

AGENCY THEORY

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■ **Abstract** In an agency relationship, one party acts on behalf of another. It is curious that a concept that could not be more profoundly sociological does not have a niche in the sociological literature. This essay begins with the economics paradigm of agency theory, which casts a very long shadow over the social sciences, and then traces how these ideas diffuse to and are transformed (if at all) in the scholarship produced in business schools, political science, law, and sociology. I cut a swathe through the social fabric where agency relationships are especially prevalent and examine some of the institutions, roles, forms of social organization, deviance, and strategies of social control that deliver agency and respond to its vulnerabilities, and I consider their impact. Finally, I suggest how sociology might make better use of and contribute to agency theory.

INTRODUCTION

Let me introduce myself. I am an agent. The editors of the *Annual Review of Sociology* delegated to me the task of writing an essay on agency theory. They are the principals and together we are bound in a principal-agent relationship. They have a principal-agent relationship with you (the readers) as well. They are your agents, and so am I, although not every agency theorist would agree with my loose conceptualization of your role in this, and few would be interested in you at all (although I am).

I am not sure how or why my principals selected me for this task. Perhaps they “Googled” me. I do use the words “agent,” “principal,” and “agency relationship” a lot. But I doubt that they used a more sophisticated search engine. If they had, they would have realized that I have never used the words “agency” and “theory” side by side (although I guess it’s possible that they did and wanted someone who is not so identified with this peculiar way of understanding social reality or is not solidly in one camp or another in a rather contentious literature).

In any event, in selecting me and all the other authors in this volume, they faced a classic agency problem of asymmetric information. We know far more about ourselves—our abilities, expertise, honesty, etc.—than they do, and we sometimes make matters worse by exaggerating our talents. I know how much

of the agency literature I have bothered to read and how much of it I understand. I know whether I skip the paragraphs in the economics articles that begin, “let gamma be. . .” and then go on to use mathematical fonts I can’t even find on my computer. I know better how good a sociologist I am and how analytical and original I am or am capable of being. I know better how many other projects I have on my plate right now and how responsible, conscientious, and diligent I am. Actually I know who would have been a better choice to write this essay. But my editors/principals don’t. They never do, and therefore every assignment in this volume is tainted by adverse selection (in the insurance vernacular) or what Arrow (1985) calls “hidden information”: they “will attract a disproportionate number of low-quality applicants” (Moe 1984, p. 755). The principals probably could have found someone better but just didn’t know enough to identify them or didn’t provide incentives compelling enough to attract them. So they got us.

Of course, that is not their only agency problem. Information asymmetries not only mean that principals don’t know the true “type” (to borrow from the agency theory jargon) of the varied candidates in the pool of potential agents, but they also don’t know what we are doing once they select us. They don’t know what I am reading, if anything, or whether I am scouring literature reviews or plodding through the actual primary sources. They don’t know whether I have been thorough or fair. They don’t know if I got someone else to write this for me or if I plagiarized it. Agency theorists are mostly worried that I might be shirking—not working hard enough, if at all. Many theorists also assume that I am “opportunistic” [pursuing self-interest with “guile” (Williamson 1975)] and will take advantage of the “perquisites” of this appointment for my own benefit. But sadly, my agency-savvy principals didn’t give me any perquisites. (I have tried to use my inside information to trade on *Annual Review* futures, but I can’t find this product on any of the commodities exchanges.) My principals, then, are also threatened by the version of informational asymmetry known in insurance as moral hazard, or what Arrow (1985) labels “hidden action.”

The one thing they can be sure of is that our goals are incompatible. My principals want the “highest-quality scientific literature reviews in the world” that “defin[e] the current state of scientific knowledge,” and they want them on time and in the correct format (Annual Reviews 2003, pp. 2, 18). I want the glory with none of the work and desperately need the deadline to be extended. And I will exploit all the information asymmetries I can contrive to insure that I maximize my own interests at their expense.

So what do the poor principals do? Agency theory dictates that my principals will try to bridge the informational asymmetries by installing information systems and monitoring me. My manuscript will be peer reviewed, for example. And because my reputation is tied up in the quality of my work, they can count on some self-regulation on my part. They also offer me incentives in an effort to align my interests with theirs. They tell me that the earlier my manuscript arrives, the closer it will be placed toward the front of the volume. [So the position of this

chapter tells you something about my character, that is, if my principals are of the trustworthy type—something the sociologists (Perrow 1986), but apparently not the economists, are worried about.]

As part of this incentive alignment, my principals compensate me, not for my agreement to do this work for them or for the amount of time I spent on the project—consistent with a “behavior-oriented contract”—but for what I actually deliver, an “outcome-oriented contract.” They tell me that if the manuscript arrives late, they will not guarantee that they will publish it at all, ever (and you know how difficult it will be to recycle this sort of review essay into another journal). That, of course, shifts the risk to me, because events outside of my control (like the fact that a lightening strike or virus fried my hard drive) or other environmental uncertainties may affect my ability to deliver on our agreement. Agency theory reminds us that, although principals are risk neutral (they have diversified and have plenty of other manuscripts to use), agents are risk averse, because they have placed all their eggs in this one basket. That is another reason our interests conflict, by the way; shrouded behind my information asymmetries, I will do perverse things contrary to my principal’s welfare to protect myself from risk. All these efforts undertaken by my principals, coupled with the fact that I still didn’t give them exactly what they wanted, constitute agency costs. The trick, in structuring a principal-agent relationship, is to minimize them.

This introduction more or less represents a cartoon version of the classic economics account of agency theory. I begin here because, as in many things, the economics formulation of agency theory is the dominant one and casts a very long shadow over the other social sciences. Because it gets all the attention and there are already excellent reviews of this literature (e.g., Moe 1984; Eisenhardt 1989; Mitnick 1992, 1998), this essay briefly traces some of the alternative disciplinary approaches—especially in law, management, and political science. Then I turn to sociology, where the literature on agency theory is especially sparse, and ask how it could be that a relationship—acting on behalf of another—that could not be more profoundly sociological does not seem to have a niche. Finally, I suggest what that niche might look like.

