QUESTIONING THE POPULARITY OF AGENCY THEORY IN ACCOUNTING RESEARCH

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Teori keagenan telah banyak digunakan dalam penelitian akuntansi bahkan mendominasi penelitian akuntansi. Teori ini dianggap mampu memberikan kerangka formal dalam mempelajari hubungan keagenan, dan dianggap sebagai paradigma penelitian yang meyakinkan dalam menggambarkan dan menjelaskan hubungan kontraktual antara agen dan principal. Meskipun teori keagenan mampu mendominasi penelitian akuntansi, teori tersebut memiliki beberapa kelemahan. Teori keagenan merupakan teori yang terlalu abstrak dan didasarkan pada asumsi yang sempit, misalnya individu dianggap selalu memiliki kepentingan pribadi, mengabaikan konteks lingkungan dan sosial, dan secara metodologi tidak dapat difalsifikasi. Kelihatan bahwa teori keagenan terlalu mekanistik, boleh dikatakan sebagai teori tanpa ruh.

Kata kunci: teori keagenan, agen, princilpal, hubungan kontraktual, kepentingan pribadi,

Introduction

Accounting research has proceeded in several approaches. However, it is widely known that empirical studies have dominated accounting research. This research has focused on the three main economic influences in explanation of managerial incentives for selecting accounting policies: management compensation, debt covenant and political cost variables (Watts and Zimmerman 1986). These studies tend to view financial reporting as a static process involving routine accounting techniques and rational behaviours and analyse accounting phenomena using statistical methods.

The use of statistical methods in accounting research is primarily justified by agency theory. Agency theory provides a formal framework for studying agency relationships, and has been seen as a powerful research paradigm in describing and explaining contractual relationships between a principal and agent (Chi 1989).

However, there have been misleading views in accounting research, which assumes that agency theory can be applied in all areas of accounting research. Such misleading views could occur due to the belief that agency theory is a popular theory and is applicable to all research phenomena. It is true that the theory plays an important role in helping a researcher to justify research hypotheses. Theory can be used to "help the researcher make sense of 'what is going on' in the social setting being studied" (Mills 1993: 103). Zimmerman (1987: 290) also claims that

> ...not all data and facts can be collected and reported-the world and field sites are too complex. Some theory, underlying model, or framework always directs the researcher to those facts considered interesting or important to collect and report.

However, it should be noted that applying theory to research phenomena without considering the relevance of the theory and understanding the metaphor of the theory could lead to misuse of the theory. This paper is aimed at discussing agency theory, especially its pitfalls. The first section will explain the metaphor of agency theory. The next section will describe why agency theory is considered as popular theory and finally this paper will critically evaluate agency theory.

Agency Theory: Conflict And Contract Metaphor

A corporation, as other organisations, can be seen from a number of perspectives and each perspective provides its own way of interpretation. An ability to analyse individual actions and behaviours in organisational setting is importantly affected by the particular understanding of the nature of organisations. Agency theory (also called contracting theory) is one perspective that has been used widely in understanding organisations and has dominated current accounting research.

Within agency theory, an organisation can be viewed as the locus or intersection point for many contractual type relationship existing among management, owners, creditors and other actors. Early on, in their classical work, Berle and Means (1975) tried to combine legal and economic perspectives in explaining the development of "modern corporation". They viewed corporation as "*a means whereby the wealth of innumerable individuals has been concentrated into huge aggregates and whereby control over this wealth has been surrendered to a unified direction*". They argued that in widely-held enterprises, the risk-bearing function of ownership and the managerial function of control were divergent functions carried out by different parties.

Separation of ownership from control leads Berle and Means to describe management of corporation as powerful and entrenched. They believed that such separation results in circumstances where the interest of owners and managers may diverge and where many of checks which formerly performed to limit the use of power disappears. The work of Berle and Means has then influenced the subsequent development of agency thinking. It is claimed that the relationship of agency is one of the most common codified modes of social interactions (Ross 1973).

