



Tri Kaya Parisudha as a Remedies to the Agency Problem

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Abstract

This conceptual paper proposes a novel approach to mitigate agency problems by incorporating the principles of *Tri Kaya Parisudha* from Balinese Hinduism. *Tri Kaya Parisudha* underscores the purification of thought (manacika parisudha), speech (wacika parisudha), and action (kayika parisudha). The paper explores relevant verses that can be applied to alleviate agency problems in the context of corporate governance. The application of *Tri Kaya Parisudha* values is expected to foster self-discipline, enhance ethical behavior, and cultivate a harmonious and ethical corporate environment. By aligning actions, speech, and thoughts with these higher principles, individuals are anticipated to reduce potential agency problems and contribute to the promotion of integrity in decision-making processes. Notably, to the best of the author's knowledge, there is a dearth of published literature addressing the reduction of agency problems through the lens of *Tri Kaya Parisudha*. This paper seeks to fill this gap by offering a unique perspective on the integration of religious values for improved corporate governance.

Keywords: Agency Theory; Agency Problem; *Tri Kaya Parisudha*

INTRODUCTION

In the current era of globalization and business complexity, companies often face challenges in managing the relationship between owners and managers and external agents within the company. In this

context, agency theory is applicable because it addresses issues that arise in businesses related to reducing conflicts between owners and managers (Chang et al., 2016). This theory facilitates the application of diverse governance mechanisms to

regulate agents' actions in jointly owned companies. Namazi (2013) defines agency theory is one individual (the principal) hires another individual (the agent) to carry out duties on their behalf. The principal is the person who delegates the task, invests the funds and anticipates increased returns. An agent is a person who accepts to perform tasks on behalf of a principal and who is expected to act in the principal's best interests (Eisenhardt, 1989; Jensen & Meckling, 1976; Vargas-Hernández & Teodoro Cruz, 2018).

Agency theory explicitly states that public corporations typically have fundamental shareholder-related issues (Song et al., 2015). The problem is that top management only sometimes maximizes the return on investment for shareholders (Kuliks, 2005). Conflicts of interest arise because managers can prioritize their interests over the owners'. This conflict is referred to as an agency problem and it can lead to a decline in the performance and value of a company (Jensen & Meckling, 1976). Since the evolution of stock corporations, the agency problem has been one of the most enduring issues in the corporate context. In every organization, agency challenges can manifest in various ways and

substantially impact the company's performance and sustainability (Panda & Leepsa, 2017). Along with the changing times, agency problems no longer involve only principals and agents but have expanded to include creditors, major shareholders, and minor shareholders.

One of the agency problems cases that occurred in the world was the Well Fargo company in 2016. Well Fargo was embroiled in controversy due to its cross-selling tactics and the immense pressure management put on employees to ensure its success. The case involved creating fake accounts without customers' knowledge, and sometimes forging their signatures. Based on these cases, agency problems can arise when the interests of management (agent) are not aligned with those of shareholders or customers (principal). Agency problems can occur when management focuses on increasing profits or achieving targets without considering the long-term impact on the company's reputation (Veetikazhi & Krishnan, 2019).

Hinduism has teachings that are used as guidelines for behaviour so that they are in accordance with existing moral codes. This ethical sensitivity is an individual's perception that he is an ethical agent who is aware of moral or ethical

values in a decision. Individual ethical behavior is influenced by moral and ethical values that cannot be separated from the influence of religion and culture. Ethics and religion have the same goal, which is to lay the foundation of moral teachings so that individuals can distinguish between good and bad actions and so that religious and cultural moral teachings serve to strengthen personal values (Tiana, 2023). Hinduism has many possible teachings as guidelines for behaviour in accordance with religious teachings. One of these concepts is *Tri Kaya Parisudha*.

Tri Kaya Parisudha is a Hindu concept that includes material, spiritual, and social aspects of individual life. *Tri Kaya Parisudha* can be interpreted as three categories of practises that form the basis of the teachings of Hindu ethics, which must be followed by each individual to achieve perfection and sanctity of life. *Tri Kaya Parisudha* refers to three parts of the body that are sanctified: *manacika parisudha*, which means thinking well; *wacika parisudha*, which means speaking well and politely; and *kayika parisudha*, which means doing well (Suryandari et al., 2021). *Tri Kaya Parisudha* in the agency context is to align the interests of principals and agents and

encourage ethical and responsible behaviour.

