

## Agent Troubleshooting Mechanisms: At the Confluence of Law and Economics

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**Abstract.** In his work *Wealth of Nations* (1776), Adam Smith is the first researcher to address the issues of ownership and control. Then, after 156 years, Adolf Besle and Gardiner Means, in *The Modern Corporation and Private Property* (1932), develop the issue of the separation of ownership and control. After another 44 years, Jensen and Meckling (1976) draw attention to the predominance of firms with small share capital. The work of the two researchers, a 55-page article, becomes the most cited bibliographic reference. Specialists in organizational economics, management sciences, and especially finance specialists and researchers will report on this article. Immediately after publication, Jensen and Meckling (1976) laid the groundwork for Positive agency theory (PAT).

**Keywords:** positive agent theory, agent normative theory, solution mechanisms, agent problems

**JEL classification:** E52, E58, F33

### 1. Introduction

As Jensen and Meckling point out (1998, p.8)<sup>1</sup> “our goal is to build a theory of organizations that clearly explains that the rules of the organizational game affect the director's ability to solve problems, increase productivity, and achieve his or her own goal.” From this definition, we retain the concept of “explanatory objective”. This is a positive goal, very clearly stated. At the same time, it can be noted that based on the study of organizations, the *positive objective* will act, first of all, on understanding the influence of organizational rules on the effectiveness of companies.

Furthermore, the positive objective convinces us of the need to evolve, to grow the company. That being said, and as Jensen (1983) points out, positive agent theory should not **be confused with normative agent theory (TNA)**<sup>2</sup>. The approach is part of a different perspective. Jensen (1983) considers that in the case of TNA it is necessary to explain the forms of contracts, the real characteristics of the markets (financial market, labor market - the market share of directors - etc.), organizational mechanisms, the principle of effectiveness as it results from a Darwinian selection process.

### 2. Literature approved by the specialists

PAT has its origins in the theory of property rights. In our approach we will refer to Furubotn and Pejovich (1972). These researchers point out that property rights give holders three types of power: use, mastery, and disposition.

<sup>1</sup> Jensen, M.C. și Meckling W.H., in Lectures presented in 1998 at Harvard Business School, lay the foundations of the theory of organizational behavior based on the assumption of rationality of actors, especially managers.

<sup>2</sup> The normative theory of the agent (TNA) is based on the development of control and provocation mechanisms (incentives) aimed at reducing costs. Jean Magnon de Bournion, in „*La theorie d'agence et les contract optimaux*” (2004), makes an important contribution to the configuration of TNA.

The power of use gives the owner the ability to use, as he wishes, the asset he has developed over time. The goal of dominance is income. This power gives the owner the means to take advantage of the income generated by the asset. Mental power refers to the asset. It is a power that allows the owner to sell, destroy or change the form of the asset to prevent access by another owner.

When there is a separation between ownership and management, the owner has two of the three powers, namely: the power to control the income and the power to dispose of the asset. Power is delegated to the manager or management team.

Charreaux (2004 and revised in 2005) considers PAT “a theory of coordination and control”. The argument states that the PAT is based on the theory of property rights and the “agent relationship” or “mandate”. Jensen and Meckling (1976) argue that the separation of ownership and control gives rise to conflicts or agent problems. Consequently, there is a clear distinction between ownership and control of private companies within which an agent relationship is established. Charreaux (1999, 2000, 2003) argues in these three papers that the theory of coordination and control is applied, in particular, in organizational architecture and corporate governance. Moreover, Charreaux (2003) appreciates that Michael Jensen played the most important role in the development of PAT applications in finance, governance, management control and human resource management.

Indeed, PAT, a general theory, is based on the principal-agent relationship and is applied in the analysis of the organization. The theory depicts the relationship between shareholders (principal) and managers (agent) in a context of information asymmetry. Agents have interests contrary to those of shareholders. While shareholders seek to maximize the company's value, managers are interested in maximizing their revenue. The theory of the agent, we must also note, allows the application of companies' strategies. The principal or agent provides explanations in the area of control of the company.

