

AGENCY THEORY'S EFFECT ON THE SUCCESS OF TOTAL QUALITY MANAGEMENT AND FIRM PERFORMANCE

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Abstract

The paper relates that, the mixed view on TQM and performance link is attributed to agency problems that hamper total quality management implementation. The study shows that, the inconsistencies are due to the inconsistent responsiveness of the application of agency cost control mechanisms for different managers (agents) with different behavioural traits. The paper offers testable propositions on TQM success and agency cost hypothesis. Contributing to agency theory-cost control mechanisms (ACCM), the paper proposes a behavioural equilibrium mix where two opposing views between Jensen and Brennan are superimposed to produce the equilibrium behaviour point where management become responsive to ACCM.

Keywords: *TQM success, agency cost control mechanisms, agency cost hypothesis, equilibrium behaviour, total quality management (TQM)*

1.1 Introduction

Managers' objective attitude and behaviour at the firm level is an important determinant of the performance of the firm. Goals achievement at the firm level largely depends on the specific skills managers but this is in turn influenced by perception of the management of the firm (Gottschalg & Zollo, 2007). The focus of such managerial practices and rudiments are prescribed in total quality management concept which emphasises continuous improvement and commitment of managers in terms of strategic reforms necessary for organisational success (Wang, Chen, & Chen, 2012). The practice of TQM focuses on commitment and continuous improvement of the firm to provide superior value through customer satisfaction and product improvement. Ultimately, TQM provides firms with grounded position in the market for competitive advantage and firm value (Walker et al., 2006). However, due to the complex human behaviour (unpredictable human minds) and the involvement of human factor (managers attitude) as main drivers in the TQM implementation programs, outcome of TQM cannot be equally predicted (Jensen, 1994; Tervioski, 1999). TQM covers performance improvement tenets in a holistic approach for example, the practice to engage all the facilities of an organisation strategically and the alignment of firm practices in the interests of shareholders for value maximization. Accordingly, the likelihood of performance enhancement is higher in firms that adhere to TQM and vice versa (Tervioski, 1999). There is a paradox hidden in the bundle of connected activities that constitute TQM which has the potential of reducing performance. The sophisticated human aspects (opportunism, adverse selection and moral hazards of managers) affects activities of the organisation to yield a positive TQM outcome, considering the fact that, the strategic directives of the organisation is done by management. Reconciling the attitude of management to co align with the interest of owners of business to enhance the success of total quality management has been inconsistent (Dalton, Hitt, Certo, & Dalton, 2007; Eisenhardt, 1989; Lemak, Reed, & Satish, 1997). The claim that agency problem hinders TQM success is backed by the work of Dalton et al. (2007) who drew on agency theory to suggest that, managers are susceptible to mischief at the organisation and resort to available opportunities to accomplish their self-interest leading to failure of many performance implementation strategies.

It is therefore not surprising that TQM whose basic concept is geared at improving organisational performance proves beneficial at one point of a firm's life contributing to firm performance immensely and does poorly at different times. Many arguments have come from scholars regarding these inconsistent results between TQM and performance. Wang, Chen, & Chen, (2012) show that external environmental factors are key factors which cause the inconsistent results that exist in that relationship between TQM and firm performance. Other writers notably Carman et al. (1996); Waldman & Gopalakrishman (1996) also point to insufficient complementary assets to supplement the operations of TQM towards a successful implementation. Westphal, Gulati & Shortell (1997) asserts that methodological differences are the cause of the different outcomes, showing that the, forms of categorisation of TQM as either continuous or discrete variables could produce different outcome. Following the concern of Hackman & Wageman (1995), the mixed view between TQM and firm performance is the failure of the firm to fully implement all the major practices of TQM. What then might be the cause of the firm's failure to do a total implementation of TQM processes and practices? Reasons like unfavourable external environmental factors and lack of assets complementarity have been cited among others. The next question is about why managers still go ahead to adopt TQM in the face of circumstances that obviously mediates failure of TQM? Could it be incompetence, negligence of duty or reasons that benefits managers? These questions motivate this paper to review agency theory and TQM performance and propose that agency problems determine the success or otherwise of TQM.

The paper contributes to literature in three different folds. Firstly, the paper establishes that, the performance and effective implementation of TQM may be prevented by agency problems. Secondly, this paper develops testable propositions regarding TQM and agency theory concepts. Lastly, a normative assertion is sequentially addressed between two behavioural traits of managers where the paper develops an equilibrium behavioural mix out of the two character traits (self-centred manager and altruistic manager).

The paper consists of four parts. The first part discusses agency theory, total quality management and performance trends. The second part of the paper presents testable claims concerning total quality management (TQM), performance and agency cost (moral hazards, adverse selection opportunism). The third part establishes a mechanism where equilibrium behaviour is established. The final part discusses results from empirical research that are consistent with the behavioural stages of agents in the organisation.

