

Fin-hw

Finance



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AGENCY CONFLICT IN COMPANIES Question Agency conflict occurs when an agent, who is appointed to act on behalf of the principal, goes against the interests of the principal. In this case, the principal are the shareholders of a company while the agent are the managers appointed to act on behalf of them.

Dennis Kozlowski was the CEO of Tyco International for several years. During his reign as CEO, he encountered a lot of agency conflict between him and the shareholders of Tyco international. This was due to the following reasons. Firstly, he stole \$244 million from the company by misappropriation of funds to himself without board approval, giving unauthorised loans and bonuses and taking personal credit for charitable donations. Secondly, he transformed compensation committee approved relocation program for all employees and turned it to be a special program for senior executives without board approval. He also, held a \$2million birthday party for his wife and charged half of it to the company.

These instances led to agency conflict since the shareholders did not agree with his moves and later led to his resignation.

Question 2

A Golden Parachute is an agreement between a company and an employee of that company such that the company will offer significant benefits if the employment is terminated because of a merger or takeover.

It is an example of an agency conflict as the agents (managers) use this agreement to pay hefty pay-outs to executive members of the company in conflict with the interests of the principal (shareholders or BOD). Recently, there have been increased cases of severance agreement. According to Handler (2006), mergers and takeovers have also increased with the high <https://assignbuster.com/fin-hw/>

economic demands, leaving companies with no option, but to pay employees these benefits.

References

Handler, D. (2006). *The sweet golden parachute*. New York: Thomas Dunne Books/St. Martins Minotaur.