Synthesizing earlier work by Berle and Means with the property right and contracting literature by Coase (1932;1960) and Alchian and Demsetz (1972), Jensen and Meckling (1976), in their agency model, try to describe and analyse an abstract set of economic relationship between firm managers and investors. Using theory of economic organisation, Jensen and Meckling (1976 p.308) define firm as "a legal fiction" that may be characterised as "a nexus of contract" and define agency relationship as follow:

> "a contract under which one or more persons (the principal/s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximisers there is good reason to believe that the agent will not always in the best interest of the principal".

Their focus of analysis is on agency relationship between shareholders (a principal) and manager of the firms (an agent).

Within agency theory, the agent is characterized as that of self-interested actor rationally maximizing his own personal economic gains. In other words, the underlying agency theory is a set of behavioural assumptions about agents. It is assumed that all agents are unconstrained self-interest maximizers who do not take action in the best interest of the principal. Thus the agent is individualistic and is predicted on the notion of an in-built conflict of interest between owner and managers. The model is one of an individual considering costs and benefits, seeking to attain rewards and avoid punishment.

In organizational setting, agency model incorporates two basic patterns of organizations: incomplete information and goal conflict among members of organizations. Within this setting, Jensen and Meckling (1976) believed that professional managers consumes excessive perquisites when such consumption is unobservable. This might be explained by theory X of McGregor, that a manager-as an individual-has an inherent dislike of works, wishes to avoid responsibility and wants security above all.

Consequently, the managers are seen as individuals who are assumed to act in their own best interests, which may, conflict with the organisation's best interests. Such conflict can occur between agents and principal (managers and shareholders) or among the principals (shareholders and debtholders or controlling shareholders and minority shareholders). This conflict is often called as an agency problem. In positive accounting literature, managers are hypothesized to manipulate earning when their compensation is tied by accounting numbers (Watt and Zimmerman 1986)

An analysis of agency problem is based on such assumptions because all individuals are assumed to choose actions that maximising their personal utilities and to be rational and capable of forming unbiased expectations concerning the impact of agency problems and the associated future value of their utilities. As agency theory incorporates important assumptions about managerial behaviour being self-interested, agents are prone to moral hazard and evincing bounded rationality. Such bounded rationality on the part of each actors gives rise to information asymmetry between the parties (Bohren 1998). Hence, conflict of interest within organisations can occur when principal and agent relationship is surrounded by information-related incentive problems. Such information asymmetry may allow an agent to engage in opportunistic behaviour (Williamson 1985). This is the reason why conflict of interest is the concern of agency theory.

The first conflict is called *moral hazard* that arises when the action undertaken by the agent is unobservable to the principal and consequently a contract between the principal and the agent is relied on imperfect information concerning the agent's actions (Jensen and Meckling 1976). The second conflict related to *adverse selection* (Jensen and Meckling 1976). This problem arises because agent usually has better pre-contracting private information such as skill level of professional managers and superior post contracting but pre-decision private information (Chi 1989). In this situation the principal of course cannot check whether or not the action taken by the agent is in the best interest of the principal. Indeed, the agent can use his or her private information to shirk.
The above explanation shows that the heart of agency theory is the goal conflict inherent when individual with differing preference engages in cooperative effort, and the essential metaphor is that of the contract (Eisenhardt 1989). In other words, the main objective of principal agent relationship is to explain how contracting parties design contracts to align incentives between contracting and minimize cost associated with such problems. This is the reason why Levinthal (1988) claims that contract is key point in addressing conflict of interest between agents and principals. Levinthal (1988: 155-156) believes that:

> "agency theory views the problem of contract design as maximizing the payoff to the principal, taking several factors into account:(1) the relationship between output and the incentive scheme offered, (2) the allocation of risk associated with different compensation scheme, and (3) the preferences of the principal and agents with respect to income and non-pecuniary outcomes".

