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Analysis of the economic behavior of the actor using agency theory: theoretical analysis

L'analyse du comportement économique de l'acteur par la théorie d'agence : analyse théorique

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Abstract

The first economic analyzes of the organization, in particular, the analysis of relationships within the firm, encourage us to recall the work of Coase, in particular, on the question of the firm as an organization whose coordination be more efficient in relation to the market, by minimizing the costs that appear during an agency relationship.

The variation in the value of costs is strongly linked to the behavior of the actors involved in the property transfer process in question. The analysis of the behavior of the internal actors of the organization from a cost point of view is done through the analysis of two major phenomena developed in this current. Firstly, the phenomenon of limited rationality, limiting the actor's capabilities in calculating the profitability of these actions. Secondly, the opportunistic behavior of the actor, seeking to achieve his objectives by focusing on private interests. The objective of this research is the analysis of the economic behavior of actors, through agency theory.

Keywords: economic behavior; actor ; agency theory ; theory of property rights; transaction cost theory

Résumé

Les premières analyses économiques de l'organisation, notamment, l'analyse des relations au sein de la firme, nous incitent à faire un rappel sur les travaux de Coase, notamment, sur la question de firme en tant qu'une organisation dont la coordination soit plus efficace par rapport au marché, en minimisant les couts qui apparaissent au cours d'une relation d'agence.

La variation de la valeur des couts est fortement liée aux comportements des acteurs introduisaient dans le processus de transfert de propriété en question. L'analyse des comportements des acteurs internes de l'organisation de point de vue cout, se fait à travers l'analyse de deux grands phénomènes développée dans ce courant. Dans un premier temps, le phénomène de la rationalité limitée, limitant les capacités de l'acteur en matière de calcul de la rentabilité de ces actions. Dans un deuxième temps, le comportement opportuniste de l'acteur, cherchant atteindre ses objectifs en s'intéressant aux intérêts privés. L'objectif de cette recherche est l'analyse du comportement économique des acteurs, à travers la théorie d'agence.

Mots clés : comportment économique ; acteur ; théorie d'agence ; théorie de droit de propriété ; théorie de cout de transaction.

Introduction

In general, researchers always ask the question: *what are the determinants of the economic behavior of the company's strategic actors?* It is a question that remained for a mainly academic language, but today, and especially after the development of the organizational structure of companies, this question has become a strategic objective of managers.

The question of economic behavior mainly involves agency relationships within the organization. At this level, we will present the theoretical contribution allowing us to understand this phenomenon within the firm as an organization whose coordination detects conflicts of interest between the actors. We will focus on the work of Coase, whose objective is to minimize the costs that appear during an agency relationship.

The presentation of the analysis through agency theory will make it possible to present elements of response to the determinants of the economic behavior of actors. The ultimate goal at this level is to identify a conceptual framework specific to theoretical business models. In the present work, the concept of economic behavior is mainly theoretical than conceptual since it serves as a source for identifying the determining variables. The concept of economic behavior of actors raises the following question:

- *What are the components of economic behavior?*
- *Will the analysis of agency interactions be able to understand the behavior of the actor?*

Our model is based on classic relationships and determinants of economic behavior according to agency theory. Generally, any economic actor or agent has an interest in maximizing profit in the first place, and then he seeks to achieve other complementary objectives.

In order to answer the questions we will adopt a deductive approach, starting from the general towards the particular. This choice aims to define a path allowing us to link the theoretical contributions and our research problem. Firstly, we will present the overcoming of neoclassical theory; this axis will allow us to verify the points in which the two schools of thought are different. Secondly, we will present the contribution of the agency theory of economic behavior. Finally, we will present the relationship between agency theory and transaction cost theory.

1. Overcoming traditional neoclassical design and economic behavior

The various developments in the economic theory of the firm show that the role of the firm is not limited to the production function as developed in neoclassical microeconomic theory. The new contributions have raised major issues linked to the organizational structure of the firm, in particular the organization of functions and tasks, as well as methods of coordination. Generally, the influence of all external factors on the functioning of the firm encourages authors to give more importance to the managerial dimension, which leads to the questioning of the hypotheses of the neoclassical approach[1].

Already, the famous article by R. Coase in 1937 entitled “the nature of the firm”, raised several issues in relation to the question of the existence of the firm. R. Coase is interested in the question of resource allocation and the question of coordination within the firm; he notes that coordination does not depend only on the price charged on the market.

The question of recourse to the market, leads to the redefinition of the concept of organization as a mode of coordination and the interaction of behaviors according to Coase, at this level, he explains recourse to the market by a comparison between the costs of the organization and market costs, in particular those linked to the search for new partners and negotiation with them, the search for information, the development and execution of contracts. The existence of all of its costs automatically leads, according to the author, to the existence of the firm. However, the objective of the management represented by its managers is to find solutions and strategies to minimize the various transaction costs, if not the internalization of the transaction.

This transition from the traditional conception of the firm, whose role is the transformation of *inputs (production function), to* a broader dimension taking into account the organizational aspect of the firm, leads to the questioning of the neoclassical hypotheses. New developments in organization theories have made it possible to integrate the organizational component into microeconomic theory.

