



THE IMPRESSION OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON CORPORATE FINANCIAL PERFORMANCE (CFP) AND THE CONCEPT AND ROLE OF AGENCY THEORY

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ABSTRACT

The primary goal of an organization/company need to maximise its owners' value, but a proprietor's goal could be quite different. Consider Larry Jackson, 'The proprietor of a neighbourhood sports equipment stock. Jackson is in business to generate money, but he likes to require time without work to play golf on Fridays'. He also incorporates a rare employee who aren't any longer very productive, but he keeps them on the payroll out of friendship and loyalty. Jackson is running the business in a very way that's in step with his own personal goals. He knows that he could make more cash if he didn't play golf or if he replaced a number of his employees. But he's comfortable along with his choices; and since it's his business, he's liberal to make those choices. In contrast, Linda Smith is CEO of an oversized corporation. Smith manages the company; but most of the stock is owned by shareholders who purchased it because they were searching for an investment that might help them retire, send their children to varsity, acquire a long-anticipated trip, so forth. The shareholders elected a board of directors, which then selected Smith to run the corporate. Smith and also the firm's other managers are engaged on behalf of the shareholders, and that they were hired to pursue policies that enhance shareholder worth. Throughout this book, we focus totally on publicly owned companies; hence, we operate the belief that management's primary goal is shareholder wealth maximization. At the identical time, the managers know that this doesn't mean maximize shareholder value "at all costs." Managers have a responsibility to behave ethically, and that they must follow the laws and other society-imposed constraints that we discussed within the opening vignette to the current chapter. Indeed, most managers recognize that being socially responsible isn't inconsistent with maximizing shareholder value. Consider, for instance, what would happen if Linda Smith narrowly focused on creating shareholder value, but within the process, her company was unresponsive to its employees and customers, hostile to its area people, and indifferent to the consequences its actions had on the environment. Altogether likelihood, society would execute a large range of costs on the corporate. It's going to find it hard to draw in top notch employees, its products could also be boycotted, it should face additional lawsuits and regulations, and it's going to be confronted with negative publicity. These costs would ultimately cause a discount in shareholder value. So clearly when taking steps to maximise shareholder value, enlightened managers have to also mind these society-imposed constraints. It's at now where the researcher spreads an application of literature review onto testing Corporate Social Responsibility and its IMPRESSION on Financial Presentation. Subsequently, the researcher also stresses on the importance and implications of agency theory within the context of monetary management.

NOTE: *The report contains bolded words for straightforward read and cursive words to assist keep track of small print.*



THE IMPRESSION OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON CORPORATE FINANCIAL PERFORMANCE (CFP)

1.0 CORPORATE SOCIAL RESPONSIBILITY (CSR)

1.1 Introduction to CSR - Its Concept

In financial management, in step with Khurshid (2017), Querol-Areola (2017), Galant and Cadiz (2017) and Bråtenius and Melin (2015) "Corporate Social Responsibility" (CSR) takes a step further in changing the mindset and traditional culture of the firm by giving organizations the chance to serve and build relationship with all stakeholders instead of merely acting in preference of shareholders by maximizing their wealth. Basically, to widen the scope of aims, objectives and goals towards moral and practical paradigms. (Mujahid and Abdullah, 2014) supported Khurshid (2017), Querol-Areola (2017), Galant and Cadez, CSR will be depicted as an extension of responsibility, beyond traditional and customary goals of firms, in conducting activities that ethically, socially and sensitively contribute towards social, cultural, economic and environmental development that entertains stakeholders' interests and promotes society's wellbeing at large. The activities may well be donations, community sponsorship, investments to prevent pollutions and employee benefits. (Bråtenius and Melin, 2015) this case explicitly implies how company structures its policies and practices and goes beyond legal obligations, compliance and company's interests to interact in social causes. Thus, CSR concept dictates the importance of organizations to think about the interests of society by taking responsibility for the IMPRESSION of their activities on customers, employees, shareholders, community and also the environment altogether aspects of their operation. These concept and objective of CSR shall be evident when organization's activities meet or exceed stakeholder's expectations.

