The impact of agency theory on organizational behavior: a systematic literature review of the latest research findings

O impacto da teoria da agência no comportamento organizacional: uma revisão sistemática da literatura sobre os resultados das pesquisas mais recentes

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ABSTRACT
This paper discusses the impact of Agency Theory on organizational behavior. A systematic literature review was conducted to explore the latest research findings on key concepts and empirical insights related to Agency Theory. This study involved an analysis of 137 papers from various database sources, and 31 papers were selected as data references for this study. The results showed that Agency Theory influences decision making, risk management, and overall dynamics in organizations. Agency Theory views that the relationship between agents and principals in organizations can influence...
individual behavior in the work environment. The principles of Agency Theory that influence individual behavior in the work environment include incentives, monitoring, and control. And this paper provides a deeper understanding of the practical implications of Agency Theory.

Keywords: agency theory, organizational behavior, risk management.

RESUMO
Este artigo discute o impacto da Teoria da Agência no comportamento organizacional. Foi realizada uma revisão sistemática da literatura para explorar as últimas descobertas de pesquisas sobre conceitos-chave e percepções empíricas relacionadas à Teoria da Agência. Esse estudo envolveu uma análise de 137 artigos de várias fontes de banco de dados, e 31 artigos foram selecionados como referências de dados para este estudo. Os resultados mostraram que a Teoria da Agência influencia a tomada de decisões, o gerenciamento de riscos e a dinâmica geral das organizações. A Teoria da Agência considera que a relação entre agentes e principais nas organizações pode influenciar o comportamento individual no ambiente de trabalho. Os princípios da Teoria da Agência que influenciam o comportamento individual no ambiente de trabalho incluem incentivos, monitoramento e controle. Este artigo oferece uma compreensão mais profunda das implicações práticas da Teoria da Agência.

Palavras-chave: teoria da agência, comportamento organizacional, gerenciamento de riscos.

1 INTRODUCTION

In the ever-evolving realm of organizational management, the complex dynamics between principals and agents are the main focus in the study of Agency Theory. Agency Theory, which is rooted in examining the relationship between the owners and controllers of organizations (principals) with those responsible for carrying out tasks on their behalf (agents), provides deep insight into conflicts and inherent challenges in organizational structures (Gramedia Literasi, 2023).

This systematic literature review aims to comprehensively explore the latest research findings relating to the impact of Agency Theory on organizational behavior. Organizational behavior, which includes individual actions, attitudes, and interactions in the work environment, is profoundly influenced by the principles and dynamics outlined in Agency Theory (Robbins, S. P., &; Judge, T. A., 2008). While organizations are dealing with increasingly complex environments, an understanding of how these theories shape and guide behavior is becoming a must.

By exploring diverse research foundations, systematically synthesize current literature to reveal trends, key concepts, and empirical insights, to describe more clearly
the ways Agency Theory influences decision-making, risk management, and overall dynamics in organizations, to provide a deeper understanding of the practical implications of this theory. To achieve this goal, several questions can be carefully formulated, each of which points to a key aspect of Agency Theory that affects organizational dynamics.

RQ1: How does Agency Theory affect decision-making at the managerial and operational levels in an organization?

RQ2: What is the role of Agency Theory in mitigating agency conflicts and improving agent compliance with principal objectives?

RQ3: How does Agency Theory affect the dynamics of relationships between individuals within organizations, especially in the context of authority and responsibility structures?

RQ4: To what extent does Agency Theory shape risk management practices and compensation policies within organizations?

RQ5: How is the application of Agency Theory reflected in employee development policies and training programs in an organization?

RQ6: What are the implications of further understanding of the impact of Agency Theory on organizational behavior on the development of future management models and organizational policies?

Through this exploration, it not only seeks to combine current knowledge but also identify gaps and potential future research directions. The synthesis of recent research findings presented in this review is expected to be a valuable resource for academics, practitioners, and organizational leaders seeking a thorough understanding of how Agency Theory shapes organizational behavior in a contemporary context.