The neoclassical model initially seeks to achieve social well-being in an optimal manner; it’s based on the following basic hypotheses making it possible to analyze the economic behavior of actors or individuals:

- The process of decision making,
- The rationality of the individual;
- The information is perfect
- Coordination is done by the market, of which price is the only determining variable.

[1] **Benjamin Coriat & Olivier Weinstein . (2010**). “Theories *of the firm between “contracts” and “skills””*. Industrial Economics Review, page 120-130

The concept of the firm in the neoclassical approach remains limited in the production function, it is called upon to transform resources into final goods and services. The limitation of the role of the firm in this function is the result of the rationality of producers, who have all the information and are able to predict the actions of others on the market. Maximizing profit involves minimizing different costs for its production. Generally, since the first work in economics, economists managed to specify two methods allowing production costs to be minimized, either through the volume of production or through the volume of resources.

The concept of the firm in the neoclassical approach always remains limited in the production function, it does not take into account either innovation or initiative (Coriat & Weinstein.2010). In the neoclassical approach, the coordination of economic activity is done by market, the latter allocates resources in an optimal manner allowing the maximization of producers' profits, and otherwise, recourse to the State becomes a necessity to improve social well-being and guaranteeing producers and consumers the maximization of their surpluses. State intervention is in the case where the market demands failures in terms of coordination and resolution of problems, this intervention can be in several forms, in particular presenting subsidies, intervening on the regulatory level or playing on taxes.

Given that the market is at the center of neoclassical analysis, it's considered the first avenue of development of microeconomic theory with emphasis on the structure of the latter. Through the hypothesis of the existence of a significant number of producers and consumers in a market of pure and perfect competition, the number of these actors determines the structure of markets according to the form of competition. All things being equal, the only determinant of the economic behavior of participants is the price, it remains the only mechanism that can influence the market. Producers have power over prices, as soon as the price is affected by their decisions, production and well-being are affected too (Asimakopulos. 1984).

Monopolistic competition has been the subject of several theoretical as well as empirical research; monopolies benefit from the effects of the economy of scale by preventing the entry of new competitors. The presence of monopoly on the market sometimes leads to the intervention of the State, the latter exists in order to limit the behavior of firms in terms of price setting, and it has the power to intervene to limit negative externalities of the firm's activity on the environment by adopting several incentive means. However, the State finds a difficulty when the good is not characterized by exclusivity, in particular, for public goods which have an almost zero marginal cost, which gives an almost zero charged price also, consequently, the State, can no longer intervene in this case.

1.1 Profit maximization

The objective of profit maximization developed in the neoclassical approach of the firm, -whose main function of the firm is the transformation of resources into final goods and services -, was the subject of a certain number of critiques which led towards going beyond basic neoclassical theory. Berle and Menas (1932) address the first criticisms through the separation of missions and the roles of shareholders and managers.

In the same context, Baumol (1959) replaced the concept of profit maximization with that of sales maximization. From this point, several studies have considered the behavior of managers and shareholders as determining variables for the development of the firm on an economic and financial level. Taking into account the behavior of managers as well as shareholders from a dynamic perspective made. It possible to analyze the growth of the firm alongside other variables such as the volume of sales and the workforce employed by the firm, which shows that the The real objective of the firm and its internal actors is to achieve growth, not profit maximization as the central objective.

1.2 The perfect rationality of economic agents

The concept of rationality is one of the key and fundamental elements in economic analyses, particularly in organizational theories. The hypothesis of unlimited rationality developed in the neoclassical approach allowing actors to predict and have all the information on the strategies of others on the market, has been the problem of a certain number of works.

H. Simon, is considered among the main authors who contributed to a break with neoclassical theory, the author raised several questions on the notion of the rationality of economic agents. Herbert Simon attacks the neoclassical hypothesis giving agents unlimited calculation capacity and the provision of perfect information allowing better remuneration.

Von Neumann and Morgenstern (1953) assert that there are no satisfactory treatments on the question of rational behavior. There are several ways to reach the optimal position, but it depends on the knowledge the individual had about the paths of action open to him or her. They add, the main reason for this lack is the difficulty or failures of applying mathematical methods adapted to problems related to rationality (**VON NEUMANN & MORGENSTERN** .1953).

1.3 Internal organization

As part of the extension of the work of Cyert and March (1963) , Coriat and Weinstein (1995), insisting on the decision-making process in a context characterized by a divergence of interests, the two authors find their origins in the work du Cyert and March entitled " *the behavioral theory of the firm* " published in 1963. The decision-making process is the result of negotiation between individuals, and that the efficiency of the decision lies in the effectiveness in terms of choice of the organizational structure, in turn making the decision faster and less costly for the firm.

Armen Alchian and Harold Demsetz emphasize the importance of cooperative efforts of different actors in the firm, demonstrating that the individual firm is the most efficient organizational form. At this level, the efficiency of the firm is the result of the imposition of work by technology; otherwise, it is when the production of a product is the result of cooperation, without it being possible to measure or to control the individual contribution of each person [**Coriat & Weinstein.2010**].

