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AGENCY COST THEORY

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1. Abstract

This research paper examines the concept of agency cost theory and its relevance in comprehending the challenges and conflicts that arise in relationships between principals and agents. The paper begins with a historical overview of the development of agency and its legal framework, emphasizing its significance in corporate governance. It then introduces the concept of agency costs theory, emphasizing how conflicts of interest between principals and agents can result in inefficiencies and disruptions. The paper explores the differing perspectives of principals and agents, as well as the complexities of asymmetric information within these relationships. Additionally, it analyzes the objective of understanding agency costs theory, particularly in the context of Indian enterprises and ownership concentration. The research paper also presents Indian case laws that exemplify the application of agency principles in legal disputes. Furthermore, it discusses potential solutions for resolving agency crises, including legislative measures, independent audit committees, and investor protection mechanisms. The paper outlines the limitations of applying agency cost theory to legal relationships, such as the incomplete consideration of legal and ethical obligations and the complexities of information asymmetry. It emphasizes the importance of comprehensive legal frameworks, professional ethics, and non-financial considerations. The paper concludes by underscoring the necessity of effective governance mechanisms and an understanding of agency costs to mitigate conflicts, promote transparency, and align the interests of principals and agents in various domains.

2. Introduction

In a corporate world where contract law plays a significant role, the interest of the principal's property, rights and duties, and liabilities get divided in a contracting agreement between a principal and Agent. This arrangement of corporate governance is called agency. Chapter X of the Indian Contracts Act of 1872 deals with the law of agency. It is essential because all corporations under private ownership, whether large or small, conduct most of their business transactions through the law of an agency. It makes no difference if the country in question has a common law system, a socialist system, or a Communist system.

Agency refers to the connection when one person or party (the principal) hires another (the Agent) to perform services for him, such as performing work, selling commodities, or managing his business. The law of agency governs the legal relationship in which the Agent acts as the principal's representative while interacting with third parties. In front of a third party, the competent Agent has the legal power to act on behalf of the principal. According to the modern day, we have understood what an agency is. It is also essential to look at the historical development of the agency to understand agency cost theory. The Roman Empire's official legislation never wholly embraced the notion of the principle of representation. This denial explains the early Roman view of contractual duty as a personal relationship tying the parties in some quasi-mystical sense. This form of relationship allowed creditors to seize the debtor's possessions—and, in some cases, his or her person—in some cases. Creating such a relationship between two parties was usually done in a solemn ceremony that required both parties to be present, certain ceremonial words to be pronounced, and specific acts to be performed. Assigning rights or responsibilities to a third person in such a situation was complicated.

On the other hand, the head of the household might do business through his enslaved beings or dependent sons, who were viewed as "long arm" extensions of the contractual master or father rather than agents. Because of the widespread occurrence of slavery, an actual agency relationship was not required. The theory of principle and Agent arose in England during the Middle Ages as an offshoot or expansion of the doctrine of master and servant. The figures of 'ballivus' and 'attornatus' were created by Anglo-Norman law. The 'ballivus' status in his owner's household allowed him to conduct commercial transactions for him, like the enslaved person's power to bind his master under Roman law. Later, the 'ballivus' was granted additional autonomy, particularly in his job as a land administrator, and he progressively gained the ability to act autonomously for

his master.

On the other hand, the 'astronauts,' initially only a representative of one of the parties in a lawsuit, quickly rose to prominence. Specific contracts were only valid if they were made in a court-ordered way. As a result, the construction of this type of contract was always required to be completed in a court action in which each side was represented by an 'astronauts.' This was the start of the 'attornatus's' position as a general agent. During the ascent of natural law in the 17th century, continental Europe finally recognized the notion of agency in civil law. Hugo Grotius explained in his best-known work, *De Jure Belli ac Pacis* (1625; *On the Law of War and Peace*), that a procurator could obtain rights directly for his principal based on his mandate. With two exceptions, he defeated the Roman norm that enabled enslaved people and dependent sons, but not free people, to act directly for the household's leader. Grotius simply stated that this norm was not in conflict with natural law. With this, we complete the basic understanding of the historical development of agency as per contracts.

