

# The Role of Personality in Agency Theory

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## Abstract

Present research is an effort to acquire the attention of academicians and scholars to an important gap in existing research by establishing the association among two well established research streams; i.e. personality and agency theory. Even though immense literature exists in above mentioned realms but up to the best of knowledge of author, there is no study to date that shows the direct relationship between agency theory and personality (big five traits). Accordingly the novelty and significance of present effort is to induce and advance the consideration of agency theorists toward this omission in research runnel of organizational behaviour. It revolves around exploration of type of behaviours an agent will express under different circumstances because of his unique personality. The research is narrowed down to the impact of agent only in agency relationship; principal and metaphor of contract which lies between the parties (agent and principal) as a major source of information for explaining the type of relationships between them is not the focus of this paper. Rather author accentuates that "Different traits of personality (big five traits) do have an impact on agent's relationship in the agency". This research explores and advances propositions with respect to the agent's personality and its role in agency relationships. Author's conclusions might function as a stimulus for added research in this regard.

## Introduction

Personality has been widely explored in all facets of individuals/groups embraced in managerial standpoints. On the other hand agency theory of financial economics is a vital and comprehensibly explored organizational theory. But as mentioned above there is no study to date, examining the role of type of personality in determining agent's behaviour when he possesses any of the Big Five Factor as a dominant reflector of his personality. The research attempts to shift the attention of agency theorists towards personality of the agent, being an inescapable factor in effective exchange relationships in agencies. The study begins by making a brief introduction of agency theory. Later propositions are stated under the domain of big five, predicting the agent's expected behaviour. It is proposed that under the same situational circumstances, personality will account for differences (Raja, Johns & Ntalianis, 2004).

## Agency Theory

Agency theory is an important stream of economics which was evolved during 1960s and early 1970s, when economists started exploring risk sharing among individuals and/or groups (e.g. Arrow, 1971; Wilson, 1968). It has been used in various social fields of research like accounting

(Demski & Feltham, 1978), economics (Spence & Zeckhauser, 1971), finance (Fama, 1980), marketing (Srinivason & Staelin, 1985), and organizational behaviour (Eisenhardt, 1985, 1988; Kosnik, 1987), but its role is not palpable and clear in organizational research (Eisenhardt, 1989). Eisenhardt (1989) presented agency theory as a very useful foundation for organizational research as it deals in extension of ideas in risk, information systems, incentives and outcome uncertainty. Agency theory explains the association among agent and principal in where one person or organization assigns work to the other and the type of contracts they undergo. Agent is the person who makes a transaction on the part of his/her employer or client (Oliverio, 1999).

Economists employ agency theory to analyse the issues of motivation and regulating cooperative acts (Scott 1990, p. 105). Their main concern is the state where one party (the principal) pursues certain conclusion however needs the help of an agent to conduct the needed actions (e.g., supervisor-subordinate). "It is assumed that both parties are motivated by self-interest and that these interests may diverge" (Scott 1990, p. 105).

The practicality of theory is contingent to its capability to explain the domain in which it appears. Agency theory is not without flaws like any other theory (Jensen, 1994). As Eisenhardt, (1989), argues that "agency theory is concerned with resolving two problems that occur in agency relationships" (p. 530). Which include conflicts of i) *risk-sharing*, and ii) *differing goals, desires and information access* between agent and principal. Agency theory is split and advanced on two tracks a) positivist and b) principal-agent (Jensen, 1983). The unit of analysis used in both streams is same i.e. the type of the contract between the two parties.

#### **a) Positivist Agency Theory:**

The positivist domain of theories derived after economics postulate: the organization comprises of a complex series of bonds amongst the vendors of the financial sources (the principals) and supervisors (the agents) and they are held responsible for utilising and regulating these reserves. It focuses on the situations when agents and principals have conflicting goals, which aims at establishing the governing processes to control and monitor self-interested behaviour of agents through ownership structures of the corporations (Jensen & Meckling, 1976), role of efficient markets (Fama, 1980), role of board of directors (Fama & Jensen, 1983), golden parachuting and corporate raiding (Jensen, 1984, Jensen & Roebach, 1983). This stream of agency theory centres at solving the agency problems by the use of governance mechanisms (Eisenhardt, 1989). As noted by Eisenhardt, (1989), two ways to control agency problems are i) to make use of outcome-based contracts (i.e., performance based evaluations of agents) and ii) by using efficient information system to monitor agents actions.

