

Analysis of Government-University Relationship from the Perspective of Agency Theory

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Abstract

This paper discuss about the general aspects of Agency Theory, its relevance to the study of government-university relationship and a survey of previous studies that utilise the theory. It begins with a review of scholarly literature explaining the conception of Agency Theory, its theoretical framework and its underlying assumptions. Next, it discusses the applicability of theory and how it has proved to be an appropriate framework for analysing the relationship between both government and universities.

Keywords: Agency Theory, higher education, funding

1. A Review of Agency Theory

Agency Theory was founded by Jensen and Meckling (1976) who defined it in the following words:

A contract under which one or more persons (the principal) engage another person (agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent.

Eisenhardt (1989) explains that Agency Theory attempts to describe the relationship between principal and agent/s by using the metaphor of a contract. The theory sets out to examine if the contractual agreement between principal and agent/s is followed through and the agent/s take the necessary actions to produce outcomes expected by the principal (Moe 1984; Waterman & Meier 1998). The contract is based on the premise that the agent/s possesses the skills, information, qualification, experience and abilities to perform the outlined task and produce good outcomes for the principal (Bendor, Glazer & Hammond 2001; Kivistö 2008).

Kivistö adds that there are different variants of this relationship ranging from *single-principal-single-agent* to *multiple-principal-single-agent* or *single-principal-multiple-agent*. As their respective titles suggest, *single-principal-single-agent* focuses on one principal and one agent, *multiple-principal-single-agent* allows multiple agents to direct a single agent in different areas and *single-principal-multiple-agent* refers to a scenario where one principal is directing many agents. Of the three situations, the second scenario is most traditionally used in state-run operations where a single unit is controlled by various actors. For example, the Ministry of Finance and Ministry of Education may jointly control public Higher Education Institutions (HEIs), albeit in different aspects of its operation relevant to their specialisation and jurisdiction.

Strehl, Reisinger and Kalatschan (2007a) highlight seven components of the theory that is applicable to studies exploring New Public Management: governance, New Institutional Economics, strategy, marketing, resource allocation mechanisms and organisation behaviour. New Institutional Economics or Economic Institutional Analysis is of fundamental importance to this paper as it attempts to analyse the social, economic, and political phenomena occurring within the institution under observation through three main concepts called Principal-Agent Theory (PAT) or Agency Theory, Theory of Property Rights and Theory of Transaction Costs (Furubotn & Richter 2005; Ménard 2008; Menard & Shirley 2005). Although this theory was initially focused on the relationship between individuals, there is evidence that this theory is equally relevant for the study of groups and organisations (Kivistö 2005).

According to Eisenhardt (1989), Agency Theory is applicable in a variety of settings ranging from macro level to micro level. Kivistö (2005) has also pointed out that this theory is not and has never been exclusive linked with any particular field of research. Agency Theory has been applied in a wide variety of fields, for example, in relationships between patient and doctor, defendant and lawyer, landlord and tenant, and employer and employee. According to Klein (1998), this theory is often applied in various academic fields ranging from economics, law, organisation theory, political science, sociology and anthropology. However, the original and most significant contribution of PAT or Agency Theory was in the field of economics (Coase 1998; Williamson 1985) as it helped to assess the difficulties associated with the interaction between principal and agent/s to accomplish a specific task (Rauchhaus 2009).

Over the course of time this theory developed further and eventually split into two main branches – Positivist Agency Theory and Principal-Agent Theory. Eisenhardt (1989) explains that while both these streams share the same focus on the agent-principal relationship and share common assumptions about people, organisations, and information, Positivist Agency Theory research is less mathematical than Principal Agent Theory research (Eisenhardt 1989; Rungfamai 2008). Furthermore, Kivistö (2007) explains that the Positivist scholars focus their attention on conflict of goals to examine how governance mechanisms can limit the agent's self-serving behaviour.

Agency Theory extrapolates the relationship between the principal and agent/s and the problems encountered there in the terminology of goal conflicts and information asymmetries. These two concepts form the crux of Agency Theory and Kivistö (2007) explains the two in the following terms of informational asymmetries and goal conflicts.

- *Informational asymmetries occur when* “the agent possesses more or better information about the details of the individual task assigned to him, his own action, abilities, and preferences compared to the principal.”
- *Goal conflicts occur* in “a situation where the principal's and agent's desires and interests concerning certain ends are in conflict with each other and that, they would therefore prefer different courses of action.”