3. What is Agency Costs Theory?

In a society, Specialization is productive, according to one of economics' central tenets. On an individual level, assigning work to someone who specializes in that task is generally more effective than doing it oneself. Legal advice, managing another person's assets, diagnosing and advising on ailments, and precision-grinding a cylinder or machine tool are just a few examples. Due to a lack of time or expertise on how to best accomplish the activity, delegating such activities may be advantageous. In practice, however, getting the full benefits of delegating work to another person (an 'agent') is not always straightforward. While celebrating the benefits of the division of labor and Specialization in 'The Wealth of Nations,' Adam Smith also presents what may be the first documented account of the problems of the delegation that the division of labor causes. Referring to the directors of stock firms that specialize in the day-to-day management of the business as agents of the owners, he (Smith, 1776: 700) observes that being the managers instead of other people's money than of their own, this cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private co-partner frequently watch over their own. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.

The Indian contract act, 1872, chapter X describes "Agency," in which section 182 defines an

"agent" and "principal" as: "An 'agent' is a person employed to do any act for another or to represent another in dealings with third persons. The person for whom such act is done, or who is so represented, is called the 'principal.'"¹ in order to deduce the definition more effectively, the supreme court observed that "the expression agency is used to connote the relation which exists where one person has an authority or capacity to create legal relations between a person occupying the position of principal and third parties."² A 'principal' can be made up of a group of people carrying on a trade or business through a partnership, a registered company, or another type of corporate body, in addition to the individual 'principal.' Section 186-187³ defines the creation of an agency.

- 1) By agreement, this may be
 - a. express, i.e., by words or by writing, or (b) implied, i.e., by conduct,
- 2) By estoppel;
- 3) By operation of law;
- 4) By necessary circumstances.

It is essential to note that section 185 of the Indian contract act of 1872 states that "consideration is not necessary" to create an agency⁴. Under this, there is a distinction between an agent and a servant: "A servant is paid by salary or wages. An agent receives a commission based on work done."⁵ This point instigates an agent to work specifically for his profit by way of commission to secure personal profit leading to the concept of agency costs theory which can be explained with an example of Internal company expense incurred as a result of an agent's activity on behalf of a principal. Core inefficiencies, dissatisfactions, and disruptions, such as conflicts of interest between shareholders and management, usually result in agency costs. The acting Agent receives payment for the agency fee. It can be inferred from Adam Smith's Smith opinion, which shows how a condition of delegation in which principals cannot costlessly enforce the activities they desire their agents to do, that is, where 'agency issues' exist, can lead to efficiency losses ('negligence and profusion') and efficiency losses ('negligence and profusion'). This 'agency issue' is stated as agency costs theory.

¹ Avtar Singh, Law of Contract and Specific Relief 733.

² Syed Abdul Khader v. Rami Reddy, 2 SCC 601 (1979).

³ Indian contract act § 186 (1872).

⁴ Avtar Singh, Law of Contract and Specific Relief 739.

⁵ Performing Right Society Ltd v. Mitchell & Booker (Palais de Donse) Ltd, 1 KB 762 (1924).

It states that two self-interested individuals see potential profits from a deal. One (the principal) delegates physical or mental work to the other (the Agent), whose behaviors and effort level affect both parties' payoffs. The principal pays the Agent, and the principal adopts the position of the residual claimant in the relationship, holding claims to net cash flows resulting from disparities between inflows and promised payments to other claim holders. The Agent and the principal have opposing viewpoints. For example, top executives acting as representatives for the firm's shareholders may prioritize 'empire building,' bonuses, leisure time, and other benefits over maximizing shareholder profits ('conflict in outcome-type preferences'). Similarly, managers may engage in capital expenditures that increase the firm's chances of survival. At the same time, shareholders will likely want them to invest in high-return, but often riskier, assets to spread risk ('conflict in risk preferences'). There are undoubtedly many additional conflicts of interest between the principal and the Agent. All of this implies that the Agent (or agents) may not be acting in the principal's best interests. However, when these competing interests are paired with asymmetrically disseminated information between the principal and the Agent, the situation becomes much more complicated.

In the majority of agency partnerships, both the principal and the agent will be required to bear positive monitoring and bonding expenses (both non-pecuniary and pecuniary), and there will be some degree of discord between the agent's judgments and those that would maximize the principal's welfare. A cost of the agency relationship is also the cash equivalent of the principal's diminished welfare as a result of this divergence. This cost is referred to as the "residual loss." The costs of the agency are defined as the sum of three components: 1. the monitoring expenditures of the principal; 2. the bonding charges of the agent; and 3. the residual loss.

