

Mission, Agency Problems, and Strategic Empowerment

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Abstract—Corporate missions differ. Consequently, problems raised from the principal-agent relationship vary. For better adjustment and performance enhancement, the agency problem is further investigated. A six-stage scheme for the issue of principal-agency gap is presented. Agency problems should be considered in the context of their mission characteristics. To meet with the broader apprehension for solving agency problems, strategic empowerment contingent to task complexity and agency gap can be our new reliance.

Keywords—agency problem; principal-agent; mission/task; empowerment

I. AGENCY PROBLEMS

Agency problems, also the principal-agent problems, treat the difficulties that arise under conditions of incomplete and asymmetric information when a principal hires an agent [1]. Numerous research are devoted to this problem and the majority of concerns are from the perspective of financial, cost economy, and recently, corporate governance (e.g., [2], [3], [4], [5], [6], [7]). Since the focus of agency problem are steamed from and are mainly on financial matters, the explanation power and consideration are limited.

Where there is a problem, there is the attempt to solve it. Agency problems are normally identified and defined as when (a) the principal cannot verify that the agent has behaved appropriately. That is, the desires or goals of the principal and agent conflict, and (b) the problem of risk sharing that arises when the principal and agent have different attitudes towards risk [4], [8]. From this fundamental assumption of asymmetric information, trying to align the interests of the agent with those of the principal become the major school of thought for solving agency problem [9].

The thesis is that agency problems should be looked from a broader scale and in this way that solutions to making productive and comprehensive relationship between the principles and agents can be achieved.

II. MISSION AND TASK CONCERNS

A prudent investigation of agency problems could be achieved by first stating current and popular school of thoughts of principal-agent constitutions. With traditional approach, possibilities for breaking vicious circles of the trust issues and thus further enhancing performance is not that easy to accomplish. A border concept and wider angle to view the agency problem is necessary. In essence, the principal-agency gap is hierarchical and there are stages of problem-solution building up. Specifically, an awareness of the discrepancy of missions is essential [10]. Agents react

and execute differently with mission varieties and task complexity and this mission issue is where the agency problems reside and what principals are oftentimes overlook (e.g., [11]).

The first one is cognition and communication. When different perceptions at the same issue arise between the duo of principal and agent, misunderstanding emerges and implication of mission could go on the blink. The second issue is the agent's ability and capability of performing the order. An over or under estimation to the action performer's competence from the principal induces the operation order misled and certainly can not target the task well. The agent's interest and motivation of executing the mission form the third part of agency concerns. When the motive, or reward, perfectly aligns with the goal, tasks are to be completed easier [12]. Agents are task performers, they have responsibility yet they face personal risks also. The jeopardy could be multi-faceted and are oftentimes latent and imperceptible by the principal. Specifically, the agent may confront a task whose intensity is unequally perceived, indeed taking a toll of the effectiveness of a mission [13]. Somehow similar to the risk concern, stack, the psychological investment to the mission itself turn out to be the fifth consideration of mission discrepancy. The principal may too much indulge him/her self in that mission to the extent that the agent is unaware of [14]. This creates uneven aims and motivation to the achievement of a mission [15]. Lastly, here comes the moral hazard and ethical dilemma [16], [17]. When missions confronted with the agent's personal interest and when there is room to defraud, the principal-agent relationship is at risk (e.g., [18], [19]). For this conceptual illustration, Figure 1 symbolizes dimensions that different mission natures may present.

III. STRATEGIC EMPOWERMENT

Empowerment can be looked as an instrument of management, as the direction of relationships, as incentive and motivation, and as attitude and power flow between principles and agents [20]. Aware of the discrepancy of mission difference, managers would be able to close the principal-agent gap by assessing task complexities and by employing strategic empowerment as the change agent for alleviating agency problems. A contingency model between tasks and agency gap is the answer [21]. Since the term principal-agent implies some sort of power distance and a delegation of responsibility, a better way for the duo to work effectively resides not in traditional leader-subordinate power structures but in empowerment [22].

