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The Agency Theory And Its Impact On The Application Of Accounting In Industrial Companies

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Abstract
Therefore, this study aims to review the origins of accounting and its development through different eras, as well as to examine agency theory and its mathematical interpretation due to its effective role in reducing the intensity of conflicts among the various parties dealing with the institution. The study concludes with the extraction of results and the presentation of important recommendations. Using the five critical qualitative characteristics identified by the International Accounting Standards Board, this study explores how agency theory affects the application of accounting in Jordanian industrial companies. The study delves into the ways in which the structural features of agency theory including accounting applications in Jordanian industrial companies, and enhancement techniques impact the reliability and use of agency theory in accounting practices within these companies, based on agency theory. Fifty accounting experts from various Jordanian industrial companies were surveyed using a mixed approach that included descriptive statistics and regression analysis. The results show that CAS is positively and statistically related to most aspects of financial reporting quality, especially understandability and relevance. However, CAS was not a good predictor of verifiability.

Keywords
agency theory, application of accounting, industrial companies.

INTRODUCTION

Accounting has evolved in a phenomenal way as a response to economic and social change over different eras and the changes imposed by the environment and setting of institutions, as it addresses the accounting principles and applications. Previously, the representation of the accounting cycle results and the portrayal of the financial position were the final goals of accounting. However, today this has become a starting point for preparing more detailed information that plays an important role in serving management in all fields. Also, the implications of this evolution on the individuals involved in the process of institutional control, due to their conflicting interests, led to the creation of agency theory to address deficiencies and behavior that governed the work of managers, and to organize the nature of the relationship between the company's owner and its managers.
Agency theory is an old phenomenon and a prominent feature of modern corporations. It is a hypothesis that accounts for the agent-principal relationship, which can be seen in a majority of institutions. The principal is the individual or institution that appoints the agent to do an act on his or her behalf, while the agent is the individual or institution that is appointed to do the act. The interaction between the two can be complex and dangerous, and that is why agency theory plays such an important role. Here in this blog, we explained agency theory and how we can use it to better comprehend and resolve interest conflicts in our companies. Agency theory is a branch of economics that considers the relationship between agents and managers, whose objectives are diverse, inclinations are different, and incentives differ. Conflict of interest arises when the agent's actions are not in the manager's interests, leading to inefficiency, moral hazards, and adverse selection. To facilitate such difficulties, we need to create contracts and mechanisms for reconciling the incentives of the agent with the objectives of the manager, such as performance-contingent compensation, monitoring, incentives, and reputation. Agency

theory is not a panacea, however, and it also has its shortcomings and criticisms. Here we will describe how you can apply agency theory as a means of analyzing and resolving conflicts of interest in your company, from different points of view and situations. We will also provide some examples and practice recommendations. Some are listed below.

One of the classic business management problems is that of coordinating the interests of managers and owners of a company. It is known by the name of principal-agent problem, whereby it happens when managers (owners or shareholders) delegate part of their decision-making authority to agents (employees or managers) with varying objectives and desires, or incentives from the managers. Agency problem may cause conflicts of interest, moral hazards, adverse selection, and other market imperfections that can adversely affect the performance and value of the company.

2. LITERATURE REVIEW AND HYPOTHESIS.

The first to talk about the agency theory was Adam Smith, who noticed the absence of specific limits and clear rules between company owners and those managing their companies. Adam stated that it is possible for company managers not to care about the company itself, its management, and its success and advancement. This situation called for certain laws to be agreed upon by both parties that serve the interest of the company. Agency is a contract established between the owners of companies and the executive managers based on specific foundations and rules agreed upon by both parties. The result of this contract is beneficial for both company owners and managers. It can also be defined as an intermediary method that delineates the role of both company owners and executive managers. Shareholders and company owners resort to the agency theory for several reasons, the most important of which are:- Their lack of experience in managing the company and financial matters.- The absence of sufficient motivation to elevate the company to the expected level.- The lack of sufficient time to manage company affairs and drive it towards development. Based on these reasons, the owners resort to the agency theory which stipulates providing managers with the necessary funds to do so, in exchange for the managers taking control and managing affairs in a successful investment manner that serves the interests of the investors who are undoubtedly at the mercy of these managersm