1.2 Agency theory and total quality management

12.1 Dynamics of agency theory

Studies have shown that, the practice of total quality management by firms is positively and significantly associated with firm performance. The positive link is grounded in TQM practices such as commitment and direct involvement of high level managers and chief-executives in setting quality goals and policies, efficient allocation of resources, and monitoring of results in the organisation (Douglas & Judge, 2001; Lemak, Reed, & Satish, 1997; Nair, 2006; Wang, Chen, & Chen, 2012). However, successful implementation of the tenets of TQM has been a challenge among majority of firms. Consequently, published finance literature over the last decade, detailing the relationship between TQM and firm performance is fraught with mixed outcomes (Kaynak, 2003).

The successful implementation of TQM is driven by managers, who are the representatives of the shareholders, the pivot around which agency problems revolve. The concept of Agency theory revolves around a relationship between two entities where one party called the principal delegates work responsibility to another entity (agent) who is expected to undertake the assigned task on behalf of the principal in a kind of contractual capacity in good faith (Jensen & Meckling, 1979). The problem of risk sharing differences between the cooperating parties (principal and the agent) then gives birth to the agency problem induced by the fact that, each of the parties see the need to protect personal their interest. Subsequently, the principal and the agent develop divergent interest heightened by

differences in attitudes towards risk preferences (Eisenhardt, 1989; Nyberg, Fulmer, Gerhart, & Carpenter, 2010). In this regard, the agent pursues an agenda which is usually not in the principal's interest. These disagreements between the agenda of the Principal and the agent manifest through perquisite consumption and undue expansion of firm size for power and higher remuneration. These manipulations by managers clearly show a strategy adopted to safeguard personal interest and ultimately increase the cost of the firm leading to reduction in firm performance. Heath (2009) proposes that, firms and their markets are susceptible to great ruins if they do not adhere to moral constraints and ethical values. It is eminent therefore that, the degree of moral hazards, opportunism and adverse selection deepens the complications of agency costs and ultimately affect performance.

1.2.2 Tenets of Total Quality Management

TQM as a strategic option for firm performance enhancement argues on the principle of using a holistic approach to achieve a sustainable success and performance increase in an organisation. The concept emphasises continuous improvement in all the sectors and the activities of the firm. The core concept of TQM is grounded in the view that, the continuous improvement of the activities of an organisation is process and not a terminable approach. Even though TQM has diverse concepts, almost all its fundamental and grounded concepts centre on human commitment to duty. Firstly, TQM explains commitment and direct involvement of highest-level executives in setting quality goals and policies, efficient allocation of resources, and monitoring of results within an organisation. Secondly, the concept stresses the transformation of beliefs and practices of the task performing individuals in an organisation. Thirdly, TQM ensures that, individuals put in their best. Accordingly, mere supervision is replaced with leadership to promote quality and productivity, thereby continually reducing total cost. Finally, the concept supports teamwork and self-improvement and discourages barriers among employees in the organisation. Considering the fact that, human interaction at the organisational level is fraught with moral hazards (Jensen & Meckling, 1976), this study posits as a primary hypothesis that, agency problems could hamper the smooth implementation of TQM.

1.2.3 The success constraints of TQM due agency constraints

Firms have the aim to maximise value and hence resort to strategies that best suit their corporate agenda. These firms adopt strategies like diversification strategy, single focus firm operation, multi-national activities, TQM, downsizing to name few. The performance of the firm largely depends on how successful strategies beat competitive advantages in the market. Meanwhile, the success of firm's strategy is dependent on manager's behaviour and perception as reflected either in opportunism and private gains or aligning with the shareholder goal of value maximisation. According to Jensen and Murphy (1990) agency cost is one of the major cost to the firm that affects firm performance negatively. Amihud & Levy (1981) pointed out that managers take up a strategy which is not in the best interest of the firm but that which enhances their private benefit. Pandya & Rao (1998) documents that managers resort to practices like shirking, perquisite consumption and quest for managerial power, leading to high operational cost and decrease performance capabilities and corporate value. These negative managerial practices as pointed out in agency theory weaken the implementation of TQM and hence lower the performance of the firm. Fortunately, agency theory suggests rudimentary mechanisms that could curb down agency problems in order to reduce agency costs to firm. These agency cost control mechanisms include increasing insider managers, increasing managers share ownership, reducing non-manager's shareholders and increase monitoring from the banks (Ang, Cole, & Lin, 2000). Increasing managerial compensation in the form of bonuses and attractive wages also maximize decision – value which lowers cost. These practices coerce managers to optimize decision making to maximize shareholders value (Saltaji, 2013). Eisenhardt (2000) buttressed the use of information through board of directors, efficient capital and labour market as tools to the shareholders in regulating the behaviour of the managers which are of excessive cost to the firm. Interestingly these proposed solutions to agency problems also show inconsistency such

that at one point in time it works on some managers and for another point in time managers are not responsive to these control mechanisms. This paper further makes an assertion regarding these mixed responses from the agency cost control mechanisms.