Through the application of religious values in *Tri Kaya Parisudha*, this conceptual paper seeks to provide solutions to agency problems. Individuals who are aware of the existence of a code of ethics and moral principles can carry out the teachings of *Tri Kaya Parisudha* as a solution to agency problems by prioritising three main aspects, namely controlling thoughts, words, and actions (Septiari et al., 2023). *Tri Kaya Parisudha* can provide understanding and control over thoughts and prevent the emergence of bad or manipulative intentions, thereby creating healthy and respectful relationships; speak kindly and wisely, so as to prevent conflict; build effective communication; and maintain trust in agency; do good deeds, so as to build trust and create a strong basis for cooperation and sustainable cooperation.

This paper quotes some slokas that are considered applicable and implementable in life. It is hoped that they will develop self-discipline, improve their ethical behaviour, and promote a harmonious and ethical environment in corporate governance by aligning their actions, speech, and thoughts with higher principles, reducing potential agency problems,

and promoting integrity in the decision-making process. Although the implementation of these values requires careful planning and execution, they can be a useful alternative to resolve agency problems and foster a mutually beneficial relationship between principals and agents.

LITERATURE REVIEW

Agency Theory

Agency theory has significantly expanded the literature on agency problems and their solutions (M. C. Jensen & Meckling, 1976; Ross, 1973). According to Panda & Leepsa (2017), agency theory offers a comprehensive framework for understanding conflicts of interest between principals and agents in various organizational settings and insights for overcoming these barriers. This theory helps apply diverse governance mechanisms to govern agents' actions in the commons. Jensen (1983) categorizes agency theory into two models such as the positivist agency model and the principal-agent model. These two models are based on the contractual relationship between the principal and agent, but the principal-agent model is more mathematical. The principal-agent model explains that the principal is risk-neutral and seeker

profit, while agents avoid risk and rent-seekers. Positivist agency theory explains the causes of agency problems and their costs. This theory puts forward two propositions. The first proposition explains that if the outcome of the contract is based on incentives, then the agent acts in the principal's interests. Second, if the principal has information about the agent, then the agent's actions will be disciplined.

Agency theory focuses on solving two problems that can arise in agency relationships. Agency problems arise when (a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is doing. The problem is that the principal cannot be sure that the agent has acted appropriately. The second issue is risk allocation, which arises when principals and agents have different risk perspectives. Due to different risk preferences, actors and agents may prefer different actions (Eisenhardt, 1989).

Agency Problem

Agency issues are indeed a significant concern in corporate governance and management. The concept of agency theory provides a framework for understanding and

analyzing this issue. (M. C. Jensen & Meckling, 1976) pioneered the development of agency theory, which focuses on the relationship between principals (owners) and agents (managers or employees) in an organization. Agents are asked to act on behalf of principals, but their goals and motivations sometimes conflict. This misalignment can cause agency problems. The origins of the agency problem can be traced back to when human civilization traded and sought to maximize its interests. The agency problem is one of the old problems that has been going on since the emergence of stock companies. Agency problems can create significant costs for organizations. Inefficiencies reduce productivity, and financial losses can result from agency conflicts. These problems can undermine the overall performance and value creation of an organization. Therefore, organizations must identify and mitigate agency problems to align the interests of agents and principals (Panda & Leepsa, 2017)

Tri Kaya Parisudha

As religious and cultured beings, ethics and religion serve as the basis for distinguishing between good and evil deeds in order to establish strong personal values. *Tri Kaya Parisudha* is one of the cultures

forming the foundation of ethical human behaviour (Aryawati et al., 2022; Sujana et al., 2019). *Tri Kaya Parisudha*, according to Suryandari et al., (2021) are three categories of practice that form the basis of the teachings of Hindu ethics, which each individual follows to attain perfection and holiness in life. *Tri Kaya Parisudha* refers to three purified regions of the body: *manacika parisudha*, which means to think well; *wacika parisudha*, which means to speak well and politely; and *kayika parisudha*, which means good behavior. Thoughts form the basis for a person's remarks and actions. By cultivating positive and virtuous thoughts, an individual is likelier to engage in good deeds and communicate positively (Dewi. A & Atmadja, 2021; Julianto & Pasek, 2022).