Apropos to the issues of financial reporting practice, the opportunistic behaviour of managers leads the need for control the behaviour through corporate governance mechanisms such as the presence of board of directors and audit committee. To assess whether financial reports are presented fairly by managers according to the generally accepted accounting principles, it also needs the involvement of auditing and regulation. However, whether such mechanisms are successful in controlling managers' behaviour, it depends on how parties involving in the mechanism hold and exercise their power. It is recognised that there is potential in-balance of power between managers and other parties involving in the corporate governance mechanism.

Given his/her opportunistic behaviour and rationality, the agent will use power to act in his/her own interests that might not be in the best interest of the principal. A number of reasons could lead managers as agents prefer to pursue their own interests to the detriment of principal. They could be status, remuneration, and job security. This behaviour lead to agency costs that are incurred when, in the face of information asymmetry, principles introduce monitoring mechanisms designed to align shareholder and manager interests. Accordingly, agency theory is concerned with the cost of monitoring and enforcing relations among the various parties.

Popular Theory Doesn't Mean Perfect Theory

Agency theory provides a formal framework of studying agency relationship and has been seen as a powerful research paradigm in describing and explaining contractual relationship between principal and agent. The reason of agency theory for being a popular research paradigm for accounting scholars is that the demand and uses of information are derived endogenously in the agency model rather than assumed (Chi 1989). For example Baiman (1982) focuses his empirical issues on two uses of information in an agency relationship, that is, belief revision and performance evaluation. Meanwhile Demski and Kreps (1982) classify such uses as decision-facilitating and decision-influencing roles of information.

Furthermore, Bohren (1998: 753) claims that the reason for a popular use of agency theory is that "popular theories are probably more easily internalised and put to practical use than less popular ones by professors, students, and managers alike". He also posited that behavioural models are not value-neutral and theories may have social power. Indeed, when Tinker and Puxty (1995), were discussing "Policing Accounting Knowledge", they argued that

> [...] social context overshadows academic debate and precondition its outcomes in fundamental ways, usually "behind backs" of the protagonist [...] theorizing may be conditioned and directed by forces that, as of necessity, escape the attention of the theorist" (p. 4)

Furthermore, because theoretical systems cannot be separated from a broader social system, the rise and fall of theories depend mainly not simply on epistemic virtue, but in the mutual adaptation of ideological, social, cultural, political, economic conditions (Tinker *et al.* 1982).

Although agency theory has been widely used as a dominant theory in accounting research, it suffers from some weaknesses. It can be argued that agency theory is mainly based on contractual relationship referring to what have and what have not to do by the agent as signed in the contract. It assumes that the agent, as an individual, is like a machine that is run by manual procedures. Indeed, it ignores the value aspect of social relationship. Agency theory is like a theory without soul.

Pitfalls of Agency Theory

First of all, agency theory is too abstract and its abstraction is far from reality. Agency theory is also a rather strong simplification of human behaviours. In fact, Doucouliagos (1994) believed that self-interest does not explain all motives that people have. In other words, it does not necessarily explain behaviour of individuals in every situation. It can also be inferred that agency model views individuals as machines endowed with influential hill-climbing algorithms.

The human model inherent in the theory is a portrait of hyper -calculative individuals, who are distracted and isolated from their contexts. This is because agency theory assumes that principal and agent live in abstract environment, but disregard the process by which specific environmental pattern also live in the mind of actors. Thus, there is no doubt for Perrow (1986: 224) to insist that agency theory is "hardly subject to empirical test since it rarely tries to explain actual events".

