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# PANEL 9 DEBATES ON THE VALUE OF AGENCY THEORY TO RESEARCH IN MANAGEMENT INFORMATION SYSTEMS

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## PANEL 9

### DEBATES ON THE VALUE OF AGENCY THEORY TO RESEARCH IN MANAGEMENT INFORMATION SYSTEMS

**Panel Chair:** Chris F. Kemerer, Massachusetts Institute of Technology

**Panelists:** Cynthia Beath, University of Minnesota  
Vijay Gurbaxani, University of California, Irvine  
Thomas Malone, Massachusetts Institute of Technology  
Haim Mendelson, University of Rochester

#### INTRODUCTION

Kriebel and Moore (1980), in their widely-cited paper on economics and management information systems, suggest that agency theory "fits nicely" with a number of MIS management problems. However, it has not been widely applied in MIS research.<sup>1</sup> Is the reason for this lack of application the concentration of published agency theory research in economics and accounting journals not widely read by MIS researchers, or have MIS researchers acquainted themselves with the theory and found it insufficiently useful? The purpose of this panel, which has been organized in the form of two mini-debates, is to discuss the applicability of agency theory to MIS research problems and the relative merits of differing approaches to applying agency theory in this arena.

#### BACKGROUND TO AGENCY THEORY

Jensen and Meckling (1976) define an agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent."

It turns out that this rather simple sounding relationship is both ubiquitous in many economic transactions and is the host to a number of managerial problems, and has therefore made research in this area attractive. In particular, researchers outside of MIS have found agency theory to be especially useful in explaining intra-firm economic transactions, an area in which traditional microeconomics, with its emphasis on markets and its strong assumptions of perfect information and many atomistic buyers and sellers, has not been well suited.

Previous research in agency theory has proceeded in two streams. The first, sometimes referred to as "principal-agent theory," focuses on normative aspects of the contractual relation. This research tends to be highly mathematical and builds models to explain such phenomena as the structure of preferences of the two parties in the relationship, the nature of uncertainty, and the structure of information held by the two parties (Jensen 1983). The second stream of research, the "positive theory of agency," concentrates on building a robust theory that explains a wide variety of organizational structure and resource allocation decisions.

The classic paper in this series is the Jensen and Meckling (1976) article on the theory of the firm, explaining why the corporate structure has been the predominant organizational form in primary economic markets. They argue that in order to more closely align the agent's utility maximization with his own, the principal can develop incentives, and to improve his information he can incur monitoring costs, whereby the actions of the agent become better known. In an employer-employee relationship, an example of an incentive would be commissions for salespeople, so that the goal of selling more product is more closely shared. An example of a monitoring cost would be timeclocks to record when employees report to and leave work. Agents may find it in their best interest to incur bonding costs that will guarantee that actions will not be taken that will harm the principal, or that if they do, the principal may be compensated. The sum of all these costs, plus the "residual loss" of the divergence in interests that cannot be compensated for even after all these actions have been taken are collectively referred to as agency costs.

#### AGENCY THEORY AND MIS RESEARCH: TWO MINI-DEBATES

The focus of agency theory has been on two key economic issues: resource allocation and organization structure. These issues and dimensions are also at the heart of many MIS management questions. The first mini-debate focuses

on the resource allocation problem within the "micro" problem framework of the application of agency theory to understanding the trends in end user or departmental computing. The second mini-debate focuses on the organization structure problem, thereby taking a "macro" perspective of the impact and interrelationship between information technology and organizational structure and performance.

The participants in these mini-debates, all active researchers, have agreed to adopt somewhat polemical positions for the purposes of creating increased interest in the topic and to more sharply delineate the issues involved. In the first mini-debate, the emphasis will be on methodology. In adapting any new theory to MIS research, there is always a question of how best to approach the subject. Professor Gurbaxani will adopt the view that the proper approach is to first build a strong theoretical base for the research by attempting to develop a formal model of agency theory and the delivery of computing services (Kemerer and Gurbaxani 1988). Professor Beath will adopt the view that the application of theories from other disciplines to MIS research rests on careful construct translation and, therefore, that case studies and other empirical research are the proper starting point (Beath and Straub 1988). In addition to highlighting issues within the context of agency theory, this debate is designed to generate related audience comments on this methodological issue that is of general interest to the MIS field.

The second mini-debate will feature Professors Malone and Mendelson. Professor Malone will argue that the incentive issues modeled by agency theory are only part of the picture. He will suggest that, in many cases, other parts of coordination theory such as simple information processing considerations or transaction cost economics may provide simpler explanations of some of the same phenomena. Professor Mendelson will argue for the value of agency theory. This is expected to be a lively debate between two experienced researchers who have approached the agency theory question from quite different paradigmatic bases. Also, the broad topic of organizational impacts of IT is expected to be of interest to ICIS participants.

## REFERENCES

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## ENDNOTES

1. This assumption is supported by Moore's publicly renewed call for this type of research at the December 1987 ICIS conference.