



Reducing Agency Problem Through Religious Values in Bhagavad Gita

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Abstract—This conceptual paper aims to provide a solution in reducing the agency problem through the implementation of religious values in Bhagavad Gita. The solution offered in this paper is cultivating religious values in the Bhagavad Gita, which includes: carrying out obligations by eliminating lust for the reward obtained, facing sorrow and joy with unanimous determination and eliminating ego. Implementation of these values will minimize the agency costs that may arise. Applying the religious values of the Bhagavad Gita can be a powerful step in reducing the agency problem. Furthermore, when one organization is able to implement it properly, it will become a role model for other organizations especially non-profit organizations. As far as the authors are concerned, there has been no published papers discussing how to reduce agency problem through religious values in Bhagavad Gita.

Keywords: agency problem; agency cost; bhagavad gita

I. INTRODUCTION

Agency theory predicts there is a strong conflict between the principals and the agents, which is then called the agency problem, which occurs in all organizations and cooperative businesses in that the principals (owners) take advantage of the agents (managers) for the purpose of delegating responsibility (Jensen & Meckling, 1976). Agency theory suggests that as long as the principal's goals and agent's goals are aligned, the agent will make decisions that maximize the principal's goals. However, when the goals of the principal and the goals of the agent conflict with each other and the agent has the opportunity to act in his own interest, the agency theory predicts the agent will make decisions that maximize their own personal interests over those of the principal (Jensen & Meckling, 1976; Booth & Schulz, 2004)

Past studies support the idea that agents tend to act in their own best interests when they will receive the incentives and have the

opportunity to do so. For example, agents have been shown to continue on failed projects to avoid negative reputation effects and exercise earnings management to achieve higher bonuses (Jensen & Meckling, 1976; Booth & Schulz, 2004; Beaudoin et al., 2015; Guggenmos & Agoglia, 2015). Limitations of the incentive program are explained in Enron (Heathcote & James, 2002) where incentives encourage senior executives to take risks when there will be management compensation or bonus schemes. Based on budgeted or accounting profit figures, they have an incentive to exercise "earnings management". The stock options included in executive compensation at Enron have been shown to encourage executives to manipulate short-term earnings while allowing the company to hide its true costs (White, 2002). There is a number of studies and papers on the topic of agency problems that has been conducted or written; however, when the amount of research and writing having been carried out and launched regarding the agency problem in relation religious values, as far as is known is still

relatively only a few. Several studies have examined solutions to reduce agency problems, such as conducting external audits, creating a strong ethical environment, providing remuneration in the form of bonuses, stock options, stock grants, and pensions (Jensen & Meckling, 1976; Booth & Schulz, 2004; Wolk et al., 2017; Mallin, 2019).

Based on previous research and writings, this conceptual paper aims to offer a solution to reduce agency problems through the application of religious values in the Bhagavad Gita. Bhagavad Gita is part of the epos Mahabharata which is known as one of the oldest and greatest epos written in poetry in Sanskrit which is also a brief summary of Hindu philosophy (Chandra & Ranjan, 2022). The Bhagavad Gita contains 700 *slokas* (verses) of Hindu scriptures which are components of the epos Mahabharata (Lamba et al., 2022).

This paper uses several *slokas* in the Bhagavad Gita which are felt to contain values that can be applied in an effort to reduce agency problems. These *slokas* are read, understood and searched for meanings and values that are relevant to efforts to reduce agency problems. A conceptual paper linked to a religious perspective, such as the Bhagavad Gita, which examines solutions to reduce agency problems plays a crucial role because the teachings of the Bhagavad Gita contain life values in carrying out responsibilities. The values contained in the Bhagavad Gita can then be used as a foundation in carrying out responsibilities as agents and principals in an effort to reduce agency problems. By raising the values contained in the verses of the Bhagavad Gita as a solution to reduce agency problems, it is hoped that agents carry out their obligations as management more earnestly, not solely for the purpose of fulfilling their own interests.