1.2 Introduction to CFP- Its Concept

"Corporate Financial Performance" (CFP) depicts the flexibility of companies to utilize its assets to provide revenue. Thus, it refers to overall financial status of the firm in monetary terms of investment returns, return on assets and added value, over a period of your time. These measurements assist in creating distinctions with businesses in similar industry" (Khurshid, 2017).

1.3 CSR and CFP Relationship

Khurshid (2017), Querol-Areola (2017), Galant and Cadez (2017) and Bråtenius and Melin (2015) argue that there's a major relationship that connects CSR to CFP where it may be seen that firms with communitarian ideology that derive pleasure

CSR practices experience higher CFP compared to firms with individualistic ideology who purely invest time in maximizing shareholder wealth. This shows that CSR positively and negatively impresses CFP. This is often because, CSR are often seen through dual views where some managers view additional expenses of CSR as an ethical investment that invites competitive advantage whereas others view it as expenditure that reduces profitability creating competitive disadvantage. (Mujahid and this can be where the most problem lies, misinterpreting their entire concept of CSR- where CSR activities are alleged to be undertaken as long-term ethical and profitable investments instead of short-term additional cost and expenditure burden- because it exists on the motive of making betterment of society before improving CPF. Thus, Galant and Cadez (2017) believe it should be perceived within the positive side as its benefits overpowers its limitations. However, Cheng, Ioannou and Serafeim (2018) and Khurshid (2017) argue that firms fail to know how CSR positively IMPRESSIONs financial long-term performance because of trade-off between expenditure in CSR and profitability. This creates the importance of reviewing the literature of the positive and negative IMPRESSION of CSR on CFP.

1.4 Factors that Contribute to Positive Relationship

Many researchers argue that CSR positively Impacts CFP within the future depicting firm's profit maximizing CSR perspectives. The rationale being: -

1.4.1 Freeman's Stakeholder Theory

The paragraph below will be supported by "Freeman's Stakeholder Theory" developed in 1984 but supported and evaluated further by Galand and Cadez (2017), where the idea emphasizes that managers must act in interests of all stakeholders and not just fulfil shareholder wealth maximization goals. This is often because stakeholders are individuals with stake within the company and opposing their satisfactions can drastically and negatively deteriorate company image diminishing competitive advantage and reducing CFP. Therefore, if companies practice CSR, it could encourage shareholder engagement that positively IMPRESSION CFP. For example: employee satisfaction shall encourage high productivity, customer satisfaction shall promote product loyalty and word-of-mouth promotions and suppliers may give discounts- increasing overall CFP. (Galant and Cadez, 2017)

First, stakeholder engagement and trust. Galant and Cadez (2017) opines that the ideology of companies practicing CSR activities shows how the business is anxious and prioritizes objectives of groups aside from shareholders and is willing to require a broader and longer view than their own short-term profits.



This shows the trouble to make and be the change despite the CSR costs which will incur- clearly showing the genuineness to entertain society's betterment. So, Bråtenius and Melin (2015) adds that this positively IMPRESSIONs stakeholder's perception towards originations goals and culture as they're unable to imagine anything immoral when companies are being socially responsible. Thus, Khurshid (2017) supports dictating that stakeholders tend to develop greater trust and loyalty; especially consumers who begin supporting firms' by repeatedly purchasing their products- as they're confident towards the organization's ethical goals that cater better company image and reputation. Over time, companies are ready to cash in of CSR by charging premium prices and selling greater amount of their product and services- which indirectly offsets high CSR costs. This way, benefits exceeds costs allowing companies to determine their profits inclining above average clearly showing positive relationship between CSR and CFP.

Second, professional and private development. The implementation of CSR changes corporate culture and operations during which most of the tasks within the organization shall be geared towards following the moral code of conduct. (Khurshid, 2017) to realize this, every employee shall receive opportunity to undergo CSR training and development so as to successfully like CSR activities. Supported Galant and Cadez (2017) and Querol-Areola (2017), this increases their efficiency and effectiveness as they have a tendency to develop new skills and methodologies of executing tasks which will be applied throughout the organization. Also, Mujahid and Abdullah (2014) believe that employees may become better in their job

Because the essence of CSR may include work aspects which employees are passionate about-encouraging them to showcase greater interest and loyalty towards adapting the CSR culture of organization. This creates motivation to figure efficiently and effectively which will allow company growth and brand image increasing CFP.

