Benchmarking Case

Instructors Name

Students Name

Course Name

Date

QUESTION A

Agency relationship is created when the principal hires an agent in a fiduciary relationship to act on his behalf. The agency problems arise when the agent instead of serving the interest of the principal, serves their own interest (Shapiro, 2005). When the company is still young there are usually no complicated tasks and the owner in this stage can perform all the responsibilities alone. No employee has been contracted to carry out the sales or other administrative duties by which they can manifest conflict of interest in carrying out their duties. Additionally, the company has not yet borrowed money from the investors to amount into an agency relationship between the stockholders and the managers. This is because initial capital has been contributed by the owner himself at this stage and conflict of interest that would occur when the managers demand exorbitant paychecks at the expense of the shareholders money is absent. In addition, since there are still no creditors, then the conflict of interest that would arise when the creditors want to impose limits on the use of their funds to prevent losses is absent. By using these bases, it is clear that no agency relationship exists when the owner is the only employee and investor in the business and the only focus would be designing plans and expanding customer base to increase the sales volume.

QUESTION B

As the company expands to acquire new markets and more customers for the software, professionals will be needed to help in the technical operations and administrative tasks. The company will need sales executives to manage the sales and finance professionals to help in advising the company on its investment ventures. With that in mind, the agency relationship created with the hired employees has a high possibility of having certain agency problems. The sales executives, for instance, could start serving their own interests. The finance professionals may begin engaging themselves in corrupt deals by stealing the money meant for investment to acquire the markets. The employees may also carry out their duties slowly impacting on the operations of the business. Expansion will mean borrowing funds to finance important projects and acquiring more of the software and hardware to implement technologies. The funds can be generated internally or externally by such means as selling stock or from the financial institutions. Borrowing from the financial institutions for expansion, for instance, has immense benefits including high growth prospects, and valuable expertise from the professionals. However, it has the effect of creating conflict of interest between company and the creditors. Creditors have the right to claim earnings from the company in form of interest and right over the property which the firm uses as the collateral for the loans. The company, through the management, has the latitude to decide on which investment to consider in order to get maximum returns. The lending institutions will also want to limit the way in which the funds are used to prevent loses. The employee’s pursuit of their own interest and leaking of financial information of the company will, therefore, create agency problems.

QUESTION C

The sale of stock by the company provides the financial capital needed for the expansion activities. This process is done through the initial public offer after all the due diligence has been completed, which entails auditing the financial statements of the firm. In the process, the share price will be determined using the worth of the company and the number of shares the company is ready to issue out. The company, therefore, enters into the contractual relationship with the investors who purchase the stock issued. The agency problem will arise between the stockholders and the manager because selling of the shares to external investors means giving up some level of control and ownership and split between the ownership and management of the company (Arthurs, Hoskisson, Busenitz & Johnson, 2008). As the controlling shareholder, my vision of the company may differ with the other investors’ vision of the company. Besides, the controlling shareholder may prefer to continue to reinvest the company’s income instead of distributing dividends, which may be contrary to the wishes of the minority shareholders. In this case, the controlling shareholder is torn between fueling his/ her vision and the growth of the company versus the demands of minority investors.

Question D

Raising capital from outside lenders will be beneficial to the company as the capital will be used to fund the projects of the company and to provide cash flow needed for smooth operation of the ecommerce business. The loans will mean entering into a contractual agreement with the external lenders creating agency relationship. The lenders do not usually have control over the money which they lend to the firms. Since the lenders are usually afraid that the management of the company may engage in activities that benefits only the shareholders leaving them aside, they may impose certain restriction on the use of the funds borrowed through instituting bond covenants (Shapiro, 2005). The company incurs the agency cost of interest charged on the loans. Lenders charge interest on debt to safeguard themselves from the occurrence of agency problems.

**Letter of Intent**

Name

Adress

Date

Dear Sir,

I am writing this letter of intent to put forward the mechanisms that I will employ to steer my startup company to a reputable technology company recognized nationally. I understand the importance of professional integrity in the success of this business. Additionally, I acknowledge the value of personal integrity as the basis of fruitful relationship among all the parties involved in the business dealings not only with the employees but also with outside players. My startup, which is an ecommerce company, will have a platform that integrates media devices including laptop and desktop computers, mobile phones and video recorders. The products will be sold online to students on campus.

Customers are the most important part of any business which want to exist to meet their objectives. With this realization, I would employ customer value strategy with the sole aim of ensuring the affordability of the products. I will ensure customers get excellent service and products that best satisfy their needs. Additionally, I will train the customer service executives on amicable problem solving techniques to ensure that the concerns of the customers are adequately addressed so that the layer of value that the customers may not be aware of can be created. Given that the business will be an ecommerce, I will ensure truthfulness in the selling which will dictate that the customers receive the exact products which they ordered from the business. I know through this practice, the confidence of the customers in the business will be boosted, which will increase the company growth prospects.

Effective management of this ecommerce company entails proper record keeping and financial management. I will therefore employ accounting practices to ensure that the available funds in the company are effectively used for the growth and expansion. This will ensure the funds do not get lost in wrong hands. The company long-term objective of acquiring new markets and customers will require the capital and hence security though the cash management practice is important.

I understand the value of the employees and their input in ensuring that the company dominate the entire institution and the nation at large through acquisition of customers through various activities. I will ensure employee satisfaction by ensuring equal treatment, fair remuneration and work environment that will encourage learning and growth. Additionally, I will transparency and free environment for airing their concerns. Through these strategies, the staffs will be feel motivated in carrying forward the clearly outlined mission and vision of the company.

I am, therefore, convinced that the strategies will work out well for the benefit of the business and there will be a fruitful relationship with the customers and the employees. I will appreciate your financial and intellectual support that will help me kickstart and carry on with the business.

Sincerely,

References

Arthurs, J. D., Hoskisson, R. E., Busenitz, L. W., & Johnson, R. A. (2008). Managerial agents watching other agents: Multiple agency conflicts regarding underpricing in IPO firms. *Academy of Management Journal*, *51*(2), 277-294.

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