

# Extending Agency Theory toward Conscious Agency in Sustainable Accounting and Reporting

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Theory toward  
Conscious Agency*

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## **ABSTRACT**

*The increasing demands for sustainable accounting and sustainability reporting challenge the relevance of classical agency theory, which views agents primarily as rational and opportunistic economic actors. In practice, sustainability disclosure involves ethical, social, and environmental dimensions that transcend the traditional contractual relationship between principals and agents. This study aims to explore the limitations of classical agency theory in explaining sustainable accounting practices and to propose conceptual extensions that are more aligned with sustainability accountability. This study uses a critical conceptual literature review approach to previous studies on agency theory, corporate governance, and sustainability accounting. The results of the study show that classical agency theory still has limitations in explaining multi-stakeholder accountability, long-term orientation, and ethical considerations in sustainability reporting. As a conceptual contribution, this study proposes a conscious agency framework that positions agents as ethically and ecologically responsible actors and broadens the meaning of principals to include a wider range of stakeholders. This framework has implications for the development of sustainability accounting, governance mechanisms, and future empirical research agendas, particularly in the context of developing countries such as Indonesia.*

**Keywords:** Agency Theory, Corporate Governance, Multi-Stakeholder Accountability, Sustainability Accounting, Sustainability Reporting.

## **ABSTRAK**

*Meningkatnya tuntutan terhadap akuntansi berkelanjutan dan pelaporan keberlanjutan menantang relevansi teori keagenan klasik, yang memandang agen terutama sebagai aktor ekonomi rasional dan oportunistik. Dalam praktiknya, pengungkapan keberlanjutan mencakup dimensi etis, sosial, dan lingkungan yang melampaui hubungan kontraktual tradisional antara prinsipal dan agen. Penelitian ini bertujuan untuk mengeksplorasi keterbatasan teori keagenan klasik dalam menjelaskan praktik akuntansi berkelanjutan serta mengusulkan perluasan konseptual yang lebih selaras dengan akuntabilitas keberlanjutan. Penelitian ini menggunakan pendekatan tinjauan literatur konseptual kritis terhadap studi-studi sebelumnya mengenai teori keagenan, tata kelola perusahaan, dan akuntansi keberlanjutan. Hasil penelitian menunjukkan bahwa teori keagenan klasik masih memiliki keterbatasan dalam menjelaskan akuntabilitas multi-pemangku kepentingan, orientasi jangka panjang, serta pertimbangan etis dalam pelaporan keberlanjutan.*

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*Sebagai kontribusi konseptual, penelitian ini mengusulkan kerangka conscious agency yang memposisikan agen sebagai aktor yang bertanggung jawab secara etis dan ekologis serta memperluas makna prinsipal untuk mencakup spektrum pemangku kepentingan yang lebih luas. Kerangka ini memiliki implikasi bagi pengembangan akuntansi keberlanjutan, mekanisme tata kelola, dan agenda penelitian empiris di masa depan, khususnya dalam konteks negara berkembang seperti Indonesia.*

**Kata kunci:** Teori Keagenan, Tata Kelola Perusahaan, Akuntabilitas Multi-Pemangku Kepentingan, Akuntansi Keberlanjutan, Pelaporan Keberlanjutan.

## INTRODUCTION

The Agency Theory, proposed by Jensen and Meckling (1976), has become the main foundation in the study of modern corporate governance, where Accounting science plays a significant role in enforcing governance in terms of behavioral accounting. The basic assumption of this theory is the existence of a conflict of interest between principals (owners) and agents (managers). This theory emphasizes the importance of control mechanisms and incentives to minimize agency costs and ensure alignment of interests. However, along the way, this theory has been criticized for being too narrow, short-term oriented, and too focused on shareholders alone, ignoring the complexity of social, environmental, and ethical relations that are increasingly pressing in the era of sustainability.