In the flow chart below TQM, Moral hazard, Opportunism, Adverse selection, performance and wealth maximization have been arranged in a manner which shows that checking moral hazards and self-centeredness of agents (moral hazard, opportunism, adverse selection) by means that moderates the agency variables (Moral hazard, Opportunism, Adverse selection) induces performance rise. Moderation is explained as measures initiated by the owners of the firm to motivate and regulate the self-serving and any extreme attitude of agents (managers). These include but not limited to incentives, increased monitoring from owners and banks (Jensen & Ruback, 1983) information flow from capital and labour market and modelling appropriate contract type that by itself checks agent's behaviour (Eisenhardt, 1989). Moral hazard refers to an anomalous behaviour of agents with a purposeful intent to satisfy their interest at the expense of the shareholder wealth maximization. Adverse selection in this context means the wrongful act of agents (managers) who claim to possess some skill and competence which they actually don't have and which ultimately lead them to misappropriation of firm asset and shareholder wealth loss (Heat, 2009). Agency cost hypothesis shows that, additional cost is incurred by the firm due to divergence of interest between the principal and the agent. Cost of incentives, loss of revenue due to agents opportunistic attitude (shirking and perquisite) as well as investment decisions that are sub optimal to firm are examples of cost arising due to divergence of interest (Ang, Cole, & Lin, 2000). It is therefore normal to add that when an efficient strategy to reduce agency cost through Moderation of moral hazard variables is optimised, shareholder gains also increase.

Insert figure 1 here

1.3 Testable claims between agency theory and TQM-performance.

Economic theory shows that firm's activity either increase firm value or discounts the firm value and that firms chose strategies that minimise cost in order to increase performance and firm value. How much a firm's strategy is efficiently applied shows the firm performance in the end (Berger & Ofek, 1995). TQM like any other management strategy requires efficient implementation to enhance performance. The efficient implementation of TQM requires strategic logic and skill from management (agents) to ascertain how much, what kind, as well as the key elements that should be in place for the firm to succeed (Bettis & Prahalad, 1995). TQM fails to yield positive results due to the fact that, the key elements of TQM are not appropriately implemented (Hackman & Wagemen, 1995). It therefore holds that, skills and logic of management on TQM is a salient factor for a successful TQM performance-relationship. Agency theory shows that adverse selection undermines managers' performance borne out of misrepresentation a purported skill. It is therefore necessary to note that the successful application of the management's skill and strategic logic affects TQM performance and not just TQM strategy per se.

1a. *This paper therefore proposes that the degree of agent's knowledge on TQM implementation associates positively with TQM success.*

Considering the fact that TQM implementation and coordination requires entire organisational commitment with managers as drivers, any form of self-centeredness induces rejection of right strategy by agents for an alternative inferior strategy that has private benefit. Agency theory proposes that the divergence of interest between the principal and the agent results in moral hazards which generate agency cost (Jensen & Murphy, 1990) and induces misappropriation of resources.

1b. *Additionally, the study proposes that TQM implementation success is negatively associated with moral hazards of agents within the firm.*

Divergence of goals and preferences that exists between the agent and the principal is the main cause of agency problems within the firm (Ang et al., 2000). Agency theory holds that, agency cost is zero if there is a complete alignment of goals between the agent and principal, which presumably attests that the agent works in the full interest of the principal (Jensen & Meckling, 1979) Thus far, as long as there is an incomplete alignment of goals, decision making value is tilted towards the preferences of the agent. Usually, when these decisions are influenced by self-interest, the value of the decision becomes suboptimal to the overall strategy of the firm (Jensen, 1986; Shleifer & Vishny, 1989). TQM on the other side stresses the need for decision making value maximization. TQM is an integrated management strategy that stresses sustainable decision policies, employee participation, teamwork and team based problem solving technique (Powell, 1995). These listed attributes of TQM are products of human resource capability and decision directives. These attributes are very instrumental in connecting the other organisational factors to enhance performance at the firm. Where there is agency problem, managers continue to misappropriate and misallocate resources for private gains leading to sub-optimal decision making which undermines the resource capability of firms (Amit & Schoemaker, 1993) and consequently, impedes the success of TQM implementation process. The paper proposes that, even when all the necessary components required for a successful implementation of TQM are available, agency problem within the firm still has the potential to bring about a failure in the TQM implementation.

Thus far, the study proposes that, sub optimal decision making values of self-interested managers and inefficient utilization of firm resources have negative relationship with performance of TQM.

