

A CRITICAL PERSPECTIVE TOWARDS AGENCY THEORY

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Abstrak: Sebuah Perspektif Kritis terhadap Agency Theory. Tujuan dari penelitian ini adalah menjelaskan sifat, fungsi, peran dan kritik terhadap teori keagenan. Metode kualitatif digunakan dalam penelitian ini. Keagenan didefinisikan sebagai proses di mana aktor secara rasional melakukan dengan intensi, rencana dan manajemen yang efektif untuk mencapai tujuan tertentu. Selain itu, teori keagenan mendiskusikan masalah ketika ada perbedaan antara kepentingan dan tujuan individu dengan orang lain. Jika pemilik memperoleh kuasa yang tinggi dan kemampuan untuk memerintah agen mereka, maka agen harus melaksanakan kegiatan berdasarkan kepentingan pemilik untuk memaksimalkan kekayaan mereka sendiri.

Abstract: A Critical Perspective towards Agency Theory. The aim of this research is explaining the nature, function, role and critics towards agency theory. Qualitative method was employed in this research. Agency is defined as a process of rational actors to conduct intentionally an effective plan and management to achieve specific goal. In addition, the agency theory discusses problem when there is a discrepancy between interests and goals of individual with others. If the principal gains high power and capability to order their agents, then agents must conduct activities based on the principals' interest to maximize their own wealth.

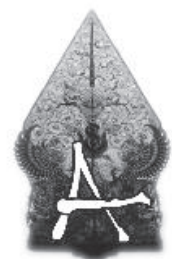
Key Words: agency theory, critics, interest, understand the organization.

Agency concept is just not clearly defined yet. It requires further processes and meets certain criteria to be classified as a theory. Those undefined concepts can always be used in the non-empirical sense, only if they were implicitly defined concepts. Thus, the use of undefined concept will definitely destroy the empirical character of system.

How does agency concept affect reality nowadays? People feel that agency concept is sufficient enough as reference to make contract without looking back again at the history of agency. At least, those who are related to the creation of contract should understand the nature, function, and how agency works. Because, in reality, agency theory has power if it were the authority that supports the capability of the princi-

pals to use their authority towards their agents to achieve their goals. People have been misguided to treat the agency as a theory not as a concept in their way of thinking and not as the real condition of agency itself. Afterwards, their misleading thought will embed in their action. This action may influence the interaction in the society. For those who have strong interest and power, they will tend to deceive the powerless society class. However, this fenomena is not yet taken into a consideration.

Concept is less scientific than theory. Theory is a contemplative and rational type of abstract or generalized thought, or the results of such thinking. Depending on the context, the results may for example include generalized explanations of how nature works. The term "theory" refers to scientific



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theories, a well-confirmed type of explanation of nature, made in a way consistent with scientific method, and fulfilling the criteria required by modern science. Such theories are described in such a way that any scientist in the field is in a position to understand and either provide empirical support ("verify") or empirically contradict ("falsify") it.

Popper (1951: 71) says that theoretical system may be said to be axiomatized if a set of statements, the axioms that have been formulated match with the following four fundamental requirements:

- a. The system of axioms must be free from contradictions (self contradiction or mutual contradictions).
- b. The system must be independent; it must not contain any axiom deducible from the remaining axioms.
- c. Sufficient for the deduction of all statements belonging to the theory which is to be axiomatized.
- d. Necessary, for the same purpose, which means that they should contain no extra assumptions.

As classically conceived, an axiom is an evident premise to be accepted as true without any disagreement. Referring to those explanations, from point 'a', agency is might be classified as theory. In accounting, agency is well-known theory to solve agency problem. Auditing is one of subject matter in accounting that uses agency theory. Thus, it supports the 'a' point.

Back to the classical nineteenth-century, entrepreneurs had little need for an accountant as in the modern sense; they were accountable to the law of the land and their own conscience, but beyond that they were sole judge of their own performance whether it was good or bad.

The expanding influence of the auditing in general is derived from two sources: (1) the increasing complexity of the modern industrial world and its greater emphasis on *accountability*, meaning that the need of individuals refers about his or her actions one man is to refer his actions to judgment by standards he or she shares with other men (Carmichael and Willingham 1985:9). (2) There was a different interest between the owner or principal and also with agent. The contradiction was started from the interaction between two or more subjects (agents and principal), therefore auditor is needed to check the agent's performance.

Point 'b' until 'd' are not fulfilled yet, because there are still extra assumptions in agency theory. Meaning that agency as a theory is not sufficient enough to explain a certain condition. Caldwell (2006) criticizes the concept of agency. It shows that from the nineteenth until twentieth century, the agency was not fixed as theory yet. But, most people use agency as theory to solve their problem and they already use it in interdisciplinary knowledge. During my study for obtaining bachelor degree in accounting. I never found agency theory in one chapter that fully and merely discussed about agency theory. It always appears as supporting explanation for the other theories. Logically, if people see it is important and already in the form of theory, it should be discussed as one main topic at least in one chapter of books related to accounting. The chapter should be able to explain very well about agency itself for example what agency is including its function and its impact for the principal and the agent, the reason why there are subjects called as principal and agent, how it works and then discuss it based on a discipline. In this case, the explanation should be based on the accounting perspectives.

It is the unique insight of agency. Agency relationship exists in daily life. It has also been described clearly in professional working area such as: accounting, economics, finance, marketing, political science, organizational behavior, and sociology. Based on that reason, there is a more danger effect when we accept premises too hastily (Droage and Spiller 2009:42). When theory becomes embedded in the scholarly literature, its premises often become it is widely accepted. We can fail to recognize situations where a theory's robustness may be compromised and leads to inaccurate application.

Based on the circumstances mentioned above, agency serves as the main topic of this study. This study is a basic research which employs literature review as the technique for analysis. The basic research is conducted to investigate issues relevant to the confirmation or disconfirmation of theoretical or empirical position of the agency theory (Bordens and Abbot 2005: 19). Critical approach is used to understand and answer the issue. Macionis (2007:39) says that critical sociology is the study of society that focuses on the need for social change. Keesey (2003:3) explains that to study criticism systematically, we need to make the arguments explicit. A

conceptual scheme or organizing metaphor is needed to define, analyze and compare the various contexts in which all particular interpretations are made. I use types of criticism that see the author's conscious and unconscious intentions and beyond these, his or her entire social, political and intellectual milieu are used as the determiners of the research's meaning. The concern is to investigate the causal contexts of the work, and their representation based on historical criticism.

The criticism approach employed in this study concerns with the conventionality of all literatures and argues that any work must be understood by making an analogy with other works that employ similar conventions. This approach is called 'intertextual' criticism. Additional explanations, literary words' or 'literary structure' are given for the circumstances requires more practical and less ambiguous terms. Literary text is employed because the main concern of this study is with the printed page, although the researcher should take into a consideration that some researchers have existed for centuries in purely oral form and that recitations are not quite the same as written text.