The understanding of the agent theory has as a starting point the definition of the agent relationship. Several definitions can be found in the literature. However, the definition formulated by Jensen and Meckling (1976, p. 308) intuitively most strategies. “We define an agent relationship as a contract whereby one or more persons (principal) hire another person (agent) to perform a certain decision-making power as an agent.” It follows, therefore, that an agent's relationship involves the delegation of a party to the decision-making authority as an agent. Of course, the agent relationship raises the issue if the personal interests of the principal (owner) and the agent (manager) become divergent.

According to Jensen and Meckling (1976), a firm is considered a “node of contracts” in which each contracting party tends not to comply with the terms of the contract. The interest of the party is to maximize its own utility. Because each party seeks to maximize its own utility and behave in an opportunistic manner, the contractual relationship between owner and manager poses an agent problem. The manager may adopt, in such a context, an opportunistic behavior that harms the interests of the owner.

The agent's theory is based on two behavioral hypotheses. The first hypothesis focuses on the idea that “individuals seek to maximize their usefulness.” The second hypothesis postulates that “individuals are likely to benefit from dissatisfaction with the contract” (Charreaux, et al., 1987).

According to the theory of the agent (Jensen and Meckling, 1976), the directors are the agents of the shareholders within the company and have the vocation to manage it in the interest of the shareholders. However, directors and shareholders have different utility functions and are interested in maximizing that utility. From this perspective, the director (agent) tends to own a part of the company's resources in the form of privileges for his own consumption. Specifically, the director incurs

discretionary expenses. Later, the desire of the directors to strengthen their position at the top of the company was highlighted. From this position, directors may prefer to increase turnover at the expense of profit by using more staff than would be necessary. The objective of the directors is to serve the social interest of the company before satisfying the interests of the (main) shareholders by dividends or revaluation of the securities. In essence, the aspirations of directors are to maximize their remuneration and to minimize the effort of managing companies.

The divergence of interests is also accentuated by the effect of risk. The director (agent) risks losing his position and value on the labor market, and the shareholder (principal) risks losing his capital contributions. Therefore, executives are at greater risk than shareholders. Of course, it is in their best interest to make less risky and profitable returns in the short term, which is exactly what is most desired by shareholders. Unlike directors who invest in human capital, business owners put their financial capital at stake. Consequently, the behavior of managers and owners towards risk is different. The problems may be due to the fact that managers are interested in short-term investments and are also aware of their presence in companies for a limited time (Fama and Jensen, 1983). From this point of view, the agent's theory highlights the need to apply director control mechanisms to mitigate agent issues. We must also keep in mind that the existence of agent conflicts turns into important cost drivers. Control mechanisms are an element of the company's governance system.

PAT was founded by Jensen and Meckling (1976) and developed by Charreaux (1999). Jensen and Meckling (1976) demonstrate in the PAT the efficiency of the forms of organization characteristic of the capitalist economy. At the same time, he appreciates that the systems of free contractual relations lead, spontaneously, to the selection of the most efficient organizational forms. In approaching the efficiency of organizational forms, Jensen and Meckling (1976) are based on two ideas:

- organizations are considered nodes of contracts;\
- there are relationships between complexity, decision-making and risk-taking.

From the point of view of the first idea, organizations are presented in the form of "legal fictions" (Jensen and Meckling, 1976) which act as the core for all contractual relations that are established between the parties. Such a quality consists, first of all, in the fact that the organization does not have a certain, certain existence. In the background is the issue of the organization's boundaries, which shows that the organization has no goal. From this perspective, the lack of interest in distinguishing events within the organization from those outside can be inferred. However, a susceptible reality is the existence of a multitude of complex contractual relationships. Finally, it can be seen that there is no firm opposition between the organization and the market.

Regarding the relationship between complexity - decision making - risk taking, Fama and Jensen (1983) advance two opinions. These views can be considered fundamental.

The first opinion refers to the separation between risk-taking and management function. In this sense, the idea of implementing decision systems appears where there is a separation between the management function and the decision control function.

In the case of the combination of management and control functions at the level of a small number of agents, in the second opinion, the favorable framework for the concentration of residual claims on the same agents appears. From this it can be deduced that the argument of this opinion is based on the notion of complexity of the organization.

