A CRITICAL ISLAMIC PERSPECTIVE TOWARDS AGENCY THEORY

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Abstract
Agency theory is the value of the economic system of capitalism. The purpose of this paper is to examine and criticize agency theory based on an Islamic perspective. Islamic perspective is considered very important developments. An overview of these different theories, along with principal-agent agency theory. By following these criticisms, then, emerging theories and alternative perspectives that need discussion. That is the perspective of Islam is considered very important development. The results of the study show that agent contract principles in an Islamic perspective are based on the ASIFAT concept, namely: Akhidah (obedience to Allah Ta'ala), Shiddiq (true), Fathanah (intelligent), Amanah (honour/trustworthy) and Tabligh (communicative). Contract between principal and agent in an Islamic perspective are based on amanah contracts and give each other noble character in carrying out these amanah.

Keywords: Agency theory, ASIFAT, amanah, contract

1. INTRODUCTION
Agency theory has a long history and has again become a major work since it is based on formative economics-based works of Spence and Zeckhauser (1971), Ross (1973) and Jensen and Meckling (1976). Since these early works in the field of economics were published, scholars have studied theoretically for various mechanisms in explaining market failures implied in the earliest agent conceptions (Berle& Means, 1932/2009; Smith, 1776/1952). Scholars also look for principal-agent problems as well as an important instrument from the view of incomplete contracts of companies developed by Jensen and Meckling, 1976, Fama, 1980, Fama and Jensen, 1983a, 1983b, Mahoney, 2005, Agarwal, et.al. 2014. The theory was taken up by researchers in finance and management by Kallmuenzer, 2015, Yusof, 2016, Kultys, 2016, Zongning, 2017 and Kumalasari and Sudarma, (2018).

Agency theory is one of the dominant theories of organizations and management due to its specific focus on the relationship between principal and agent (Dalmacio and Nossa, 2004; Zongning, 2017 and Payne and Petrenko, 2019). The agency theory aims to globally explain organizational behaviours by putting an emphasis on the relationship between the manager as the company’s “agent”, and the shareholder as the “principal” (Zongning, 2017). Jensen &Meckling (1976) states that agency relations arise when one or more principals pay agents to act on their behalf, delegating the power to make decisions to him. In the context of financial management,
this relationship arises between stakeholders and managers and between shareholders and bondholders. There are a number of limitations of agency theory (Agarwal et.al. 2014; Shleifer and Vishny 1997; Daily et al. 2003). Agency theory assumes complete contracts (eg contracts that serve all the possibilities that might occur such as inconvenience, conflict, unforeseen circumstances, disputes, etc.). Bound rationality does not allow for a complete and efficient contract. Information asymmetry, transaction costs, and selfishness are possible conditions that cannot be addressed in a contract. Agency theory assumes that contracts can eliminate agency costs but in reality arise agency costs. The many imperfections in the market indicate that this assumption is invalid. Shareholders are assumed to only be interested in financial performance. Directors and management are assumed to have job responsibilities from shareholders. The board has a number of roles in making company policy. Most corporate governance research is conceptualized as a deterrent to managerial interests. Agency theory does not value agent competence. Agency theory is the value of the economic system of capitalism (Zongning, 2017) because it eliminates the sense of human values such as: taste, intuition, spiritual, mutual trust, mutual respect, mutual trust and honesty. The context of agency theory including aim to be selfish, either by the principal or agent. Management behavior tends to benefit directors as controlling, this is because directors are part of management, and managers have been appointed and recruited by directors. From the explanation above shows that the agency theory there are many problems that conflict with Islamic economics based on the Qur'an and Hadith. While criticism of the agency theory has been done by several studies such as Yusof (2016), Kultys (2016), Zongning (2017) and Kumalasari and Sudarma (2018) criticizing problems that occur between principals and agents. While there has been no research criticizing the agency theory based on the Islamic perspective. This is what drives us to study and criticize agency theory based on an Islamic perspective.

