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AND THE 4<sup>th</sup> INTERNATIONAL CONFERENCE  
ON BUSINESS AND BANKING INNOVATIONS**

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# The 4<sup>th</sup> ICOBBI

*The Strategy of Digital in Business  
for Gaining Competitive Advantages after Pandemic*



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## FOREWORD

Alhamdulillah, praise be to Allah Subhanahu Wa Ta'ala for granting us the opportunity to organize and publish the proceedings of the 4<sup>th</sup> International Conference on Business and Banking Innovations (ICOBBI) with the topic "The Strategy of Digitalization in Business for Gaining Competitive Advantages after Pandemic". This proceeding contains several researches articles from many fields in Business & Marketing, Banking & Sharia Banking, Accounting & Financial Management, Human Resources Management, Operations Management, Investasi, Insurance & Capital Market, Strategic Management, Technology Management, and Information System.

The 4<sup>th</sup> International Conference on Business and Banking Innovations was held on 29<sup>th</sup> January 2022 by virtual (online) zoom meeting and organized by the Master Management Study Program of Universitas Hayam Wuruk Perbanas in Collaboration with five Higher Education Institutions in Indonesia and three Universities from Asia countries. Keynote speakers in this conference were: Chonlatis Darawong, P.hD (Sripatum University, Thailand), Associate Prof. Dr. Elisha Nasrudin (University of Science, Malaysia), Dr. Sanju Kumar Singh (Postdoctoral Fellowship in Universitas Airlangga, Tribhuvan University Nepal) and Prof. Dr. Abdul Mongid, MA., P.hD (Universitas Hayam Wuruk Perbanas, Indonesia).

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Hopefully, the proceeding will become a reference for academics and practitioners, especially the business and banking industry to get benefit from the various results of the research field of Business and Banking associated with Information Technology. Proceedings also can be accessed online on the website <http://eprints.perbanas.ac.id/>

Chair of the Master Management Study Program  
Universitas Hayam Wuruk Perbanas

**Prof. Dr. Tatik Suryani, M.M.**



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# PRINCIPLES AND AGENTS: THE PHENOMENON OF AGENCY THEORY IN THE BUSINESS SECTOR AND THE PUBLIC SECTOR

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## ABSTRACT

The business sector and the public sector have similarities, differences, and unique characteristics. The purpose of this paper is to describe and comprehensively describe the business sector and the public sector. The role of principals and agents in any sector is like a double-edged knife. If the principal and agent have the same interests and goals for an entity, then the entity's goals can be achieved in harmony. However, if the principal and agent have different interests and goals, various kinds of conflicts will arise. The most common conflict is the Conflict of Interest. The approach used in this paper is a literature review with secondary sources that can be found when conducting a literature study. The author hopes that there will be future research and writing on similar topics in order to broaden the study of topics regarding the role of principals and agents in various economic and non-economic sectors.

*Keyword:* Principles, Agents, Public Sector, Business Sector, Conflict of Interest

## INTRODUCTION

Financial reports are a place to read quantitative and qualitative information on an entity. Financial statements have long stages from identification of transactions to publication of comprehensive information. The parties who present the financial information have an obligation to put all the information as fairly as possible. However, along the way, in the preparation of financial reports, there are often interventions from various parties who feel most interested. The parties making financial statements and interested parties are often called principals and agents. Actually, anyone who plays the principal and agent is not limited to financial statement makers and interested parties, everyone can play that role. However, one thing that is always present in each of these roles is that both the principal and the agent are the parties who feel that they have the most role in an entity. The difference in the character of the entity can also be a factor in the different roles of the principal and agent. Call it public sector entities and the business sector. Both have the roles of principal and agent, but who fills those roles is another matter. This paper describes the roles of principals and agents in

the business and public sectors, what problems can occur, and how to overcome them. Or at least avoid the problems that arise.

## AGENCY THEORY: BUSINESS SECTOR

Agency theory is a theory that explains the relationship between the management of the company as an agent with the owner of the company as principals. The principal is the party who gives orders to the the other party, namely the agent to carry out all activities on behalf of the principal. The owner of the company, namely the principal, always wants to know all the information that regarding company activities, including management activities in terms of operation of funds invested in the company. Through reports responsibilities made by management as agents, principals obtain the information needed and at the same time as an assessment tool for the performance of the agent in a certain period Agency theory is a theory that explains the relationship between the management of the company as an agent with the owner of the company as principals.

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### **AGENCY THEORY: PUBLIC SECTOR**

According to Syukry (2008), since regional autonomy took effect in Indonesia based on Law No. 22/1999 on Regional Government in 2001, research opportunities using agency theory have been wide open. The law clearly separates the function of local government (executive) and the function of people's representatives (legislative). Based on these functional distinctions, the executive performs planning, implementation, and reporting on regional budgets, which are manifestations of services to the public, while the legislature plays an active role in implementing legislation, budgeting, and monitoring.