Management theories have focused enormously on individual differences as a key factor in the management of a firm, stressing that, individual preferences and decision making affects the success of work performance, which is consistent with TQM philosophy (Waldman, 1994). This inefficiency is borne out of moral hazards which can be reduced by compensation (bonuses and high wages) to induce maximum decision making value (Saltaji, 2013). This concept of incentives has left great strides in the agency theory ability co-align differences in preferences to obtain Jensen's zero agency cost within the firm (that is the point where divergent preferences between principal and agent converge). All incentive packages intuitively work at bridging the ideas of managers with the shareholder's. When the manager and the shareholder attain common interest, agency cost fades away from the firm. Similarly, when the shareholder becomes the manager agency cost fades away. It shows that, agency problems are minimised when the manager-shareholder concept dominates the organisational scenery. Moral hazards perpetuated by agents approaches zero when the owners take up managerial positions.

It is therefore proposed that TQM-performance link is significantly higher when Manager-owners manage the firm rather than non-shareholder-managers.

Monitoring from external source as suggested by Jensen & Murphy 1990, is a mechanism to curb down agency cost. In a case where the firm generates excess cash flow for example under a diversified portfolio, firms attain stronger internal capital to fund projects and minimise reliance on external capital funding (Syarak, 2003). Consequently, external monitoring dissipates and gives way to managerial discretion over the allocation of firm assets. Possible existence of agency problem could affect the successful implementation of TQM considering the fact that, self-interested managers will apply such discretionary advantage inefficiently (Dalton et al., 2007). Its effect on TQM is that, total commitment, team work and holistic approach to sustainably reduce cost and improve processes in the firm dissipates. The study therefore proposes that:

In firm portfolio where there is free cash flow from internal capital market and managerial discretionary powers, success of TQM implementation is likely to be low due to lower external interest and monitoring on the activities of firm top management.

Within diversified firms it is difficult to solve agency opportunism using equity participation due to the fact that the strength or the value of the stock price reflects not a single unit's effort

but the combined efforts of all the segments in the diversified portfolio (Martin & Sayrak, 2003). Conversely, within a single focus firm where there is no internal capital market, and performance of the firm's asset reflects the unit's effort, agency opportunism is minimal leading to lower agency cost. This paper further proposes that:

TQM-performance relationship is positively related in focused firms and negatively related within diversified portfolio of firms.

Moral hazard is a major determinant of agency costs and it is also a key variable which determines a manager's commitment to the organisation and the level of personal interest (Jensen and Meckling 1986). Similarly, a manager's commitment to an organisational success is a key factor in TQM successful implementation (Ahire & O'shaughnessy, 1998). Heat (2009) noted that the entire business community will be ruined if moral discipline is not upheld. It is therefore normal to assert that much of the inefficient application of firm's strategic plan is due to divergent interest between the principal and the agent, of which moral hazard is the determining variable. The paper proposes that:

TQM-Performance relationship within an organisation relates positively with top management's commitment to an organisational goal. Invariably, the level of management's moral hazard determines the agent's level of commitment.

Agency theory shows that principal-agent relationship denotes a contract. The foundation of this contract requires that manager herein called agent takes a corporate responsibility and act in good faith on behalf of the owner/shareholder herein called the principal (Jensen 1979). Agency problem arise due to breach of this contractual agreement by the agent. The agent breed into the contractual relationship some level of moral hazard and intend to work in manner that does not satisfy the owner (Martin & Sayrak, 2003). Out of this breach of contract emerge agency theory proposition that asserts that, the nature of contract that exists between the two parties is a determinant to control agency cost. Two types of contracts are therefore outlined and these include behavioural and outcome based contract (Eisenhardt, 1989). Under behaviour based type of contract the reward is basically fixed within a given period until reviewed (salary or hourly based pay) and practically, performance from the unit does not affect the reward of the agent. The paper proposes that:

TQM successful implementation decreases with behaviour based contracts under agency relation.

Outcome based contracts emphasises correlation between results and reward. Agents are rational and are assumed to pursue viable strategy that will maximise their reward. Managers will therefore go for efficient policies and strategies that improve performance. Outcome based contracts facilitate a reduction in moral hazards which also means a reduction in agency cost. The proposed hypotheses claim that:

When the contract relationship between the agent and the principal is an outcome based contract, top management commitment to organisational goal is higher and hence outcome based contract has a positive association with TQM-Performance relationship.

1.4 The responsiveness of agency cost control mechanism

In this section, the paper posits scenarios under which agency theory's potential to use cost control mechanism to control agency problems become either feasible or otherwise. Further, agent's responsive reaction to the implementation of the control mechanism as proposed by agency theory is discussed making occasional reference to TQM and diversification when necessary. An equilibrium behaviour point is established to show a point where agents show a proportionate responsiveness to the application of the control mechanisms induced by restraints and constraints within the firm.

