

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

Egbon, Thomastina Nkechi\*<sup>1</sup> Okereka, Onofere Princewill<sup>2</sup> Sokoh, Gbosien Chris<sup>2</sup>

<sup>1</sup>Department of Political Science and Public Administration, Delta University, Agbor, Delta State, Nigeria, [thomastina.egbon@unidel.edu.ng](mailto:thomastina.egbon@unidel.edu.ng)

<sup>2,3</sup> Department of Public Administration, Faculty of Management Science, Delta State University Abraka, Nigeria, [onofereonline@gmail.com](mailto:onofereonline@gmail.com), [sokohgc@gmail.com](mailto:sokohgc@gmail.com)

\*Corresponding Author: Email: [thomastina.egbon@unidel.edu.ng](mailto:thomastina.egbon@unidel.edu.ng)

### Abstract

This study covered the Agency Theory in great detail. Secondary data from previously published books and articles was used in the investigation. Notwithstanding opposition, governmental modifications, and apprehensions from certain segments of society, the agency theory has demonstrated its worth as a valuable framework for augmenting public responsibility and refining the provision of public services. Applying agency theory to local government councils in Delta State may be beneficial as it can improve public service delivery, employee efficiency, managerial accountability in the broader public sector, and public trust in elected officials. The premises related to agent theory, which uphold the ability of public administrators to learn and perform effectively, are reflected in most public administration research. Because of the aforementioned, in order to promote high-quality service delivery, local government council leaders in Delta State have to strictly stick to accountability in the management of local government affairs. The study concludes that administrative accountability is an important but underdeveloped concept in Nigerian public administration. Academics and professionals use the term interchangeably to discuss taking responsibility for one's conduct or behaviour. Organizations and administrators have a responsibility to take responsibility for their actions. In Delta State's local government councils, the term "accountability" has not evolved much beyond this basic notion.

**Keywords:** agency theory, administrative accountability, public service delivery, local government councils

### Introduction

The traditional and naturalistic theoretical framework is where the Agency theory, which is employed in this study, first emerged (Olsen, 2013). The fundamental ideas of agency theory have a long and rich history, despite the fact that it was created in the early 1970s. Some of the influences include political philosophy, especially the writings of Locke and Hobbes, organizational economics, contract law, and theories of property rights. Prominent scholars including William Meckling, Stephen A. Ross, Michael C. Jensen, Harold Demsetz, and Armen Alchian made important advances to the field of agency theory during the 1970s. In 1932, during a debate over the concepts of agent and principal, Ross and Barry Mitnick proposed the notion of agency theory. Although Ross is recognized as the creator of the economic theory of agency, these methods are thought to share fundamental ideas because they complement one another in how they apply the same ideas under different assumptions..

Berley and Means (1932) looked into the ideas of agency and principal in order to better understand why management and business owners have conflicting interests. The 1976 risk-sharing study by Jensen and Meckling influenced the formalization of agency theory by Berley and Means. In response to concerns about contract pay, Ross (1973) founded the field of agency studies, and Mitnick (1986) offered institutional knowledge that was developed to address agency in response to the ambiguity of agency relationships. The theory highlights that behaviour never aims for perfection because it never adopts the ideal form of the principal. In order to deal with these issues, society establishes institutions that are able to control or mitigate them, adapt to them, or even permit them to produce permanently distorted outcomes. Laws mandate that institutions oversee, instruct, and deal with the root causes of the control problems (Eisenhardt, 1989). According to Iyowuna and Davies (2021), sociologists and political scientists had never heard of agency theory prior to the 1970s. In 1989, Eisenhardt M. Kathleen introduced agency concepts to administration; T.M. Moe introduced them to political science in 1984; and Susan Shapiro introduced them to sociology in 1987 (Agaptus, 2012).

Agency theory defines a contractual arrangement in which one or more parties (the principle) designate one or more parties (the agent) to act on their behalf (Bouckova, 2015). The typical agency relationships in which one person (the primary) assigns duties to another (the agent), who completes it are the focus of agency theory. Agency theory tackles two potential issues in agency interactions. The first type of problem is called an agency problem; it occurs when the principal and the agent have competing interests or desires and the principal finds it difficult or costly to keep an eye on the agent's actions. Stated differently, the principal is unable to vouch for the actions of the agent. The second issue pertains to risk-sharing, which arises when both the principal and the agent hold divergent opinions regarding the level of risk. Due to their varying risk tolerances, the agent and the principal may favour distinct behaviours (Eisenhardt, 1989).

Decision rights must be moved from the principal to the agent, claim Donaldson and Davis (1991), with the goal for the agent to assume complete accountability, oversight, and supervisory authority over the organization's asset. Problems could emerge that damage the relationship between the two parties as well as the agent's capacity to satisfy the principal's expectations if decision-making authority is denied. Since this forms the basis for agency theory analysis, the main objective of agency theory is to determine which principal-agent contract is the most successful under human assumptions (e.g., self-interest, limited reasoning, and risk aversion) (e.g., knowledge is a commodity-based that can be purchased). Are outcome-oriented agreements like commissions, property rights sales, and market governance more successful than behavior-oriented agreements like salaries as well as hierarchical governance?

