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THE REVISED AGENCY CONFLICT: ALIGNMENT MECHANISMS IN THE LIGHT OF INSTITUTIONAL THEORY

O CONFLITO DE AGÊNCIA REVISITADO: MECANISMOS DE ALINHAMENTO A LUZ DA TEORIA INSTITUCIONAL

EL CONFLICTO DE AGENCIA REVISITADO: MECANISMOS DE ALINEACIÓN A LA LUZ DE LA TEORÍA INSTITUCIONAL

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ABSTRACT
The conflict between agent and principal is originally attributed to the separation between ownership and control. The realignment process occurs through corporate governance mechanisms, such as the monitoring exercised by the Board of Directors. However, when monitoring executives, board members, through disciplinary power, tend to orient conduct grounded in instrumental rationality. In highly institutionalized environments, however, this concept of efficiency may require reinterpretation. Thus, the present theoretical essay aimed to revisit the concept of instrumental efficiency within the agent–principal conflict in light of Institutional Theory. To this end, the disciplinary power of the Board of Directors, the precepts of instrumental rationality, and institutional factors such as "myths" and "ceremonies" are discussed. As a secondary empirical illustration, the relationship between a "myth" — the Corporate Sustainability Index — and instrumental efficiency criteria is presented, suggesting the relevance of an analytical revisiting of the aforementioned conflict.
Key-Words: Conflict of Agency. Board of Directors. "Iron Cage Revisited".

RESUMO
O conflito entre agente e principal é originalmente atribuído à separação entre propriedade e controle. O processo de realinhamento ocorre por mecanismos de governança corporativa, como o monitoramento exercido pelo Conselho de Administração. Contudo, ao monitorar os executivos, os conselheiros, por meio do poder disciplinar, tendem a orientar condutas ancoradas na racionalidade instrumental. Em ambientes altamente institucionalizados, entretanto, esse conceito de eficiência pode demandar reinterpretação. Assim, o presente ensaio teórico objetivou revisitar o conceito de eficiência instrumental presente no conflito entre Agente e Principal à luz da Teoria Institucional. Para isso, discutem-se o poder disciplinar do Conselho de Administração, os preceitos da racionalidade instrumental e fatores institucionais como "mitos" e "cerimônias". Como ilustração empírica secundária, apresenta-se a relação entre um "mito" — o Índice de Sustentabilidade Empresarial — e critérios de eficiência instrumental, sugerindo a pertinência de uma revisita analítica ao conflito supracitado.
Palavras-Chave: Conflitos de Agência. Conselho de Administração. "Gaiola de ferro revisitada".

RESUMEN
El conflicto entre agente y principal se atribuye originalmente a la separación entre propiedad y control. El proceso de realineación ocurre mediante mecanismos de gobierno corporativo, como el

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monitoreo ejercido por el Consejo de Administración. No obstante, al supervisar a los ejecutivos, los consejeros, a través del poder disciplinario, tienden a orientar conductas ancladas en la racionalidad instrumental. En entornos altamente institucionalizados, sin embargo, este concepto de eficiencia puede requerir una reinterpretación. Así, el presente ensayo teórico tuvo como objetivo revisitar el concepto de eficiencia instrumental presente en el conflicto entre Agente y Principal a la luz de la Teoría Institucional. Para ello, se discuten el poder disciplinario del Consejo de Administración, los preceptos de la racionalidad instrumental y factores institucionales como los "mitos" y las "ceremonias". Como ilustración empírica secundaria, se presenta la relación entre un "mito" — el Índice de Sostenibilidad Empresarial — y los criterios de eficiencia instrumental, sugiriendo la pertinencia de una revisión analítica del conflicto mencionado.
Palabras clave: Conflictos de Agencia. Consejo de Administración. "La jaula de hierro revisitada".

1. Introduction

The disciplinary field of organizational economics can be defined differently from other organizational analyses by its belief in equilibrium analyses, its assumptions of profit-maximizing managers, and its use of abstract models and assumptions. Barney and Hesterly (2004) point out that organizational economics appears to have only two factors in common with other forms of organizational analysis: (i) continued interest in the structure, functioning, and consequences for firms, and (ii) great interest in the relationship between competition and organizations.

According to the authors, the function of cooperation (intra- and inter-firm) in economic models, by enabling more effective responses to competitive threats, has generated a vast literature that can conveniently be divided into: (i) transaction cost economics (TCT); (ii) Agency Theory; (iii) Strategic Management; and (iv) Cooperative Economics. Each of these currents seeks to answer questions that shape how these have evolved over time.

Specifically, Transaction Cost Theory (TCT) seeks to answer the following question – "Why do organizations/firms exist?". The importance of this question lies in challenging assumptions of classical and neoclassical theories, as pointed out by Adam Smith, in which markets are the coordinators of economic production carried out through transactions at a very low cost and without government planning, that is, the economy could be coordinated by a decentralized price system – the invisible hand. Coase (1937), when discussing the "Nature of the Firm", calls into question the price mechanism, that is, the economic system coordinated by the price

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mechanism. The authors point out that there are “islands of conscious power in the ocean of unconscious cooperation...”. In this context, Coase (1937) raises the question of why there are “islands of conscious power” – firms – if the price mechanism – the “unconscious ocean” – is what coordinates market transactions.

