Agency Theory

Agency theory explains how contracts, incentives, and monitoring align the interests of principals and agents with differing goals and unequal information to minimise agency costs.

By Ying Zhang (Business School, Newcastle University) & Savvas Papagiannidis (Business School, Newcastle University, UK)

How to cite: Zhang, Y.& Papagiannidis, S. (2026) *Agency Theory: A review*. In S. Papagiannidis (Ed), TheoryHub Book. Available at https://open.ncl.ac.uk / ISBN: 9781739604400

Theory Factsheet

Proposed By: Mitnick, 1973

Parent Theory: Theory of Risk Aversion, The Theory of Syndicates

Related Theories: Transaction Cost Economics, Stewardship Theory, Behavioural Agency Theory

Discipline: Economics

Unit of Analysis: Contract or principal-agent dyad

Level: Micro-level

Type: Theory for Explaining and Predicting

Operationalised: Qualitatively / Quantitatively

Introduction

Early theories of the firm often treated organisations as unified, profit-maximising entities, giving limited attention to internal conflicts between owners and managers (Cyert & March, 1992). This perspective offered little guidance on how to analyse situations in which decision-making is delegated or where actors inside the firm may have systematically different objectives.

By the late 1960s and early 1970s, advances in information economics (Arrow, 1971;Wilson, 1968) began to address questions that earlier models had largely overlooked, namely how parties with different risk preferences and unequal access to information share risks, allocate responsibilities, and structure contracts. These contributions emphasised the points that organisational participants rarely have identical goals, that information is unevenly distributed, and that delegation creates opportunities for behaviour that may not align with the interests of those who bear the consequences. This line of inquiry became known as the *agency problem*. It concerns situations in which cooperating parties may hold divergent goals and tasks, face uncertainty and risk-sharing challenges, and operate under conditions of information asymmetry (Jensen & Meckling, 1976;Ross, 1973).

Agency Theory was developed in the early 1970s through largely independent contributions from different disciplinary perspectives. From economics, Stephen Ross formalised the agency relationship as a problem of incentive design under conditions of imperfect information (Ross, 1973). From an institutional perspective, Barry Mitnick conceptualised agency as a broader framework for understanding delegated authority, accountability, and control within organisations and regulatory settings (Mitnick, 1973). A major subsequent contribution was provided by Jensen and Meckling's highly influential 1976 analysis of corporate agency problems, which linked agency costs, ownership structure, and firm behaviour (Jensen & Meckling, 1976). These seminal works address a common question, namely how to ensure that individuals or entities entrusted with decision-making authority act in the best interests of those they represent. Although there is no standard citation for its origin (Mitnick, 2021), Agency Theory provides a framework for analysing and governing "*the ubiquitous agency relationship, in which one party (the principal) delegates work to another (the agent), who performs that* work" (Eisenhardt, 1989:p58*). Using the contract as an organising metaphor, the theory examines how different governance mechanisms can produce more efficient principal-agent relationships, encompassing both explicit, formal contracts and implicit understandings that shape behaviour (Bergen, Dutta & Walker, 1992).

Theory

Agency Theory begins with a compact set of behavioural and informational assumptions (Eisenhardt, 1989). It focuses on relationships in which the principal, who delegates decision-making authority, relies on the agent, who undertakes actions on the principal's behalf. Parties are assumed to be: self-interested, prioritising personal gain; boundedly rational, with limited capacity to foresee all contingencies; and differentiated in their risk preferences, reflecting varying attitudes towards uncertainty. They also often pursue partially conflicting goals, leading to misalignment between principal and agent objectives. Information is asymmetric because agents typically know more about their attributes or actions than principals, and information is treated as a purchasable commodity that can be acquirable at some cost. Under these conditions, governance turns on the design of contracts, monitoring, and incentives that align agent behaviour with the principal's objectives (Bergen, Dutta & Walker, 1992).

When a principal engages an agent, two key challenges dominate and call for different strategies (Arrow, 1985;Bergen, Dutta & Walker, 1992;Caldwell & Karri, 2005). The first, adverse selection or hidden information before contracting, concerns whether a prospective agent has the desired characteristics. Principals can respond with screening, using methods like interviews, reference checks, aptitude tests, trial assignments, or probation to gather information. They can also evaluate signals that agents send, such as education, certifications, audited track records, when such signals are costly to fake (Spence, 1973). Beyond passively receiving information, principals can design arrangements that induce self-selection, where agents reveal their competencies and intentions through the choices they make (Bergen, Dutta & Walker, 1992). For example, offering below-market wages during an apprenticeship stage, followed by wage increases upon successful completion, discourages less committed applicants (Delfgaauw & Dur, 2007;Guasch & Weiss, 1981).

The second challenge, moral hazard or hidden action after contracting, arises once the relationship begins and effort is difficult or costly to observe. In Agency Theory, moral hazard stems from three central conditions: information asymmetry, where the agent has better knowledge of their actions than the principal; secondly preference or interest misalignment, where agents may value actions or outcomes differently from principals; and thirdly incomplete contracts, where not all relevant behaviours can be specified or enforced ex ante (Grossman & Hart, 1983;Holmstrom, 1979). These conditions create opportunities for actions that benefit the agent but reduce value for the principal, such as shirking, misallocation of effort, or excessive risk-sharing (Eisenhardt, 1989;Jensen &

Meckling, 1976). Principals can respond by monitoring the agent's behaviour and/or by linking rewards to observable outputs or performance measures (Holmstrom, 1979). Under appropriately designed incentive schemes, the agent's optimal response is to act in the principal's interest, a condition commonly described as incentive alignment (McGuire & Radner, 1972). The choice between monitoring and output-based incentives depends on factors such as observability, outcome noise, and risk allocation (Bergen, Dutta & Walker, 1992). As such, a key strategic choice concerns behaviour-oriented versus outcome-oriented contracts (Bergen, Dutta & Walker, 1992;Eisenhardt, 1989). When actions are relatively observable and outcomes are noisy or long-lagged, behaviour-based governance is preferable because it limits the risk borne by agents for uncontrollable factors. Illustrative instruments include fixed salaries, detailed process and compliance rules, close supervision, activity/input quotas, procedural audits, and mandatory training or certification. By contrast, when outputs can be measured at a reasonable cost and agents can bear greater risk, outcome-based contracts become more attractive. Common instruments include piece rates, sales commissions, bonuses tied to key performance indicators, stock options, and profit-sharing schemes (Awasthy & Hazra, 2020;Capezio, Shields & O'Donnell, 2011;Cravens et al., 1993). In practice, principals often combine behaviour-based and outcome-based contracts. The optimal mix balances risk sharing, measurement costs, and distortion risks arising from issues such as multitasking when only some outputs are rewarded (Holmstrom & Milgrom, 1991).

