INVISIBLE TIES: IMPLICIT CONTRACTING AND ITS IMPLICATIONS FOR THE AGENCY RELATIONSHIP IN CORPORATE GOVERNANCE RESEARCH

Gavin J. Nicholson
School of Accountancy
Queensland University of Technology
2 George St. 4002, Brisbane (QLD), Australia
g.nicholson@qut.edu.au

Amedeo Pugliese
School of Accountancy
Queensland University of Technology
2 George St. 4002, Brisbane (QLD), Australia

ABSTRACT

Research that applies agency theory to boards of directors suffers from being quite narrow as it does not recognize the true legal relationships between directors, managers and shareholders. Instead, the board of directors is best conceptualized as the principal, management as agents and stockholders’ relationships as a mix of legal and implicit contracts. I propose a recast agency relationship and develop a contingency approach that proposes (1) how a corporation’s goals vary with a board’s implicit contracting and (2) a reconceptualization of the agency problem facing boards.

Keywords: Agency theory; corporate governance; team production theory; contracting view; boards of directors