Furthermore, "the reason why organizations exist" goes beyond the efficiency of the market in coordinating economic transactions, leading to another question: if the market is so efficient, why doesn't it manage all transactions, instead of firms managing them (COASE, 1937)? In this sense, "The nature of the firm" is anchored in the assumption that the cost of managing economic transactions through markets is greater than the cost of managing economic transactions within the boundaries of an organization (COASE, 1937). Therefore, the Theory of Central Transactions (TCT) offered a new perspective on the organization to organizational analysts.

However, neoclassical economics, in directing its efforts towards understanding why a firm is created, does not look inside the firm. As Barney and Hesterly (2004) point out, neoclassical economics defined a monolithic objective for the firm, that is, profit maximization. However, the disregard for the possibility of intra-firm conflicts raises the question of how the various actors involved act on the management of the firm. In this context, one of the first moves to overcome the neoclassical firm was the more explicit examination of conflicts over goals and perceptions within organizations (BARNEY; HESTERLY, 2004). For this, it was necessary to move beyond TCT, since it implicitly assumed that agreement regarding the form of management is not problematic.

The focus on intra-firm conflicts came with Jensen and Meckilng's Agency Theory (1976). This is part of the economic literature that seeks to understand the causes and consequences for the organization of disagreement over goals, one of the behavioral assumptions being opportunism, that is, the possibility of pursuing self-interest to the detriment of other stakeholders.

The discussion on Agency Theory was the focus of this theoretical essay and is addressed in detail in the following sections. The development of this essay took place precisely in understanding the intra-firm conflict neglected by Transaction Cost Theory, focusing on the aforementioned neoclassical objective of increasing

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profit, in other words, seeking to highlight the plot of these conflicts on the technical efficiency of the firm. Furthermore, it is argued that, in organizational environments marked by high institutionalization, the efficiency of the firm can also be analyzed from an institutional perspective, especially when organizational survival is considered one of the central interests of the economics of organizations.

In this sense, this theoretical essay aimed to "revisit" the concept of instrumental efficiency present in the conflict between Agent and Principal through Institutional Theory. To this end, 4 sections were developed. The first provides a contextualization of Jensen and Mecking's (1976) Agency Theory, demonstrating the nature of the conflict between Agent and Principal and the deviations in conduct that the former has, requiring disciplinary mechanisms from the latter.

2. Agency Conflicts: Nature and Conceptualizations

Any debate about Corporate Governance, whether in the context of the control system, regulations, or incentives, is always based on a history of conflicts of interest and attempts to minimize them. All these conflicts have important organizational repercussions on corporate governance, structure, organizational efficiency, and compensation systems (BARNEY; HESTERLY, 2004).

The divergence of goals has several sources, and can be between executives and shareholders, between majority and minority shareholders, and even between titleholders and shareholders (BERK; DEMARZO, 2009). The focus of this theoretical essay is based on the first type of conflict.

In this sense, the conflict between Agent and Principal arises from a process of granting the management of the firm from the owners to executives, thus trusting that the grantees will take care of their interests as well as they themselves would (BERK; DEMARZO, 2009). However, the presented granting process brings with it some peculiarities such as the conflict of interest between these agents. In practice, numerous deviations in conduct are observed, anticipated by economic literature and confirmed by careful observation of corporate reality.

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Tirole (2006) lists some ways these deviations occur, such as: (i) insufficient effort; (ii) extravagant investments (empire building); (iii) entrenchment strategies; and (iv) self-dealing: transactions for personal gain (private benefits). These four factors refer to a group, generically called "Moral Hazard," which is not the only one, as several others exist.

Just as Tirole (2006) observes moral hazard as a source of the agency problem, since it is composed of hidden actions, that is, situations in which many of the agents' actions are hidden from the owner or are costly to observe. Additionally, the author points to adverse selection as another source, composed of hidden information, that is, information that is unobservable or costly to obtain for the owner.

Agency theory assumes that human beings have a limit to rationality and are self-interested as well as prone to opportunism, as pointed out in previous paragraphs. In this context, agency relationships occur when the principal (owner) delegates authority to the agent (manager), and the well-being of the former is affected by the choices of the latter; that is, the interests of the principal and the agent are divergent (BARNEY; HESTERLY, 2004). Therefore, the possibility of opportunistic attitudes on the part of the agent constitutes the agency problem.

The conflict of interest between executives and owners is a widely discussed issue in academia, already documented by Berle and Means (1932), Gordon (1940), and Jensen and Meckling (1976), bringing to light the divergence of interests between agent and principal discussed by Agency Theory. This conflict can be better examined through the ownership and control structure. Sonza and Kloeckner (2014) define it as the distribution of the company's capital with respect to votes and the degree of concentration/participation of owners in the capital. Thus, discovering how it is designed can influence the company's results.

The debates on ownership structure, as mentioned, began with the seminal work of Berle and Means (1932), in which they empirically analyzed the shareholding composition of large American companies and debated the conflicts of interest that dispersed ownership structures could entail for the performance and value of companies. This divergence of individual interests was also later analyzed

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by Jensen and Meckling (1976) in the context of Agency Theory, where agents within organizations do not necessarily act in the best interests of fund providers.

