Agency problems in military corporations

Agency Problems in Military & Corporations Agency problems are prevalent in the corporate world because managers and employees often have different motivations and different goals than their shareholders. Increased monitoring of employees has proven to be effective in reducing agency problems, but there will always be information or actions that employees are able to hide from owners. Monitoring is also an imperfect method when used to resolve agency problems because the people doing the monitoring are also imperfect. Performance based incentives have also been shown to reduce agency problems, but this is also an imperfect method. One reason that this method is imperfect is that even though an individual is rewarded based on their performance, their performance is often influenced by things outside of their control such as outside economic factors or the performance of fellow co-workers or managers. Bureaucracy is also a tool used to combat the agency problem. It does this by limiting what employees are allowed to do. However, employees may begin to resent this control when they feel that it is restricting them from doing what they feel is in their own best interests. Another way to deal with agency problems in the corporate world has to do with making the company either more centralized or more decentralized. A decentralized organization allows managers the latitude to use their own expertise to accomplish the task at hand. This can be beneficial in dealing with agency problems because managers are allowed to take more ownership over the work they do and make decisions that they may have more knowledge and expertise about than their shareholders do. However, the drawback to this type of organization is that it can lead to coordination problems. A centralized organization has more bureaucratic control over its employees to make sure that they are all doing what they are supposed to

be doing and following orders, but this type of organization also limits the processing of information as well as inhibiting effective and timely communication. Much of what has been previously discussed as corporate agency problems are also applicable to military agency problems as well. The military is a very centralized organization that passes goals and objectives down to its generals. Both the military and highly centralized corporations experience similar agency problems. For example, either a commanding general or a shareholder could issue specific orders to a subordinate general or subordinate manager. But since the higher up sometimes doesn't possess all the information that a subordinate has at his disposal, his decision could prove to be wrong. If the subordinate knows this he could defy the orders from the boss. Also, in a battle, the subordinate could be more concerned with his own life and/or the lives of his troops than accomplishing the objectives of the commander. As mentioned, this agency problem occurs both in the corporate and military world. Even though the military is highly centralized, there are also certain operations which are fairly decentralized. This is also true in the corporate world. As the text states, most corporations are a mix of a centralized and decentralized structures depending on the nature of the task. Similar to a corporation, some decentralization can be beneficial. However, if the military becomes too decentralized, the actions that subordinates take could lead to poor overall coordination. Also, like a corporation, the military monitors what its leaders do and also limits what they can do through bureaucratic measures. Yet, as in the corporate world, not everything can be monitored and therefore certain agency problems will still exist and will also slip past bureaucratic measures. The military also seems to have a form of pay-for-

performance measures in order to make sure its leaders' goals are in line with its own goals. These measures usually come in the form of promotions to higher offices and recognition with things like medals when people go above the call of duty. Although this is effective in reducing agency problems, some agency problems will still exist because the subordinate's performance is often a result of outside factors as well as factors from within. To conclude, we can see how similar agency problems are in the corporate world and the military world. This is because the goals of those directing the military and the goals of their subordinates are different in certain situations, just like the goals of shareholders and managers are sometimes different.