2 LITERATURE REVIEW

2.1 AGENCY THEORY AND ORGANIZATIONAL BEHAVIOR

Agency theory details the relationship between two main parties in an organization, namely the principal (owner or stakeholder) and the agent (manager or executive). According to Jensen and Meckling (1976), agency theory is a contractual model between two or more parties, where one party is called principal and the other party is called agent. The principal delegates responsibility for decision making to the agent, and this can be interpreted as that the principal gives a mandate to the agent to carry out certain tasks in accordance with the agreed employment contract (Amdani et al., 2019). The authority and responsibility of the agent and principal are regulated in the
employment contract by mutual consent (Purba et al., 2021). This model focuses on misalignment of interests between the two parties and identifies potential agency conflicts that arise due to differences in motivation and goals. It emphasizes strategies for using incentives, contracts, and control mechanisms to manage conflicts and ensure agent compliance with principal objectives (Sari et al., 2019).

Where organizational behavior discusses the actions, attitudes, and interactions of individuals within an organization. Organizational behavior is a field of study that investigates the impact of an individual, group, and structure on behavior in an organization with the aim of applying science in order to increase the effectiveness of an organization (Robbins, S. P., & Judge, T. A., 2008). Some of the benefits of studying organizational behavior:

- Organizational behavior will act as a map for the lives of members in the organization.
- Conduct systematic and useful research to understand and also predict the life of the organization.
- Organizational behavior will help each individual understand their own behavior and also others in the organization, so as to improve interpersonal relationships between each individual in the organization.
- Helping every manager to be able to understand and also influence the environment and also events or problems that exist in his organization.
- Analysis of organizational behavior will also greatly help prevent problems in the organization.
- Provide basic motivation for each manager to be able to provide direction and control his subordinates more effectively.
- Organizational behavior is also useful for maintaining every company's industrial relations.
- If various management principles can be applied effectively within the organization, it will be very helpful in terms of motivating employees and also retaining them in the organization.

Generally, there are 4 important elements that can influence organizational behavior, namely humans, structure, technology and social systems. So, basically the scope of the organization is an integration of three concepts or behavioral studies consisting of individual behavior, behavior between individuals, and also group behavior.
2.2 THE RELATIONSHIP BETWEEN AGENCY THEORY AND ORGANIZATIONAL BEHAVIOR

- Incentive Mechanisms: Agency Theory emphasizes the importance of incentive mechanisms in shaping agent behavior. Incentives can include financial compensation, bonuses, or non-financial recognition to encourage desired behavior.
- Authority Structure: The relationship between principals and agents is often reflected in an organization's authority structure. Organizational behavior is influenced by the way responsibility and power are distributed within the structure.
- Organizational Policies and Procedures: Agency Theory motivates the establishment of policies and procedures designed to manage the relationship between principals and agents. These policies may include performance standards, performance evaluations, and accountability procedures.
- Organizational Culture: Organizational behavior is also influenced by organizational culture, which is often reflected in the values and norms applied. The culture implemented by the principal can influence the motivation and behavior of the agent.
- Leadership: Leadership factors also become important in detailing organizational behavior. Effective leadership can shape and guide agent behavior according to organizational goals.

Agency Theory provides a framework for understanding principal-agent relationships and agency conflict, while organizational behavior details the way individuals and groups respond to those organizational dynamics. These relationships create the basis for a comprehensive understanding of how internal and external factors affect overall organizational behavior and performance.

3 METHODOLOGY

This research uses the Systematic Literature Study Approach (SLR) as a mechanism to collect, assess, and interpret the entire research relevant to the subject or research question set. The general purpose of SLR is to summarize current evidence on a topic, identify research gaps, and provide recommendations for further research. The guiding guidelines for this SLR process consist of three main stages: planning,
implementation, and reporting. In this study, the selection process of data collection was carried out through several stages, which began with the formulation of clear and specific research questions. Then, researchers use the Preferred Reporting Items for Systematic Review and Meta-analyses (PRISMA) guidelines to find and select articles/journals that are relevant to the inclusion and exclusion criteria that have been set.

Figure 1. Identification Of Studies Via Databases

3.1 SELECTING A DATABASE

In research, the first step that needs to be done is to choose an online database source as research literature. This database source can be used to find journals or other types of publications that match the research conducted. Some of the database sources selected in this SLR study include:

- Scopus (https://www.scopus.com/home.uri)
- Science Direct (https://www.sciencedirect.com)
- Emerald Insight (https://www.emerald.com/insight)
- Google Scholar (https://scholar.google.com)
3.2 RESEARCH INCLUSION AND EXCLUSION CRITERIA

Inclusion and exclusion criteria in research are guidelines used to select studies or information to include (inclusion) and those to be ignored (exclusion). These criteria help ensure that the data or literature used in the study meets certain standards that are appropriate to the research objectives and methodological needs.