#### **b) Principal-Agent Model:**

Principal-agent model generally describe the relationships of principals and agents for example buyer-supplier, lawyer-client, employee-employer (Eisenhardt, 1989). Principal agent model is more mathematical and abstract as compared to positivist stream because it is broader and well grounded in theory (Eisenhardt, 1989). It focuses on selection of best contract from the available options as compared to positivist domain which provides just the information about available options of contracts. Thus, literature evidences that both domains of agency theory are complementary for each other. The principal-agent model is used to determine the best alternatives once agent does (and does not) behave in their principals' concerns. When agents

behave in the favour of principals' interests then there is no agency problem. It means agency loss is minimized when the principal and agent share mutual concerns (Niskanen 1971, Romer and Rosenthal 1978). In simple, the principal and agent aspire the identical upshots, and also principals recognize adequately their agents' deeds to conclude whether these feats aid their concerns, in precise principal is knowledgeable. Agency loss ascends once the agent and principal don't share similar concerns because the agent can get an advantage while acting in contradiction of the principal's concerns. In this case out-come based contract can transfer the risk to agents.

Agency loss can also arise at the time when principal has deprivation of agent's actions (Weber 1946; Gerth, Mills, Huber and Shipan, 2000). In firms theoretical perspective, agency theory is revolutionary (Eisenhardt, 1989), as it has broadened vision by stating and predicting the possible agency problem, which arises because of different goals/interests and division of labour between cooperating parties (Eisenhardt, 1989, Jensen and Meckling, 1976. Ross, 1973).

Furthermore, agency theory assumes that agents possess added know how as compared to their principals than principals and these asymmetries distress and limits the principals' capability to screen agent's behaviour efficiently in their concerns. Agency theory also posits that principals' and agents' actions are based on rational decisions to increase their affluence. Principals may construct effective compensation and motivation schemes to warrant agents deeds in principal's favours. Proponents of agency theory tried to project the maximum cost leadership information systems (Eisenhardt, 1989, Alchian and Demsetz, 1972).

Principal agent model works in two main problem areas which are i) moral hazards and ii) adverse selection. Agents are efficient information seekers and might reflect opportunism in their actions conflicting to the concerns of the firm owners (Eisenhardt 1989). Scapens and Yan (1999) refer this issue as "moral hazard". Adverse selection refers to misinterpretation of ability by the management, which occurs when the principal cannot verify all the skills of agents and also they cannot access all evidence at the phase of decision making by the agent so he becomes unable to realize the extent to which agent has behaved in his interests or against his interests. For instance, an agency issue occurs when managers and owners possess disputes on procedures and processes to carry on activities of organizations. Therefore it can be stated that agency theory gives in-depth information about the disputes of interests among persons with dissimilar concerns in the identical resources (Neal, Gerald, Peter, and Stephen, 1993). Self-interest does not state that individuals have no unselfish intentions. Altruism, the apprehension for the comfort of others, does not convert an individual to a perfect agent. This posits that agency issues cannot be explained by implanting superior altruism in employees. This irrational conduct is the core of self-will issues that affected all beings. Identifying these self-control issues directs towards an extension of agency theory as they add to and are a second key cause of agency costs engendered by difference of concerns among people. (Jensen, 1994).

Besides, to control agents from captivating gain of the in-cohesive ownership-control edifice and unfavourably manipulating these evaluating procedures to match their self-absorptions, agency theory forecasts to introduce additional control mechanisms. (Adams, 1994).

### **Historical Perspective of Agency Theory:**

Agency theory is among the major persuasive and contentious stream of microeconomics. Though it has many proponents (Ross, 1973), and critics (Perrow, 1988, Friedman, 1984, Hirsch, 1979), yet it is particularly an influential theory that is useful in all kinds of modes and delivers the

theoretic foundations for comprehension of incentive systems, contractual endowments, application of accounting techniques and corporate governance etc. The principal /agent relationship can be traced back in the writings of early economist Adams Smith; he focussed on the interest disputes of owners of joint stock companies, their agents and executives (Smith, 1940). Smith actually did not apply the terminology of agency costs but he undoubtedly recognized the issue and thus was the genuine agency theorist. Smith had strong belief on self-interest powers and its capacity to generate conflicts, and he was tremendously distrustful regarding capacity of the joint stock company to endure in any but the meekest of actions where agent's behaviour could be simply observed (Jensen, 1994). A influential research printed by Michael Jensen and William Meckling in 1976 acknowledged the theory of agency in their explanations of the theory of the firm. As Oliverio (1999) contended: "The firm is a black box; operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits. However, except for few recent and tentative steps, we have no theory which explains how the conflicting objectives of the individual participants are brought into equilibrium so as to yield this result." (Mary Oliverio, 1999: p. 123). Massive research is done after this breakthrough of joining firm to the organizational behavior directly.