In addition, Perrow (1986) criticized the theory as unrealistically one-sided because of its neglect of potential exploitation of workers. Perrow (1986: 235) continues to argue that "theories shape our world; they encourage us to see it a certain way, and then we exclude other visions that could direct our action" He also criticizes the agency theory on this background because he believes that it models principal at the mercy of agents, that monitoring is only available to the principal, that organized action by workers (like unionisation) are absent, that the principal agent model neglects how job training and socialization reduces real-life information asymmetries, and that it implies a political ideology that is "both blatant and conservative" (Perrow 1986: 220)

With a similar view, Arrow (1985: 48-49) contends that principal-agent models are not consistent with those observed in reality. He said :

> But it is perhaps more useful to consider the extent to which the principal-agent relation in actually differs from the models developed to date. Most importantly, the theory tends to lead to very complex fee functions. It turns out to be difficult to establish even what would appear to be common-sense properties of monotonicity and the like. We do not find such complex relations in reality...In some cases, where principal-agent theory seems clearly applicable real world practice is very different from the model... Even in situation where compensation systems seem closer in form to the theoretical, there are significant differences.

Furthermore, Kotowitz (1987) points out that:

> The nature of the reward schedule is sensitive to the nature of the information available, the residual uncertainty and the degree of risk aversion of the agent and principal. This observation is troubling because incentive contract observed in reality are generally simple and uniform across a variety of agents and information sets.

The above claims show that agency theory uses such assumptions for the purpose of describing abstract relationship to make mathematical explanation works rather than portraying the real world of principal-agent relationship. Salanie (2002) also claims that principal-agent models show pitfalls in regard to divergence between what is theorized and what is in reality. Salanie (2002: 175) says:

> I have assumed so far that contracts are complete. This is obviously very strong assumption, since it implies that all contingencies that may affect the contractual relationship are taken into account in the contract. In the real world, negotiating a contract is a costly business which mobilizes managers and lawyer. It must therefore be that at some point, the cost of taking into account an improbable contingency outweighs the benefits of writing a specific clause in the contract; the contract should then be signed without this clause. The inability (unwillingness) of courts and other third parties to verify ex post the values taking by certain variables observed by all contractants is another reason why contract will be incomplete. It is not use conditioning the contract on a variable if nobody can settle thee dispute that may arise. Even if we abstract from he costs associated with negotiating and writing the contract and from the constrains due to the legal system, bounded rationality may force the parties to neglect some variables whose effect on the relationship they find difficult to evaluate.

In capital market setting, the relationship between principal and agent is also discussed too narrow. In fact, principal-agent models tend to focus on managers and owners relationship (Bricker & Chandar 2000). They suggested that understanding of capital market might be improved by studying and portraying more diverse types of parties and their relationship than just managers and owners relationship. Furthermore, Bricker and Chandar (1998), in their review of historical accounting research provide an evidence that in the early American corporate economy a direct agency relationship between individual investors and corporate managers did not exist.

Bricker and Chandar (1998) also showed that in today's American economy, most of individual investors invested in mutual funds rather than operating companies. Nevertheless, this fundamental role of funds is ignored when they are viewed within the traditional principal-agents framework that represents operating company managers as agents of investors. Hence, they continue to argue that in order to preserve the mathematical tractability of agency analysis, principal-agent models have portrayed extremely simplistic situation and have been based on some unrealistic assumption.

The second limitation of agency theory lies on their assumption of human type. It is assumed that individuals in agency theory, as human beings, are self-interest maximizers. However, the validity of such an assumption has been questioned by Becker (1976), Harsanyi (1976), Noreen (1988), and Sen (1986). The reality shows that some individuals are altruistic and other constraint self-interest seeking behaviours out of scruples or an ethical code.

Agents can alter their preferences and they can be motivated by more ethical goals, rather than purely utility-maximizing ones. Brennan (1994), who is well known as a scholar who disagrees with the inclusion of self-interest in the definition of rationality in economic theory, criticized principal-agent model for being a too cynical model of human nature. Moreover, Perrow (1986) is highly sceptical about such an assumption because he believes that principal-agent model ignores the cooperative aspects of social life. This view is similar to that of Band (1992 p. 459) who insists that

> ....we cannot conclude that self-interest behaviour is the essence of organisations, because, while agency theory devotes great attention to the cooperative aspects of social life, it ignores the ways in which exploitation can be structurally encouraged by the asymmetric distribution of power in bureaucracies.