1.4 Efficiency

At this level, the firm-efficiency duel has been at the center of the concerns of economists, notably in the contribution of *Liebenstein* who worked on the concept of efficiency firms. According to *Liebenstein (1966)*, in the case of firms with the same production factors the explanation of the difference will no longer be made on the basis of these production factors, but there exists a factor X which is the quality of the organizational form , explaining the inter-firm difference, in terms of productivity, labor quality and capital intensity.

1.5 The modern firm

The modern firm is the last step beyond neoclassical theory. *Chandler (1962)* studies hierarchical structures from a historical perspective according to U-form (fictional organization) and M-form (multi- divisional organization) structures. According to the author, the organizational form adopted by the firm allows it to exploit the economy of scale, by increasing profits and reducing transaction costs.

The contributions of agency theory in this sense are placed at the heart of the new firm. Its importance and influences also come from the fundamental role it played in the firm's governance models. *Coase's* analysis of the firm can be understood in two different senses. On the one hand, it can be considered as an answer to the questions posed by *Berle and Means*, who are mainly interested in the governance processes of the firm, On the other hand, its analysis makes it possible to position the firm as an alternative form and as a response to market failures.

2 The neo-institutional conception of actor behavior between agency relations and property rights

The neo-institutional approach is considered as one of the approaches at the origin of the questioning of traditional neoclassical theory by replacing the unlimited rationality of actors with a limited opportunistic rationality. The neo-institutionalist current analyzes the behavior of actors through the contract mechanism. These contractual approaches to the firm are presented to analyze the behavior of the economic agent based on the information available to him. The first work carried out in this context aimed to give a new definition to the firm in an uncertain environment, which quickly led to the overcoming of the classic form of the firm and the questioning of certain hypotheses of the neoclassical approach. Of the actor.

Developments in the work of contract theory, led to the definition of new forms of organization and the firm, taking into account its environment and the importance of the information available to actors in order to react on the market. The latter are presented to analyze the behavior of economic actors and the characterization of their interactions by distinguishing between the limited and unlimited rationality of the actor, as well as perfect or imperfect information. This debate is the breaking point with traditional neoclassical theory.

According to contractual approaches, economic relationships between actors are defined as contracts of which the firm is a node. At this level, there are three main neo-institutional approaches allowing the analysis of the links between economic actors, the theory of property rights, agency theory and the theory of transaction costs.

2.1 Property rights theory a break with neoclassical analysis

With the development of the new microeconomics, a certain number of economists are interested in the question of property rights within the firm, through the development of a general theory of the firm while going beyond the conception of the black box according to the neoclassical approach. Since the work of *R. Coase* in 1937, the question of the firm becomes more important in the work of contemporary economists. It is in this context that *A. Alchian and H. Demsetz*are, considered the main economists who accepted *Coase's proposition* concerning the impact of transaction costs within the firm.

The work of these two economists can be considered as the first analyzes making it possible to link the managerial aspect to major economic questions. Otherwise, the contribution of *A.Alchian and H.Demsetz* made it possible to answer several questions, in particular those linked to the morality of the internal actors of the firm, and the set of questions on the measurement of productivity. Their analyzes made it possible to open a new avenue of research and development in the theory of the firm, contracts and organizations.

The theory of property rights finds its origins in several works, notably those developed by Demsetz . H (1967), Furubotn.E & Pejovich . S (1974) and Alchian. A (1965) the notion of property rights is defined as "rights *which are not relations between men and things but codified relations between men which relate to the use of things" (PEJOVICH & Al. 1974)*.

The property rights approach proposes ownership as one of the most effective means of valuing resources; at this level, the valuation of an asset is linked to its exclusivity and transferability. However, in the case where the property is of a collective nature this poses a problem in terms of the valuation of the assets and an over-use of wealth. However, according to *Coase* 's analysis in universes where transaction costs are not zero, the use of resources can no longer be used optimally, as well as the definition of rights will be more difficult *[PEJOVICH & Al. 1974]*.

It is important to say that the contribution of *A. Alchian and H. Demsetz* by referring to *Coase's contribution* shows that the connection between the question of property rights and that of transaction costs. However, it is very easy to conclude that in the absence of any transaction costs within the firm any problem can be overcome by clearly specifying all property rights in private form. Otherwise, the absence of two phenomena in the organization, namely collective ownership and transaction costs, leads to the disappearance of conflicts.

The authors specify that in the absence of the precision of rights, the coordination and optimal allocation of private property rights is done by the market. Recourse to the market, in seeking a better solution, involves comparing the costs of possible coordination methods. At this level, the introduction of an administered allocative mechanism could sometimes be less costly compared to other existing mechanisms, while economists of this trend insist on limiting the role of the State in terms of intervention to make in the face of market failures (*Demsetz , 1969*).