Based on sociology perspectives, critics is not just to reach the social world but to change it in the direction of democracy and social justice. Sociologists use the critical orientation to change both the society and the research character itself. They often identify personally with their research subjects and encourage them to decide what to study and how to work. The researchers and subjects use their findings to provide a voice for less powerful people and to advance the political goal of a more equal society. Equal society means that all humans are equal in fundamental worth or social status.

The objective of this research is to falsify the nature of agency theory. It is assumed that if the nature of agency has been already known, thus its function can be understood because the nature of theory is to describe history, function, benefits, and etc. The nature of agency theory deals with the basic form of agency itself. Then, impact towards principal and agent is given as critics agency theory. It is important to reveal the truth and where other people have clear understanding in using the utility of agency theory. Based on the literature, agency theory has a role to accommodate the self-interest between the principal and agent. It is important to enable prediction and explanation of behavior. To

be able to give practitioner understanding on some control situation.

The research contributions are (1) to find and discern the objective meeting point between the nature of idealism and nature of realism from agency theory, by then the theory can be applicable for user or practitioner, (2) as an addition to collection and enlarge perspective of agency from sociologist's for students or others who has interest to learn more about it. Accountant, auditor, manager are parts of sociologists and it is beneficial to broaden the perspective from others for understanding the whole story a whole understanding of theory, (3) giving consideration for government or other party who have responsibility to create and establish policy for formulating obligations and rights of employees or citizens. At least, it can minimize the expectation gap from the owner and employee or employee to employee or government to citizens by decreasing asymmetry information.

METHOD

The paradigm of this research is qualitative-exploratory. Critical Theory based on Miles and Huberman (2000:280) is stressing the importance of emancipatory that makes people aware about inequitable or oppressed positions and empowers them through corrective actions. Exploratory studies are undertaken when relatively little is known about something, perhaps because of its "deviant" character or its novelty (Singleton and Straits 2005:69). When trying to explore a topic or phenomenon about which one is known a little bit knows very little, it is needed to begin with a general description of the phenomenon. Literatures is a unit of analysis. Secondary data are used as the source of the data type. Literature review is as a technique to collect the data (Bordens and Abbot 2005:60). After that I need to do coding (Strauss and Corbin 1990:97) and memoing to storage the data (Babbie 2005:397). Next, I use content analysis to analysis the data (Babbie 2005:328). Data verification uses internal, construct and external validity (Creswell 1994:157; Singleton and Straits 2005:100). Here is the explanation of the research method.

Qualitative research is discrete field of question that encompasses both micro- and macro analysis drawing on historical, comparative, structural, observational and interactional ways of knowing (Biber and Leavy

2004:1). Creswell (1994:1) designed it to be consistent with the assumption of a quality paradigm. This study is defined as an inquiry process of understanding a social human or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting.

Subsequently, I attempts to derive a theory by using multiple stages of data collection and the modification and interrelationship of categories of information (Strauss and Corbin 1990:1) There are two primary characteristic of this design that are constant comparison of data with emerging categories, and theoretical sampling of different groups to maximize the similarities and the differences of information.

Theory is an idea or a set of ideas intended to explain something about life or the world, especially one that has not yet been proven to be true (Longman 2007:1648). The theory should provide clear enough categories and hypothesis so that crucial ones can be verified in present and future research; they must be clear enough categories and hypotheses. The purpose of this research is exploratory. Exploratory studies are undertaken when relatively little is known about something, perhaps because of its "deviant" character or its newness. When trying to explore a topic or phenomenon about which one knows very little, one necessarily begins with a general description of the phenomenon. For these reasons, I decide to use in the exploratory study which is more open than in other kinds of research.

I use archival study to support my data collection, storing, and analyzing step. This study deals with the theoretical foundations of archival science, in an effort to show that they are hardly objective. All sciences as interdisciplinary and as part of what it calls the universal field of research which connects the sciences with each other through ideas, knowledge and methods. Lovblad (2003:134) explains that the management of physical record in archival study: selection and appraisal, retention and preservation, arrangement and description and access and use.

In social research the entities (objects or events) under study are referred as a unit of analysis (Singleton and Straits 2005:45). Social scientists study a variety of units, these include individual people; social roles, positions, and relationships; a wide social

groupings such as families, organizations, and cities; as well as various social artifacts such as books, periodicals, documents, and even buildings. Actually, the unit of analysis is easily identified. In this research, the unit of analysis is a theory that is agency theory.

In this research, researcher uses secondary data (archival data) as sources to be ready to manage and borne the useful information. Bordens and Abbot (2005:61) explain that primary source is one containing the full research report, including all details necessary to duplicate the study. Secondary source is one that summarizes information from primary sources. For example review papers and theoretical articles that briefly describe studies and results, as well as descriptions of research found in text books, popular magazines, newspapers, television programs, films, or lecturer, financial report, meeting report, articles, etc. It is important for me as researcher to understand this source of data to make sure that data is valid and able to be used in research.

The steps of data collection involve setting the boundaries for the study, collecting information by doing collecting through documents. I use literature survey as a technique to collect the data.

Although standing in the midst of all this activity, I make sure that there is nothing that can disrupt the activity. Based on this reason, watch the proceeds and keeps the track of everyone and everything. It is important to monitor the quality, timing of research, and researcher respond and satisfaction. That is how information gathering is conducted.

After that, from possessed a growing mass of data and need to be classified or categorized individual piece of data, coupled with that some kinds of reclamation system, this process is called as coding (Babbie 2005:394). These procedures allow to recover material and to strengthen the result by using open coding. Researcher needs to initial classification and labeling concepts in qualitative data analysis. In open coding, the codes are suggested by the researchers examination and questioning the data (Strauss and Corbin 1990:61)

Then another steps that researcher has done was memoing. In the critical perspective method, the coding process involves more than simply categorizing mass of text. As researcher codes data, researcher apply technique of memoing that refers to writing

Table 1. Critics Definition Based on Formal Work Criticism

No	Formal Work Criticism	Focus	Definition
1	Historical Criticism	Author	I use to intrepertation the meaning (relatively stable and unchanging through time) and critic the significance (which may change from reader to reader and from period to period).
2	Reader-Response Criticism	Audience	Critics are most often concerned with the represent audience. In this critics I put my little interest in authors or intended meaning.
3	Intertextual Criticism	Literature	I try to see what meaning could be discovered in works of literature from their context in literature. This primary meaning was called the "literal" meaning, a phrase with a luxuriant growth of semantic tangels around the words. Critics is laying on the question of what the proper subjects were that criticism ought to depend on.

memos or notes to myself as researcher and others involved in the project. Some of what during analysis may end up in final report

I made concept mapping to clear the qualitative data analysts that spend a lot of time committing thoughts to paper, but this process is not limited to text alone. Often we can think out relationships among concept more clearly by putting concepts in graphical format (Babbie 2005: 399).

