



Volume 6 (2) (2023): 127-132

The Indonesian Journal of Social Studies

Available at <https://journal.unesa.ac.id/index.php/jpips/index>

Application of Agency Theory in Administrative Accountability and Public Service Delivery in Local Government Councils in Delta State

EGBON, Thomastina Nkechi ¹⁾, SOKOH, Gbosien Chris ²⁾, OKEREKA, Onofere Princewill ^{3)*}

1) Department of Public Administration, Faculty of Management Sciences, Delta State University, Abraka, Nigeria

2) Department of Public Administration, Faculty of Management Sciences, Delta State University, Abraka, Nigeria

3) Department of Public Administration, Faculty of Management Sciences, Delta State University, Abraka, Nigeria

Abstrak

Abstrak ditulis secara ringkas dalam satu paragraf, meliputi: tujuan penelitian, metode penelitian, hasil dan simpulan. Abstrak ditulis dengan dua bahasa (Bahasa Indonesia dan Bahasa Inggris); Panjang abstrak diantara 150-200 kata, ditulis dalam satu paragraf. Hindari pengutipan dan menyingkat kata dalam penulisan abstrak. Jenis huruf cambria dengan ukuran 10, dengan jarak baris 1 spasi.

Kata Kunci: Kata kunci terdiri dari 3-5 kata dipisahkan dengan koma

*Corresponding author:

E-mail: uzoromaegbon@gmail.com

e-ISSN 2615-5966 (Online)

This is an open access article under the CC-BY-SA license



INTRODUCTION

The Agency theory, which is used in this study, has its origins in the conventional and naturalistic theoretical framework (Olsen, 2013). Although the agency theory was developed in the early 1970s, the underlying concepts have a long and rich history. Theories of property rights, organizational economics, contract law, and political philosophy, particularly the works of Locke and Hobbes, are some of the influences. In the 1970s, eminent academics like William Meckling, Stephen A. Ross, Michael C. Jensen, Harold Demsetz, and Armen Alchian made significant contributions to the development of agency theory. Ross and Barry Mitnick introduced the idea of agency theory in 1932 while debating the ideas of agent and principal. Ross is credited with creating the economic theory of agency, but these approaches are believed to have similar fundamental concepts because they are complementary in the way they apply the same concepts under various presumptions.

To better understand the reasons why business owners and management have competing interests, Berley and Means (1932) investigated the concepts of agency and principal. The risk-sharing study conducted by Jensen and Meckling in 1976 had an impact on Berley and Means' work to formalize agency theory. Ross (1973) established the study of agency in response to issues with contract pay, and Mitnick (1986) provided institutional understanding that was developed to deal with agency in response to the imprecision of agency relationships. Since behavior never takes on the principal's ideal form, the theory emphasizes the fact that it never strives for perfection. Society creates institutions that can control or mitigate these issues, adapt to them, or even allow them to produce outcomes that are permanently distorted in order to deal with them. Institutions are required by law to supervise and educate agents as well as address the underlying issues with the control (Eisenhardt, 1989). Iyowuna and Davies (2021) claim that agency theory was unheard of in political science and sociology in the 1970s. Agency concepts were first introduced to administration in 1989 by Eisenhardt M. Kathleen, political science in 1984 by T.M. Moe, and sociology in 1987 by Susan Shapiro (Agaptus, 2012).

The legal relationship in which one or more parties (the principle) appoint one or more parties (the agent) to carry out an action on their behalf is described by agency theory (Bouckova, 2015). Agency theory focuses on the typical agency relationships in which one person (the primary) assigns work to another (the agent), who completes it. Two potential problems in agency interactions are addressed by agency theory. The agency problem is the first, and it arises when the principal and the agent have conflicting interests or desires and the principal finds it challenging or expensive to monitor the agent's behavior. To put it another way, the principal cannot attest to the agent's conduct. The second problem is risk-sharing, which happens when the principal and agent have different views on the severity of the risk. The principal and agent may favor different behaviors as a result of their different risk tolerances (Ersenhardt, 1989).

According to Donaldson and Davis (1991), in order for the agent to fully assume accountability, control, and management over the organization's asset, decision rights must be transferred from the principal to the agent. If no decision-making authority is granted, problems may arise that harm not only the two parties' relationship but also the agent's ability to meet the principal's expectations. The primary goal of agency theory is to identify the principal-agent contract that, under human assumptions (such as self-interest, bounded rationality, and risk aversion), is the most successful (for example, information is a commodity that can be purchased), as this serves as the foundation for agency theory analysis. Are behavior-oriented contracts like salaries and hierarchical governance less effective than outcome-oriented contracts like commissions, sales of property rights, and market governance? (1989, Ersenhardt).