<table>
<thead>
<tr>
<th>Inclusion Criteria</th>
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<tbody>
<tr>
<td>• Publications 2012-2023</td>
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<td>• Have significant implications or contributions to the understanding of the</td>
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<tr>
<td>relationship between agency and organizational behavior</td>
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<tr>
<td>• Includes empirical research, case studies, and in-depth literature reviews</td>
</tr>
<tr>
<td>• Include research with a strong and valid methodology</td>
</tr>
<tr>
<td>• Available in full text</td>
</tr>
<tr>
<td>• Language and accessibility can be translated</td>
</tr>
<tr>
<td>• Open Access Only</td>
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<tr>
<th>Exclusion Criteria</th>
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<tbody>
<tr>
<td>• Exclude research or literature that has no direct relation to agency theory or</td>
</tr>
<tr>
<td>organizational behavior.</td>
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<tr>
<td>• Studies with methodological deficiencies may affect the validity of the</td>
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<td>findings.</td>
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<tr>
<td>• Those studies have been replaced by more recent research.</td>
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<tr>
<td>• Restrictions on literature that cannot be accessed or translated.</td>
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<tr>
<td>• Not available in full text</td>
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Source: Authors

3.3 SEARCH STRATEGY

Research of related articles or journals is done using a combination of keywords and Boolean operators such as OR, AND, and symbols to prioritize results. The keyword combinations used in this study include "Agency Theory" AND "Impact", "Agency Theory" AND "Behavior", "Agency Theory" AND "Implication", "Agency Theory" AND "Organization", and other keywords related to the research title. This search strategy aims to obtain the most relevant and high-quality literature related to agency theory and organizational behavior, while minimizing the risk of significant literature neglect.

3.4 DATA EXTRACTION

The study involved an analysis of 137 papers from various database sources. Of these, 68 papers were selected based on data screening criteria with a range of publication
years between 2012 to 2023. After conducting more in-depth research related to the completeness of the text, data accessibility, ability to be translated, and relevance to the research title, 31 papers were obtained that can be used as data references for this study. The databases used in this study were Scopus, Google Scholar, and MDPI.

Table 2. Number of studies on selected sources

<table>
<thead>
<tr>
<th>Data Sources</th>
<th>Studies Found</th>
<th>Study Candidates</th>
<th>Selected Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scopus</td>
<td>45</td>
<td>25</td>
<td>6</td>
</tr>
<tr>
<td>Google Scholar</td>
<td>91</td>
<td>48</td>
<td>24</td>
</tr>
<tr>
<td>MDPI</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>137</td>
<td>74</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: Authors

The table above shows the number of studies found, prospective studies, and selected studies from selected data sources. A total of 137 studies were analyzed, with 74 study candidates considered, and 31 studies selected for this study. Google Scholar had the largest contribution with 91 studies found, followed by Scopus with 45 studies found, and MDPI with 1 study considered.

4 RESULTS AND DISCUSSION

4.1 RESULT

Agency theory has various implications in many areas of research, including accounting, technology, and other research. Some previous research and its impact on specific research areas:

1. Agency conflict: Agency theory explains agency conflicts that may occur between principals and agents, such as company management and shareholders. These agency conflicts can threaten the company's performance and affect control and ownership mechanisms.

2. Corporate governance disclosure: Corporate governance control mechanisms, such as directors disclosure, can be used to reduce agency conflicts and maintain a balance of interests between principals and agents.

3. Financial statements: Agency theory influences the way auditors evaluate a company's financial statements, as auditors need to ensure accuracy and transparency in the financial statement process.

4. Organization of government: Agency theory also applies in governmental organizations, where the relationship between the pemang, the authorized, and the
unauthorized, such as the people, the institution of the regent or mayor, and the DPRD.

From the results of the research that has been done, the role of agency theory has an important role in explaining the impact, implications, and behavior of certain research fields. Agency theory helps us understand the relationship between principals and agents, as well as identify ways to reduce agency conflicts and improve organizational performance.