Akerlof (1983) also challenges the assumption of selfishness in economic model as currently used by agency theory. Akerlof (p.54) says that:

> since time of Edgeworth…it has been fashionable for non-Marxist economic theorists to follow Smith's presumed worst-case assumption-that all persons are totally selfish…this assumption is made for reasons of convenience, not because economists empirically assume that all persons act only out of selfishness.

Moreover, Donaldson (1990), with his stewardship theory, also argues that there is another model of man who is visualized as being unmotivated by a need to achieve intrinsic satisfaction through performing a challenging work, to perform responsibilities and authority, and to gain recognition from others. This man exercises responsibility based on sense of duty, normatively induced compliance (Etzioni 1975). Hence, the main problem in organizations is that how an organizational structure provides clear, consistent role expectations and authorize and empower senior management rather than merely designs a contract to control agent behaviours.

Rationality assumption is the third weakness of agency theory. This assumption cannot be separated from that of self-interest maximiser. In other words, the reason for such selfishness and ignorance of other objectives of human being is that self-interest maximization associates with the concept of rationality. This is well documented by Sen (1986 p.15) who argue that:

> the self-interest view of rationality involves *inter alia* a firm rejection of the ethics-related view of motivation. Trying to do one's best to achieve what one would like to achieve can be a part of rationality, and this can include the promotion of the non-self interested goals which we may value and wish to aim at. To see any departure form self-interest maximization as evidence of irrationality must imply a rejection of the role of ethics in actual decision making…

However, rational choice theory is questionable. This is because the theory assumes that (1) individuals are solely utility maximizers, neglecting the possibility of other goals, especially those concerns with ethical and altruistic values (2) individuals have fixed preferences, in spite of large evidence to the contrary, and (3) individuals can make decisions independent of their context and ignoring cultural, social and political environment. Thus, this rationality and self-interest are confusing when they are implemented in describing the real behaviour of individuals in organisations.

Langlois (1986) claims that although individuals are conceived as rational in a general sense, they are not assumed to be rational in the narrow sense of maximizing within a framework of known alternatives. Moreover, rational choice has difficulty in explaining expressive behaviour, collective action, weaknesses of will, and the motivational roles of identity, value, and ethics. Scapen (1994) also criticised argument underlying agency theory. He argues that agency theory is based on two basic assumptions of neo-classic economic: (1) the rational maximizing economic agent; and (2) the general equilibrium achieved by market forces. He claims that such assumptions are not enough to understand economic changes and analyse the economic transformation process in modern environment characterised by a number of political, social, and cultural factors.

Personal wealth and personal efforts are the only consequence of principal agency modelling. Keeney and Raiffa (1976) argue that the expected utility theorem is general in the sense that under certain uniformity conditions preferences may be defined over any number of consequences, which may be of any nature, like non-economic, personal consequence or any externality for society at large. Levinthal (1988: 154) also remarks that

> as with neoclassical theory more generally, agency theory can be criticized from a behavioural perspective for its narrow view of rationality and its assumptions regarding economic agent's cognitive abilities.

In addition, organisational action, as Levinthal (1988) believes, can be assessed in term of clarity of the desired outcomes and the degree of understanding of cause/effect relationship. Agency model of organizations is developed in a setting in which standards of desirability are precise and there is incomplete knowledge of cause/effect relationships. Thus, Levinthal (1988) argue that rational choice model of behaviour has made only tentative steps in terms of addressing ambiguity of preference, and agency models, in particular, unlikely talk about organizational decision making under these circumstances. Hodgson and Screpanti (1991) also criticised the use of rationality in principal-agent relationship. Firstly, human behaviour cannot be reduced on individual choice or decisions isolated individuals alone. Environment is part of consequences made by individual actions and individual is shaped by environment including their interaction with others.