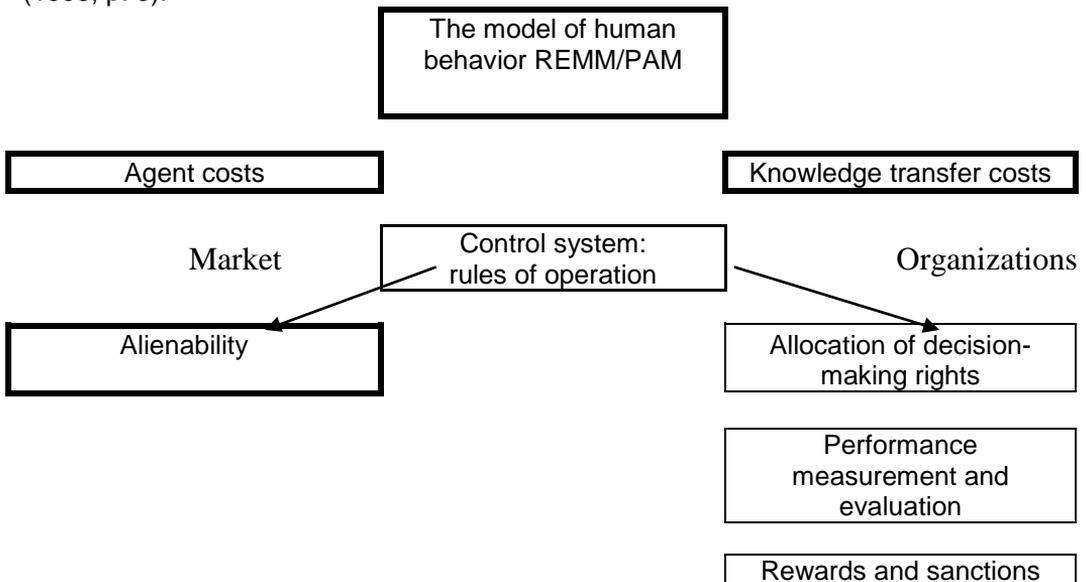
The analysis of the problem of separation in relation to the degree of complexity of the organization suggests three situations. The first situation is specific to the complex organization. Here, due to the diffuse nature of the specific knowledge, it is

effective to delegate the decision to the agents who possess this knowledge. The resulting agent problems can be reduced by separating the management function from the control function. The second situation arises when the first separation is accompanied by another separation, i.e. the separation between the risk-taking function and the management function. In this case, the conclusion is that in a complex organization a single entrepreneur cannot manage all the financing needs and not fully assume the residual risk. As a result, achieving a good level of effectiveness requires the separation of the risk-taking function from the decision-making function for many residual debt securities. In the opposite situation, in an organization with a low degree of complexity, the specific information needed to make the decision is held by a small number of agents. For this situation, it is effective to assign to the agents both the management function and the control function. At the same time, it should be noted that the agents whose function is to assume the residual risk (these agents are the residual creditors) cannot protect themselves from the opportunism of the decision makers. Therefore, the right to residual claims must rest with the decision-makers.

### 3. The Architecture of Positive Agency Theory

PAT, according to Jensen's (1998) approach, it consists of four fundamental building blocks (Figure 1): the model of human behavior; costs related to knowledge transfer between actors; agent costs; alienability and rules of organizational functioning.

In figure no. 1 we represent the four blocks, according to Jensen's approach (1998, p. 3).



**Figure 1. The constituent blocks of the PAT**

Each block plays a specific role in the PAT, which in turn is based on methodological individualism. This, in a very narrow definition, means the study of the behavior of organizations starting from the number of people with an employment contract. Block 1, the *model of human behavior*, has the role of presenting the determinants of the behavior of individuals according to a model of organized rationality in order to take into account their creative abilities. Block 2, *the costs of knowledge transfer*, and block 3, *agent costs*, aim to introduce two levers that

determine the effectiveness of organizations. The good use of individuals' knowledge, being the first determinant, requires that decisions be allocated between members of the organization according to the criterion of effectiveness, depending on the costs of knowledge transfer given by block 2. If the decentralization solution may seem a priori the most economical, that it consequently entails the creation of agent relations and conflicts of interest regarding the agent costs presented in block 3. It follows from the above that the best possible use of knowledge must be ensured without incurring the costs of excessive agent. Block 4 is structured on two components: *alienability* (refers to the market) and *rules of organizational functioning* (refers to the organization). Both components help solve the problem.