ECONOMICS AND BEYOND

The main thing missing from my cartoon version of the economics of agency (unfortunately, from this agent’s perspective) is any money changing hands. Consequently, a few of the traditional options for aligning my incentives with my principals (commissions, bonuses, piece rates, equity ownership, stock options, profit sharing, sharecropping, deductibles, etc.) are missing, as are some of the governance mechanisms or devices principals contrive to monitor their agents (e.g., boards of directors, auditors, supervisors, structural arrangements, and so forth). Also missing are a few of the things I might have done to reassure my principals or keep their monitors at bay: I could have bonded myself or perhaps posted

a hostage who or which wouldn't be released until I turned over the manuscript. All these devices also figure into the accounting of agency costs.

Nonetheless, my case study actually accords better with classic agency theory in economics than the scenarios economists usually model. Ours is a dyadic relationship between individuals; economists study firms and typically focus on the relationship between owners and managers or employers and employees. The assumption of methodological individualism makes this transformation seamless. In the classic articulation of agency theory in economics, Jensen & Meckling (1976) assert that "most organizations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals" (p. 310). In this paradigm, agency relationships are contracts, and the incentives, monitoring devices, bonding, and other forms of social control undertaken to minimize agency costs constitute the elements of the contract.

Economists make problematic the nature of these contracts. Those with a mathematical bent (in what is known as principal-agent theory) model the "structure of the preferences of the parties," "the nature of uncertainty," and "the informational structure" on contracting practices. A more descriptive and empirical trajectory (known as positive agency theory) examines "the effects of additional aspects of the contracting environment and the technology of monitoring and bonding on the form of the contracts and the organizations that survive" (Jensen 1983, p. 334; see also Eisenhardt 1989).

The assumption that complex organizational structures and networks can be reduced to dyads of individuals is one of many assumptions—regarding efficiency and equilibrium, that individuals are rational and self-interested utility maximizers prone to opportunism, etc.—that are off-putting to other social sciences. To be tractable, however, mathematical modeling requires such simplistic assumptions, as even a very flattering review of that literature concedes:

[S]uch a framework sometimes encourages highly complex mathematical treatment of trivial problems; form tends to triumph over substance, and analytical concerns tend to take on lives of their own that have little to do with the explanation of empirical phenomena. ... [M]uch of the current literature focuses on matters of little substantive interest (Moe 1984, p. 757).

One of the economists most identified with agency theory admits that "authors are led to assume the problem away or to define sterile 'toy' problems that are mathematically tractable" (Jensen 1983, p. 333).

Much of the scholarship on agency outside of economics begins by relaxing or jettisoning the unrealistic assumptions of the economics paradigm and transforming the rigid dichotomies into more complex variables. The first assumption to go, of course, is that of a dyadic relationship between individuals. As Kiser (1999) observes, classic agency theory "is an organizational theory without organizations" (p. 150). Scholarship across many disciplines brings organizations of all sorts back in and looks far beyond the economists' favorite poster children of shareholder/manager and employer/employee as they investigate when and how

agency relationships are established and regulated. Looking beyond the abstract, cloistered dyad also reveals that actors are not just principals or agents, but often both at the same time—even in the same transaction or hierarchical structure. I may be an agent to the editors of the *Annual Review*, but I am also the would-be principal to the scores of research assistants who I wish existed to assist me on this project. The CEO may be an agent of the stockholders and the board, but he or she is simultaneously the principal in a long chain of principal-agent relationships both inside and outside the corporation. What occurs at some node in that network of agents acting on behalf of the CEO figures significantly in the agency contract between the CEO and the shareholders. Just ask Kenneth Lay at Enron.

Moreover, the assumption of a solitary principal and agent is invariably extended to include multiple principals and agents. This is not just a matter of verisimilitude. Theories become much more complex (and interesting) when they allow for the possibility that collections or teams of principals (or agents) disagree or compete over interests and goals—a feature of agency relationships Adams (1996) dubs the “Hydra factor.” How do agents understand and reconcile the duties delegated to them when they are receiving mixed messages and conflicting instructions—and incentives—from multiple principals? How do they do so when the contract is exceptionally vague by design, to paper over the irreconcilable differences among principals with conflicting interests—say, controversial legislation that requires implementation? When do these cleavages among and collective action problems faced by principals give agents opportunities to play one principal off against another?

Multiple agents who have been delegated to undertake a task collectively add other wrinkles to the economists’ models. Agents, too, have competing interests; indeed the interests of some agents may be more congruent with those of their principals than with the other agents. Some agents are more risk averse than others; incentives work differently on different agents. Some agents may be free riders. And the existence of multiple principals and multiple agents sometimes increases the informational asymmetries and the difficulties of monitoring. These asymmetries are among the reasons organizational crimes can flourish undiscovered for long periods of time buried in complex structures of action. At other times, multiple parties help to right the imbalance of information, such as when competitive agents leak information to principals in an effort to get an upper hand over other agents (Waterman & Meier 1998).

The assumption that principals are in the driver’s seat—specifying preferences, creating incentives, and making contracts that agents must follow—is also problematic (Heimer & Staffen 1998, Sharma 1997). When principals seek out agents for their expert knowledge, when principals are one-shotters and agents repeat players, when principals are unexpectedly foisted into a new role with no time or life experience to formulate preferences, let alone a contract or monitoring strategy [e.g., the new parents of a critically ill newborn (Heimer & Staffen 1998)], the asymmetry of power shifts from the principal to the agent.