The agency theory developed by Jensen and Meckling (1976) extends from the interest disputes among managers, outside stockholders, and bondholders who act as agents and stockholders (principals) care primarily about diversifying away firm specific risks, while agents have their own interests which conflict with those of the stockholders. This conflict gives rise to equity agency costs. For example, agents may make short-run operating decisions that benefit them but hurt stockholders, and they may make operating decisions that reduce their personal risk despite stockholders' preferences for more corporate risk-taking.

Agency theory claims that since individuals are self-interested in their cores, they are expected to develop disputes over at smallest issues often when they involve in shared activities (Jensen, 1976). As Ross (1973, p. 34) noted: "The relationship of agency is one of the oldest and commonest codified codes of social interaction". Thus it could be stated that an agency rapport ascends amid two (or more) revelries after one (chosen as the agent) works for the other (chosen as the principal), in a specific sphere of decision issues. Models of agency are widespread. As Jensen and Meckling (1976) adjoin, "It (agency relationship) exists in all organizations and in all cooperative efforts-at every level of management in firms" (Eisenhardt, 1985).

### ***Goal of Agency Theory***

In sum, the incorporation of the organizational and agency methods result in duty programmability, information systems efficiency, and indecision as elements of control approaches. Jensen and Meckling (1976), describe the agency bond as an agreement in which one individual (the principal) involves another individual (the agent) to provide some service on their part. As a result, the principal envoy part of decision-making right to the agent. Agency problems emerge as of the impracticality of faultless contracting for all conceivable acts of an agent whose choices can alter both his well-being and the well-being of the principal (Brennan, 1995). This problem raises the issue of persuading the agent to perform in the finest concerns of the principal. Managers stand the whole cost of dwindling to achieve their aims, but get a very small portion of the advantages. Jensen and Meckling (1976) posit that this inadequacy will be less if valued managerial rewards are up surged.

Agency theorists assume that self interest can be reduced or minimized in agents by providing them with incentives. Brennan (1994) is rightly contended that individuals are not always rational in their behaviours, even then this point establishes no backing for his disagreement to incentives, or obstruction to self-centredness. He also argued disapprovingly that any man “will never perform without incentives” (Brennan, 1994; p. 34), Self-centred conduct in Brennan’s perspective establishes that individuals are concerned about themselves only. They do not possess self-sacrificing sensitivity and are unwilling to detriment their time or reserves for others betterment. This contention possesses no logical assumption of self-interest nor has it been empirically proved. Self-centred prototypical of persons behaviour is evidentially incorrect because individuals do show apprehension for the betterment of others.

Kole (1995) and Himmelberg, Hubbard and Palia (1999) conclusively contend, agency disputes are dissimilar transversely in diverse organizations and cultures. Himmelberg et al. (1999) denote to divergent organizations with dissimilar contracting settings, which revives a significant aspect from Jensen and Meckling’s (1976) agency theory, that no two organizations can possess similar ‘nexus of contracts.’ Taking this point into consideration author is aimed at bringing the attention of agency theorists to the personality components of agents being important predictors of exchange relationships in organizational settings. This understanding and analysis can bring researchers and practitioners to a much better face of the agency and issues related to it (Patrick and Colgan, 2001).

Simon suggested, "The attempts of the new institutional economics to explain organizational behaviour solely in terms of agency, asymmetric information, transaction costs [and] opportunism . . . ignore key organizational mechanisms like authority, identification, and coordination, and hence are seriously incomplete" (Simon, 1991: p. 42). On the basis of this it is argued that the maximum value can be added to research through integrative technique approach by which investigators endeavour to comprehend both financial and societal aspects, how they are linked and which dominates under what conditions (McLean, Parks, 1993).

Agency literature evidences the presence of many behavioural constructs and variables such as self-interest versus altruism (related to agreeableness), self-esteem (important core evaluation construct), attitude towards risk (i.e. averseness and propensity) but neither the term personality been nor the big five traits are incorporated in research yet.