In the midst of globalization and the ecological crisis, a new paradigm has emerged that requires companies to act not only for economic profit, but also for social and environmental sustainability (Qamar, 2022; Dwiharto et al., 2023). The sustainability agenda, including frameworks such as Environmental, Social, and Governance (ESG) and the Sustainable Development Goals (SDGs). These frameworks are increasingly driving a redefinition of corporate responsibility and the relationship between its actors (Li et al., 2021; Kwarto, 2024). In this context, a big question arises: Is agency theory still relevant to answer the challenges of the times? Or does it need to be reconstructed to be more adaptive to sustainability values?

From an agency theory perspective, sustainability reporting and corporate transparency act as mechanisms to reduce information asymmetry between managers (agents) and shareholders (principals), especially in environmentally and socially sensitive industries (Butar & Itan, 2025). Studies show that institutional ownership, mandatory disclosure, and CSR initiatives encourage managers to align their actions not only with financial objectives but also with social and environmental responsibilities, effectively reducing agency costs (Masruddin et al., 2025). This demonstrates that classical agency theory, while traditionally focused on contractual efficiency and shareholder profit, can be extended to encompass broader stakeholder interests, including ecological and ethical considerations (Shavila & Purwanto, 2025). By integrating these dimensions, the theory becomes more adaptive to contemporary corporate governance challenges, highlighting the relevance of reinterpreting Jensen & Meckling's framework in the era of sustainability (Damayanti & Sujana, 2024).

This study aims to explore the conceptual limitations of classical agency theory in explaining sustainability accounting practices and to propose a conceptual extension that aligns agency relationships with sustainability-oriented accountability. The phenomenon of sustainability has significantly changed the landscape of corporate governance, and accounting standards have also provided many guidelines related to governance that must be implemented. Some companies have made it mandatory to implement these guidelines (Mhlanga & Ndhlovu, 2023). This necessitates a reinterpretation of classical management theories, including agency theory. Originally designed to address the efficiency of contractual relationships between principals and agents, this theory now faces new complexities involving social, environmental, and ethical dimensions. This situation

raises questions about the relevance of classical agency theory in explaining accounting practices oriented towards sustainability and corporate governance.

This research aims to deeply and reflectively understand how Agency Theory, as a conceptual construct born from the economic efficiency paradigm, interacts and is tested in the context of sustainability. This research seeks not only to explain, but also to interpret and provoke rethinking through a critical-narrative approach. Specifically, it aims to reinterpret the relevance and limitations of agency theory in the face of sustainability demands. Critically explore the encounter between the classical agency paradigm and the sustainability discourse through an imaginary narrative approach. Formulate an alternative conceptual framework that facilitates the amalgamation of commercial objectives with socio-environmental obligations as well as contributing to the development of corporate governance theory and practice that is more adaptive and contextual in the era of sustainability.

## **LITERATURE REVIEW**

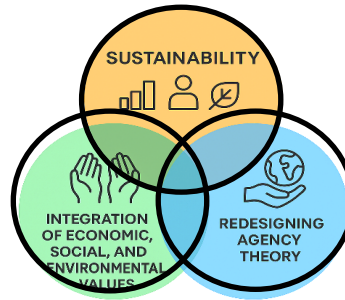
### **Agency Theory**

The agency theory starts from the assumption that humans are opportunistic and rational, so contractual mechanisms and incentives are needed to align the interests of principals and agents (Jensen & Meckling, 1976, 2019; Onjewu et al., 2023). This theory is a principle used in an attempt to explain the complex relationship that exists between business owners and managers (Moloi & Marwala, 2020). The main focus is on efficiency and control. Despite its widespread influence, agency theory is not free from criticism. Some of the main criticisms are directed at the anthropocentric and economic assumptions that are too narrow (Gwala & Mashau, 2023). Agents in this theory are considered solely as rational actors who pursue individual economic interests (Claassen & Herzog, 2021; Yun et al., 2022; Mazzucato, 2024; Gagné & Hewett, 2025). This perspective is considered to ignore the moral, psychological, and social dimensions that influence organizational behavior (Roszkowska & Melé, 2021).