Within this framework, adverse selection and moral hazard constitute the two canonical information problems around which Agency Theory is organised. As principals cannot fully observe agent characteristics before contracting or agent actions after contracting, the design of governance arrangements necessarily operates under informational constraints. As a result, even "*optimal*" contracts are generally second-best. They must trade off stronger incentives against increased risk borne by the agent, meaning that the full-information, first-best outcome cannot be achieved (Eisenhardt, 1989;Stiglitz, 1975). Against this backdrop, the objective is to minimise agency costs, classically defined as the sum of (i) monitoring expenditures by the principal, (ii) bonding expenditures by the agent, and (iii) the residual loss from imperfect alignment (Jensen & Meckling, 1976). Principals set information and communication protocols to reduce asymmetry, deploy ex-ante tools (screening, signalling, self-selection) to identify desired agents, and employ ex-post tools (monitoring and incentives) to mitigate effort shirking. Agents, for their part, choose effort by weighing expected compensation against effort disutility and income risk (Fayezi, O'Loughlin & Zutshi, 2012;Fleisher, 1991). The resulting contract reflects a constrained optimisation that balances incentive alignment and risk sharing, and is shaped by technology, measurability, institutional context, and the parties' outside options or bargaining power (Aguilera & Jackson, 2003;Holmstrom & Milgrom, 1991;Jensen & Meckling, 1976).

From its roots in information economics, the theory has evolved through two complementary streams of scholarship: Principal-Agent Research and Positivist Agency Theory. Both streams share the contract as their unit of analysis, but differ in analytical emphasis and mathematical rigour (Eisenhardt, 1989;Onjewu, Walton & Koliousis, 2023). Principal-Agent (formal) Research develops rigorous economic models under standard assumptions. These include self-interest, bounded rationality, agent risk aversion due to undiversified employment income, and principal risk neutrality arising from diversified ownership. These models yield normative results about optimal contracts under specified information and risk conditions (Holmstrom, 1979;Holmstrom & Milgrom, 1991). Principal-Agent Research clarifies when it is efficient to favour behaviour-based versus outcome-based contracts, how to allocate risk between parties, and how changes in measurability or outcome noise alter the efficient governance form (Grossman & Hart, 1983). The abstraction provides a baseline logic for incentive and monitoring design, although its translation into organisational practice often requires additional contextual adaptation. As reviewed by Fayezi et al.(2012) and Onjewu et al.(2023), the Principal-Agent Research stream has been less influential in organisational

studies compared to Positivist Agency Theory, partly due to its non-empirical orientation and limited real-world accessibility.

Positivist Agency Theory, by contrast, explores the complexities of real-world agency relationships and addresses many of the shortcomings of formal modelling in Principal-Agent Research (Eisenhardt, 1989). It asks where principal-agent goal conflicts are likely to arise and which observable governance arrangements mitigate agents' self-serving behaviour. Influential studies examine how ownership structure and board design allocate control and residual claims (Fama, 1980;Fama & Jensen, 1983), how the external market for buying and selling ownership or managerial control disciplines managers (Jensen & Ruback, 1983), and how free cash flow can fuel overinvestment unless constrained by governance or payout policies (Jensen, 1986). Foundationally, Jensen and Meckling (1976) conceptualised the firm as a nexus of contracts and defined agency costs. Subsequent work mapped those ideas onto real governance mechanisms, generating testable implications that have shaped empirical finance, accounting, and management (Fayezi, O'Loughlin & Zutshi, 2012;Shapiro, 2005). At its best, the positivist stream enriches economics with a more realistic view of organisations and offers practical evaluations for governance mechanisms that protect shareholder interests and minimise agency costs (Davis, Schoorman & Donaldson, 1997;Jensen, 1983).

These streams are complementary rather than competing and jointly help researchers and practitioners grasp the complexity of Agency Theory. Specifically, formal principal-agent models explain how optimal contract forms shift with changes in information asymmetry, outcome noise, or risk tolerance. The positivist tradition identifies alternative contractual mechanisms actually used in practice and evaluates their effectiveness in different contexts (Eisenhardt, 1989). In applied settings such as franchising, procurement, outsourcing, and platform governance, the two perspectives are often combined. Formal agency logic guides the choice between behaviour-based and outcome-based controls, while empirical insights adapt these mechanisms to specific contexts (Bergen, Dutta & Walker, 1992;Eisenhardt, 1989).

Two further clarifications help avoid oversimplification. First, Agency Theory treats information as improvable though costly, for example, through audits, IT systems, third-party verification, or disclosure rules (Eisenhardt, 1989). Therefore, governance is not static. As the measurement of outcomes becomes cheaper or more accurate, the efficient contract may shift towards outcome-based pay or less monitoring (Arrow, 1971). Second, contracts can be explicit or implicit. Many relationships rely on formal written terms as well as informal understandings about acceptable behaviour and dispute resolution. Both forms of contract shape incentives and both are recognised within the theory's contracting perspective (Bergen, Dutta & Walker, 1992;Eisenhardt, 1989). This recognition helps explain why hybrid arrangements are common in professional and managerial work. For example, employees often receive a fixed salary plus a KPI-linked bonus overseen by an audit committee, especially where outputs are only partly measurable and discretion matters (Bergen, Dutta & Walker, 1992).

Applications

Applications in Empirical Research

The theory has proven highly versatile in guiding empirical research on how governance and incentive mechanisms shape agent behaviour and organisational or policy outcomes. Quantitative studies typically analyse variables such as ownership structure including managerial and blockholder ownership (Jensen & Meckling, 1976), executive compensation and incentive schemes (Holmstrom, 1979;Wiseman & Gomez-Mejia, 1998), and monitoring arrangements such as board independence,

audit quality, or creditor oversight (Fama & Jensen, 1983;Bushman & Smith, 2001). These governance mechanisms are used to test how alignment and oversight affect managerial behaviour, risk-taking, compliance, and performance (Armstrong et al., 2013). Typical findings include incentive-driven increases in effort and performance, alongside unintended consequences, such as earnings manipulation or excessive risk-taking (Healy & Wahlen, 1999). Qualitative studies apply an agency lens to trace how principal–agent relationships unfold in practice. Researchers examine how information asymmetries are created and managed, how agents interpret incentive systems, and how principals use monitoring, contracting, or relational governance to address misalignment (Ouchi, 1979;Schillemans & Busuioc, 2015). This approach reveals how agency problems emerge through everyday interactions, and how organisational actors navigate conflicting goals, ambiguous metrics, and competing accountability demands (Hennessey et al., 2025;Lambright, 2009;Yusuf, Yousaf & Saeed, 2018).

The breadth of Agency Theory applications reflects both its parsimony and its flexibility. The theory performs as expected in settings that approximate its core assumptions, including relatively clear objectives, measurable outputs, enforceable contracts, and credible monitoring. This is often the case in finance, accounting, and many market-based relationships, where outcome measures are available and enforcement mechanisms are institutionalised. When the theory moves into domains with ambiguous goals, difficult-to-measure outcomes, or complex multi-principal environments, researchers typically temper high-powered incentives and incorporate additional governance tools, such as peer review, relational oversight, and hybrid contracts, to mitigate measurement and distortion risks (Zajac & Goranova, 2024).