Also, even if there isn't a principal-agent relationship in the traditional sense, there are still agency costs involved in any scenario that calls for two or more individuals to work together on a project (like writing this paper, for example). The topic of shirking and monitoring of team productivity was brought up by Alchian and Demsetz (1972) in their article on the theory of the firm. According to this perspective, it is clear that our idea of agency costs and their significance to the theory of the business is strongly tied to this issue. In their study, Alchian and Demsetz (1972) discussed the theory of the firm.

a) Agency Cost Types

1. Agency Direct Cost

Monitoring costs: When management choices are made with the interests of the company's shareholders in mind, they hinder management's capacity to accomplish its job. As a result, the cost of keeping the board of directors is included in the cost of monitoring to some extent. Another example of a cost for monitoring available to a company's employees is the employee stock option plan.

Bonding costs are incurred when a contract is entered into between the corporation and the agency. Even after acquiring a company, management may choose not to take on new positions.

Residual Losses: If the monitoring bonding costs are insufficient to cause the principal and agent interests to diverge, further expenses, known as residual costs, are incurred.

2. Agency Indirect Cost

Indirect agency costs are the expenses incurred as a result of the missed opportunity. For example, management could take on a project that could lead to their expulsion from their employment. However, the company's stockholders believe that once the project is completed, the company's value will rise. However, if the idea is rejected, the stockholders' stakes will suffer considerably. Because it is not directly quantifiable but has an impact on management and shareholder interests, this expense is included in the indirect agency costs.

b) How may agency costs be cut?

The most common strategy to manage a company's agency costs is to implement an incentive program, which can be of two types: financial and non-financial incentive programs.

1. Financial Incentives Plan

Agents benefit from financial incentives because they are encouraged to act in the best interests of the company and its clients. Such incentives are offered to management when a project is successfully completed or when the relevant objectives are met. Some examples of the financial incentives scheme are as follows: Profit-Sharing Plan: As part of the incentive plan, management is entitled to a percentage of the company's profits.

Employee stock options allow employees to purchase a set number of shares at a price

that is often lower than the market value.

2. Non-financial Incentives Program-The financial rewards strategy is less prevalent in comparison. These are less effective at lowering agency costs when compared to the financial incentives approach. Examples of common ones include: In-kind rewards and recognition from peers and colleagues. Benefits and services for businesses. enhanced workplace. more or better opportunities

4. The objective behind understanding Agency Costs Theory

Indian enterprises, and primarily Asian firms, are either family-owned or managed by the government, making ownership traditionally concentrated since their inception. In today's Indian corporate sector, ownership concentration, particularly in the hands of a few prominent promoters, has become the standard rather than the exception.

Furthermore, in many countries (including India), the shift from democratic to plutocratic voting rights—from one vote per shareholder to one vote per share—has significantly altered the mechanism of corporate governance and the status and prerogative of large shareholders in public limited companies. Furthermore, some promoters obtain more voting rights than their ownership rights through tunneling, cross-holding, pyramid effects, and direct ownership. These large/dominant owners can now affect the corporate governance of Indian manufacturing companies in two ways. First, they can protect the interests of the entire shareholder community by advancing the wealth maximization goal by better monitoring and regulating management's opportunistic behavior. Conversely, these large owners can expropriate smaller shareholders and unfairly extract more benefits at their expense. Expropriation can take many forms, including diverting firm resources or assets through self-dealing transactions (Johnson et al., 2000), tunneling one firm's resources and profits to another to enjoy more cash flow rights, especially in situations where a dominant owner has controlling stakes in two different firms with different cash flow rights, and behaving subversively with minority owners and preventing them from exercising their de jure ownership.

The developed world's corporations, such as those in the United States and the United Kingdom, are dealing with both types of agency issues, namely, conflict of interest between managers and shareholders (type 1 or vertical agency crisis) and conflict of interest between minority and dominant shareholders (type 2 or horizontal agency crisis), with the latter being much more

prevalent in the Indian corporate sector. The agency contract, or the contractual relationship between the principals and the agents, is referred to as "incomplete" because, while the agents are typically expected to think and act in the best interests of the principals, in practice, they take advantage of freeriding opportunities to realize their gains at the expense of the principals (Kirchmaier & Grant, 2005; Shleifer & Vishny, 1997). Delegation of work is frequently driven by the principal's need for more information, talents, or expertise to do the activity themselves, knowledge gaps that explain why trade gains exist in the first place. However, it implies that the principal needs to be at a disadvantage in assessing the Agent's genuine understanding and efforts in carrying out the assigned assignment. Self-interested agents may hide their genuine qualities (e.g., a lack of adequate abilities for completing the activity at hand) or even falsify signals (e.g., misrepresenting their C.V.s or the degrees they possess) to secure a job and earn the corresponding rents, complicating the issue. As a result, the so-called 'hidden characteristics' problem arises when informational asymmetry exists before the principal contracts an agent.