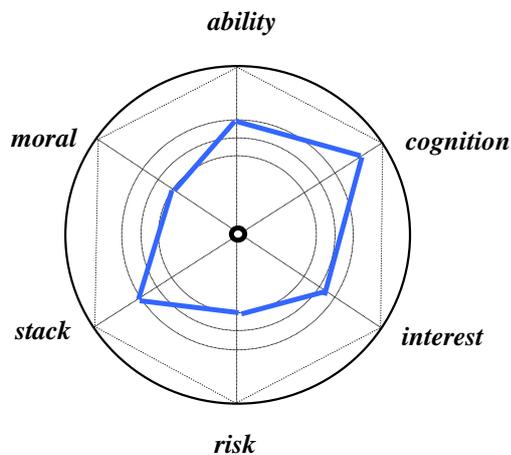


Figure 1. Two different mission natures for conceptual illustration.

Empowerment, rather than command or order, enables the agent willing to, able to, and capable of completion of a mission [23]. An empowered agent could be psychologically and structurally equipped and create higher commitment toward the task [24]. Strategic empowerment brings a planned consideration on the task target that the questions of what, when, how to, why, where to, and to whom are reflected on. Strategic empowerment assumes empowerment as an instrument and an institution of management [25]. The principal who utilizes the thought of strategic empowerment carefully looks, both on the task itself and on the responsible agent, for relationships toward better performance. The relations are not only task-dependent but also vary by facing different agents. That can be positive, negative, or natural and the motivation, communication, power flow, value, or attitude between the principal and the agent are surely diverged [21].

IV. COLSING THE PRINCIPAL-AGENT GAP

Principal-agent problems also refer to the potential difficulties that arise when two parties engaged in a contract have different goals and different levels of information [26]. The financials are not all and corporate tasks differ (e.g., [27]). Consequently, problems raised from the principal-agent relationship vary and agency gaps are multi-dimensional (e.g., [28]). Agency problems need further investigation and should be looked from a broader scale. First, they need to be considered in the contexts of their task and mission characteristics in corporate settings [29]. Secondly, strategic empowerment contingent to task complexity and agency gaps could then be our new reliance.

For identifying gaps, a six-stage proposition is presented. Specifically, principal-agency gap can be analyzed in six different levels and dimensions: cognition and communication, ability and capability, interest and motivation, risk and responsibility, stack and psychological

investment, and finally moral hazard and ethic. For jumping out of the vicious circle, the concept of strategic empowerment is then introduced. Agency problem is mission contingent and empowerment should be adaptive accordingly (e.g., [30], [31]). Table 1 denotes a preliminary observation on possible relationships between task complexity and agency gap and suggests practical guidelines to empower or motivate the agent to narrowing or closing the agency gap. When task complexity is relatively low while the relationship between the principal and the agent seems simple, a basic control is enough. When task complexity is low while the discrepancy between the principal and the agent is wide, motivation is needed. When task is relatively sophisticated yet the gap is small, an incentive problem could be feasible, for the agent is essentially in line with the principal yet the mission might be difficult (e.g., [32], [33]). Finally, when task complexity and the agency discrepancy are both high, empowerment is the solution.

V. CONCLUSION AND DISCUSSION

This paper differentiates the levels and stages of agency problems and proposes strategic empowerment as a way to closing agency gaps. A conceptual diagram for principals to first clarify mission stages and then make contingent moves is illustrated. Empowerment has good reasons for shortening the gap of cognition - communication, ability - capability, stack - psychological investment, and moral - ethic issues. However, by definition, even if we solved all the agency problems, that is, literally, the principal and agent has become one, limitation of decision-making then arise. The interest - motivation and risk - responsibility is of special concern.

We tried to study agency problems from the perspective of empowerment and we successfully identified several situations that strategic empowerment can help. Now for decision-making process itself, can we turn the light around looking from the agency theory perspective and find more implications for the concept of strategic empowerment?

Furthermore, it is possible to describe the relationship/link between an agent and a principal as ties and relative positions. We thereby imply the opportunity for a theory development by looking the relations among agency, empowerment, and missions as networks.

TABLE I. STRATEGIES CONTINGENT TO TASK AND AGENCY GAPS

Agency Gap	wider	<i>motivation</i>	<i>empowerment</i>
	narrower	<i>control</i>	<i>incentive</i>
		low	high
Task Complexity			

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