MONITOR AND CONTROL IN COMPANIES: AN AGENCY THEORY APPROACH

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Abstract: *The aim of this paper is to survey what are the potential benefits and drawbacks of the most common mechanisms a shareholder can use to monitor and control a manager according to the agency theory. Despite the wide array of policies and instruments shareholders have at their disposal, all the mechanisms exhibits inherit flaws which limit their applicability. From the powerful boards to the ownership structure, management compensation plans, capital structure and market for corporate control, all are able to some degree to mitigate the conflict between shareholders and managers but raise others dilemmas regarding applicability and effectiveness, inquiring additional consideration. Ultimately there isn't a single solution for every environment but rather a specific mix according to the specific environment of each company, so policy makers need to take into consideration all the characteristics of the firm and only after issue recommendations, norms and laws.*
Keywords: *shareholders, managers, agency theory, agency costs, monitoring and control*

1. INTRODUCTION

One of the most important aspects in modern corporate finance is the relationship between manager and shareholders. Agency theory tries to explain the mechanism through which shareholders and managers interact, requiring a permanent monitoring and control of the manager on behalf of the shareholder. While the agency theory might not be the solely theory explaining the relationship between the manager and the shareholders, it is the most widely accepted and influential.

Regardless of the theoretical point of view corporate governance can act as a controlling, supervising and counseling mechanism in a company. By means of certain instruments or policies corporate governance can ensure boundaries and relations between *insiders* like managers and workers or *outsiders* such as shareholders, creditors, local community or government. The most important and widely used mechanisms for corporate control are: the board, ownership structure, remuneration schemes for the managers, institutional investors, market for corporate control and capital structure.

Because of the complexity of the economic environment there isn't a single controlling mechanism optimal in every single environment, but rather a particular mix of corporate instruments specifically designed according to the nature of the firm, shareholders or economic environment (Claessens & Yurtoglu, 2013). The aim of this paper is to provide a brief introduction into the specifics of the mechanisms of corporate control that shareholders have at their disposal in order to align the manager's interest of the company: shareholder value. Our aim is to provide a brief list of potential benefits and drawbacks that every corporate control mechanism has.

The rest of this paper is organized as follows: Section 2 provides a brief introduction behind the theoretical views behind agency theory, Section 3 presents the main controlling mechanism in corporate governance, Section 4 concludes.

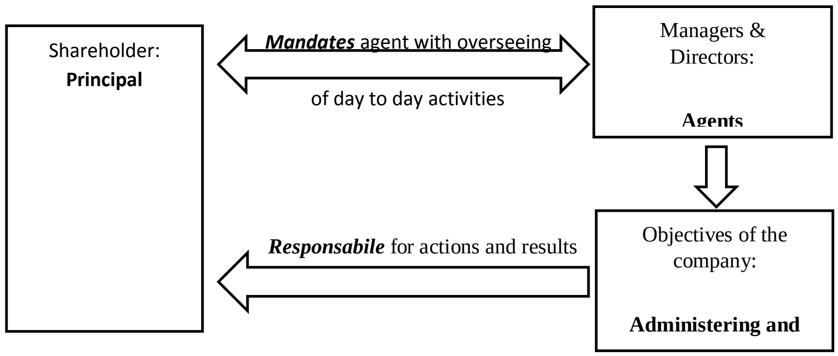
2. THEORETICAL CONSIDERATIONS

The concept of corporate governance is perceived at different levels at different levels of interest and significance. At the *micro-economic level*, the individual company, corporate governance "deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment" (Shleifer & Vishny, 1997:737), while at the *macro-economic level* corporate governance is "the complex set of constraints that shape the *ex-post* bargaining over the *quasi rents* generated by the firm" (Zingales, 1998:499).

In the corporate environment, at the micro-economic level, corporate governance deals with the way the corporations are structured and operates aiming certain aspects like: performance, efficiency, development, capital structure and other aspects but especially the relationship between shareholders and manager. At the higher level corporate governance deals with the legal environment that sets the cornerstone in which corporation act namely: statutory corporation laws, judicial system or financial market regulations. These two different levels of understating and applicability have ultimately the same goals ensuring a better relationship between shareholders, managers and stakeholders. In the end corporate governance and corporate control must use certain instruments or policies in order to achieve its goals.