According to *PEJOVICH (1974),* specifies that we can speak of a property right only if there are two necessary conditions, firstly exclusivity and secondly transferability. The concept of exclusivity quite simply allows the rights holder total control, as well as freedom in use. However, the character of transferability is a character granting the right holder the possibility of transferring the property right from the hand of the owner to the hand of the operator *(PEJOVICH & Al. 1974).*

The theory of property rights was developed around two behavioral hypotheses,

- Maximization of the utility function (in the cooperative activities of individuals, the latter would seek to take advantage of the flaws in contracts, particularly linked to uncertainty and non-observability, to maximize their utility). Generally, this behavior leads to developments in agency costs (monitoring *costs, liability and residual losses)*. Controlling all of these costs requires finding specific types of contracts to minimize these costs.
- Rational anticipation, unbiased anticipation of the impact of agency relationships on the value of heritage.

2.2 Agency theory and the economic behavior of the actor: between rationality and utility maximization

Unlike transaction cost theory, incentive theory is distinguished by its preservation of the assumption of bounded rationality. The neoclassical hypothesis of the perfect rationality of agents called into question by Williamson remains fundamental in the theory of incentives, but both analyzes place the problems linked to information at the heart of the analysis of the firm (Brousseau, *2000*).

Generally, the theory of incentives relies in its analyzes on the notion of agency relationships. However, the analysis by the theory of incentives is not far from that of the theory of transaction costs, both approaches assume the existence of an information asymmetry. The origin of an agency relationship lies in the conclusion of a given contract, which defines two parties of the contract, the principal of which is the principal, and the second party is the agent who is the executor of order.

M. Jensen and W. Mackling (1976), define the agency relationship " *We define an agency relationship as a contract under which one or more persons (the principal(s)) engages another person (the agent) to perform some service on their on behalf which involves delegating some decision making authority to the agent "* [2]or " *we define an agency relationship as a contract by which one or more people (the principal) engages another person (the agent) to carry out on his behalf a task which involves the delegation of a certain decision-making power* . At this level, the authors distinguish several terms that can exist in an agency relationship, such as agent, principal, supplier, client or manager. The development of these asymmetric relationships gives rise to several behaviors, which can generate several costs for the firm. The application of agency theory to the analysis of the firm aims to formalize the relationships between internal actors of the firm with different interests, in order to determine the optimal contract forms corresponding to different situations.

Éric Brousseau (1988), considers that the contribution of agency theory is in the search for modes of retribution or sanction encouraging the agent to keep and think about the interest of the principal on all occasions, in particular when it is not under direct control by the principal.

The objective of this theory like any contractual theory is to reduce costs within the organization or which result from a given relationship. *R. Coase* (1992), said that "whether *men are rational or not, when they have to cross a dangerous passage to reach a certain restaurant, we can be sure that the candidates for adventure will decrease as the danger increases* ".

The establishment of an effective relationship allows the parties to the contract a significant gain similar to a transparent relationship where the information is perfect. The theory of incentives then uses several traditional hypotheses of neoclassical economic theory.

First, economic agents are considered rational according to the theory of incentives; they have complete information, which makes it possible to clearly predict the behavior of all agents existing on the market. Even if actors cannot accurately anticipate the behavior of others, they can define from the beginning the structure of all the problems likely to be faced. Other hypotheses, which remain fundamental, that of the unlimited calculation capacity of agents, as well as the order of preferences is well defined and complete.

The anticipation of strategies and the behavior of agents brings us back to the notion of the capacity for imagination. Economic agents are able to predict the reactions of others, given that they have a very efficient computational capacity. The hypothesis of unlimited calculation available to the economic agent, and that of preferably complete, allows the latter to avoid costs linked to time and resources. These basic hypotheses allow agents to make a choice of optimal solutions.

The interaction of the theory of incentives with the neoclassical model does not prevent the existence of criticism. *Brousseau* (2000), said that the two theories do not share the same information on certain variables. The theory of incentives defines two types of models resulting from information imperfections. On the contrary, from the neoclassical model, the principal in the contract does not have part of the information on the agent. Initially, we speak of anti - selection, adverse selection models, in this case, the principal has little information about the agent, however in moral risk, or *moral hazard models,* the principal cannot clearly observe the agent's behavior.

2.3 Agency Theory, a normative or positive theory

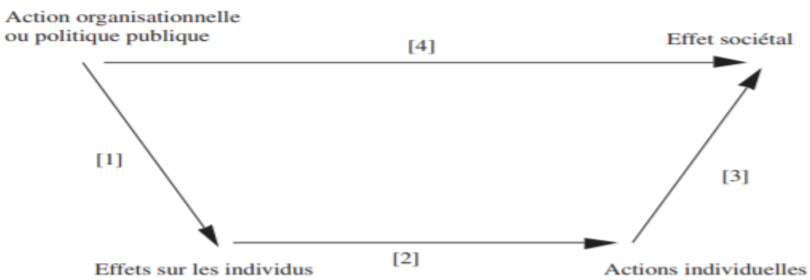
Agency theory lies between the explanation and the search for new mechanisms and methods to reduce costs within the organization, the relationships within the organization are cooperative or the opposite always exists. Accompany problems. Among the main problems encountered are conflicts between actors or partners. Generally, a divergence of interests between actors does not always lead to the creation of internal or external conflicts; otherwise, the existence of a divergence of interests does not always mean that one party exploits the other, but conflicts have several origins.

