

THE RELEVANCE OF AGENCY THEORY IN THE DYNAMICS OF MANAGER-INVESTOR RELATIONSHIPS IN THE DIGITAL ERA

Anurak Chaiyasit

Economic and Business Management, Siamrat Commercial and Technical College,
Thailand

anurak.chaiyasit@siamrat-ctc.ac.th

Received February 20, 2025; Revised March 28, 2025; Accepted April 11, 2025; Published April 13, 2025

ABSTRACT

This study aims to explore the relevance of classical agency theory in the context of digital transformation, specifically focusing on the evolving relationship between managers and investors. As financial reporting and corporate governance shift toward digital platforms—incorporating tools such as real-time disclosures, blockchain, and AI—this research investigates whether these technologies mitigate or reshape agency conflicts. A quantitative method was employed through an online survey of 120 respondents, including corporate managers and institutional investors in Indonesia. The results show that digital tools significantly enhance managerial transparency and investor trust; however, they also introduce new complexities such as algorithmic opacity, information overload, and challenges in accountability. Notably, the study reveals that investor trust in digital environments is highly dependent on information usability, not merely availability. The research contributes novel insights by proposing a theoretical extension of agency theory that incorporates digital governance variables and behavioral trust mechanisms. This is particularly important in emerging markets, where digital maturity and regulatory structures vary widely. Furthermore, the study highlights a critical paradox in digital transparency: more data does not always lead to better governance outcomes. In conclusion, this research offers both theoretical advancement and practical guidance for aligning digital tools with effective corporate oversight. It also serves as a foundation for future studies to develop hybrid governance models that integrate technological innovation with classical agency perspectives.

Keywords: Agency theory, digital governance, investor trust, transparency, corporate accountability

INTRODUCTION

Agency theory explains the relationship between principals (investors) and agents (managers), where conflicts of interest may arise due to differing goals and asymmetric information (Jensen & Meckling, 1976). In traditional corporate structures, investors rely on managers to make decisions on their behalf, which may lead to moral hazard or adverse selection issues (Fama & Jensen, 1983). This theoretical framework highlights the importance of monitoring mechanisms, incentives, and contracts to align interests and reduce agency costs (Eisenhardt, 1989). The theory has become a cornerstone in corporate governance literature, shaping how firms structure executive compensation, disclosures, and accountability systems (Daily, Dalton, & Cannella, 2003). In the past two decades, globalization and capital market liberalization have further intensified the



need to understand this principal-agent dynamic (Ross, 1973). However, the rise of digital technologies has fundamentally transformed how managers and investors interact and communicate (Tapscott & Tapscott, 2016). Real-time data, financial technology platforms, and increased transparency have introduced new challenges and opportunities in managing agency relationships (Zetzsche et al., 2020). Thus, revisiting agency theory in the context of digital transformation becomes highly relevant for both scholars and practitioners (Bhimani, 2020).

In the digital era, information asymmetry—the core problem addressed by agency theory—has evolved due to increased data availability and analytic tools accessible to investors (Raimo et al., 2023). Technologies such as blockchain, AI, and big data analytics now provide stakeholders with deeper insight into managerial actions and firm performance (Tapscott & Tapscott, 2016). These tools may reduce agency costs, but they also create new forms of risk and complexity in the oversight process (Bhimani & Willcocks, 2014). Moreover, digital platforms have enabled investors to become more active and engaged, thereby shifting the traditional balance of power between agents and principals (Yermack, 2017). Digital communication tools, including earnings webcasts, social media, and investor portals, are reshaping transparency expectations (Li et al., 2018). Nevertheless, these technologies do not eliminate the need for robust governance frameworks grounded in agency theory principles (Eisenhardt, 1989). Instead, they demand a reinterpretation of the theory in light of dynamic information flows and emerging digital accountability mechanisms (Krahel & Vasarhelyi, 2014). Therefore, integrating agency theory with digital governance perspectives provides a meaningful path for future research and practice (Raimo et al., 2023).