Positivist's view of Agency theory envisages mischief on the part of agents and therefore recommends mechanism to curtail this menace in order to control agency cost at firm level. These mechanisms encapsulate equity ownership participation, compensation, board vigilance to name few (Dalton et al., 2007). These mechanisms are purposefully applied to align interest of managers and owners in the bid to cut down agency cost. However, these mechanisms have produced inconsistent results (Dalton, Daily, Certo, &

Roengpitya, 2003) and more often than not raises doubt about the efficacy of these agency cost control mechanisms (Jensen, 1994). This section of the paper proposes that, the inconsistencies in the application of agency cost control mechanism are due to agent's behaviour at resisting the application of the control mechanism at different points (short run and the long run). Consequently, three behaviour points are identified following the claims of Jensen (1994) on one point of view and Brennan (1994) in another opposing view. The three behaviour points are altruistic behaviour, self-centred behaviour and the equilibrium behaviour points. All these three behaviour types of agents respond to the cost control mechanism application differently and hence the different feedback on the agency cost control mechanism application.

TQM performance has shown inconclusive results considering the fact that research outcomes have not been consistent but fraught with mixed views (Douglas & Judge, 2001). Meanwhile, research shows that TQM provides the rudiments for continuous improvement that enhances performance in an organisation, adding qualities like right strategy at the right time and consistent precision at duty. Additionally, it is human oriented approach with customer focus and total discipline within the organisation (Miller & Cangemi, 1993). However, leadership becomes a great barrier to a successful TQM-performance when top management carry a contrary view or opportunistic behaviour within the firm (Ahire & O'shaughnessy, 1998). Fortunately agency theory suggested incentives that curb moral hazards in order that managers and shareholder interest aligns (Ang et al., 2000). These suggestions have been in existence and have been applied yet TQM suffers exploitation under agency relation leading to inefficient TQM- performance relationship and firm discount. As a result, the potency of incentives to induce alignment of interest between agent-principal relations is viewed suspiciously and its efficacy doubted (Jensen, 1994). The question then becomes: could the usefulness of incentives to align interest of principal-agent make any significant impact in any organisation at all without compromising the individual nature of managers? According to Jensen and Meckling (1994) the fundamental principle to understanding organisation is to understand human behaviour and therefore this section of the paper proposes that, the successful implementation of cost control mechanisms or incentives for the alignment of interest, fundamentally depend on the type of behavioural trait of a manager. Identifying the behaviour pattern of the agent could be a leading factor to a successful application of agency cost control mechanism.

One such character traits is altruism, the belief in or practice of disinterested and selfless concern for the well-being of others. The benefit of an altruistic behaviour in agency-principal relationship is an attainment of zero agency cost. Jensen (1994) suggests that, agency problem cannot be solved by imbibing altruism into people and that an altruistic person is not necessarily a good manager. This is so to an extent, however a supposed 'good manager' without altruism ultimately breeds moral hazards and becomes a bad manager. It turns out that, altruism sets the base of the behaviour under which a good manager can perform devoid of moral hazard. The altruistic manager is selfless and has genuine behaviour, presumably, with goal congruent with shareholder wealth maximization concept (zero agency cost). In this case, any incentive to motivate is needless, especially when the purpose of the incentive is to align goals. However, this is at the extreme side of the argument and it is the opposite of economic rationality of a self-interested human behaviour (Brennan, 1994). The study claims that, even though the characteristics of the altruistic manager reflects lower risk taking, it comes along with a price. The disadvantage here is that managers will not enter into any venture perceived risky. Business is basically about risk 'higher risk and higher returns concept' quote "additional returns compensates investors for taking additional risk" (Aaker & Jacobson, 1987).

In contrast to altruism, economic theory suggests a rational manager (risk-averse individual) who responds to events which go in their favour. The concept of rational manager is described as stringent human character which will only position such managers at a parallel end to the altruistic manager (Brennan, 1994). Indeed, the notion of extreme

assumptions as being used here is not borne out nothing, rather similar principle back the applicability of several economic principles for example demand and supply theory. Furthermore, human biological make up contributes to the self-interest nature and that generally makes man imperfect. Self-centredness automatically inhibits our senses from recognising, discerning and rectifying mistakes that cause pain (Jensen, 1994).

It should also be noted that, incentives as prescribed by agency theory is not suggesting any package that exceed the benefits which a self-centred manager derives from exploitation of the firm assets. Consequently, an opportunistic agent will be unresponsive to incentives and this means that agency cost is higher under opportunistic agent. Characteristics of such management will include ventures with higher stake, leading to higher firm operational cost. In short, higher risk ventures will be undertaken as long as managers derive private benefit from them and ultimately disregard shareholder wealth maximization concept.

1.5 Establishing the equilibrium

1.5.1 Weakness of self-centred managers

Shareholders interest is to maximise their shares in an organisation (Jensen, 1986). In an outcome based contract type for example, growth comes with increase in compensation (Eisenhardt, 1989) however, a fall in growth and performance attract punitive consequences like suspension and dismissal of managers (Bhide, 1993). Based on this assumption, the study predicts that self-centred manager will respond to agency control measures to avoid sanctions. Brennan (1994) describes self-centred manager as people who have zero altruistic taste in them and are perfectly not available to sacrifice any of their possessions for the welfare of others. Consequently, the self-centred manager performs sub optimally and this calls for reforms and drastic measures to restore performance and ultimately result in dismissal or suspension of the corporate leaders (Bhide, 1993).