In addition, agency theory is considered insensitive to cultural contexts and local values. In non-Western societies, the relationship between principal and agent is often not purely individualistic and contractual but involves collective values, solidarity, and cultural norms such as mutual cooperation (Minkov & Kaasa, 2021, 2022). The main tension lies in the short-term, shareholder-oriented focus of agency theory (Wiersema et al., 2025). Sustainability demands a long-term perspective and multi-stakeholder interests. The tension in agency theory over sustainability reflects the limitations of traditional approaches in addressing the complexity and social responsibility of modern corporations. To resolve these tensions, a holistic approach is needed, such as the integration of stakeholder theory, changes in incentives, and increased accountability (Delbufalo, 2018; Cao et al., 2024; Marano et al., 2024).

### **Sustainability Paradigm**

The sustainability paradigm emphasizes the integration of economic, social, and environmental values, known as the triple bottom line (Aktaş & Demirel, 2021; Wulandari & Utami, 2021; Tjahjono, 2024). This approach encourages companies to be responsible, including in their financial reports and sustainability reports, holistically toward their stakeholders. The climate crisis, social inequality, and environmental degradation demand a rethinking of economic and organizational foundations. In this context, agency theory is considered inadequate because it is unable to answer the needs of long-term sustainability (Kwarto et al., 2024). Agency cost theory lacks predictive ability and is too flexible in explaining various phenomena without providing clear practical guidance (Tingle, 2024). Agency frameworks tend to be oriented towards short-term efficiency and shareholder value rather than ecological accountability or intergenerational well-being (Correa et al., 2023).



**Figure 1.** Integration of Agency Theory in Sustainability

In the era of sustainability, there are calls to redesign agency theory to include dimensions of ecological ethics, social equality, and intergenerational responsibility (Figure 1). This requires expanding the definition of principal to include not only investors but also society and the environment, and redefining the role of agents as ecological stewards (Baker et al., 2023; Kwarto et al., 2023). By incorporating these broader stakeholders, decision-making processes can better account for the long-term impact of corporate actions on natural and social systems. Moreover, this shift encourages agents to prioritize sustainable practices, balancing short-term financial performance with the ethical obligation to preserve environmental and social well-being for future generations.

## RESEARCH METHODS

This study employs a critical conceptual literature review approach to reconstruct agency theory within the context of sustainability accounting. This method is particularly suitable for the research objective, as it focuses on synthesizing, critiquing, and extending existing theoretical frameworks rather than generating new empirical data or testing hypotheses. By critically examining and integrating insights from prior studies, the approach enables the identification of conceptual limitations in classical agency theory and the development of a proposed extension in the form of a conscious agency framework.

The data for this study consist of relevant scientific literature drawn from peer-reviewed journals, both national and international, as well as selected book chapters and scholarly publications. Literature was purposively selected based on explicit criteria to ensure relevance and quality: (1) direct engagement with agency theory, particularly its core assumptions and applications in corporate governance; (2) explicit discussion of the intersection between agency theory and sustainability, corporate social responsibility, environmental accounting, or related concepts; (3) publication in peer-reviewed outlets between 2020 and 2025 to capture contemporary debates while including foundational works; and (4) contribution to conceptual or theoretical advancement rather than purely descriptive or narrowly empirical findings. Sources were accessed through academic databases such as Scopus, Web of Science, Google Scholar, and relevant Indonesian journal portals to ensure a balanced representation of global and contextual perspectives.

The analysis process followed a thematic synthesis methodology, adapted from established approaches in conceptual reviews. It began with an iterative close reading of the selected texts to identify recurring concepts, assumptions, critiques, and proposed extensions related to agency theory and sustainability. Initial open coding captured key themes such as opportunism, shareholder primacy, short-termism, ethical agency, multi-stakeholder accountability, and ecological responsibility. These codes were then grouped into higher-order themes through constant comparison and refinement. Particular attention was given to tensions between classical assumptions and sustainability demands, leading to the iterative development of the conscious agency framework. This synthesis was not merely aggregative but critically interpretive, aiming to bridge gaps, resolve contradictions, and propose a reconstructed conceptual model that better accommodates ethical, ecological, and long-term orientations in accounting and governance practices. Throughout the process, reflexivity was maintained by

continuously questioning the dominance of economic assumptions in agency theory and considering alternative paradigms from stakeholder theory, stewardship theory, and critical accounting literature. The resulting framework emerged as a logical extension that ipreserves the explanatory power of agency theory while addressing its identified limitations in the era of sustainability accountability.