For the purpose of this study, author has excluded the contract metaphor and principal aspect of the agency relationship. There are reasons for excluding these:

- One is to simplify the research from complexities of involving both the aspects of agency theory
- To build up relevant propositions implicitly considering individual unit of analysis (agent).
- To build coherence in the study

## Personality

The personality is broadly researched locale as it is the foundation of organizational behaviour. "Personality" is what you actually are and it usually consists of the observable traits or patterns a person possesses. Personality is "the dynamic organization within the individual of those psychological systems that determine his unique adjustments to his environment" (Allport, 1937: p. 48). The Big Five Model of personality is studied and generalized over years and crosswise cultures (McCrae & John, 1992). This model is broadly related to job performance (Barrick and Mount, 1991), job-satisfaction (Judge, Heller & Mount, 2002), self-esteem, generalized self-efficacy, locus of control, and emotional stability (Judge, Vianen, and Pater, 2004). Latest examinations of personality research conclude; these personality scales are methodically associated to several of job performance benchmarks (Goldberg, 1993). Most of the personality theorists believe that after about 30 years of age, the individual's personality profile becomes stable and changes little over time (McCrae, Costa, and Columbine, 1988).

### ***Big-Five Model of Personality:***

McDougall (1932) wrote that, "personality may to advantage is broadly analyzed into five distinguishable but separate factors, namely intellect, character, temperament, disposition, and temper...." (McDougall, 1932: p. 15). Goldberg (1990) for the first time coined the term Big-Five, which is widely applied to explain the maximum noticeable features of personality (Judge and Mount, 2002). The Big Five personality facets appeared as a vigorous nomenclature of personality (Barrick and Mount, 1993; Digman, 1990). The Big Five dimensions are: (1) Neuroticism, (2) Extraversion, (3) Openness, (4) Agreeableness, and (5) Conscientiousness. Despite growing evidence of associations between personality and work place approaches and conduct (e.g., Barrick & Mount, 1991; Judge and Bono, 2001), there is a serious omission in literature linking particular personality traits to agents behaviour. The following literature details theoretical framework and propositions.

#### **1. *Extraversion:***

This trait determines an individual's relaxation level in rapports. An extrovert is usually gregarious, assertive, energetic, ambitious, (Raja et al, 2004) talkative, sociable, active (Barrick and Mount, 1991), aggressive having mean selfish motives (Heidbreder, E, 1926). Extraversion is among the maximum explored personality dimension of the Big Five classification (Borgatta, 1964; Goldberg, 1990; Hakel, 1974; McCrae & Costa, 1989; Norman, 1963). According to Hogan (1983, 1986) extraversion is composed up of ambition and sociability. Conversely, current literatures take extraversion as a multi-layered phenomenon composed of various other elements (Watson & Clark, 1997).

Extraverts are inclined to possess optimistic sentiments, (Judge, Higgins, Thoresen and Barrick, 1999) so people high in extraversion tend to be sociable, talkative, aggressive, energetic, enthusiastic, assertive, and optimistic (Barrick & Mount, 1991; Costa & McCrae, 1992). Research has shown that extroverts are more dynamic and impetuous (Watson & Clark, 1997). Clinical research shows that extroverts have high levels of excitement symptoms, lower levels of negative symptoms, and less amount of emotional distress (Lysaker, Bell, Kaplan, Greig, & Bryson, 1999). So an extroverted agent would be more comfortable in social settings demanding their interaction and control. Extrovert agents thus would also possess strong aspiration for societal gratitude, repute, status and display.

As literature depicts that extroverts are expected to be carefree, impulsive and mischievous (Goldberg 1990), it explains that extrovert agents would least bother about the interests of their principals and their agency at the cost of their own life. Thus it may upshot in the form of lower performance of the agents in situations where agents would perceive their duty as an obstacle to their social activities.

Agents with enterprising personalities would possess a strong longing for prestige and are susceptible to materialistic influence (Holland, 1973). Similarly, Cattell (1981) discussed in detail the empirical evidence demonstrating that assertiveness (a component in extraversion) is sturdily linked with craving to enhance income and position. Therefore such agents would have dominating self-interests. Preferences for career success and economic rewards indicate that extroverts will tend to engage in activities that compensate them with praise, social recognition, status, power and material gain (Raja et al, 2004). On the basis of existing literature on extroverts, it can be argued that in Agency relationships, extrovert agents would undergo only those agency contracts that have an economic focus (both in long run and short run) with clear perceptions about inputs and outcomes. Extrovert agents will also focus long-term relationships to satisfy their desire for social recognition and status so such agents will tend to minimize the conflicts of agency and will work in favor of their agency so that it could flourish and provide them with future expectations.