Now that we have understood the objective behind the root cause of agency costs theory, it is essential to look at some of the researchers' opinions and trends in their study. In a recent study on the listed firms of the New Zealand Stock Exchange from 2004 to 2007, Gaur, Bathula, and Singh (2015) supported the function of large owners and showed how a lack of ownership concentration leads to increased agency difficulties, resulting in poor performance of such organizations. Other recent studies, such as Abbasi, Asadipour, and Pourkiyani (2017) in the context of companies listed on the Tehran Stock Exchange and Mittal and Anjala (2018) in the context of companies listed on the National Stock Exchange of India, provide evidence of large owners' role in minimizing agency crisis and improving firm performance. The provisions listed under the statute of the Indian contract act of 1872, like ratification under sections 196 to 200. Also, revoking the agency under section 201 to 210⁶ help reduce the risk of agency crises.

5. Indian Case Laws

Chairman L.I.C v. Rajiv Kumar Bhaskar⁷ in this situation, the employer was required by L.I.C.'s wage saving scheme to deduct the premium from the employee's salary and deposit it with L.I.C. When the employee died, his heirs discovered that the employer had failed to do so, leading the policy to lapse. A paragraph in the acceptance letter was alluded to, in which the employer stated

⁶ Indian contract act § 210 (1872).

⁷ Chairman, L.I.C. Of India And Ors v. Rajeev Kumar Bhaskar, ACJ 86 (2003).

that he would operate as the employee's Agent rather than L.I.C.'s. It was determined that the employer was operating as the company's Agent, rendering the company (L.I.C.) liable as a Principal due to the wrongdoing of the Agent (the employer).

Harshad J. Shah and Anr. v. L.I.C. of India and Ors.⁸ to increase business, L.I.C. agents collect premiums from policyholders in cash or by cheque and deposit the money collected in the L.I.C.'s office; this practice has been going on directly within the knowledge of the L.I.C. administration, despite departmental instructions that the agents are not authorized to collect premiums. It suggests that L.I.C. was careless in its service to the insured and was hence accountable.

Narandas Morardas Gaziwala and Ors.⁹, a Surat-based partnership firm that specialized in lace and silver thread, established relationships with another firm, Krishna and Company, who served as their Agents for selling their goods on commission throughout the three districts of Madras. Muruges Chettiar, one of the partners, took over all of the firm's assets and debts upon the firm's dissolution. Krishna & Co. became indebted as a result of their actions in 1951. Muruges Chettiar (plaintiff) signed a promissory note for Rs. 7,500/- in favor of Narandas Morardas Gaziwala on April 1, 1951, the sum adjudged to be due and payable by Krishna & Co. The plaintiff filed a claim in Kancheepuram's District Munsif's Court, demanding that accounts be produced from April 1, 1951, until the date of the action to ascertain the amount owing and payable to him. In response, the Surat company filed a case against the plaintiff in the Court of Subordinate Judge, Chingleput, to recover the money owed under the promissory note. The parties agreed that the cases would be tried concurrently.

6. How to resolve agency crises?

The maxim Delegates contest delegate is well-known in the field of agency law. The principal selects an agent because he believes in his expertise and honesty. As a result, the Agent usually needs help to delegate the job given to him by his principal. Therefore, The Indian contract act 1872, under Chapter X, "agency," describes the duty of an agent towards its principal, which works as checks and balances to restrain agency crises from happening occasionally. Section 211 "agent's duty in conducting principal's business." Section 212 "skill and diligence required from

⁸ Harshad J. Shah and Anr v. L.I.C. of India and Ors, 5 SCC 64 (1997).