## RESULTS

### Reconstruction of Agency Theory from an Accounting Perspective

The classical agency theory developed by Jensen and Meckling (1976) positions the relationship between principals and agents as an economic relationship fraught with potential conflicts of interest. Agents are assumed to be rational and opportunistic actors, so that accounting functions primarily as a control mechanism through contracts, incentives, and supervision to minimize agency costs (Shleifer & Vishny, 1997; Eisenhardt, 1989). However, the development of sustainability issues shows the limitations of these assumptions. The literature on governance and sustainability accounting emphasizes that managerial decisions are not solely determined by short-term economic incentives, but also by moral values, professional norms, and social and environmental responsibilities (Ghoshal, 2005; Delbufalo, 2018; Barbier & Burgess, 2021a). In this context, the function of accounting is no longer sufficiently understood as a contractual tool, but rather as a means of broader accountability.

This study explicitly positions conscious agency as an internal reconstruction of agency theory, not as a rejection of classical agency theory or a replacement for stakeholder theory. This reconstruction is carried out by revising the behavior assumptions of agents from opportunistic economic actors to agents with ethical and ecological awareness. Thus, agency conflicts are not eliminated but understood within a more comprehensive framework of sustainability accountability (Ghoshal, 2005; Delbufalo, 2018). Within the conscious agency framework, accounting is reconstructed from a mere contractual control mechanism into a conscious accountability system that aims to communicate economic, social, and environmental performance to an expanded principal. This expansion of the meaning of principal is in line with the view that companies are part of interconnected social and ecological systems, so that organizational accountability cannot be limited to shareholders alone (Barbier & Burgess, 2021a; Correa et al., 2023).

**Table 1.** Reconstruction of Agency Theory from a Sustainability Accounting Perspective

Elements	Classical Agency Theory	Conscious Agency (Reconstruction)
Agent Assumptions	Rational And Opportunistic (Jensen & Meckling, 1976)	Ethical And Ecological Agency (Ghoshal, 2005)
Accounting Objectives	Alignment Of Economic Interests	Sustainability Accountability
Measurement Focus	Financial Performance	Economic, Social, And Environmental Performance
Principal	Shareholders	Broad Stakeholders
Mechanism	Contracts And Incentives	Transparency, Trust, And Disclosure
Time Orientation	Short Term	Long Term

Table 1 shows a conceptual comparison between classical agency theory and the conscious agency framework in the context of sustainability accounting. In accounting literature, classical agency theory is described as a contractual relationship that focuses on conflicts of interest between principals and agents due to information asymmetry and differences in the objectives of each party (e.g., in financial statement control and agency cost mitigation), which are primarily related to monitoring and economic incentives (Hendrastuti & Harahap, 2023).

Reconstruction presented within the framework of conscious agency revisits assumptions about agent behavior so that agents are not only understood as opportunistic rational actors, but also as parties oriented towards social and environmental

responsibility. This is in line with Onesta et al. (2025), which highlights the expansion of the role of accounting in the context of sustainability, such as the role of environmental accounting (green accounting) and sustainability reporting that demands greater transparency and accountability to various stakeholders.

This change in agency assumptions has direct implications for the objectives and functions of accounting. While classical agency theory tends to position accounting as a tool for aligning managerial behavior with shareholder interests as measured by financial performance, the conscious agency framework expands the function of accounting to become an accountability system that also integrates social and environmental performance (sustainability accountability) as part of the disclosure of information relevant to a wider range of stakeholders (Dewi et al., 2022).

Furthermore, the shift in meaning of the principal within the framework of conscious agency reflects changes in the landscape of corporate accountability, where a company's value is measured not only by its economic results, but also by its contribution to social and environmental goals achieved through more comprehensive sustainability reporting practices (Ardiana, 2022). Thus, Table 1 not only describes terminological differences but also shows the transformation of accounting functions in response to the demands of sustainability in increasingly complex corporate management and reporting practices.