Additionally, Jensen and Meckling (1976) integrated elements of agency theory, rules of property theory, and financial theory into these analyses to develop a consistent theoretical body on the ownership structure of the firm. In this context, the general nature of agency problems raises some questions such as: why do owners delegate authority to agents when they know that such delegation of authority will inevitably lead to agency problems? Barney and Hesterly (2004) point out that the separation of control from ownership is explained by an evolutionary context of the company, in which, due to increases in production, increases in size, and increases in the number of partners, the decision will be made to grant management rights to a third party, the agent.

In this sense, the authors state that the situations in which larger and more complex companies are circumscribed are not so simple. In these ventures, a single person may be unable to commit efficiently and in a timely manner to all these business activities.

3. Monitoring and Links: A Foucauldian Approach (2002)

As discussed in the previous section, corporate governance provides mechanisms to realign the agent's objectives with those of the Principal. One way to mitigate this conflict is through pecuniary and non-pecuniary incentive mechanisms. Thus, one of the tools used in this process is Executive Compensation. In addition to the compensation aspect, there are other types of implicit incentives that can also resolve the conflict of interest between the agent and the principal (TIROLE, 2006).

Another way to achieve this alignment is through monitoring. This, according to Tirole (2006), is done by various external agents, such as advisors, auditors, large shareholders, creditors, investment banks, rating agencies, and institutional investors. The focus of this theoretical essay was on this last alignment mechanism, that is, on monitoring, and specifically on the Board of Directors.

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The first question that could be asked is: in what context does a Board of Directors emerge? According to Berk and Demarzo (2009), when ownership of a company is dispersed, no shareholder has an incentive to bear the costs of monitoring alone, since the benefits of these actions would be divided among the other shareholders in the future. Instead, shareholders elect a board of directors, tasking it with monitoring the appointed agents.

In this context, Cornelli et al. (2013) attribute to the board of directors one of the main disciplinary mechanisms of internal control for monitoring the performance of the Chief Executive Officer (CEO). In the same context, Weisbach (1988) points out that the board of directors, through its disciplinary role, can advise and veto decisions that result in the destruction of the company's value, and also, in cases of unsatisfactory performance, has the power to influence the replacement of the CEO. Thus, one could analogously compare that one of the main functions of the Board of Directors is to monitor, in financial terms, or "watch over" in Foucaultian terms (2002), as well as to veto non-convergent decisions and attitudes of the agent, in financial terms, or "punish" "non-docile/untrained" agents in Foucaultian terms (2002).

This analogous relationship can be better understood by the motto of Foucault's analyses (2002). This is concentrated on power as a historically constituted social practice, and the multiple forms of its exercise in society. The development of the genealogy made by the author culminates in disciplinary power, which is present in various forms in social relations. The success of disciplinary power is undoubtedly due to the use of simple instruments such as hierarchical surveillance, normalizing sanction, and examination (FOUCAULT, 2002). Thus, what pertains to disciplinary action is non-compliance, everything that is inadequate to the rule, everything that deviates from it, the deviations (FOUCAULT, 2002). In the given example, the deviation is precisely the discrepancy (and logically its magnitude) between the executives' conduct and what was expected by the shareholders.

Foucault (2002, p. 133), when discussing the discipline of bodies, points out that the formation of a relationship that, in the same mechanism, makes it both more

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obedient and more useful, that is, discipline manufactures submissive bodies, "docile" bodies. The disciplinary process, genealogically understood, has altered this scope. Foucault (2002) presents the control of activity, pointing out that "behavior and its organic demands gradually replace the simple physics of movement, or discipline is no longer an art of dividing bodies, of extracting and accumulating time from them, but of composing forces to obtain an efficient apparatus."

Thus, Foucault (2002) points out that disciplinary power is in effect a power that, instead of appropriating and taking away, has as its main function "training," or undoubtedly training to take away and appropriate even more and better. In this sense, the analyses proposed by Foucault (2002) indicate that what is at stake in capitalist power relations is the production of a subject whose economic productive capacity is liberated and whose politics are inhibited. Thus, the success of this undertaking depends on the construction of a politically docile and economically useful subject, that is, one who is broadly connected to the social demands for skills required of the subject in a given historical period.

This process of "docilization" of the Executives' attitudes refers precisely to the alignment of their objectives with those of the principals, as already pointed out by Agency Theory. The use of the "discipline" factor in relation to the board refers to the formula of domination of the Principal in relation to the agent, that is, the docilization of minds and conduct, or not an instrumental codification of the body, but rather of the soul.

Therefore, the "surveillance" exercised by the Board of Directors functions as a disciplinary mechanism for the Executives' conduct, policing them in their decision-making. To leverage the disciplinary performance of the Board, the literature points to some essential factors such as the independence of the Board members (Faleye et al., (2011), the length of service on the Board – tenure (ADAMS, 2009; FALEYE et al., 2011 and SONZA; KLOECKNER, 2014), a reduced number of Board members (JENSEN, 1993; YERMACK, 1996), the non-turnover of the Board Chairman (FRANKS; MYER, 2001; SONZA; KLOECKNER, 2014) and the non-dual CEO/Board Chairman (GOYAL; PARK, 2002).

