER)	-0.707	0.707	0
Asset Utilization ratio (AUR)	0.707	0.707	0
Eigenvalue	1.005 na	0.995	
Proportion	0.502	0.498	
Cumulative	0.502	1.000	

Note: The Managerial Efficiency Index is computed from data taken from Cameroon National Institute of Statistics.

Table 2 shows the result of measuring the managerial efficiency index using the principle component analyses. The result extracted in component one shows that the operating efficiency ratio has an offending explained variance of negative 70.7%, while asset utilization has an explained variance ratio of 70.7%. In component two, both indicators have a shared variance of 70.7%, suggesting strong evidence of dependency between the two dimensions and a need for a composite index. The result of the eigenvalue also indicated that one component can be formed from the two indicators.

Table 3: Descriptive Statistics of the study

Variable	Obs	Mean	Std. Dev.	Min	Max
Nmer	2100	.377	.045	0	1
fin l	2100	.656	.369	0	1
sector activities	.	.	.	.	.
Commercial	2100	.347	.476	0	1
Industrial	2100	.093	.291	0	1
Premary	2100	.01	.1	0	1
Services	2100	.55	.498	0	1
BranchedactivitÃ©	2100	47.12	110.882	2	999
Year	2100	2016	2	2013	2019

Note: The Descriptive Statistics is computed with data taken from Cameroon National Institute Statistics .

Descriptive statistics in Table 3, presents the summaries of data, allowing us to understand the central tendency and variability of a dataset. In this context, the mean and standard deviation are commonly used measures. Managerial efficiency has a mean of 0.377 indicates the average value of managerial efficiency in the dataset is 0.377. The standard deviation of 0.045 represents the extent of variability or dispersion in the data points around the mean. A smaller standard deviation suggests that the values of managerial efficiency are relatively close to the mean, indicating less variability. More so, the mean of 0.656 signifies the average financial leverage in the dataset. The standard deviation of 0.369 indicates the degree of dispersion or variability in the data points. A larger standard deviation suggests that the values of financial leverage are more spread out from the mean, indicating greater variability. Comparing the results of managerial efficiency and financial leverage. The mean of managerial efficiency (0.377) is lower than the mean of financial leverage (0.656), indicating that, on average, managerial efficiency tends to have lower values compared to financial leverage. Also the standard deviation of managerial efficiency (0.045) is smaller than the standard deviation of financial leverage (0.369), indicating that managerial efficiency tends to have less variability compared to financial leverage.

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In the Sector of activities, the Commercial sector has a mean of 0.347 and standard deviation of 0.476 which indicate that the values in the commercial sector dataset have an average of 0.347 and a relatively high degree of variability. Also, in the Industrial sector the mean of 0.093 and standard deviation of 0.297 suggest that the values in the industrial sector dataset have a lower average (compared to commercial sector) and a moderate degree of variability. Mores so, the Primary sector has a mean of 0.01 and standard deviation of 0.1 indicate that the values in the primary sector dataset have a very low average and a relatively low degree of variability. The Service sector too consist a mean of 0.55 and standard deviation of 0.498 indicate that the values in the service sector dataset have an average of 0.55 and a moderate degree of variability. Branched activity however, based on the provided mean and standard deviation, we can say that the average value is 47.12, and there is a relatively high degree of variability with a standard deviation of 110.882.

Table 4: Pairwise Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) nmer	1.000							
(2) fin_l	0.069*	1.000						
	(0.001)							
(3) primary	0.011	-0.035	1.000					
	(0.626)	(0.113)						
(4) commercial	0.039	0.202*	-0.073*	1.000				
	(0.077)	(0.000)	(0.001)					
(5) industrial	-0.011	0.023	-0.032	-0.234*	1.000			
	(0.601)	(0.282)	(0.140)	(0.000)				
(6) services	-0.032	-0.200*	-0.111*	-0.805*	-0.355*	1.000		
	(0.137)	(0.000)	(0.000)	(0.000)	(0.000)			
(7) BranchedactivitÃ©	0.012	-0.036	-0.040	-0.099*	-0.073*	0.146*	1.000	
	(0.570)	(0.101)	(0.065)	(0.000)	(0.001)	(0.000)		
(8) year	-0.072*	-0.069*	0.000	0.000	0.000	0.000	0.000	1.00à0
	(0.001)	(0.002)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	
*** p<0.01, ** p<0.05, * p<0.1								

Note: The Pairwise Correlation is computed with data taken from Cameroon National Institute of Statistics

The pairwise correlation matrix in Table 4, shows the relationship between the dependent variable (managerial efficiency), independent variable (financial leverage) and the control variables. It tells us whether each pair of variables is positively or negatively related and if they do, whether the relationship is strong or weak. The results show that financial leverage, primary sector and Commercial all have a positive relationship when correlated with managerial efficiency and in this relationship only financial leverage was significant. Meanwhile, in the industrial and service sector they had a negative relationship with managerial efficiency but this association was not significant.

