

Research Article

How to Make Stakeholders Living in a Perfect Harmony in a Company?

Anis Wulandari^{1,2*}, Iwan Triuwono³, Lilik Purwanti³, and Noval Adib³

¹Doctoral Program of Accounting, Faculty of Economic and Business, Universitas Brawijaya, Indonesia

²Department of Accounting, Faculty of Economic and Business, Universitas Trunojoyo Madura, Indonesia

³Department of Accounting, Faculty of Economics and Business, Universitas Brawijaya, Indonesia

ORCID

Anis Wulandari: <http://orcid.org/0000-0001-1234-5678>

Abstract.

The objective of this research is to examine how to enable stakeholders to live in perfect harmony in a company. To achieve this, the research employs a literature review with an integrative or critical review approach. The data used is secondary data collected through documentation techniques. The findings of this research indicate three ways to ensure that stakeholders can live in perfect harmony in a company: 1) increasing the transparency of financial reporting by enhancing information disclosure; 2) establishing the most efficient contracts using optimal incentive schemes; and 3) creating a mechanism that aligns the goals of principals and agents, referred to as corporate governance (CG), by monitoring and controlling all management decisions to ensure that these decisions align with the interests of shareholders and motivate managerial behavior to enhance the company's wealth.

Keywords: stakeholders, corporate governance

1. Introduction

In the theory of the entity, a company is viewed as a separate and distinct entity from its owners or shareholders. This concept means that the assets, debts, and liabilities of the company are not considered as direct ownership by any individual or specific group of owners, but rather as rights and obligations inherent to the entity itself. The separation between the company and its owners introduces the concept of *limited liability*, where the owners' responsibility is limited to the amount of their investment, without affecting their personal assets (1). From this perspective, the company is seen as an economic unit with long-term sustainability objectives, and thus it is regarded as a legal entity that must optimize resources and value independently, without relying entirely on the owners or investors (1).

Corresponding Author: Anis Wulandari; email: aniswulandari@student.ub.ac.id

Published: 19 February 2025

Publishing services provided by Knowledge E

© Anis Wulandari et al. This article is distributed under the terms of the [Creative Commons Attribution License](#), which permits unrestricted use and redistribution provided that the original author and source are credited.

Selection and Peer-review under the responsibility of the ICESIDE Conference Committee.



Entity Theory focuses on the company as a separate and independent entity from both its owners and other external parties. However, the separation between owners (shareholders) and management also serves as the basis for agency conflict. This conflict arises when the interests of management running the company are not aligned with the interests of the owners. Owners, as investors, tend to seek maximum profits, while management may have different motivations, such as job stability, high compensation, or short-term gains that may not align with the company's long-term goals (2). This agency conflict can create trust issues between owners and management, which, if not controlled, can lead to losses for the shareholders.

Management often does not always act in the best interests of the principal. Agents opportunistically use their control over resource allocation to maximize their own personal interests, while neglecting the interests of the shareholders (4,5,6). Therefore, it can be said that the management of the company has objectives and interests that conflict with or diverge from the goals and interests of the principals (shareholders) of the company (7). This conflict of interest between the two parties often leads to what is known as agency conflict, with information asymmetry being the primary cause of agency conflict (5,8).

Agency conflict within a company still frequently occurs. Case examples include those involving the Screen Actors Guild-American Federation of Television and Radio Artists (SAG-AFTRA) with major production studios in Hollywood, as well as well-known automotive companies like Ford, General Motors, and Stellantis, and technology companies such as Amazon and Google. These are examples of agency conflicts that involve differing objectives between management and employees. Each of the above cases illustrates agency conflict rooted in the differing interests between the company's management (agents) and the workers or shareholders (principals), which often impacts the stability of the company and the productivity of employees.

Many efforts have been made by previous researchers to address agency conflicts, including (9, 2, 10, 11, 12). Therefore, this study will examine how to ensure that the stakeholders of a company can living in perfect harmony. The contribution of this research is to provide a solution for companies experiencing agency conflicts between agents and principals. Additionally, it is hoped that this study can assist corporate governance policymakers in formulating an ideal governance structure that suits the conditions of each company, thereby effectively minimizing the agency conflicts occurring within their organizations.

2. Methods

Agency Theory is developed to explain the relationship between owners or shareholders (principals) and managers (agents) who run the day-to-day operations of the company. This theory emphasizes the existence of differing interests between managers and shareholders, where managers tend to focus on their personal well-being, while shareholders seek to maximize the returns on their investments (2). In this context, Agency Theory views the company as an entity that requires a governance structure to ensure that the interests of managers align with those of shareholders in order to avoid conflicts of interest.

