COSTS OF AGENCY INDEX
THE NEED TO MEASURE AGENCY COSTS

Ana Quaresma
OBSERVARE - Observatory of Foreign Relations
Universidade Autónoma de Lisboa
aquaresma@autonoma.pt

Sandra Ribeiro
OBSERVARE - Observatory of Foreign Relations
Universidade Autónoma de Lisboa
sribeiro@autonoma.pt

GLOBECOS - Global Community of Social Science
International Academic Conference
Contemporary Trends and Social Science Discussions
9-11 April 2020, Barcelona, Spain

GLOBECOS
Global Community of Social Science

UNIVERSIDADE AUTÓNOMA DE LISBOA

OBSERVARE
Observatório de Relações Exteriores
UNIVERSIDADE AUTÓNOMA DE LISBOA

FCT Fundação para a Ciência e a Tecnologia

1. Contextualization and Research Objectives
2. Relevant theories and concepts
3. New Index concept
4. Conclusions and future research

Contextualization

Jensen and Meckling (1976) put forward the theory of the agency, explained that the interests of management and shareholder interests often conflict, so that conflicts can arise between them.

This happens because managers tend to try to give priority to private interests.

Shareholders may not like the personal interests of leaders as it will add costs to the company, it will reduce the benefits received.

Contextualization

SHAREHOLDERS

CONFLITS

MANAGEMENT

COSTS

How this costs can be measured?

COST OF AGENCY INDEX

Objetives

Based on the assumption that agency conflicts result in costs for the organization, that negatively translate into their profits, the objective of the study is to identify the need to create an Index that can measure these agency costs.

Relevant theories and concepts

- The agency conflicts generated when shareholders (owners of the capital) hire the directors to manage the organization (agents), delegating to them the decision-making.

- These decisions can conflict with the interests of shareholders, causing the typical agency conflict to arise, which in turn will generate the **agency cost**.

Relevant theories and concepts

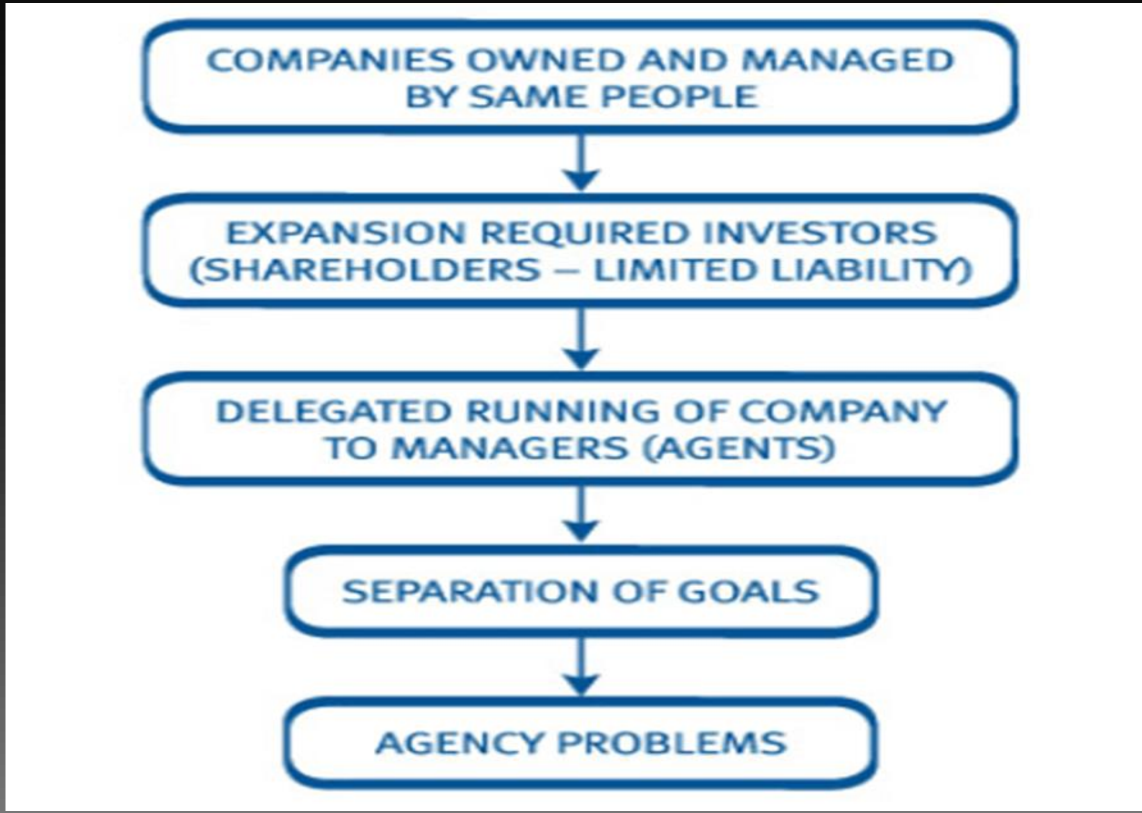
<u>Agency theory is part of the bigger topic of Corporate Governance</u>