➤ *The model of human behavior (REMM/PAM)*<sup>3</sup>

This model is based on four postulates: individuals always care about the source of utility or uselessness and are evaluators; individuals are unstable; individuals are maximizers; individuals are creative and know how to adapt.

The concept of rationality in the TPA will be supplemented by Herbert Simon (Torrès-Blay, 2004, p. 38) who will finally introduce the concept of "limited rationality". This concept takes into account that the available information and intellectual abilities are limited for a given situation. Faced with this situation, man is looking for satisfactory solutions that bring improvements without reaching an optimal situation. According to H. Simon, the essence of organization is to reduce the limits of rationality. In this context, the organization manager makes two categories of decisions: programmable and non-programmable. The existence of non-programmable decisions makes the principle of optimization completely unrealistic because there are, in this given situation, no rules capable of leading to an optimal result.

Limited rationality is viewed in close connection with the social norms represented by constraints and conditioning of situations. Jensen and Meckling (1994) consider social norms as an external device that facilitates the storage of knowledge about optimal behaviors. These behaviors play a key role in learning, training, controlling, and inciting (challenging) members of a group, organization, and even society. Depending on the environment, knowledge transforms individuals' calculations and influences their actions. In this way, the actions of individuals will change all the opportunities, costs and gains associated with the actions taken. The ability for the individual to be creative and adapt gives TPA a dynamic character. Recognition of the adoptive nature of behaviors allows the consideration of active behaviors of non-use of certain mechanisms.

However, limited rationality behaviors have been ignored, even if they play a positive role because they make an important contribution to the construction of the set of opportunities and the cognitive process of creating opportunities.

The one who reacts to this situation is Jensen (1994). It proposes a behavioral inspiration complement to the REMM model and adds the PAM model. The aim was, on the one hand, to notice that individuals behave in certain situations in an irrational way (individuals do not seem to care about defense) by making decisions contrary to their advantage and, on the other hand, to highlight the character limited learning ability followed by unfavorable consequences in the case of behavior adapted to the mistakes made. Therefore, the REMM / WFP model is presented as a dualistic human behavior model that allows reactions to two situations: internal conflicts between

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<sup>3</sup> Jensen și Meckling (1994) dedicate their work to the "nature of man." The paper contains the REMM model (Resourceful, Evaluative, Maximizing Model). Langlois (1998) places REMM in the model of substantial rationality. Jensen (1994) adds the Pain Avoidance Model (PAM) and the REMM / PAM model will eventually result.

individuals and the introduction of agent costs. This human behavior can avoid problematic dualism in terms of methodological coherence.

➤ *Costs related to knowledge transfer between actors*

Jensen (1994) used the terms information and knowledge. The information refers to a closed, objective set, with the potential for all individuals to know data on the consequences of possible events. Knowledge, on the other hand, is an open, subjective whole, which results from the interpretation of information by individuals, depending on their cognitive patterns.

Knowledge is at the heart of PAT and plays a key role in achieving organizational performance. Efficiency depends fundamentally on the ability of the members of the organization to use relevant knowledge. Knowledge gives value to decisions.

Knowledge is general and specific. General knowledge is inexpensive when it comes to being transferred between actors. Unlike general knowledge, specific knowledge requires very high costs in the case of transfer between actors. For example, tacit, uncoded knowledge is very expensive and often impossible to transfer between actors.

In relation to the transfer of knowledge between actors, the problem arises of identifying the least expensive means necessary to make relevant knowledge available to decision-makers. To this end, Jensen (1994) states that the provision of knowledge is possible by co-locating decision-making rights and specific knowledge. The provision of knowledge can be achieved in two ways:

- centralized, which involves a transfer of knowledge to those with decision-making rights;
- decentralized, which means that decision-making rights are transferred to those who possess knowledge.

The choice between centralized and decentralized mode depends on the costs of knowledge transfer and decision-making rights. Jensen (1994) also notes that, depending on the importance of specific non-transferable knowledge, centralized solutions fail most frequently but not systematically, which justifies the permanence of small businesses whose decision-making system is highly centralized in some sectors. "The alienability of decision-making rights and the localization of knowledge goes beyond the traditional discourse of centralization / decentralization insofar as specific knowledge is distributed throughout the hierarchy. The real issue is the nature of decision-making rights to centralize or decentralize" (Charreaux, 2004/2005, p. 9).

