

MANAGERIAL ENTRENCHMENT WITH STRATEGIC INFORMATION TECHNOLOGY: A DYNAMIC PERSPECTIVE

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Author's Short Bio

Dr. Xiaotong Li is an associate professor of MIS at the University of Alabama in Huntsville. His research has appeared in many major journals including *Communications of the ACM*, *Marketing Science*, *IEEE Transactions* and others. His current research interests are in applied game theory and the economics of IT. He has been invited to give research seminars at University of Minnesota (*MIS Research Center*), Rensselaer Polytechnic Institute, Hong Kong Polytechnic University and other major universities. He has been invited to referee research papers for many academic journals including *Journal of MIS*, *MIS Quarterly*, *Information Systems Research*, *Management Science* and *Marketing Science*. In 2005, he won the best transactions paper award from IEEE Engineering Management Society. He is currently on the editorial boards of *Marketing Science* and *Electronic Commerce Research and Applications*.

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ABSTRACT

Some economic and informational problems associated with organizational IT spending may be attributed to managerial rent-seeking. Because of the unavoidable incompleteness of labor contracts, managers with misaligned incentives and budgetary discretion could entrench themselves through their non-value-maximizing adoption decisions. In order to boost their bargaining power in future contract renegotiation, they invest excessively in technologies they manage more effectively than their potential rivals. In addition, they tend to adopt technologies that can create large information asymmetries giving them significant knowledge advantage over their potential rivals *ex post*. We study the implications and impacts of their rent-seeking behavior within the context of organizational IT adoption and management. The efficacies and the limitations of formal incentive contracting are discussed to underscore the need for additional governance mechanisms. While knowledge management may mitigate some of the agency problems associated with entrenchment, managerial self-policing issue remains a challenge. We further explore the incentive provision potential of relational labor contracts in combating entrenchment.

Keywords: Agency Problems, Bargaining, Contract Renegotiation, Entrenchment, Incomplete Contracts, Information Technology Adoption, Knowledge Management, Organizational Decision-Making, Rent-Seeking, Relational Contracts.