Modern principles and instruments of corporate governance and corporate control are intertwined with the *agency theory*, which asserts that a company's manager doesn't always engage in the best interests of the shareholders (Jensen & Meckling, 1976). Shareholders or creditors because of their limited accessibility to all the information are unable to monitor closely the managers, who can abuse their key position and engage in detrimental behavior for the company or shareholders. Consequently shareholders or *principals* need to establish control and monitoring systems which are able to ensure that managers or *agents* act on in the interests of the company's interest instead of their own.

Fig.1: The principal agent relationship



Source: Author image

The key aspects in shareholder and manager relationship, according to the agency theory are developed in fig. no.1. The shareholder or *principal* doesn't have the time, experience or knowledge to administer a company so he *mandates* the manager or *agent* to run day to day activities of the company in order to achieve the company's ultimate goal: *shareholder value*. Managers and shareholders can have different objectives and priorities so a permanent conflict arises between these two types of stakeholder categories.

The direct result of the conflict between managers and shareholders is the *agency cost*: the difference between the actual value of a company and theoretical maximum value of the firm if there wasn't any conflict between shareholders and managers. (Jensen & Meclikng 1976) consider two types of agency cost one resulting from the conflict between manager and shareholders and the other from the conflict between shareholders and creditors.

The first category of agency costs, between shareholders and managers, is made up from: *the monitoring expenditures* by the principal (shareholder), *the bonding expenditures by the agent* which include salary, bonuses, stock options or any kind of bonuses offered by the shareholders as an incentive for managers and *residual loss* which are additional cost that shareholders bear because of ill-fated decisions made by managers that don't increase corporate value (Jensen & Meclikng 1976).

Agency theory has shaped the modern corporate environment, because it implies a permanent monitoring and control of the manager on behalf of the shareholder. The monitoring is required because managers tend to: *abuse their position* and spend company money in their favor (Hart, Moore, 1990), *build empires* because managers want to control large companies not small ones (Jensen, 1988), use *entrenchment investments* in fields where the manager has experience but the potential benefit is lower than the expected risk (Shleifer, Vishny, 1989), *irrational behavior towards risk* engaging in riskier investments if their compensation is related to performance or take no risk when their compensation it's not related to performance, *earning retention conflicts* by keeping profits at company disposal and not distributing cash to shareholders, *time horizon differences* managers want short performance because their compensation is depended upon it and shareholder need long term development and *abusive behavior* related to shareholders by manipulating the accounting information, lack of transparency, using golden parachutes and poison pills etc.

The relationship between manager and shareholders it's a pivotal point in corporate governance, because ensuring a better relationship between these two categories allows the development of a better corporate environment, which ultimately leads to a better stakeholder satisfaction.

While the agency theory it's not the solely theory which tries to explain the intricate relationship between shareholders, managers and stakeholders, the agency theory seems to be the most widely accepted. The other important theories regarding corporate governance mechanisms in a corporation such as: *transaction cost theory* (Coase, 1960), *stewardship theory* (Donaldson, 1990 & Barney, 1990), *resource dependent theory* (Pfeffer & Salancik, 1978), or *stakeholder theory* (Donaldson & Preston, 1995) offer a different perspective, but all try to establish the mechanism through which shareholders, stakeholders and managers interact.

While acknowledging the contributions and importance of each individual theory to economic landscape, the following analysis will focus predominantly on the agency theory, which emphasizes the analysis from the shareholders point of view rather than from stakeholders. We need to make this assessment now, because developing the analysis regarding key issues such as stakeholder's benefits instead of shareholder benefits might change the whole analysis.

Consequently we will refer during this analysis that better corporate environment imposes certain mechanisms and policies through which the *principal* (shareholder) monitors and controls the *agent* (manager), which ultimately leads to a better stakeholder environment. Good corporate governance enhances performance, reduces cost of capital and contributes to sustainable economic development, so a proper analysis of factor that can help mitigate the shareholder and manager divide is beneficial.

3. CORPORATE GOVERNANCE MECANISMS

Investors can use several tools in order to ensure that managers act in the best interests of the firm such as: (1) the board; (2) ownership structure; (3) management compensations mechanics; (4) capital structure; (5) the market for corporate control. Each of these major instruments have a certain applicability, and due to the complexity of the economic environment are sometimes efficient only in a certain set of conditions. In the following section we will try to emphasize the potential benefits and drawbacks of each of the major instruments.