### **Classical Agency Theory and Its Limitations in the Sustainability Context**

The conceptual findings of this study confirm that classical agency theory, as formulated by Jensen and Meckling (1976), is based on assumptions of economic rationality and opportunistic tendencies on the part of agents. Within this framework, managers are positioned as economic actors who act to maximize their personal interests, while principals are reduced to shareholders as capital owners. This view, as also expressed by Shleifer and Vishny (1997), is effective in explaining contractual efficiency, but less capable of capturing the complexity of social and environmental responsibilities that are now inherent in modern companies.

The dominance of contract-based governance mechanisms, incentives, and supervision reflects a short-term orientation in agency relationships. Eisenhardt (1989) explains that these mechanisms are designed to reduce agency costs by controlling agent behavior. However, in the context of sustainability, this short-term orientation becomes problematic because, as described by Kalcheva et al. (2020), an excessive emphasis on short-term performance has the potential to hinder long-term investment and weaken organizational resilience.

The reconstruction of agency theory through the concept of conscious agency responds to these limitations by positioning agents as subjects who are not only economically rational but also possess ethical and ecological awareness. Criticism of the assumption of purely opportunistic behavior has long been raised by Ghoshal (2005), which emphasizes that moral values, professional norms, and social commitment also shape managerial behavior in organizational practice. Thus, agents are no longer understood solely as executors of contracts, but as actors who have broader responsibilities towards sustainability.

The expansion of the principal meaning within the framework of conscious agency is also in line with developments in corporate governance literature, which is increasingly oriented towards stakeholders. Delbufalo (2018) viewing the company as part of an interconnected social and ecological system, so that organizational accountability cannot be limited to shareholders alone. This perspective is reinforced by Barbier and Burgess (2021a) which emphasizes that sustainability challenges demand a paradigm shift in governance towards creating long-term value for society and the environment.

In non-Western cultures, including Indonesia and Southeast Asia, organizational relationships are often influenced by values of collectivism, social justice, and concern for the environment. Governance literature shows that approaches that rely too heavily on formal contracts are less able to explain organizational practices that emphasize relationships, trust, and collective responsibility. Within this framework, the concept of

conscious agency offers a more flexible and contextual conceptual basis for understanding agency relationships in various social and cultural settings (Delbufalo, 2018). This discussion shows that the reconstruction of agency theory through the concept of conscious agency is not intended to reject classical agency theory, but to expand and deepen its framework to align with sustainability demands. This approach bridges agency theory with the discourse of sustainable corporate governance and opens up space for further empirical and contextual research.

### **Reconstruction of Conscious Agency**

Based on a critical review of the literature on agency theory and sustainability, this study identifies fundamental limitations in the classical assumption that places agents as rational economic actors with opportunistic tendencies. These assumptions of economic individualism underpin the design of agency relationships that rely on incentive and monitoring mechanisms to align the interests of principals and agents. Although this approach is effective in explaining contractual efficiency, recent literature suggests that this framework is reductionist because it ignores moral, social, and ecological dimensions that are increasingly relevant in contemporary organizational practices (Raza et al., 2024). In the context of sustainability, pressure on companies no longer comes solely from the capital market, but also from the wider community, local communities, regulators, and real threats to environmental sustainability. This situation demands a change in perspective on agency theory, which has been oriented towards short-term efficiency and increasing shareholder value (Barbier & Burgess, 2021b). An excessive focus on short-term performance risks driving sub-optimal investment decisions for the company's sustainability, as well as weakening the organization's capacity for long-term sustainable growth (Gryglewicz et al., 2020).

In addition, the relationship between principal and agent in eastern cultural contexts, such as Indonesia and some other Southeast Asian countries, cannot be fully understood through formal contractual models. Values such as gotong royong, social justice, and ecological care often color organizational practices. Furthermore, the assumption that agents act solely on the basis of economic cost-benefit calculations is increasingly seen as inadequate. Critical management literature and sustainable governance indicate that agent behavior is also influenced by moral values, professional norms, social ties, and ecological awareness. Agents do not always act opportunistically as assumed in classical agency theory, but often exhibit ethical behavior even when not driven by direct economic incentives (Ghoshal, 2005).