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In this context, surveillance becomes a decisive economic operator, insofar as it is simultaneously an internal part of the production apparatus and a specific cog in the disciplinary power mechanism (FOUCAULT, 2002). In this surveillance process, the Advisors develop judgments about the essential goals and objectives of the agents. In particular, owners may try to judge how similar the goals and objectives of their agents are compared to their own goals and objectives. Certainly, monitoring an agent's behavior will rarely generate perfect information about decisions and actions, let alone about that agent's goals and objectives. This is very unlikely, since agents are committed to relatively complex and highly structured tasks (BARNEY; HESTERLY, 2004).

According to Barney and Hesterly (2004), monitoring can be extended to the (only partially observed) consequences of executive behavior, that is, a posteriori. Thus, instead of monitoring actions and decisions, owners may decide to monitor performance relative to them. Tracking executive actions based on performance reports is one of the most common ways of evaluating the conduct of agent management.

As explained in the previous paragraphs, the disciplinary power exercised by the Board seeks to produce a subject whose economic productive capacity is released and whose politics are inhibited, that is, the The emphasis is on the technical and productive aspects of the first, while mitigating self-interest for the second. Therefore, when evaluating the degree of alignment of executives' conduct through performance, the predominant factor in this analysis will be the technical and financial one. However, as demonstrated in the next section, conditioning alignment solely on this factor may be incomplete due to the failure to consider asymmetric information and a modern institutional context.

If there is resistance from Executives in acting in accordance with the Principal's objectives, the Board of Directors may seek ways to "punish" the executives, as in the following example. According to Sonza and Kloeckner (2014), CEOs are naturally concerned with maintaining their positions (implicit incentive). This is due to the active surveillance that the board of directors institutes over executives. Thus, the disciplinary power of the board permeates, generating a

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negative instance whose function is repression, or even induces in the executive a conscious and permanent state of visibility that ensures the automatic functioning of power (FOUCAULT, 2002). In other words, it is a matter of simultaneously making the most subtle fractions of conduct punishable, and of giving a punitive function to the apparently indifferent elements of disciplinary power, that is, the regime of disciplinary power puts into operation the relationship of acts with performance culminating in rules to be followed (FOUCAULT, 2002).

One of the most traditional forms of punishment by the Board, when it sees a discrepancy with the Principal's objectives, is the dismissal of the Executive, or as Chen, Goldstein, and Jiang (2008) point out, turnover represents a good proxy for determining the efficiency of monitoring by directors. Shleifer and Vishny (1997) state that majority shareholders or institutional investors (pension funds) function as a monitoring mechanism for the CEO, reducing the degree of managerial entrenchment, increasing the likelihood of CEO replacement in the case of poor performance (SONZA; GRANZOTTO, 2018).

The legitimization of this "corrective" aspect can be observed through the work of Gilson (1989). The author points out that 52% of the firms he investigated rotate executives when they are experiencing financial difficulties or are in the process of bankruptcy, and due to the resignation of the firms and the market, the executives usually do not find employment in another company listed on the Capital Market in the following three years. Thus, the market legitimizes the punishment of the board by assigning an image to the dismissed CEO. Or, disciplinary power is exercised invisibly (the market), but in return imposes on those it subjects (executives) a principle of mandatory visibility (Foucault, 2002).

Finally, it can be inferred that the purpose of the board of directors is to make the appointed agents operational elements of a useful economy, along with a "trained" politician. However, the relationships between agent and principal can be analyzed in light of the institutional changes that occur over time.

3.1 Theoretical Framework: Limits, Tensions, and Analytical Compatibilities

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The convergence between Agency Theory and the Foucauldian notion of disciplinary power requires epistemological caution. These are theoretical frameworks that start from distinct anthropological and ontological assumptions. Agency Theory, anchored in the neoclassical economic tradition, assumes as a behavioral premise the rational agent, endowed with self-interest and oriented towards maximizing utility under contractual and informational constraints (JENSEN; MECKLING, 1976). The Foucauldian perspective, on the other hand, departs from an essentialist ontology of the subject, understanding it as historically produced by power relations and disciplinary devices that shape conduct and subjectivities (FOUCAULT, 2002).

In this sense, the articulation proposed here does not intend to ontologically reconcile these frameworks, nor to suggest full epistemological compatibility between them. On the contrary, it recognizes the tension between an approach that starts from instrumental rationality as a presupposition and another that problematizes the very historical constitution of the rational subject. The approach developed in this essay therefore assumes a heuristic and conceptual character. Agency Theory allows us to understand the formal mechanisms of incentives, monitoring, and contractual alignment between principal and agent. The Foucauldian reading illuminates the disciplinary dimension of these same mechanisms, showing that monitoring operates not only as an instrument for reducing informational asymmetry, but also as a device that produces "docile" behaviors, economically useful and politically adjusted to the dominant rationality.

From this perspective, the Board of Directors not only monitors and punishes contractual deviations, but also contributes to the internalization of efficiency standards that come to guide executive subjectivity. Thus, what is described in Agency Theory as incentive alignment can be interpreted, in the light of Foucault, as a process of normalization and production of subjects adhering to instrumental logic.