Despite the potential of digitalization to enhance transparency, recent studies reveal that technology has not completely eliminated information asymmetry between managers and investors (Raimo et al., 2023). Digital disclosure platforms, while improving access to financial data, often result in information overload that obscures relevant managerial actions (Krahel & Vasarhelyi, 2014). The complexity of data analytics tools and non-financial reporting standards may even increase interpretation gaps between agents and principals (Bhimani & Willcocks, 2014). Furthermore, algorithmic decision-making and AI-driven management systems introduce new agency dilemmas, as accountability for automated actions remains unclear (Yermack, 2017). Investors often lack the expertise to assess data-driven corporate strategies, perpetuating the asymmetry that agency theory seeks to resolve (Li et al., 2018). The issue is further complicated by varying digital literacy levels among stakeholders, affecting how information is processed and trusted (Tapscott & Tapscott, 2016). Thus, while digital transformation changes the medium of interaction, it does not necessarily solve the principal-agent problem at its core (Bhimani, 2020). Instead, it reframes traditional governance challenges into a more complex digital environment requiring theoretical reinterpretation (Eisenhardt, 1989).

Another emerging issue concerns the growing tension between data transparency and privacy, which directly affects the trust dynamics within agency relationships (Ross,

1973). Firms face increased pressure to disclose real-time performance data, but excessive transparency may expose strategic vulnerabilities or proprietary information (Zetsche et al., 2020). Managers must balance investor demands for openness with the need to protect organizational competitiveness (Daily et al., 2003). This balancing act often leads to selective disclosure practices that contradict the intended purpose of reducing agency costs (Jensen & Meckling, 1976). Moreover, digital corporate reporting systems may create dependency on third-party platforms, posing additional risks to data integrity and reliability (Bhimani & Willcocks, 2014). As a result, investors may struggle to evaluate whether disclosed digital information genuinely reflects firm performance (Raimo et al., 2023). These findings indicate that while the digital era offers innovative tools to mitigate agency conflicts, it simultaneously introduces structural complexities that reinforce traditional theoretical dilemmas (Krahel & Vasarhelyi, 2014). Therefore, refining agency theory to incorporate technological dimensions is critical for understanding modern governance mechanisms (Eisenhardt, 1989).

Although prior studies have explored agency theory within traditional governance frameworks, there remains a lack of comprehensive integration between digital transformation and agency mechanisms in the manager-investor relationship (Raimo et al., 2023). Existing literature has predominantly focused on the effects of technology on disclosure and transparency, yet few have examined how digitalization redefines trust, control, and accountability within agency dynamics (Bhimani, 2020). The rapid rise of financial technologies such as blockchain, artificial intelligence, and digital reporting systems challenges the assumptions of classical agency theory, which was developed in a pre-digital economic context (Zetsche et al., 2020). Recent works suggest that digital governance introduces both new agency risks and mechanisms of self-regulation, but empirical validation and theoretical synthesis remain limited (Raimo et al., 2023). Moreover, while agency costs are theorized to decrease with technological transparency, evidence on this relationship remains inconclusive and context-dependent (Nicolò et al., 2024). The absence of a unified model linking digital accountability tools with agency theory represents a conceptual void in current governance research (Krahel & Vasarhelyi, 2014). Addressing this gap requires reinterpreting agency theory through a digital lens that integrates behavioral, technological, and institutional dimensions (Li et al., 2018). Thus, a modernized theoretical framework is essential to explain how digital ecosystems reshape the balance of power and trust between managers and investors (Bhimani & Willcocks, 2014).

This research offers a novel contribution by reinterpreting agency theory through the lens of digital transformation in corporate governance. While previous studies have addressed agency relationships in conventional settings, few have integrated emerging digital tools such as blockchain, AI, and real-time reporting systems into the theoretical discourse. This study proposes a conceptual refinement that accounts for how digital infrastructures reshape accountability, trust, and control in manager-investor dynamics. It introduces a synthesized model combining classical agency theory with digital governance mechanisms, offering a more holistic view. Furthermore, the research

highlights the paradox of transparency in digital environments, where more data does not always reduce agency costs. This angle remains underexplored in current literature, especially in rapidly digitalizing capital markets. The study also emphasizes the behavioral adaptations of investors and managers as they navigate complex digital ecosystems. Overall, this work provides a unique framework for understanding agency theory in the context of evolving technological and institutional realities.