1.5.2 Weakness of the altruistic manager

Further, the tendency for the altruistic manager not to venture high risk but profitable businesses always leave performance outcome below average. According to Jensen (1976) firm performance and agency problem relates negatively. It is therefore reasonable to say that the altruistic manager will only commit to TQM only when the benefits can be measured as value maximizing (riskless ventures), this defeats the principle of risk and return paradigm, noting the fact that a trade-off between profit and risk exist (Bettis and Mahajan, 1985).

The manager with this trait will only enter into projects whose risk or possibility of failure is almost zero. This leaves the altruistic manager with fewer and lower profitable projects to increase firm worth and hence firm performance consequently drop. Quoting Jensen (1994) “an altruistic person does not necessary make a good agent”

1.5.3 Bridging the behavioural traits

Both the self-interested manager and the altruistic manager want to maintain their job and will not continue to wallow in practising a corporate strategy that leads to sanctions in the long run. This is consistent with the reason why corporate managers adopt means in order to entrench their positions at work by making themselves appear valuable to shareholders, costly to replace and further resist reactions of disciplinary forces from owners (Shleifer & Vishny, 1989). As a result of the willingness to maintain jobs, managers will relax their stringent perceptions and corporate beliefs that produce lower performance.

According to Brennan (1994) men are capable of rising outside the confines of “rational self-interested behaviour” which means that the so called “too much” of rational self-interested behaviour is susceptible to relaxation. Similarly, the altruistic manager will compromise some form of relaxation in the stance of their behaviour. This stresses the necessity of habit conformity over time in what Brennan (1994) classify as impulse control- a deficiency in the agency theory. Subsequently, the opportunistic manager learns to incorporate altruism whiles the altruistic manager learns to incorporate a bit of self-centredness. Subsequently, a common convenient behaviour mix is established and the

equilibrium between the two extreme straits is reached. An equilibrium manager therefore blends altruism and self interest in the right proportion or mix and therefore becomes responsive to motivation in manner that defies both extremes. The claim here is that upon attaining equilibrium, application of agency incentives and agency cost control mechanisms to ensure common interest attains consistency and free from abnormal responses. It must be noted that, the movement towards equilibrium is not automatic but from the following forces (a) pressure from owners demanding results from managers (Shleifer & Vishny, 1989) (b) the punitive consequences that ultimately awaits managers as a result of non-performance (Bhide, 1993) (c) the desire of managers to remain in position (Shleifer & Vishny, 1989). This paper therefore proposes that Brennan and the Jensen views are valid, understandable and acceptable, however such differences are short lived, and they exist only in the short run or immediate term. In the long run equilibrium, both arguments fall on the same plane. A managerial behaviour mix that is common to both sides of the divide is established as induced by pressure from owners.

All those managers who do not adhere to the long run behaviour adjustments are ultimately kicked out of the corporate terrain by factors like (a) exposure of incompetence due to their inability to catch up with the market competition (Hart, 1983) (b) firing out of job by unsatisfied owners of the firm (Bhide, 1993). In the long run, managers at equilibrium relax their hold on entrenched ideas and subsequently respond to agency cost control mechanisms. They respond proportionately to agency control mechanisms and ensure stable behaviour adjustment in order to enhance performance.

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The diagram stresses the equilibrium concept as explained above and it is likened to the lever with weights at extreme ends, which attains a balance when the weights are proportional. The slope of the self-centred manager intersects with the slope of altruistic manager at point Q. Here the attitude and behavioural characteristics of both the altruistic and the self-centred manager attain equilibrium. At point A the altruistic manager exhibits full characteristic of an altruistic manager. This is associated with a price and hence performance is affected negatively (low at point -AP). In order for the altruistic manager to catch up with expected performance (increase performance) due to pressure from owners of the firm, most of the costly characteristics are relaxed. As the characteristics are relaxed, point A drops as indicated by the curved arrow while corresponding point AP rises as indicated by the arrows to signify an increase in performance. The altruistic manager relaxes character traits to incorporate certain level of self-centredness and performance continuous to improve until such a point where AP and A lies horizontally on the same equilibrium plane.

The self-centred manager at point S also shows full characteristics of rationality (opportunistic behaviour). This also comes with a price (increasing agency cost). Moral hazards and adverse selection characterise the self-centred manager and he or she works to please not others but him or herself. Performance is therefore lower and there is no tendency to maximize shareholders wealth as indicated at point SP. Owners are therefore prompted on the fact that performance is below average and owners mount pressure on management to increase performance. The cause of the non-performance at S is relaxed and the self-centred behaviour gives way gradually to altruistic behaviour until the mix is proportionate at equilibrium Q. It follows that as the self-centred manager reduces opportunism and incorporates altruism, point S drops towards the equilibrium as indicated by the curved arrow. Proportionately, point SP rises to show an increase in performance. This continues until both S and SP lie horizontal on the equilibrium plane, same as points A and AS.