These two concepts are the fundamental assumptions of Agency Theory and structure the way it perceives and explains the problems in governance and management. The context of informational asymmetries and goal conflicts are discussed in detail in the following sub section.

1.1 *Informational asymmetries*

Informational asymmetries relate to the efficacy of information flow and interaction between the principal and the agent/s in performing a specific task. The problem of efficiently disseminating or gathering accurate information can hardly be avoided in everyday practice. Normally, such information asymmetries occur because most often agent/s have access to superior and detailed information about the delegated tasks, operational realities and outcomes in contrast to the principal. As a consequence, the principal not only lacks full access to the information, in case the agent/s stand to gain from it they may perpetuate this situation by hiding certain information from the principal (Perrow 1993). Saam (2007) further explains that informational asymmetries occur because the principal cannot observe the competencies, intentions, knowledge and actions of the agent/s. Additionally, principals may be required to take expensive and laborious steps to get access to the hidden information in a situation. Saam describes various situations of informational asymmetry where the principal does not have access to accurate information:

- *Hidden characteristics.* This occurs when the information gathered by the principal regarding the agent's qualification is incomplete.
- *Hidden intentions.* This situation occurs when agent/s secretly act to serve their own intentions without the knowledge of the principal even after signing a contract with the principal.
- *Hidden knowledge or hidden information.* This problem arises before the principal enters into a contract with the agent/s, and involves situations where private knowledge is available to the agent/s and not to the principal (Bergen, Dutta & Walker Jr 1992).
- *Hidden action.* This problem occurs when the agent/s take a different a course of action than the one stipulated in the original contract even after entering into a signed agreement with the

principal.

According to Vetschera (1998), the amount and quality of information given to the principal exerts a significant amount of influence on the way in which it controls the behaviour of its agents. Vetschera shows that with relatively inaccurate or minimal information the principal's capacity to influence agent behaviour is restricted and when the principal has access to more information it can influence the agent's behaviour to suit the set agenda. All this highlights that information asymmetries exist and they are relatively difficult to rectify.

1.2 Goal conflicts

Goals conflicts happen when the agent has different goals to the ones set by the principal in the contract. It is assumed that goal conflicts arise in the process of delegating authority from principal to agent (Alvarez & Hall 2006). With the instrument of the contract, the principal restricts the agent's actions to the defined goals and reduces other tasks that run contrary to these goals. But the agent/s may engage in hidden actions that hinder the goals outlined in the contract (Eisenhardt 1989). It is generally accepted that goal conflicts constitute the main reason behind problems in the agency/principal relationship (Mahaney & Lederer 1999). Shapiro (2005) also explains that goal conflicts are the main focus of the classic agency paradigm as it seeks to identify when the agent/s departs from the interests of the principal.

2. Agency Problem

Due to informational asymmetries and goal conflicts, the inadequate information and conflict of interests between the agent and the principal can lead to two agency problems known as *moral hazard* and *adverse selection* (Braun & Guston 2003; Kivistö 2008; Waterman & Meier 1998). Adverse selection occurs when the principal is incapable of obtaining sufficient information about the background, motivation and capabilities of the agent/s prior to entering the contract (Perrow 1993). In circumstances of adverse selection, there is increased chances of goal conflicts as agent/s whose information is not fully known to the principal may be induced to act in their own private interests while using money from the principal (Harrison & Harrell 1993). *Moral hazard* occurs when both parties enter into a contract to achieve some goals but since it is difficult in reality for the principal to closely monitor the activities of the agent/s and measure the outcomes, there is a moral hazard of the commitment not being fulfilled (Moe 1984). Moreover, Darrough and Stoughton (1986) describes moral hazard as a situation where the action undertaken by the agent/s is not only unobservable it also has a different value for the agent/s and the principal. These problems, according to Braun and Guston (2003), result from what New Institutional Economics calls the 'opportunisms' of actors since actors act in self-interest and seek to maximise their personal welfare.