Applications Across Disciplines

Since its formalisation in the 1970s, Agency Theory has become one of the most widely used frameworks across the social sciences. Its analytical focus on delegation, information asymmetry, monitoring, and incentives has enabled it to travel well beyond its economic origins. Applications have long spanned multiple disciplines, including accounting, economics, finance, information systems, marketing, organisational behaviour, and public administration (see Table 1).

Accounting. Agency Theory underpins accounting research on contracting, performance measurement, and assurance. Early work formalised how accounting information supports incentive and monitoring contracts, highlighting the role of accounting signals in motivating and disciplining managerial behaviour (Demski & Feltham, 1978). Positive accounting research shows that accounting method choices are not neutral but respond systematically to agency costs and contractual constraints, such as debt covenants and compensation-related incentives (Watts & Zimmerman, 1978;Watts & Zimmerman, 1986). Subsequent surveys consolidated an agency lens in management accounting, emphasising how incentive intensity depends on the informativeness and verifiability of performance measures as well as on risk-sharing considerations (Baiman, 1990). At root, the literature addresses two linked questions (Lambert, 2006). The first concerns how features of information, accounting, and compensation systems mitigate or exacerbate incentive problems. The second concerns how those incentive problems, in turn, shape the design of information, accounting, and compensation systems.

Economics. Foundational work defined the principle-agent problem as one of incentive provision under asymmetric information (Ross, 1973) and derived optimal contracts under hidden action (Holmstrom, 1979) and multitasking (Holmstrom & Milgrom, 1991). These models establish that incentive design necessarily trades off effort provision against risk sharing. Noisy outcomes or agent risk aversion call for weaker incentives, while more informative measures justify stronger pay-performance sensitivity. The principal-agent stream is predominantly economics-oriented, yielding normative results on optimal contracts under specified information and risk conditions (Fayezi,

O'Loughlin & Zutshi, 2012). Classic adverse-selection applications in economics include insurance (Spence & Zeckhauser, 1971) and optimal income taxation (Mirrlees, 1971). A key implication of these models is that when incentive constraints are present, the optimal contract cannot fully insure agents or achieve the first-best allocation; instead, some inefficiency is required to motivate effort. Subsequent syntheses consolidate these results into a general view of incentives, emphasising that the economic applications of Agency Theory centre on incentive design (Laffont & Martimort, 2009).

Finance. Applying Agency Theory in finance examines how ownership-control separation affects firm value, capital structure, and control transfers. The literature emphasises four main mechanisms. First, conflicts between shareholders, managers, and debtholders generate agency costs of equity and debt, with implications for valuation and financing choices (Jensen & Meckling, 1976;Myers, 1977). Second, external discipline operates through the market for corporate control, which constrains managerial discretion by exposing poorly governed firms to takeover threats (Manne, 1965). Third, internal discipline arises through payout and leverage policies, including dividends and free-cash-flow control (Easterbrook, 1984). These policies limit the resources available for managerial discretion (Jensen, 1986). Fourth, research on investor protection shows that stronger legal protections reduce minority expropriation, lower the cost of capital, and are associated with higher firm valuations (Shleifer & Vishny, 1997). Across these settings, a central contribution of Agency Theory in finance is the insight that differences in governance quality are capitalised into asset prices, with changes in incentives and control mechanisms reflected in security returns and valuation ratios (Nyberg et al., 2010).

Information systems. Applications initially focused on project management and outsourcing, motivated by the high failure risk of information systems development projects (Mahaney & Lederer, 2003). Studies show that portfolios of behavioural, outcome, and social controls are combined to curb moral hazard in client-vendor and user-developer relationships (Choudhury & Sabherwal, 2003;Kirsch, 1997). Agency Theory has also been used to explain how deadline-setting affects quality decisions in development projects. Counter to conventional managerial intuition, aggressively set deadlines can reduce quality-compromising behaviour rather than exacerbate it (Austin, 2001). The underlying mechanism is that when deadlines are tight and frequently missed, delay ceases to signal low ability, weakening developers' incentives to conceal problems through shortcuts that undermine quality (Austin, 2001). More recently, the agency lens has been extended to digital platform and ecosystem governance. Studies treat platform owners and complementors as principal-agent pairs and analyse access rules, API governance, and compliance to deter opportunism while preserving innovation (Tiwana, 2013;Wiener et al., 2016). Relevant work applies agency reasoning to IT investment decisions, showing that performance shortfalls and firms' IT investment tendency jointly shapes IT investment levels, conditional on corporate governance arrangements (Dong et al., 2021).

Marketing. Agency Theory in marketing focuses on salesforce incentives and channel governance under information asymmetry. Bergen et al. (1992) offered a seminal clarification of agency relationships in marketing and noted that applications of Agency Theory were nascent. Since then, applications have broadened across six areas (Chohan, 2023).

Salesforce management, where firms act as principals and salespeople as agents. Because sales effort and customer interactions are difficult to observe, misalignment may arise through shirking, misreporting, or short-term selling. Research examines how compensation systems, such as salaries, commissions, and quotas, balance monitoring costs, incentive strength, and risk preferences (Rubel & Prasad, 2016). When information asymmetry is high, delegating price authority to salespeople can improve performance due to their superior customer knowledge (Frenzen et al., 2010) Business-to-consumer marketing, where consumers (principals) assess service providers (agents) whose quality is hard to observe ex ante. *Consumer adverse selection* occurs when providers misrepresent ability or

service quality, and consumers often rely on brand reputation as a signal to reduce uncertainty (Chohan, 2023;Guo & Zhang, 2012). Business-to-business marketing, such as in manufacturer-distributor and franchisor-franchisee relationships. These arrangements frequently involve information asymmetry, free-riding, and other opportunistic behaviours (Frazier & Lassar, 1996). Studies highlight the role of unity, collaboration, monitoring, and contractual enforcement in reducing agency costs and mitigating moral hazard (Grace et al., 2016;Kashyap, Antia & Frazier, 2012). Advertising agency-client governance, where clients (principals) delegate creative and media decisions to agencies (agents). Misalignment may arise over campaign strategy, quality of execution, or communication practices, and incentives are recommended when there is a low or high advertising budget (Keegan, Rowley & Tonge, 2017). Marketing management and shareholders, where marketers (agents) have to demonstrate the value of marketing investments to shareholders (principals). Because outcomes, such as brand equity, customer satisfaction, or loyalty, are difficult to measure, governance arrangements like the chief marketing officer role help align marketing decisions with shareholder interests (Mintz & Currim, 2013). Sponsorship arrangements, where sponsors serve as principals and athletes or endorsers as agents. Behavioural risks and reputational spillovers create monitoring challenges, and research emphasises contract design and oversight to safeguard brand value (Chohan, 2023;Farrelly & Quester, 2003).