➤ *Agent costs*

Decentralized allocation of decision-making rights creates the agent relationship and is a source of conflict of interest and agent costs. Therefore, the organizational architecture must be designed to reduce these ineffective costs. The solution is to implement control systems (performance appraisal and challenge) designed to align the interests of the agents with those of the principal or principals.

In the PAT, the representation of the agent relationship can be considered a cooperative relationship. Charreaux (2004/2005, p. 10) finds that the traditional asymmetric principal-agent relationship (for example, the relationship between shareholders and managers), becomes in some models a bilateral, dioecious relationship where the two parties can alternatively be considered principal or agent.

Of course, in the shareholders-managers relationship, viewed from a traditional perspective, shareholders entrust their financial capital to agents, ie managers. The relationship can be the other way around. Managers entrust their human capital to principals, ie shareholders. Overall, the general wording of the organizational problem in terms of the effectiveness and representation of the organization, as a contract node or "contracting center", leads to overcoming these restrictive representations to

address the issue of reducing agent costs in managing relations between actors. An example of this is the board of directors, which can negotiate and harmonize conflicts of interest between shareholders and managers. The Board of Directors may also intervene in the relationship between creditors and shareholders or between shareholders and employees.

Agent costs can be considered one of the major contributions of TPA. This statement is supported by the definition of Jensen and Meckling (1992, p. 262): maintenance of incentive and control systems and residual loss, ie the lack of profit related to the imperfect resolution of conflicts”.

The definition formulated by the two researchers allows us to observe the source of agent costs. These costs arise in a situation of cooperation between two or more persons, when there is no clear relationship between the principal and the agent. Therefore, it is impossible for the principal to believe in a zero cost situation because the agent will make optimal decisions from the principal's point of view. The truth is that in most agent relationships, the principal and the agent incur costs. Jensen and Meckling (1976) distinguish three categories of costs: supervision, self-discipline (commitment) and opportunity.

Surveillance costs are borne primarily by limiting opportunistic behavior. The principal is also interested in promoting and developing systems of interest, participation in business. To this end, the principal incurs challenge costs to guide the agent's behavior. Surveillance costs are mainly agreed upon to ensure that the agent does not act against his interests.

The costs of self-discipline (commitment) are the costs of motivation. The agent in order to gain the trust of the principal incurs certain costs. Gabriele and Jacquier (2001, p. 248) correctly state the source of these costs: “The costs of self-discipline result from the company writing financial reports and conducting audits by experts outside the company.” The costs of self-discipline allow the agent to convince the principal that he is acting in his best interests.

The third category of costs, opportunity costs (also called residual losses) is assimilated to the loss of utility suffered mainly by conflicts of interest with the agent. These are costs that affect the principal and are due to inefficient management by the agent. This category of costs harms the interests of the principal. Despite the control of the principal and the self-discipline of the agent, the third category of costs is manifested, with great frequency, as a result of decision divergences. The agent makes decisions that will maximize the principal's concern. Opportunity costs seen in terms of effects, ie residual losses, are mainly borne in a contractual relationship that generates a loss of utility.

As a result, agent costs are common in two situations: agent inequity and performance monitoring. Agent costs vary greatly from organization to organization and depend on the behavior and performance of managers. To these two factors can be added a third: the design and application of a remuneration index of the manager to meet the expectations of the owner.

➤ *Alienability and rules of operation of the organization*

Decision-making rights refer to the use of assets, resources. These are, in fact, the property rights that Jensen and Meckling (1992) divide into two components: the property right itself (the right to use the assets); the alienability of the right (the right to alienate what must be decided and to bring the assigned product closer).

Alienability is the basis of the existence of the market system which is interpreted as a alienable rights system. In a market, the co-location of knowledge and decision is done through a price-driven transaction, by alienating the associated decision-making right to a voluntary exchange. Decision-making rights are acquired by those who value them the most, ie by the agencies that are the best users, depending on the specific knowledge they have. In the absence of external exchange effects, co-

location through the market is effective, there is no need to introduce a control mechanism. Alienability alone solves the problem of price control, which is both a measure of performance and a challenging system. Conversely, the absence of alienation necessitates recourse to the control mechanism.