2.1 Agency Problem in the Context of Government-HEI Relationship

In the context of modern higher education, governments have made dramatic changes to the size, structure, funding arrangements and focus of HEIs so that they can better address public demand and compete as profitable organisations in the global market (Ansell 2008; Global University Network for Innovation 2009; Jongbloed 2000b; Jongbloed & Vossensteyn 2001). In today's competitive market and its emphasis on productivity, the government now demands that HEIs are economically productive and fulfil the goals outlined in the government's strategic plan (Lane & Kivistö 2008). Since the government provides HEIs with funding from the taxpayer money, it also demands that the HEIs agents produce a certain level of output beneficial to the public and make information available to the public (Leruth, Paul & Premchand 2006). There are various issues from autonomy, accountability, governance, market pressure to lack of funds that have become key in the discussion of the government-HEI relationship (Global University Network for Innovation 2009; Kivistö 2005, 2008; Lane & Kivistö 2008).

Kivistö (2005) notes that '*the long but still ongoing "love hate-relationship" bounding governments and HEIs together is complex and it has multiple dimensions*'. Jacobs and Van Der Ploeg (2006) argue that information asymmetries and goal conflicts resulting from agency problems in higher education can be found in funding arrangements, governance structures, students selection, appointment of

academic staff, and other regulations. Higher education is currently experiencing demands to synchronise their strategic goals and activities with the government objectives and increase the quality of teaching and research (Kettunen 2006).

Over time, governments all over the world have provided large amounts of public funds to institutions (Global University Network for Innovation 2009). While governments form the main source of funding for HEIs, such funding and subsidies from the government can frequently produce unwanted side effects. This unfortunate situation may occur in several forms such as mismanagement of resources allocation, excessive registration of unmotivated students and perverse redistribution of incomes. Indeed, inefficient government funding methods for higher education may lead to grade-inflation, monopolistic-practices and inefficient management of universities (Jacobs & Van Der Ploeg 2006). Gautier and Wauthy (2007) say that it is hard to exactly evaluate the quality of teaching and research. Kivistö & Hölttä (2008) have also pointed out that in practice it is hard for stakeholders to recognise the real difference that exists between the funding provided and the actual minimum costs required for the universities to deliver the desired standard of teaching and research output.

Government intervention is warranted whenever there is market failure in the HEI sector and mechanisms controlling finances and allocating funds are the most effective means of doing so (Bebczuk 2002). A system of performance based mechanism, promotes better alignment of university actions and government objectives (Anderson, Johnson & Milligan 1996; Kivistö 2008; OECD 2010). In recent decades, public expenditure on education has actually declined and this confronts HEIs with added pressure in achieving institutional goals and government objectives at the same time (UNESCO 2009). Because of financial constraints, institutions need to respond to the changes at strategic level to garner all the funding opportunities provided by the government.

3. Factors behind information asymmetries in HEIs

Previous research has demonstrated that informational asymmetries are relevant to the study of higher education systems (Liefner 2003; Smart 2001) since they exist on a large scale in the operation of HEIs (Jongbloed 2006; Kivistö & Hölttä 2008). In practice, it is the duty of the HEIs to use their skills, information, qualifications, experiences and abilities to provide education services to public according to the government's objectives. However, Liefner (2003) and Kivistö and Hölttä (2008) have argued that in reality it is hard for the principal to observe the quality of Teaching and Learning (T&L) and Research and Development (R&D) outcomes produced by the HEIs. This is due to limited government understanding about how organisations operate (Lambert 2001) which then leads to information asymmetries as the principal finds it difficult to monitor the agents' competencies and actions in the real-time environment (Saam 2007). In addition, monitoring university operations is costly for the principal. Kivistö and Hölttä (2008) conclude that without government intervention, informational asymmetries would lead to degradation of quality of teaching and research in HEIs and eventually to market failure.

Ben-Ner and Hoomissen (1991 cited in Kivistö & Hölttä 2008) indicate that informational asymmetries in HEIs are caused by three factors – a lag of time between purchase and consumption of the educational service, diverse types of consumers with different educational needs and the nature of each educational service which is a complex mix of services that cannot be measured in a standard manner.

The time-lag between consumption and purchase of educational service can lead to information asymmetries. Kivistö and Hölttä (2008) explain that the reason for this problem is the significant lag between the time of purchase (enrolment behaviour, resource allocation) and the consumption of the service (learning experiences, rate of return to higher education). Prospective students and parents receive information from market trends to make their decision about an HEI service but the actual delivery of the service and the transaction only occurs when the student enrolls in the course and completes his education. The outcome may be different from the information given during the purchase. Therefore, the only way to resolve this problem is by forcing institutions to make the most in-depth and up to date information available at all times to its stakeholders.