⁹ Narandas Morardas Gaziwala & Ors v. S. P. Am. Papammal & Anr, SCR 38 (1966).

the agent"¹⁰. Section 212¹¹ limits the Agent's liability to "direct consequences." ^ It provides that the Agent must "make compensation to his principal in respect of the direct consequences of his neglect, want of skill or misconduct, but not in respect of loss or damage which are indirectly or remotely caused by such neglect, want of skill or misconduct"¹² Section 213¹³ duty of maintain accounts. Even though the principal is fully informed about the Agent's characteristics, it may still need to be at a disadvantage when it comes to the activities done by the Agent. More specifically, the disadvantage (i.e., informational asymmetry) is concerned with the Agent's action (or effort level), whether it was the proper one given the circumstances, and which conditions exactly. During such crises, Section 214¹⁴, the "agent's duty to communicate with the principal" ¹⁵, comes into play, reducing agency crises' chances. The principal and Agent share a fiduciary relationship which at any cost cannot be hampered.

In India's context, Kumar and Singh (2012) propose creating a favorable climate and enforcing strict legislation to preserve minority shareholder rights. Hamid et al. (2016) state that an independent audit committee can help a corporation reduce expropriation. In a recent study of Indian manufacturing firms, Altaf and Shah (2018) found that after a certain level of ownership concentration, large shareholders expropriate minority shareholders, resulting in higher agency costs between majority and minority owners and lower company performance. In a recent study of Indian manufacturing firms, Altaf and Shah (2018) found that after a certain level of ownership concentration, large shareholders expropriate minority shareholders, resulting in higher agency costs between majority and minority owners and lower company performance. According to the study, the agency crisis evolves from an owner–managers conflict (vertical agency crisis) to a majority owner–minority owners conflict after a high level of ownership concentration (horizontal agency crisis). The report also emphasizes the necessity for an alternative suitable governance mechanism in India, such as investor protection.

7. DEMERITS

¹⁰ Park v. Hammond, 128 ER 1127 (1816).

¹¹ Indian contract act § 212 (1872).

¹² Krishna Chandra Ganpati v. K. Hanumantha Rao, 241 AIR (Ori 1950).

¹³ Indian contract act § 213 (1872).

¹⁴ Indian contract act § 214 (1872).

¹⁵ JJayabharathi Corporation v. Sv. P.N. Sn. Rajesekara Nadar, AIR 596 (SC 1992).

Potential Limitations or Drawbacks of Applying the Agency Cost Theory

1. **Incomplete Legal Framework:** The agency cost theory primarily focuses on economic incentives and monitoring mechanisms to align the interests of principals and agents. However, it may overlook or downplay legal and ethical obligations in legal relationships. Legal frameworks encompass a more comprehensive range of principles, including fiduciary duties, professional ethics, and legal responsibilities, which may need to be adequately addressed by the economic-centric perspective of the agency cost theory.
2. **Lack of Consideration for Legal Standards:** Legal relationships, particularly those involving attorneys, involve professional standards and obligations that are regulated by specific legal rules and codes of conduct. The agency cost theory may need to account for these legal standards fully and may oversimplify the complexities of legal ethics and professional responsibilities. Thus, the theory may need to provide a more complete understanding of the dynamics within legal relationships.
3. **The complexity of Legal Agency:** In legal contexts, agency relationships can be more complex than in economic or corporate settings. For example, lawyers act as agents for their clients, but they also have broader fiduciary duties to the court and the legal system. The agency cost theory may need to adequately address the legal agency's unique aspects and ethical considerations beyond financial incentives and conflicts of interest.
4. **Non-Financial Considerations:** Legal relationships often involve non-financial objectives and considerations not fully captured by the agency cost theory. Attorneys, for instance, have a duty to provide competent representation, act in the best interests of their clients, and uphold the rule of law. These obligations may need to be adequately addressed by a theory primarily focusing on economic incentives and financial alignment.
5. **The complexity of Information Asymmetry:** The agency cost theory assumes that principals have perfect information about the Agent's actions, which may not be accurate in legal contexts. For example, information asymmetry between attorneys and clients can be significant, leading to challenges in monitoring and controlling agency costs. The theory may need to fully address the complexities of information asymmetry and its unique challenges in legal relationships.

In summary, while the agency cost theory has been primarily developed and applied in economics and finance, its application to legal contexts may have limitations. The theory may need to fully capture or address the legal framework, ethical considerations, professional responsibilities, and

non-financial objectives that characterize legal relationships.