In response to the limitations of classical agency theory, this study offers the concept of conscious agency as a form of agency framework reconstruction. In this perspective, agents are positioned as actors who are not only economically rational but also have moral and ecological awareness in carrying out their roles. Agents are no longer understood solely as executors of contracts, but as guardians of the balance between economic interests, social sustainability, and environmental preservation. In line with this, the meaning of principal is expanded beyond shareholders to include broader stakeholders, including the community, future generations, and the environment as silent stakeholders (Yarden, 2025). The relationship between principals and agents in this framework is no longer based solely on suspicion and control, but is directed towards governance based on trust, participation, and long-term orientation. This reconstruction reflects a paradigm shift from a mechanistic and contractual approach to a more holistic and relational approach. While classical agency theory emphasizes hierarchical relationships oriented towards efficiency and short-term financial gain, conscious agency positions agents as subjects who are ethically and ecologically responsible to various stakeholders, with the aim of creating long-term sustainable value.

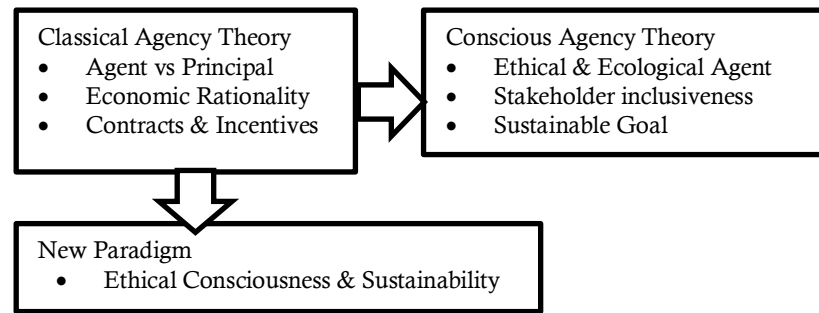


Figure 2. Reconstruction of Conscious Agency

This idea is visualized in Figure 2, which illustrates the transformation of classical agency theory into conscious agency in response to increasing ethical awareness and sustainability in corporate governance practices. This transformation is characterized by a shift in values from a mechanistic approach to a holistic approach, from an egoistic orientation to an ethical orientation, and from contractual relationships to more relational and long-term oriented relationships. This view emphasizes that agency relationships are complex social relationships, not merely mechanistic contractual relationships.

The limitations of classical agency theory are increasingly evident in non-Western contexts such as Indonesia and Southeast Asia, where collectivism, social justice, mutual cooperation, and environmental concern shape organizational relationships beyond formal contracts and hierarchical control. In such settings, practices are grounded in trust and collective responsibility, which are insufficiently explained by the traditional principal–agent framework. To address this gap, this study reconstructs agency theory through the concept of conscious agency, positioning agents as economically rational yet ethically and ecologically aware actors who share responsibility for balancing economic, social, and environmental interests (Salminen & Rajavuori, 2021). Accordingly, the notion of the principal is broadened to include wider stakeholders, such as communities, future generations, and the environment, reflecting the view that firms operate within interconnected social and ecological systems (Delbufalo, 2018). This shift from control-based governance toward relational, trust-based, and long-term governance extends rather than replaces classical agency theory, strengthening its relevance to sustainable corporate governance across diverse contexts.

### Reconstruction of Agency Theory for Accounting

Reconstructing agency theory through the concept of conscious agency carries significant implications for accounting, particularly regarding assumptions about agent behavior and governance design. Classical agency theory views agents as rational and opportunistic actors, positioning accounting primarily as a control mechanism based on contracts, incentives, and formal monitoring, with a focus on short-term profit and efficiency (Jensen & Meckling, 1976; Eisenhardt, 1989). In contrast, the conscious agency framework redefines agents as economically rational yet ethically and ecologically aware, shifting accounting's role toward accountability and sustainable value creation. Critical accounting studies further indicate that excessive reliance on financial incentives can foster dysfunctional behavior and neglect social and environmental consequences (Baker et al., 2023).