II. CONCEPT

Literature Review

Agency theory explicates the best way to manage relationships in that one party (principal) determines the duties to be done by another party (agent). Agency problems are created when a shareholder (principal) hire a manager (agent) to make the best decisions for the interests of the shareholder. This theoretical postulate puts forward that people are generally self-interested and therefore will lead to the emergence of a conflict of interest in any cooperative venture (Jensen, 1994).

Agency theory elucidates that there are two core agency problems – (1) adverse choice, where the principal is not sure whether the agent is doing their job properly or not, (2) moral hazard, where the principal is not sure whether the agent has done their job in their best interest. According to agency theory, information asymmetry occurs when management (agent) has a competitive advantage in information within the company compared to the owner (principal). This results in the principal's inability to control the actions expected from the agent. Information in an organization is plays an essential role; however, it is the management who best knows this important information so that the information can be manipulated by the management to maximize their own interests at the expense of the interests of the principal.

Jensen & Meckling (1976) puts forward that the principal can limit divergence from their interests by setting appropriate incentives for the agent and by incurring monitoring fees designed to limit the agent's aberrant activity. In addition, in some situations the principal will pay an agent to expend resources (costs) to guarantee that the agent will not take certain actions that will harm the principal or to ensure that the principal will be provided compensations if the agent takes such actions. Booth & Schulz (2004) stated that a strong ethical environment would be effective in reducing the tendency of managers to continue with abortive projects either in the presence or absence of agency problems. Their findings support this proposition that with a strong ethical environment it is found that agency problems can be significantly reduced. Their findings suggest that creating a strong ethical environment is a much needed control by any organizations in general.

Wolk et al. (2017) suggest that conflicts between owners and managers (agency problems) can be reduced through financial reporting. However, investors must have the willingness and the ability to decipher the information, and the financial report must be a fair and honest representation of management's accomplishments. In the agency model, the contract must provide incentives for the manager to achieve goal compatibility with the owner by making the manager a part owner of the business through the provision of stock bonuses such as stock options and stock grants (Henderson & Peirson, 2001; Gordon, 2002; Mallin, 2019). Hope et al. (2012) shed light on how agency conflicts in private companies arise through ownership structures and family

relationships. In particular, they analyzed the increase in auditor effort and the choice of corporate auditors in situations with higher levels of agency conflict. They found that to reduce agency problems, companies should respond by requesting that their financial statements be audited by high-quality auditors (e.g., Big four companies). By having an audit carried out by a high-quality company like the Big Four, of course it will trigger an increase in costs incurred. The authors concur with the solution if it is applied to companies going public; however, what about family companies, non-profit organizations, and the like? Therefore, the present study tries to offer a solution that is rarely applied that is through religious values.

Bhagavad Gita

Davis (2014) re-explained that the Bhagavad Gita was opened on the battlefield. At Kurushetra, two large armies led by Pandavas and Kauravas had gathered. Many rulers along with all the soldiers were involved, siding with one camp or the other. Leaders blew conch shells loudly, while drums and cymbals created a frenzied roar. In the battle area a flock of wolves and flocks of crows also gathered, waiting for a feast of human flesh. As the battle was about to begin, Arjuna the foremost warrior from the Pandava side asked his charioteer Krishna to place his vehicle in the center of the battlefield. He found the people lined up on the battlefield so enthusiastic to fight. Arjuna in a state of anxiety and despair dropped his bow and wanted to leave the battle. In this case, Arjuna fully surrendered as a disciple to Krishna to receive life lessons directly. In their conversation, Krishna revealed to Arjuna that he was the embodiment of God. Therefore, their conversation is known as the Bhagavad Gita; *Bhagavan* means God and *Gita* means singing. In the Bhagavad Gita there are many values of life from various aspects such as carrying out responsibilities, ethical dilemmas and others.