The work developed within the framework of agency theory leads to the representative distinction between two main approaches within agency theory: the normative approach and the positive approach.

On the one hand, agency theory is interested in the search for explanations for collective relationships within the organization by giving the character of rationality to actors in their choices. Like all neo-institutional theories, agency theory is also based on two basic hypotheses, namely methodological individualism, the explanation of the functioning of the organization involves the study and analysis of interactions between individuals, also, the individual is always supposed to be rational, in the sense that the actor always seeks to maximize his profits through calculations. In this sense, *Coleman (1994)*, considers that rationality is a fundamental hypothesis in neo-institutional analysis, given that the latter has a significant calculation capacity, and it always seeks to achieve its objective.

Positive agency theory proposes the convergence of private interest and social interest as a solution to conflicts within the organization. Otherwise, it is the search for the mechanism to tend the balance towards the optimum (**Charreaux .**1998). At this level, to better understand this relationship *Coleman (1994)*, explains it using the following diagram:

Figure 1: organizational relationships according to Coleman



Source: Philippe Steiner. 2003

According to the theorist, relationships are of three types in general. First, the relationships in which the actions of actors on the market, and in particular individuals, are strongly influenced by the prices existing on the market (the price is the main source of information, particularly in the traditional neoclassical approach). Second, economic actors are considered rational, whose main objective is the maximization of their utility functions based on market prices. Thirdly, in the third and last relationship, the result of the system is obtained through the combination of the actions of the actors and the analysis of their behavior by specifying their balances and their optima.

However, the term optimum leads us towards the *Pareto definition*, which said that it corresponds to the state where there is no other situation allowing the utility of a first actor to be increased without decreasing. Of utility of the other. However, the notion of equilibrium defined by *Nash* shows that the increase in the utility of an actor cannot be achieved by his actions alone, but the utility of the latter is also influenced by the optimal actions of others actors. The two situations coincide in the situation of pure and perfect competition.

According to the authors, the two concepts, namely optimum and balance, are always at the center of interest of researchers interested in organizational problems. In this sense, the organization is a complex system affecting all stakeholders; it then consists of bringing the state of equilibrium closer to the organizational optimum, which corresponds to the notion of efficiency. However, the origin of the explanation of problems within the organization and the interpretation of organizational forms can only be done through a true convergence of the two concepts, namely that of optimum and balance. . One of the major objectives of the positive theory of agency is to ensure this convergence, otherwise tending the balance towards the optimum, which can be achieved through a rapprochement between private interest and social interest (**Charreaux** .1998).

The normative approach to agency theory adopts several different methodologies; it is not only interested in the search for optimal forms of contracts, but it also places the explanation and analysis of organizational behavior among its primary concerns.

The explanation of the behavior of organizations begins by analyzing the context in which organizations operate, namely the market. In this perspective, the firm is defined as being a private market or a node of contracts making it possible to ensure a balance between the contractual relationships of the actors of the firm. This definition is strongly linked to the contribution of the two economists, namely *ALCHIAN and DEMSETZ*. From this contractual analysis of the organizations, *FAMA and JENSEN* develop a theory of private organizational forms, the analysis of which is mainly based on the study of contracts, in particular those, which are focused on profit rights.

2.4 Modeling the behavior of actors

It is well known that Man is always the common point between the majorities of economics theories. In addition, agency theory begins with modeling human behavior before thinking about actors. The human behavior model according to agency theory aims to explain the behavior of individuals through their preferences, choices, emotions or others. The modeling of human behavior has contributed:

2.4.1 The principal-agent model

Thanks to this model, the theory defined its name for the first time. First, to better understand the positive theory of agency, we must go through the analysis of interindividual relationships. The analysis of the principal-agent relationship allowed an initial representation of the agency relationship. *SA Ross (1973)* defined agency theory as "a *relationship created between two or more parties, when one of these two parties is designated as the agent, acts on the part, or as representative of the other, designated as the principal, in a particular decision-making* area. *MC Jensen and WH Meckling (1976)*, add, *"The agency relationship is a contract in which one or more people use the service of another person to carry out any task on their behalf, which implies a delegation of a nature decision-making to the agent"*.

From the definitions presented, it is clear that the concept "agency" refers us to the existence of a relationship between two parties. The relationship can be addressed on several dimensions or several levels within the organization. The definition adopted by these two authors made it possible to analyze the relationship between the stakeholders of the firm (example*: relationship between the manager as "agent" and the shareholder as "principal").*

2.4.2 The Resourceful , Evaluative, Maximizing Model (MREM) or (REMM)

In the context of modeling human behavior, *Jensen and Meckling (1994)* propose the model (REMM), which is part of relational approaches, making it possible to model human behavior through the explanation of the behavior of individuals, in particular based on their preferences. *Gérard CHARREAUX (1998),* considered the REMM model, as a model, which is in the theoretical sense, allowing the construction of an organization theory. This model defines several postulates:

a) The notion of utility:

Individuals in this model are interested in everything that originates from utility whatever its nature (pecuniary or not), because individuals can attribute values to variables of a qualitative nature, such as dignity, honor, autonomy and others.