I apply content analysis that is a study of recorded human communications, such as books, web sites, paintings and laws. Content analysis requires a thoughtful handling of the "what" that is being communicated in the literature resources and start to analyze by using "why" and "with what effect" (Babbie 2005:329) After that, I did conceptual analysis establishes the existence and ferquency of concepts (such as words, themes, or chap-

ters) in a text. Conceptual analysis analyze and interpretes text by coding the text into manageable content categories. Relational analysis builds on conceptual analysis by examining the relationships among concepts in a text (Sekaran and Bougie 2010:386).

Critical Theory that based on Miles and Huberman (2000: 280) is stressing the importance of emancipatory that makes people aware about inequitable or oppressed positions and empowers them through corrective actions. Denzin and Lincoln (2011:121) have an idea that critical intelligence being defined as the capacity to engage in moral critique. Keesey (2003:3):

I use literature as intertextual criticism to explore the meaning and critic the significance of agency theory. I felt that no critic had given his full attention of criticism: trying to see what meaning could be discovered

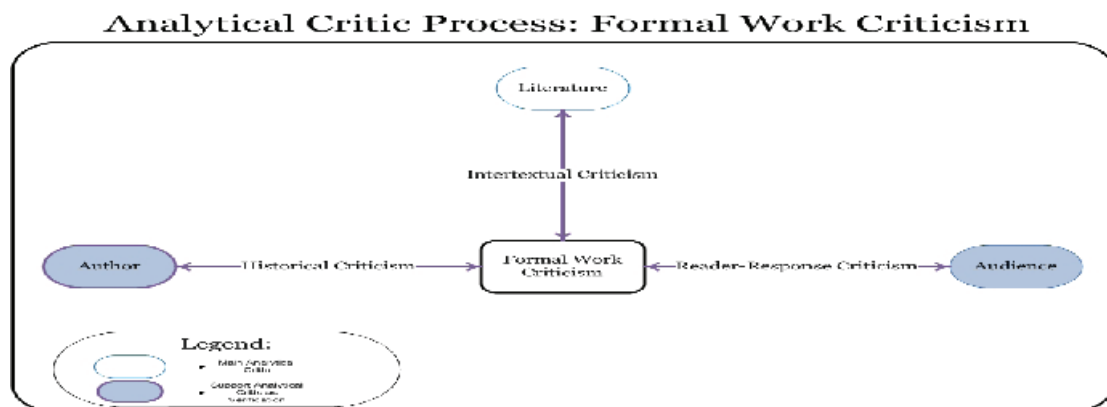


Figure 1. Analytical Critic Process: Formal Work Criticism

in works of literature from their context in literature. All meaning in literature seemed to be referred first operation of all to the context of intentional meaning, always a secondary and sometimes the wrong context. That is, the primary meaning that a prose paraphrase could represent. The text should speak to us. However, a text can not be made speak to us until what it says has been understood.

Since the meaning represented by a text is that of another, the interpreter can never be certain that my reading is correct. The readers must realize verbal meaning by his own subjective acts (no one can do that for them) but if they remember that his job is to construe the authors meaning, they will attempt to exclude their own predispositions and to impose those of authors (Keeseey 2003:24). The intpreter's goal is simply to show that a given reading is more probable than others. That is why Keeseey (2003:24) explains the criteria to chose the right literatures based on form of language, they are:

1. Legitimacy, the reading must be permissible within the public norms of the language in which the text was composed. For example: books and articles.
2. Correspondence, the reading must account for each linguistic component in the text.
3. Generic Appropriateness, if the text follows the conventions of a scientific essay, for example, it is in an appropriate to construe the kind of allusive meaning found in causal conversation.

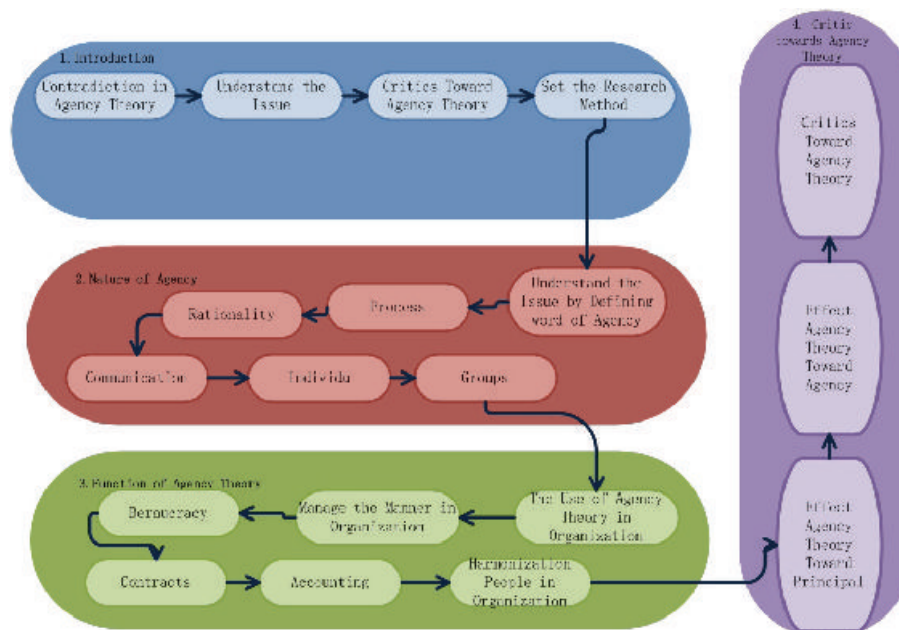
Also, I use historical and reader-response criticism to verification the result of

my literature analysis. Historical criticism focuses on the meaning that is relatively stable and unchanging through time. I use the this to see the author's intention and beyond these, his or her entire social, political and intellectual milleu as the determiners of the researcher's meaning. As I said before on the introduction that I concerned to investigate the causal contexts of the work, and these represents forms of historical criticism.

Next, I use reader – response criticism also to see whether this issue still relevant to do inquiry now. It is concerned with the represent audience. It means that some semantics are fond in people, not in words, and many theories of interpretation are based on belief that we must look either to the author or to audience if we are to understand the meaning of literary text. Both historical and reader-response criticism are able to support me for doing literature criticism and decrease bias on my data.

I use clarification of researcher bias (Creswell 1994:168) that explaining the researcher's role toward the research. Here, I am as the researcher who falsifies the history of agency theory to get the history tree. Besides that, I concern to observe the consistency data based on the literatures. All at once, clarification and consistency are important to examine internal validity; construct validity, external validity and reliability as that result in data verification. Measurement validity refers to congruence or “goodness and fit” in the researcher as instrument.