Organisational behaviour. Agency Theory in organisational behaviour examines how pay, monitoring, and performance evaluation shape employee effort and the employment relationship, including unethical behaviours (Frankort & Avgoustaki, 2022;Pohler & Schmidt, 2016). It also analyses how these control mechanisms are designed and implemented within organisations (Gomez-Mejia & Balkin, 1992;Zenger & Marshall, 2000). A distinctive twist in organisational behaviour research is to foreground the human and social responses that determine whether controls work in practice. Studies of multi-task and knowledge work warn about metric distortions, such as rewarding “A”, while hoping for “B” (Kerr, 1975), the crowding-out of prosocial effort (Bosse & Phillips, 2016), and the psychological costs of pay-for-performance (Larkin, Pierce & Gino, 2012). Behavioural Agency Theory extends the classical model by incorporating such evidence that agents are loss-averse, bounded rational, fairness-sensitive, and motivated by both intrinsic and extrinsic factors (Pepper & Gore, 2015). As a result, behaviour often deviates systematically from the fully rational, risk-averse agent assumed in traditional agency models. These insights imply that effective governance requires more than incentive alignment alone. It also requires attention to reference points, fairness perceptions, and motivational processes that shape effort, risk-taking, and reactions to monitoring (Pepper & Gore, 2015; Wiseman & Gomez-Mejia, 1998). Recent work has also examined algorithmic surveillance and compliance in gig work, showing that trade-offs involving autonomy, transparency, and privacy can amplify behavioural responses to control systems (Newlands, 2021;van Zoonen, von Bonsdorff & van der Heijden, 2025).

Public administration. Agency Theory in public administration and non-profit management examines chains of delegation and accountability between citizens, elected officials, bureaucrats, and contracted service providers. Citizens are often treated as ultimate principals who delegate to politicians. Politicians in turn delegate to ministries and agencies, while funders delegate to non-profit managers and governments contract out services to private or third-sector organisations (Dawson et al., 2016;Lane, 2020). Research shows that, at each link in this chain, information asymmetries and divergent preferences generate agency problems such as bureaucratic slack, goal displacement under performance regimes, and opportunistic cost-cutting or cream-skimming in contracted services (Bevan & Hood, 2006;Schillemans & Busuioc, 2015;van Thiel & Leeuw, 2002). A distinctive feature of this domain is the prevalence of multiple principals and overlapping accountability forums. Agencies may be simultaneously accountable to parliaments, line ministries, audit offices, courts, supranational bodies, and organised interests, whose objectives and information differ (Voorn, van Genugten & van Thiel, 2019;Dawson et al., 2016). These conditions complicate the use of strong, outcome-based incentives and often encourage the gaming of

performance indicators. Even so, the principal-agent framework remains helpful for diagnosing where misalignment might occur and for comparing oversight mechanisms, such as auditing, performance contracts, independent regulators, and citizen participation (Lane, 2020;Schillemans & Busuioc, 2015).

Table 1: Applications of Agency Theory across disciplines

Disciplines	**Key themes**	**References/Examples**
Accounting	accounting information and systems; contracting; management accounting; incentive problems	(Baiman, 1990); (Demski & Feltham, 1978); (Lambert, 2006)
Economics	principal-agent problem; principal-agency research; optimal contracts; incentive design	(Laffont & Martimort, 2009); (Ross, 1973)
Finance	ownership-control separation; firm value; market for corporate control; dividends and free-cash-flow control	(Jensen, 1986); (Jensen & Meckling, 1976)
Information systems	project management; outsourcing; digital platform/ecosystems, IT investment decisions	(Dong et al., 2021); (Kirsch, 1997); (Wiener et al., 2016)
Marketing	salesforce incentives; price delegation; channel governance; business-to-consumer marketing; business-to-business marketing; sponsorship arrangements	(Bergen, Dutta & Walker, 1992); (Chohan, 2023); (Farrelly & Quester, 2003)
Organisational behaviour	pay; monitoring; performance evaluation; employment relationship; metric distortions; behavioural agency theory; algorithmic surveillance	(Bosse & Phillips, 2016); (Frankort & Avgoustaki, 2022); (Kerr, 1975); (Pepper & Gore, 2015); (Zenger & Marshall, 2000); (van Zoonen, von Bonsdorff & van der Heijden, 2025)

Public administration	accountability; oversight; ambiguous goals; weak measurability; multiple principals and overlapping accountability	(Bevan & Hood, 2006); (Dawson et al., 2016); (Schillemans & Busuioc, 2015)

Applications Across Principal-Agent Relationships

Agent Theory's transferability stems from its abstraction. It models the *structure* of agency relationships, rather than any specific actors or industries. As a result, it has informed research at multiple levels of analysis, ranging from macro-level questions of regulatory design to micro-level dyads in which agents may shape principals' beliefs by shifting blame, managing impressions, or concealing poor performance to secure rewards or avoid sanctions (Eisenhardt, 1989). Although initially centred on the owner-manager or employer-employee relationships (Till & Yount, 2019), the scope of its application has since expanded across organisational contexts. Scholars have used the theory to analyse strategic alliances (Ferrigno, Martin & Battista Dagnino, 2024), buyer-supplier relationships (Matinheikki et al., 2022), and broader client-provider arrangements such as IT outsourcing and professional services (Susarla, Subramanyam & Karhade, 2010;Wu et al., 2024).

More recently, Agency Theory has been extended beyond human-centred relationships to encompass human-machine interactions and algorithmic governance, as technology becomes more autonomous and embedded in decision-making processes (Lumineau, Schilke & Wang, 2023). For instance, Lazányi (2018) analyses principal-agent dynamics between users and self-driving cars, highlighting the information asymmetry arising from users' limited knowledge of the car's decision-making and their constrained ability to intervene. Proposed remedies include clear control at lower automation levels, performance-based evaluations at high automation levels, promoting self-driving cars' ethical behaviour, and relying on reputable brands. Similarly, Kim (2020) examines algorithmic governance, focusing on relationships between human experts and algorithms. The study highlights issues of information asymmetry and algorithmic opacity and advocates for greater transparency, precautionary principles, and collaborative governance. Borch (2022) further distinguishes principle-agent problems in human-defined and machine-learning-based trading systems, emphasising how the opacity of machine-learning models complicates trust between human principals and algorithmic agents. In blockchain alliances, the source code and smart contracts can perform agent-like functions by automating tasks and enforcing rules, raising questions about how Agency Theory mechanisms operate when agents are computational artefacts (Onjewu, Walton & Koliousis, 2023). Emerging work has begun to theorise how traditional agency mechanisms such as monitoring, bonding, and incentive alignment might be adjusted to align AI systems with firms' interests (Dattathrani & De', 2023;Humberd & Latham, 2025).

Limitations

Agency Theory has been very influential, yet it remains contested. Advocates praise its parsimonious explanatory reach (Jensen, 1983). However, critics argue that its core assumptions can be too narrow for complex real-world settings and, if applied uncritically, may mislead practice (Arthurs & Busenitz, 2003). Two limitations are especially salient, namely narrow assumptions about motivation and simplifying models that abstract away key features of organisational realities, such as power and politics.