2. METHODOLOGY

In this study, we use secondary data as a source to find explanations of theoretical information that can be useful in discussing agency theory from an Islamic perspective. Secondary data obtained by reading the literature of Islamic sharia studies such as the Quran, hadith and fiqh. after studying and understanding Islamic studies in depth will result in discussion of agency theory criticism based on to Islamic perspective. Literature based on Islamic studies by studying at Islamic rules regarding agency theory so that a correct discussion can be taken about agency theory.
3. RESULTS AND ANALYSIS

Figure 1: Agency theory Islamic perspective

Based on table 1 above, Islamic Sharia as a guideline for Principals and Agents so that all actions and policies of principals and agents must be based on Islamic Sharia. The agent contract principles in an Islamic perspective are based on the ASIFAT concept, namely: Akhidah (obedience to Allah Ta'ala), Shiddiq (true), Fathanah (intelligent), Amanah (honest/trustworthy) and Tabligh (communicative). The principles of the contract are as follows:

a. Akhidah

Akhidah is a tool for Muslims to maintain their behavior in principal and agent contracts. Obeying Allah Ta'ala will always guard his actions from things that are forbidden by sharia. This Akhidah appears in two main principles, namely:
1. Allah Ta'ala is the owner of the world and all of its contents and only Allah Ta'ala governs everything according to what He wants. In the work, humans are the holder of the trust entrusted by Allah Ta'ala for work that is actually wholly owned by Allah Ta'ala.
2. Allah is the creator of all living things and all creatures only pray and obey all commands to Allah Ta'ala.

b. Shidiq

Principals and agents must have the characteristics of shidiq who can be trusted and responsible. By the nature of shidiq the principal contract and the agent will be responsible for everything he does. Responsible for always protecting human rights and the rights of Allah Ta'ala by not forgetting obligations as social people. Responsibility in Islam has a fundamentalist aspect, namely, first the status of the human khalifah is united with responsibility. a good khalifah always performs good deeds between the principal and the agent. Second, the responsibility of a khalifah is done voluntarily without coercion. If this concept is carried out in principle and agent contracts, then the workings are carried out in ways that are correct, fair and honest. The application of this behavior will not bring harm to the other party because the contract between principal and agent performs the morals according to Islamic sharia to always help and respect others.
c. Fathanah

Fathanah is an intelligence that includes intellectual, emotional and spiritual intelligence possessed by the principal and agent. Someone who has a fathanah attitude not only controls the field, but has a strong determination. Decisions made by principals and agents show a professional based on moral attitudes such as the character of the Prophet Muhammad Rasulullah Shallallahu ‘alaihiwasallam. Principals and agents who are fathanah are not only intelligent, but also have wisdom in thinking and acting. In addition, the nature of fathanah makes himself an example because of his expertise and personality that is able to foster a comfortable and harmonious situation.

d. Amanah (honest/trustworthy)

Honest is the similarity between the news delivered with the facts in the principal contract and honest agent is the most important value in the employment contract. This honesty is one of the reasons for making contracts that are carried out in accordance with Islamic sharia, which is the most fundamental of all relationships between principals and agents.

e. Tabligh

One of the roles of the tabligh attitude which is the character of the morality of the Messenger of Allah is to convey the truth through good character. Principal and agent contracts really require tabligh attitude to convey complete and honest information between the principal and agent.

Table 1: Schematic of agency theory Vs Islamic perspective

<table>
<thead>
<tr>
<th>Theory element</th>
<th>Agency Theory</th>
<th>Islamic Perspective</th>
</tr>
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<tbody>
<tr>
<td>Key idea</td>
<td>Principal-agent relationships should reflect efficient organization of information and risk-bearing costs</td>
<td>Principal- agents carry out the amanah to advance the company</td>
</tr>
<tr>
<td>Unit of analysis</td>
<td>Contract between principal and agent</td>
<td>Contract of cooperation between principal and agent</td>
</tr>
<tr>
<td>Human assumptions</td>
<td>Self interest, Bounded rationality, Risk aversion</td>
<td>help each other, keep the amanah and honest</td>
</tr>
<tr>
<td>Organizational assumptions</td>
<td>Partial goal conflict among participants, Efficiency as the effectiveness criterion, Information asymmetry between principal and agent</td>
<td>There is no organizational problem because the organization is based on the principle of amanah between the principal and agent</td>
</tr>
<tr>
<td>Information Assumption</td>
<td>Information as a purchasable commodity</td>
<td>Information to communicate, no as a purchasable commodity</td>
</tr>
<tr>
<td>Contracting problem</td>
<td>Agency (moral hazard and adverse selection), Risk sharing</td>
<td>There is no contracting problem because the agent is honest and amanah</td>
</tr>
<tr>
<td>Problem domain</td>
<td>Relationships in which the principal and agent have partly differing goals and risk preferences (e.g. compensation, regulation, leadership, impression management, whistleblowing, vertical integration, transfer pricing)</td>
<td>No problem domain because Allah Almighty supervised and guided by the Quran and Hadith</td>
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</table>
Schematic of Agency Theory above shows that there is a difference between agency theory and Islamic perspectives, especially the principal contract with the agent based on the trust contract and give good morals in carrying out the *amanah*. In the Islamic perspective they have to carry out the *amanah* in earnest and sincere to get the blessing of *Allah Ta'alaa* Almighty. Violating the *amanah* is an act that is moving towards treason and such a thing is a prohibited act of *Allah Ta'alaa*.