3.1. The board

The size and the composition of the board it's one of the most important instruments that a shareholder can use in order to ensure the alignment of the managers interest in line with the companies best interest. The key role of the board in the corporate environment is guaranteed because of the two key functions that a board has: *monitoring* and *advising* managers. As a monitoring instrument the board must ensure that every action of the manager is in the best interest of the company and shareholders, while as an advisor the board must provide the required strategic counselling needed in order to achieve the company's long term plans and strategies.

The dilemma regarding what is the main function of the board it's an ongoing debate between scholars, practitioners and policy makers because of the diversity of the economic environment. Despite the ongoing debate there are some best practice rules that can help improve the efficiency of the board: the monitoring function should focus more on the analysis of initial stage on implementation of new projects rather than old ones (Coles, *et. al.*, 2012) and the focus should rely more on the advisory function rather than monitoring, because the latter encourages empire building (Aggrawal, *et. al.*, 2011).

When assessing the efficiency of the board several key aspects need to be taken into consideration when selecting the composition and size of the board. Some of the key characteristics that need to be accounted for are: (1) size, (2) expertize and attendance, (3) number of independent members and (4) the type of the board.

The ***size of the board*** can guarantee a higher level of expertise and independence but it also implies a higher cost for shareholders. One of the main factors that undermine the efficiency of the board is the "*free rider*" phenomenon, which implies a lack of monitoring by board member because there are already enough people monitoring the managers (Jensen, 1993). Another factor can be attributed to high cost for obtaining information and monitoring which can lead to disinterest from board members (Persico, 2004). These factors have led to a general perception that today smaller boards are more effective.

Despite theoretical superiority of smaller boards empirical results reveal mismatching conclusion and we can assess that there isn't a one size fits all board.

Expertise and attendance at board meetings can be used to assess how effective are the monitoring and advisory functions of the board. The advisory function can only be as effective as the experience that the board member attained in past positions either as manager or board member. The monitoring function can only be effective if the board members are actually attending the meetings, and analyze the development of the company as it unfolds.

Expertise and attendance are perceived as beneficial, because they allow for a better monitoring of managers, but revealing how effective they are in practice it's hard to determine. In general, we notice in financial corporations an inverse relationship between performance and attendance mostly because of the "free rider" effect (Adams, Ferreira, 2012), while in companies that have high research and development expenditures, expertize is required for high efficiency (Coles, *et. al*, 2008).

One of the factors that hiders the efficiency of expertize are *busy members* who are at the same time in two or more boards, from different companies. The "busy" board members can be viewed either as beneficial or detrimental to the company. Some authors like (Fama, Jensen, 1983) argue that if a board member is in more than one board it's a signal of his expertise and exceptional abilities which is beneficial for the firm. Even if "busy" board members might possess such qualities recent empirical results point to rather opposite effect, reducing performance and shareholder values because they doesn't have enough to complete their duties (Field, *et. al.*, 2013; Falato, *et. al.*, 2014).

Independent board members are another pivot point in the ability of the board to pertain its functions and role in the corporate environment. Theoretically any board member can be considered independent if he doesn't have any direct or indirect affiliation regarding financial evolvement, family or relationship with the managers of a company.

Common perception is that independent board members are focusing on long term company performance rather that short term because their compensation plan isn't related to company performance like it is for managers. Their ability to foresee long term investments, allows them to be invaluable for companies in a weak legal environment but they can also be detrimental if they lack the expertise required for strategic guidance required by managers (Wagner, 2010). In the end adding an independent board member in company should be done because of his ability enhances the management though expertize and counselling not just because he is an independent member. Expertize matters.

Independent board members, can be either beneficial or detrimental, empirical results are somewhat contradictory in this matter but rather point to an adverse effect of to many independent board members like: banks that had the most independent board had the lowest performance during the recent economic crisis (Beltratti, Stulz, 2012) and while independent board members might be beneficial in certain legal environments (Harris, Raviv, 2008), its counterproductive if the company engages in high levels of research and development expenditures or long manufacturing cycles (Coles, *et. al*, 2008).