Criticism of the Theory

The agency theory has its detractors. The agency theory is a concept that is occasionally inappropriate for social interaction. It makes the supposition that all actors are self-interested, indivisible, and that social relations have no bearing on the market. Additionally, it makes the assumption that actions are solely driven by individual financial interests and that cooperation is evidence of an agreement between the parties. The manager's action, like all social actions, is nevertheless grounded in the social structures that are currently in place and is not solely influenced by financial incentives and information asymmetries. The agency theory's adoption of a vision in which people and organizations are primarily motivated by financial gain (Hirsch, Friedman, & Koza, 1990) seems unreal in light of this. According to behavioral research, people are driven by a variety of factors, including their status in the community, their desire for self-fulfillment, etc. Even if we assume that people are logical, self-centered, and opportunistic, this does not diminish the value of non-financial incentives like prestigious awards as efficient mechanisms for lowering agency issues. The agency theory makes an unrealistic assumption that behaviors and outcomes are largely uniform and simple to manage. The simplicity of the dichotomous choice between monitoring and the suggestion of incentives to regulate the conduct or outcome, for instance, is ineffective in a complex network of dyadic relations.

Additionally, agency theorists frequently overlook the cost of guarding against opportunistic behavior, which can stifle initiatives, creativity, entrepreneurship, and innovation in businesses (Davis, Schoorman, & Donaldson, 1997). Van-Essen (2011), who also criticizes agency theory, examines the function of ownership in various contexts by taking into account the various formal and informal institutional constellations present in those contexts. He discovered that the strategies, goals, and performance of the companies are influenced by their owners; owner identity, in other words, is a significant factor in the relationship between ownership concentration, firm strategy, and performance. His attention is on the function of ownership rather than the design of the ownership structure.

Information asymmetry is another common issue in the application of the agency theory, according to Nchukwe and Adejuwon (2013). When the agent accesses and receives a different volume or load of information than the principal, this occurs. When this occurs, the amount of information between the two is unbalanced, which could be detrimental to either of them. Additionally, the informational gaps might result in miscommunication or misunderstanding between the two. Conflicts that result between the government and public servants can prevent both of them from carrying out their individual tasks, which can undoubtedly compromise the delivery of public services.

According to agency theory, principals (Sears' management and final customers) were unable to effectively monitor agents (mechanics), so agents (mechanics) engaged in moral hazard (i.e., opportunistic behavior) in order to earn high commissions. As a result, Sears' service quality suffered from an ineffective monitoring system based on output control (i.e., commissions). Agencification usually happened as a temporary sectoral solution because of the poor quality and capacity of public administration and the political classes. The outcome is frequently paradoxical. On the one hand, the legal, financial, and accountability framework for autonomous agencies is patchy and frequently supplanted by particular fixes and exceptions. This frequently results in unforeseen outcomes, perverse incentives, and detrimental effects.

Application of the Theory

The application of agency theory has benefited numerous organizations for many years because it aimed to improve the relationship between the principals and the agents, whose primary responsibilities are thought of as the organization's lifeblood. Additionally, the emphasis placed by the agency theory on making the best use of the agents led to enormous increases in the value of public service delivery. The theory also serves as a reminder that the agency and the government are structurally separate and that the agency operates under more professional circumstances than the government bureaucracy (Iyowuna & Davies, 2021).

Agency theory can be used to explain a variety of situations, from large-scale problems like regulatory policy to small-scale dyad phenomena like blame, image management, lying, and other self-serving behavior. Organizational phenomena like compensation, ownership and financial structures, acquisition and diversification strategies, innovation, and vertical integration have traditionally been explained by agency theory. The agency theory, in accordance with Oloruntoba and Gbemigun (2019), drives managerial executives (agents) to go above and beyond what top management demands. Because they share ownership of the company, agents are more invested in and knowledgeable about the specifics of the corporate process, which helps them perform their management duties more effectively. Agency theory refers to the exercise and application of decision rights to facilitate effective management and control of a business or organization. It also acts as a catalyst for the introduction of organization-wide rewards and sanctions.

Agency theory has been the main theoretical tool used in accountability research to develop hypotheses about the probable behavior of parties in accountability procedures, according to Schillemans (2013), as cited in Oloruntoba and Gbemigun (2019). Due to its adaptability in various contexts, agency theory is a general framework, according to Vargas-Hernandez and Cruz (2018). Even when authors do not explicitly use agency theory and instead operate within the confines of widely acknowledged assertions of accountability, most public administration research reflects assumptions typically addressed in principles-agent theory, according to Bovens (2007), as cited in Oloruntoba and Gbemigun (2019). The agency theory best encapsulates the significance of accountability in achieving effective public service delivery in this study. However, agency theory is essential for any organization to protect and enhance its most priceless assets as well as inspire its stakeholders, especially its agents or directors, to go above and beyond what the government expects of them. This is because the agency theory explicitly defines their roles, rights, and functions.