Table 5: Robust check using Pooled OLS and Random Effect

	(POLS)	(RE)
VARIABLES	Nmer	Nmer
fin_l	0.00732**	0.00860***
	(0.00348)	(0.00287)
Commercial sector	-0.00335	-0.00325
	(0.00305)	(0.00394)
Industrial Sector	0.00425*	0.00455
	(0.00228)	(0.0108)
Services Sector	-0.00267	-0.00245
	(0.00181)	(0.00238)
BRA	7.13e-06***	7.17e-06
	(2.08e-06)	(9.73e-06)

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Year	-0.00152**	-0.00150***
	(0.000628)	(0.000480)
Constant	3.432***	3.399***
	(1.265)	(0.967)
Observations	2,100	2,100
R-squared	0.011	
Number of c id	300	300

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Note: The Robust check using Pooled OLS and Random Effect is computed with data taken from Cameroon National Institute of Statistics

The results in Table 5. show strong evidence of robustness as the coefficient of the variable financial leverage significantly affects the managerial efficiency of large-scale enterprises in Cameroon. However, slide differences were found in the estimation using the random effect, while in the estimation using the pooled ordinary least square, the coefficient of financial leverage was the same as that obtained using the two-step system GMM.

4. RESULTS

Table 6: Results using the Two Step GMM

	(Two Step System GMM)
Variables	**Managerial Efficiency**
Lag of Managerial Efficiency	0.0832
	(0.165)
Financial Leverage	0.00704**
	(0.00342)
Commercial	0.00361*
	(0.00193)
Industrial	0.00338
	(0.00279)
Services	0.00820***
	(0.00298)
BRA	6.87e-06**
	(2.81e-06)
2014bn.year	0.00161
	(0.00225)
2015.year	0.00196
	(0.00235)
2017.year	-0.00106
	(0.00322)
2018.year	-0.00122
	(0.00482)
2019.year	-0.00749*
	(0.00427)
Constant	0.341***
	(0.0617)

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Observations	1,800
Number of c_id	300
AR(1) [Prob.]	0.025
AR(2) [Prob.]	0.772
Hansen Overid Test[Prob]	0.444

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Note: The Results using the Two Step GMM are computed wth data taken from Cameroon National Institute Statistics .

The result in Table 6. revealed that the lag value of managerial efficiency has a positive effect on its current value. Including this variable was essential to capture the dynamism in the model and to account for the issue of endogeneity. The result indicated that financial leverage is a significant positive determinant of managerial efficiency among large-scale enterprises in Cameroon. Technically, a unit change in financial leverage is associated with a 0.00704 unit increase in managerial efficiency. This variable is significant at 0.05%, on average ceteris paribus. It means that increased financial leverage will increase managerial efficiency in Cameroon-large-scale enterprises. The finding implies that the capital structure of most of the large-scale enterprises in Cameroon involved debts directed towards investment to ensure proper management so that they may become independent of the debts in due course. The significance of the effect of financial leverage on managerial efficiency permits us to reject the null hypothesis of the study, which states that financial leverage has no positive significant effect on managerial efficiency.

The commercial sector activity was significant and positive, which explains that a unit change in the commercial sector will lead to an average increase in managerial efficiency in Cameroon-large-scale enterprises. Also, the service sector was significant and positive, which means that a unit change in the service sector will increase managerial efficiency in Cameroon-large-scale enterprises. Therefore, an increase in the service sector will cause an increase in managerial efficiency in Cameroon-large-scale enterprises on average ceteris paribus. This increase was significant at a 0.01% level of significance.

According to the dummy years, on average, the dummy for 2019 had a negative and significant effect on managerial efficiency in Cameroon-large-scale enterprises compared to the based year dummy 2013. It was significant at a 10% significant level. The result indicated that the number of enterprise branches significantly predicted managerial efficiency.

The two-step system GMM used to document the effect of financial leverage on managerial efficiency was valid in addressing the endogeneity between financial leverage and managerial efficiency through included instruments as indicated by the Hansen test for model over-identification. The model is consistent with estimates that may arise when the error terms are second-order serially correlated. Based on the Arellano-Bond-AR (2) tests, we accept the hypothesis that error terms are not second-order serially correlated. Moreover, therefore, the estimates were consistent. The result in Table 5, presents the results of the robust check for sensitivity using the pooled ordinary least square and fixed effect estimation technique.

5. CONCLUSION

There have been more thoughts on whether financial leverage has any effect on the managerial efficiency of large-scale enterprises in Cameroon or not. This study has proven according to results obtained that financial leverage improves or enhances managerial efficiency of large-scale enterprises in Cameroon. This conclusion is consistent with findings from various studies on financial leverage and managerial efficiency, that while direct studies on large-scale enterprises are limited, related research suggest that optimal leverage levels, effective managerial competencies, and robust governance structures are necessary for enhancing managerial efficiency.in other words, this indicates the importance of skilful management, strategic planning and accountability to improve the enterprises' managerial efficiency and proper optimal financial leverage. Future research therefore needs to focus on empirical investigations specific to large-scale enterprises in Cameroon to provide more targeted insights into this relationship.

Based on the findings, the study recommends that enterprises should optimise financial leverage, invest in managerial training g programs to equip managers with the latest tools, knowledge, and strategies that can help improve efficiency and consequently financial outcomes. This also recommends that resources in the enterprise

should be used judiciously and acquired with good managerial knowledge and expertise so that results at end should be positive. With this in mind, enterprises in Cameroon will boast of a greater optimal financial leverage than ever before. The literature supports the notion that improving the level of financial leverage, restructuring management frameworks, and employing managerial-based incentive systems are vital steps toward managerial inefficiency. By focusing on these areas, Cameroonian large-scale enterprises can optimise financial leverage to improve managerial efficiency which will as well improve their financial outcomes.

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