Extroverts are vigilant and information seekers, so they are better able to handle and analyze critical and uncertain situations. They are able to control their interests by monitoring them properly (Raja et al, 2004). Thus it leads that extrovert agents would have augmented attentiveness which would make them more sensitive and vigilant to agency issues. The social interaction would enable such agents to have more access to information available. The above literature suggests that extrovert agents would constantly monitor their relationship with the agency, paying attention to any discrepancies or unmet promises (of expected outcomes). Extroverts tend to interact effectively with group fellows and develop coalitions with individuals having control over important resources (Hogan et al., 1994). Also such agents would try to hold important positions in the agency so that they could not be removed or expelled easily. Barrick and Mount (1993), established the positive bond in extraversion and managerial performance which turns more apparent as autonomy rises in the organization. High arousal associated with extraversion, suggests that agents possessing high extraversion would have high degree of self-efficacy in decision making on the behalf of other party.

Literature conjectures that extroverts have greater feelings of frustration, anger, and betrayal as compared to introverts, if their expectations are not fulfilled. Extroverts are highly concerned about their repute and status, so such agents would likely to be in favor of resolving risks and conflict factors in agency as compared to creative (agreeable) agents, who are more concerned about their inner satisfaction and take risks for improvements easily. Based on above stated literature following propositions could be stated:

**Proposition 1(a):** *Agents high in extraversion would resolve agency problems and work in favour of principals*

**Proposition 1(b):** *Agents high in extraversion would not take self-managed decisions.*

**Proposition 1(c):** *Agents high in extraversion would align their self-interests (activities) according to situations.*

**Proposition 1(d):** *Agent high in extraversion would be risk averse as compared to agents high on openness to experience trait.*

**Proposition 1(e):** *Agents high in extraversion would be more inclined towards long term*

## **2. Agreeableness:**

Agreeables are good natured, cooperative, warm, kind, forgiving, courteous, soft-hearted, tolerant, flexible, and trusting (David Stout, 2003, Naveed Yazdani, 2004). Agreeableness has emerged under names such as affability and friendship (Guilford & Zimmerman, 1949), societal conformity (Fiske, 1949), and now as amiability (Noller, Law, & Comrey, 1987). Agreeables show inclination towards interpersonal associations and links that are generally desired (Wiggins, 1996). Like extraversion, this is also a dimension of interpersonal behaviour (Judge & Cable, 1997). Previous research did not perceive agreeableness as a separate dimension but as a subcategory of other traits such as extraversion (Zuckerman, Kuhlman, & Camac, 1989) or psychoticism (Eysenck & Eysenck, 1976). However, recently agreeableness has revived the attention of researchers regarding its relation to other constructs and organizational phenomena (e.g., Antonioni, 1998; Skarlicki, Folger, & Tesluk, 1999).

Costa & McCrae (1991) contended that agreeableness is associated to happiness as agreeable persons possess higher levels of motivation for developing close relationships among people which ultimately leads to their higher levels of well-being. Besides Costa & McCrae (1991) figured out that this trait is positively bonded to life satisfaction. Traits such as flexible, friendly, trusting and good natured associated with agreeableness are also components of extraversion (Costa & McCrae, 1992; Golberg, 1990; McCrae & John, 1992). But in comparison to extroverts, agreeable are supple and polite and do not derive strongly for monetary rewards and standing (Costa & McCrae, 1992). Rather, such individuals prefer cooperation, relationship, and certainty (Costa & McCrae, 1992; Goldberg, 1990). Literature on conflict has demonstrated that agreeable individual adept to problem solving and is not inclined to engage in conflicts (Van de Vliert & Euwema, 1994) and acts of hostility (Costa, McCrae, & Dembroski, 1989).

Based on above trait descriptions, it can be argued that agreeable agents would have a broader tendency to adjust in agency relationships. As Agreeable sense high security while acting in a team than individually (Antonioni, 1998), thus such agents would be more productive in groups rather than individually. It is ubiquitous that agreeable persons usually give away their individual concerns in order to fulfil the interests of others (Rahim, 1992). So, it can be argued that agreeable agents would be beneficial for principals as they are not affected by self-interests easily. Thus agreeable agents will minimize the agency costs and conflicts. Further such agents would be more concerned about their effort, as they take their work and vocation success as the way for protection and augmentation of their emotions of particular substance and respect (Jans, 1982; Rabinowitz and Hall, 1977). Persons who rank high on agreeableness as a reason of their unselfishness, diffidence and good nature will arrange their associations with other people, above job and career excellence (Judge et al., 1999).