Secondly, factors sustaining individual behaviour cannot be abridged on any a priori, abstract, general and historical hypotheses. There is no assumption of rationality that removes the need of knowledge that is properly discovered on the human behaviour in cultural and institutional context. For example in the case of efficient market hypotheses Jensen (1978: 96) says that:

> in the literature of finance, accounting, and the economics of uncertainty, the Efficient Market Hypothesis is accepted as a fact of life, and a scholar who purports to model behaviour in a manner which violates it faces a difficult task of justification.

However, Jensen's claims indicate weaknesses. Rational expectation never implies perfect foresight. This is confirmed by Kantor (1979: 1430) who argues that:

> ...It is however incorrect to assume that rational expectations regards errors in forecasts as insignificant or absent. The Implication of rational expectation is rather that forecast errors are not correlated with anything that could be profitably known when the forecast was made. Or, in other words, while markets may be wrong, they are not wrong without good reason.

Ignorance on environmental context is the fourth pitfall of agency theory. As agency theory describe principal-agent relationship on narrow basis according to certain assumptions of individuals, agency theory neglects the existence of environmental context. In fact, a major criticism of agency theory is that it typically ignores socially mediated rewards and system of ethics (Arrow 1985). Despite its generality, agency theory fails to capture many important aspect of behaviour within organizations. Arrow (1971) claims that when moral hazard arises, there is potentially general advantage that is not stimulated by narrow self-interest.

Methodology is the fifth deficiency of agency theory. It is widely known that theory is constructed under certain methodology. Ontologically, agency theory views agents in an inappropriate way, which is too cynical and simplistic far from the reality. According to Popper (1959; 1972), a good theory is that of being able to be falsified. Within Popper's falsification, it is obviously difficult to falsify agency theory. In fact, Walker (1989) argues that regardless of application area, most version of the principal-agent model will be hard to falsify because the validity of required auxiliary hypotheses of the model cannot be checked. Hence, Bohren (1998: 753) suggests that

> because of the lack of methodological discussion in the existing agency studies.... the descriptive validity of principal agent model should be explored in much more extensive way...principal agent model should be developed which do not presuppose that agents are indifferent between being honest and dishonest, and which allow for the possibility of that honesty make even if it does not increase your wealth or reduce your effort

The last limitation of agency theory is the notion that contract is a mechanism for solving the agency problem. In other words, a contract, in term of complex compensation package consisting of salary, performance bonuses, stock ownership, and pension plans, is seen as a medium to overcome the agency problem. However, the reality is not as simple as the agency theory claims. For example Levinthal (1988 : 155) argues that even though contract might be used to overcome agency conflict, "unlike state contingent contract, such compensation scheme only reward management on the basis of some indicator of the state, not the value on the state itself".

Moreover, in reality the compensation of manager has little to do with performance. Indeed, the steady increase in compensation is seen in the fact that managers are able to exert considerable control over the money they get and turned to unlawfully misrepresenting their firm's accounts in order to raise their private income (Frey & Benz 2003). Thus, it seems that pay for performance plans has led to a commitment to financial reporting fraud by making financial reporting attractive to produce short term increase in share prices (Johnson *et al.* 2003).

In addition, empirical evidences using the framework of agency theory have not produced convincing evidences that there is strong positive relationship between management compensation and firm performance (Murphy 1999; Tosi *et al.* 2000). Such a reality leads to conclusion that agency theory has obviously disregarded the possibility of managers to distort their own standard of performance and indeed as Becht *et al.* 2002 (quoted by Frey& Benz 2003: 47) believe "....much of agency theory....unrealistically assumes that earning and stock prices cannot be manipulated".

The above arguments should lead to a conclusion that although it might be true, as Eisenhardt (1989) claims, that agency theory contributes to organization theory, is testable, and has empirical supports, agency theory is not a complete theory. It suffers from fundamental weaknesses. Indeed, agency theory has been challenged by other theories and a number of scholars have raised questions regarding the ability of agency theory in explaining the dynamics of individual behaviours in organisations.