In the long run therefore, the manager shows equilibrium behaviour at Q which is a mix of both altruistic and opportunistic behaviour in a right mix so as to respond to firm growth variations as well as mechanism that accelerate performance including agency incentives. At Q behaviour is optimised and a change in attitude will cause a change in performance and the cycle where owners exert pressure on management to improve performance begins again for

behaviour to return to equilibrium.

The paper adds to agency theory by affirming its universal applicability and explains the inconsistency that occurs at different organisational setting when agency cost control mechanisms are applied. The fact that agency control mechanism shows weak responsiveness from agents doesn't undermine the capability of the theory's application of control mechanisms; rather it only shows the stage of the agent principal relationship. Early stages show possible inconsistencies due to entrenched characteristics of managers while long run shows effectiveness of the cost control mechanism.

1.6 Findings consistent with equilibrium behaviour

Lane et al. (1998) shows that, agency theory belief that monitoring as a control mechanism cannot control management behaviour and therefore shows no impact on the performance of managers and the firm they manage. The application of the cost control mechanism (monitoring) failed to show any change as posited in agency theory. This unresponsiveness of behaviour is explained by the extreme positions of altruistic and opportunistic managers in the short run context.

Mustapha & Ahmad, (2011) show that manager-ownership as agency cost control mechanism had impact on reducing agency cost in Malaysia firms. The result is in line with agency theory norm where manager – shareholder decrease agency cost. The claim that such managers have attained equilibrium behaviour and are responsive to the application of agency cost control mechanism fits the context. Here managers have shares in firm and private gains offset their ownership gain. Ultimately, they become responsive to factors that promote the value of the firm. Note that, the focus is on a manager (agent) who becomes a shareholder in the longer run.

Ahire & O'shaughnessy (1998) show how different levels of agent's commitment affect the key factors of TQM constructs. The findings show that high commitment of management impacts positively on the constructs (key elements of TQM) of quality management implementation and the other way round. The finding supports the analysis of this study by pointing to the fact that different levels of commitment actually exist and these levels can be induced to be higher or lower. The argument holds that at equilibrium point commitment level responds to inducement, contrary to studies where the application of the control mechanism shows no response.

Douglas and Judge (2001) show a system of an organisation where a person–system–fit is an important determinant of the sustenance of TQM. Douglas points to the sensitive human factor that could worsen the entire success of work performance if commitment is not enhanced. Again, agents' responsiveness to control mechanism is emphasised and confirms the equilibrium stage other than initial stages of non-responsiveness.

A positive relationship exists between C.E.O financial return and Shareholder wealth maximization. As C.E.O. financial reward near that of shareholders, effort is intensified to increase shareholders wealth (Nyberg et al., 2010). This is a clear case of responsiveness to application incentives under cost control mechanism. Manager(s) at equilibrium behaviour point respond to this incentive change considering the fact that they relax their initial stringent position on either side of the behavioural traits (too much altruism or too much opportunism). This explains the outcome of successful application ACCM as found in the study of Nyberg.

Miller & Cangemi (1993) noted human effort as the key obstacle to the successful implementation of TQM, noting top down commitment of management and empowerment of management leadership as key measures. Powell (1995) shows that employee empowerment and executive commitment can produce a sustainable competitive advantage with TQM strategy. TQM failure created out of commitment means the presence of moral hazards within management (self-centred agent). According to Beer (2003) TQM sustainability depends on top management honesty and commitment in the implementation of process. If the control mechanisms instead of improving managerial commitment rather show no change in

commitment, the assertion is that both types of managers (the altruistic and the self-centred manager) are the initial stage (short run) where managers still remain at the peak of their short run managerial traits. However, if the application of the control mechanism shows an improvement in commitment to TQM equilibrium behaviour point is assumed to be attained.

Conclusion

Shareholders are risk averse individuals who desire that investment made yield positive return. Managers who act as agents are always under pressure from these shareholders to maximize their wealth (Shleifer & Vishny, 1989). The pressure is demonstrated in such disciplinary actions like threat of takeover (Jensen & Ruback, 1983), monitoring by board members and banks and market competition that exposes agent's competency or otherwise (Hart, 1983) As a result firm performance cannot remain suboptimal for more than reasonable transactional period without attracting a disciplinary force from the owners demanding performance improvement. The pressure therefore forces agents to streamline and shirk behaviour and practices that induce non-performance. Using Jensen and Brennan's opposing views about extreme behaviour, an equilibrium behaviour is established where the different views superimpose. Behaviour attains a critical point where a change from this critical equilibrium point brings about performance reduction.

TQM is greatly influenced by human performance and that when commitment of agent is high performance is bound to increase. It also signifies that there is an increased alignment of goals between owners of the firm and agents. The existence of common interest strengthens TQM performance relationship and additionally stresses the holistic concept of the TQM philosophy. Divergence of interest clearly weakens TQM impact on performance because it splits commitment of top managers towards the organisational strategy. Agency theory is at the centre of the TQM philosophy because the theory addresses the complications that arise from human factor in the organisation considering the fact that this human factor is the main determinant of TQM success and sustainability.