## **Literature Review**

### **Criticism of the Theory**

There are those who oppose the agency theory. There are times when the agency theory is a bad idea for social situations. It operates under the assumption that social relations are irrelevant to the market and that all actors are motivated by self-interest and indivisible. It also assumes that cooperation is proof of an understanding between the parties and that decisions are only motivated by personal financial gain. The manager's action is not only driven by monetary rewards and information asymmetries; like all social actions, it is nevertheless based on the social frameworks that are in place at the moment. This makes the agency theory's acceptance of an idea that people and organizations are driven primarily by financial gain seem unrealistic (Hirsch, Friedman, & Koza, 1990). Behavioural research indicates that people are motivated by a range of things, such as their social standing, their need for personal fulfilment, etc. Prestigious awards and other non-monetary incentives are effective ways to reduce agency problems, even if we presume that people are rational, self-serving, and opportunistic. The agency theory operates under the erroneous presumption that actions and results are generally consistent and easy to control. In a complicated system of dyadic relations, for example, the straightforwardness of the distinct choice between observing and suggesting incentives to regulate an action or results is ineffective.

Furthermore, agency theorists often ignore the expense of protecting against opportunistic behaviour, which can hinder business initiatives, entrepreneurship, creativity, and innovation (Davis, Schoorman, & Donaldson, 1997). Van-Essen (2011), another critic of agency theory, considers the different formal as well as informal institutional constellations that are present in different contexts when examining the function of ownership. He found that the owners had a significant impact on the strategies, goals, and outcomes of the companies; owner belonging, in other words, plays a major role in the connection between ownership concentration, company plan, and performance. Rather than the structure of ownership itself, he focuses on the purpose of ownership.

Nchukwe and Adejuwon (2013) state that another prevalent problem in the application of the agency theory is information asymmetry; this happens when the agent interacts with and receives information at an alternate rate or load than the principal. When this happens, there is an imbalance in the amount of knowledge between them, which could be harmful to either of them. Furthermore, there could be misunderstandings or poor communication between the two as a result of the informational gaps. Disagreements between government agencies and public employees may hinder each party from completing their respective responsibilities, which may jeopardise the provision of public services. Agency theory holds that because principals, or Sears management and final customers, were unable to keep an effective eye on the agents, or mechanics, they resorted to moral hazard, or opportunistic behaviour, in order to earn large commissions. As a result, an inadequate output-control (i.e., commission-based) monitoring system negatively impacted Sears' service quality. Agencification typically occurred as a stopgap measure for sectoral problems due to the political classes' and public administration's inadequate abilities. Often, the result is paradoxical. The framework for accountability, finances, and laws governing autonomous agencies is, on the one hand, inconsistent and regularly replaced by special exceptions and fixes. 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.

Despite detractors, political shifts, and scepticism from certain sections of the public, the agency theory has proven to be a valuable paradigm for raising public accountability and enhancing public service delivery. Local government councils in Delta State may benefit from applying agency theory in a variety of ways, such as bettering employee performance, enhancing public service delivery, raising administrative accountability, and boosting public trust in public servants. The presumptions related to agent theory, which uphold the ability of public administrators to learn and perform effectively, are reflected in most public administration research.

Administrative accountability is therefore one of the essential conditions for preventing the misuse of power and guaranteeing that power is used to achieve openness, productivity, and efficacy in service delivery. Administrative accountability is crucial to ensuring local government councils can effectively provide their services. The pervasive lack of managerial accountability in local government administration in Nigeria clearly jeopardises both economic development and the delivery of public services.

Political turning points are closely linked to the evolution of the accountability structure as it exists today. The progression is consistently the same, starting with public administrators' fervent devotion to probity and integrity. Because of the aforementioned, in order to promote high-quality service delivery, local government council leaders in Delta State have to strictly adhere to transparency in the management of local government affairs.

## Conclusions

Administrative accountability is currently one of the hottest ideas in service delivery. It is necessary for the public sector to provide services in an efficient manner. This enables a government to react to the people it serves. In historical terms, if one looks back to the colonial era, as well as because of the protracted period of military intervention in the nation's politics, these attributes of contemporary governance around the world have been a fantasy and an illusion for the Nigerian people for far too long. Administrative accountability is one of the fundamental characteristics that any reputable government employee or competent practitioner must have. How well a country can mobilise and employ its human and material assets for governance establishes the effectiveness of that government. To put it bluntly, because accountability is central to human development at all societal levels, the problem of accountability in Nigeria has drawn attention from around the world. Administrative accountability is a basic but underdeveloped idea in Nigerian public administration. Academics and professionals use the term interchangeably to discuss taking responsibility for an individual's conduct or behaviour. Organizations and administrators have a responsibility to take responsibility for their actions. The term "accountability" has not evolved much beyond this basic concept. The "best" strategy for attaining accountability is the subject of most discussions in the literature. This study is centred on the agency theory in an effort to increase public accountability as a crucial strategy for improving the delivery of public goods and services in the administration of local governments in Nigeria.

## 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 Affairs Academic Journal*, 3(3), 1-37.
- Mitnick, B. (1986). *The theory of agency and organizational 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.