The primary objective of this research is to explore how digital technologies have transformed the dynamics between managers and investors through the lens of agency theory. Specifically, the study seeks to analyze whether digital tools such as real-time disclosures, fintech platforms, and algorithmic decision-making reduce or exacerbate agency conflicts. It aims to assess how digital transparency affects trust, monitoring, and control mechanisms in corporate governance structures. Another goal is to identify new forms of agency risks introduced by technological intermediation, such as information overload or algorithmic opacity. The research also intends to develop a conceptual framework that integrates digital governance into agency theory. This model is expected to provide a theoretical basis for evaluating the effectiveness of digital tools in aligning managerial behavior with investor interests. Moreover, the study seeks to contribute to academic discourse by offering a redefined understanding of agency theory in the digital age. Lastly, it aims to offer practical insights for investors, regulators, and corporate leaders navigating digital transformation in governance.

RESEARCH METHOD

This study employs a quantitative descriptive research method to examine the use of This study adopts a quantitative research method using a structured survey to empirically examine the impact of digital technologies on agency dynamics between managers and investors. The data collection technique involves the distribution of an online questionnaire to 120 respondents, consisting of corporate managers, institutional investors, and financial analysts operating in publicly listed companies. Respondents were selected using purposive sampling to ensure relevant exposure to digital financial reporting tools and governance systems. The questionnaire includes closed-ended items measured on a Likert scale to assess perceptions of digital transparency, trust, and agency conflict. Data were collected over a six-week period via digital platforms such as Qualtrics and Google Forms to increase response efficiency and reach (Saunders et al., 2019). This methodological design allows for statistical analysis using regression models to test the relationship between digital governance variables and agency risk perception. Ethical clearance was obtained to ensure voluntary participation and data confidentiality. Similar survey-based approaches have proven effective in recent digital accounting research (Nicolò et al., 2024).

The primary instrument used for data collection in this study is a structured questionnaire, designed based on validated indicators from previous literature on digital governance and agency theory. The questionnaire consists of five sections: demographic information, digital transparency tools, trust and control mechanisms, perceived agency

conflicts, and corporate governance outcomes. Each item uses a five-point Likert scale ranging from "strongly disagree" to "strongly agree" to capture the intensity of respondent perceptions. The items were adapted from previous research by Raimo et al. (2023) and Li et al. (2018), ensuring both reliability and relevance. A pilot test was conducted on 15 participants to check internal consistency and instrument clarity, resulting in a Cronbach's alpha score above 0.7. Feedback from the pilot was used to revise ambiguous terms and ensure cultural suitability for an Indonesian business context. The questionnaire was distributed digitally, with secure links to prevent multiple submissions and protect data confidentiality. Using standardized and pre-tested instruments enhances the validity and comparability of results across digital governance studies (Saunders et al., 2019).

The collected data were analyzed using descriptive statistics, validity and reliability tests, and multiple regression analysis to examine the relationships between digital governance variables and agency conflict perceptions. Descriptive analysis provided an overview of respondent characteristics and overall trends in digital adoption and trust dynamics. Validity testing was conducted using exploratory factor analysis (EFA) to confirm that the constructs align with theoretical expectations, while reliability was assessed using Cronbach's alpha for internal consistency. Regression analysis was used to test the influence of digital transparency, managerial accountability, and real-time disclosure on the perceived level of agency conflict. The model was tested for multicollinearity, heteroscedasticity, and normality to ensure robustness of the findings (Hair et al., 2019). SPSS and SmartPLS software were utilized to process and analyze the data efficiently. The choice of statistical tools aligns with recent best practices in governance and digital transformation studies (Nicolò et al., 2024). These analytical techniques allow for both exploratory insights and confirmatory testing of the proposed conceptual model.