I propose that empirical data analysis should be carried out in future research to add to the robustness of these propositions linking equilibrium, self-interest and altruistic behaviour under agency theory application. The assertions made here affirm agency contribution on agency cost reduction through the use of agency cost control mechanisms. Further, it throws light on why different research outcomes produce different sensitivity responses to the application of incentives in their bid to co-align divergent interest of agent and principal. The paper advances the understanding of the agency theory application to curb down the human weakness in committing fully to the contract between agents and principal as a result of moral and ethical decadence, exacerbated by ulterior motives of corporate managers who govern the firms.

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Fig 1 Flow chart of agency cost and trend of TQM performance

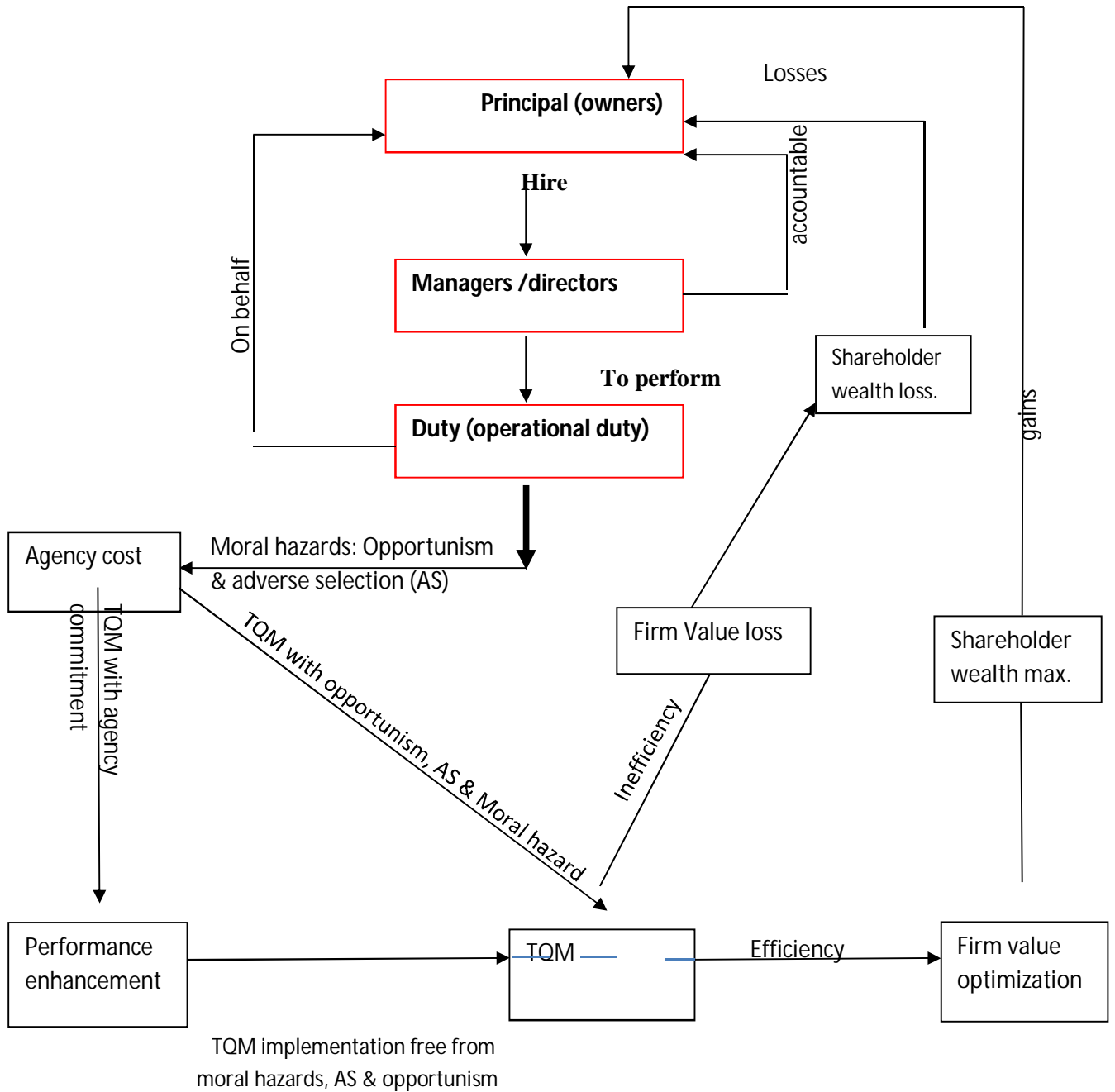


Figure 2: Equilibrium behaviour adjustment
altruistic manager (A)
self centred managers (S)