The agency theory has established itself as a useful paradigm in enhancing public accountability and improving public service delivery, despite criticisms, changes in government, and misgivings from some segments of the public. The use of agency theory by Delta State's local government councils can have a number of positive effects, including improved public service delivery, improved employee performance, increased administrative accountability in the public service, and increased public confidence in public officials. The majority of public administration research reflects agent theory-related presumptions that support public administrators' capacity for learning and effectiveness.

As a result, one of the fundamental requirements for preventing the abuse of power and ensuring that power is directed toward achieving transparency, efficiency, and effectiveness in service delivery is administrative accountability. To ensure that local government councils are able to deliver their services effectively, administrative accountability is absolutely necessary. The provision of public services and economic development in Nigeria are unquestionably compromised by the widespread absence of administrative accountability in local government administration. The accountability system as we currently know it develops over time and is closely related to political turning points. Beginning with a passionate pursuit of probity and integrity on the part of public administrators, the evolution is uniformly similar. As a result of the

aforementioned, it is crucial for Delta State's local government council leaders to strictly adhere to accountability in the management of local government affairs in order to encourage quality service delivery.

CONCLUSION

One of the hottest concepts in service delivery right now is administrative accountability. It is a requirement for the efficient provision of services in the public sector. This makes it possible for a government to respond to its constituents. These virtues of modern government around the world have been a fairy tale and a mirage for the Nigerian people for far too long, historically speaking, that is, if one takes a long view from the colonial era, as well as due to the lengthy period of military intervention in the country's polity. Any respectable public official or professional practitioner must possess essential qualities, including administrative accountability. A nation's ability to mobilize and use its available material and human resources for government determines how effective its government will be. Without mincing words, the issue of accountability in Nigeria has become a subject of global concern and worry as it underpins the very essence of human development at every level of human relationship.

In Nigerian public administration, administrative accountability is a fundamental but underdeveloped concept. The phrase is freely used by academics and professionals to refer to accountability for one's actions or behavior. Administrators and organizations are responsible in the sense that they must account for their actions. Beyond this fundamental idea of answerability, the term has not undergone much development. The majority of debates in the literature center on the "best" method of achieving accountability. To improve public accountability as a key tactic for enhancing the provision of public services in local government administration in Nigeria, this study is focused on the agency theory.

REFERENCES

- Agaptus, N. (2011). Bureaucratic and systemic impediments to public accountability in Nigeria. *International Journal of Politics and Good Governance*, 2 (4). 1-20.
- Berley, A.Y., & Means, G. (1932). *The modern corporation*. New York Macmillan.
- Bouckova, M. (2015). Accounting and agency theory. *Procedia Economics and Finance*, 25, 5-13.
- Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, 22(1), 20 - 47.
- Eisenhardt, K.M. (1989). Agency theory: A review. *The Academy of Management Review*, 14(1), 57-74.
- Hirsch, P. M., Friedman, R., & Koza, M. P. (1990). Collaboration or paradigm shift? Caveat emptor and the risk of romance with economic models for strategy and policy research. *Organization Science*, 1(1), 87 - 97.
- Iyowuna, M., & Davies, E.O. (2021). Pension fund administration and welfare of retirees in Rivers State civil service commission, 200-2018. *Public Policy and International Affair Academic Journal*, 3(3), 1-37.

- Mitnick, B. (1986). *The theory of agency and organisational analysis*. Unpublished Ph.D. Thesis, University of Pittsburgh.
- Nchukwe, F. F., & Adejuwon, K. D. (2013). Agencification of public service delivery in developing societies: Experiences of Pakistan and Tanzania agency models. *Africa's Public Service Delivery & Performance Review*, 5, 106 – 124.
- Oloruntoba, S. R., & Gbemigun, C. O. (2019). Accountability and public sector performance in the third world country: A case study of Nigeria. *Published in International Journal of Trend in Scientific Research and Development*, 3 (3), 218 – 225.
- Olsen, J.P. (2013). The institutional basis of democratic accountability. *West European Politics*, 36, 447-473.
- Ross, S. (1973). The economic theory of agency The principal's problem. *American Economic Review*, 63, 134-139.
- Schillemans, R. (2013). *Public administration*. Massachusetts: Wadsworth Cengage Learning.
- Van-Essen, M. (2011). *An institution-based view of ownership*. Rotterdam: Erasmus University Publications.
- Vargas-Hernandez, J.G., & Cruz, M.E.T. (2018). Corporate governance and agency theory: Megacable case. *Corporate Governance and Sustainability Review*, 2(1), 1-11.