In this paper, the second conversation between Arjuna and Krishna regarding Samkha Yoga from several verses in the Bhagavad Gita is described, and the values contained in these verses are explored. In this description, several verses are quoted together with their translations by Pendit (1976). Firstly, the verses are quoted, followed by interpretation and drawing out the values contained in these verses, and ends by drawing conclusions about the values in the Bhagavad Gita which are linked to solutions in reducing the agency problem. The verses are as follows:

Verse 14: “*mātrāsparśās tu kaunteya śītoṣṇāskhaduhkhadāh āgamāpāyino ‘nityās tāms titikṣhasva bhārata’*”

(Contact with material objects – oh Arjuna gives rise to heat and cold, pleasure and pain and all that comes and goes, is impermanent, therefore bear it, O Kuntiputra).

It is explained that it is Arjuna’s responsibility as a knight who has the principles of war. Someone is encouraged not to deviate from the responsibilities that have been set. In this verse it is implied that in carrying out responsibilities, there will be many challenges such as joy and sorrow, in this case a person must learn to endure temporary sorrows and joys. The value contained in this verse represents that humans are obliged to carry out their duties, no matter what difficulties or pleasures arise. The difficulties and pleasures that arise are only temporary. In terms of their obligations as a principal and an agent, this verse explains that principals and agents carry out their respective duties and responsibilities as specified, not to deviate from what has been determined.

Verse 15: “*yam hi na vyathayanty ete puruṣham puruṣharṣhabha samaduhkhasukham dhīram so ‘mṛtatvāya kalpate’*”

(This unshakable person, O Arjuna, who remains in sorrow and joy, one who is steadfast in faith deserves eternal life).

This verse implies that if one is able to tolerate various kinds of difficulties, then the person deserves the path to spiritual enlightenment. While fulfilling his duty, Arjuna as a warrior found it very difficult to fight against his friends, family as well as the teacher he really loved. Arjuna was advised to be steadfast. It can be illustrated that in terms of carrying out responsibilities, one with determination will carry out their responsibilities through all the joys and sorrows that arise, then the person will achieve their goal. In the context of principal and agent, this verse suggests that when these two parties are faced with joy and sorrow; for example, when an agent is tempted to carry out earnings management for personal gain, the agent should not commit that act. If the agent is successful in resisting his/her urge to commit such deviant acts, no agency problems will arise.

Verse 33: “*atha cet tvam imam dharmyam saṅgrāmam na kariṣyasi tatah svadharmam kīrtim cha hitvā pāpam avāpsyasi’*”

(in the event you do not fight to uphold this truth but leave your obligations and honor, then sin will remain with you).

The latter shows that Arjuna as a warrior was famous for his ways of fighting many gods, including Lord Siva. Arjuna had received military honors from many rulers, including the king of heaven who was his adoptive father, the so-called Indra. However, as stated in this verse, when Arjuna left the war, he not only neglected his special duty as a warrior, but also lost his fame and walked the path leading to hell. This is associated with the agent and the principal; if they ignore their responsibilities, it means the same as they will lose their responsibilities. What are the consequences? This misconduct will bring destruction to companies and organizations, which will then bring about a negative impact on many people.

From the three verses in the Bhagavad Gita described above, the second conversation concerning Samkha Yoga explains that people who understand will not grieve at death or life, because humans must die. In war, only the physical body is certain to die but the soul will never die. The duty of a warrior is to fight for the truth, to gain victory and happiness and to fight in wars but not to commit sins. Loss of honor is worse than death. Concentrate on purity, act without expecting reward for work, surrender to God Almighty. Strengthen faith to meditate, get rid of evil passions, fear and anger, and face joy and sorrow with balance of soul.

Values contained in the second conversation regarding Samkha Yoga in the Bhagavad Gita can be associated with the relationship between the principal and the agent, that is to say, so that both parties carry out their assigned duties and obligations. In carrying out the duties and obligations that have been assigned to them, may each party keep away from lust for the reward that will be obtained, face all the joys and sorrows with determination and eliminate the orientation towards personal interests. When they only focus on their respective duties and obligations without being distracted by passions like personal interests, companies and organizations will be able to achieve their goals properly, and prosperity for many parties will be created.