As mentioned in Creswell (1990:159) internal validity is needed to describe how



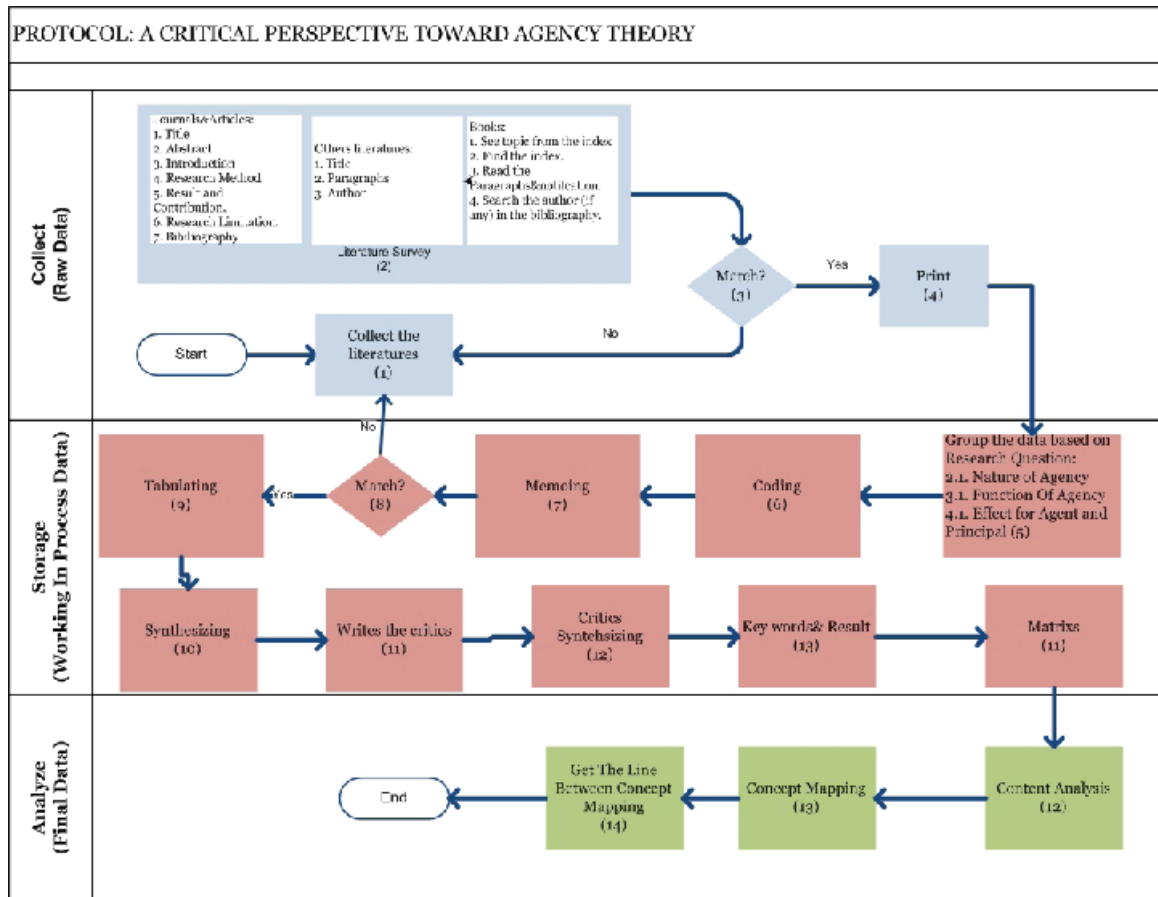


Figure 2. Discussion Framework

the study will address and the accuracy of the information and whether it matches with reality. Validity discusses an informant and research process to be authenticated and trustworthiness. Construct validity emphasizes the meaning of the responses to one's measurement instrument. How are they to be interpreted? Is the instrument measuring the intended concept (or construct)? This kind of validity bases an accumulation or research evidence and not mere appearances. Back to Creswell (1990:158) that external validation refers to discuss the limited generalizability of findings from study. The intent of qualitative research is not to generalize findings, but to from unique interpretation of event. One of the example is in manuscripting process. In manuscripting process, I start to write a sentence or sentences to describe the contents of each chapters. I realize that it is important to ease the understanding for my research. Since I write in narrative way. It can increase the external validity.

RESULT AND DISCUSSION

Nature is a character of something that explains particular events to happen without doing anything to change the result and has greater effect (Longman 2007: 1060). The key word mentioned in the definition of nature is character which means that the character is naturally given and has a greater effect, without doing anything to change (gift), and has greater effect. Then, chapter II deals with the nature of agency. It explains the agency from ontologically. Ontological view of agency is defined by providing the basic form and characteristic of agency. The basic form is the simplest part of agency, and the characteristic refers to the particular combination of qualities that makes agency as a particular kind of concept.

History of agency can be described in the conduct of sociology. The formative period in the history of agency is a wide range of social activities that are conveniently included under its rubrics, although it is not essentially related to the theory, for exam-

ple the history and technique of charities and corrections, and the whole institutional structure built up to deal with them. Characteristic in this entire field is the association of scientific inquiry with social action. The typical procedure is to understand it, and investigate of a concrete situation.

The hardest part in sociology is establishing the precise date when sociological theory began. People have been thinking about, and developing theories of social life since the early history. Moreover sociologists or even I will not go back to the seventeenth century. This is not because people in that era did not have sociologically relevant ideas, however because the return on people investment in time would be small, people would spend a lot of time getting very few ideas that are relevant to modern sociology. In some cases, none of the thinkers associated with those eras are considered as sociologists. They are classical sociological thinkers. First, the sociological perspective will be given by examining the main social and intellectual forces that shaped their ideas.

Sociology is a descriptive, historical, and explanatory account of society viewed as concrete reality Giddings in the Timasheff (1967:84). Thus, sociology is the description of a unique, non-recurrent process, though its element may be recurring. I am not trying to force a particular theory but attempting to visualize the process of development of theory in sociology manifested in the appearance, struggle, and disappearance or survival of agency. This section mainly concerns itself principally with the history of agency. The purpose is to provide the filiations and opposition of ideas, to put in order for the invention, to find out in the earlier theories origin or anticipation of the later, and to discover the advance of truth through the clash of opinions.

Agency happens inside of agents. The most difficult part is agency happened inside or, latent. It cannot be seen directly. But agency has power to act and change things. It is the unique insight of agency. The basic nature of agency comes from every individual coming from each people to decide what they are going to do. Agency has two roles as principal and agent. Where principal gives certain instructions to gain get more profit and agent performs based on the order from principal. Everyone has these two roles in their selves to survive in this universe world.

Hegel and Marx point out the importance of control and this idea is supported by other scientists meaning that the idea travels through time and space. Since Hegel and Hegel has observed that the process of evolution occurs beyond the control of people and their activities. In any case, people seem to move towards a greater consciousness of the world as they could be, they seem to move into the desired in the "desired" direction. Desire refers to a high degree of want or hope for something. (Longman American Dictionary 2003:432). Based on that reason, communism or socialism needs to be controlled to decrease the conflict because desire without any control can lead human to be greedy. A person act is based on his or her wants not by his or her needs that will lead to exploitation. A want can not be stopped because there is no limitation.