The verses that relate to the *amanah* is as follows:

1. ***Allah Ta'alaa* Almighty tells us to deliver the *amanah***
   - The first verse about the *amanah* is found in the word of *Allah Ta'alain* the letter *annisa* verse 58:
     
     ۞ إِنَّ ٱللَّهَ يَأْمُرُكُمْ أَن تُؤَدُّوا۟ ٱلَْْمََٰنََٰتِ إِلَىَٰٓ أَهْلِهَا وَإِذَا حَكَمْتُم بَيْنَ ٱلنَّاسِ أَن تَحْكُمُوا۟ بِٱلْعَدْلِ ۚ إِنَّ ٱللَََّّ نِعِمَّا يَعِظُكُم بِهِۦٰٓ ۗ إِنَّ ٱللَََّ كَانَ سَمِيعًۢا

   Lo! Allah commandant you that ye restore deposits to their owners, and, if ye judge between mankind, that ye judge justly. Lo! comely is this which Allah admonisheth you. Lo! Allah is ever Hearer, Seer.

   Ibn uKathir said in the interpretation of this verse, "Allah Ta'ala preached that He commanded to carry out the *amanah* to the experts. In the hasan hadeeth of Samurah that the Prophet *Muhammad Rasulullah* Shallallahu 'alaihiwasallam said.

   أَد ِّاْلأَمَانَةَ إِِّلَىِّ مََٰنََٰتِ ائْتَمَكَ وَلاَ تَخُنْ مََٰنََٰتِهِمْ وَعَهْدِهِمْ رََٰعُونَ

   "Convey the mandate to those who give the *amanah* to you, and do not betray those who betray you" (Narrated by Imam Ahmad and Ahlussunan).

   This includes all forms of *amanah* that are *amanah* for humans starting from the rights of *Allah Ta'alaa* on His servants such as: prayer, *zakat*, fasting, kaffarat, vows and so forth. Where he is mandated and no servant knows about it, to the rights of his fellow servants, such as: entrusted goods and so forth from what they are safe without knowing the existence of evidence of that. So *Allah Ta'alaa* commands to fulfill it, whoever does not fulfill it in the world is taken from him on the Day of Judgment."

2. ***Allah Ta'alaa* asks us to maintain the *amanah***
   The second verse about the mandate is found in surah al-believer verse 8 and surah al-ma' arij verse 32:

   Al-Mu’minun verse 8

   وَلَذَٰلِكَ يُهْيَٰئُكُمْ لِأَمْلَٰكِكُمْ وَعَهْدِهِمْ رَغُونَ

   And who are shepherds of their pledge and their covenant
Ibnu Kathir said, "That is, if they are given the trust they do not betray, and if they promise not to be absent, these are the qualities of the believer and his opponents are the characteristics of the hypocrite, as stated in the authentic hadith.

أيَةُ الْمُنَافِّقِّ ثَلاَثُ إِذَا حَدَّثَ كَذَبَ، وَإِذَا وَعَدَ أَخْلَفَ، وَإِذَا اؤْتُمِّنَ خَانَ أَيَةُ الْمُتَّنَافِقِينَ ثَلاَثُ

"There are three hypocritical signs: when speaking of lies, if he promises to be turned away and if given the message he betrayed".