III. METHOD

This paper is a conceptual paper. Gilson & Goldberg (2015) puts forward that a conceptual paper focuses on proposing new

associations between constructs; the goal is to develop logical and exhaustive arguments about these associations rather than test them empirically.

IV. RESULT & DISCUSSION

Agency Problem and Bhagavad Gita

Agency problem is no longer a rare problem. They frequently happen within the scope of companies and organizations. Agency problems involve governance in that if agency problems within a company are high, this indicates that the corporate governance is considered to be poor. Conversely, if the agency problem is low, the company tends to have good governance. Private companies tend to have higher agency problems because there is a misalignment between the goals of the principal goals and those of the agent. Several past studies and writings have explained that in order to reduce agency problems, several contracts can be applied, such as external audits, creating a strong ethical environment, remuneration in the form of bonuses, stock options, stock grants, and pensions (Jensen & Meckling, 1976; Booth & Schulz, 2004; Wolk et al., 2017; Mallin, 2019).

Both principal and agent have their respective duties and responsibilities. These are the choices of the individual themselves. Of course, this obligation has been predetermined, but agency problems still often occur, such as agents prioritizing their own interests by carrying out, for example, earnings management. In this case the agent has acted inconsistently with the portion of the duties and obligations that have been determined. Each company has different governance, because governance generally follows the circumstances and needs of the company itself. Hence, it needs to be seen from various perspectives with the aim of finding solutions that are of high potential to reduce the occurrence of agency problems, and one of them is what we focus on in this paper, from the perspective of the Bhagavad Gita.

Bhagavad Gita is one of the scriptures in Hinduism. It contains verses whose values can be adopted in an effort to reduce agency problems. In the literature review section, several verses used in this conceptual paper have been described, that is, the second conversation in the Bhagavad Gita, namely Samkha Yoga. It can be concluded that these values imply that everyone necessarily needs to carry out their obligations that have been determined. In carrying out their intended

obligations, everyone is expected to stay away from lust for the reward that will be obtained, face joy and sorrow with the balance of the soul when carrying out their obligations and eliminate the orientation towards their personal interests. These values have the potential to serve as a foundation for everyone in carrying out their obligations.

In the Bhagavad Gita it is explained that Arjuna was confused between having to fight his own relatives, teachers and friends or choosing to withdraw from the battle. In this case, Krisna convinced Arjuna not to worry because it was his duty as a warrior to fight for justice. Krisna explained to Arjuna that by carrying out his obligations even if he had to fight against his own relatives, teachers and friends, it was not a wrongdoing. In other words, Arjuna had got predetermined obligations, therefore he only needed to be responsible for the intended obligations. Next, in carrying out his obligations as a knight, Arjuna was expected to carry it out by adhering to values, such as avoiding lust for rewards to be obtained and facing joy and sorrow with balance of mind during carrying out his duties and obligations. In association with the relationship between a principal and an agent, of course these two parties also have certain circumstances that cause actions that should not be taken to happen, such as earnings management. It is possible that agents also experience doubts like Arjuna did.

Bhagavad Gita as a Solution

At the time one of the parties, for example the agent, is in a bad condition, say the agent gets a disaster which causes his or her economic situation to deteriorate while the agent in question has a family to provide for, the agent may start to worry about their economic situation. When worry comes, the agent chooses to take actions they ought not to take, such as earnings management. With earnings management, the agents will get incentives and other things that can help improve their economic situations. What will happen next? External and internal parties will also receive the impact, such as investment analysts may make mistakes in analyzing the condition of the company which results in investor losses. Based on the wording of verse 14, this is not justified. Even if the agent is in an alarming condition, this act is not justified. This verse can be a solution for agents by building better individuals by focusing on assigned tasks and obligations. When the agents have implemented this verse within themselves, whatever problems they may face,

they will not take any action that deviates from their duties and obligations. In addition, with the implementation of paragraph 15, the agency will face all challenges that may arise because they understand that such challenges are only temporary. They only need to face these challenges with unwavering determination because they have got duties and obligations that must be accounted for in order to achieve the goals and welfare of many parties. Furthermore, based on paragraph 33, when an agent commits an act that deviates from their duties and obligations, it means that the agent has neglected his duties and obligations which has caused destruction for many parties. Many parties are harmed by their actions, company goals cannot be achieved, personal interests may be fulfilled but this lasts only temporarily.