Agency Theory focuses on the relationship between company owners (shareholders) and managers (agents), where managers are appointed to manage the company on behalf of the owners. This relationship often gives rise to potential conflicts of interest, especially when the goals of the managers do not align with those of the shareholders. To minimize these conflicts, corporate governance is needed as a framework to ensure that managers act in the best interests of the owners

According to (2), agency theory explains that managers tend to make decisions that benefit themselves rather than the shareholders, especially when there is inadequate oversight. Therefore, good corporate governance aims to create an effective control system to ensure that the actions of managers align with the interests of the shareholders (2).

Based on the agency theory above, there are several key parties involved:

1. Owners: They are individuals or entities that own the company and invest in it, expecting managers to manage the company's resources in a way that enhances their investment value (2).
2. Managers: As agents, they are responsible for day-to-day operations and strategic decision-making. While they are expected to act in the owners' interests, there are often conflicts between their personal interests and the goals of the owners (10).
3. Creditors: They provide loans to the company and seek to ensure that the company can meet its financial obligations. Creditors protect their interests through contracts and provisions governing management (13).
4. Employees: Employees play a vital role in the success of the company, expecting fair compensation for their contributions, which can also influence managerial decisions (14).

5. Customers: They invest in the company's products or services and expect to receive good value and quality, which can impact the company's reputation and sustainability (15).

6. Other Stakeholders: This includes suppliers, the community, and regulators, all of whom have an interest in the company's operations and can influence management decisions (16).

2.1. Types and Approaches Study

The purpose of this research is to examine how to enable the stakeholders of a company to living in harmony. Therefore, this research is a literature study with an integrative review or critical approach, which is a method of literature review aimed at assessing, critiquing, and synthesizing literature on the research topic that allows for the emergence of new theoretical frameworks and perspectives (17). The use of the most integrative literature review is intended to discuss mature topics (existing topics) as well as emerging topics. The integrative review approach used in this research is expected to provide answers to the issues that have arisen in the application of corporate governance so that the stakeholders of the company can living in harmony.

2.2. Types, Sources, and Methods of Data Collection

Since this research is a literature review, data is obtained through literature studies (library research). Thus, the type of data used in this study is secondary data sourced from accredited national journals, national journals, accredited international journals, international journals, literature books, encyclopedias, other documents, magazines, and so on that relate to Corporate Governance.

The data collection method in this research is documentation. The technical efforts made by the researcher during the data collection phase are as follows:

1. Organizing documents related to Corporate Governance, including literature books, research journals (both accredited and non-accredited national and international journals), encyclopedias, dictionaries, magazines, and more.

2. Reading the relevance of the data to the problem formulation in the study, and if there is any data that does not align with the theme (problem formulation), it will be reduced.

3. Classifying appropriate themes until the desired data is obtained.

3. Result and Discussions

Agency theory is directly related to agency relationships and agency issues (referred to as the agency problem)(18). An agency relationship is a type of contract in which the principal hires an agent to perform services on their behalf (2). This agency relationship leads to the emergence of the agency problem, which arises due to differences in interests and conflicts between ownership and control, as the principal delegates some decision-making authority to the agent (18). The differences in interests that cause the agency problem result from the separation of business ownership and control within a company (2, 6, 7, 12, 18, 19, 20, 21). This separation of ownership and control has two main impacts: first, it increases the power of professional managers, allowing them the freedom to pursue their own interests (22). Second, it leads to a divergence of interests between the principal (capital owner) and the agent (manager) as the key players in the company (2, 8, 19, 23).

In reality, agents (managers) do not always act in the best interests of the principals (2, 3). Often, an agent (manager) will opportunistically use their control over the company's resource allocation for their own benefit (23). In other words, they prioritize and maximize their own personal interests while neglecting and sacrificing the interests of the shareholders (5,6). Thus, it can be said that agents (managers) have goals and interests that conflict with or diverge from the objectives and interests of the principals (shareholders) of the company (4,7). Such behavior from agents (managers) leads to dissatisfaction among principals. Therefore, to limit the deviant behavior of agents and ensure that they do not take actions harmful to the principals, principals must exercise full oversight over the agents. This oversight can incur additional costs known as agency costs, which may reduce the company's profits and consequently impact its value (22, 24). The conflict of interest between the two parties often leads to what is known as agency conflict (5, 8).

Agency conflict within a company can be mitigated in several ways: first, by increasing the transparency of financial reporting within the company through enhanced information disclosure (25), so that agents (managers) have better access to private information within the organization. In this regard, principals expect the agents to provide credible and reliable communication to the market in order to optimize the company's value. Typically, in the business world, especially in conditions of imperfect market efficiency,

managers will disclose financial information to balance the decisions they make and communicate with shareholders (25). Disclosure is an important and efficient means of protecting shareholders by providing adequate and timely information about the company's performance, enabling investors to make buy and sell decisions, and helping the market reflect the company's value under current management (6). It is hoped that this disclosure will reduce information asymmetry (6, 26).