RESULTS AND DISCUSSION

The findings reveal that digital transparency tools significantly influence the perceived trust level between managers and investors. As shown in Table 1, 76% of respondents agreed or strongly agreed that real-time reporting and digital dashboards enhance their trust in managerial decision-making. This supports previous research suggesting that digital platforms reduce the information asymmetry central to agency conflict (Raimo et al., 2023). However, the data also indicate that the mere presence of digital tools does not automatically reduce agency costs. Trust is influenced by how effectively digital information is communicated and interpreted by stakeholders (Li et al., 2018). This implies that firms must complement technological transparency with simplified, user-friendly reporting. The findings echo Bhimani's (2020) argument that digitalization enhances visibility but not necessarily understanding. Thus, trust development in the digital era remains a behavioral process, not purely a technical one. These insights enrich the agency theory framework by highlighting the subjective nature of trust in digital contexts.

Table 1: Perceptions of Digital Transparency and Information Overload

Variable	Agree (%)	Neutral (%)	Disagree (%)
Digital tools increase trust	76	14	10
Real-time data improves decisions	69	18	13
Info volume causes overload	41	37	22
Reports are user-friendly	48	29	23

The second key finding relates to perceived agency risk in relation to algorithmic decision-making and automation. According to Table 2, 63% of respondents expressed concern over the lack of clarity in AI-driven managerial decisions, suggesting a new form of agency risk. While digital tools aim to improve efficiency, they can obscure accountability, especially when decisions are automated without transparent logic trails (Yermack, 2017). This finding introduces a “digital opacity” problem not addressed by classical agency theory, which assumes human agency is fully observable and explainable (Krahel & Vasarhelyi, 2014). In high-tech financial environments, accountability structures must adapt to ensure traceability and ethical oversight. These concerns support calls to revise agency theory by incorporating technological risk dimensions (Zetzsche et al., 2020). The data reinforce that while digitalization may reduce traditional forms of agency conflict, it simultaneously creates novel accountability dilemmas. Therefore, modern governance frameworks should balance automation with human oversight mechanisms.

Table 2: Concerns Over Automation and Accountability

Issue	Percentage of Concerned Respondents
Lack of clarity in AI decisions	63%
Untraceable decision outcomes	57%
Loss of human oversight	51%
Uncertainty in algorithm fairness	46%

Lastly, the study highlights a gap in investor capability to interpret complex digital disclosures, especially among non-institutional actors. Although digital transformation offers real-time access to performance data, Table 1 also shows that 41% of investors feel overwhelmed by the volume and complexity of information. This supports the concept of “information overload,” where too much data paradoxically reduces decision-making quality (Bhimani & Willcocks, 2014). In line with Eisenhardt’s (1989) theory, this reflects a mismatch between available information and the cognitive capacity of principals. Moreover, the variation in digital literacy among investors raises concerns about unequal access to governance participation (Tapscott & Tapscott, 2016). These findings suggest that agency theory in the digital age must integrate behavioral economics and digital communication principles. Transparency alone is insufficient without usability, interpretability, and support systems. Thus, enhancing digital governance effectiveness

requires not only technological solutions but also investor education and interface design innovation.

The integration of digital tools into corporate governance aligns with the evolving understanding of agency theory in recent literature (Raimo et al., 2023). Scholars argue that digital transparency has the potential to reduce agency conflicts by minimizing information asymmetry between managers and investors (Nicolò et al., 2024). Real-time financial reporting, automated dashboards, and blockchain verification systems provide stakeholders with immediate access to data, thus enhancing monitoring (Bhimani & Willcocks, 2014). However, digital solutions alone are insufficient without corresponding behavioral trust and interpretive capacity from principals (Tapscott & Tapscott, 2016). Eisenhardt (1989) emphasized that agency theory must consider not just data availability, but also the ability to process and act upon it effectively. This is echoed in Li et al. (2018), who found that investors' decisions depend heavily on how information is structured and communicated. Recent literature has increasingly acknowledged the interplay between digital infrastructure and psychological agency (Bhimani, 2020). Thus, digital governance must be designed with both technological precision and human comprehension in mind (Saunders et al., 2019).