Other scholars remove the economists' blinders that cause them to focus only on the self-interest and opportunism of agents and the difficulties of regulating them. Perrow (1986), for example, accuses the economics paradigm of being incapable of keeping its eye on both sides of the principal-agent relationship and of recognizing that agency problems on the agent side of the relationship are often mirrored on the principal side. He observes that the theory is indifferent to principal type that may lead to adverse selection by agents who may be unwittingly drawn to principals who shirk, cheat, and opportunistically seize perquisites for their own use; who deceive (e.g., about hazardous working conditions, opportunities for advancement, etc.); and who exploit their agents. Blind to the asymmetries of power that course through these relationships, classic agency theory, Perrow argues, is profoundly conservative, even dangerous.

Perrow (1986) also rejects the assumption that parties are invariably work averse, self-interested utility maximizers. He observes that in some settings or organizational structures, human beings are other-regarding, even altruistic, and he faults classical agency theory for its inattention to the cooperative aspects of social life. This critique is continued in what has become known in the management literature as *stewardship theory*, which views agents as good stewards and team players and replaces assumptions of opportunism and conflict of interest with those of cooperation and coordination (Donaldson 1990).

As other disciplines wander away from the market as the site of theoretical and empirical work on agency, the irrelevance or variability of the classic assumptions and solutions to the agency problem becomes even more apparent (Banfield 1975). Work in political science particularly confronts the limitations of a theory of markets. As Moe (1984) observes,

the more general principal-agent models of hierarchical control have shown that, under a range of conditions, the principal's optimal incentive structure for the agent is one in which the latter receives some share of the residual in payment for his efforts, thus giving him a direct stake in the outcome. . . . For public bureaucracy, however, there is no residual in the ordinary sense of the term (p. 763).

There is no profit that can be distributed to members of public agencies for exemplary behavior. Scholarship on agency relationships, such as between the legislative or executive branch and administrative agencies, may continue to employ economic metaphors: Politicians need to maximize their votes; bureaucrats need to maximize their budgets. But the metaphor fails to capture the range of incentives at play in the political arena, many of which revolve around policy rather than profit (Waterman & Meier 1998). Indeed, the salience of policy commitments undermines our expectation of goal conflict between principals and agents, who may sometimes share policy goals (or, more accurately, some among the collections of multiple principles and agents might do so). The extent, sources, and strategies of compensating for information asymmetries also vary considerably as one moves away from market settings (Waterman & Meier 1998, Worsham et al. 1997, Sharma 1997, Banfield 1975).

Finally, scholars from varied disciplines outside of economics also abandon the assumption of an acontextual, ahistorical, and static relationship between principals and agents (Mitnick 1992). Agency relationships are enacted in a broader social context and buffeted by outside forces—other agency relationships, competitors, interest groups, regulators, legal rules, and the like—that sometimes right informational imbalances, offer or constrain incentives, exacerbate the risk of adverse selection or moral hazard, provide cover or opportunity for opportunism, and so forth. Relationships endure over time, affording principals and agents occasions to gather data about one another. Principals learn better which incentives are likely to work. Agents learn more about the preferences of the principals they serve. They develop reputations. Relationships become embedded as parties develop histories and personal relationships and become entangled in social networks (Granovetter 1985). Over time, agents acquire constituencies other than their principals that buffer them from the contracting, recontracting, and sanctioning of their principals. And as agents (government bureaucrats, corporate managers) outlast their principals (legislators, CEOs), the balance of power between principal and agent may shift.

Management

The agency theory paradigm, first formulated in the academic economics literature in the early 1970s (Ross 1973, Jensen & Meckling 1976) had diffused into the business schools, the management literature, specialized academic and applied practitioner journals, the business press, even corporate proxy statements by the early 1990s, representing a new zeitgeist and becoming the dominant institutional logic of corporate governance (Zajac & Westphal 2004). Corporations announced the adoption of new policies, explicitly invoking agency theory buzzwords about aligning incentives, discouraging self-interested behavior by managers, and reducing agency costs. Indeed, some adopted new policies that embraced an agency rationale without bothering to implement them, simply jumping on the bandwagon of a socially constructed institutional logic that bestowed increased market value on symbolic declarations alone (Zajac & Westphal 2004).

Despite the fascinating case study in social movements (Davis & Thompson 1994), the diffusion of innovations, and the sociology of knowledge that these developments offer, they also had a significant impact on the intellectual agenda of the academy, spawning a massive empirical literature in management and organizational behavior. Agency theory has become a cottage industry that explores every permutation and combination of agency experience in the corporate form. Because the work is largely empirical, it by necessity relaxes some of the assumptions of classic agency theory in economics; it turns dichotomies into continuous variables, breathes life into abstract categories, and situates inquiry in at least some limited context. Still, it is closely wedded to the questions raised in economics and the settings invoked by economic models.

The most popular stream of literature focuses on incentive alignment, particularly compensation policies. Empirical studies consider the types and correlates

of and trade-offs between behavior-oriented (salary) and outcome-oriented (piece rates, commissions, bonuses, equity ownership and other devices that link compensation to shareholder wealth) compensation (Eisenhardt 1989). A second stream examines corporate governance and control, such as

- the monitoring role of the board of directors and trade-offs between recruiting inside or outside directors or between separating the roles of board chair and CEO versus filling them with one individual;
- monitoring strategies within the firm [e.g., trade-offs between horizontal (peer-to-peer) and vertical (agent-to-principal) control];
- bonding mechanisms; and
- the agency implications of different forms of capitalization (e.g., paying out dividends and thereby limiting discretionary funds available to managers while also activating the monitoring role of the financial markets when managers must solicit additional funding).

The literature also includes studies of the process and costs of searching for agents, especially in light of the tensions posed by adverse selection.