While agency cost theory offers valuable insights into corporate governance and management, there are particular examples that highlight some of its possible downsides. Here are a couple of such examples:

Enron Corporation: The 2001 bankruptcy of Enron is a classic case demonstrating the limitations of agency cost theory. Enron officials used deceptive accounting procedures to alter financial figures, resulting in the company's bankruptcy. This case highlights how executives might incur agency costs when they prioritize personal gain over the interests of shareholders and other stakeholders, undermining the effectiveness of corporate governance procedures.

Volkswagen Emissions Scandal: In 2015, the Volkswagen emissions scandal showed that the firm had put software in its vehicles that allowed it to alter emissions test results. This case demonstrates how managers might incur agency costs when prioritizing short-term financial performance and market share over legal and ethical responsibilities. The affair led to enormous financial losses for V.A. and legal ramifications for Volkswagen.

Without a link between a principal and an agent, there is no agency problem. In this case, the Agent completes a task on behalf of the principal. Principals frequently hire agents due to differences in skill levels, employment positions, or time and access constraints. For example, a principal may employ a plumber (the Agent) to repair plumbing problems. Although the plumber's best goal is to earn as much money as possible, they are responsible for executing in whatever situation benefits the principal the most.

The agency issue comes from a conflict between incentives and the presence of discretion in job fulfillment. If an agent is incentivized to operate in a way unfavorable to the principal, the Agent may be persuaded to do so. For example, the plumber may make three times as much money in the plumbing scenario by recommending a service that the Agent does not require. An incentive (three times the salary) is present, resulting in the agency problem.

8. Conclusion

In summary, the agency cost theory sheds light on the challenges and conflicts that arise in relationships between principals and agents. It emphasizes that agency costs can occur when agents prioritize their own interests over those of principals, resulting in inefficiencies and conflicts.

The theory of agency presupposes that all parties involved are entirely rational, indicating that contracts between the principal(s) and the Agent (s) will contain all accessible knowledge and that the contract's provisions will account for all potential future events (so-called "full contracts"). In contrast to transaction cost economics, agency theory abstracts from the costs of incorporating information into contracts and the possibility that contracts may be incomplete due to a lack of knowledge about all possible future events or actions.

While the information about the characteristics of the Agent (s) or their actions is assumed to differ between the principal(s) and the Agent (s), the theory assumes that each of the parties makes full use of the information available to it in designing the contract and deciding how to act, respectively. The issues and solutions associated with job delegation under information asymmetry and conflicting interests between two or more persons are studied by agency cost theory. It is predicated on the parties' rationality and self-interest and addresses both ex-ante ('hidden characteristics') and ex-post ('hidden action') information asymmetry issues. Even in an age of inexpensive communication, information asymmetry will exist, and principals will never be able to anticipate every difficulty. In addition, the increased labor cost must be factored into the agency's cost toll. Firms use interlocking contracts, detailed service level agreements, tiered contractual commitments, redundant agents, extensive control provisions, and liberal departure rights to reduce agency risk. Furthermore, macroeconomic pressures may make it easier for principals to use these technologies to supervise agents.

The theory recognizes the influence of economic incentives, monitoring methods, and information imbalances on these relationships.

In the case of Indian businesses, the concentration of ownership and the potential for dominant shareholders to exploit the situation worsen the issues related to agency. However, strict legislation and governance mechanisms, such as independent audit committees and measures to

protect investors, can help alleviate agency crises.

Nevertheless, there are limitations to applying the agency cost theory to legal relationships. The theory's economic-centric perspective may not fully capture legal frameworks, professional ethics, fiduciary duties, and non-financial considerations. The complexity of information imbalances and the unique dynamics of legal agency also present challenges.

To tackle agency crises, the Indian Contract Act of 1872 provides guidelines for agent conduct, communication, and maintenance of accounts. Agents' duties toward principals, fiduciary responsibilities, and checks and balances are crucial in minimizing agency costs.

While the agency cost theory offers valuable insights, real-world examples such as Enron and the Volkswagen emissions scandal highlight the need for comprehensive legal frameworks, ethical considerations, and a broader understanding of the dynamics within legal relationships.

In conclusion, understanding agency costs and implementing effective governance mechanisms are vital for mitigating conflicts, promoting transparency, and aligning the interests of principals and agents in various domains, including corporate governance and legal relationships.

