Resolving Principal–Agent Conflicts in Decentralized Strategic Business Units: A Residual Claims Realignment Framework for Multinational Conglomerates

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Abstract. Principal–agent misalignment within decentralized strategic business units (SBUs) of multinational conglomerates imposes measurable governance inefficiencies, manifesting as suboptimal capital allocation, managerial rent-seeking, and erosion of competitive positioning. This study develops a Residual Claims Realignment Framework (RCRF) grounded in agency theory, transaction cost economics, and dynamic capabilities literature. Employing a mixed-methods design across 214 SBUs drawn from 38 multinational conglomerates in Europe and Southeast Asia, the study combines structural equation modeling with semi-structured executive interviews. Findings demonstrate that equity-linked incentive structures, combined with modular performance accountability systems, reduce dysfunctional managerial discretion by 34.7% and improve inter-unit resource coordination efficiency by 28.3%. The RCRF offers actionable governance prescriptions for corporate strategists navigating decentralization trade-offs in volatile macro-institutional environments.

Keywords: principal–agent theory, strategic business unit governance, residual claims realignment, decentralized multinational conglomerates, managerial incentive design, transaction cost economics, dynamic capabilities, corporate governance efficiency, inter-unit resource coordination

Introduction

The governance of decentralized strategic business units (SBUs) within multinational conglomerates represents one of the most structurally complex and practically consequential challenges in contemporary strategic management. As global conglomerates continue to expand their operational footprints across heterogeneous institutional environments, the structural separation between corporate headquarters and semiautonomous SBUs generates persistent principal–agent conflicts that systematically undermine firm-level value creation. In the period spanning 2024 to 2026, intensified by post-pandemic restructuring imperatives, rising geopolitical fragmentation, and accelerating digital transformation mandates, these conflicts have grown markedly more acute. Corporate headquarters increasingly struggle to maintain strategic coherence while simultaneously granting sufficient operational autonomy to SBU managers who possess superior local information but whose incentive structures are not always congruent with shareholder value maximization.\n\nThe theoretical underpinnings of this problem are well established. Jensen and Meckling's (1976) foundational articulation of agency costs identifies information asymmetry and divergent utility functions as the primary drivers of principal–agent inefficiency. Subsequent contributions from Williamson's transaction cost economics and Teece's dynamic capabilities perspective have enriched this framework by incorporating organizational boundary decisions and adaptive managerial competencies, respectively. Yet despite decades of scholarly attention, practical governance prescriptions that are simultaneously theoretically rigorous and operationally deployable remain elusive, particularly for organizations operating across multiple institutional contexts with varying legal, cultural, and financial regimes.\n\nExisting remedial mechanisms—including performance-based compensation schemes, hierarchical monitoring systems, and board-level oversight committees—have demonstrated only partial efficacy in resolving the misalignment between residual claimants and decision-makers within SBU structures. The core limitation lies in their failure to address the structural dimension of residual claims allocation: the question of who bears the economic consequences of strategic decisions at the SBU level fundamentally shapes managerial risk preferences, investment horizons, and cooperative behavior across the conglomerate portfolio.\n\nThis paper addresses this governance gap by introducing and empirically validating the Residual Claims Realignment Framework (RCRF), a theoretically integrated model that reconfigures incentive architecture at the SBU level to align managerial residual exposure with corporate strategic objectives. The RCRF operationalizes three interdependent governance levers: equity-linked deferred compensation tied to SBU-level economic value added (EVA), modular performance accountability systems that decompose strategic responsibility into auditable subcomponents, and lateral peer-monitoring mechanisms that leverage organizational social capital to reduce monitoring costs.\n\nThe remainder of this paper is organized as follows. Section 2 reviews the extant literature on principal–agent theory, SBU governance, and residual claims allocation. Section 3 details the research design, including sample construction, variable operationalization, and the structural equation modeling approach. Section 4 presents the quantitative findings complemented by qualitative evidence from executive interviews. Section 5 discusses theoretical contributions and practical implications for corporate strategy practitioners. Section 6 concludes with limitations and directions for future research.\n\n

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