Emerging literature also expands the scope of agency theory to include the implications of algorithmic decision-making and AI in corporate settings (Zetsche et al., 2020). Unlike traditional settings where managers are clearly accountable, automated systems blur responsibility and create new governance challenges (Yermack, 2017). This aligns with recent findings that investors express concerns over the lack of traceability in AI-generated decisions (Nicolò et al., 2024). As noted by Krahel & Vasarhelyi (2014), these digital mechanisms introduce what they term "audit evidence complexity," reducing clarity rather than enhancing it. Furthermore, there is growing concern over digital divide issues—where uneven access to digital literacy and tools may exclude retail investors from informed participation (Raimo et al., 2023). In such cases, information asymmetry persists not because of hidden data, but because of inaccessible formats (Bhimani & Willcocks, 2014). These developments suggest the need to evolve agency theory into a more digitally adaptive model, incorporating institutional, ethical, and usability concerns (Li et al., 2018). Future research should explore hybrid models that integrate classical agency concepts with technological governance frameworks (Hair et al., 2019).

This research introduces a novel conceptual framework that integrates agency theory with digital governance mechanisms, which remains largely underdeveloped in current literature (Raimo et al., 2023). While most prior studies address agency theory within traditional corporate settings, this study uniquely emphasizes digital tools—such as AI, blockchain, and real-time reporting—as critical factors in shaping principal-agent dynamics (Nicolò et al., 2024). It contributes by theorizing how digital transparency not only enhances oversight but also introduces new risks, such as algorithmic opacity and information overload (Zetsche et al., 2020). Unlike conventional models that view transparency as a linear solution, this research positions it as a complex, multidimensional construct in digital environments (Bhimani & Willcocks, 2014). Moreover, the study

bridges governance literature with behavioral finance, suggesting that investor trust in digital reporting is mediated by interpretability and usability (Li et al., 2018). No existing research, to date, has proposed a blended framework that considers behavioral, institutional, and technological elements in agency theory (Bhimani, 2020). This multi-layered approach addresses a crucial gap by recognizing evolving communication channels and investor expectations (Tapscott & Tapscott, 2016). It expands the explanatory power of agency theory to remain relevant in a digital economy (Eisenhardt, 1989).

The study also contributes empirically by presenting quantitative evidence on how digital mechanisms affect agency risk perceptions across diverse financial stakeholders in Indonesia. While several global studies exist, regional and developing market contexts remain underexplored, despite their unique regulatory and digital maturity profiles (Vitolla et al., 2023). By focusing on Indonesia's publicly listed companies and institutional investors, this research adds regional relevance to a largely Western-dominated academic discourse (Raimo et al., 2023). Additionally, this study applies digital governance variables in a survey-based model using PLS-SEM, offering a modern analytical lens for future scholars (Hair et al., 2019). Previous research has not sufficiently captured how real-time disclosure, digital literacy gaps, and automated systems reshape agency trust in emerging economies (Li et al., 2018). The novelty also lies in addressing paradoxes of transparency: more data does not always equal better governance, especially when filtered through opaque algorithms (Yermack, 2017). This research thus offers a pioneering examination of agency theory in technologically transitional environments (Zetsche et al., 2020). It is one of the first to formally investigate how digitalization both mitigates and intensifies agency conflict simultaneously (Krahel & Vasarhelyi, 2014).

This research provides global relevance by offering a modern reinterpretation of agency theory that accommodates digital transformation across diverse corporate environments. As businesses worldwide adopt AI, blockchain, and real-time financial reporting, the findings serve as a theoretical lens for understanding emerging agency risks and control challenges (Nicolò et al., 2024). The study's proposed framework can guide global firms in designing governance systems that balance technological transparency with human interpretability (Bhimani & Willcocks, 2014). It is especially beneficial for multinational corporations and regulators operating across varying digital maturity levels and investor expectations (Raimo et al., 2023). By using data from an emerging market (Indonesia), the research also highlights how universal governance theories must adapt to local technological, regulatory, and cultural contexts (Vitolla et al., 2023). The study bridges Western-centric theory with global practice, making it a useful reference for policymakers, international investors, and scholars worldwide (Tapscott & Tapscott, 2016). Furthermore, the inclusion of behavioral and digital dimensions enhances its application across disciplines, from accounting to information systems (Li et al., 2018). Ultimately, this research contributes to the globalization of corporate governance thought in the digital age (Zetsche et al., 2020).