The first implication of this reconstruction is evident in performance measurement. If agents are understood as actors who are ethically and ecologically responsible, then performance indicators can no longer be limited to financial measures alone. Performance measurement needs to integrate sustainability dimensions, such as environmental performance, social impact, and long-term contributions to stakeholders. This approach is in line with the development of the triple bottom line and sustainable performance measurement in management accounting (Aktaş & Demirel, 2021).

The second implication relates to incentive systems. In classical agency theory, financial incentives are positioned as the primary tool for aligning the interests of agents

and principals. However, the literature shows that over-reliance on monetary incentives can reinforce short-term orientation and weaken commitment to sustainability goals (Gryglewicz et al., 2020). From the perspective of conscious agency, incentive systems need to be designed more holistically by incorporating non-financial rewards, reputation, and recognition for ethical behavior and social responsibility, so that they are aligned with the organization's long-term goals (Roszkowska & Melé, 2021).

The third implication arises in sustainability reporting. Within the classical agency framework, sustainability reporting is often understood as a mechanism to reduce information asymmetry between managers and shareholders. However, this approach still places sustainability reporting within the logic of compliance and legitimacy. The reconstruction of agency through conscious agency views sustainability reporting as a form of moral and ecological accountability to all stakeholders. This reinforces the argument that sustainability reports are not merely a supplement to financial reports, but an integral part of the accounting and corporate governance system (Delbufalo, 2018; Baker et al., 2023).

The fourth implication relates to multi-stakeholder accountability. The expansion of the meaning of principal in the conscious agency framework requires a redefinition of accounting accountability. Accountability is no longer limited to shareholders, but includes the public, local communities, regulators, and the environment as silent stakeholders. This perspective is in line with the literature on sustainable corporate governance, which emphasizes the importance of cross-stakeholder accountability in creating long-term value (Delbufalo, 2018; Barbier & Burgess, 2021a). Thus, the reconstruction of agency theory through the concept of conscious agency expands the role of accounting from a contractual control tool to an ethical and relational mechanism that supports sustainability. This subsection emphasizes that the development of agency theory is not only conceptually relevant but also has direct implications for accounting practice, corporate governance, and sustainable accounting research, particularly in the context of developing countries such as Indonesia.

The reconstruction of agency theory through the concept of conscious agency has significant theoretical implications for accounting research. By revising the assumptions of agent behavior and expanding the meaning of principal, this framework allows for a more adequate explanation of sustainable accounting phenomena that cannot be fully explained by classical agency theory (Delbufalo, 2018; Correa et al., 2023). In particular, the conscious agency framework opens up opportunities for accounting research related to conflicts between profit-based performance measurement and sustainability demands, the effectiveness of incentive systems on managers' ethical behavior, and potential biases in sustainability reporting. These issues are highly relevant in the Indonesian context, particularly in State-Owned Enterprises (SOEs), Micro, Small and Medium Enterprises (MSMEs), and natural resource-based sectors that have significant social and environmental impacts (Kwarto et al., 2023; Masruddin et al., 2025).

## **DISCUSSION**

The classical agency theory, as articulated by Jensen and Meckling (2019), conceptualizes the principal-agent relationship as an economic contract fraught with potential conflicts of interest. Agents are portrayed as rational, opportunistic actors motivated primarily by self-interest, while principals, narrowly defined as shareholders, are assumed to hold residual claims on firm performance. Consequently, governance mechanisms such as incentive contracts, performance monitoring, and board oversight are designed to mitigate agency costs and align managerial behavior with shareholder value maximization (Eisenhardt, 1989; Shleifer & Vishny, 1997). In accounting contexts, these assumptions have long shaped financial reporting, control systems, and performance evaluation as tools oriented toward short-term economic efficiency and shareholder primacy.