Another major body of scholarship considers the agency problems, agency costs, efficacy, and trade-offs of different control mechanisms as they intersect and vary by

- length of principal-agent relationship;
- organizational structure and form (e.g., headquarters and subsidiary, outsourcing);
- characteristics of industries, organizations, and employees (e.g., technologies, product demand, diversification, venture capitalist-entrepreneur relationships, family firms, cultural distance between sites, employee education, skill levels, amount of specialized knowledge, autonomy, etc.);
- “programmability” of the task, or how well the required behaviors can be precisely defined (Eisenhardt 1989); and
- organizational environments (e.g., turbulence).

Also coursing through this literature is a debate, sketched earlier, between those who adopt the skeptical, even paranoid, assumptions of agency theory and the costly control mechanisms it propounds and those who have a more hopeful view of human capacities for other-regarding behavior and altruism and argue that agency costs can be mitigated by organizational structures that foster reciprocity, cooperation, embeddedness, and trust (Donaldson 1990, Wright & Mukherji 1999).

Political Science

In exploring the delegation of power and authority in political and government institutions and international organizations, political scientists take agency theory outside of the economic marketplace and the constricting web of assumptions

that shroud the economic theory of agency. The political system can, of course, be understood as a complex network of principal-agent relationships composed of citizens, nation states, elected officials, lawmakers, members of the executive branch, administrative agencies, courts, international organizations, ambassadors, bureaucrats, soldiers, police officers, supervisory officials, civil servants, patronage appointees, and even those who monitor other agency relationships inside political institutions and in the market. These actors concurrently play principal and agent roles within and across political organizations.

A general theory of agency emerged in political science (Mitnick 1973) at the same time that it did in economics (Ross 1973), apparently independently. As we have seen, the latter took off spectacularly, becoming quickly institutionalized in an academic literature, specialty journals, and corporate ideologies and practices. The former languished (Moe 1984), developing belatedly as rational choice theory made inroads into political science. As a result, agency theory in political science borrows heavily from the economics paradigm rather than the more sociological conception offered by Mitnick (1973) or even classic works, such as Weber on bureaucracy (Kiser 1999).

The vague outlines of the agency paradigm in political science are the same as those in the classic version: Principals delegate to agents the authority to carry out their political preferences. However, the goals of principals and agents may conflict and, because of asymmetries of information, principals cannot be sure that agents are carrying out their will. Political principals also face problems of adverse selection, moral hazard, and agent opportunism. So principals contrive incentives to align agent interests with their own and undertake monitoring of agent behavior, activities that create agency costs.

The details are quite different, however, for many of the reasons considered earlier. Political scientists assume multiple agents and principals; heterogeneous preferences or goal conflict and competition among principals and among agents as well as between them; problems of collective action; a more complicated palate of interests and therefore different incentives mobilized to control them; varying sources of and mechanisms to mitigate informational asymmetries; an active role for third parties (interest groups, regulated parties, etc.); and a dynamic playing field on which relationships unfold and are transformed.

Political scientists also consider a more diverse set of scenarios for delegating power beyond those inherited from the economics paradigm. Principals may delegate to another to enhance the credibility of their commitments, for self-binding (to ensure their long-term resolve in the face of immediate temptations), or to avoid blame for unpopular policies. These scenarios call for a very different agency contract. Instead of providing incentives and sanctions to align the interests of agents with their own, principals seeking credibility from their agents select agents operating at arm's length, with very different policy preferences, and confer considerable discretion and autonomy to them. These agency contracts grant independence while still seeking to insure accountability (Majone 2001).

Early literature in political science on the iron law of oligarchy, the iron triangle (between Congress, regulatory agencies, and regulated interests), regulatory

capture, and bureaucratic drift all give voice to some of the intrinsic difficulties of principal control in political institutions. More recent work employing an agency theory perspective ranges from appellate review of lower court decisions to political corruption and presidential decisions to use force. The largest literatures examine state policy implementation, the relationship between elective institutions and administrative agencies (especially legislators and bureaucrats), and government regulation. Principal-agent perspectives are also commonplace in examinations of international organizations (e.g., central banks, international courts, the European Union) in the literature on comparative politics and international relations.

Political scientists devote far more attention than economists to the details of how principals control agents. There is some work on the selection and recruitment of agents, the role of patronage, political appointments, and the impact of civil service requirements on adverse selection and more on how principals specify their preferences. A body of work considers statutory control (i.e., detailed legislation) and how lawmakers craft legislation to restrict the discretion of those charged with its implementation, specifying administrative structures and procedures to constrain the decision-making process (McCubbins et al. 1989). There are literatures on political oversight and monitoring, including ways in which principals opt for reactive over proactive oversight, relying on third-party monitoring by affected interest groups or the targets of their legislation to detect and report on noncompliance (so-called fire alarms or decibel meters).

There is more attention in political science than in economics to the role of sanctions—budget cuts, vetoing rules or agency actions, reversing court decisions, firing officials or voting them out of office, requiring agency reauthorization or threatening recontracting, etc.—perhaps because, as noted earlier, it is far less easy to align incentives without the financial inducements that flow through economic organizations. The literature also considers the matter of agency costs; when they are too high, principals may decide not to squander resources on them (Mitnick 1998, Banfield 1975). Because politicians may not directly feel the consequences of self-interested, opportunistic agents shirking or undermining their interests (what political scientists call slack, slippage, or bureaucratic drift), the costs of which are generally passed along to the public, monitoring activities may be more lax in political arenas (Waterman & Meier 1998).

Law

Long before there was a theory of agency, there was a law of agency. Indeed, it was not until the twenty-first century that the *Restatement of the Law, Agency* (American Law Institute 2001) replaced “master/servant” with “employer/employee.” The law of agency

encompasses the legal consequences of consensual relationships in which one person (the ‘principal’) manifests assent that another person (the ‘agent’) shall, subject to the principal’s right of control, have power to affect the principal’s legal relations through the agent’s acts and on the principal’s behalf (American Law Institute 2001, p. 1).