The term of principal and agent has been known since Hegel (1770-1831) and Marx (1818-1883). By that time, principal is well known as people who have has money but do not have enough energy and skill to do production. Furthermore, agent is labor who has skill and energy to do production but do not have money. These premises are summary of agency problems during Hegel's and Marx's life.

Agency can be occurred in the relationship, interaction and communication. When agent has relationship with other societies and has interaction in a defined territory and shared culture (Macionis 2007:667). During culture sharing and interaction agent use communication to deliver the message. Communicating assertively is needed to describe and mention how the problem affects somebody, solution purposes, to confirm understanding, and reflect somebody assertiveness (Devito 2007:341).

Agency is a process of interest (need, interest, and intention) of rational actors who intentionally conduct an effective plan and management for achieving their goals. The process, in addition, supports the communication to understand the interest of rational actors. Communication has a role to make distinct conduct of effective plan and management for reaching the goals, as common elements of communication comprise are including people, messages, channels, noise, context, feedback, and effect. Communication is a process of transferring thoughts and ideas from one person to another. It is a process of people sharing thoughts, ideas, and feelings with each other in commonly under-

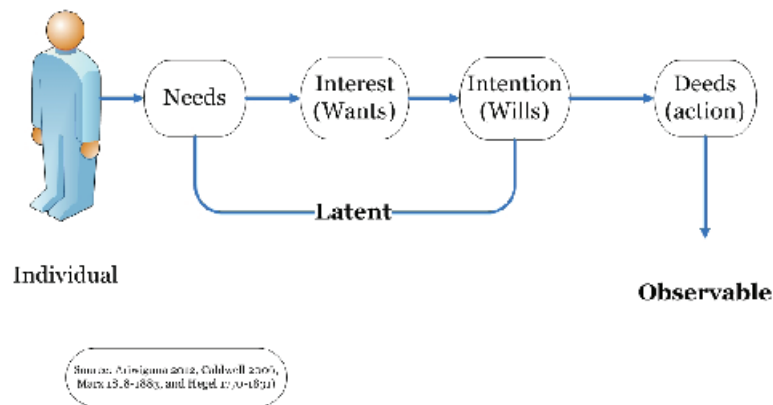


Figure 3. Individual Process of Rationalization

standable ways (Ariwiguna 2012).Caldwell 2006. Ritzer and Goodman (2004a, 2004b, 2004c).

Secondly, agency becomes a problem when there is a divergence between interests and goals between one individual with from one individu to others. It called as agency problem. The agency problem can easily cause conflict. Here, communication also take part in the conflict. Because there is a trouble in the communication process then the message is not delivered or achieved in understandable ways. Conflict can be happened within the individual in interpersonal relationship and in small interpersonal, small group and public (larger scope of small group). Communication has two roles in agency both as supporter (to make the process of agency become clear) and as agritator

that creates conflict.

Thirdly, agency can be found in interaction and relationship. In the interaction and relationship, the deeds are easy to be observed by other individuals (Margaret and Taylor 2006:23). When the deeds already have been observed, then the agency process is able to be explored. It is explained clearly that deeds (actions) is as the result of agency.

Agency concerns with the system of manner which sustains hierarchies of organizational power. The agency theorists assume that rational utility maximizes maximizing the behaviour of all individuals. They assert that individuals may be described in objective manner and independently in social context. Figure process of agency and conflict explains the reason why agency is suitable for solving the problem in the society.

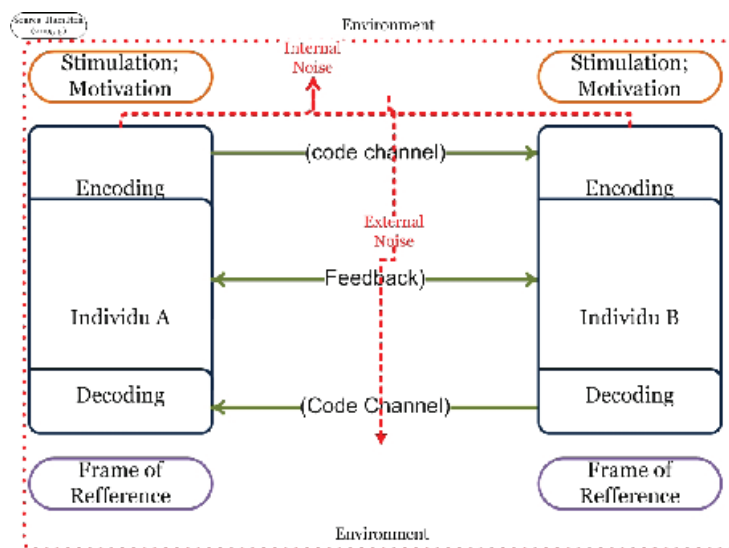


Figure 4. Process of Communication

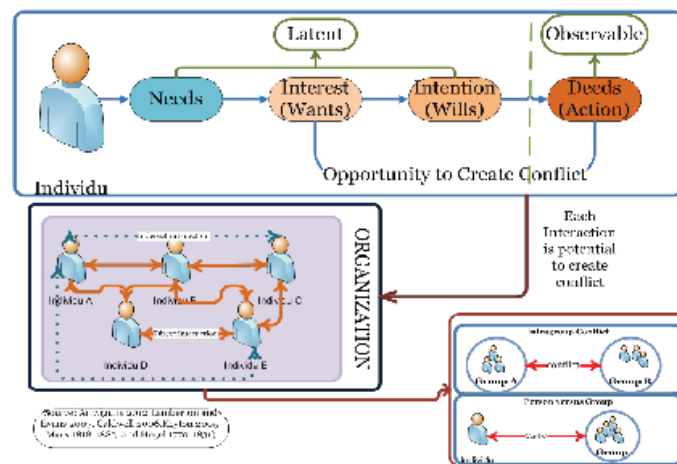


Figure 5. Process of Agency and Conflict

Function means the purpose that something has or the job that someone or something does (Longman 2007:656). If one thing is a function of another, thus it is produced by or changed according to the other thing. In addition, if something has functioned, it means that it works correctly or in particular way. Chapter III deals with the purpose that agency has and how it works. The information given in this chapter started with where the agency can be implemented what is the function of agency in accounting, why agency is so important to be studied, and explain how agency can do all those things.

Agency is important for organization to manage it to be better (Hunt III and Hogler 1990:437; Kivisto 2005:1; Eisenhardt 1989:57). Because organization has a role as interplay of technology, social structure, culture and physical structure, embedded in contributing to environment (Hatch 1997:15). Western society is frequently referred to as an organizational society; it is certainly true that most of our daily activities take place within organization, such as companies, government departments, schools, hospitals, universities, political parties, family, and so on. It shows that organizations give their uniqueness among collectivities, includes: impersonality, hierarchy, size, goals, concern for efficiency, boundaries, control and nature of work (Gabriel 1999:82).