- ✓ It involves the problem of directors controlling a company whilst shareholders own the company.
- ✓ In the past, a problem was identified whereby the directors might not act in the shareholders (or other stakeholders) best interests.
- ✓ Agency theory considers this problem and what could be done to prevent it

Relevant theories and concepts

<u>Agency theory and corporate governance</u>

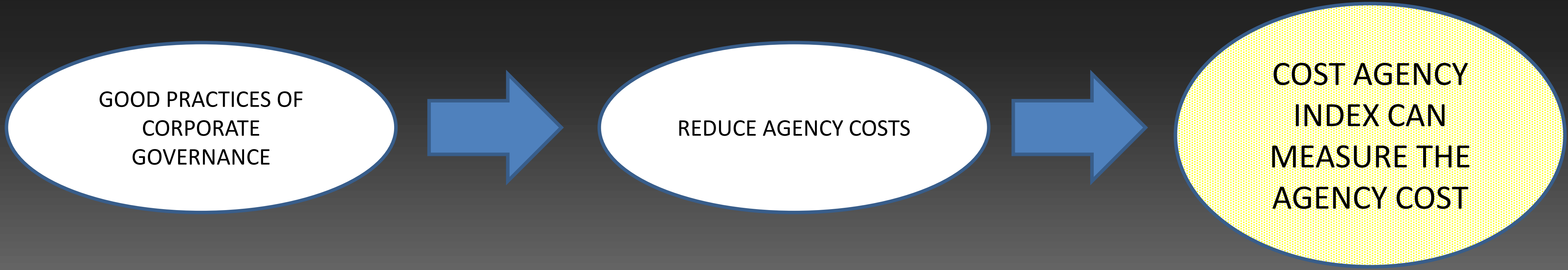
Agency theory can help to explain the actions of the various interest groups in the Corporate Governance debate.



Relevant theories and concepts

- Corporate governance is the system of rules, practices and processes by which a firm is directed and controlled.

- Good Corporate Governance practices can reduce the agency conflicts and in consequence the agency costs.



Relevant theories and concepts

CORPORATE GOVERNANCE VALUES

Rights and equitable treatment of shareholders:[

Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.

Disclosure and transparency:

Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Interests of other stakeholders:

Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

Integrity and ethical behavior:

Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

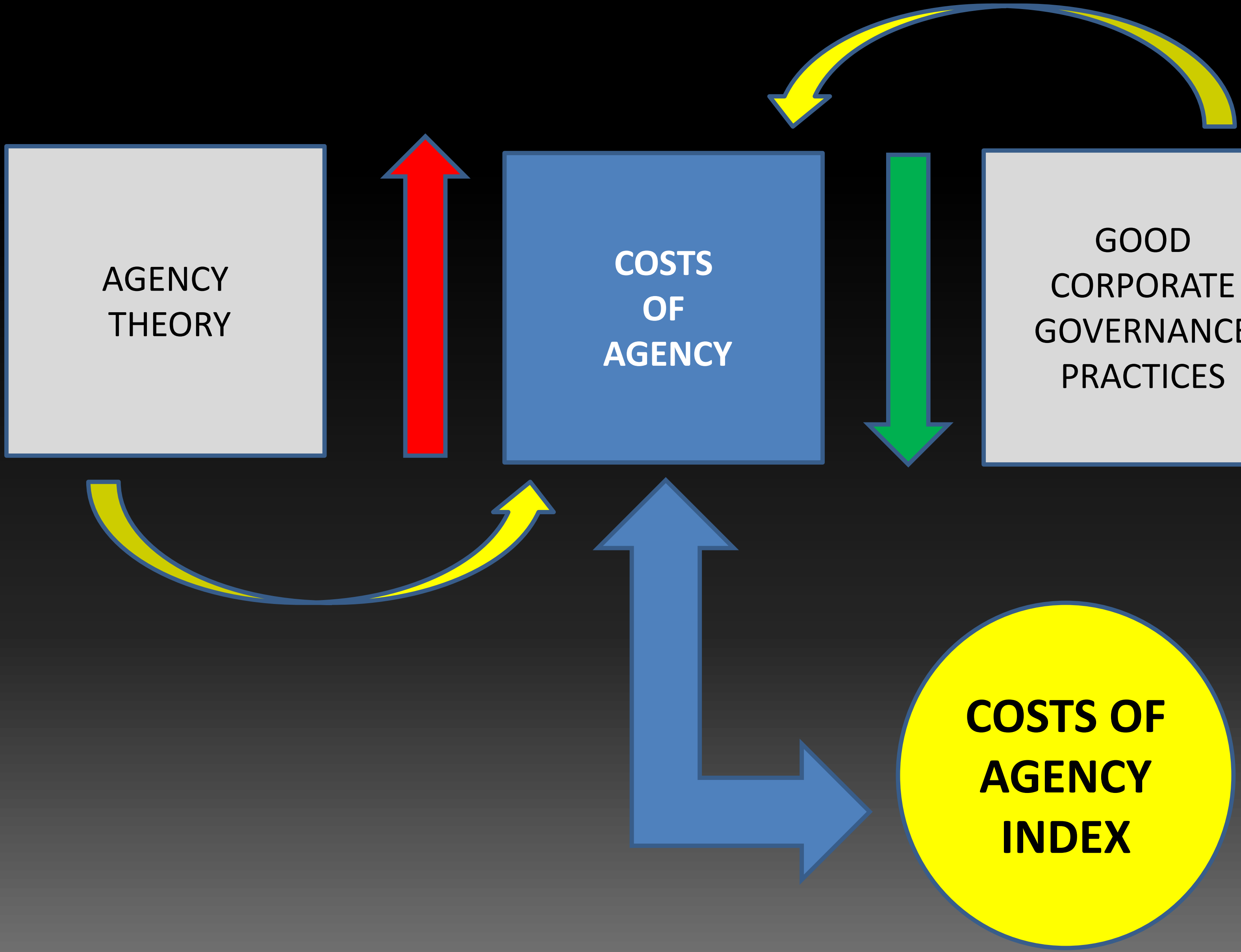
Role and responsibilities of the board:

The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.

New Index – COSTS OF AGENCY INDEX

In the present study will be exposed the foundations that will lead the authors to the design and creation of a Composite Indicator that will allow, through variables identified in the reports of corporate governance and constructed proxies, to the creation of the **Costs of Agency Index.**

New Index – COSTS OF AGENCY INDEX



Conclusions

1 In this work, we help develop the analysis and importance that is attached to the creation of “COSTS AGENCY INDEX” .

2 The concept of “COSTS AGENCY INDEX” appears associated with the need to reduce the conflicts of interest, between the shareholders and the Directors, by implemented good practices of Corporate Governance.

3 If good practices of Corporate Governance as a positive impact on the organization benefits so a good value , measure by “COST AGENCY INDEX” as a positive influence on the financial performance of the organizations.

Future research

1. Construction of a COSTS AGENCY INDEX

2. Manager the financial performance of organizations by measure the Costs of Agency by COSTS AGENCY INDEX.

THANK YOU VERY MUCH