Agreeableness is a desired trait in work settings, as it fosters trust and cooperation; its higher levels are associated with dependence, passivity (Costa & McCrae, 1992) that may not be desirable for performance and productivity. So such agents would not always bring success and prosperity to the agency. On the other hand, the same tendency toward dependence and conformity will play a role in their perceptions of mutual obligations in employment relationships.

They would have lower expectations from the organization and would have greater desire for stability, security, and relationship with the organization. This would make such agents less vigilant in monitoring and information-seeking. Being less concerned with strict reciprocity in economic or material terms, agreeable agents would only pay attention to that information which could enable them to maintain relationships, cooperation, friendship, and stability. Organ and Lingl (1995) noted that agreeableness includes aligning with other people in a pleasing nourishing bond. Therefore, author suggests the following propositions.

**Proposition 2 (a):** *Agents high in agreeableness would resolve agency problems and work in favour of the principals.*

**Proposition 2 (b):** *Agents high in agreeableness would not be effective and efficient decision makers in agency crises or emergency situations.*

**Proposition 2 (c):** *Agents high in agreeableness would be less inclined towards their self-interests being courteous and selfless.*

**Proposition 2 (d):** *Agents high in agreeableness would be risk neutral being optimistic in their approach.*

**Proposition 2 (e):** *Agents high in agreeableness would be involved in long term contracts.*

### **3. Emotional Stability:**

This facet captures an individual's capability to bear stress (Chantal Schneider, 2005, Ronald R. Sims, 2002). Persons with high emotional stability are inclined to be peaceful, confident and protected (Barrick and Mount, 1991). Literature suggests that individuals with low emotional stability are nervous, worried, unhappy, insecure and lack mental amendment (Goldberg, 1990; Judge, Higgins, Thoresen, and Barrick, 1999; Penley and Tomoka, 2002). It is taken as the second widely researched trait from the Big Five. A wide range of studies has investigated the relationship between emotional stability and decision-making (Forgas, 1989). People with low emotional stability take life events to be more negative than others so, they are never or very less satisfied with life and its events (Judge et al, 1999). Thus, agents with low emotional stability would be ineffective managers, because such individuals prefer simple, low risk jobs with clearly defined boundaries (Raja et al, 2004). People low on this trait lack effective managerial and leadership qualities (Judge et al, 1997, Raja et al, 2004). Individuals with low emotional stability fear decision taking posts and control demanding situations (Judge, Locke, and Durham, 1997, Raja et al, 2004).

As DeNerve & Cooper (1998) and Judge et al (1997) observed emotional stability and extroversion are the major features of contented personality. Neuroticism is broadly taken to be the inverse of self-respect. People with less levels of self-esteem feel self-doubt and depression (Judge et al, 1997). Judge et al (1997) proposed that neuroticism will negatively influence job satisfaction. Judge et al (1999) also established a negative correlation among neuroticism and extrinsic career achievement and job satisfaction. In addition, research shows that neuroticism is negatively associated with performance across various jobs (Barrick & Mount, 1991). Therefore, research shows

that neurotics avoid situations that demand control, initiative, social skills, trust in others, confidence, leadership, and explicitly specified performance standards (Dorothy Fahs Beck, 1958). Tharenou (1979) found self-confidence, pessimism, maturity, emotional stability, and self-consciousness to be important characteristics needed by the agent to make decisions on the behalf of their agency. Pettersen (1991) contended that project groups need executives with confidence. Hogan, Curphy and Hogan (1994) also took emotional stability as a core to remain calm in high pressure, conflict resolution, and controlling negative feedback. Gist and Mitchell (1992) recommended that people with less self-esteem might also reflect less level of self-efficacy crossways various works. Effective agents take edge on work elements (Larson and LaFasto, 1989; Wellins et al., 1991). While inefficient agents focus on the negative elements in life, have an unfair view of the world (Skarlicki et al., 1999), and are less willing to pursue command in their workplace (Judge et al., 1997). Wiggins (1996) has demonstrated that neurotics are susceptible to feelings of helplessness and dependence. This provides evidence that neurotic agents will avoid taking any leading roles in their organization and avoid tasks that demand control and self-confidence. In the light of above stated literature, it can be argued that fear of failure will push neurotic agents to take failure prone decisions in crises and uncertain situations of the organization.