In other words, the central focus of the law of agency is on “the legal consequences of choosing to act through another person in lieu of oneself” (DeMott 1998, p. 1039). Agency doctrine defines the legal obligations that principals have with third parties for actions that agents took on their behalf. The principal, for example, may be “bound to contracts and transactions made by the agent and may be vicariously liable for some instances of the agent’s misconduct” (DeMott 1998, p. 1038). Because principals will be held responsible for the actions of their agents, the law also attends to the sources of agent authority, clearly demarcating what constitutes an agency relationship, the rights of principals to control their agents, and the fiduciary duty and other obligations that agents owe their principals (Clark 1985).

Agency theory borrows jargon from agency law, but adopts neither its definition nor its central focus. The legal definition of agency is much more narrow even than that employed in the economics paradigm of agency theory, let alone that found in the other social sciences.

[A]gency does not encompass situations in which the ‘agent’ is not subject to a right of control in the person who benefits from or whose interests are affected by the agent’s acts, who lacks the power to terminate the ‘agent’s’ representation, or who has not consented to the representation (American Law Institute 2001, p. 2).

Generally, the alleged agent and principal have met each other face to face, or have talked on the telephone, or have otherwise communicated with each other in a specific, individualized way. Courts trying to determine the scope of their relationship often scrutinize the actual course of dealings between the particular parties and try to determine what their actual understanding of their particular relationship was (Clark 1985, p. 58).

The relationship between a corporation’s shareholders and its directors, for example, does not fall within the legal definition of agency, notwithstanding the centrality of this relationship in economic agency theory. Principal control is critical in the law of agency because of its focus on third parties and the concern that when third parties make agreements with agents or are hurt by agents, their principals will be bound or held responsible. But it is the control itself that the social sciences make problematic. Therefore, it cannot be defined away by looking only at the point along a continuum where control is absolute. Moreover, central questions in the social sciences about the nature of the contract between principal and agent, the mechanisms by which the former control the latter, and strategies to contain agency costs are rather peripheral in the law of agency.

Still, when the two paradigms do intersect, the law of agency provides rich grist for the social scientists’ mill—for example, when legal scholars look to the mechanisms by which principals select their agents; the private norms, instructions, and messages the principals convey; the nature of the incentives they offer; and the care they take to monitor the behavior of agents to determine whether corporations should be held vicariously liable for the criminal conduct of their employees (DeMott 1997). The law offers normative understandings of agency relationships

and lots of data (if tainted by selection bias), especially when they fail. But it offers little else.

A SOCIOLOGICAL PERSPECTIVE

Although economists may speak of ‘the agency problem,’ agency is in fact a solution, a neat kind of social plumbing. The problem is the ancient and ineluctable one of how to attain and maintain control in order to carry out definite, yet varying purposes (White 1985, p. 188).

In his comparative analysis of agency theory applications to state policy implementation in economics, political science, and sociology, Kiser (1999) observes that, compared to the other two disciplines, “the use of agency theory in sociology is in its infancy” and comes from a rather different “intellectual genealogy” (p. 162), largely the work of Weber (1924/1968). [See Kiser (1999) for an illuminating analysis that traces the linkages between abstract components of classic agency theory and Weber’s work on the relationship between rulers and their administrative staff.]

Empirical work in sociology that explicitly adopts an agency theory perspective (aside from that described earlier in the organizational behavior and management literatures) can be found in the most unexpected of places—in qualitative comparative historical sociology. In imaginative and richly textured case studies of such things as European colonialism in seventeenth and eighteenth century Asia, Chinese state bureaucratization that occurred two millennia before any of the European states, early modern tax farming, and types of corruption in premodern Asian tax administration, we learn about the tensions between principals and agents, conflicting interests, opportunism, informational asymmetry, agent selection, monitoring, sanctions, incentives, and agency costs (Adams 1996, Kiser 1999, Kiser & Cai 2003). This work links social structure to types of agency relations, and it demonstrates how different combinations of recruitment, monitoring, and sanctioning practices yield different administrative systems. This literature is certainly a far cry from the abstract mathematical models of principal-agent theory in economics.

It is puzzling that agency theory is not invoked elsewhere across the sociological landscape in places one would think would be more hospitable. Perhaps, like me, few sociologists feel comfortable putting the words “agency” and “theory” side by side and find the classic paradigm, its assumptions, and the research questions it inspires off-putting and simplistic. But that has never been our only choice. As long as there has been an economic theory of agency there has been a more sociological alternative. In a series of papers spanning at least 25 years, political scientist Barry Mitnick broke the monopoly on agency theory enjoyed by the economics paradigm and offered an alternative to the assorted baggage that comes with it. Agency, he argued (Mitnick 1998, p. 12) is simply “a general social theory of relationships

of 'acting for' or control in complex systems." Agency relationships have two faces, Mitnick observed: "the activities and problems of identifying and providing services of 'acting for' (the agent side), and the activities and problems of guiding and correcting agent actions (the principal side)." Of course, both faces of agency entail costs and at some point it does not pay for principals or agents to perfect their behaviors. So "perfect agency" is rare, and deviant behavior is likely to "persist and be tolerated." Agency theory, then, "becomes a study in the production, the persistence, and the amelioration of failures in service and control" (Mitnick 1998, p. 12), a kind of Murphy's law (Mitnick 1992, p. 76). Mitnick's work repeatedly shows the links between agency theory and sociological literatures from exchange theory to norms, networks, authority, organizations, social control, regulation, trust, social cognition, and so on. Yet it, too, is rarely cited in sociological literature.