RQ1: How does agency theory influence decision-making at the managerial and operational levels in an organization?

Agency Theory influences decision making at the managerial and operational levels in an organization by explaining two conflicting economic actors, namely principals and agents. Agency relationship is a contract where one or more people (principals) instruct other people (agents) to make decisions that are best for the principal by prioritizing the interests of optimizing company profits so as to minimize expenses including tax burdens by tax avoidance. Agency conflicts that occur between agents and principals can be minimized in various ways, one of which is by disclosing corporate governance. In agency theory, the manager of a company who rules the company for decision-making as an agent has an interest in maximizing his profits. Agency conflicts that arise between management (agent) and owner (principal) can affect profit management practices carried out by managers to increase the current reported profit of a unit to the responsibility of managers without relating to increased long-term economic profitability.

RQ2: What is the role of Agency Theory in mitigating agency conflicts and improving agent compliance with principal objectives?

Agency Theory has an important role in mitigating agency conflicts and improving agent compliance with principal goals in an organization. This theory explains the relationship between principals (owners) and agents (managers) as well as conflicts of interest that may arise between them. In this context, agency theory provides a foundation for designing systems of incentives, oversight, and disclosure of information that can help reduce agency conflicts and encourage agents to act in accordance with the principal's interests. For example, a well-designed incentive system can encourage agents to make decisions that are in line with the principal's objectives, while oversight mechanisms can help ensure that agents adhere to policies and procedures set by the principal. Thus, agency theory provides an important framework for understanding how
agency conflicts can be addressed and how agent compliance with principal objectives can be improved in the context of decision-making at managerial and operational levels within an organization.

RQ3: How does Agency Theory affect the dynamics of relationships between individuals within organizations, especially in the context of authority and responsibility structures?

Agency Theory influences the dynamics of relationships between individuals within organizations, especially in the context of authority and responsibility structures, by explaining the relationship between principals (owners) and agents (managers) and conflicts of interest that may arise between them. This theory provides the foundation for designing systems of incentives, surveillance, and disclosure of information that can help reduce agency conflicts and encourage agents to act in accordance with the principal's interests. In the context of authority structures, agency theory explains how principals (owners) can design appropriate incentive and supervisory systems to ensure that agents (managers) act in accordance with the principal's interests. In addition, agency theory also considers the agent's responsibility to the principal and how incentive and supervisory systems can help ensure that the agent fulfills its responsibilities to the principal. Thus, agency theory influences the dynamics of relationships between individuals within organizations by providing a framework for designing authority structures, incentive systems, and oversight that can help reduce agency conflicts and improve agent compliance with principal objectives.

RQ4: To what extent does Agency Theory shape risk management practices and compensation policies within organizations?

Agency Theory influences risk management practices and compensation policies within organizations through several mechanisms designed to reduce agency conflict and encourage agents to act in the principal's interest. Some aspects related to this can be explained as follows:

1. Risk Management: Agency theory influences risk management practices by providing a foundation for designing supervisory mechanisms and incentives that can help reduce agency conflicts. For example, a well-designed incentive system can encourage agents to manage company risk with the principal's interests in mind.
2. Compensation Policy: Agency theory also influences compensation policy by explaining how incentive and supervisory systems can help ensure that agents
adhere to policies and procedures that have been established by principals. A contract-compliant compensation system and expected performance can help minimize agency conflicts and encourage agents to act in accordance with the principal's interests.

Thus, agency theory provides a foundation for designing risk management practices and compensation policies that can help reduce agency conflict and encourage agents to act in accordance with the interests of principals in the organization.

**RQ5: How is the application of Agency Theory reflected in employee development policies and training programs in an organization?**

The application of Agency Theory is reflected in employee development policies and training programs in an organization through several aspects that can be explained as follows:

1. **Incentives and Supervision:** Agency theory provides a foundation for designing incentive and supervisory systems that can help reduce agency conflict between managers (agents) and owners (principals). In the context of employee development policies, a well-designed incentive system can encourage employees to improve performance in accordance with the interests of the organization.

2. **Transparency and Accountability:** Agency theory also emphasizes the importance of transparency and accountability in the relationship between managers and owners. In the context of training programs, transparency in determining training needs and accountability in the implementation of training programs can help reduce agency conflicts and improve agent compliance with principal objectives.