CONCLUSION

This study concludes that while digital technologies—such as real-time reporting, AI, and blockchain—enhance managerial transparency, they do not entirely eliminate agency conflicts. Instead, they shift the nature of these conflicts from traditional information asymmetry to more complex forms of digital opacity and information overload. Trust between managers and investors in the digital era depends not only on data availability but also on interpretability and perceived accountability. Algorithmic decision-making raises new agency risks due to unclear ownership of responsibility. Findings also show that investors, particularly in emerging markets, may struggle to process digital disclosures effectively. Thus, classical agency theory must evolve to incorporate behavioral and technological factors that reflect current governance realities. The study contributes a new framework for interpreting digital governance from an agency perspective. These insights offer theoretical relevance and practical guidance for organizations navigating digital transformation in corporate governance.

REFERENCES

- Bhimani, A. (2020). *Digital accounting: The effects of the Internet and ERP on management accounting*. Routledge.
- Bhimani, A., & Willcocks, L. (2014). Digitisation, 'Big Data' and the transformation of accounting information. *Accounting and Business Research*, 44(4), 469–490. <https://doi.org/10.1080/00014788.2014.910051>
- Daily, C. M., Dalton, D. R., & Cannella, A. A. (2003). Corporate governance: Decades of dialogue and data. *Academy of Management Review*, 28(3), 371–382. <https://doi.org/10.5465/amr.2003.10196703>
- Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57–74. <https://doi.org/10.2307/258191>
- Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26(2), 301–325. <https://doi.org/10.1086/467037>
- Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). *Multivariate Data Analysis* (8th ed.). Cengage Learning.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Krahel, J. P., & Vasarhelyi, M. A. (2014). Big Data and audit evidence. *Journal of Emerging Technologies in Accounting*, 11(1), 1–16. <https://doi.org/10.2308/jeta-50668>
- Li, F., Lundholm, R., & Minnis, M. (2018). How do managers' earnings forecasts affect investor decisions? *Journal of Accounting Research*, 56(3), 671–717. <https://doi.org/10.1111/1475-679X.12199>
- Nicolò, G., Raimo, N., Vitolla, F., & Rubino, M. (2024). Digital transformation and corporate governance: A systematic review and future research agenda.

Technological Forecasting and Social Change, 198, 123990.
<https://doi.org/10.1016/j.techfore.2023.123990>

- Raimo, N., Vitolla, F., Marrone, A., & Rubino, M. (2023). The role of digital transformation in corporate transparency and accountability: A systematic review. *Journal of Business Research*, 157, 113632. <https://doi.org/10.1016/j.jbusres.2022.113632>
- Ross, S. A. (1973). The economic theory of agency: The principal's problem. *The American Economic Review*, 63(2), 134–139. <https://www.jstor.org/stable/1817064>
- Saunders, M., Lewis, P., & Thornhill, A. (2019). *Research Methods for Business Students* (8th ed.). Pearson Education Limited.
- Tapscott, D., & Tapscott, A. (2016). *Blockchain revolution: How the technology behind bitcoin is changing money, business, and the world*. Penguin.
- Vitolla, F., Raimo, N., Rubino, M., & Garzoni, A. (2023). Digitalization in governance and accountability: Evidence from emerging markets. *Corporate Governance: The International Journal of Business in Society*, 23(4), 845–861. <https://doi.org/10.1108/CG-04-2022-0170>
- Yermack, D. (2017). Corporate governance and blockchains. *Review of Finance*, 21(1), 7–31. <https://doi.org/10.1093/rof/rfw074>
- Zetzsche, D. A., Buckley, R. P., Arner, D. W., & Barberis, J. N. (2020). Decentralized finance. *Journal of Financial Regulation*, 6(2), 172–203. <https://doi.org/10.1093/jfr/fjaa010>