The problem may be that "acting for" relationships are too general, embracing too much of what is enacted on our turf. Perhaps sociologists have been studying agency all along and just didn't know it. In the remainder of this essay, I focus on several sites across the social landscape where making agency relationships problematic seems likely to provide the most theoretical purchase.

Agency or "acting for" relationships arise from a number of sources, including

1. the division of labor; we simply do not have time to do everything ourselves (even hunting and gathering), and complex tasks often require more than one actor [Mitnick (1984) calls this practical or structural agency];
2. the acquisition of expertise or access to specialized knowledge [Mitnick (1984) labels this contentful agency];
3. the bridging of physical, social (e.g., brokering or intermediation), or temporal distance [Adams's (1996) study of colonialization provides an example of the challenges of the former; for the latter, see Majone's (2001) discussion of time-inconsistency]; and
4. the impulse to collectivize in order to enjoy economies of scope and scale or protection from risk [Mitnick (1984) calls this systemic or collective agency]; many of these relationships (pensions, insurance, investments, etc.) are what I have called futures transactions that "demand that commitment be conferred far in advance of payoff without any necessary confirmation during the interim that the return on investment will ever be honored" (Shapiro 1987, p. 628).

These varied occasions for agency—especially the last three, in which a formidable physical, social, temporal, or experiential barrier separates principal and agent—pose different agency problems. Several exacerbate problems of asymmetric information; others contribute to adverse selection; some create collective action problems among multiple principals; others provide easy cover for moral hazard and opportunism.

Professions

The sociology of the professions provides a window on agency as expertise, problems of asymmetric information, and one kind of model for delivering agency services. The assumptions of the agency paradigm are stretched where principals seek out agents for their specialized knowledge. Sharma (1997) observes that run-of-the-mill information asymmetry (not knowing what the agent does) is exacerbated in encounters with professionals by knowledge asymmetry as well (not knowing how the agent does a job). Adverse selection is a special problem because principals are unable to evaluate the skills of prospective agents. Principals also have a difficult time specifying an agency contract because they may not know what expert services are required or how much of them, what procedures ought to be followed, or what criteria are appropriate to limit agent discretion. They also have difficulty evaluating the quality of service because “indeterminacy [is] intrinsic in highly specialized tasks” (Sharma 1997, p. 771). Some patients get better despite their physicians; the clients of superb lawyers sometimes lose; and bright, curious, conscientious students may become great sociologists despite incompetent or opportunistic professors.

Professions provide the solution to these agency problems. They boast careful and competitive selection procedures. They offer training and credentialing, licensing, recertification, and mandatory continuing education to solve the principals’ problem of adverse selection. They may even establish protocols or specify best practices to limit agent discretion. They create ethics codes to curb the self-interest and opportunism of practitioners. Because principals are unable to determine when they have received exceptional or substandard service, professions self-regulate in varied settings (among peers, within service organizations, within professional associations, and by disciplinary bodies). And professions often offer or promote malpractice insurance to protect principals from the errors or misdeeds of honest and incompetent agents alike. Insurers often provide incentives, stipulate mandatory procedures, and provide loss prevention services to their insureds—adding yet another level of regulation (Heimer 1985, Davis 1996). Professions, then, are social devices to limit agency costs.

Of course, there is a critical literature that provides a rather different frame on the agendas of professions as mechanisms to secure monopoly (e.g., Larson 1977, among many others). But this frame is by no means incompatible with a principal-agent perspective. Indeed offering a credible mechanism to minimize agency costs represents a brilliant marketing strategy and a way to stave off the encroachment of other would-be agents who seek to offer the same services to principals.

Embeddedness

Literatures on embeddedness and trust (Granovetter 1985, Shapiro 1987, Cook 2001) depict a rather different strategy for coping with the agency problem by targeting agent selection, monitoring, and sanctioning. Embedding agency relationships in an ongoing structure of personal relationships solves the problem of

adverse selection in the recruitment of agents. Principals frequently know their agent's type because of personal familiarity with potential agents or through members of trusted social networks in which both principal and agent are embedded; agents have track records and reputations. Although neither self-interest nor goal conflict is extinguished by recruiting agents from personal networks, their effects are likely mitigated somewhat. Agents and principals are more likely to share similar interests and values than those found among groups of strangers, and agents are more likely to be other-regarding (altruistic, even) or honest when entrusted with responsibilities for friends, family, neighbors, fellow church or association members, and the like. Monitoring of agent behavior is also usually easier in proximate and continuing relationships in which agents are routinely overseen or surveilled by principals or their associates. And social networks afford a rich array of sanctions for the errant agent (from shaming, ostracizing, or loss of reputation, to more restitutive sanctions).

Despite the celebration of trust as a source of social capital in the literature, embeddedness also has a dark side. Family firms, for example, face unique agency costs. They struggle with adverse selection because nepotism can lead to the selection of less-capable or expert agents. Moreover, because family members are often compensated generously regardless of merit, and their job tenures are relatively secure, principals lack important incentives to constrain agent behavior. Hence, the risk of shirking and free riding by family agents. Because embeddedness is often an excuse to relax vigilant recruitment and monitoring, it provides cover, not only for wayward offspring or relatives, but also for confidence swindlers to feign social intimacy and thereby enjoy unfettered opportunism (Shapiro 1990).

Fiduciaries

In the law of agency, all agents are fiduciaries, but all fiduciaries are not agents (that is because, as you recall, in law agents must be able to control their principals). But these other non-agent fiduciaries are much more interesting—the individuals and organizations acting on behalf of those for whom the asymmetries of information, expertise, access, or power are so great that they cannot pretend to control their agents. We are more interested in the professor who has his pension tied up in TIAA-CREF than the CEO of TIAA-CREF who has delegated some responsibility to an investment analyst working at the company. We are more interested in Terry Schiavo, the comatose Florida woman whose guardian is trying to end life support, than in Jeb Bush, the Florida governor who is maneuvering to continue her persistent vegetative state. Or, more accurately, I propose that sociologists take an interest in the fiduciaries acting on behalf of the former. Organizational and political sociologists have already taken an interest in the agents for the latter.

