

# Explain agency law and its significance in the business environment

Law



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Agency law and its significance in business environment Affiliation: Agency law and its significance in the business environment

An agency is a legal relationship whereby one person referred to as an agent acts for another one called the principal and the agent is able to effect the legal relationship of the principal with a third party.

The agency law has a number of principles on being the authority of the agent. “ An agent can have either actual authority or apparent authority” (Mann & Roberts, 2010). Actual authority is the authority given to the agent by the principal, by implication or conduct or operation of law. Apparent authority otherwise known as ostensible authority is the authority of the agent as it appears to a third party. “ The principal will therefore be liable not only for the acts of his agent that falls within the scope of actual authority but also the agents’ ostensible authority” (Liability in Agency Relationships). In the performance of their duty, agents have a duty to act with due diligence and skill, for instance if an agent is employed to sell, he has a duty to obtain the best price that is reasonably obtainable. It is then that the principal is liable for the acts of agents. A principal is liable depending on whether the agent discloses him in the contract or not. The case above can therefore be dealt with best by analyzing these different scenarios.

Agent contracts as agent for a named principal

In this scenario, the agent incurs neither liability nor rights under the contract. Lord Denning MR in *Phonogram Ltd v Lane* stated, “ The general principle is, of course, that a person who makes a contract ostensibly as an agent cannot afterwards sue or be sued upon it” (Baker, 2006).

In the question at hand, Evon who is a third party knew the existence as well as the identity of Delilah's principal and in such a case the principal is liable.

#### Agent for unnamed principal

In this regard, the third party is aware that the agent is acting on behalf of someone but that person is unknown to him. This is evident in Felipe's case above, where Felipe knew that Delilah was acting on behalf of someone but not known to him. The third party may sue either the principal or the agent; this is known as the principal of election. The third party may on the alternative sue both the principal and agent, this is called a merge.

#### Agent for an undisclosed principal

In this case, the third party is totally unaware of the principal-agent relationship. The principal in this case can intervene and claim under the contract. In doing so, he renders himself liable to third parties. Third party having discovered this may elect or merge both the principal and agent. "An agent cannot bind the principal where the person with whom the agent contracts knows that the agent is engaged in self-dealing or has adverse interest" (Miller, 2011). This is the case with Giorgio in the case in question who did not know that Delilah was acting on anyone's behalf.

Generally, the extent of liability depends on the disclosure of the principal.

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