Another key factor regarding the effectiveness of the board is ***the type of board*** who can be either: unitary, two tier board (or dualist system) and *mixed system*. A *unitary board* implies a single ruling body that is made up from both executive and non-executive board members. *A two tier board* implies two different control organisms a supervisory board made up from non-executive managers and an executive board which houses the CEO and executive members only. *A mixed system* implies the same two ruling entities supervisory board and executive board, but members can be in both ruling bodies at the same time.

At the global scale there isn't solely accepted board type but rather the most common type of board used in a country defers to the local establishment and culture or imposed by laws. For instance unitary boards are a common sight in the United Kingdom, Italy and Spain due to common practice, while a two tier board is imposed by law in Germany or Austria, and in France companies can chose to use either type of ruling body which is appropriate to the specifics of the firms.

The different types of board don't influence directly the efficiency and the performance of company, all of them have the required instruments to allow for achieving the boards specific functions. Nevertheless, some empirical tests point out that a unitary board might be more efficient if the managers wants to manipulate the economic reality while a two-tier board might be better suited for stopping the tendency of managers to extort additional benefits (Belot, *et. al.*, 2014).

One particular note regarding the type of the board or its composition related to other kind of ruling bodies that can be effective in a company such as: Audit committee, Nominee committee, Compensation plan committee, Risk committee etc. While most of these additional ruling bodies in a company are geared toward helping the board their influence on corporate performance is still a mystery, because of mismatching results that are abundant in the empirical literature. The debate is still opened regarding the effectiveness or the adequacy of certain committees in specific environments.

A s*taggered board* is generally considered to be detrimental because of the inability to change all the managers from a company that was just acquired via a successful takeover, reduces the value of the firm and reduces performance (Bebchuk & Cohen, 2005). A staggered board is powerful anti-takeover provision that incompetent managers use in order to protect themselves against a potential firing because of incompetence.

No matter the size, expertize and attendance, type of board member or actual board, the recent economic developments indicate that in most types of firms, and especially in financial institutions the board shouldn't focus solely on the best interest of the shareholders, because this kind of unitary engagement usually implies undertaking additional risks, increasing the possibility of failure (de Haan, Vlahu, 2015).

3.2. Ownership structure

Ownership structure is another powerful instrument able to align the interest of the manager with the interests of the company. In a regular environment, a shareholder who owns a small part in a company doesn't have the time, interest and expertize required to monitor a manager which causes unexpected behaviors such as: reduced shareholder protection or the ”free rider” phenomenon which generates additional costs for the actively monitoring shareholders (Brown, *et. al.*, 2011). In general the “free rider” phenomenon it's more prolific in widely held firms and lest prevalent in concentrated ownership.

When assessing the importance and efficiency of the shareholder structure several key considerations need to be taken into consideration: (1) potential abuse by large shareholders against minority ones, (2) institutional investors, (3) family firms, (4) managerial ownership, (5) widely held firms and proxy voting.

A ***large shareholder*** or a ***block holder*** usually has the best interest to monitor closely the board and managers, but this can lead to a potential risk of abuse. If block holders engage in a dominant behavior, they can transfer assets or revenue from the company to their own personal benefit, they can distort the accounting information, encourage managers to undertake additional risk etc. all of which can be detrimental for the company in the long term. While a large shareholder might be a powerful tool against managers he can also be detrimental (de Haan, Vlahu, 2015).

Institutional investors are a particular type of ownership that helps mitigate some of the potential agency problems. Even though they could also be accounted as a block holder type we threat them separately, because of the specific characteristics of institutional investors and due to the acknowledged key role they have in modern economics.

Institutional investors such as banks, insurance companies or investment funds because of their expertise and capability tend to be considered more influential and beneficial in a company. Institutional investors, unlike ordinary shareholders tend to poses greater knowledge in monitoring and supervising managers, tend to be more involved in the decision making process simply because investing and monitoring investments is one of their main goals.

While the potential benefit of having an institutional investor in a company cannot be neglected, in practice the influence of an institutional investor are somewhat mix-matched. Past experience has underlined that not all types of institutional investors actively monitor a company and while insurance companies, banks, venture capital funds or state funds tend to be involved in a company's decision making hedge funds tend to take a passive approach in this matter (Celik & Isaksson, 2013). Even if an institutional investor is involved in monitoring a company it's required that an *actual involvement* in monitoring the companies (by actually monitoring the management) rather than a *passive evolvement* (monitoring the company only via certain specialized monitoring shareholder institution such as ISS), because only an active monitoring can achieve better results (Hartzell, *et. al*, 2014).