And those who keep their pledges and their covenant

3. Allah Taa'la explains the mandate that we must carry while in the world

The third verse about the amanah is contained in surah al-ahzab verse 72:

إِنَّا عَرَضْنَا ٱلَْْمَانَةَ عَلَى ٱلسَّمَوَاتِ وَٱلْأَرْضِ وَٱلْجِبَالِ فَأَبَيْنَ أَن يَحْمِلُنَّهَا وَأَشْفَقْنَ مِنْهَا وَحَمَلَهَا ٱلِْْنسََٰٓۡۚ إِنَّهُۥ كَٰتِبٌ عَرِضَٰ لَّٰهُ

Lo! We offered the trust unto the heavens and the earth and the hills, but they shrank from bearing it and were afraid of it. And man assumed it. Lo! he hath proved a tyrant and a fool.

Ibnu Kathir said after stating his opinions about the interpretation of the amanah, including obedience, obligation, din (religion), and the laws of had, he said, "And all these opinions are not in conflict with each other, in fact they are appropriate and return to one meaning, namely at-taklif and accept orders and prohibitions on their terms. And if you do it he gets reward, if you leave him punished, then humans accept it with weakness, ignorance, and tyranny except those who are given taufik by Allah Taa'la, and only to Allah where to ask for help ".

4. Allah Taa'la talks about us who betrayed the trust

There is the word of Quran surah al-Anfal verse 27:

يَا أَيُّهَا ٱلَّذِينَ آمَنُوا لَ تَخُونُوا اللَّهَ وَٱلرَّسُولَ وَتَخُونُوا أَمَانَاتِكُمْ وَأَنْتُمْ تَعْلَمُونَ

O ye who believe! Betray not Allah and His messenger, nor knowingly betray your trusts.

Ibnu Kathir said, "And betrayal includes the sins of small and large which are prevalent (which are not related to others) and muta' addi (which are related to others). Said Ali ibn Abi Talha from Ibn Abbas regarding the interpretation of this verse, "And you betrayed your messages". The amanah is the deeds amanah by Allah to His servants, namely faridhah (which is obligatory), Allah says: "Do not betray you" means: do not destroy it ". And in another narration
he said, "(Do not you betray Allah and the Prophet) Ibnu Abbas said," (Namely) by leaving his sunnah and acting on him ".

While assumptions are needed for theories to be stingy and logical, they tend to be the main source for criticism among scholars and can potentially explain mixed empirical findings (Bosse&Phillips, 2016). By following these criticisms, then, emerging theories and alternative perspectives that need discussion. That is the perspective of Islam is considered a very important development. An overview of the different theories, along with an agent-principal agency theory is provided in Table 3.

<table>
<thead>
<tr>
<th>Theoretical Foundations</th>
<th>Principal-Agent Agency Theory</th>
<th>Islamic perspective</th>
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<tbody>
<tr>
<td>Theoretical Orientation</td>
<td>Alignment of interests of agents and principals</td>
<td>Role assignment Agent and principal</td>
</tr>
<tr>
<td>Unit of Analysis</td>
<td>Agent–Principal</td>
<td>Agent–Principal</td>
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<tr>
<td>Model of Man Behavior</td>
<td>Rational</td>
<td>Following the nature and character of the Prophet Muhammad Rasulullah Shallallahu ‘alaihiwasallam</td>
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<td>Agent Motivation</td>
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<td>Identification</td>
<td>Low-value commitment</td>
<td>High commitment</td>
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<td>Power</td>
<td>Institutional</td>
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<tr>
<td>Key Mechanisms</td>
<td>Monitoring and incentive-based contracts</td>
<td>Autonomy and amanah-based contracts</td>
</tr>
</tbody>
</table>

3.1 Conclusion
Agency theory is the value of the economic system of capitalism because it removes the values of human taste such as: taste, intuition, spiritual, mutual help, mutual respect, mutual trust and honesty. The agency theory context includes aiming to be selfish, both by principals and agents. The purpose of this paper is to examine and criticize agency theory based on an Islamic perspective. Following these various criticisms, then, alternative theories and perspectives have emerged that warrant discussion. Namely Islamic perspective is considered very important developments. An overview of these different theories, along with principal-agent agency theory. Schematic of Agency Theory shows that there is a difference between agency theory and Islamic perspectives, especially the principal contract with the agent based on the trust contract and give good morals in carrying out the amanah. In the Islamic perspective they have to carry out the amanah in earnest and sincere to get the blessing of Allah Ta’laAlmighty. Violating the amanah is an act that is moving towards treason and such a thing is a prohibited act of Allah Ta’la. Breaking the amanah is an act that leads to treason and this is an act of sin that is prohibited by Allah Ta’la.
REFERENCES