In organization, the relationships look like complicated. There are people and system which are integrated to run the organization. For example is internal organizational relationship between the principals and agents. Principals are individual who delegate work to another party and some decisions making

authority to the agent (Kivisto 2005:1). While agents are individuals who perform some services on the behalf of principal (Hunt III and Hogler 1990:443).

The organizational association between principal and agent is also called as agency relationship. Hunt III and Hogler (1990:443) states that agency relationship is as a contract under which one (or more persons) the principals engage with another person. This formal engagement between principal and agent need a contract to visualize the formal form. Contract is important to analyze imbalance of power inherent in the social context of an organizations. Also, serving primarily is to legitimate a particular form of economic organization. Contract appears as the consequences of wholly voluntary interactions among many private persons, of all who are free in their nature and equal to one another.

For that reasons, contract should determine the most efficient governing agreement and giving assumption about people (self interest, risk aversion, and bounded rationality), organization (goal conflict among members) and information (information as a commodity which can be purchased). Moreover, contract is as a means to control the firm just as the firm which controls the worker. Arranging and governing the contract is needed to make effective contract. During the arranging and governing contract the relationship is appeared again, because the process involves another individual and system to embed the contract.

Contractual relations are the essence of the organization, not only with employees but also with suppliers, customers, creditors, and so on. The problem of agency costs and

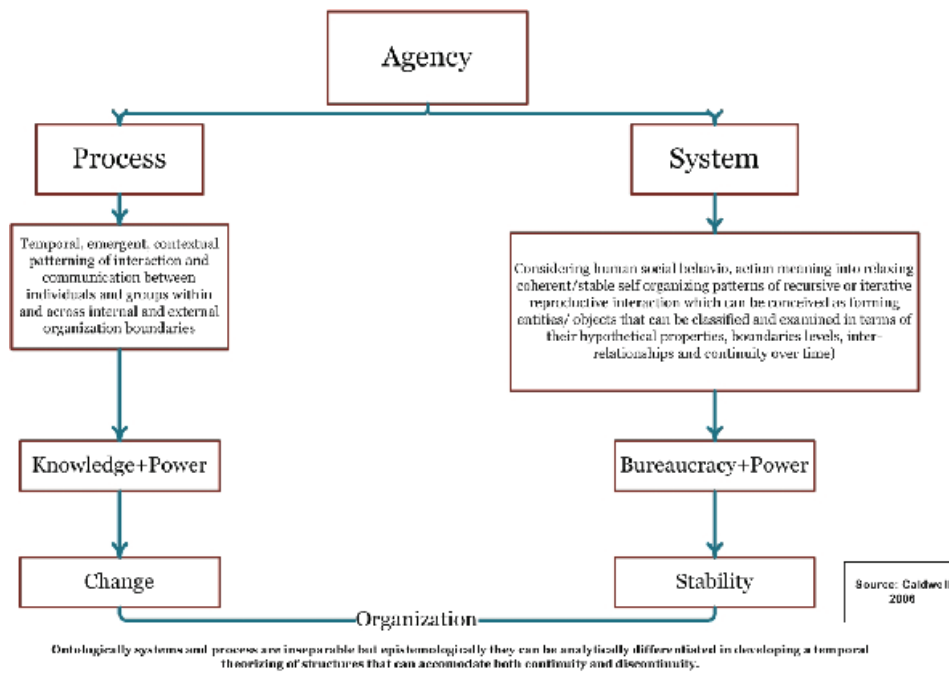


Figure 6. The Nature of Agency

monitoring exists for all of these contracts, independent of whether there is joint production in their sense. Joint production can explain only a small fraction of the behavior of individuals associated with organization. The classical capitalist organization as a contractual organization of inputs in which there is (a) joint input production, (b) several input owners, (c) one party who is common to all the contracts of the joint inputs, (d) who has rights to renegotiate any input's contract independently of contracts with other input owners, (e) who holds the residual claim, and (f) who has the right to sell his contractual residual status.

Creating contract needs cost that is not cheap. Because, contract is not for free. Then, principal creates the nexus of contract to self-regulating, autonomous and economically efficient. Jensen and Meckling (1976:8) says that it is important to recognize that most organizations are simply legal fictions which serve as a nexus for a set of contracting relationships among individuals. By legal fiction, it means the artificial construct under the law which allows certain organizations to be treated as individuals. The private corporation or firm is one of the example of legal fiction which serves as a nexus for contracting relationships and which is also characterized by the existence of divisible residual claims on the assets and cash flows of

the organization which can generally be sold without permission of the other contracting individuals. Based on that reason, nexus of contract is as alternative to minimize the agency cost (Hunt III and Hogler 1990:449). So, there are a requirements for creating the contract: (1) there must be some potential divergence of interests among the parties of the contract, (2) the principal should have at least some difficulties in determining the capabilities of the actions of the agents.

After creating the contract for the organization, then there are organizational strategies which provide expectations and structure of our behavior while we are engaged in that role. Because we cannot do act randomly in organization (Keyton 2005:2). Organizations are purposive system in which members behave as if their organizations have goals, although individual participants might personally feel indifferent toward those goals or even alienated from them (Aldrich 1999:3). Goal set by the owners or leaders must take into account potential conflict of interest with other or other organizations and individuals supplying their resources. The strategies can be implemented if there is structure there to make sure that the strategies can be run well. Therefore, there is organization structure as policies and symbols serving to support the behavior and attitude considered appropriate, thus placing constrain on

the range of available impression management behavior (Gadot and Drory 2006: 78). In addition, organization actually has a role to manage agency (agency structure) to self interest and self setting at microlevel setting. It is as a cooperative behavior to align goals toward risk. Strategies and structure in organization influence new subject to learn is management behavior. Organizational behavior is highly responsive to the interpersonal cues and social aspects of the situation (Gadot and Drory 2006:78).

Abrahamsson (1993:xvi) asserts that organizational theory has three major problem areas. The first is the question of how the organization can be made efficient. The second is how it can be representative and how its activities can satisfy the interests and realize the goals of its mandator. In term of improving the organization's efficiency, the mandator appoints an executive group that is entrusted with the responsibility of working for his or her goals and interests. Here, where the demands for efficiency and representativeness intersect, a new problem area emerges: the problem of administrative groups that work for their own goals rather than those of their masters (often citing greater efficiency as the reason) and gradually becoming the lower representatives of their mandatory interests. This is the problem with bureaucracy.

Furthermore, organization needs to have bureaucracy to control between subjective (personal desires) to be objective (to protect within the bureaucracy from domination and to ensure the interest of constituents) (Hunt III and Hogler 1990:449). Bureaucracy must have attempt to accommodate personal expression and self fulfillment to describe all forms of organizational rationales. Then why is bureaucracy so important? It is important to attempt and define, distinguish and render mutually compatible the subjective and objective aspect of life. Conflict in organizations may not be interpreted in a meaningful way until we have an understanding of the battle field in which these conflicts may be resolved. Abrahamsson (1993:4) explains that bureaucracy as it is used in political science and sociology gives us an impressive number of applications of the terms from which to choose:

a. State administration: bureaucracy has been used for denoting the prominent position given by the centralized state power

to permanently employed public officials and has been applied as an instrument of critique towards this state power.