Despite the potential risk of non-involvement, on a global scale institutional investors seem to be the source of spreading all over the world of better corporate governance standards, which enriches and enhances the level of compliance to better corporate governance standards all over the globe (Bris, *et. al.*, 2008).

Institutional investors, can help mitigate the potential agency problems, but their effectives is very dependent on an active and permanent involvement in the decision making process inside the corporate environment.

Family firms are companies that are under control of a single family, either by the founder's descendants or as new owners. Family firms are a unique category of firms because of the special governance environment they operate in, which enhances family firms with certain strengths and weaknesses (IFC, 2011).

The major advantages of family firms are: *commitment* in the wellbeing of a company as it's a symbol of power and prosperity for the next generation, *knowledge continuity* because past experience is shared between generations and *reliability* and *pride* because family business is associated with their name and they seek to enhance the quality of their products and company.

The major disadvantages of a family business are: *complexity* because many of the simple decision need to take into consideration another variable "the family" which can slowdown reaction time, *informality* in relationship between manager and shareholders which can lead to significant problems as the company grows and *lack of discipline* because family owners don't always consider succession management position planning if the manager is from the same family.

Despite their advantages and disadvantages, family firms seem to perform better than their counterparts in terms of performance but if the family evolvement goes beyond a certain point family ownership is detrimental, because some family members lack the managerial expertise required (Cheng, *et. al.*, 2015).

Managerial ownership is a mixture between ownership structure and managerial compensation plans: which implies transforming a manager into a shareholder. The general idea behind this policy is that if a manager is a shareholder he will act more like a principal not like an agent, because now his own interests are in line with the ones of the firm.

In reality, empirical studies offer mix matching results because of the large number of variables that need to be considered. While some studies reveal that managerial ownership is usually associated with abnormal returns for up to 10% (Von Lilienfeld & Ruenzi, 2014) others find inconclusive results due to endogeneity concerns (Coles, *et. al.*, 2012). The field is still opened to debate.

Widely held firms and ***proxy voting*** are two interlining variables in the ownership structure environment. While widely held firms tend to exacerbate the potential risk of "free riding" and can reduce the effectiveness of company performance one way to counter it is via proxy voting, because the latter implies delegating a shareholder or third party person to monitor the activities of the manager closely.

In practice proxy voting it's difficult to use, because it's hard for a single shareholder to gather enough votes from the other shareholders in order to change the manager. Despite the inherent difficulties that proxy voting implies, empirical studies suggest proxy voting might an adequate mechanism to monitor managers, and adopting the proxy contest can even lead to career consequences for the incumbent directors (Fos & Tsoutsoura, 2014).

Ownership structure can be used as powerful instruments against managers, but we need to consider that ownership structure isn't as dynamic or capable of adapting to the continuous development of the economic environment. We need to take into account this issue when considering an optimal governance environment.

3.3. Management compensation schemes

Management compensation schemes are one mean which allows shareholders to ensure that the size of the benefits of managers is interlinked with the performance attained by the company. By interlinking the management compensation schemes with company performance, shareholders can align manager's interest with the companies either directly by voting the compensation plan or in an indirect manner trough the specific functions of the board, monitoring and advising.

The ***compensation plans*** can be made from different types of bonuses such as but not limited to: shares, stock options or specific bonuses related to performance (by ex. market value, P/E, PER, ROE etc.). The major disadvantage that all compensation plans have inherently built in is a potential appetite for riskier short term actions because the amount of compensation is directly connected with it, and not with long term development and performance. Even if compensation plans are shaped taking into consideration the company specifics, the place of residence or industry characteristics the risk is still inherent.

Despite the likely risk that compensation schemes might impose on a company, the potential of higher company performance makes the compensations plans a delicate matter, because you can usually either achieve resounding profits or resounding failures (Bebchuck & Weisbach, 2010). Thus, compensation plans need to be used with care especially in financial corporations where the potential downfall of company due to excessive risk taking can have systemic consequences (de Haan, Vlahu, 2015).

