

AGENCY THEORY AND ITS IMPLICATIONS FOR RESEARCH IN MANAGEMENT CONTROL SYSTEMS

Samson Ekanayake

ABSTRACT

Management control system of an organisation is the structured facet of management, the formal vehicle by which the management process is executed. In most organisations, systems exist for planning, organizing, directing, and controlling. Depending on the level of appropriateness and quality of the management control systems, the task of management will be facilitated or hindered. The end goal of a management control system is achieving organisational objectives. Because employees might not always give their best efforts for achieving organisational objectives, management control systems need to strive for aligning goals of agents (e.g., employees) with those of principals (e.g. owners). Agency theory, and its extension principal-agent model, provide insights to the problem of goal congruence and its remedies, at least in the Western cultural context. Whether the agency theory presumptions, predictions and prescriptions are universally applicable is an important issue. Their validity in a different cultural context such as Asia is largely unknown and the resolution of the issue lies in future empirical research within the region.