Agency problem

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Read the CompuSoluciones case. Then using the governance theory and specifically agency theory,
analyze the case to answer the following question:
Identify two (2) agency problems at CompuSoluciones that are evident at the end of the
case. Explain the causes of these problems, and then make suggestion how the firm can
minimize or eliminate these agency problems. Remember how CompuSoluciones has been
changing; that could create new agency challenges.

Case: Mora, Luis Manuel Bonner de la Mora, Rowe, W. Glenn, and Mark, Ken. CompuSoluciones:
Corporate Governance. 2017. HBS #: W17048-PDF-ENG.

CompuSoluciones is a value-added supplier of IT products, both hardware and software solutions. The company can best be described as a team-based business because of its governance structure. Governed by several consultative and representative councils, the firm relies on bits of advice and experiences of primary advisory teams to reach on consensus for strategic decisions. The agency problem is described as a conflict of interest in any association where one party is supposed to act in another's best interests (Clarke, 2004). The case presents the following agency problems.

CompuSoluciones has 18 business units that manage their supply chains and produce their profit and loss statements. This approach brings the problem of lack of transparency and the need for consolidated accounts. The main reason for consolidating financial statements is to provide financial information systematically to benefit the users of such info. Standalone financial statements do not show the general economic health of a company which aids the investors to make investment decisions.

Stockholder versus strategic management personnel- the case presents a conflict between the management of the company and the investors because the strategic advisors shun unpopular decisions in the company. Besides, the results of this control limits a unit's innovativeness and desire to solve their problems. CompuSoluciones relies on the advisory of critical groups to increase its strategic options; the decisions ultimately reached at by the company's management are inferior to the approach where the member provides input to the leader who then makes the final decision. Also, because of pressures to correspond to groupthink, the conclusions arrived at are much likely the ones disliked by many. The influential participants would rally support for decisions that favour them, which is against the wishes of the stockholder.

How to solve these problems

CompuSoluciones should prepare both standalone financial statements and consolidated accounts to provide investors with a complete picture of the company as a whole. The general financial health of the company can be judged using this approach. Therefore, if an investor wants to invest in the shares of the company will assess its financial performance through the consolidated information. Also, standalone financial statements need to be checked to compare with the consolidated statements to increase an understanding of the organization. This comparison will assist the investors to gain a more in-depth insight of both the company's financial position as well as the business units.

A consensus-based model might be the best approach for group decision making because it involves deciding on collaboration and participation from all members. However, CompuSoluciones does not need this form of governance because of its structure. The independence of the business units might lack full engagement as well as trust among the group members. To achieve maximum efforts from all group members, the company needs to allow the business units to make their decisions based on the opportunities and potentials in their areas. Allowing these units to make their decision will encourage creativity and enhance inclusion among the members.

In conclusion, CompuSoluciones has a vast potential of growing to sustainability if it addresses the agency problems named above. By producing consolidated financial statements, the problem with complete disclosure of financial information will be solved to enable the users to make informed solutions. Besides, dissolving the existing corporate governance and allowing the business units to make their strategic decisions, creativity will be enhanced and also a faster decision-making process.

References

Clarke, T. (2004). Theories of corporate governance. *The Philosophical Foundations of Corporate Governance, Oxon*.