Second, to address issues and regulate the relationship between principals and agents, it is essential to establish the most efficient contract using an optimal incentive scheme that aligns the behavior of agents with the interests of the principals (21, 22). Third, by creating a mechanism that can align the objectives of principals and agents by monitoring management decisions and ensuring that these decisions are in line with the interests of shareholders, while motivating managerial behavior to enhance the company's wealth. This mechanism is known as Corporate Governance (CG) (6). In agreement with (6, 27), Corporate Governance is also defined as a monitoring mechanism within the company that functions to oversee the company's business activities and ensure that business is conducted properly in accordance with expectations to achieve the company's goals, which include enhancing business welfare and accountability.

Several ways to monitor and control management decisions and minimize opportunistic behavior among managers include: First, delegating authority to the board of directors to oversee and control management decisions (28, 29). The separation of ownership prevents shareholders from being actively involved in the management of the company. Therefore, the board of directors, representing the shareholders, is tasked with ensuring that company managers use assets to maximize the company's value (30). For the board of directors to be effective and act on behalf of shareholders, it should have a higher proportion (more members) of non-executive directors.

Second, establishing a separate ownership structure. A separate ownership structure can help shareholders monitor the company's leaders (CEOs) objectively and effectively and can exert pressure on the CEO to provide more disclosures about the company in accordance with the desires and interests of the shareholders (4, 6, 25, 26). Third, forming an audit committee (25). The existence of an audit committee can assist shareholders in monitoring and supervising the quality of information and the flow of information between the company's owners (shareholders and potential shareholders) and the company's managers, particularly in financial matters, as both parties have different levels of information (4, 25).

By implementing the three methods described above, stakeholders will feel mutually protected, as each party will receive the same information, with no information being concealed by either side. Consequently, stakeholders will be able to living in a perfect harmony in the company. Additionally, by practicing effective corporate governance, it is hoped that the following outcomes can be achieved: First, minimizing opportunistic behavior among managers, which can reduce agency problems by creating and enhancing the disclosure of more accounting information (31). Second, preventing and minimizing the occurrence of corporate scandals caused by financial misconduct, fraud, and civil and criminal liability of the organization (27, 32). Third, improving the organization's image and reputation to attract greater stakeholder involvement, thereby increasing the company's value (31, 33).

4. Conclutions

There are several ways to ensure that stakeholders can living in perfect harmony in a company, including: 1) increasing the transparency of financial reporting by enhancing information disclosure; 2) establishing the most efficient contracts using optimal incentive schemes; 3) creating a mechanism that aligns the goals of principals and agents, known as corporate governance (CG), by monitoring and controlling all management decisions to ensure that they align with the interests of shareholders and motivate managerial behavior to enhance the company's wealth. Monitoring and control can be implemented in three ways: first, by delegating authority to the board of directors; second, by establishing a separate ownership structure; and third, by forming an audit committee (25). It is hoped that by effectively implementing CG, the following outcomes can be achieved: first, minimizing opportunistic behavior among managers; second, preventing and minimizing the occurrence of corporate scandals; and third, improving the organization's image and reputation to attract greater stakeholder involvement, thereby increasing the company's value.

Acknowledgement

We are especially indebted to anonymous reviewer of this publication for many valuable comment and suggestions.

References

- [1] Hendriksen ES, Breda MF. Accounting Theory. 5th ed. Homewood (Illinois): Richard D. Irwin, Inc.; 1992. 590 pp.
- [2] Jensen MC, Meckling WH. Theory of the firm: Managerial behavior, agency costs and ownership structure. In: Journal of Financial Economics. 1976. p. 305–60.
- [3] Donaldson T. Corporate Governance. Int Encycl Ethics; 2019. pp. 1–9.
- [4] Davis GF. New directions in corporate governance. Annu Rev Sociol. 2005;31(1):143–62.
- [5] Dey A. Corporate governance and agency problems [Internet]. Int J Econ Bus Res. 2008;46(5):1143–81. Available from: <http://www.inderscience.com/link.php?id=96586>
- [6] Htay SN, Adnan MA, Rashid HM, Meera A kameel M. Corporate Governance and Risk Management Information Disclosure in Malaysian Listed Banks: Panel Data Analysis. Int Rev Bus Res Pap. 2011;7(4):159–76.
- [7] Nuswandari C. The Influence of Corporate Governance Perception Index on Company Performance in Companies Listed on the Jakarta Stock Exchange. Jurnal Bisnis dan Ekonomi. JBE; 2009. pp. 70–84.
- [8] Retno MR, Priantinah D. The Influence of Good Corporate Governance and Disclosure of Corporate Social Responsibility on Company Value. In: Jurnal Nominal. 2012. p. 84–103.
- [9] Ross SA. The Economic Theory of Agency: The Principal's Problem. Am Econ Rev. 1973;63:134–9.
- [10] Fama EF, Jensen MC. Separation of ownership and control. In: Journal of Law and Economics. 1983. p. 301–25. <https://doi.org/10.1086/467037>.
- [11] Mitchell J. A Conceptual Framework for the Analysis of Agency Relationships. J Bus Res. 1997;39(1):11–22.
- [12] Shleifer A, Vishny RW. A Survey of Corporate Governance. In: The Journal of Finance. 1997. p. 737–83. <https://doi.org/10.1111/j.1540-6261.1997.tb04820.x>.
- [13] Myers SC. Determinants of Corporate Borrowing. J Financ Econ. 1977;5(2):147–75.
- [14] Baker GP. A Management Perspective on the Theory of Agency. J Bus. 1992;65(1):1–28.
- [15] Porter ME. write the name of the article or book written by baker in 1992. publisher name, volume, edition, pages, city, journal name. New York, NY: Free Press; 1985. 557 p.