3. **Risk Management:** Agency theory also influences risk management practices by providing a foundation for designing supervisory mechanisms and incentives that can help reduce agency conflict. In the context of employee development policies, risk management may include the identification of training needs to reduce the risk of skills shortages in the workplace.

Thus, the application of Agency Theory is reflected in employee development policies and training programs in an organization through the design of incentive systems, oversight, transparency, accountability, and risk management that can help reduce agency conflicts and improve agent compliance with principal objectives.
RQ6: What are the implications of further understanding of the impact of Agency Theory on organizational behavior on the development of future management models and organizational policies?

Further understanding of the impact of Agency Theory on organizational behavior has significant implications for the development of management models and organizational policies in the future. Here are some of the implications that can be gleaned from a further understanding of agency theory:

1. **Management Model Development:** A deeper understanding of agency theory can help in the development of a management model that takes into account agency conflicts between managers (agents) and owners (principals). Management models that consider incentives, oversight, and transparency mechanisms can help reduce agency conflicts and improve organizational performance.

2. **Organizational Policy Design:** An understanding of agency theory can also influence the future design of organizational policies. Policies that consider agency conflict and mechanisms to reduce it can assist the organization in achieving its long-term goals.

3. **Risk Management:** Agency theory can also provide better insight into risk management in organizations (Atmanegara, 2021). A deeper understanding of agency conflict can assist organizations in identifying, evaluating, and managing the risks associated with the relationship between managers and owners.

Thus, a further understanding of the impact of Agency Theory on organizational behavior can provide a solid foundation for the development of management models and organizational policies that are more adaptive and responsive to the dynamics of agency conflict and the demands of an increasingly complex business environment.

4.2 DISCUSSION

Agency theory is an economic theory that views a firm as a set of contracts between individuals who have their own interests. Used to explain and resolve problems in the relationship between business people and their agents, specifically in understanding principal-agent relationships and their implications for contractual arrangements, organizational performance, and corporate governance mechanisms. A principal-agent relationship is created when someone hires another person to act on their behalf, and an agent may not always act in the principal's best interest. Behavioral agency theory is a
contemporary perspective on the relationship between agency cost and performance, focusing on agent behavior, motivation, and time preferences. Corporate governance mechanisms can be used to change the rules under which agents operate and restore the principal's interests. Incongruous desires between principals and agents can create divisions among individual stakeholders and lead to inefficiencies and financial losses, leading to principal-agent issues. So agency theory is an important and controversial theory in organizational behavior that focuses on the relationship between principals and agents in an organization. The main aspects of agency theory and its impact on organizational behavior:

- Agency theory is a concept that addresses issues that arise in principal-agent relationships. The two main issues discussed are: 1) the principal may not be able to verify whether the agent has acted correctly, and 2) the agent may lack the motivation to act in the principal's best interest. These issues can lead to conflicts of interest and potential inefficiencies in the relationship between principals and agents. This approach focuses on the relationship between agency cost and performance, using efficiency and effectiveness as key evaluation criteria. This theory acknowledges the foundations of agency theory but advocates a new approach based on a different research perspective.

- Positivist Agency Theory: This simplification focuses on situations where conflicts between principals and agents may arise and provides governance mechanisms (e.g., the Board of Directors) that limit the self-serving behavior of agents.

- Agency theory has been developed in two main streams: positivist agency theory and behavioral agency theory. Both theories have their own implications for organizational performance, the first theory focuses on the cost implications arising from the principal-agent relationship for the company, and the second theory focuses on the relationship between agency costs and performance.

- Corporate Governance Mechanisms: Drawing on the long-standing flow of agency theory literature, the study investigates the effect of corporate governance mechanisms on agency costs and organizational performance.
5 CONCLUSION

Based on a recent literature review, agency theory has a significant impact on organizational behavior. This theory explains the relationship between the principal and the agent in a contract, where the agent can have information that is out of balance with the principal, which can trigger information asymmetry. The impact of this information asymmetry can affect company performance and give rise to agency conflicts between principals and agents. These agency conflicts can arise in various forms, such as profit management that occurs due to misalignment of interests between shareholders and company management. To reduce agency conflicts, control and ownership mechanisms are needed that can align differences in interests between the two parties. Therefore, agency theory has important implications in understanding organizational behavior and corporate management.
REFERENCES