Narrow assumptions about motivation: In Classical Agency Theory models, individuals are instrumentally rational and primarily self-interested (Jensen & Meckling, 1976;Ross, 1973). This assumption yields clear predictions about incentive design, but it downplays social norms, moral principles, and intrinsic motives in human conduct (Bosse & Phillips, 2016;Heath, 2009). A large experimental and field literature challenges the sufficiency of narrow self-interest. For example, in ultimatum and related games, people routinely offer and enforce fair splits, rejecting low offers even at personal cost, which is behaviour inconsistent with pure material self-interest (Henrich et al., 2001). As Heath (2009) summarises, such findings suggest that many individuals are willing to punish perceived injustice. Straightforward applications of the theory may overstate agency problems, since employees often cooperate, display loyalty, and refrain from opportunism even when external incentives are weak (Heath, 2009). Evidence also shows that strong extrinsic incentives can crowd out intrinsic motivation and cooperative norms, and can induce gaming, that is, rewarding "A" while hoping for "B" (Deci, Koestner & Ryan, 1999;Gneezy, Meier & Rey-Biel, 2011;Kerr, 1975).

Recent work has introduced a more refined view of contract logic: bounded self-interest. People still pursue their own welfare, but they also care about distributive and procedural fairness and reciprocate accordingly (Bosse & Phillips, 2016). Formal models of social preferences, such as inequity aversion and fairness equilibria, provide for these patterns (Bolton & Ockenfels, 2000;Fehr & Schmidt, 1999). When actors perceive a fairness violation, they often punish at personal cost, showing negative reciprocity; when treated fairly, they provide discretionary effort, demonstrating positive reciprocity (Fong & Tosi, 2007;Greenberg, 1990). Under this view, governance should not only deter opportunism, but also preserve and leverage pro-social motives, for example, by ensuring transparent criteria, fair procedures, and credible justifications for monitoring and rewards (Bosse & Phillips, 2016;Heath, 2009). Stewardship and behavioural perspectives therefore complement Agency Theory in contexts where organisational identification, mission commitment, and professional ethics shape effort (Davis, Schoorman & Donaldson, 1997;Eisenhardt, 1989).

Oversimplified conceptualisation of agency relationships: A second set of critiques targets the simplifying assumptions that make Agency Theory analytically elegant, but sometimes descriptively thin. Canonical models often posit a single principal and a single agent, a small number of measurable tasks, and either static or highly stylised dynamics. These choices sharpen intuition, but may have limited ability to capture complex sociological and psychological mechanisms inherent in principal-agent interactions (Davis, Schoorman & Donaldson, 1997;Tian & Lau, 2001). First, real relationships are often dynamic and relational. Contracts are renegotiated; parties learn; and reputation, informal norms, and repeated interaction sustain cooperation where formal monitoring is costly (Ogden, 1993). Relational contracting research shows that credible promises and informal enforcement can substitute for, or complement, formal incentives (Baker, Gibbons & Murphy, 2002;Lambright, 2009). Second, organisational settings commonly involve multiple principals and multi-layered accountability, goal ambiguity, and politics (Tian & Lau, 2001). The agency logic shows that multiple principals with distinct objectives complicate incentive design and can generate conflicting directives (Bernheim & Whinston, 1986). Comparative corporative governance research documents how national institutions and power asymmetries shape which mechanisms are feasible and effective (Aguilera & Jackson, 2003;Shapiro, 2005). In employment relations specifically, critics argue that the theory's dyadic efficiency lens understates power and conflict, for example, how domination/subordination, collective action, and resistance affect control systems and productivity (Ogden, 1993). These features imply that governance is not just a technical optimisation over information and risk; it is also shaped by power and by the legal, cultural, and organisational institutions in which it occurs (Fayezi, O'Loughlin & Zutshi, 2012).

These limitations point to scope conditions rather than rejection. Agency Theory is most powerful when goals are reasonably contractible, performance is measurable with tolerable noise, horizons are short-to-medium, and enforcement is credible (Eisenhardt, 1989). In non-standard settings,

researchers and practitioners should (i) state assumptions explicitly, (ii) test mechanisms against plausible alternatives like stewardship, institutional and relational theories, and (iii) use research designs that can separate incentive effects from self-selection and contextual influences (Adams, Hermalin & Weisbach, 2010;Roberts & Whited, 2013). In practice, this typically means hybrid governance. This approach combines moderate incentives with richer reporting and audit, peer or professional oversight, and attention to justice perceptions and legitimacy (Holmstrom & Milgrom, 1991;Bosse & Phillips, 2016;Shapiro, 2005). Used judiciously, the theory offers a valuable analytical baseline; used in isolation, it risks oversimplifying motivation, context, and dynamics.

Concepts

Principal-agent Relationship (Concept): The contractual relationship in which one party (the principal) delegates work to another (the agent), who performs that work on the principal's behalf. (Ross, 1973)

Information Asymmetry (Independent/Dependent): The condition in which the agent has more or better information about actions or intentions than the principal, creating potential for opportunism. (Jensen & Meckling, 1976)

Goal Conflict (Concept): The divergence between principal and agent objectives that creates the need for contractual and control mechanisms. (Ross, 1973)

Agency Costs (Dependent): The sum of (i) monitoring expenditures by the principal, (ii) bonding expenditures by the agent, and (iii) the residual loss due to divergence of interests between principal and agent. (Jensen & Meckling, 1976)

Adverse Selection (Concept): The pre-contractual problem arising when the principal cannot accurately assess an agent's characteristics before contracting. (Eisenhardt, 1989)

Moral Hazard (Concept): The post-contractual problem arising when an agent's actions are not fully observable, enabling the agent to act in self-interest contrary to the principal's goals. (Eisenhardt, 1989)

Monitoring (Independent): The principal's activities designed to observe, measure, and control the agent's behaviour to ensure alignment with the principal's objectives. (Jensen & Meckling, 1976)

Bonding (Concept): The agent's commitments designed to guarantee faithful performance, such as warranties, collateral, or reputational investments. (Jensen & Meckling, 1976)

Incentive Alignment (Independent): The design of reward and penalty structures to align the agent's goals and actions with those of the principal. (Jensen & Meckling, 1976)

Behaviour-based Contract/control (Independent/Dependent): A governance arrangement that rewards the agent based on monitored behaviour or process compliance. (Eisenhardt, 1989)

Outcome-based Contract/control (Independent/Dependent): A governance arrangement that rewards the agent based on measurable outcomes rather than behaviour, transferring more risk to the agent. (Eisenhardt, 1989)

Opportunistic Behaviour (Concept): A behavioural tendency in which the agent pursues self-interest at the expense of the principal. (Arnold & de Lange, 2004)

References

Adams, R.B., Hermalin, B.E. & Weisbach, M.S. (2010). The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey. *Journal of Economic Literature*, 48 (1), 58-107.