The second cause of information asymmetries arises when it becomes difficult for standardised information to satisfy different types of buyers and consumers with different educational needs and comprehension capabilities. With many goods and services available, consumers have to make decision to meet their different needs. While human development and enhanced economic opportunities are the

general goals for higher education, Kivistö and Hölttä (2008) explain that the customers themselves may have some specific needs and preferences for higher education. In order to access and choose the service that satisfies their particular needs, consumers need information about the actual strengths and specialisations of an HEI. When there is a lack of information for the customers to answer such specific questions about their needs and preferences, this leads to informational asymmetries. Even if the government funds and administers HEIs, the principal may not have access to real-time information about its actual performance. Thus, what is needed is that customers have access to the right information to help them make the right decisions and the agent attempts to understand the marketplace and different customer segments to meet varying expectations.

Finally, higher education produces a complex mix of public goods that might vary in content and nature over time and it may be difficult for the customers to discern or understand these differences. With rapid increase in the number and variety of institutions today, it is crucial to define the nature and scope of their services to the public. Higher education services constitute a complex array of different and disparate goods and services in academic systems that are now highly differentiated in most countries (Altbach 2007). HEIs produce a complex mix of public goods, encompassing teaching and research, which are unlike other consumer products. In addition, Kivistö and Hölttä say that academic work is susceptible to high informational asymmetries because the nature of its core substance, knowledge, is highly changeable and unpredictable.

4. Factors behind goal conflicts in Government-HEI relationship

In light of the commercialisation of the HEI industry across the globe, universities are increasingly turning to align education activities to institutional strategy, monitoring productivity and profitability and ensuring that performance is geared toward strategic goals (Tischler, Biberman & Alkhafaji 1993). However, universities are large and complex organisations and there are many aspects of HEIs that contribute to the agency problem of goal conflicts leading to disagreements in vision, mission and goals (Kivistö 2007; Massy 1996). In most situations there may also be difficulty in following up the initial contract because educational services are not like any other consumer product and they are difficult to measure and observe (Van Slyke 2007). Thorley (1995) has also argued that a consistent and systematic strategy to direct HEIs' mission is complicated by a tradition of academic freedom in which individual academics develop their practice and expertise autonomously. As large organisations spread over many faculties and departments with a degree of autonomy in their functions, universities also have to jostle with all their individual strategies and objectives while moving toward its overall vision and mission.

The central purpose of establishing goals in a contract is to direct agents towards specific outcomes especially in the face of limited financial resources and demands for accountability (McKelvie 1986). Following this, two types of goals are defined: (1) official; and (2) operative. An official goal refers to the general purpose of organisation outlined in its mission statement and an operative goal refers to objectives set in specific actual day-to-day activities and operations of the organisation. Operative and official goals may go hand-in-hand at most times, but oftentimes, in day-to-day running of the university operative goals may obscure or detract from the broader official goal (Rizzo, House & Lirtzman 1970).

Operative goals, in particular, need to be discussed in further detail because they direct and monitor the actual performance and outcome of the agent. Conrad (1974) has characterised operative goals in universities as a matrix of constraints that shape on going activities in institutions through: (1) institutional beliefs; (2) state government and boards of trustees; (3) federal government; (4) competing organisations; (5) university clients; (6) publics; (7) student clients; and (8) technology. In general, operative goals can be shaped by forces from internal and external environment and these factors shape constraints in different ways. Institutional belief refers to the main agenda for which the university was set up and it acts as one of the basic parameters guiding university's operative goals. Meanwhile, constraints over operative goals refer to the guidelines set by the state government and federal government constraining the HEI's operational activities who while patronising the HEIs also act as regulative bodies that mandate its existence and set the rules and guidelines governing its operations. The operative goals are also shaped by the HEIs initiatives to adapt to the needs of its main clientele i.e. the students as well as other clients such as prospective employees of its graduates. The larger public and competing organisations can also directly or indirectly shape the operative goals of the

university. Finally, the university may change and adapt its operation policies and goals in day-to-day administration with change in technology.