From *Tri Kaya Parisudha*, there are ten self-controls called *karmapatha*, according to what is written and implied in *Sarasamuscaya Sloka 73*:

"Manasa trividam caiva vaca caiva caturvinham, Kayena trividam capi dacakarma pathaccare"

(It is his name *karmapatha*, i.e., the control of passions, ten of which are proper to observe; the movement of thought is three in number, the utterance/speech is four in number, the movement of action/exercise is three in number. So, the ten total actions arising from bodily

movements, speech and thoughts are noteworthy)

Individuals can develop self-discipline, enhance their ethical behaviour, and promote a harmonious and ethical environment within corporate governance by observing and practising these ten self-controls. This self-control enables individuals to align their actions, speech, and thoughts with higher principles, reduces the likelihood of agency problems, and promotes decision-making integrity.

This exercise of self-control can be interpreted differently depending on the context. *Tri Kaya Parisudha* provides valuable insight into self-discipline and ethical behaviour, but adapting these principles to organizational and regulatory requirements is necessary for effective implementation. In conclusion, the ten self-restraints of *Tri Kaya Parisudha* remind individuals to pay attention to their actions, speech, and thoughts, ensuring that they are aligned with ethical values and contributing to the well-being and integrity of the organization as a whole.

METHOD

The research strategy used is causality research which aims to examine the possibility of a causal

relationship between variables. The purpose of this study is to determine that *Tri Kaya Parisudha* can reduce agency problems (Novyarni et al., 2023). This research is a conceptual paper. A conceptual paper is an academic article that goes beyond summarizing current research or examining the literature in a particular area. A conceptual paper aims to provide an integrated framework and integration of the literature, which adds value to the field's present understanding. A conceptual paper often reveals new connections between concepts or theories and new lines of research for the field. Articles of this kind can be exploratory, speculative, or theoretical and do not rule out the possibility of creating new theories and hypotheses and critically examining pre-existing theories or ideas (Gilson & Goldberg, 2015; Jaakkola, 2020).

In this study, the conceptual paper takes the form of a model paper, aiming to construct a theoretical framework that anticipates the relationships among various concepts. The model paper defines a conceptual model, outlining an entity and pinpointing considerations essential for its examination. It has the capacity to delineate an occurrence, an item, or a procedure and elucidate its functioning by

revealing antecedents, outcomes, and contingencies linked to the central construct, as noted by Jaakkola (2020). Within the model paper, there is an emphasis on identifying connections between constructs that have not been explored before, introducing novel constructs, or providing explanations for why specific elements of a process result in distinct outcomes, as discussed by Cornelissen (2017).

RESULTS AND DISCUSSION

Agency Problem and *Tri Kaya Parisudha*

The agency problem has been one of the persistent issues in the corporate context since the evolution of joint stock companies. In every organization, agency problems can appear in various forms and significantly impact the company's performance and sustainability (Panda & Leepsa, 2017). This refers to the conflict of interest between the company's owners (shareholders) and managers (agents). Shareholders delegate decision-making authority to managers, but their goals and objectives often differ. Managers can prioritize their interests, such as job security, power, and personal gain, over maximizing shareholder value. Agency problems can manifest in many forms, and their nature has

evolved due to changes in business practices and corporate governance. Along with the changing times, agency problems no longer involve only principals and agents but have expanded to include creditors, main shareholders, and minor shareholders. Researchers in economics and finance have classified agency problems into three categories (Jensen & Meckling, 1976; Panda & Leepsa, 2017; Ross, 1973):

- 1) The first type is between the principal and the agent. Problems that arise between principals and agents, such as agents having personal interests that conflict with those of the principal; agents having greater access to company information than principals; the agent attempting to maximize profits without the principal's knowledge; insufficient oversight allowing agents to commit acts that are detrimental to the principal; the agent taking more significant risks because he or she does not accept full responsibility for the negative consequence.
- 2) The second type occurs between majority shareholders and minority shareholders. Problems that arise between majority shareholders and minority shareholders, such as majority shareholders making decisions

that benefit themselves, while minority shareholders only follow these decisions; majority shareholders may use company assets for personal gain or the benefit of other companies; majority shareholders have more power in selecting the board of directors and making other decisions affecting the company; majority shareholders may provide incoherent information to the board of directors.