Eisenhardt (1989) also recognised such a weakness and recommended that when doing research using agency theory, this theory must be supported by complementary theories. She (p.72) believes that

> agency theory presents a partial view of the world that, although it is valid, also ignores a good bit of the complexity of organizations"(p.71), and ...organizational researchers should look beyond the economic literature (p.72)

To sum up, despite its popularity agency theory has some limitations. In relation to accounting research, it can be argued that the theory is unable to explain and to give full treatment of the crucial question why certain behaviour influences accounting practice.

Conclusion And Implication

This paper discusses that agency theory provides a formal framework for studying agency relationships, and has been seen as a powerful research paradigm in describing and explaining contractual relationships between principal and agent. Indeed, agency theory is considered as a popular theory. As a theory that is mainly used to justify studies on financial reporting, agency theory looks impressive and convincing in regard to its ability in explaining individual behaviour within the conflict and contract metaphor.

Nevertheless, agency theory is too abstract and based on unrealistic assumptions-that individuals are self-interest maximisers, that it ignores environmental and social contexts and that it cannot be methodologically falsified. It seems that agency theory is too mechanistic, which assumes that agent-principle relationship is only based on economic interests. Agency theory is unable to explain the dynamics of accounting practice that takes place in different social, cultural and political environment. Indeed, it is a theory without soul.

The above discussion implies that in conducting accounting research, a researcher should not rely solely on agency theory as a single theory. Agency theory should be complemented by other theories (Eisenhardt 1989). In other words, any accounting research should employ multiple theories. The reason is that accounting practice is a social science. To quote Harre and Secord (1972) and Hopwood (1974; 1983), as a social science it is almost impossible for a researcher to deeply understand behavior of those who produce accounting numbers using a single theory only. The use of multiple theories makes it possible to understand the dynamics of accounting practice and organisational phenomena (for review see Covalesky and Aiken 1986). For example agency theory seems to ignore power issues in explaining agent-principle relationhsip. Thus, to understand power issues, agency theory can be complemented by power-politics theories such as Hardy's (1996) power mobilisation theory.

The need for understanding organisational phenomena by employing multiple theories is also supported by Monks (1991: 15), who argues that

> ...what is needed...is re-examination and synthesis of the language, concept, and evidence of corporate governance research as contained in economics, finance, political science, laws and other disciplines. This kind of re-examination can create a new framework for understanding the concept of corporation and the power it exercises and for developing new theories about how to ensure that it is exercised responsibly.

In his research, Chariri (2006) showed an interesting evidence that the use of institutional theory, mobilisation theory and cultural theories are useful in understanding the dynamics of financial reporting practice. Consequently, researchers should employ new and better theories, which are currently ignored by some positive accounting researchers, especially Indonesian researchers.

It should be noted that new and better theories are possible only after a judicious evaluation of the extant paradigms. As accounting can be viewed from different paradigms, it is possible to see accounting practice as political process and a result of institutionalisation. Indeed, it is the actors and their cultural, social, and political relationship that determine accounting practice. Scapen (1994) says that "human beings are a cultural product and accordingly economic need anthropological and evolutionary dimension" (p. 307). Furthermore, Hodgson (1988) points out that

> "facts do not speak themselves,... the acquisition of knowledge about the world is not simply an individual but a social act'(p. 120)...Consequently, contents and objectives of individual self-interest are themselves socially constructed (p. 124).

The above argument implies that accounting is not only concerned with technical and economic issues that influence individual behavior. Rather, accounting practice is influenced by values, norms, and other institutional factors. Indeed, accounting is a socially constructed reality (Hines 1988). Thus, it is the political, social and cultural environment that shapes the dynamics of accounting practice. Such arguments lead to the notion that it is the institutions that forms cognitive process of actors' conduct and behaviours. Accordingly, researcher should take into account a number of theories, such as institutional theory, power/politic theory, actor network theory and other theories, which are relevant to research phenomena. In other words, researchers should not view agency theory as a perfect theory, the only theory applicable to accounting phenomena.

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