For transactions between organizations, the transfer of decision-making rights is not accompanied by that of alienability. "This has two consequences: (1) co-location is no longer spontaneous and decentralized, and (2) there are no more automatic performance measurement systems and challenges that lead agencies to use their decision-making rights in the interest of the organization. In this situation, the hierarchical authority must be used to solve the problem, as well as various organizational mechanisms" (Charreaux, 2004/2005, p. 11).

#### **4. Mechanisms for solving agent problems**

A number of agent issues are caused by uncertainty. Other situations, such as complexity, imperfect observation of the agent's behavior, and the costs of establishing and executing contracts, all contribute to the agent's problems. Not all agent issues are subject to precise specifications, and the shareholder is consequently exposed to the manager's opportunism.

Jensen and Meckling (1976), Fama and Jensen (1983), Gabrie and Jacquier (2001) and Charreaux (2004/2005) consider information asymmetry to be a strong agent-generating variable. The asymmetry in the distribution of information associated with conflicts of interest complicates the agent problem. Asymmetry in information distribution is a matter of opportunism. This means that information asymmetry does not cause problems if the agent chooses his action in accordance with the principal. Conversely, in conditions of conflict of interest, the asymmetry in the distribution of information gives rise to agent problems. The principal, in the absence of information asymmetry, will immediately detect the agent's opportunistic behaviour and take steps to overcome the conflict of interest. Hence, it can be argued that there is a conflict of interest when the principal evaluates, of course on the basis of complete information, that the agent manages the organization for the benefit of the shareholders (principal).

In conditions of information asymmetry and uncertain environment, the measurement of individual effort becomes difficult and the risk of detrimental negligence in the interests of shareholders is increasing. In this sense, Gabrie and Jacquier (2001) observe that in the agent relationship there are problems of moral hazard, adverse selection and opportunism. Indeed, the manager of the organization has inside information about and for the functioning of the organization. However, the shareholder does not always have the necessary skills to know whether a transaction serves his own interests or the interests of the manager. It is therefore possible for the manager to behave opportunistically and use the information in his or her best interests. The manager's opportunism can lead to the manipulation of information for his personal benefit resulting in a decrease in the owner's residual profit.

The separation between the management function and the ownership of the capital of a company (joint stock company) introduces a source of uncertainty that can take many forms. Company managers may not seek to maximize profits, but pursue other goals. This phenomenon is possible in the company where the dilution of capital has as a consequence the appearance of a managerial power which, in fact, imposes its decisions on the shareholders. The phenomenon was first highlighted by Berle and Means (1932). In the event of a severe dilution of capital, the members of the board of directors do not have the power to control. Therefore, depending on the degree of dispersion of the shares, some or all of the shareholders may use the controlling power for the benefit of the managers.

The power of the shareholders in a joint stock company / company consists mainly in their ability to appoint, control and, possibly, sanction the managers who have the power to manage the company's assets. When shareholder control is weak or non-existent, managers use some of the company's resources to meet their own needs. In this case, the managers show a discretionary behavior that affects the performance of the company and the patrimonial value of its actions. There is an agent problem within the company that needs to be resolved immediately.

The existence of agent problems determines the main to implement control and challenge mechanisms of the agent. Based on an appropriate system of mechanisms, the main one manages to limit the losses caused by the conflict of interests (Jensen and Meckling, 1976; Fama and Jensen, 1983; Gabriele and Jacquier, 2001). Implementing control and challenge mechanisms to ensure the smooth running of contracts will incur agent costs. These costs can be understood as company costs and also represent the symmetry of transaction costs.

Two categories of mechanisms for solving agent problems are identified in agent theory:

- external mechanisms (financial market and labor market);
- internal mechanisms (exercise of shareholders' voting rights, board of directors and hierarchy).

Charreaux, et al. (1987) considers that the financial market is the most important source of discipline for managers, a source that allows the assignment of shares of shareholders who complain of dissatisfaction. Of course, since a manager's strategy deviates from the set objectives and shareholders are willing to give up their titles, the company risks the orientation towards a hostile control and the dismissal of the management team.