Traits of neuroticism recommend that neurotic agents will not involve in prolonged agency contracts with their principals, because they possess lower levels of trust. Neurotics are not considered as active information seekers (Raja et al, 2004), so in agency relationship they are unable to handle crisis and unstable situations on the behalf of principals. And also low self-confidence leads them to misinterpretations of the circumstances. High anxiety, fear of failure, and lack of social skills among neurotic agents implies that they will perceive fewer employment alternatives. On the above grounded literature, following propositions could be stated:

**Proposition 3(a):** *Agents high in neuroticism would not work in favour of principals and would be problematic in uncertain situations.*

**Proposition 3(b):** *Agents high in neuroticism would be reluctant to take high responsibility positions being inefficient decision makers.*

**Proposition 3(c):** *Agents high in neuroticism would try to safeguard their self-interests at the expense of principal interests.*

**Proposition 3(d):** *Agents high in neuroticism would avoid uncertainty situations and would be reluctant to take risk on their interests.*

**Proposition 3(e):** *Neurotic agents would be less likely to develop long term relations and contracts to their principals.*

#### 4. **Conscientiousness:**

Conscientiousness is another personality trait from the Big Five with chief dimensions of success and reliability (Mount & Barrick, 1995). An individual high in conscientiousness is accountable, reliable, planful, reliable, ordered, risk averse, thorough, hardworking, achievement oriented, persistent, high performer and methodical (Raja et al, 2004; Mount & Barrick, 1991;

Goldberg, 1990; McCrae & Costa, 1989; McCrae & John, 1992). Raja et al (2004), noted that these characteristics can be a major source of hindrance in situations that demand high tolerance for ambiguity, uncertainty and complexity. On the other end low conscientious people can be easily distracted as they are disorganized and unreliable (Goldberg, 1990; McCrae & John, 1992). As the low conscientious agents would be more concerned about goal achievement and task accomplishment (Raja et al, 2004, Stewart, 1996) so, they would focus on growth and development of the organization rather than merely on economic rewards (Raja et al, 2004).

Important characteristic of conscientious individuals is that they prefer stability and are risk-averse (Costa & McCrae, 1992). So being risk averse, the conscientious individuals would be more focused and organized in order to achieve success and avoid failures (Raja et al, 2004). Also, Hough et al. (1990) proposed that persons who have high conscientiousness are regarded as dependable. It is predictable that agents who score high in conscientiousness would evaluate their capability to be high on a autonomous tasks than agents scoring low in conscientiousness, because of their personality (Rothstein, 1991).

Organ and Lingl (1995), related conscientiousness to satisfaction because of general involvement in work leading to sufficient task related incentives, both formal (e.g pay, career developments) and informal (e.g. respect, acknowledgment, spirits of peculiar success) (Judge et al, 1999). Being achievers and high performers, conscientious agents would take decisions with greater responsibility (Salgado, 1997). Agents who are low on this dimension would be less innovative (Kirchmeyer & Bullin, 1997), less task effective (Hayes, Roehm, & Castellano, 1994), less proactive (Krilowicz & Lowery, 1996), and generally less productive in their occupation because they are less concerned with their occupational outcomes, they are expected to be less vigilant in information seeking. Based on the above assumptions I state the following propositions:

**Proposition 4(a):** Agents high in conscientious would not work in principals' favor.

**Proposition 4(b):** Agents high in conscientious being less active information seekers would be ineffective decision makers.

**Proposition 4(c):** Agents high in conscientious would safeguard their interests at the expense of principals' interests.

**Proposition 4(d):** Agents high in conscientious would avoid risk in agency crises situations.

**Proposition 4(e):** Agents high in conscientious would be more inclined towards contracts and would have interests in long term achievements & rewards.

##### 5. ***Openness to Experience:***

Barrick and Mount (1991) argued that openness to experience is considered to be the most difficult trait to be determined or identified. It is termed and interpreted as intellect or intellectance by Borgatta (1964). Openness to experience captures one's choice of concerns and attraction with newness. Fiest (1998) related it to scientific and artistic creativity. On the other hand McCrae (1996) related it to differing thinking, less levels of religiosity, and political tolerance. These phenomenon are not significantly linked to satisfaction (Judge et al, 1999). DeNeeve and Cooper (1998) considered this trait "as double edged sword that predisposes individuals to feel both good and bad more deeply."