The contribution proposed here is therefore situated on the conceptual-analytical plane. This is not about replacing economic ontology with Foucauldian ontology, but about broadening the interpretative field of corporate governance mechanisms, highlighting that these operate simultaneously in contractual and

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disciplinary dimensions. This analytical expansion prepares the ground for the subsequent discussion about the limits of instrumental efficiency in highly institutionalized contexts.

4. Instrumental Efficiency and Institutional Efficiency

The distinction proposed in this essay stems from two analytical regimes of organizational evaluation. Inspired by the tradition of Weberian formal rationality (WEBER, 1952) and the assumptions of neoclassical economic theory, instrumental efficiency is understood as the organizational capacity to coordinate resources in a technically rational manner, oriented towards the maximization of financial and productive results. In this regime, the organization is conceived as a structure aimed at the optimal allocation of means for previously defined ends, with performance being measured primarily by technical-financial metrics.

In contrast, based on institutional literature, such as Meyer and Rowan (1977) and DiMaggio and Powell (2005), the analytical notion of institutional efficiency is proposed as the organization's capacity to ensure legitimacy, stability, and access to resources through conformity to socially institutionalized norms, myths, and expectations. This is a distinct evaluation regime, in which organizational survival may depend less on immediate technical maximization and more on symbolic adequacy to the normative structures of the environment. This distinction finds support in the very historical formation of bureaucratic rationality described by Weber (1952). As markets expand and relational networks become more complex, organizations begin to demand formal structures capable of coordinating and controlling technical activities in a predictable and calculable way. Bureaucracy, in this context, presents itself as a superior coordination mechanism, conferring competitive advantages to organizations that adopt rationalized structures. Efficiency, thus conceived, emerges as a product of formalization, standardization, and instrumental calculation.

However, as the institutional literature argues, the consolidation of these formal structures is not explained exclusively by technical productivity gains. Often, the adoption of certain organizational practices responds to normative pressures

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and widely legitimized social expectations, even if their effects on technical efficiency are ambiguous. It is at this point that it is justified to distinguish instrumental efficiency from institutional efficiency, preparing the ground to analyze how such regimes can come into tension within the scope of the conflict between agent and principal.

According to Weber (1968), the spread of bureaucracy is concentrated in three main causes: (i) competition between capitalist companies in the market; (ii) competition between states; and (iii) bourgeois demands for equal protection under the law. Of these, competition between companies has taken on the greatest importance. This entire process of rationalization culminates in the transformation of man into an "economic animal" (MAUSS, 1968). This is nothing more than a consequence of formal organizations, that is, those founded on calculations, constituting systems designed and deliberately created for the maximization of resources (WEBER, 1952). Therefore, through bureaucracy, instrumental rationality became the dominant standard of rationality for human existence.

Henceforth, for Weber (1952), the rationalist order had become an "iron cage" in which humanity would be safe through the possibility of a prophetic rebirth. Thus, through the organizational manifestation of the rational spirit – bureaucracy – there would be the constitution of such an efficient and powerful means of control over men and women that, once established, the momentum of bureaucratization would be irreversible. This is why the term "Iron Cage" is used: once a rational bureaucratic logic is established, it would be an irreversible process. In this sense, bureaucratization is one of the main sources of organizational efficiency. Its process In a capitalist market economy, educators demand that business administration be carried out precisely, continuously, unambiguously, and as quickly as possible (MEYER; ROWAN, 1977).

However, this process evolves as DiMaggio and Powell (2005) propose a "revisit" to the causes of bureaucratization and rationalization, that is, to the very metaphor of the "Iron Cage." According to the authors, structural changes in organizations seem to be less and less driven exclusively by competition or the pursuit of technical efficiency. In this context, bureaucratization and other forms of

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organizational change can be understood as the result of processes that make organizations more similar to each other (isomorphic), without necessarily making them more efficient. This perspective is corroborated by Meyer and Rowan (1977), who argue that, in modern societies, the elements of the rationalized formal structure are deeply institutionalized and reflect socially shared understandings of reality.

According to Meyer and Rowan (1977), in a process of Institutionalization, organizations are led to incorporate the practices and procedures defined by the prevailing concepts of organizational work rationalization and institutionalized in society. Organizations that do so increase their legitimacy and prospects for survival, regardless of the immediate effectiveness of the practices and procedures acquired.

The aforementioned authors offer a radical departure from conventional ways of thinking about formal structure and the nature of organizational decision-making regarding structure, in which it can be seen as a socially shared meaning. As Meyer and Rowan (1977) point out, many formal organizational structures emerge as reflections of rationalized institutional rules, in which these rules function as "myths" that organizations incorporate, obtaining legitimacy, resources, stability, and better prospects for survival, or, instead of coordination, inspection, and evaluation, a logic of trust and good faith is employed.

However, compliance with institutionalized rules and “myths” conflicts with efficiency criteria, as organizations that reflect institutional “myths” and “ceremonies” in their formal structures of the uncertainties of technical activities become weakly coupled, that is, the distance between the formal structure and the actions of the work, and the greater this difference, the greater the decoupling. According to Bell (1973), many post-industrial organizations reflect these “myths” instead of the real work activities, a factor that contributes to the conflict with efficiency.