Third, voluntary revealing. in step with Galant and Cadez (2017), Bråtenius and Melin (2015), Cheng, Ioannou and Serafeim (2018) and Querol-Areola (2017), CSR builds confidence in managers to arrange and record financial statements in true and honest browse despite high CSR costs might prune profit figures at the start. This will be as a result of, they are galvanized to showcase their efforts and sacrifices motive for society's betterment. Thus, Khurshid (2017) supports dictating that companies tend to deliver larger voluntary revealing that obliquely motivates investors to require a grip as a result of they gain trust at intervals the corporate and see lower profits because the beginning of larger CFP in future. This will be as a result of they see larger

CSR expenditures as prudent, and intelligent investment alternatives which may push up the price of stock at intervals the on the brink of future-allowing them to maximise stockholder wealth.

Thus, Galant and Cadez (2017) opines that investors unit willing to support CSR investments as they believe that 'risk desires reward. This indirectly could be a competitive advantage for companies as their goals of CSR is prepared to raise investors despite initial profit deterioration.

Not alone that, endless commitment to social contributions shall prune dealings costs and boost market opportunities- allowing businesses to prolong their aggressiveness national and internationally. This, over a quantity of it slow elevates the CFP. (Khurshid, 2017)

Fourth, intellectual capital (IC), in step with Khurshid (2017), could also be made public as Associate in Nursing assets that resembles company's main informational provide that possesses the ability to create and develop new product, maintain and attract new and existing customers and increase profits. It is the last word provide that contains every potential subject matter about but the company developed business enhancements. Thus, IC happens to be a helpful asset which will along improve company performance by delivering innovation ideas, worth creation opportunities and enhancing employee's power. IC consists of three efficiency elements, namely, 'human capital', structural capital' and 'capital employed'. (Khurshid, 2017) throughout this context, it's argued that CSR plays vital role in enhancing and developing IC as every practice show common interest. Therefore, the essence of CRS that encourages engagement with internal and external shareholders displays implementation of various fully totally different sensible actions that unit at intervals the kind of 'intangible resources. These refined actions are additionally secret formulations developed out of workers and management's experiences- that unit important to the conception of IC. (Khurshid, 2017) Thus, CSR practices check main contributors to the event of IC in terms of human capital, structural capital and organization's name. So, IC improvement creates future economic profit by reducing productions costs and increasing quality and equity return owing to firm's secret formulations and theories that unit able to improve name that promotes name and whole image. This may increase competitive advantage, profit and CFP. (Khurshid, 2017)

1.5 Factors that Contribute to Negative Relationship

In distinction, many authors argue that CSR negatively IMPRESSIONs CFP at intervals the short basic cognitive process firm's

Profit increasing ancient views. The principle being: -



First, worth burden. In financial management, in step with Galant and Cadez (2017) and Bråtenius and Melin (2015), the last word and ancient goal of each firm is to maximise profit where each alternatives and practices ought to contribute to profit motive, if not, those practices shall be eliminated from the organization. Thus, Cheng, Ioannou and Serafeim (2018) believes, the conception of CSR might appear to be it involves simply moral and social practices that need to be implemented at intervals the alternatives of the organizations once it really involves additional costs for its implementation to be effective. This would possibly contradict with the profit motive of organizations as CSR's additional expenditures appear to be a financial burden that, in on the brink of future, can significantly prune profits then the CFP. (Galant and Cadez, 2017)

Second, agency relationship. Supported Bråtenius and Melin (2015), CSR negatively interferes with principal-agent relationship where agents unit required to act in accordance to shareholder's interests but generally oppose this responsibility owing to conflict in interest. Instead, agents tend to maximise personal wealth. This instance clearly shows that if managers do not appear to be willing to maximise shareholders wealth, obviously, they shall not entertain CSR significantly once CSR incurs additional costs that manager's unit focus in creating personal gain. Self-interested managers shall seldom extremely seldom prefer to choose short term CSR as they are a lot of interested by short financial profits than unsure long-term profit. Also, Bråtenius and Melin (2015) adds that, if managers acted in accordance with shareholders' interests, since they're 'agents', they shall solely maximize shareholders wealth and shall haven't any mandate to use CSR once it goes against shareholders maximization goals. This shows however CSR, if applied, could place company during a competitive disadvantage-negatively impacting CFP.