However, this shareholder-centric and contract-based framework faces growing scrutiny in the sustainability era, where corporate accountability extends beyond financial

outcomes to encompass social and environmental responsibilities (Delbufalo, 2018; Correa et al., 2023). The narrow definition of principals as shareholders fails to accommodate the broader stakeholder demands inherent in sustainability reporting, including those of communities, regulators, future generations, and the environment itself (Ghoshal, 2005; Barbier & Burgess, 2021a). Moreover, the assumption of purely opportunistic agent behavior overlooks ethical considerations, professional norms, social commitments, and ecological awareness that increasingly influence managerial decisions (Roszkowska & Melé, 2021; Gagné & Hewett, 2025). The short-term, efficiency-driven orientation limits the theory's capacity to address long-term, multi-stakeholder accountability central to sustainable practices (Gryglewicz et al., 2020; Wiersema et al., 2025).

A synthesis of the literature on agency theory, corporate governance, and sustainability accounting reveals these conceptual gaps. Classical agency theory's reliance on formal contracts and financial incentives struggles to explain the integration of ethical and ecological dimensions required for genuine sustainability accountability (Baker et al., 2023; Kwarto et al., 2024). In non-Western contexts, including collectivist cultures emphasizing mutual cooperation and relational trust, purely individualistic contractual models prove insufficient (Delbufalo, 2018; Minkov & Kaasa, 2022). To bridge these limitations, this study proposes a reconstructed framework, conscious agency, that repositions agents as ethically and ecologically aware actors responsible for balancing economic goals with socio-environmental obligations. Principals are redefined to encompass a wider array of stakeholders, shifting governance from suspicion-based control to trust-oriented, participatory, and long-term relational mechanisms (Barbier & Burgess, 2021b; Mazzucato, 2024).

This reconstruction preserves the explanatory strengths of classical agency theory while addressing its inadequacies in the sustainability context. By incorporating moral agency and stakeholder inclusivity, conscious agency aligns more closely with contemporary demands for holistic accountability (Delbufalo, 2018; Cao et al., 2024). The framework facilitates a paradigm shift from mechanistic, short-term efficiency to relational, value-driven governance that supports intergenerational equity and ecological stewardship.

The implications of this revised agency perspective are profound for sustainability accounting and corporate governance. Performance measurement must evolve beyond financial metrics to incorporate integrated indicators of environmental impact, social value creation, and long-term stakeholder contributions, aligning with triple bottom line principles (Aktaş & Demirel, 2021). Incentive systems should balance monetary rewards with non-financial recognition of ethical conduct and sustainability achievements, reducing short-termism risks (Gryglewicz et al., 2020; Roszkowska & Melé, 2021). Sustainability reporting transforms from a compliance tool for reducing information asymmetry into a genuine mechanism of moral and ecological accountability to diverse stakeholders (Baker et al., 2023). Conscious agency encourages governance designs that foster multi-stakeholder trust, enhance organizational resilience, and promote sustainable value creation, particularly relevant for developing economies where cultural collectivism and environmental pressures intersect with economic imperatives (Kwarto et al., 2023; Masruddin et al., 2025). This approach not only mitigates agency costs but also positions firms as contributors to broader societal and planetary well-being.

## **CONCLUSION**

This study concludes that the classical agency theory developed by Jensen and Meckling, although important in explaining the relationship between principals and agents, has limitations in addressing social and ecological challenges in the era of sustainability. The assumptions that place agents as rational economic actors prove inadequate in explaining contemporary organizational realities, especially in the context of eastern cultures such as Indonesia that uphold the values of gotong royong (mutual aid), social responsibility, and ecological spirituality. Therefore, a paradigm

reconstruction is needed through a conscious agency approach, which places the agent as the guardian of values and sustainability and expands the meaning of principal to all stakeholders, including the environment and future generations. Thus, agency relationships are no longer only built on the basis of contracts and incentives, but also on the basis of trust, ethics, and long-term responsibility.

In practical terms, the conceptual findings of this study have implications for the development of sustainability accounting and sustainability reporting, particularly in expanding the function of accounting from merely a contractual control mechanism to a multi-stakeholder accountability system. The conscious agency framework can be used as a conceptual basis for designing performance measurements, incentive systems, and sustainability disclosures that are more long-term oriented. Further research is recommended to empirically test the conscious agency framework, particularly in the context of sustainability reporting practices, corporate governance, and managerial behavior in Indonesia.

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