Thus, structural changes in organizations seem to be increasingly less driven exclusively by competition or the pursuit of technical efficiency, reflecting processes of redefinition and specification of new institutionalized situations (MEYER; ROWAN, 1977). By proposing a “Revisit to the Iron Cage,” DiMaggio and Powell

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(2005) shift the analysis from the causes of bureaucratization to the institutional processes that shape organizational homogenization. From this perspective, such revisiting can be extended to the dynamics that occur “inside the cage,” that is, to the relationships between individuals and organizations and, in the present context, to the interactions between agent and principal. This suggests that the constituent elements of the “cage” itself can be analyzed under new institutional lenses.

The “revisiting” in the Agent-Principal context is related to how, for example, the Board of Directors seeks to discipline executives, making them economically useful. However, this process clashes with an institutional context in which Directors can evaluate the technical performance of Executives and draw conclusions about their behavior that are not in accordance with the required technical aspect.

However, such behaviors may be aligned with organizational “myths” and “ceremonies,” that is, with efficiency criteria from an institutional perspective. In this situation, the agent may be executing institutionalized practices that, from a strictly instrumental perspective, can be interpreted as evidence of informational asymmetry or misalignment with the owners' objectives.

It is important to highlight that the notion of institutional efficiency proposed here does not imply normative superiority over instrumental efficiency. The institutional literature recognizes that legitimacy can coexist with persistent technical inefficiencies, especially in contexts of decoupling between formal structure and operational activities (MEYER; ROWAN, 1977). Thus, the argument developed in this essay does not support the replacement of one regime by another, but emphasizes the coexistence and possible tension between different criteria for organizational evaluation.

In this way, the understanding of the level of alignment between executives and owners can be broadened when contemporary factors of the formal bureaucratic structure are considered. The following section presents an empirical illustration of this "revisited" relationship.

4.1 Secondary Empirical Illustration: The Case of the Corporate Sustainability Index (ISE)

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In a capital market context, companies participating in an initial public offering (IPO) process are required to adapt to certain transparency policies towards investors in order to achieve greater efficiency in the financial system. These adaptations can be seen in the four pillars of corporate governance, which are: (i) Transparency (disclosure): disclosure of information; (ii) Equity: equal treatment of stakeholders; (iii) Accountability: standardization of accounting reports; and (iv) Corporate Responsibility.

All these "institutionalizations" occur through coercive isomorphism, that is, the homogenization process that companies undergo due to formal and informal pressures, as well as the cultural expectations of the society in which the organizations operate (DIMAGGIO; POWELL, 2005). Thus, in some circumstances, organizational change is a direct response to government orders, as can be seen in the aforementioned IPO context, in which coercive isomorphism is carried out by the financial system. In this context, if a company fails to comply with these guidelines, bodies such as the Securities and Exchange Commission (CVM) delist these companies from stock exchanges for non-compliance. Thus, in a general context, publicly traded companies (SAs) exhibit a high degree of institutionalization, but empirically they are not necessarily criteria for efficiency.

Organizations are led to incorporate practices and procedures defined by the prevailing concepts of organizational work rationalization and institutionalized in society. These function as "myths," which, according to Meyer and Rowan (1977), are rationalized and impersonal prescriptions that identify various social purposes as technical and rationally specify the appropriate means to rationally pursue these technical purposes. Thus, incorporation avoids illegitimacy, as they are considered adequate, rational, and necessary by society.

According to Bellen (2006), companies in the current context are not only concerned with profit, but are also considering the impact of the activities in which they are involved. In this sense, there is a tendency to think that companies that adopt actions related to sustainability are more successful. Currently, companies' concern is focused on sustainable development that seeks to preserve natural and environmental resources.

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In this context, sustainability is becoming increasingly evident in capital markets and has implied a series of impacts, mainly on investment activities and the mission of global stock exchanges (CUNHA; SAMANEZ, 2012). Regarding sustainable products and services, there is a growing trend of launching indices based on shares of companies selected for their environmental, social and corporate governance (ESG) performance. These sustainability indices aim to represent a portfolio of shares of local, regional or global companies selected based on ESG factors, therefore in line with Sustainable Investment strategies (CUNHA; SAMANEZ, 2012).

In Brazil, the Corporate Sustainability Index (ISE) was created in December 2005 with financial and technical support from the International Finance Corporation (IFC) of the World Bank, with the main objective of being a voluntary index that reflects the return of a portfolio composed of shares of a maximum of 40 companies selected based on sustainability criteria. Therefore, the ISE seeks to create favorable conditions for sustainable business growth and contribute to development from a social and environmental perspective. However, what is the influence of spending on social responsibility on the efficiency of the companies that make up the aforementioned Index? The answer is: it depends. It depends on whether an instrumental context focused on technical efficiency – "Iron Cage" – is considered, or whether an institutional efficiency context focused on myths and ceremonies – "Iron Cage Revisited" is considered.

The study by Pires, Sonza and Granzotto (2018) is used in this essay as a secondary empirical illustration of the theoretical argument developed. The research analyzed companies belonging to the B3 Corporate Sustainability Index (ISE), examining the relationship between spending on social responsibility and accounting performance indicators, such as Return on Assets (ROA) and Return on Equity (ROE). Using econometric models with panel data, the authors identified a negative association between such spending and short-term financial performance, estimating impacts of approximately 11% on ROA and 25% on ROE, both statistically significant at the 1% level.