3.4. Capital structure

Capital structure can be a powerful instrument in controlling the managers of a firm. By selecting a specific level of debt financing forces the manager to act more responsible in his action because borrowed capital requires mandatory reimbursement.

If a company has a certain degree of leverage, the manager needs to reconsider his actions because debt requires mandatory reimbursement while equity does not. In practice, some studies reveal that the capital structure is effective in improving company performance (Jensen, 1986) and the monitoring and control exerted by banks can help reduces agency costs (Ang, *et. al.*, 2000).

If a company uses the ***capital structure*** as coercive measure against the manager it needs to be aware of the ***potential risks***. By selecting an certain capital structure in order to solve the shareholder manager conflict it opens up another conflict within the company: the conflict between shareholders and creditors (Jensen & Meckling, 1976), who stresses the free cash-flow of the firm (Jensen, 1986), because debt requires mandatory reimbursement while equity compensation depends on several aspects such as profit, required capital for investments, tax and dividend policies etc. The second potential risk is related to passing beyond a certain level of debt, a point that might have an opposite effect because the manager could use the additional capital to create empires (Jensen, 1986) or they might reduce their involvement if the bankruptcy risk is imminent (Berger & Banaccorsi, 2006). The risk needs to be acknowledged when using the capital structure as a coercive instrument for managers.

While capital structure can be used by shareholders as control mechanism for managers, achieving an optimal capital structure which allows optimal funding and management control is hard to obtain. If we only take into consideration one of the three most established theories regarding the capital structure: trade-off theory, agency theory and pecking order theory we find that in practice achieving an optimal capital structure, capable of both ensuring corporate control and corporate development is hard to achieve. For instance recent studies reveal that capital structure can mitigate agency cost (Morelec, *et. al.*, 2012) while other studies suggest that agency cost are not a key factor in a company's cash holdings and capital structure (Nikolov & Whited, 2014). Results are inconclusive and opened to debate.

3.5. The market for corporate control

The market for corporate control is perceived as a powerful instrument for enhancing manager performance, because of the danger of being fired after a successful hostile merger and acquisition can encourage a more effective overseeing of day to day activities of a company. If a manager doesn't act accordingly, the market value of a company lowers dues to under-performance which ultimately leads to merger or takeover from a competing company.

The applicability of mergers and acquisition as corporate governance instrument is somewhat difficult to evaluate because, it requires a certain amount of prerequisites, which can hinder the efficiency if they are no available. For instance, the effectives of this corporate governance instrument, depends on an existing active and established market for corporate control, which also requires a developed corporate governance system in a country. (Martynova, Renneboog, 2008). So in effect, the market for corporate control requires preexisting strong governance systems in order to work.

Nevertheless, the market for corporate control is not only beneficial from the shareholders point of view, but it also improves the governance standards in acquiring companies all over the world by: adoption the better governance standards from the initiator in a cross-country merger, the increase in shareholders protection and the quality of management (Bris, *et. al.*, 2008).

Managers are aware of the risk that a potential hostile takeover might have on their job and security so they act accordingly by initiating protective measure against either the hostile takeover or against their dismissal after the takeover. Manager can use *poison pills*, *golden parachutes*, *staggered boards*, *super-majority* and many other protective measures that might shield them against hostile takeovers.

These protective measures are detrimental to the development of a company, as it was revealed by (Gompers, *et. al.*, 2003) in their seminal paper concerning the relationship between anti-takeover measures and company performance. Companies that had many protective anti-takeover provisions or a high value in the G-Index (also called *dictatorship* portfolio) experienced lower corporate valuation than companies that had fewer anti-takeover provisions or a low G-Index value (also called *democracy* portfolio). On average each point increase in G-Index translated into a 2.2% decrease into *Tobin's q* at the beginning of the 1990's, and up to 11.4% in the late 1990's, which underlines the importance of the market of corporate control, but it also implies the risk that it imposes.

While the market for corporate control can help mitigate agency risks by encouraging better involvement from managers, it can also be the actual cause of agency cost. Some scholars like (Jensen, 1988) argue that one of the main causes of merger and takeovers is the tendency of managers of *empire building* because managers want to control "large companies" not small ones. So the market for corporate control can either be a solution or the cause of shareholder and manager conflict.

