Assignment 05	
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Instructions: Use critical thinking, data, and academic articles to present two extreme solutions to addressing your assigned issue. One solution should be a market response, and the other should be the government response. Identify the advantages and disadvantages of each approach. Conclude with an informed stance, and provide a full list of properly cited sources. (Use your favorite browser to find a citation machine. Use your industry's standards for proper citation format.)

Ethical Business Practices (Last names begin with A-D)

Managers might engage in unethical behavior such as bribery, corruption, or fraud, which can have severe negative impacts on stakeholders and society. This can be motivated by personal gain or pressure to meet financial targets, disregarding the long-term reputation and sustainability of the company.

Governance and Board Independence (Last names begin with F-M)

Managers may resist or manipulate efforts to improve governance practices, such as the composition of the board of directors or the establishment of independent oversight committees. This can hinder transparency, accountability, and effective decision-making within the company.

Stakeholder Engagement (Last names begin with N-Z)

Managers might fail to adequately consider and engage with stakeholders beyond shareholders, such as employees, customers, communities, and the environment. This can lead to decisions that prioritize short-term financial gains while ignoring the broader social and environmental impacts of the company's operations.

With the help of Commercial Society (2020), do the following in your assigned area.

- Analyze the role of trust, agency, and bystanders in a business situation connected to your assigned topic.
- Evaluate the consequences of having or not having each concept in these situations, and identify strategies for promoting trust, empowering agency, and facilitating intervention on behalf of the bystander in your assigned situation.
- Identify the advantages and disadvantages of the effectiveness associated with (i) government determined and (ii) market-based solutions. Next week, prepare to take the corporate possibilities.
- Propose an integrated solution to promote trust, empower agency, and facilitate bystander intervention in a range of settings.

Sources:

1. https://commercialsociety.net/
2. https://corporatefinanceinstitute.com/resources/economics/principal-agent-problem/
3. https://www.researchgate.net/publication/318898819_Corporate_Governance_problem_STARBUCKS
4. https://hrdailyadvisor.blr.com/2021/06/03/the-importance-of-ethical-behavior-in-the-workplace/
5. https://hbr.org/2018/09/how-companies-can-take-a-stand-against-bribery

Case study – coffee shop manager acting in unethical behavior (bribe)

Trust is a fundamental ingredient of our lives, and without trust society could not function.

A principal-agent relationship is an arrangement where one person, the principal, relies on another person, the agent, to act on the principal's behalf. Principal–agent problems are the result of delegation. Principals want agents to do something for them. The problem arises when the agent doesn't do what the principal wants. In this case a problem of trust appears. [1]

The principal-agent problem arises when there is a conflict of interest between the agent and the principal, which typically occurs when the agent acts solely in his/her own interests. In a principal-agent relationship, the principal is the party that legally appoints the agent to make decisions and take actions on its behalf.[2]

The bystanders are the persons/society affected by the actions of the agent, acting in his own best interest.

One example of principal-agent problem might appear in the coffee industry that I am part of. During startup phase of a business (coffee shop) the business owners (principals) are mainly the persons performing all the activities needed to run the business, from running daily bar operations, to order fulfilment, to accounting, to human resources, to customer facing interactions, advertising, selling, cleaning and so on. As the business grows, more and more employees are being hired and at some point an organizational structure needs to be put in place. During the development of the business, the business owners cannot perform all the tasks as in the startup phase and they have to hire managers (agents) to whom they need to delegate tasks in order for the business owners to focus on business development. The manager (agent) will act on behalf of the business owners to manage the location with tasks like running the coffee shop, team management, daily operations, purchasing etc.

One risk with the manager that will handle the coffee shop is that the manager might favor certain suppliers for raw materials or otherproducts in exchange of commissions from these supplier based on the orders that the manager places. The manager might favor these suppliers, even if he knows that the products being sold by these suppliers may not be the best for the location that they are managing and for the end customers that they are serving, in terms of quality, ingredients, shelf life and so on. This might happen intentionally (in exchange for the commission) or unintentionally, due to asymmetry of information (the principal might not have been very specific in the guidelines for purchasing new products).

If the action of favoring a certain supplier happens intentionally, even if the product is not suited for the business he is managing, bystanders are the end customers, who might not receive the quality of products they are used to, hence customer churn might happen or even complaints and bad publicity for the business. Also the rest of the employees can suffer due to these 'wrong' purchases, due to the decrease in revenue, hence some might even lose their jobs.

Another aspect in this situation might be unethical sourcing of goods that are being distributed by the preferred supplier, hence this might affect the society in terms of the people that produce these goods.[3]

Sources:

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The biggest losers in this equation are the business owners of the company, that are losing money and even bankruptcy might happen.

Ethics in the workplace is defined as the moral code that guides the behavior of employees with respect to what is right and wrong in regard to conduct and decision making. Ethical decision making in the workplace takes into account the individual employee's best interest and also takes into account the best interest of those impacted. Ethical behavior doesn't only apply to individual employees, the organization itself should exemplify standards of ethical conduct.[4]

Only very good corporate governance practice can ensure ethics in business. Corporate governance involves using structures that are used in the control of organizations.

In the above example of the principal-agent problem, where the manager is accepting bribe in order to use products unfit for the company, the solutions aim to align the interest of both parties. From the market perspective, the improvements to address the problems can be:

1. Contract design: the main purpose is the creation of a contract framework between the principal and the agent to address issues of information asymmetry, stimulate the agent's incentives to act in the best interests of the principal, and to determine procedures for monitoring agents.

2. Performance evaluation and compensation: the agent's compensation is the primary method of aligning the interests of both parties. In order to address the principal-agent problem, the compensation must be linked to the performance of the agent.

The performance of the agent is usually measured by subjective evaluation because it is a more flexible and balanced assessment method for complex jobs. Common methods of agent compensation might be stock options in the company or profit-sharing. Tying the agent's compensation closely to the benefits obtained for the principal helps to eliminate conflicts of interest.[2]

3. A mix of internal processes, certification requirements, and basic good practices throughout the operations can be implemented to manage bribery— including with suppliers and vendors. External standards can also be a powerful tool in support of those efforts, helping the company strengthen ethics and compliance practices by offering a clear framework for action.[5]

Fighting bribery builds reputation and brand value. Having in place procedures, good internal communication, enhanced internal incetives program helps fight bribery and help the business development.

Sources:

1. https://commercialsociety.net/
2. https://corporatefinanceinstitute.com/resources/economics/principal-agent-problem/
3. https://www.researchgate.net/publication/318898819_Corporate_Governance_problem_STARBUCKS
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5. https://hbr.org/2018/09/how-companies-can-take-a-stand-against-bribery