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The results highlight tension between accounting metrics of instrumental efficiency and organizational practices geared toward institutional compliance. However, the analysis developed here does not intend to empirically assert that board members commit disciplinary errors, but rather to indicate, in theoretical terms, the possibility of divergent interpretations when monitoring is anchored exclusively in financial indicators.

Thus, controversy is observed regarding the influence of actions related to sustainability on the financial performance and market value of companies. In light of institutional theory, such a negative association can be interpreted as a reflection of the dilemma faced by organizations that incorporate socially legitimized practices—often perceived as ceremonial expenses—which, although contributing to organizational legitimacy, may imply costs under strictly instrumental metrics (MEYER; ROWAN, 1977).

In the present empirical example, the ISE is an "institutional myth" incorporated into the formal structure of companies, this process being the structural reflection of socially constructed reality (BERGER; LUCKMANN, 1967). Pires, Sonza, and Granzotto (2018) point out the need to view this relationship from another perspective, noting that although the result points to a negative influence on financial performance, companies are still investing more and more in sustainability. Furthermore, assuming that spending on social responsibility is unsatisfactory in relation to performance, it is worth highlighting that the study results pointed to some benefits, such as the appreciation of these companies' shares and a broader international market presence, which go beyond financial return, that is, showing that the benefits of these practices go far beyond profit. This fact is corroborated by the findings of Cunha and Samanez (2012), who concluded that the Brazilian stock market registers increases in liquidity (negotiability) for companies with sustainable investments.

It is important, however, to qualify the nature of this market valuation. The incorporation of ESG criteria in asset pricing does not imply the replacement of instrumental rationality with institutional rationality. The signaling literature demonstrates that, in contexts of informational asymmetry, economic agents use

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observable signals to infer attributes that are not directly measurable (SPENCE, 1973). In this sense, practices associated with sustainability can function as signals of quality, improved governance, or less exposure to future risks.

Additionally, the literature on corporate reputation argues that attributes perceived as socially responsible can constitute relevant intangible assets in organizational evaluation (FOMBRUN, 1996). Reputation, in this framework, does not represent mere symbolic legitimation, but a strategic resource capable of influencing investors' expectations regarding the stability and continuity of the firm.

Solid empirical evidence indicates that the relationship between ESG criteria and financial performance is largely non-negative and often positive, suggesting that investors can incorporate environmental, social, and governance factors into their capital allocation decisions (FRIEDE; BUSCH; BASSEN, 2015). Such incorporation does not imply abandoning instrumental rationality, but rather the possible internalization of reputational attributes and risk expectations in the price formation process.

In this way, the valuation of companies belonging to the ISE can be interpreted not as a negation of instrumental rationality, but as a result of the economic incorporation of reputational signals and expectations regarding long-term sustainability.

The impact of institutional environments on organizations, such as the ISE, highlights the incorporation of many elements that are externally legitimized, and not in terms of instrumental technical efficiency, with external or ceremonial evaluation criteria being used to define the value of structural elements. Therefore, as Meyer and Rowan (1977) point out, moving towards the status in society of a subunit rather than an independent system can allow an organization to remain successful by social definition, protecting it from failure. Thus, by designing a formal structure that adheres to the prescriptions of “myths” in the institutional environment, an organization demonstrates that it is acting collectively and properly suited to the valued purposes (MEYER; ROWAN, 1975). The organization becomes, in a word, legitimate and uses legitimacy to strengthen its support and ensure its survival.

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The aforementioned scenario presented by Pires, Sonza and Granzotto (2018) stems from the confrontation between two distinct regimes of organizational evaluation: on the one hand, an institutional regime, anchored in the incorporation of socially legitimized myths and expectations; on the other, an instrumental regime, guided by accounting metrics and technical-financial indicators. In this regard, as pointed out in Section 3, if directors monitor executive conduct solely through accounting performance, they may infer misalignment where, from another perspective, there is institutional compliance, leading to potentially inappropriate interventions by the Board of Directors.

However, it is important to analytically distinguish three levels that are often treated as equivalent. First, institutional legitimacy refers to the social recognition of the organization as appropriate, desirable, and aligned with widely shared normative structures (MEYER; ROWAN, 1977). Second, market performance (expressed by shareholder appreciation or increased liquidity) constitutes a possible economic consequence of this legitimacy, operating as a signaling mechanism to investors and other stakeholders. Finally, instrumental efficiency refers to the organization's technical and financial capacity to generate superior accounting results through the rational allocation of resources.

The institutional efficiency proposed here is not to be confused with financial performance, nor does it represent a mere expansion of instrumental efficiency. It is a distinct analytical category, associated with the organizational capacity to ensure stability, access to resources, and continuity in the long term through compliance with institutionalized expectations, even if such compliance implies costs under strictly accounting metrics in the short term. The intention, therefore, is not to redefine the classic concept of instrumental efficiency, but to highlight the coexistence of different evaluative regimes that operate simultaneously in contemporary organizations.