- [16] Freeman RE. *Strategic Management: A Stakeholder Approach*. Boston (MA): Pitman Publishing; 1984. 192 pp.
- [17] Snyder H. Literature review as a research methodology: an overview and guidelines [Internet]. *J Bus Res*. 2019;104(July):333–9.
- [18] Khan H. A Literature Review of Corporate Governance. *Int Conf E-business. Manag Econ*. 2011;25:1–5.
- [19] Cohen JR, Krishnamoorthy G, Wright AM. Form versus substance: The implications for auditing practice and research of alternative perspectives on corporate governance. *Auditing*; 2008. pp. 181–98.
- [20] Fama E. Agency Problems and The Theory of the Firm. In: *The Journal of Political Economy*. 1980. p. 288–307. <https://doi.org/10.1086/260866>.
- [21] Milosevic D. A survey of corporate governance. *J Finance*. 2015;52(2):737–41.
- [22] Letza S, Sun X, Kirkbride J. Shareholding versus stakeholding: A critical review of corporate governance. *Corp Gov*. 2004;12(3):242–62.
- [23] Lazonick W, O'Sullivan M. Maximizing shareholder value: A new ideology for corporate governance. In: *Economy and Society*. 2000. p. 13–35. <https://doi.org/10.1080/030851400360541>.
- [24] Creswell JW. *Qualitative Inquiry & Research Design: Choosing Among Five Approaches*. 2nd ed. Sage Publications. California: Sage Publications, Inc.; 2007. 395 p.
- [25] Rouf D. The Financial Performance and Corporate Governance Disclosure: A Study in the Annual Reports of Listed Companies of Bangladesh. In: *Pakistan Journal of Commerce and Social Science*. 2015. p. 1–11.
- [26] Alhazaimeh A, Palaniappan R, Almsafir M. The Impact of Corporate Governance and Ownership Structure on Voluntary Disclosure in Annual Reports among Listed Jordanian Companies [Internet]. *Procedia Soc Behav Sci*. 2014;129:341–8.
- [27] Hamid MA, Ting IW, Kweh QL. The Relationship between Corporate Governance and Expropriation of Minority Shareholders' Interests. In: *Procedia Economics and Finance*. 2016. p. 99–106.
- [28] Al-Janadi Y, Rahman RA, Omar NH. The level of voluntary disclosure practices among public listed companies in Saudi Arabia and the UAE: Using a modified voluntary disclosure index. In: *International Journal of Disclosure and Governance*. 2012. p. 181–201.
- [29] Dembo AM, Rasaratnam S. Corporate Governance and Disclosure in Nigeria: An Empirical Study. In: *Procedia - Social and Behavioral Sciences* [Internet]. Elsevier BV; 2014. p. 161–71. Available from: <https://doi.org/10.1016/j.sbspro.2014.11.064>.

- [30] Janggu T, Darus F, Zain MM, Sawani Y. Does Good Corporate Governance Lead to Better Sustainability Reporting? An Analysis Using Structural Equation Modeling. In: *Procedia - Social and Behavioral Sciences* [Internet]. Elsevier BV; 2014. p. 138–45. Available from: <https://doi.org/10.1016/j.sbspro.2014.06.020>.
- [31] Nazir MS, Afza T. Does managerial behavior of managing earnings mitigate the relationship between corporate governance and firm value? Evidence from an emerging market. *Futur Bus J* [Internet]. 2018;4(1):139–56.
- [32] Hussain MA, Hadi AR. Corporate Governance and Firm Performance: evidence from CIDB Malaysia. *Am J Res Commun*. 2017;5(12):1–21.
- [33] Hassan R, Marimuthu M, Johl SK. Diversity, Corporate Governance and Implications on Firm Financial Performance: A Concept Paper. In: *Global Business and Management Research: An International Journal*. 2015. p. 28–36.