The market for corporate control can be a powerful instrument against managers but shareholders need to be aware that a manager might establish protective measures against their dismissal, which ultimately hurts company performance. Nevertheless, by eliminating the protective measures initiated by managers, shareholders can ensure a better control of the management.

3.6. Final remarks

Shareholders can use a large array of policies in order to ensure that managers act in the best interest of the company instead of their own. Table no. 1 tries to summarize what are key potential benefits and drawbacks of all the major policies a shareholder can use.

We can assess that an adequate corporate governance controlling mechanism requires acknowledging the potential benefits and drawbacks of each individual policy and only after deciding what optimal policy is better suited for an individual company. There isn't a one size fits all solution but rather a special mix between firm characteristics and weighing down on all the potential benefits and drawbacks of each individual policy.

Table no. 1: Potential benefits and drawbacks of managerial controlling policies

Agency controlling policy	Potential benefits	Potential drawbacks
The Board	the main functions of the board are *monitoring* and *advising* the managers	rises issues regarding board *size, composition, expertize, independence, type* and *attendance*.
	can *mitigate* managerial abuse and increase company performance	board members *can work together with mangers* in the detriment of shareholders
	efficiency can be increased by *additional committees* such as: Compensation, Risk, Audit, etc.	costs associated with *large*, *passive* and *staggered* boards
Ownership structure	*block holders can monitor* closely the management	*block holders can abuse* their dominant position against minority shareholders
	institutional investors poses the required *expertise* and *knowledge* required	institutional investors can take a *passive approach* in management monitoring
	family firms poses: *pride* and *reliability*, *commitment* and *knowledge* continuity	family firms are *complex*, *informal* and *lack discipline*
	managerial ownership can help align managerial interests	potential reduction in *voting power*
	proxy voting can be effective in controlling managers	*difficult to implement* and potential risk of *shareholder activism*
Management compensation schemes	compensation *can interest the manager* in a better overseeing of the company	potential appetite for *riskier short term actions*, because compensation is linked to earnings
Capital structure	debt financing force the manager in a more *stringent capital management*	debt financing opens up another *conflict between shareholders and creditors*
	debt financing can potential *increase performance via debt leverage*	*high levels of debts are detrimental* to the company's performance, and managerial interest
	debt financing *assures* the capital required for *company development*	*hard to achieve* a capital structure, capable of providing the required funding and managerial restrains
Market for corporate control	the risk of potential hostile takeovers can *improve managerial overseeing*	managers can adopt protective measures such as: *poison pills, golden parachutes,*

		super majority, staggered boards etc.
	Mergers and acquisition can help *improve efficiency in a company*	One of the main causes of mergers and acquisition is *empire building* by managers

Source: Author image

4. CONCLUSIONS

The aim of this paper was to analyze what are potential benefits and drawbacks that each of the major instruments a shareholders has at his disposal in order to ensure that the manager of a company act on the best behalf of a company and not his own benefits.

In his endeavor, of monitoring and controlling the manager every investor can use a wide array of policies and instruments, but the most common ones are: the board, ownership structure, management compensation, capital structure and the market for corporate control.

If the board, can help mitigate some of the agency issues by monitoring and advising de manager, it can also raise complex topics like the size of the board, expertize and attendance or independence which ultimately undermines it's efficiency. Meanwhile management compensations schemes, ownership structure and institutional investors might be suited for corporate control but raise other issues such as tendency towards risk, abusive behavior from the controlling shareholder or a passive engagement from the institutional owner. Capital structure can help mitigate agency cost by increasing leverage, but achieving an optimal capital structure that is also capable of reducing agency cost, assuring capital and high levels of performance seem more hypothetical than feasible. The market for corporate control can mitigate agency risk, but it requires an active merger and acquisition market, and managers tend to protect themselves against hostile takeovers which ultimately hurt company value.

Despite the wide array of policy and instruments a shareholder has at his disposal, all of them exhibit certain advantages and disadvantages, which ultimately imply that there isn't an explicit solution for every environment but rather a unique mix according the specific environment of the company.

From a policy maker point of view this intricate mixture of pros and cons imply a proper analysis of the environment in which the company operates and try to take into consideration all the characteristics of a firm, and only after issue recommendations, norms and laws.

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