In this context, the analysis can be broadened by extending the ‘revisit to the iron cage’ to the firm’s internal dynamics (DIMAGGIO; POWELL, 2005). If the disciplinary mechanisms of agency conflict remain anchored exclusively in instrumental rationality, they can produce spurious signals by interpreting as

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inefficiency decisions that, under the institutional regime, contribute to organizational legitimacy and continuity. The tension between these regimes shows that the analysis of alignment between agent and principal can be enriched when considering not only criteria of instrumental efficiency, but also the institutional pressures that shape the formal structure and organizational strategies in highly institutionalized environments.

Finally, it should be noted that the use of the ISE as an empirical illustration does not intend to confer universal generalization to the phenomenon analyzed. The ESG field is heterogeneous and its effects may vary according to the regulatory context, the degree of maturity of the capital market and the institutional specificities of each country. Thus, the example discussed should be understood as a situated case, used for analytical purposes, and not as representative evidence of all institutional environments.

5. Final considerations, limitations and contributions of the study

This theoretical essay aimed to "revisit" the concept of instrumental efficiency present in the conflict between Agent and Principal through Institutional Theory. To this end, the nature of the Agency conflict pointed out by the literature was initially explained, mainly by Jensen and Meckling's Agency theory (1976).

The correction of this conflict occurs through governance mechanisms such as incentives and monitoring, the focus of this theoretical essay. Thus, it is through the Board of Directors that the "vigilance" of hired executives takes place in order to reduce asymmetric information, managerial opportunism (private benefits), moral hazard and adverse selection. The process of aligning the agent's objectives with those of the principal is, a priori, conditioned by the search for a politically "trained" executive, that is, without pretensions of placing his objectives above the objectives of the owners. The "training" happens through the disciplinary role of the Board and through microphysics of disseminated power.

Concomitantly, there is a search for economically useful executives, in line with the instrumental-bureaucratic assumption that has historically guided firms.

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However, when revisiting the causes of bureaucratization, the constituent elements of the "cage" can also be analyzed from an institutional perspective, incorporating factors such as "myths" and "ceremonies" highlighted in the literature. As illustrated in the empirical analysis discussed in this essay, such institutional "myths" can produce different effects when considered under the regime of instrumental efficiency or under the regime of institutional efficiency.

It was found that the expenses on corporate social responsibility of the companies that make up the Corporate Sustainability Index (ISE) negatively influence financial performance, that is, they are pure costs from an instrumental point of view, analyzed by internal indices such as Return on Assets as well as Return on Equity. However, the influence of such spending has a positive impact on stock prices, as well as increasing the trading of such companies in the capital market; thus, other factors legitimized by society emerge as factors of survival and longevity for these companies.

Meyer and Rowan (1977) point out that organizational success may depend on factors that transcend the coordination and efficient control of productive activities. Organizations embedded in highly elaborate institutional environments can achieve their objectives through the incorporation of "myths" and "ceremonies" into their formal structures, as evidenced by stock appreciation and increased liquidity.

The purpose of the proposed Revisit to the Agency Conflict is to condition the disciplinary role of the Board of Directors to factors that transcend the classic concept of instrumental efficiency. In the example discussed, if the Directors' judgment were based on such performance, two situations could occur: (i) if the company were conducting studies, a priori, the executives' decision to join the ISE could be blocked by the Board, due to analyses of the negative influence of said Index from the point of view of efficiency; and, (ii) if the company was already part of the ISE, the Directors could deem it necessary either to leave said Index or to punish the executives in some way, considering the possibility of a high misalignment with the owners' objectives.

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Therefore, the "revisit" is a complement to the attention directed to intrafirm conflict, that is, the way to align an internal problem can be viewed institutionally, which suggests an analytical shift to additional factors that contribute to organizational success. Thus, the incorporation of many elements that are externally legitimized, and not in terms of instrumental technical efficiency, can be considered external or ceremonial evaluation criteria (such as stock price and liquidity) to define the value of certain structural elements.

During the development of this theoretical essay, some limitations were evident, such as the lack of studies that explain the possible disciplinary power in Agency relations. Furthermore, there is a scarcity of work that seeks the interface between traditional forms of efficiency with complementary forms, that is, contrasting, for example, instrumental efficiency with institutional efficiency.

One of the contributions of this theoretical essay is to propose an alternative and at the same time complementary view of understanding the Agency Conflict between Agents and Principals, resulting from a separation of the ownership structure (JENSEN; MECKLING, 1976). This understanding encompasses the disciplinary role of the Board of Directors (CORNELLI et al., 2013; WEISBACH, 1988), instrumental rationality (WEBER, 1952) resulting from a bureaucratic order, and also institutional factors that shape formal structures in current contexts (MEYER; ROWAN, 1977; DIMAGGIO; POWELL, 2005).

For future essays, it is suggested that dependency relationships between some measure (proxy) of institutional efficiency and myths and ceremonies be sought to verify the magnitude of the positive impact on such a measure. Subsequently, this would be compared with the negative magnitude of the impact of such myths on measures of instrumental efficiency, such as those of Pires, Sonza and Granzotto (2018). The result of this comparison would be the examination of the trade-off between the two magnitudes and verification of which one prevails on a macro spectrum.

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