5. Suggestions to Rectify Government-HEI Agency Problem

Governments typically increase investment in higher education when there are certain national priorities that need to be fulfilled (Neave 1985). However, due to increasing concern about greater accountability and transparency, the government has to take a strategic approach in managing public funds and tracking the performance of the HEIs (Auranen & Nieminen 2010; Bayenet, Feola & Tavemier 2000).

Eisenhardt (1989) further explained that in the situation where the principal is unable to observe the agents activities, two options can be implemented to reduce the agency problem. The first option is investing in information system (budgeting systems, reporting, boards of directions and additional layers of management). The second option is to enter into a mutually agreed contract that stipulate the outcomes of the agent's behaviour.

In order to reduce agency problem, the principal can use two different approaches to control its agent/s: (1) behaviour-based contract; and (2) outcome-based contract. Behaviour-based contract is associated with input-based funding methods, where government funding is allocated on the basis of input elements. Meanwhile in an outcome-based contract funding is determined on the basis of the agent's achievements (Kivistö 2005, 2008). Kivistö suggests that a contract based on outcomes is an efficient mechanism to control agent behaviour and minimise goal conflict. Indeed, the signing of a contract that clearly outlines mutually targeted goals can become an important mechanism to ensure government control of HEIs. However, to benefit from the implementation of such a contract, the HEI must first have autonomy and financial freedom.

On the other hand, Verhoest (2005) outlines three control methods in the way the principal can reduce informational asymmetry and goal conflicts with the agents. The first method is creating efficient monitoring systems for measuring and evaluating the agent's performance, skills and environmental conditions. Next, instituting bonds and promissory arrangements where the agent provides assurance that it will perform actions in the interests of the principal. Thirdly, it is important for principals to establish adequate and effective systems of financial incentives that link rewards to performance. This list outlines a comprehensive set of measures that can be taken to resolve the agency problem. Each of these measures will be explored in greater detail in the following discussion.

According to Saam (2007), the implementation of monitoring systems can result in additional costs to the principal but this system has been proven to be the best remedy to overcome goal conflicts and hidden actions. Indeed, Billy and To (2011) state that their research findings suggested that a formal control system can affect work performance and principal/agent relationship to a great degree. Leruth, Paul and Premchand (2006) suggest that a monitoring system can measure an agent's performance through a mix of indicators (output, outcome and impact). It can measure the output of T&L and R&D in the university in comparison to the input of funds and resources to determine the final value-addition (Kivistö & Hölttä 2008). Here, the government considers output-connected *average cost measure* by using performance indicators to measure specific segments of organisational performance in contrast to the funding allocated to each segment (Herbst 2007). Verhoest (2005) finds that such a method of allocating funds to specific activities is a type of performance contracting that can be a key remedy to reduce informational asymmetry and goal conflict in public agencies in contrast to other strategies like autonomy and competition.

A monitoring system may come in the form of reporting, site visit, review and evaluation (Lane & Kivistö 2008). Peer review methods, where a group of academic peers assess the institutions and producing report based on their evaluation to the public, are also commonly used as a tool to control and assess the quality of teaching and research (Kivistö 2008; Kivistö & Hölttä 2008). McCubbins and Schwartz (1984) have developed a simple oversight model called the police patrol and fire alarm techniques. They explain that the police patrol method is comparatively centralised, active and direct. Police patrol techniques include monitoring of information using yearly reports, purchase approvals, performance audits and reporting Lane and Kivistö (2008). In contrast, the fire alarm method is not too centralised and active, and merely comprises of the principal issuing instructions, procedures and informal practices to the agent/s.

The second measure relates to ensuring that there is smooth flow of complete and accurate information from the agent/s to the principal. Here, the agent is bound to a contractual agreement to release information concerning their performance to principal (Saam 2007). Kivistö and Hölttä (2008) further suggest that there should be a system where the HEIs compile a detailed database with information on all aspects of institution performance that can be accessed by the stakeholders at any time. For example, the Finnish Ministry of Education has implemented open web database called *KOTA online* to access figures about university performance. In Malaysia, a study by Ismail and Abu Bakar (2011) found that the information available on Malaysian universities websites was inadequate and they suggested that the Federal Government enforce regulations for HEIs to provide information to the public. Such efforts to invigorate the flow of information from HEIs to the government and the public can aid the creation, acquisition, sharing, and transmission of knowledge regarding effective T&L and R&D for the benefit of all stakeholders.

