

STRATEGIC MANAGEMENT: THE LINK BETWEEN THE AGENCY THEORY AND THE COMPANY'S COMPETITIVE ADVANTAGE

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Abstract

This paper's main objective is to give an in-depth view of strategic management theory, emerging issues in strategic management and show the link between the Agency and the organizations' competitive advantage. A review of the relevant available literature will be carried out and the linkage among the three basic concepts of strategic management theory, emerging issues and Agency theory will be identified. An explication of Agency theory will be done in order to unravel its main contribution to the organization's competitive advantage which leads to the optimum performance of an organization.

Key words: Agency theory, competitive advantage and Strategic Management Theory

Introduction

The aim of this paper is to examine the agency theory and its contribution to the strategic management in organizations as far as competitive advantage is concerned.

First, the following terms will be defined to enable the reader understand the concepts and the subsequent discussion. The terms are as follow: **Strategic management**, the **agency theory** and **competitive advantage**.

Second, the paper examines the competitiveness of the agency theory in strategic management amidst other competing theories in strategic management.

This is necessary to establish in this discussion whether or not the agency theory has a much better added value in strategic management than the other competing theories. The other competing theories include: profit-maximizing theory, the resource based theory, the survival based theory, the human resource based theory, the agency theory and the contingency theory. Finally, the discussion will shed light on what organizations need to adapt theoretically, if they have to enjoy competitive advantage both locally and internationally.

Historical development of strategic management

Strategic management can be traced back to 1950s and 1960s and the most influential pioneers were Alfred D. Chandler, Philip Selznick, Igor Ansoff and Peter Drucker. Chandler recognized the importance of co-coordinating the various aspects of management under one all-encompassing strategy. He stressed the importance of taking a long term perspective when looking to the future. This is the view that is considered especially at the strategy formulation in designing a mission statement and the vision for the firm. In 1962 he developed a ground breaking design 'Strategy and structure' where he showed that a long term co-ordinated strategy was necessary to give a company structure, direction and focus. He concludes that structure follows strategy which is indeed embraced in strategic management. Philip Selznick in 1957 came up with the idea of matching the organization's internal factors with external environmental factors now called the SWOT analysis. These are tools of analysis used in environmental analysis during strategy formulation. Igor Ansoff built on Chandler's work by developing a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal and vertical integration and diversification strategies.