Aguilera, R.V. & Jackson, G. (2003). The Cross-National Diversity of Corporate Governance: Dimensions and Determinants. *Academy of Management Review*, 28 (3), 447-465.

Armstrong, C.S., Larcker, D.F., Ormazabal, G. & Taylor, D.J. (2013). The relation between equity incentives and misreporting: The role of risk-taking incentives. *Journal of Financial Economics*, 109 (2), 327-350.

Arrow, K.J. (1971). *The theory of risk aversion*. Markham.

Arrow, K.J. (1985). Informational structure of the firm. *The American Economic Review*, 75 (2), 303-307.

Arthurs, J.D. & Busenitz, L.W. (2003). The Boundaries and Limitations of Agency Theory and Stewardship Theory in the Venture Capitalist/Entrepreneur Relationship. *Entrepreneurship Theory and Practice*, 28 (2), 145-162.

Austin, R.D. (2001). The Effects of Time Pressure on Quality in Software Development: An Agency Model. *Information Systems Research*, 12 (2), 195-207.

Awasthy, P. & Hazra, J. (2020). Collaboration under outcome-based contracts for information technology services. *European Journal of Operational Research*, 286 (1), 350-359.

Baiman, S. (1990). Agency research in managerial accounting: A second look. *Accounting, Organizations and Society*, 15 (4), 341-371.

Baker, G., Gibbons, R. & Murphy, K.J. (2002). Relational contracts and the theory of the firm. *The Quarterly Journal of Economics*, 117 (1), 39-84.

Bergen, M., Dutta, S. & Walker, O.C. (1992). Agency Relationships in Marketing: A Review of the Implications and Applications of Agency and Related Theories. *Journal of Marketing*, 56 (3), 1-24.

Bergen, M., Dutta, S. & Walker, O.C. (1992). Agency Relationships in Marketing: A Review of the Implications and Applications of Agency and Related Theories. *Journal of Marketing*, 56 (3), 1-24.

Bernheim, B.D. & Whinston, M.D. (1986). Menu Auctions, Resource Allocation, and Economic Influence. *The Quarterly Journal of Economics*, 101 (1), 1.

Bevan, G. & Hood, C. (2006). WHAT'S MEASURED IS WHAT MATTERS: TARGETS AND GAMING IN THE ENGLISH PUBLIC HEALTH CARE SYSTEM. *Public Administration*, 84 (3), 517-538.

Bolton, G.E. & Ockenfels, A. (2000). ERC: A Theory of Equity, Reciprocity, and Competition. *American Economic Review*, 90 (1), 166-193.

Borch, C. (2022). Machine learning, knowledge risk, and principal-agent problems in automated trading. *Technology in Society*, 68, 101852.

Bosse, D.A. & Phillips, R.A. (2016). Agency Theory and Bounded Self-Interest. *Academy of Management Review*, 41 (2), 276-297.

Bushman, R.M. & Smith, A.J. (2001). Financial accounting information and corporate governance. *Journal of Accounting and Economics*, 32 (1-3), 237-333.

Caldwell, C. & Karri, R. (2005). Organizational Governance and Ethical Systems: A Covenantal Approach to Building Trust. *Journal of Business Ethics*, 58 (1-3), 249-259.

Capezio, A., Shields, J. & O'Donnell, M. (2011). Too good to be true: Board structural independence as a moderator of CEO pay-for-firm-performance. *Journal of Management Studies*, 48 (3), 487-513.

Chohan, R. (2023). Agency theory in marketing: 27 years on. *Journal of Strategic Marketing*, 31 (4), 767-793.

Choudhury, V. & Sabherwal, R. (2003). Portfolios of Control in Outsourced Software Development Projects. *Information Systems Research*, 14 (3), 291-314.

Cravens, D.W., Ingram, T.N., LaForge, R.W. & Young, C.E. (1993). Behavior-Based and Outcome-Based Salesforce Control Systems. *Journal of Marketing*, 57 (4), 47-59.

Cyert, R.M. & March, J.G. (1992). *A behavioral theory of the firm*. Blackwell Business.

Dattathrani, S. & De', R. (2023). The Concept of Agency in the Era of Artificial Intelligence: Dimensions and Degrees. *Information Systems Frontiers*, 25 (1), 29-54.

Davis, J.H., Schoorman, F.D. & Donaldson, L. (1997). Toward a Stewardship Theory of Management. *The Academy of Management Review*, 22 (1), 20.

Dawson, G.S., Denford, J.S., Williams, C.K., Preston, D. & Desouza, K.C. (2016). An Examination of Effective IT Governance in the Public Sector Using the Legal View of Agency Theory. *Journal of Management Information Systems*, 33 (4), 1180-1208.

Deci, E.L., Koestner, R. & Ryan, R.M. (1999). A meta-analytic review of experiments examining the effects of extrinsic rewards on intrinsic motivation. *Psychological Bulletin*, 125 (6), 627-668.

Delfgaauw, J. & Dur, R. (2007). Signaling and screening of workers' motivation. *Journal of Economic Behavior & Organization*, 62 (4), 605-624.

Demski, J.S. & Feltham, G.A. (1978). Economic incentives in budgetary control systems. *The Accounting Review*, 53 (2), 336-359.

Dong, J.Q., Karhade, P.P., Rai, A. & Xu, S.X. (2021). How Firms Make Information Technology Investment Decisions: Toward a Behavioral Agency Theory. *Journal of Management Information Systems*, 38 (1), 29-58.

Easterbrook, F.H. (1984). Two agency-cost explanations of dividends. *American Economic Review*, 74 (4), 650-659.

Eisenhardt, K.M. (1989). Agency Theory: An Assessment and Review. *The Academy of Management Review*, 14 (1), 57.

Fama, E.F. & Jensen, M.C. (1983). Agency Problems and Residual Claims. *The Journal of Law and Economics*, 26 (2), 327-349.

Fama, E.F. (1980). Agency Problems and the Theory of the Firm. *Journal of Political Economy*, 88 (2), 288-307.

Farrelly, F. & Quester, P.G. (2003). What drives renewal of sponsorship principal/agent relationships?. *Journal of Advertising Research*, 43 (4), 353-360.

Fayezi, S., O'Loughlin, A. & Zutshi, A. (2012). Agency theory and supply chain management: a structured literature review. *Supply Chain Management: An International Journal*, 17 (5), 556-570.

Fehr, E. & Schmidt, K.M. (1999). A Theory of Fairness, Competition, and Cooperation. *The Quarterly Journal of Economics*, 114 (3), 817-868.

Ferrigno, G., Martin, X. & Battista Dagnino, G. (2024). Explaining the interplay of value creation and value appropriation in strategic alliances: A developmental perspective. *International Journal of Management Reviews*, 26 (2), 232-253.