The relationship between the executive and the legislature can be viewed as a principal-agent relationship (Fozzard, 2001; Halim, 2004; Moe, 1984; Smith & Bertozzi, 1998; Yuhertiana, 2003). In this relationship, the local government as the executive is the agent, while the DPRD as the legislature is the principal. According to Elgie & Jones (2001), those who behave opportunistically may not only be the agent, but also the principal. Mardiasmo (2003) views that DPRD is in a position of dual accountability, double or two-way accountability, which can be interpreted as DPRD as a principal for the executive as well as an agent for the public or the people who choose it. According to Ulum (2010), some data held by government

agencies are quantitative in nature, such as financial reports or budget reports, which are relatively easier to measure directly. However, measuring qualitative aspects such as community satisfaction with health services, education and other qualitative data requires a proxy. Understanding these limitations, as has been done in other countries, government agencies in Indonesia have also implemented a performance measurement system.

According to Nareswari (2017), obtaining financial statements is done by identifying transactions or information related to finance or having economic value and then recording, compiling and processing based on the standards that have been made, in this case the Government Accounting Standards. According to Pancawardani and Latifah (2010), the implications of the application of agency theory can lead to positive things in the form of efficiency, but more that cause negative things in the form of opportunistic behavior. Why does this happen? Because the agency has more financial information than the principal (information superiority), while the principal uses his own personal or group interests (self-interest) because he has the advantage of power (discretionary power).

According to Zelmianti (2016), a democratic country has an agency relationship between the community and the government or a relationship between local governments and the central government. The central government gives authority to local governments, local governments must also be responsible for their duties to the central government. On the other hand, local governments must also maximize their welfare. In the public sector agency relations can also be seen in the preparation of the budget. The regional government here, the province, prepares a budget, then the budget is submitted to the center after the approval from the center, the regional government carries out activities based on the budget. Finally, the local government must be responsible for the realization of the budget to the central government.

### **ASYMMETRIC INFORMATION**

Asymmetric Information. In this case, the principal should obtain the information needed to measure the level of results obtained from the agent's efforts, but it turns out that the information about the size of the success obtained by the principal is not entirely presented by the agent. As a result, the information obtained by the principal is incomplete so that it still cannot explain the actual performance of the agent in managing the principal's wealth that has been entrusted to the agent. As a result of this unbalanced information (asymmetry), it can cause 2 (two) problems due to the difficulty of the principal to monitor and control the actions of the agent.

Jensen and Meckling (1976) stated that these problems include: a. Moral Hazard, which is a problem that arises if the agent does not carry out the things that have been mutually agreed upon in the work contract. b. Adverse selection, which is a condition where the principal cannot know whether a decision taken by the agent is really based on the information he has obtained, or occurs as an omission in his duties.

## CONFLICT OF INTEREST

Conflict of interest is a condition that occurs when the principal and agent, who should have the same vision, mission, goals, and objectives, have different interests. The explanation and root cause of conflicts of interest are heterogeneous and complex. Many factors can cause a conflict of interest to occur. In general, Conflict of Interest can make employees act outside the interests and goals of a company. According to the OECD 2005, quoted from Yuris Rezha (2020), In the public sector, conflicts of interest are prone to occur when public officials when carrying out public obligations and functions actually conflict with personal interests. In the modern era of democracy as it is now, the government operates based on the will and sovereignty of the people. Therefore, officials in the public sector are required to carry the public interest and avoid any intervention and personal interest.

## METHOD

A qualitative approach is used in writing this paper. The characteristics of the data used are data in the form of elaboration, narrative, and secondary documents. Data obtained from literature studies and literature reviews on the topic of principals and agents obtained from various references, such as books, national journals, and other documents.

## CAN IT BE FIXED?

According to Jefri (2018), the success of an organization's governance needs to be based on four pillars represented by the board of directors, management, internal auditors and external auditors. Each pillar must be effective and work well together to support the achievement of organizational goals and objectives (Gina et al., 2014). Good governance is one way to measure the performance of an organization, in which there is accountability and transparency. Furthermore, according to Jefri (2018), the purpose of bureaucratic reform is to create a professional government bureaucracy with characteristics, integrated, high-performance, free and clean from KKN, capable of serving the public, neutral, prosperous, dedicated, and upholding basic values and codes of conduct. state apparatus ethics. To achieve the ultimate goal of bureaucratic reform, the paradigm that used to be only one way from the government to the community rather than in two

directions where the community and entrepreneurs can now contribute to achieving good governance.

Good governance is often defined as good governance. Meanwhile, the World Bank defines good governance as an implementation of solid and responsible development management that is in line with the principles of democracy and an efficient market, avoiding misallocation of investment funds, and preventing corruption both politically and administratively, implementing budgetary discipline and creating legal and political frameworks. for the growth of business activities (Mardiasmo, 2009:18). The concept of Corporate Governance was proposed in order to achieve a more transparent corporate management for all uses of financial statements. If this concept is implemented properly, the transparency of company management will continue to improve and it is hoped that economic growth will continue to increase and will benefit many parties (Prasojo and Kurniawan, 2008). According to the Corruption Eradication Commission (2009) states that basically the way to resolve conflicts of interest is by making improvements to values, systems, personal, and culture. The basic principles to solve it, among others: First, Prioritizing the public interest; Second, Creating transparency in handling and monitoring conflicts of interest; Third, Encourage personal responsibility and exemplary attitude; Fourth, Creating and fostering an organizational culture that is anti-conflict of interest.

## AUTHOR CONTRIBUTION

The author contributed fully in the process from beginning to end of this paper. The author hopes that this paper can contribute to expanding scientific studies in similar topics regarding principals, agents, and agency theory.

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