Third, Time and bulletin CSR could take long length of your time to herald positive results on CFP and to make positive company image not like advertisements. Hasan et al. (2016) typically, the defrayal on CSR could show lower profits, therefore deed businesses to experiencing prospects of not having any image. This can be as a result spent of CSR reduces amount left for advertising. Thus, to make image and earn profitable standing in brief term, corporations could typically pay on advertising to make smart image in customers mind. This shows however CSR might not be a quick thanks to improve profit, therefore negatively impacting CFP (Bråtenius and Melin, 2015).

Fourth, scarce resource. consistent with Hasan et al. (2016), Bråtenius and Melin (2015) and Kolisch (2015), the thought of implementing CSR in business show that companies currently have extra goal over

Associate in Nursing higher than shareowner wealth maximization- wherever CSR might not simply be an interior structure observe however an external observe of business humouring in social services and stakeholder's social affairs. Thus, Bråtenius and Melin (2015) adds that if CSR practices widen with everybody inspired to perform social accountable activities, there's high possibilities of unwittingly misallocating and misappropriating scare resources. Therefore, misuse of things of production that area unit restricted in offer could cause deficiency to fulfil the requirements and wishes of shoppers. This might lead to corporations affected by cost that if any of the choices area unit taken wrong, it will hugely have an effect on CFP. The decreasing FP shall cause stakeholders to modify to different corporations UN agency is also a lot of profitable- additional influencing CFP.

Fifth, packaging and scrutinization. consistent with Bråtenius and Melin (2015), intensive and long-run observe of CSR in organizations could improve the corporate image wide that 'going green' or 'being socially responsible' shall be the terms utilized by societies to deal with the organization. This suggests the corporate shall be common in behaving ethically within the eyes and a focus of society. As a result, Bråtenius and Melin (2015) evaluates that their area unit high possibilities for the corporate to face journalists, reporters and media. At this level of packaging, if in any respect the corporate becomes a suspect of 'insincerely being socially responsible' wherever promoting CSR was simply a medium to enhance image and boost stakeholders confidence, or, happens to form an error by 'not playacting ethically'; for example: mistake of harming animals and discreetly polluting stream then, this side of CSR shall destroy company's image, name and profit drastically impacting CFP. Thus, an organization that doesn't observe CSR is also free from these treats.

Conclusion (Point of View and Opinion)

It can be evaluated that CSR has positive and negative IMPRESSION on CFP. However, the main theme that can be obtained from this literature review is that CSR is a modern concept and can be made as a modern financial goal compared to traditional goal of shareholder wealth maximization. The goals at the end of the day do create and generate profits, but the duration of time and the technique may be different. Here CSR may take longer time to generate profit and spread awareness of its importance to its stakeholders, but managers should treat is as an investment rather than an unnecessary expenditure. It is very important for managers to understand the concept of CSR. This is why this topic has been chosen as it is a vital area that deserves discussion including views and opinions of various authors.



AGENCY THEORY: A LITERATURE REVIEW

Area of Discussion: Do Agents Act in Accordance to Principal's Interests?

2.0 Agency Theory

2.1 Formation of Agency- Its Origins

In this context of economic management, in step with Barrington and Stimpson (2013), big business organizations like public restricted companies possess opportunities to spice up big sums of capital through provision of shares that unit purchased by sizable quantity of shareholders. Keown, Martin and Petty (2017) opine that this makes shareholders, homeowners of the company, UN agency have ability to handle possession and confront risks and returns of their shares but inability to participate in strategic and operational deciding, managing, running and dominant the business. Thus, shareholders elect directors and managers to perform these responsibilities on their behalf- creating separation between possession and management. (Barrington and Stimpson, 2013) This separation express an important instrument relationship between shareholders Associate in Nursing managers; basic cognitive process the existence of 'agency' gift - that's at intervals the kind of associate degree 'Principal-Agent' relationship higher referred to as 'Agency Relationship'. (Brigham, Houston and author, 2007)