- 3) The third type of agency problem occurs between the principal and the creditor. Problems that arise between the principal and the creditor, such as the principal not providing sufficient information for the creditor to make the right decision; the principal concealing important information that may influence creditor decisions; the creditor's inability to fully supervise or control the principal's use of the loaned funds; and the principal's desire to maximize profits versus the creditor's desire for a stable and safe return, create friction between the parties.

One of the agency problem cases that occurred in the world was the Wells Fargo company in 2016. Wells Fargo was embroiled in controversy due to its cross-selling tactics and the

immense pressure management put on employees to ensure its success. The case involved creating fake accounts without customers' knowledge, and sometimes forging their signatures. Based on these cases, agency problems can arise when the interests of management (agent) are not aligned with those of shareholders or customers (principal). Agency problems can occur when management focuses on increasing profits or achieving targets without considering the long-term impact on the company's reputation (Veetikazhi & Krishnan, 2019).

Each company has different governance because public governance follows the circumstances and needs of the company itself. Agency theorists argue that suitable governance mechanisms can help reduce agency problems, and this is one of the focuses of this paper from the perspective of *Tri Kaya Parisudha*. *Tri Kaya Parisudha* is a concept in Balinese Hinduism which emphasizes the purification of thoughts, words and deeds. It guides personal behaviour and spiritual development. While focusing primarily on individual transformation, *Tri Kaya Parisudha* principles can provide insight into corporate governance practices. *Tri Kaya Parisudha* philosophy can be applied to various aspects of

organizational management, such as internal control, communication, and decision-making. *Tri Kaya Parisudha* can be used to set the right incentives for agents, incur monitoring costs, and limit abnormal activity. In addition, philosophy can be used to ensure that the agent does not take specific actions that will harm the principal or that the principal will be compensated if he takes such actions. By implementing *Tri Kaya Parisudha*, organizations can create a more harmonious and productive work environment, improving performance and profitability. Leaders can also create a culture of honesty, integrity and accountability, encouraging a harmonious and sustainable business environment.

***Tri Kaya Parisudha* as a Remedies to the Agency Problem**

When in one situation, for example, an agent who abuses his power and authority by accepting bribes or taking personal advantage of business decisions; agents who deliberately manipulate the company's financial statements to show better performance than actual; or agents who do not provide accurate, honest and transparent information to shareholders or other stakeholders, this can cause problems not only for the company's internal but also for

external parties the company will be affected, such as reducing company value, disrupting financial performance, decreasing trust and credibility.

As in the case of Wells Fargo in 2016, which was embroiled in controversy due to its cross-selling tactics and the immense pressure management put on employees to ensure its success resulted in damage to the company's reputation. Wells Fargo employees who opened fake accounts acted to achieve sales targets and fulfill management pressure. This scandal caused a huge reputational loss for Wells Fargo, which can be detrimental to shareholders and customers. This can arise due to a failure in the company's internal control system to detect and prevent such unethical practices. Agency problems can develop when companies are not transparent in reporting information to shareholders and the public. If information about unethical banking practices is hidden or presented in a misleading way, then it can create distrust and agency problems (Veetikazhi & Krishnan, 2019).

The Sarasamuscaya Sloka 77 also mentions moral messages to humanity to always take care of all actions, thoughts and speech so that we humans should always get used to

carrying them out. The sloka reads as follows:

“Kayena manasa vaca yadabhiksnam nisevyate, Tadevaharatyenam tasmāt kalyanamacaret”

(Because what makes a person known is his actions, thoughts, and words; that is what attracts people's attention, to know someone's personality; therefore, let the good always be accustomed to in behaviour, words and thoughts.)

This sloka can be interpreted as a reminder that actions, thoughts and words determine one's reputation. Actions and decisions are taken, the ways of thinking and words reflect a person's character and personality. This sloka can be a solution for agents by building better individuals by focusing on the tasks and obligations given, the details of which are presented in Table 1.