- b. Group of officials: bureaucracy can denote a group of individuals who carry out administrative tasks or an administration carried out by persons who are employed specifically for this type of job, regardless of whether it is public or private.
- c. Administrative autocracy: an administration in which the officials exert power to implement their own interests.

Bureaucracy is used, and has been used as a label for a multitude of phenomena that have very few components in common. It only signifies that a group of phenomena is some way related. Bureaucracy it is analyzed on this abstract level (the concepts of mandatory and executive) represents a tendency within an organization's administration to disengage itself from those exceptionally interests that are supposed to work for the interest of those persons who are officials legitimate of the administration. Administration means those organization officials who are responsible for the implementation of daily decisions and rules to which they are subjected or that they are expected to follow. It is common for almost all conceptualizations which are used for the analysis of the task execution for serving some persons or group of persons. Again, the administrative system is the concrete dimension of bureaucracy in the sense that it can be described through the use of various statistical and sociological methods of measurement. Organizational rationality, expressed in terms of the principles of bureaucracy, is taken as a guarantee against discrimination premised on particularistic aspects of identity, such as ethnicity, gender, age, religion, and sexuality (Clegg 1992:4).

Agency is discourse or rhetoric embedded in collective behavior, social practice or political ideology that undermine the teleological and normative possibilities of individual's rational action. Furthermore, agency has power and knowledge which express the underlying prejudgements or bias within discourses or knowledge that undermine the possibility of objectivity and create a symbiosis between expertise and power. Moreover, agency reminds the government to have coercive power process to manage the country, because all behaviours are motivated by economic rationality. Adam Smith's view toward the political economy is based on the pos-

tulate of homo economicus: a simplified set of assumptions about human action, seen as the result of the behavior of isolated individuals, each of their own interests and making free and rational choices after having calculated the prospective costs and benefits (Martinelli and Smelser 1990:2). Then, accounting is born.

Accounting needs a person to run its system from identification process until reporting. Every person has his or her own interests. Then it is important to search independent outsider of the organization to review the performance there. This situation is already happened in classical era. Back into classical nineteenth-century, entrepreneurs had little need for an accountant compared to modern era. They were accountable to the law of the land and their own conscience, but beyond that they were sole judge of their performance whether it was good or bad. The expanding influence of the auditing is derived in general from two sources: (1) the increasing complexity of the modern industrial world and its greater emphasis on *accountability*, meaning that the need of individual refer to his or her actions. One man is referred to is actions to be judged by the standards he or she shares with others (Carmichael and Willingham 1985:9). (2) There was different interest between the owner or principal and agent. The contradiction was started from the interaction between two or more subjects (agents and principal), therefore that is why they need auditor to check agent's performance.

Auditing is a systematic and objective-process in obtaining and evaluating evidence regarding assertions about economic actions and events to determine the degree of correspondence between the assertions and established criteria and communicating the results to interested users (Louwers et.al. 2008:4). Auditing is an independent investigation of some particular activity. The situation below explains more about auditing in the organization.

In this case, the role of auditor is to determine whether the reports prepared by the manager conform to the contract's provision (Messier et.al. 2006: 7). So, the auditor's verification of the financial information improve credibility to the report and reduces information risk, potentially benefiting both the owner and the manager (Brink and Witt 1982: 3).

Thus, agency relationship can be seen

in the organization because organizations share their feature of socially constructed boundaries with other types of collectivities. If there is any concentration of power in the contributions not only to the attainment of large-scale goals, but also some of the most troublesome actions affecting us (Aldrich 1999:7). Some of the negative consequences of organized action arise as by products in the normal course of business, whereas others are the result of callous disregard of the public interest. Figure 3.3 support the explanation that agency can solve the problem of the organizations.

Agency has process and system. The process focuses more on changing the organization because process is temporal and emergent, contextual and patterning of interaction between individual and groups within and across internal and external organization boundaries. System puts attention on the stability of the organization. As system as the system concerning with human socio behaviour, action is defined as coherent or stable self organizing patterns of recursive or iterative, reproductive, interaction which can be conceived as forming entities/object that can be classified and examined in terms of their hypothetical properties, boundaries level, interrelationship and continuity over time.

Critics in this chapter are firstly given by giving with serve the information of what are the effects of agency theory toward the principal and agent. Revealing information about effects for both parties can support this research to come to the critics toward agency theory. Critic means one who forms and expresses judgments on the merit faults, value, or both matters.

Effects exist as the consequence of a cause of something else. Here, agency theory appearance has effect for the principal and agent. The power of the empirical research on agency theory to explain organizational phenomena is important to assess, particularly in light of the criticism that agency theory is "hard subject to be tested empirically since subject to empirical test since it rarely tries to explain actual events" (Eisenhardt 1989:58). While principal and agent are the actors who perform their job based on agency theory in term of achieving their goals. Jensen and Meckling define an agency relationship as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their be-