When agency relationships are at their most asymmetric, the basic logic of classic agency theory breaks down. Preferences are not specified (or at least not heard or satisfied), contracts not formulated, incentives not fashioned, monitoring not mobilized, sanctions not levied—at least not by the principals themselves;

and those who believe that agents are opportunistic might profitably look here for evidence of abuse. Of course, these fiduciaries face a problem as well: Why would anyone ever trust them when their conduct is so unrestrained? Would-be fiduciaries therefore undertake activities to shore up their trustworthiness in an effort to market their wares. The systematic study of the social construction, social organization, and social control of the fiduciary role or impersonal trust is well overdue [Shapiro (1987); see also Majone (2001) for a discussion of trustee or fiduciary relations as an alternative to agency in political science].

Goal Conflict

The classic agency paradigm, with its eye on the principal, perceives goal conflict as the departure of agents from the interests of the principal. Hence, the solution to this agency problem is to come up with incentives that will align the interests of agents with those of the principal. Keep the agent from shirking by paying her a piece rate, perhaps. The agency problem looks quite different from the perspective of the agent, though. Conflicts between the interests of the agents and those of the principal are the least of the agent's problems. The real problem is that the agent is most likely serving many masters, many of them with conflicting interests. Even if the agent is able to silence his or her own interests, there is the matter of how to maneuver through the tangled loyalties he or she owes to many different principals and how to negotiate through their competing interests and sometimes irreconcilable differences. How do you honor the preferences of one when doing so means that you are undermining the interests of another? Can you represent a client suing an insurance company if another lawyer in your firm represents insurance companies? Do you take your patient off antipsychotic drugs because your clinical trial requires subjects begin with a drug washout (possibly followed by a placebo)? Do you audit a company that pays your firm millions of dollars annually for management consulting services? Do you take the kidney of one of your offspring to save another offspring, or perhaps conceive one to use its stem cells or bone marrow for another? Do you read the dissertation or peer review the article? How do agents choose among often incommensurable interests that do not share a common metric along which competing demands can be ranked, costs and benefits weighed, trade-offs evaluated, or rational choices modeled (Espeland & Stevens 1998)?

Only the rare agent has the luxury of aligning her interests with a single principal. Conflict of interest is hardly about shirking or opportunism with guile; it is about wrenching choices among the legitimate interests of multiple principals by agents who cannot extricate themselves from acting for so many. In an economy driven by mergers, diversification, cross-ownership, synergy, interdisciplinary practices offering one-stop shopping, and dizzying job mobility, agents are increasingly buffeted by the conflicting interests of the principals they serve. Classic agency theory misunderstands not only the source of goal conflict but also the social conditions that inflame it. Examining how the social organization of agency relationships

gives rise to conflicting interests and how agents (institutional as well as individual) in diverse settings and roles respond is a subject ripe for sociological inquiry (e.g., Shapiro 2003).

Opportunism

Of one thing classic agency theory is sure: There will be agency problems. But it is remarkably vague about the nature of the problems, short of shirking and exploiting perquisites. The term *guile* does not quite spell out what agents are up to when they act opportunistically either. Sociologists have been studying these agency problems at least since Edwin Sutherland (1940) coined the term *white-collar crime* in his presidential address to the American Sociological Society. After many years of spirited disagreement, sociologists now agree to disagree about the appropriate definition of white-collar crime. But, aside from those who continue to insist that these are merely the crimes of high-status individuals, many would probably agree that misdeeds committed by individual or organizational agents come fairly close to what they consider to be white-collar crimes. I go further, asserting that we focus on the fiduciary duties of those in positions of trust, and I define white-collar crime as “the violation and manipulation of the norms of trust—of disclosure, disinterestedness, and role competence” (Shapiro 1990, p. 250). But I am not sure that I have convinced other sociologists. Nonetheless, few would contest the characterization of lying (misrepresentation and deception) and stealing (misappropriation, self-dealing, and corruption) by those in positions of trust (i.e., agents) as core elements of what they mean by white-collar crime. Nor would many argue that understanding how the structural properties of agency relationships facilitate misconduct and confound systems of social control is not central to agency theory models regarding policing and sanctioning of agent opportunism.

Although traditional agency theorists write frequently about corruption and probably mean misappropriation or self-dealing when they refer to the exploitation of perquisites, I doubt they would be altogether comfortable with this approach. A whistleblower, for example, would be violating the agency contract as would an employee who silently refused to be complicit in organizational misconduct ordered by his or her principals. Neither of these agency-theory malefactors would be problematic in a sociological conception because, unconstrained by assumptions of methodological individualism, sociologists can juggle many units of analysis and sites and chains of principal/agent relationships simultaneously. Although classic agency theorists seemed surprised when the world learned that their perfect incentives to align the interests of corporate executives and shareholders (giving the former stock options and equity ownership) might result in these executives contriving illicit schemes to inflate stock prices, sociologists, with our eyes on the bigger picture, surely were not. Nor are we convinced that these extraordinarily costly agency failures constitute a refutation of agency theory, as some suggest (Zajac & Westphal 2004); rather, we argue that one needs a more nuanced understanding of principals, agents, and organizations when fashioning complex

incentives. (Besides, we have been trained to be mindful of the unanticipated consequences of purposive social action.)

Sociologists have and will continue to make an important contribution to understandings of white-collar and corporate crime (Shapiro 2001). Bringing the insights of agency theory to their inquiry will push the envelope a bit further and sharpen their insights.

