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Agency theory and the paradoxes of contemporary work

Our point of departure is the observation of an increasing contradiction between management rhetoric - which tries to draw workers into a collective, cooperative endeavor - and management practices - which continually reinforce control and rely on individualistic, market-type incentives. We argue that the increase in this contradiction – itself inherent to capitalism - is partly due to the rising influence of agency theory (Jensen and Meckling, 1976) and specifically to its success in turning into influential normative models the basic assumptions on which it is grounded. On one hand, agency theory succeeded in spreading a conception of human agency based on the assumption of self-interested opportunistic behavior. Such behavior is supposed to generate agency costs, which calls for close monitoring and incentive devices. On another hand, two other basic assumptions of agency theory (advanced by Friedman, 1970 – a) shareholders are the owners of the firm and b) the primary goal of managers is to maximize profits) powerfully contributed to enhancing the pressure for financial profitability, which further weakened the power of workers and their representatives.

The aim of the paper is to critically examine agency theory's assumptions and argue that they largely contributed to further and legitimize the power shift from labor to capital that forms the hallmark of contemporary work.

We begin our theoretical reflection (section Two) by pointing out that humans are simultaneously *individuals* - ie, unique and separate beings engaged in the pursuit of self-centered goals - and *persons* – ie, social and morally-endowed beings prone to cooperative behavior because of gregariousness (Roger et al. 2012). We then show that cooperation would not be sustainable among “pure” individuals. Indeed, cooperating implies i) giving up on one's desire to exploit partners and ii) expecting that others cooperate too. Why and how would *individuals* satisfy these requisites? In contrast, because they value social interactions and because they endorse shared moral norms, *persons* cooperate even when it runs counter to their interest.

The person-individual distinction helps highlighting the paradox that characterizes the way in which contemporary work is organized and its profound deleterious effects on workers (section Three): firms try to mobilize the cooperative and moral dispositions of workers as *persons* but they actually organize work as if workers were (opportunistic) *individuals*, as is patent in the individualization/depersonalization process work is presently undergoing.

In section Four, we examine agency theory's conception of social interactions at work and highlight the extent to which it departs from a person-based conception of behavior at work. Section Five briefly recalls that the two other postulates of agency theory, the ownership and governance assumptions, also powerfully contributed to the degrading of work occurred in the last three decades. We then argue that only substantial institutional changes – related namely to the regulation of the employment relationship and corporate governance – might bring about a much needed improvement in the quality of work life. Our analysis thus leads to recognizing the need for institutional regulation, which is precisely what the launching of agency theory was supposed (and succeeded) to avoid in the early seventies (Gindis, 2013).

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Curriculum Vitae

Academic background

PhD in economics (labour economics) at Université Paris I – Sorbonne, 1994

Main professional responsibilities

Associated Professor in the Department of Political Economy at ISCTE-IUL

Senior researcher at DINÂMIA'CET-IUL

Director of DINAMIA – research unit (1995-2000)

Director of the Department of Economics (2008-2010)

Director of PhD program in Economics (2007-2011)

Research interests and activities

Current research interests in the fields of the quality of work; economics and interpersonal relations; theories of the firm; work and employment policies.

Has directed several national and international research projects, mainly interdisciplinary, among which projects funded by the 4th EU-FP (director of the Portuguese team of SESI), 5th EU-FP (director of NORMEC) and 6th EU-FP (Member of the Executive Committee of DIME-Network of Excellence)

Recent publications

- 2014 Lopes, Helena; T. Calapez and C. Porto: “Does the macroeconomic context influence subjective well-being in Europe and Portugal? The puzzling case of the 2008 crisis”, *Portuguese Journal of Social Science*, forthcoming
- 2014 Lopes, Helena, S. Lagoa and T. Calapez: “Declining autonomy at work in the EU and its effect on civic behaviour”, *Economic and Industrial Democracy*, forthcoming.
- 2012 Lopes, Helena T. Calapez: “The relational dimension of identity - Theoretical and empirical exploration”, *Review of Social Economy*, LXX(1): 81-107.
- 2011 Lopes, Helena e Teresa Calapez: “Exploring the Sources and Benefits of Cooperation”, *International Journal of Social Economics*, Vol. 38(7): 607-627.
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Résumé

Partant de la distinction entre *individu* et *personne*, nous montrons que si leur rhétorique s'adresse aux travailleurs en tant que personnes, les firmes organisent de fait le travail comme si les travailleurs étaient d'opportunistes individus. Nous argumentons que ce phénomène résulte de l'influence de la théorie de l'agence dont la conception de la firme, centrée sur les coûts d'agence supposés liés aux comportements opportunistes, est devenue un puissant modèle normatif. Les postulats de la théorie de l'agence ont fortement contribué à renforcer et légitimer la perte de pouvoir du travail face au capital qui caractérise nos sociétés. De profonds changements institutionnels de la régulation de la *corporate governance* sont nécessaires pour rendre les firmes cohérentes avec leur propre rhétorique.

Mots-clé : individus vs personnes ; théorie de l'agence ; travail contemporain ; paradoxes de gestion ; coopération

Abstract

The paper draws on the distinction between the concepts of *individual* and *person* to show how management rhetoric addresses workers as persons whereas actual management practices organize work as if workers were opportunistic individuals. We argue that this phenomenon is partly due to the widespread influence of agency theory whose conception of the firm, based on the agency costs supposedly generated by workers' behavior, became an influential normative model. Our argument is that agency theory's basic assumptions powerfully contributed to further and legitimize the ongoing power shift from labor to capital. Major institutional changes in corporate governance regulation are required to make firms' behavior being consistent with their own rhetoric.

Keywords: individuals vs persons; agency theory; contemporary work; cooperation; management paradoxes