2.2 Agency Relationship and Rising Agency Downside

Based on weight unit (2010) and Ross (2007), agency relationship finds its roots from the widening gap between 'shareholder's ownership' and 'manager's management responsibilities'- where it'll be defined as a result of the arrangement at intervals that one party referred to as 'principal' (shareholder) appoints or hires another party is conscious of as 'agent' (manager) to act in accordance to their interest, below instrument agreement. This correlation of principal and agent itself resembles 'agency'. Keown, Martin and Petty (2017) adds that, 'below this circumstance of agency agreement, managers unit required to position goals of stockholder as their primary objectives'. However, {this is this is typically this will be} not constantly the case as managers usually perform opportunist actions motive towards their personal interests- at the expense of shareholders. This expressly depicts 'conflict of interests' owing to the assorted objectives- once shareholders' aim 'shareholder wealth maximization' whereas managers' aim 'personal wealth maximization'. (Ng, 2010) Thus, this non-congruent diverging goal sort the foundations of 'agency problem' that photos managers at intervals the organization as 'wealth

seekers and risk averse' not like principals UN agency unit 'profit seekers and risk neutral'. (Ng, 2010) this case marks the emergence, development and intervention of 'Agency Theory'.

2.3 Agency Theory and Area of Dialogue

According to Panda and Leepsa (2017), weight unit (2010) and Brigham, Houston and author (2007), agency theory represents the oldest model at intervals the literature of management and economics- that intensively studies and explains the principal-agent relationship, agency problems and agency costs suggest imperative remedies that align every party's interest to mitigate problems. However, this theory concentrates heaps of on the agent's side in terms of agent being the matter maker rather than principal. Ross (2007), Brigham, Houston and author (2007) and weight unit (2010) in financial management, agency theory pertains to a pair of types of 'principal-agent' relationships, namely: 'shareholder and managers' and 'shareholders and creditors. However, the following paragraphs shall consider 'shareholder-manager relationship' in terms of critically discussing the various views of the various authors towards "factors that contribute to agency conflict and factors that mitigate agency conflict" through the model of agency theory.

2.4 Factors Contributing to Agency Conflicts

Many authors argue that managers do not act in accordance to shareholder's interests. The principle being: -

First, separation of possession and management and diverging goals. Keown, Martin and Petty (2017) and Panda and Leepsa (2017) argue that the goal of the firm is to maximise stockholder wealth where managers unit utilized to realize this for shareholders. This shows separation between homeowners and managers where the managers unit merely agents to help shareholders succeed their goals, but shareholder's goal is not manager's goal. (Panda and Leepsa, 2017) So, this show every parties having fully totally different goals with managers running the firm in step with their personal goals, interests and desires like increasing their own wealth in terms of salaries, fringe edges, perquisites and vary of share decisions at the expense of shareholders.

Smith (2011) adds that this behaviour is Associate in Nursing outgrowth of basic human attribute that strives to maximise personal gain out of rationality and motivation. As a result, separation fails stockholder in observance agents and achieving wealth maximization-contributing to agency conflict.

Second, risk preference. Ross (2007), Panda and Leepsa (2017) and Smith (2011) argue managers unit in positions where their gain level is set by company performance. This encourages them to run the company in risk- free methodology by diversifying money into fully totally different quality classes and



investment merchandise, minimizing risky investments, stock risks and financial leverages. (Keown, Martin and Petty, 2017) This reduces the prospect of bankruptcy and group action capital loss-rising company performance and managers employment continuity. In distinction, Keown, Martin and Petty (2017) opine that this risk loath angle may not be in favour of shareholders UN agency unit generally risk neutral. this will be as a results of stockholder belief 'risk desires reward' that risky investments possess high prospects of skyrocketing their share worth. (Keown, Martin and Petty, 2017) but, Brigham and Houston (2009) evaluates that since managers unit elective to run the company, their decision to object risky investments causes shareholders to lose profitable opportunity-leading to agency costs. This shows but every parties possess fully totally different risk exposure creating conflict.