If an agent can instill the values contained in the three verses in the Bhagavad Gita - staying away from lust for the reward to be obtained, facing joy and sorrow with balance of soul and eliminating personal interests while carrying out their duties and obligations - then agency problems will be reduced and there is even the possibility for it to be removed. Implementing these values in agents and principals does not require large costs such as incentives, bonuses, high-quality audit fees such as the Big Four etc.

Apart from these solutions, of course there are challenges that must be faced by an individual in implementing these values in humans. Principals and agents need high awareness and patience to implement these values properly. Implementation of the values requires a process of self-development, but when they are truly implemented with unanimous determination there is nothing to worry about; all goals will be achieved.

Why Bhagavad Gita?

According to Eknath Easwaran: as the third classic work, the Bhagavad Gita is both an instruction and a guidebook. The Bhagavad Gita provides us with a systematic overview of life, shows the different approaches to the summit with their benefits and pitfalls, offers recommendations, and tells us what to pack and what to leave out. More than the others (Upanishads and Dhammapada), it carries the meaning of personal guidance. It asks and answers questions that an individual might ask – questions not about philosophy or mysticism but about how to live life effectively in a world full of challenges and changes.

Human life in the current developmental

era is very busy with busy work pressures, lots of violence, deviation from obligations to corruption. People are constantly working to earn more money in order to be able to support their families and children and to acquire the luxuries and things they want. In this competitive world, human beings lose themselves and their identity; they also forget their true purpose in life. In an era when spirituality is regularly on a universal scale and pragmatism reigns supreme, most individuals in this scenario are confused about the efficacy of teachings like the Bhagavad Gita. The greatest confusion that arises in the minds of the common man is whether it really applies to today's life or whether it is only meant for exclusive chants.

According to Mukherjee (2017), there are individuals who swore by experience that they had faced certain problems in their personal lives and then opened books to read them. They constantly find that they have turned to pages of the Bhagavad Gita which contain answers or solutions to certain questions or problems they face in their life. Such is the power of the Bhagavad Gita. The teachings mentioned in the Bhagavad Gita can be utilized to help us with a positive vision of life itself, starting from cultivating a different mindset spiritually and giving us guidance towards a quality and peaceful life. The interesting point about the Bhagavad Gita is that it does not advocate for its adherents to sacrifice anything in this material world. Furthermore, the book helps improve the values and ethics of an individual, shaping us to be better global citizens for the world and the universe. Reading the Bhagavad Gita on a regular basis and understanding its teachings and verses and living a daily life full of tension and worry while carrying out our duties and obligations can help us to remain calm and mentally stable until a peaceful life can be created.

V. CONCLUSION

This conceptual paper aims to offer solutions to reduce agency problems that occur from the perspective of the Bhagavad Gita. There are religious values that can potentially be used as a foundation for principals and agents in carrying out their duties and obligations. These religious values include eliminating the desire for rewards obtained in carrying out duties and responsibilities, facing joy and sorrow with a balance of mind when carrying out duties and obligations and eliminating the attitude of prioritizing personal

interests. The solution we offer in this conceptual paper in an effort to reduce agency problems from the perspective of the Bhagavad Gita is to apply these values. When principals and agents can apply these values within themselves, then agency problems can be minimized and in the context of the company, the costs incurred by the company can also be minimized. This can reduce agency costs, which in the past companies had to incur agency costs to reduce agency problems but by implementing the values contained in the Bhagavad Gita companies no longer have to incur large agency costs such as providing incentives, bonuses, high-quality audits, and so on.

Thus, we can see how the Bhagavad Gita with countless spiritual teachings and values becomes a universal teaching and is not limited to the Hindu context. The Bhagavad Gita provides a framework of universal rules, which govern all phenomena.

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