Tri Kaya Parisudha also covers the material, spiritual and social aspects of one's life. Material values in *Tri Kaya Parisudha* involve aspects of material and financial wealth, where the application of material values can include the formulation of clear contracts regarding financial rewards and incentives for agents so that they are motivated to act following the principal's interests. The spiritual values in *Tri Kaya Parisudha* highlight the importance of personal growth, self-awareness and moral integrity. In the agency context, spiritual values

can be applied by strengthening the agent's integrity and prioritizing business practices with integrity. Increasing agents' self-awareness of their actions' moral and social consequences can help reduce unethical or fraudulent behaviour. The social values in *Tri Kaya Parisudha* involve aspects of social relations and responsibility towards the surrounding environment. In the agency context, applying social values may include considering the social impact of the agent's decisions and actions. Principals and agents can pay attention to social factors such as environmental responsibility, and positive societal contributions. Thus, they can implement environmentally friendly policies, participate in social activities, or support social initiatives.

When material, spiritual and social aspects are applied to agency issues, these three dimensions collectively address challenges by encouraging a holistic and ethical approach to decision-making and behavior. In the material aspect, transparency and fairness can reduce the risk of moral hazard or conflict of interest, addressing misalignment between principals and agents. On the spiritual aspect, by emphasizing self-awareness and moral integrity, agents are less likely to engage in unethical or fraudulent behavior.

Table 1. Reducing Agency Problems with *Tri Kaya Parisudha* Values

Types of Agency Problem	<i>Tri Kaya Parisudha</i> Value	Explanation
Principal – Agent Problem (Type 1)	<i>Manacika Parisudha</i>	<ul style="list-style-type: none"> • Principals and agents must comprehensively understand their duties, responsibilities, and desired outcomes. • Principals and agents must make decisions and carry out duties using fair, objective, and responsible reasoning. • Have an understanding of one another's needs, preferences, and expectations, thereby reducing the likelihood of misunderstandings. • The importance of clear, honest, and transparent communication to reduce agency issues.
	<i>Wacika Parisudha</i>	<ul style="list-style-type: none"> • The necessity of sharing pertinent information, such as company limitations, company developments, or changes that have occurred. • Avoid misunderstandings by clarifying and elaborating on existing instructions and regulations • Principals and agents must execute their responsibilities with honesty, integrity, and competence.
	<i>Kayika Parisudha</i>	<ul style="list-style-type: none"> • Principals and agents are required to adhere to current policies and regulations. • Maintain mutual trust by honouring commitments, keeping sensitive information confidential, and acting by shared interests. • The majority shareholder must maintain openness in decision-making and company management. They must openly and honestly communicate pertinent information with minority shareholders.
Principal – Principal Problem (Type 2)	<i>Manacika Parisudha</i>	<ul style="list-style-type: none"> • Majority shareholders must consider the interests of all stakeholders, including minority shareholders, and avoid making egocentric decisions that are detrimental to the company's long-term viability.
	<i>Wacika Parisudha</i>	<ul style="list-style-type: none"> • Establish inclusive and transparent communication between the majority and the minority shareholders. In these communications, majority shareholders must pay attention to and respect minority shareholders' opinions and concerns. • Majority shareholders must seek to comprehend the perspectives and objectives of minority shareholders through effective communication. Achieving a consensus will help reduce tensions and strengthen relations between the two parties.

Table 1. Reducing Agency Problems with *Tri Kaya Parisudha* Values (continued)

Types of Agency Problem	<i>Tri Kaya Parisudha</i> Value	Explanation
Principal – Creditor Problem (Type 3)	<i>Kayika Parisudha</i>	<ul style="list-style-type: none"> • The majority of shareholders' actions must adhere to sound corporate governance principles. This includes an independent board of directors, effective supervision mechanisms, and decisions made with fair and transparent considerations. • Recognizing and protecting minority shareholder rights. Majority shareholders must guarantee fair treatment of minority shareholders • Majority shareholders must ensure the company's management is transparent and accountable.
	<i>Manacika Parisudha</i>	<ul style="list-style-type: none"> • Having a relationship built on integrity and trust. The principal and creditor must have cooperative intentions and objectives. • Perform thorough due diligence before engaging in a transaction or executing a contract. Principals and creditors must conduct exhaustive research to comprehend the agreement's risks and benefits
	<i>Wacika Parisudha</i>	<ul style="list-style-type: none"> • Principals must communicate openly with creditors by holding regular meetings and submitting regular reports to develop trust and keep creditors informed. • The principal must adhere to the terms and conditions agreed upon with creditors in order to enhance the level of trust.
	<i>Kayika Parisudha</i>	<ul style="list-style-type: none"> • Principals must actively manage the risks associated with loans provided by creditors. This includes adequate risk monitoring and mitigation so that creditors are comfortable with the use of their funds. • Principals must demonstrate exemplary performance in managing borrowed funds. Timely payments, efficient use and consistent growth, will build trust and improve relationships with creditors.