Third, loss implies self-satisfying actions discreetly taken by managers whereas not shareholders knowledge; knowing the costs of risks shall be borne by shareholders. (McColgan, 2014) Thus, Panda and Leepsa (2017) support dictating managers unit galvanized to inconspicuously invest in step with personal skills that cater for personal gains owing to having lower or no possession and lesser motivation to require a grip and maximize shareholders wealth. McColgan (2014) argues this self-interest investment might increase the importance of managers towards the company, allowing them to mention higher yield as they are irreplaceable. Thus, egocentric managers generally advantage of moral hazard to cater for personal profit at the expense of shareholders-creating issue in observance these actions as they are discreetly performed; thus, elevating agency costs. (Panda and Leepsa, 2017), (Smith, 2011) and (McColgan, 2014)

Fourth, maintained earnings. supported McColgan (2014) and weight unit (2010), managers unit generally pleased from the goal of accelerating stockholder wealth to specializing in business growth- as a results of larger business size generates higher earnings which will be reinvested into business core for future investment comes rather than being paid out as dividends to shareholders. Barrington and Stimpson (2013) adds that business growth permits managers to control a far larger and well-known business that grants larger power, standing and sovereignty- subsidization them higher remuneration and job security for the nice work that they're doing. However, McColgan (2014) and Smith (2011) argue that this aim of business diversification conflicts with shareholders as they wish to be paid dividends rather than having it maintained. this will be as a result of, diversification reduces returns and worth of the firm- damaging overall stockholder wealth. but agents still support business growth

although it harms principal interests as standing is substantial. (Ross, 2007), (Brigham, Houston and author, 2007) and (Ng, 2010)

Fifth, data property. Barrington and Stimpson (2013) argue that managers possess the authority to rearrange, organize, coordinate, command and management the full management by taking important alternatives at every interval. Thus, McColgan (2014) supports dictating they are folks fully indulged in business management activities-where they are awake to either side, update and performance data of the business. In distinction, McColgan (2014) to boot argues shareholders own the business and appearance every likelihood to maximise their wealth- but unit unaware of business alternatives and performance unless aware by managers. Often, homeowners do not appear to bear in mind or the data does not reach them inflicting info property. (Panda and Leepsa, 2017) this may increase the possibilities of conflict in agency relationship.

Sixth, length of involvement. Supported Keown, Martin and Petty (2017), the employment turnover of managers is additionally higher than shareholders UN agency possess business possession. Owing to the short term of employment, managers unit alone interested by the short returns conflicting with shareholders UN agency unit anxious to grasp future cash flows. (McColgan, 2014) Thus, managers tend to maximise personal wealth and government compensation by manipulating earnings and reducing R&D expenses before retirement- that's all against prime goal of firms. This creates conflict and can increase agency costs. (McColgan, 2014)

2.5 Consequences of Agency Conflict

The reasons of managers not acting towards shareholder's preferences finishes up in negative consequences referred to as 'agency costs. Agency costs could also be pictured as a result of the costs borne by shareholders owing to agency conflict. This cost can be divided into a pair of categories, namely: 'indirect costs'- that refers to the foremost effective numerous forgone owing to managers minimizing share worth and 'direct cost'- that happens in a pair of practices namely 'corporate expenditure' and 'monitoring, bonding and residual loss. (Brigham, Houston and author, 2007) "Monitoring costs" unit expenses incurred by shareholders for perceptive, accessing and supervising manager's appraisal at intervals the business. These might embrace supervisors' payment, board of director's maintenance, appraisal and behaviour analysis and compensations. Also, manager's recruitment, development, work expenses come below observance costs (McColgan, 2014).

"Bonding costs" unit expenditure incurred in coming up with specific framework that guides managers to manage in step with company's systems.



This binds managers to point out commitment towards the instrument obligation to agency relationship- indirectly limiting their self-interest activities. For example: obligatory recording and preparation of economic statements and mandatory distribution of dividends opposing actions of retaining earnings. Observance worth decreases as bonding rises. (Brigham, Houston and author, 2007) and (McColgan, 2014) “Residual Loss” is worth acquisition out of agency losses over and better than observance and bonding practices. For example: managers still taking self-interested alternatives. So, to remain residual loss lower, observance and bonding worth ought to be used. (Brigham, Houston and author, 2007)

2.6 Factors Mitigating Agency Conflict

In distinction, many authors argue that managers have important incentive to act in shareholders' interests. The reasons being: -