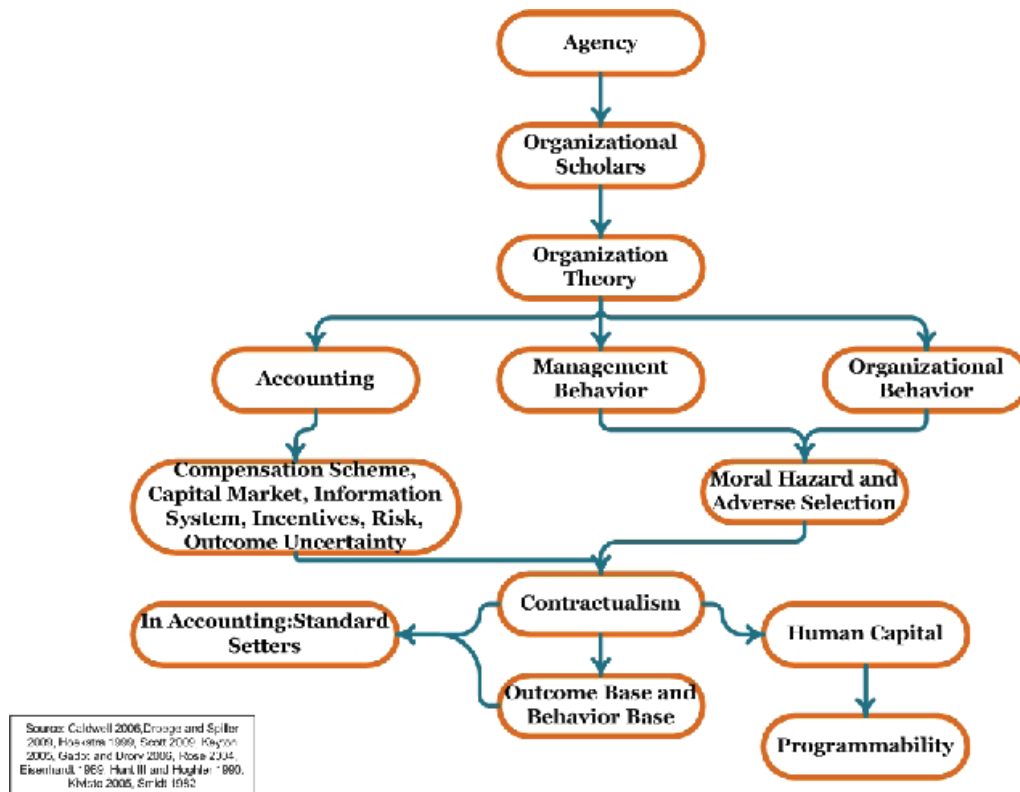


Figure 7. The Function of Agency

half which involves delegating some decision making authority to the agent (Jensen and Meckling 1976:5).

Agency is a process of interest creation inside human’s mind where everyone has it in their selves. Agency is not directly connected with the behavior, because behavior is the result of agency process. Agency really supports the human’s development and organizational growth. However, if researcher and other users of agency are only focus on the function without inquiring the nature then it will have bad effect for the one or both parties. It can be the agents or principals, but mostly the agents are as the victims. It does not always mean that agent is wrong or incapable to do their works. Also, it is often false if the principals are right, they should be obeyed that principal is right and should obey by their agents. Because both of them are humans who have their own interest, capabilities, and goal. Also, nobody is perfect. If the principals want to be better than they should treat their workers better. Agents or workers also do the same thing to their principals. Basically agency explains how to learn to be better agents and organization that can form a transformative agent and

leaders who can drive change. Thus, agency (when it turns to be theory) should treat the principal and agent fairly.

CONCLUSION

Agency is as a concept. Based on the theory formulated by Popper, agency is merely fulfilled the first requirements that is the system of axioms must be derived from contradictions (self contradiction or mutual contradictions). Agency has been a contradiction since 1770-1831 (W.F.Hegel). However, agency cannot fulfill the other three requirements. Agency is a process of interest of rational actors (need, interest, and intention) which is intentionally to conduct effective plan and management for achieving goal. Its process also supports the communication for understanding the interest of rational actors. In addition, the agency faces problem when there is a discrepancy between interests and goals of an individual with others. The effect leads to conflict. Because there is a trouble in the communication process then the message is not delivered or achieved in understandable ways. Here, communication has two roles in agency both as supporter to make the process of agency becomes clear

and as agrigator that creates conflict. Well, agency is definetely able to find in interaction and relationship. Agency is discourse or rethoric embedded in collective behavior, social practice or political ideology that undermine the teleological and normative possibilities of individual's rational action. Furthermore, And agency has power and knowledge which express the underlying prejudices or bias within discourses or knowledge that undermine the possibility of objectivity and create a symbiosis between expertise and power. Therefore, based on that reason, agency is usefull for organization because organizations share their features of socially constructed boundaries with other types of collectivities. That is why agency is often seen in the organization. Agency has two roles, once as a conflict maker and as a means for problem solving. Thus, a lot of subjects are born by agency for organization. The instance are accounting, management behavior, organizational behavior and so on. The effect of agency towards the principal is if the principals gain higher power and capability to order their agents (and the agents must conduct based on the principal's interest to maximize their own wealth. It is like principals have been bought agent's behavior so agent does not have any other choice anymore, instead of obeying their principals' wants. Then, the effect of agency towards agent is that often agents oppressed by the principal. They are starting to move to struggle their rights by critizing their obligation. The organization is too strict for them, they cannot carry out their own interests so that their creativity is limited, also they cannot fulfill their needs and interest. Agent is treated as an asset which is important only for the ease of the operational production in the organization. Then, agent is only valued as asset or machine where principal can measure the how much the costs to predict how much the income that they can earn. If the agent is not useful anymore (based on principal's view) then the agent may be dismissed and replaced by other agent. The most important thing is whether principal and agent are human not treated as asset, machine, etc. Both of them are basically have the same role in this world to build better life for everyone.

It was hard to manage the data obtained from the literatures due to the extensive amount data and literatures concerning with agency. After accomplishing the data management the data are further validated.

Validity is the extent to which a measuring instrument measures what it was designed to measure (Bordens and Abbot 2005: G-11). It is quiet difficult to decide the reliability and validity of qualitatve research. Miles and Hubberman (1994:2) states that the reliability and validity of qualitatively derived findings can be seriously in doubt. There is no certain validity for qualitative, that is why bias in qualitative cannot be dismissed. At the beginning, there was an obstacle in reporting the manuscript due to the large scope of data based on the years, authors, and object. So that another difficulty emerged when naming and selecting the appropriate words to represent the real condition. Presenting the report of this research needs efforts on organizing the important main point and supporting details effectively and efficiently so that the external validity of this research is high.

This study is a basic research which employs literature review as the technique for analysis. Qualitative paradigm needs to analyze the issues. That is why the data is massive (the clear reasons have been provided in research limitation). Then, if other researchers have willingness to use the same purpose, technique, paradigm or event the topic, it is better to design the research in detail to decrease the bias in data and increase the validity (internal and external validity. The next esearcher can read the article of Lovblad (2003) to expand the knowledge about archival science in qualitative then they might not do the same mistakes for data management. Afterwards, creating the protocol to support the research since qualitative requires long process (local groundedness, richness and holism, sustain period, asses causality and flexible to reveal the meaning) to run the research. It will be easier for the researchers to manage and create manuscript the report and also help to increase the validity. Researcher also needs to understand the research question because it will help to present the research to the user. Lovblad (2003: 131-134) asserts that science should be explicit, relevant, and expansive. In other words, he considers that the findings not only clarify one's own paradigm-its ontological, epistemological and value foundations but also its application. Explanations are seen in cultural patterns and the individual conception of the world. That is why agency needs further inquiry to review its role as concept and how to make it as a theory. It needs more explanation to sets its position,

then it can increase the using of agency in organizational life. Basically, agency is useful for people to harmonize their life. It is already proved that agency is important as problem solving for agency problem. Agency problem is easy to find in the human's life and it is presented in the organization. That is why if people have interest to study the agency then it should be started from the right side. The next researcher needs to inquiry from the nature after that goes to the function and sees how is its effect in people's life. So, it will give clear information for user of agency and not give equal position for the principal and agent. Because the function of agency is not strengthening the principal and weakening the agent, but it deals more with how to harmonize the interaction and relationship between one agent to another agent. Every individual is as agent and principal for their own life. That is why the next researcher can have more detail explanation about how the agency works and how it should be. In addition, he researcher can cross check the fact by using applied research to strengthen the validity of agency in practical area.

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