b) Insatiability:

The rational behavior of the actors makes it possible to achieve the objectives. *Brousseau (1993)* spoke of a rationality defined by *Williamson*, in the sense that the individual uses a calculation in his possible choices, notably through simulations. In 1961, *H. Simon* considered that agents are intentionally rational, but in a limited way. In the same context, *Von Mises (1966)*, spoke in his definition of the notion of rationality that it is a rationality of consciousness, in which the behaviors of the actors are conscious and intentional. In the three interventions, we find assimilability; the actors are intentionally rational by adopting conscious behavior allowing them to achieve objectives according to their preferences in the sense that their rationality is limited since they can sometimes make incorrect choices.

c) Maximization behavior :

The development of interindividual relationships is strongly influenced by the evolution of the environment; the latter brings modifications to the behavior of individuals by influencing their actions and adopting behavior based on calculations in terms of costs and gains associated with each chosen action. At this level, *Jensen and Meckling (1994)*, specify that the individual in general always seek to adopt optimal behavior, which represents an advantage for the latter.

d) Creativity and adaptability:

The dynamic aspect of agency theory lies in taking into account the active and creative behavior of actors. Recognition of this character generally makes it possible to influence the company's decision-making strategy by reducing agency costs. *(Jensen and Meckling , 1994)*

In the REMM model, the concept of rationality is close to this one defined by *Williamson* , that is to say that agents are endowed with limited rationality. For *Jensen and Meckling* , agents are less rational, for the existence of a certain number of social constraints which condition the actions of agents in a given relationship. The rational anticipations of agents in the REMM model cannot be realized, because changes in the environment and the knowledge transformed by the agent after its calculations have a direct impact on its future actions.

As a development of the REMM model, *Jensen (1994)* adds another model entitled PAM (pain *avoidance Model)*, its main objective is not to restructure the old model but it is to add new explanations, in particular the double behavior of individuals with regard to their well-being.

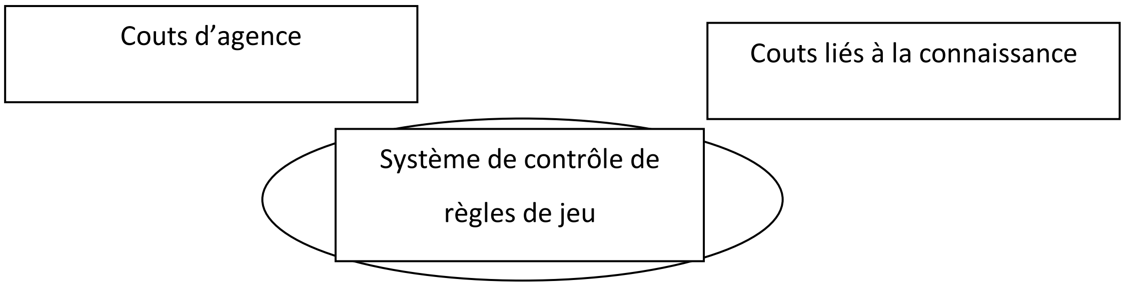
Jensen (1994), specifies in his model that individuals can sometimes react against the improvement of their well-being for psychological reasons, in particular to avoid the psychological cost. In the presentation of the model, *Jensen (1994)* considers the PAM model as an extension of the REMM model.

2.5 The blocks of agency theory

In 1994, *Jensen* proposed agency theory as one of the fundamental theories for analyzing the functioning of the organization. He makes his departure by analyzing old works, he finds that the majority of works, which are part of traditional economics, are much more interested in analyzing the functioning of markets and interpreting organizational behavior on an individual level forgetting that the individual is part of a society. At this level, agency theory integrates the individual into society, for a reason researchers consider agency theory as integrative which embraces organizational phenomena.

The work carried out by researchers in this area has given more reason to consider this theory a source of inspiration not far from that of transaction costs. *Jensen (1998),* proposes four fundamental blocks allowing a better understanding of the positive theory of agency, he distinguishes the model of human behavior, the costs linked to the transfer of knowledge between individuals, the costs of agency and finally the rules of the game organizational. *Jensen's (1998)* presentation can be represented in the following diagram:

Figure 2: the blocks of agency theory



Source: Gérard Charreaux. 1986

According to the author, the transfer of knowledge between actors generates a cost. However, knowledge is still considered at the center of positive agency theory, which has a determining role in the constitution of organizational performance. The performance of the organization depends initially on the ability of its members (leader, *managers, etc.*) to use knowledge as a relevant variable in decision-making. The work carried out in this context seeks to define strategies allowing decision-makers to integrate knowledge into their decision-making processes.

The concept of knowledge has been the subject of a number of theoretical and empirical studies. *Hayek (1986)* , states that knowledge plays a very important role in decision-making, in the case where the knowledge is complete the problems that occur are purely logical.