The agency theory is based on a set of hypotheses that may directly affect the relationship between managers and shareholders. The most important of these hypotheses are:

1. Market Efficiency Hypothesis: This hypothesis relies on the value of the financial instruments offered and their impact on the value of securities in the market, varying with the availability of necessary information and market efficiency, which can be categorized into weak market efficiency, semi-strong market efficiency, and strong market efficiency.
2. Excessive Behavior Hypothesis: This hypothesis is based on executive managers' preference for their personal interests regardless of the interests of the company's owners and shareholders.
3. Preference Mismatch Hypothesis: This is a hypothesis in which the preferences of both managers and shareholders differ, where shareholders seek the manager to exert maximum effort for their benefit, while the manager aims to pursue personal interests regardless of any other interests.
4. Risk Bearing Hypothesis: This hypothesis determines who is primarily responsible for the resulting risks, and the manager must bear a portion of the risks to work towards the company and its objectives.
5. Information Asymmetry Hypothesis: This hypothesis indicates that the employer cannot monitor the work, and the manager provides misleading information, which harms the interests of both parties.

3. Need For Agency Theory

One of the biggest managerial challenges of business is how to reconcile the interests of the managers and the company shareholders. It is known as the principal-agent problem, which arises when managers (shareholders or owners) delegate some decision-making authority to agents (managers or employees) with alternative preference and goal, or incentives by the school managers. The principal-agent problem may lead to conflict of interest, moral hazard, adverse selection, and other flaws that cause harm to the firm's performance and value. Here, we will explain how the principal-agent problem occurs in different settings, and how agency theory can be applied to explain and resolve such conflict of interest. We will cover the following:

1. Nature and origins of the principal-agent problem. We will discuss the reasons for the principal-agent problem, and what are the key determinants of the level of alignment or misalignment between the principal and agent clients. We will also discuss the concept of agency costs, which are the costs that are borne by the principals in monitoring, supervising, and motivating the agents and along with the costs that are borne by the agents to signal their behavior and intentions to school administrators.

2.The agency problem in corporate governance. We will look at the way the agency problem affects the shareholder-board of directors relationship, and the board of directors-management relationship. We will consider the role played by corporate governance mechanisms, such as board composition, executive compensation, shareholder activism, and external audit processes, in solving the agency problem and enhancing accountability and transparency in the company.

How agency problems affect a company's performance and value One of the most important topics in business management is solving the interest conflicts that arise between firm owners and managers. These conflicts are also known as agency problems, and they can significantly affect the company's performance and value. In this chapter, we will address agency costs, how they affect the company's decision and outcome, and how to avoid or reduce them. We will also explore the perceptions of various groups of stakeholders, including shareholders, creditors, employees, customers, and regulators, and how they are affected by agency problems. Agency costs may be classified into two broad categories: direct and indirect costs. Direct costs are the firm costs of getting the owners' and managers' interests aligned, such as monitoring, bonding, and incentive contracts. Indirect costs are the costs of sub-optimal decisions or manager behavior that damage the firm, such as over-investment, under-investment, excessive risk-taking, or emphasis on short-term results. Now let us elaborate on each of these costs.

Professional commitment

One way of handling agency problems and conflicts within business is designing contractual agreements that align with the interests of managers and agents. Contractual agreements are formal or informal agreements that define the rights, duties, and incentives of the parties in a business relation. Contractual agreements can be used to restrict information asymmetry, moral hazards, and adverse selection that may arise between managers and agents. Here we will discuss some common types of contractual agreements that can be utilized to mitigate agency problems and conflicts in business.

H01: There is no relationship between the impact of agency theory on accounting usage.