Fleisher, C.S. (1991). Using an Agency-Based Approach to Analyze Collaborative Federated Interorganizational Relationships. *The Journal of Applied Behavioral Science*, 27 (1), 116-130.

Fong, E.A. & Tosi, H.L. (2007). Effort, Performance, and Conscientiousness: An Agency Theory Perspective. *Journal of Management*, 33 (2), 161-179.

Frankort, H.T.W. & Avgoustaki, A. (2022). Beyond Reward Expectancy: How Do Periodic Incentive Payments Influence the Temporal Dynamics of Performance?. *Journal of Management*, 48 (7), 2075-2107.

Frazier, G.L. & Lassar, W.M. (1996). Determinants of Distribution Intensity. *Journal of Marketing*, 60 (4), 39-51.

Frenzen, H., Hansen, A., Krafft, M., Mantrala, M.K. & Schmidt, S. (2010). Delegation of pricing authority to the sales force: An agency-theoretic perspective of its determinants and impact on performance. *International Journal of Research in Marketing*, 27 (1), 58-68.

Gneezy, U., Meier, S. & Rey-Biel, P. (2011). When and Why Incentives (Don't) Work to Modify Behavior. *Journal of Economic Perspectives*, 25 (4), 191-210.

Gomez-Mejia, L.R. & Balkin, D.B. (1992). DETERMINANTS OF FACULTY PAY: AN AGENCY THEORY PERSPECTIVE. *Academy of Management Journal*, 35 (5), 921-955.

Grace, A.R., Frazer, L., Weaven, S.K. & Dant, R.P. (2016). Building franchisee trust in their franchisor: insights from the franchise sector. *Qualitative Market Research: An International Journal*, 19 (1), 65-83.

Greenberg, J. (1990). Organizational Justice: Yesterday, Today, and Tomorrow. *Journal of Management*, 16 (2), 399-432.

Grossman, S.J. & Hart, O.D. (1983). Implicit Contracts Under Asymmetric Information. *The Quarterly Journal of Economics*, 98, 123.

Guasch, J.L. & Weiss, A. (1981). Self-selection in the labor market. *The American Economic Review*, 71 (3), 275-284.

Guo, L. & Zhang, J. (2012). Consumer Deliberation and Product Line Design. *Marketing Science*, 31 (6), 995-1007.

Healy, P.M. & Wahlen, J.M. (1999). A Review of the Earnings Management Literature and Its Implications for Standard Setting. *Accounting Horizons*, 13 (4), 365-383.

Heath, J. (2009). The Uses and Abuses of Agency Theory. *Business Ethics Quarterly*, 19 (4), 497-528.

Hennessey, M., Samanta, I., Fournié, G., Quaife, M., Gautham, M., Paleja, H., Papaiyan, K., Biswas, R. & Alarcon, P. (2025). Broiler farming and antibiotic use through an agency theory lens. A case study from West Bengal, India. *PLOS ONE*, 20 (1), e0314090.

Henrich, J., Boyd, R., Bowles, S., Camerer, C., Fehr, E., Gintis, H. & McElreath, R. (2001). In Search of Homo Economicus: Behavioral Experiments in 15 Small-Scale Societies. *American Economic Review*, 91 (2), 73-78.

Holmstrom, B. & Milgrom, P. (1991). Multitask Principal–Agent Analyses: Incentive Contracts, Asset Ownership, and Job Design. *The Journal of Law, Economics, and Organization*, 7 (special_issue), 24-52.

Holmstrom, B. (1979). Moral Hazard and Observability. *The Bell Journal of Economics*, 10 (1), 74.

Humberd, B.K. & Latham, S.F. (2025). *When AI Becomes an Agent of the Firm: Examining the Evolution of AI in Organizations Through an Agency Theory Lens*.

Jensen, M.C. & Meckling, W.H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3 (4), 305-360.

Jensen, M.C. & Ruback, R.S. (1983). The market for corporate control. *Journal of Financial Economics*, 11 (1-4), 5-50.

Jensen, M.C. (1983). Organization theory and methodology. *The Accounting Review*, 58 (2), 319-339.

Jensen, M.C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *The American Economic Review*, 76 (2), 323-329.

Kashyap, V., Antia, K.D. & Frazier, G.L. (2012). Contracts, Extracontractual Incentives, and *Ex Post* Behavior in Franchise Channel Relationships. *Journal of Marketing Research*, 49 (2), 260-276.

Keegan, B.J., Rowley, J. & Tonge, J. (2017). Marketing agency – client relationships: towards a research agenda. *European Journal of Marketing*, 51 (7/8), 1197-1223.

Kerr, S. (1975). On the folly of rewarding A, while hoping for B. *The Academy of Management Journal*, 18 (4), 769-783.

Kim, E. (2020). Deep learning and principal–agent problems of algorithmic governance: The new materialism perspective. *Technology in Society*, 63, 101378.

Kirsch, L.S. (1997). Portfolios of Control Modes and IS Project Management. *Information Systems Research*, 8 (3), 215-239.

Laffont, J. & Martimort, D. (2009). *Theory of Incentives*. Princeton University Press.

Lambert, R.A. (2006). Agency Theory and Management Accounting. *Handbooks of Management Accounting Research*, 247-268.

Lambright, K.T. (2009). Agency Theory and Beyond: Contracted Providers' Motivations to Properly Use Service Monitoring Tools. *Journal of Public Administration Research and Theory*, 19 (2), 207-227.

Lane, J. (2020). *The Principal–Agent Approach and Public Administration*.

Larkin, I., Pierce, L. & Gino, F. (2012). The psychological costs of pay-for-performance: Implications for the strategic compensation of employees. *Strategic Management Journal*, 33 (10), 1194-1214.

Lazanyi, K. (2018). Are we Ready for Self-Driving Cars-a Case of Principal-Agent Theory. *2018 IEEE 12th International Symposium on Applied Computational Intelligence and Informatics (SACI)*, 000251-000254.

Lumineau, F., Schilke, O. & Wang, W. (2023). Organizational Trust in the Age of the Fourth Industrial Revolution: Shifts in the Form, Production, and Targets of Trust. *Journal of Management Inquiry*, 32 (1), 21-34.

Mahaney, R.C. & Lederer, A.L. (2003). Information systems project management: an agency theory interpretation. *Journal of Systems and Software*, 68 (1), 1-9.

Manne, H.G. (1965). Mergers and the market for corporate control. *Journal of Political Economy*, 73 (2), 110-120.

Matinheikki, J., Kauppi, K., Brandon–Jones, A. & van Raaij, E.M. (2022). Making agency theory work for supply chain relationships: a systematic review across four disciplines. *International Journal of Operations & Production Management*, 42 (13), 299-334.

McGuire, C.B. & Radner, R. (1972). *Decision and Organization (Study in Mathematics & Managerial Economics)*. North-Holland Pub. Co.

Mintz, O. & Currim, I.S. (2013). What Drives Managerial Use of Marketing and Financial Metrics and Does Metric Use Affect Performance of Marketing-Mix Activities?. *Journal of Marketing*, 77 (2), 17-40.