According to the author, the economic problem that an organization can face lies in the dispersion of knowledge between individuals, he said, «the *reason is that the data from which the economic calculation is based are not and cannot be, when they concern society as a whole, "given" for an individual. A special character of the problem of the rational economic order is linked precisely to the fact that the knowledge of the environment, which we might need never, exists in a concentrated or aggregated form. " egegated , but only in the form of dispersed elements of an incomplete and frequently contradictory knowledge that all separate individuals possess in part (Hayek. 1986).*

In summary, *Hayek* sees that the problem of the organization does not lie only in the allocation of resources. But, rather it lies in the search for better methods of using these resources, in other words, the problem within the organization also lies in the absence of knowledge, which is not given to anyone in its entirety, it remains dispersed among the members of the organization.

The solutions to organizational problems are conditioned by the notion of costs (*Hayek et al 1986; Jensen 1998*), precisely the solution lies initially in the search for the least expensive means to make knowledge available to decision-makers. However, the transfer game can be done either in a centralized way where the knowledge is transferred to the person(s) who hold the right to make the decision, or in a decentralized way where the decision is transferred to the person(s).) who has knowledge. The arbitration is done by comparing the costs of transferring knowledge and the decision-making rights held by the members of the organization.

In the PAM model, the creation of an agency relationship can be considered as a source of conflict of interest between members of the organization, which generates agency costs. According to *Jensen*, the establishment of incentive and control mechanisms aimed at bringing the interests of the agent and that of the principal into convergence.

In his article, *Gérard Charreau (2000),* gives two examples of relationships as solutions to reduce agency costs within the organization. First, the agent-principal relationship in some relationships is considered symmetrical, the two parties of which can alternatively be considered principal and agent. This relationship makes it possible to overcome organizational conflicts without them being a burden to the development of the organization. Second, the establishment of a board of directors to manage conflicts of interest between the firm's stakeholders.

The transfers and exchanges that arise in a relationship, lead Jensen, to emphasize the issue of the concept of property rights, given that decision-making rights refer to the use of assets and resources that belong to the main. *Jensen and Meckling (1992)* distinguish two components, namely the decision-making right and the right to alienate the decision-making right.

Decision making within the organization is assigned to people who hold specific and distinctive knowledge from others. According to both authors, decision-making and alienability do not always align. They justify their proposal by the absence of a mechanism to encourage agents to use decision-making law optimally for the organizational or social interest.

They qualify this behavior by the absence of an automatic system. *Jensen and Meckling (1992)* see that the use of hierarchical authority and means of control is important in overcoming problems that may occur. Knowledge remains a determining variable in determining the form of the organization, it made positive agency theory one of the main theories proposing effective mechanisms for the segmentation of organizational problems, this occupies an important place in the works *Jensen (1983)* and *Fama and Jensen (1983)*.

2.6 Agency theory and the notion of cooperation

Within the framework of the principal-agent model developed in agency theory, the notion of cooperation and the agency relationship are inseparable. *Jensen and Meckling (1976)* , noted that agency costs can only appear in a cooperative relationship, they say that " *agency costs appear in all situations that involve a cooperative effort by two or more people. People even if there is no clearly defined principal-agent relationship* (**Charreaux.** 1998) .

Jensen and Meckling (1976, 1994) consider the agency relationship as one in which the principal and the agent are only terminologies with regard to others to understand the function within the organization, but the real is that the two parties find themselves both subordinate. The agency relationship is a two-way street, with both parties agreeing a priori to accomplish tasks.

The definition of a symmetrical relationship between the agent and the principal, by the two economists, calls into question the traditional agency approach. This passage allows us to broaden the field of analysis of agency theory in its normative approach, to the extent that the agency relationship is a subset of cooperative relationships.

2.6 Agency theory and coordination

The firm remains the most suitable environment for analyzing coordination links; it is considered as a team whose internal actors must cooperate and coordinate. *ALCHIAN AA and H. DEMSETZ (1972)* , raise the question of the emergence of coordination costs, which is linked to the costs of controlling individual activity. However, the evaluation of the efficiency and productivity of the worker cannot be made because they are integrated into the final product.
Alchian and Demsetz (1972), specify that what can make the analysis of the behavior of the internal actor of the organization difficult, if we take the employee as an example, is because it makes individual property the most effective in cost control matters.
In the same sense, *Jensen & Meckling (1976)* emphasize the motivational side within firms. They refer to the neoclassical analysis of the firm, whose role is limited in the use of inputs and the transformation into outputs, Jensen and Meckling introduce the motivation of workers for each combination of resources there will be a maximum of final goods. On a practical level, achieving this situation is very rare given the multiplicity of organizational costs.
MC Jensen and WH Meckling (1976), analyze the agency relationship as *a "contract in which one or more people use the service of another person to carry out any task on their behalf, which implies a delegation of a nature decision-making to the agent"*. This analysis makes it possible to analyze the economic behavior of the company's internal actors; the interests between the principal and the agent give rise to three types of costs:

- control costs
- Commitment costs
- Irreducible residual loss

The first form of costs is the result of control exercised by the principal over the agent; it's generated following the monitoring of compliance with the contract, by limiting the freedom of the agent in the contract. Commitment costs are generated by the fact of protecting oneself against actions contrary to the interests of the principal, in particular whether they result from the drafting of financial reports and audits by the company's internal departments or by firms. of external expertise of the company. Concerning residual losses are generally linked to the decisions of the principal to encourage the agent to respect the initial commitment, such as participation in capital as an incentive mechanism leading employees to converge towards the same point as shareholders, which is the development of the company (FROEHLICHER .1996).