This can reduce agency problems in the form of information asymmetry and build trust between principals and agents. On the social aspect, agents can make decisions that consider their impact on society and the wider environment. This can

overcome agency problems related to externalities, where the agent's actions affect stakeholders beyond the principal. Doing *Tri Kaya Parisudha* to the best of one's ability can result in good thoughts. Good words will produce good thoughts,

which in turn will produce good deeds. From good deeds, the rewards obtained from the Karma achieved will also be good. The implementation of this *Tri Kaya Parisudha* teaching in the process of achieving material, spiritual, and social purity is to properly implement the three parts of this concept (Tiana, 2023).

CONCLUSION, IMPLICATION AND LIMITATION

This conceptual paper aims to provide an alternative character based on the values of *Tri Kaya Parisudha* as a solution to address agency problems. *Tri Kaya Parisudha* is a concept in Balinese Hinduism which emphasizes the purification of thoughts, words and deeds. It guides personal behaviour and spiritual development. *Tri Kaya Parisudha* values that must be emphasized are (1) thinking: developing balanced thinking, empathy, awareness of common goals, understanding and considering the interests of all stakeholders in the decision-making process, avoiding personal motivations that can harm the organization, (2) speech: prioritizing honest, transparent and responsible communication between agents and owners or shareholders, speaking honestly and avoiding manipulation or concealment of information that

can lead to conflicts of interest, (3) actions: emphasizing the importance of practising ethical behaviour, accountability and fairness in carrying out duties as an agent or leader in the company, engage in actions that are aligned with the interests of the owner or shareholder and avoid conflicts of interest that can be detrimental to the organization.

Despite these mechanisms, it is not possible to eliminate the agency problem. There will always be some difference between the agent's decisions and those maximizing the principal's welfare. Therefore, principals and agents must work together to manage agency issues and ensure mutually beneficial relationships.

Things that can be done to reduce agency problems, such as 1) Emphasizing the development of balanced thinking, agents are expected to consider the interests of all parties involved in decision making. This can reduce the tendency to make decisions based on personal motives that can harm the organization; 2) Emphasis on honest and transparent communication can help reduce conflicts of interest. Agents are expected to communicate responsibly with owners or shareholders, avoiding manipulation or concealment of information that

could harm the ultimate interest; 3) Understanding and considering common goals involves all parties involved in the decision-making process can help direct decisions to be more beneficial to all parties. This can reduce the gap between the agent's decisions and the owner's ultimate welfare; 4) Regular evaluation of the implementation of *Tri Kaya Parisudha* values and adaptation to situational changes.

This research has implications, such as – (1) making an essential contribution to the theory and practice of corporate governance by introducing a new approach to dealing with agency problems. (2) provide awareness that by applying the *Tri Kaya Parisudha* concept, individuals within the company will be encouraged to control their thoughts, words and actions better, thereby reducing the chances of ethical violations and conflicts of interest and can have a positive impact on the overall performance of the company.

Tri Kaya Parisudha originates from Hindu teachings and may be deeply rooted in specific cultural and religious contexts. Its immediate application and effectiveness in diverse cultural and organizational settings worldwide may be limited. The concept requires adaptation or integration with broader governance

frameworks aligned with different regions' cultural and legal contexts. The adaptation and application of *Tri Kaya Parisudha* in diverse cultural and organizational settings require a thoughtful and context-specific approach. By translating the principles, being culturally sensitive, integrating with governance frameworks, and allowing for flexibility, open communication, and a willingness to tailor the concept to specific contexts are key to its successful implementation.

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