Monitoring costs: These are the costs incurred by owners to audit and watch over managers' actions, such as hiring auditors, consultants, board members, or external advisers. Monitoring costs can reduce information asymmetry between managers and owners so that managers act in the interest of owners. However, monitoring can also be excessively costly or ineffective and can create a toxic environment of hostility or distrust in the company. For example, when owners tightly monitor the managers or interfere with their autonomy, the managers may get frustrated or offended and, therefore, perform poorly or leave the company

METHODOLOGY:

This study is considered a type of analytical research, as it clarifies and explains the relationship between agency theory and the application of accounting in industrial companies to reach a conclusion regarding their interrelationship. This study is a cross-sectional research study, where the sample was studied at one point in time. The study population consisted of a group of 13 industrial companies in Jordan. The study followed a sample survey method, where questionnaires were distributed to 50 accountants. The questionnaire was designed based on the relevant literature regarding the study variables, and the questionnaires were pre-tested to ensure content validity. The results of the "Cronbach's alpha test," as shown in Table 1, indicated that the questionnaire could be relied upon as "reliable."

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Agency theory	40	2	4	2.33	.770
Accounting application	30	1	4	3.11	.766
Accuracy checks	50	2	5	4.04	.856
Accuracy checks	50	2	5	4.32	.819

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
2	.276[a]	0.425	0.221	1.4543
a. Predictors: (Constant), Relevance (RR)				

In the model, the most important statistical parameters that were employed for the regression analysis are summarized. There is a relatively positive correlation (R = 0.276) between the dependent variable (the one being measured) and the predictor variable (RR), which stands for relevance. Relevance (RR) explains just over 23.6 percent of the dependent variable's variation

ANOVA						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	77.736	1	81.403	22.145	0.000
	Residual	180.201	44	4.999		
	Total	232.000	45			
A. Dependent Variable: Agency theory						
b. Predictors: (Constant), Relevance (RR)						

The results of the analysis of variance (ANOVA) reveal the overall importance of the regression model. With a regression sum of squares value of 77.736, we can see Agency Theory is 77.736 percent explained by the predictor variable, Relevance (RR). The remaining sum of squares (180.201) indicates an unaccounted-for volatility. The sum of the squares, which comes to 282,000, shows the whole variation in the model. With an F-statistic of 22.147, a measure of explained vs. unexplained variance, we can see that the model is statistically significant. The relevance (RR) factor has a substantial effect on Agency Theory, since the significance value (Sig.) of 0.000 is less than the typical threshold of 0.04.

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	16.778	2.142		13.421	0.00
	Understandability (RU)	.315	.213	.233	3.432	0.000
a. Dependent Variable: Agency theory						

As may be shown in the table of coefficients, Understandability (RU) affects Agency theory. The expected unstandardized value of Agency theory with zero Understandability (RU) is 16.778. For every one unit improvement in Understandability (RU), Agency theory would boost by 0.823 units, according to the unstandardized coefficient (B) of 0. 315.

Understandability (RU), according to the t-value (2.142), significance level (Sig. = 0.000), and p-value (which is less than the 0.05 threshold). While other factors do influence CASs, Understandability (RU) stands out as a significant predictor with a relatively low Beta value. Improving the model's explanatory power requires more relevant predictors to be studied.

CONCLUSION AND RECOMMENDATIONS:

There was a strong and statistically significant relationship between agency theory and the application of accounting in Jordanian industrial companies. The predictive power of agency theory (CAS) for the financial data of Jordanian industrial companies was 55%. The model failed to explain 30% of the overall variance, which indicates that the use of agency theory and the size of industrial companies are factors outside the scope of the study that may affect the accuracy of financial data. It is possible to improve the application of agency theory and its impact on accounting practices in Jordanian industrial companies. Moreover, agency theory did not have a significant impact on the possibility of applying any accounting system within Jordanian industrial companies, which seems completely logical. As a result, it appears that the agency theory used in Jordanian industrial companies does not prioritize verifiability.

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