Open people are creative, imaginative, original, open-minded, intelligent, broad-minded, cultured, curious, artistically sensitive and imaginative. Individuals low on this trait are usually conformist and treasure ease in the accustomed environments. Openness to experience is considered as the capacity to handle deal uncertainty (Catino, 1992), problem solving (Larson and LaFasto, 1989), and conflict resolutions (Stevens and Campion, 1994). In the light of stated literature it can be argued that open agent could better resolve agency conflicts through its vigilance, open-mindedness and creativity. Also, such person could find better solutions and opportunities suiting personal interests, as well as the interests of agency. Although openness to experience is thought to have contentious construction, partial explorative history, and largely frail application to organizational behaviour (McCrae & Costa, 1997), I decided to propose its expected impact in specificity to agents' responsiveness in agency relationship. Previous research helps me to state, that agents having strong openness to experience will be better adaptable to changing circumstances, they would be willing and be able to come up with innovations and new ideas that challenge the status quo (McCrae & Costa, 1992). Agents who are rated high in openness to experience would love uncertainty and would be risk lovers as compared to conscientious agents because conscientiousness individuals are usually very planful and avoid uncertainty.

**Proposition 5(a):** Agents high in openness to experience would take chances for improvements and innovations in principal's favor.

**Proposition 5(b):** Agents high in openness to experience would be vigilant and efficient decision makers in uncertainty and crises situations of the organization.

**Proposition 5(c):** Agents high in openness to experience would take chances for improvements and innovations in principal's favor.

**Proposition 5(d):** Agents high in openness to experience would be risk-lovers as compared to conscientiousness.

**Proposition 5(e):** Agents high in openness would make short term contracts because of their creativity

### **Discussion Points:**

This study is aimed at joining two domains of extensive research by eliminating literature gap from them (Raja et. al, 2004). It explains how personality makes difference in agents' behaviours in organizational settings. The research presented in this paper distinguishes itself from much of the previous literature by offering an explanation of agents' behaviour from the perspective of a trait theory of personality which is absent in pervious literature. The study also provides an insight to explain risk taking during uncertainty and stable conditions of agency in decision making and self-interest orientations, and information seeking motivations of the agents. This study not only extends the scope of agency theory in organizational literature but it also ends up in opening minds of agency theorists and practitioners to better understand and applies the theoretical approaches in

real life settings. Thus making agency theory more useful and applicable for organizational researchers.

If we go through the literature there is very less work present on openness to experience and agreeableness because they are found to have great variance in their results and outcomes because of their in-consensus in its structure, narrow research existence, and weak relationship to organizational behaviour (Raja et al, 2004 McCrae & Costa, 1997). I have included these two factors because they do have an important place in determining agent's propensity to risk, information seeking motives and reactions to uncertain conditions along with neuroticism, extraversion, and conscientiousness.

## **Conclusion**

Due to increasing uncertainty and competition organizations are not able to keep all their promises (Sims, 1994). This has resulted in increased agency problems between principals and agents. Because of this principals are now more concerned about the attitudes and behaviors of agents within organizations towards risk and growth opportunities. Though agency theory and its various aspects are studied in detail in organizational literature, little attention has been directly posited at the personality aspect of agent. If selection procedure will make use of personality tools, the issue of agency problems that are risk attitude and adverse selection, and moral hazards could be controlled to some extent.

This paper is aimed at contributing to organizational literature by focusing on contemporary personality (Raja et al, 2004). This research just highlighted how personality affects agents' behavior in organizational settings. However, effects of types of personality on principals' behavior and the type of contracts (the basic unit of analysis of agency theory) are not the focus of this study. This study has several limitations, this study does not provide any information about principal's personality, secondly personality matches for contractual analyses also remained dormant concepts in this study, which can be used as future research area. Moreover, everyday observations suggest that agents facing objectively identical organizational circumstances often seem to self-construct either rewarding or disappointing experiences with their principals (Raja et al, 2004).

The role of personality on agents' behavior can have important organizational implications. Principals must realize that due to differences in personality agents not only possess different risk attitudes, but also their vulnerability to uncertainty varies. This may result not only in different types of agent behaviors within and outside the organization, but also different responses towards various kinds of situations and strategies principals adopt to control their behaviors. Human resource departments can play an important role in reshaping agency contracts by implementing strategies such as flexible benefit packages or flextime policies along with information symmetries. These practices will enable principals to fulfill a wide range of needs of agents with different personalities. For example, flexibility of benefit packages may give individuals a choice among benefits of their preference, hence reducing the occurrences of agency problems. Moreover, improved communication and accurate feedback can also help in reducing uncertainty and clarifying nature of agency contracts. Providing realistic job previews to agents so that they might develop agency relations on realistic patterns and this can result in reduction of agency problems. Future studies can be made in order to expand the scope of agency theory by considering principal aspect and the type of contract between managers and shareholders. Besides that empirical studies are required for proving the falsifiability of the above stated propositions.

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