Monitoring

There is, of course, an abundance of work in sociology on social control, compliance, organizational governance, policing, and sanctions that will contribute to understanding the agency paradigm. There are also more specialized literatures on the cover up of organizational misconduct and the social control in and of organizations, organizational intelligence, regulation and enforcement, and the sanctioning of white-collar or corporate offenders. These literatures demonstrate that much of what we know about the control of crime in the streets does not work so well when we seek to understand crime in the suites (i.e., agency problems). I cannot possibly review them here or even supply the dozens of citations to the most groundbreaking work in this area.

However, two observations are relevant here. First, because information and knowledge asymmetries (“know what” and “know how”) are characteristic of many agency relationships, and because agency relationships are exceptionally opaque [owing to institutions of privacy (Stinchcombe 1963)] and relatively inaccessible to surveillance, self-regulation (drawing on inside information and expertise) plays an important monitoring role. Sociologists have tended to be skeptical of self-regulation—of foxes guarding chicken coops—as an institutionalized conflict of interest. Much good work has proven that stereotype simplistic (e.g., Kagan et al. 2003, Ayres & Braithwaite 1992). But, whatever the efficacy of self-regulation, it requires continued scholarly attention in the policing of agency relationships.

Second, many of the regulatory and self-regulatory arrangements devised to monitor agency relationships are themselves agency relationships. Whether they are internal or external auditors, compliance officers, internal affairs departments, government regulators, insurance companies, investment advisors, or rating agencies (e.g., Standard & Poors or Underwriters Laboratory), the monitors are acting on behalf of some set of principals. And, therefore, they too promise agency problems. They shirk, become coopted, engage in corruption, or perhaps simply monitor the wrong things. In an escalating cycle of agents overseeing agents, we must ask: Who monitors the monitors (Shapiro 1987)?

Insurance and Risk

There is a reason that the basic language of agency theory—adverse selection and moral hazard—comes from insurance. Insurance institutions have been designing contracts and negotiating around the shoals of goal conflict, opportunism,

monitoring, and especially incentives long before the social sciences discovered agency. Insurance companies, indeed, know so much about failures of agency that they sell policies (fidelity bonds, for example, or liability policies for breach of fiduciary duty or professional malpractice) to cover such things, putting their money where their mouths are, a risk I doubt few academics would take. As Heimer (1985) demonstrated some time ago, sociologists have a great deal to learn from the social practices of insurance. They still do.

Agency Costs

However hard principals try to minimize them, all agency relationships experience agency costs; about this all the paradigms agree. Agency costs arise from many sources: the costs of recruitment, adverse selection, specifying and discerning preferences, providing incentives, moral hazard, shirking, stealing, self-dealing, corruption, monitoring and policing, self-regulation, bonding and insurance, agents who oversee agents who oversee agents, as well as failures in these costly corrective devices. Because principals cannot observe agent behavior, they “rely on imperfect surrogate measures, which can lead the agent to displace his behavior toward the surrogates in order to appear to be behaving well” (Mitnick 1992, p. 79) (e.g., because student test scores are used to monitor teachers, some teacher/agents coach students on how to take tests rather than teaching them substance or how to think). Agency costs therefore increase because agents are concentrating their efforts on the wrong things.

Costs also increase because organizations are structured to minimize opportunism—checks and balances are created, reporting requirements implemented, redundancies introduced, employees rotated, responsibilities fragmented, layers of supervision added, revolving doors locked, and so on. Costs increase because principals, fearful of abuse, impose procedures, decision rules, protocols, or formularies to limit agent discretion, or their agents do. Ironically, principals who seek out agents because they lack the expertise to make decisions tell their agents how to make decisions on their behalf, or else they tie their hands. Although organizational sociology has demonstrated that agents sometimes bend the rules to better serve their principals, others ritualistically follow the letter rather than the spirit of the law, thereby deepening agency costs. Because we fear that agents might act on their self-interests, we require that they be disinterested; we take agents out of embedded networks where their loyalties and interests are entangled with others, but at the price of losing the social capital, reputation, goodwill, and inside information that they might have used profitably in service of their principals.

In short, because we are fearful that agents will get our preferences wrong, we construct a protective social edifice that insures that they will get them less right. As I wrote in a different context some time ago, these trade-offs between one kind of agency cost over another are akin to the choice between Type I and Type II errors in statistics. Are the constraints set so narrowly that desirable agent

behavior is deterred or so flexibly that inappropriate behavior is tolerated (Shapiro 1987)? Either way, you get an error. Mitnick (1998) reminds us that the costs are sometimes just not worth it, and perfect agency is rare indeed.

These reflections about the sources and consequences of agency costs are just that; certainly they warrant more systematic investigation. How do principals make investment decisions about agency costs? For what kinds of agency relationships are costs the highest? Aside from embedding agency service in ongoing social relationships, what strategies do principals employ to minimize agency costs? When do they simply throw up their hands and decide not to delegate at all?

CONCLUSION

Although agency theory may not occupy a niche in sociology, agency relationships are omnipresent, under cover of other aliases—bureaucracy, organizations, professions, roles, markets, labor, government, family, trust, social exchange, and so on—"a neat kind of social plumbing," as White (1985, p. 188) observed. Drawing on agency theory in other disciplines, sociologists have been sensitized not to lose sight of the interaction between agent selection, specification of preferences, designing incentives to align the interests of principal and agent, monitoring, and sanctioning in the "acting for" relationships that unfold on their substantive terrain. But that is just the beginning. Sociology has much more to offer, as I have suggested above, both in examining the sites along the social landscape where agency is especially prominent and, having jettisoned the unrealistic assumptions and abstract models fashioned in the other social sciences, in inquiring in empirical detail about how principals and agents actually choreograph their dance. Are sociologists ready to use "agency" and "theory" side by side? I think not. But that's the good news.

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