First, Provision in company act. In step with weight unit (2010), The Malaysian Company Act 1965 requires managers to arrange financial statements and acquire it audited by freelance external auditors. This will be so as that the auditors shall communicate and inform shareholders about the company's performance that if the financial statements' unit reliable, relevant and given by managers in true and honest browse. Panda and Leepsa (2017) adds that the thought of auditors being a middle man throughout this situation indirectly compels managers to act in shareholders' interest as every act of manager shall be reflected in financial statements. Also, the act encourages companies to carry out Annual General conferences (AGM) to allow shareholders be fully aware of the company by asking queries about companies' activities and managers decisions. This so as that shareholders will eliminate data property and consequently employ or terminate managers to reinforce agency relationship. (Ng, 2010)

Second, group action compensation and possession. Managers unit required to be fairly compensated reciprocally of managing and dominant the company at intervals the name of 'going concern'. Ng (2010) and ross (2007) argues that despite various fully totally different compensation packages, every manager deserves to receive 'annual salary' that funds living desires and basic expenses; 'yearend bonuses' in step with performance and profit of company and 'opportunity to buy for shares and be a section of company's ownership' that recompenses for continuing performance. This best compensation shall be allowing managers to buy for shares as a result of indirectly this shall motivate them to maximise share worth knowing they check a section of firm's possession. (Ng, 2010)

Thus, generally managers unit awarded 'performance shares' on basis of company performance or

'executive stock options' allow them to buy for shares at given worth in future. This way, shareholders shall succeed retaining and attracting managers- reducing gap between diverging interests. (Ng, 2010)

Third, info flow. in step with weight unit (2010), the Securities Commission and Bursa Asian country requires shareholders to perform 'management appraisal' by establishing internal audit committees and effective audit and financial news, so as that company's annual report can address risks, solutions to risks and current and expected company performance details. Despite managers active data asymmetry, this way, stockholder shall be timely notified information which may facilitate them appraise manager's performance and make recruiting-dismissal decisions effectively.

Fourth, linking management remuneration to stockholder wealth. Managers unit given 'yearly performance objectives' like increasing sales and profits, where, if these targets unit exceeded, then managers shall be rewarded with motion remunerations as they succeed elevating company performance. This way, managers unit anticipated to maximise stockholder wealth in commit to increase personal wealth. (Ng, 2010)

Fifth, commerce shares and threat of takeover. In big companies, self-interested managers that escape stockholder observance out of ingenuity unit at high risk of obtaining major shareholders such as insurance, government investment and pension funds, disposing shareholdings. The disposal of shares drastically reduces share worth making firm in danger of takeover. the strategy of takeover shall automatically dismiss all managers upon appointment of latest management inflicting loss of employment. this means the essence of deterrence applied in orienting agents towards principal's goals. (Ng, 2010)

Sixth, threat of firing resembles another deterrent issue where managers unit at the verge of getting ousted if they begin intensively dominant shareholders alternative mechanism. This happens when diversification of firm attracts many shareholders and under control of managers unit unable to vote against managers. (Brigham, Houston and author, 2007) Thus, to overpower managers control authority, shareholders have begun firing managers significantly if company performance is deteriorating. This will be evident with Yahoo, Xerox and Coca-Cola once they were ousted once being CEO for temporary time. (Ng, 2010)

Conclusion (Point of View and Opinion):

Purpose of browse and opinion based on the literature review designed for the motion: “Do Agents Act in Accordance to Principal's Interests?” it's going to be expressly evaluated that heaps of authors unit against this statement whereas many



professional the statement. These contradicting views of authors emerge owing to the assorted views and perception used in gazing but agency theory addresses the matter and brings solutions to mitigate the conflict. Thus, this whole literature review is written on the grounds, essence and context of agency theory but the content may well be a compilation of literature reviewed from the essential views and opinions of authors UN agency delivered their understanding and interpretations through legitimate journals. Supported the essential findings beyond, it's going to be evaluated that the conception of agency emerged for the basic delegation of authority and responsibility to run an organization throughout a scientific and efficient manner. However, conflicts of interests between a pair of fully totally different parties created problems of agent objecting to perform for principal's interest owing to self-interest. This develops agency costs. However, the explanation behind the matter could also be satisfied. This shows that agents might go off tract but could also be trained to act in principal's interests through implementation of agency theory. This becomes the sole reason for reviewing the literature where agency problems in organizations today merited to be understood and solved to maximise stockholder and managers wealth and cater for higher business and economic prosperity.

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