Mirrlees, J.A. (1971). An Exploration in the Theory of Optimum Income Taxation. *The Review of Economic Studies*, 38 (2), 175.

Mitnick, B.M. (1973). *Fiduciary Rationality and Public Policy: The Theory of Agency and Some Consequences*.

Mitnick, B.M. (2021). The Theory of Agency Redux. *Academy of Management Discoveries*, 7 (2), 171-179.

Myers, S.C. (1977). Determinants of corporate borrowing. *Journal of Financial Economics*, 5 (2), 147-175.

Newlands, G. (2021). Algorithmic Surveillance in the Gig Economy: The Organization of Work through Lefebvrian Conceived Space. *Organization Studies*, 42 (5), 719-737.

Nyberg, A.J., Fulmer, I.S., Gerhart, B. & Carpenter, M.A. (2010). Agency Theory Revisited: CEO Return and Shareholder Interest Alignment. *Academy of Management Journal*, 53 (5), 1029-1049.

Ogden, S. (1993). The Limitations of Agency Theory: The Case of Accounting-Based Profit Sharing Schemes. *Critical Perspectives on Accounting*, 4 (2), 179-206.

Onjewu, A.E., Walton, N. & Koliousis, I. (2023). Blockchain agency theory. *Technological Forecasting and Social Change*, 191, 122482.

Ouchi, W.G. (1979). A Conceptual Framework for the Design of Organizational Control Mechanisms. *Management Science*, 25 (9), 833-848.

Pepper, A. & Gore, J. (2015). Behavioral Agency Theory. *Journal of Management*, 41 (4), 1045-1068.

Pohler, D. & Schmidt, J.A. (2016). Does Pay-for-Performance Strain the Employment Relationship? The Effect of Manager Bonus Eligibility on Nonmanagement Employee Turnover. *Personnel Psychology*, 69 (2), 395-429.

Roberts, M.R. & Whited, T.M. (2013). Endogeneity in Empirical Corporate Finance1. *Handbook of the Economics of Finance*, 493-572.

Ross, S.A. (1973). The economic theory of agency: The principal's problem. *The American Economic Review*, 63 (2), 134-139.

Rubel, O. & Prasad, A. (2016). Dynamic Incentives in Sales Force Compensation. *Marketing Science*, 35 (4), 676-689.

Schillemans, T. & Busuioc, M. (2015). Predicting Public Sector Accountability: From Agency Drift to Forum Drift. *Journal of Public Administration Research and Theory*, 25 (1), 191-215.

Shapiro, S.P. (2005). Agency Theory. *Annual Review of Sociology*, 31 (1), 263-284.

Shleifer, A. & Vishny, R.W. (1997). A Survey of Corporate Governance. *The Journal of Finance*, 52 (2), 737-783.

Spence, M. & Zeckhauser, R. (1971). Insurance, information, and individual action. *The American Economic Review*, 61 (2), 380-387.

Spence, M. (1973). Job Market Signaling. *The Quarterly Journal of Economics*, 87 (3), 355.

Stiglitz, J.E. (1975). Incentives, Risk , and Information: Notes Towards a Theory of Hierarchy. *The Bell Journal of Economics*, 6 (2), 552.

Susarla, A., Subramanyam, R. & Karhade, P. (2010). Contractual Provisions to Mitigate Holdup: Evidence from Information Technology Outsourcing. *Information Systems Research*, 21 (1), 37-55.

Tian, J.J. & Lau, C. (2001). Board composition, leadership structure and performance in Chinese shareholding companies. *Asia Pacific Journal of Management*, 18 (2), 245-263.

Till, R.E. & Yount, M.B. (2019). Governance and Incentives: Is It Really All about the Money?. *Journal of Business Ethics*, 159 (3), 605-618.

Tiwana, A. (2013). *Platform ecosystems: Aligning architecture, governance, and strategy*. Newnes.

Voorn, B., van Genugten, M. & van Thiel, S. (2019). Multiple principals, multiple problems: Implications for effective governance and a research agenda for joint service delivery. *Public Administration*, 97 (3), 671-685.

Watts, R.L. & Zimmerman, J.L. (1978). Towards a positive theory of the determination of accounting standards. *The Accounting Review*, 112-134.

Watts, R.L. & Zimmerman, J.L. (1986). *Positive accounting theory*. Prentice Hall International.

Wiener, M., Mähring, M., Remus, U. & Saunders, C. (2016). Control configuration and control enactment in information systems projects. *MIS Quarterly*, 40 (3), 741-774.

Wilson, R. (1968). The Theory of Syndicates. *Econometrica*, 36 (1), 119.

Wiseman, R.M. & Gomez-Mejia, L.R. (1998). A behavioral agency model of managerial risk taking. *Academy of Management Review*, 23 (1), 133-153.

Wiseman, R.M. & Gomez-Mejia, L.R. (1998). A behavioral agency model of managerial risk taking. *Academy of Management Review*, 23 (1), 133-153.

Wu, H., Zhang, P., Li, H., Zhong, B., Guo, S., Fung, I.W.H. & Lee, Y.Y. (2024). Blockchain Impact on Construction Quality Management and Its Adoption Analysis: A Game Theory–Based Method. *Journal of Construction Engineering and Management*, 150 (6).

Yusuf, F., Yousaf, A. & Saeed, A. (2018). *Rethinking agency theory in developing countries: A case study of Pakistan*.

Zajac, E.J. & Goranova, M. (2024). *When the Principal Is the Firm's Problem: Principal Costs and Their Corporate Governance Implications*.

Zenger, T.R. & Marshall, C.R. (2000). DETERMINANTS OF INCENTIVE INTENSITY IN GROUP-BASED REWARDS. *Academy of Management Journal*, 43 (2), 149-163.

van Thiel, S. & Leeuw, F.L. (2002). The Performance Paradox in the Public Sector. *Public Performance & Management Review*, 25 (3), 267-281.

van Zoonen, W., von Bonsdorff, M.E. & van der Heijden, B.I.J.M. (2025). *Algorithmic surveillance and workers' compliance: The role of trust, privacy concerns, and fairness in online crowdwork*.

How to cite: Zhang, Y.& Papagiannidis, S. (2026) *Agency Theory: A review*. In S. Papagiannidis (Ed), TheoryHub Book. Available at https://open.ncl.ac.uk / ISBN: 9781739604400

Last updated: 2026-02-02 23:40:45 - Exported: 2026-05-04 08:29:40

ISBN: 978-1-7396044-0-0

Legal: This work is licensed under a Creative Commons Attribution- NonCommercial NoDerivatives 4.0 International License. The TheoryHub is an open access resource which means that all content is freely available without charge to the user or his/her institution. Users are allowed to read, download, copy, distribute, print, search, or link to the full texts of the articles, or use them for any other lawful purpose, without asking prior permission from the publisher or the author. For more information please visit: https://open.ncl.ac.uk.