3 Transaction cost theory and agency theory: passage, criticisms and relationships.

Transaction cost theory and agency theory have a certain number of points in common, notably that they are two theories which are interested in opportunistic behavior within the organization, but the analysis of interactions between these two theories show that there are also different points. Transaction cost theory takes *Coase 's essential ingredient (***Saussier & Yvrande Billon** .2007).

The hypothesis of opportunistic behavior is positioned at the center of analyzes relating to conflicts of interest within the organization. In agency theory, this hypothesis does not occupy an important place in analyzes of the agency relationships that arise within the organization, given that opportunism does not have a great influence on the increase or decrease in agency costs within the organization or in general opportunism does not contribute to the resolution of conflicts of interest. Conversely, in transaction cost theory, opportunism is important in explaining transaction costs.

The assumption of rationality is a point of interaction between the two basic theories, it is supposed to limit in the transaction costs approach. The demonstration presented by the models of positive agency theory is not far from that of the theory of transaction costs, but with more functionalities for economic agents, in particular those relating to the calculation capacities allowing the maximization of their utilities under certain constraints, such as cognitive and institutional capacities.

Coase 's analysis and that of *Williamson* begin by placing at the center of their analyzes the firm as the place of analysis. Initially, Williamson distinguished transaction costs as a mechanism for choosing the mode of governance, considering the firm as a distinct governance structure. In the transaction cost theory approach, the firm is defined as a mode of governance based on coordination directed inversely to the market, which is based on spontaneous coordination. However, the *Coaseine analysis* of the nature of coordination, in the approach of the theory of the firm, the use of the purely directed mode of coordination is not necessary, the choice of a mode is a function of the use of knowledge, the one that will allow better use of it. *Demsetz (1988)*

From this debate, it seems that the concept of the firm differs according to the two approaches. In particular, based on the use of the coordination mode, *Jensen and Meckling (1979)* , specify the need to consider the organizational form as a factor of production, but despite everything, the two authors refer to the metaphorical name of the knot of contracts . The mode of coordination is strongly linked to the concept of efficiency, in particular that *Williamson* introduced this relationship into his process of researching mechanisms to reduce organizational costs within the firm.

According to *Williamson*, the nature of the organizational form helps to reduce and protect transactions against the risks associated with opportunistic behavior. On the other hand, in the majority of research work within the framework of positive agency theory, this hypothesis has disappeared, in particular that positive agency theory is not interested in the analysis of transaction-by-transaction conflicts, it analyzes the conflict at the overall level of the organization, focusing on all the factors influencing production (*Alchian and Demsetz , 1972*).

The last point constituting the interaction between agency theory and transaction cost theory is the hypothesis of neutrality in the face of risk. Risk aversion is a determining factor according to transaction cost theory for several reasons, in particular, " *it helps explain the distribution of activities between different organizational forms. In particular, it justifies the important* role *attributed to the risk assumption function.* This hypothesis is strongly retained in the theory of transaction costs, but conversely the agency theory does not consider this hypothesis. *Charreaux Gérard (2000)*, specifies that the failures of agency theory in explaining the behavior of agents in terms of diversification be mainly due to the absence of this hypothesis.

By way of conclusion, the transaction costs approach proposed by *Williamson* offers a more precise analytical framework than that of *Coase* and puts forward propositions widely verified in the empirical literature (*Masten , 2000; Macher and Richman in 2006*), on questions broader than the existence of firms such as those of contractual choices (*Masten & Soussier. 2000*) or hybrid forms (*Ménard, 2004*).

Table 1: Summary of theories: transaction costs and agency theory

	Relational aspect	Organizational efficiency	Organizational costs	Organizational governance
Agency theory	Agency relationship	Awareness	Residual loss	Governance Ex-ante and ex-post
Transaction cost theory	Transaction	Specificity actives	Costs linked to maladjustment	Governance Ex-post

Source : personal summary of the analysis of the theoretical contributions of the two theories.

After having analyzed the economic behavior of the actors and placing emphasis on the firm, as a form of organization from an agency theory point of view, we will recall the work of Williamson in terms of explaining the relationship actors and company.

Conclusion

We have presented the basic elements according to the two main theories, agency theory and transaction cost theory. We have defined the determinants of economic behavior and how the latter affects the choices of an economic agent.

The choice of the determinants of economic behavior is positioned at the center of analyzes relating to the company's internal and external conflicts of interest. The explanation of these conflicts of interest, the analysis of the work making it possible to link the managerial aspect to the major economic questions. We started with the theory of property rights, of which several works consider it as the starting point of their analyses. The two assumptions around which property rights theory was developed led to the development of my agency theory.

For our part, economic behavior is a broad concept and which marks the emergence of other basic concepts. Which makes its definition a bit complicated and which does not have a recognized conceptual framework in relation to company strategy.

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