Gabrie and Jacquier (2001) define the financial market as a market for firm property rights. In this market, securities (shares) or debts (bonds) are exchanged. The financial market allows, at all times, the evaluation of the price of a share and the objectification of the loss of the value of a share when the company is not managed according to the interests of the shareholders. If the manager manages the company in his interest, the value of the company decreases. For the principal (owner / shareholder) the impairment loss is a cost of supervision requirement.

The principal is put in a position to perform a calculation by which to ascertain the size of the loss in order to fix his cost of supervision. The principal wants to know what the difference is between what we lose through oversight costs and what we gain by limiting the impairment of its shares. When the cost of supervision is greater than the loss of value of its shares, there is no challenge for the owner to implement a system of supervision. Charreaux (2003) estimates that the financial market solves, by calculation, the agent problem. The financial market is the one that sends the signals to the agents.

Another external control mechanism is the labor market. Activation of this mechanism occurs when the manager is oriented towards an opportunistic management of the company. In this case, the business owner will sanction the manager. For the manager, the threat of returning to the labor market is a signal that causes him to limit his opportunistic behavior. On the other hand, inefficient management of the company will damage the manager's reputation and, when he returns to the labor market, it will be very difficult for him to find a new employer. Regarding the labor market as an external control mechanism, it is necessary to note that limiting the manager's opportunism goes through an internal control.

The financial market and the labour market are forms of organization whose existence limits the opportunism of agents, disciplines them. Fama (1980) has an interesting discourse on the specificity of the firm in agent theory. Thus, perceived as a

set of contracts, the agent's theory is a continuation of the market, it is a way of contracts. It follows from the notion of "legal fiction" (a notion formulated by Jensen and Meckling, 1967) that the firm has no existence of its own. In a company there are only individuals (shareholders, managers, etc.) who maximize their utility. The company has no goals. The only ones who have goals are the individuals. Therefore, the issue of company ownership does not make sense because there are only individuals who contract freely with each other. The only relevant issue is the form of contractual relations.

Within the internal mechanisms, the exercise of the shareholders' voting right, the board of directors and the hierarchy operate, as a rule. The power of the shareholders is exercised through the voting right established in accordance with the shares they hold. The right to vote is exercised in the general assembly of the associates. The general meeting validates the management report presented by the board of directors. The directors are part of the board of directors. They are elected by the shareholders who make up the general meeting. The directors have the capacity of proxies of the shareholders. A representation agreement is concluded between the owners and the administrators. The owners are represented by the administrators in a specific decision-making field. Conflicts of interest arise between owners and administrators. The power of the directors is limited only by the legal provisions and powers of the general meeting. The administrators and managers that make up the team of managers are subject to internal control, that of the hierarchy. For example, for managers, lower hierarchical levels act as motivators for access to a higher hierarchical position. This means that the management team is controlled from within and the company hierarchy is an internal labor market. Fama (1980) is a supporter of the pioneers of agent theory, Jensen and Meckling (1967). They consider that in the agent's theory the distinction between the inside of the company (black box) and its outside makes no sense. The only reality is the existence of multiple contractual relationships. The problem of the company's border is meaningless. Therefore, there is no fundamental opposition between the firm and the market. Continuing the idea, Jensen and Meckling (1976) conclude that if there are only contractual relations, then it does not make sense to oppose the internal coordination modes of the firm external coordination modes. Therefore, it can be considered that there are no distinct authority relations within the company compared to those that exist in the entire market relationship.

## 5. Conclusions

In its evolution, agent theory has allowed the creation of a set of rules to be used in management sciences. At the same time, the agent's theory has contributed, through its constituent blocks, to establishing multiple links between the various fields of economics and management sciences. Agent theory has long been considered a general theory of coordination and control that facilitates the understanding of the rules of operation of companies. Agent theory influences managers' ability to achieve their goals. From this perspective, Jensen and Meckling (1998, p. 17) stated that the main axes of research on agent theory are: modeling human behavior and control systems (performance measurement, motivation systems); task structuring links; company boundaries and the nature of technology; relationships in corporate governance, financing and performance systems. "

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