Lastly, the incentive system is an efficient method that can be implemented by principal as a mechanism to control the agent's activities. An organisation that lacks a formal incentive strategy is like a train without a driver. Management needs to know where the organisation wants to be in order to spend the funds effectively. Evidence from previous findings shows that financial incentives can be a motivating factor to reduce the negative impact of goal conflict (Aulakh & Gencturk 2000; Eisenhardt 1988; Verhoest 2005). The challenge to produce and preserve an effective compensation program is a great one as organisations determine their actions and strategies according to the monetary benefits projected for them. But Saam (2007) acknowledges that an incentive or compensation system can be expensive to implement. It often creates additional cost for the principal and more risk for the agent. But giving incentives to promote certain activities is a targeted and focused method to solve the problem of hidden information and conflicting action. Jensen and Meckling (1976) support this statement by saying that a good incentive system implemented by the principal can limit divergent behaviour of its agent/s. Furthermore, the introduction of performance-based initiatives can be used to align the operative goals of the agents with the strategic goals of the principal, thus ensuring that HEIs are working to fulfil the plans set by the government (Alexander 2000). The principal can give incentives for pursuing activities that are suited to the government objectives over autonomous functions of the university that do not add to or detract from government objectives.

6. Applicability of Agency Theory to Government-HEI

The changed paradigm of funding higher education, particularly in today's competitive environment has increased the need for accountability in managing public funds. Agency Theory has proven to be a fundamental theory for research in agent-principal dynamic (Hoskisson, Castleton & Withers 2009), and it can also be applied to study the relationship between principal and HEIs. Lane and Kivistö (2008) indicate that today there is rapid adoption of this theory in research pertaining to higher education because universities are driven by both economic and political motives. From the findings in the literature review, the researcher has identified that Kivistö has contributed the most in examining the applicability and implementation of this theory to the issue of governance and funding in higher education although there is other research that have contributed to the study of Agency Theory in funding higher education (Jussi 2007; Liefner 2003; Rungfamai 2008; Schiller & Liefner 2007).

Lane and Kivistö (2008) argue that since the government and university operate and exist in public bureaucracies, this type of operation requires political-economy-based theoretical framework which is provided by Agency Theory. They point out three reasons for the suitability of Agency Theory to the government-HEI context. Firstly, universities are provided funds by the government using resources obtained from the tax payer. Secondly, universities produce products that can be considered as public goods for social good whose outcomes are difficult to measure; therefore, Agency Theory is required to ensure that the performance of the agent is continually measured to align with government objectives. Thirdly, the government does not operate as a single principal as universities usually operate under explicit and implicit contracts with many funding bodies and government agencies; therefore, a comprehensive framework like Agency Theory is required to monitor and understand the dynamics of multiple principal-single agent relationship.

In spite of the growing popularity of Agency Theory, as indicated above, studies on Agency Theory in higher education need to be further investigated and widely explored (Kivistö 2005). Indeed, some areas need further explanation and clarification of the theory as a framework for fostering new ideas in

examining the government-university relationship. Kettunen (2006) has argued that there has been a clear need to elevate the knowledge of strategic management and methods to clarify strategic plans in HEIs. There is clearly a critical need in HEI studies for an approach that can bring strategic clarity, create a method for communication and alignment, and introduce a process to focus on the strategic and not just operational issues.

Furthermore, most of the empirical results of funding reform in HEIs have focused on developed countries. Schiller and Liefner (2006) outline the important research issues regarding funding reforms implemented in developed countries and pose a question about their applicability in developing countries. They find that changes in funding system and restructuring of the relationship between government and universities have proven quite difficult to implement in developing countries because agents' plans to improve outcomes have been costly and the principals have not been able to monitor their activities well. Schiller and Liefner urge that Agency Theory needs to be used to study the reactions and implications of funding reforms in developing countries.

7. Summary

Agency Theory is based on the study of the basic principles of delegating a task to an independent agency in achieving desired objectives. Agency Theory provides a useful framework to examine this question by locating goal conflicts and/or information asymmetries in the process of delegating such tasks. Agency Theory offers clear and insightful explanations for problems arising from the government-agent/s relationship when the principal is unable to adequately monitor the agent's activities and one party lacks information. Agency Theory has been widely applied in different disciplines ranging from economics, finance and strategic management to organisational behaviour.

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