

## FROM CORPORATIONS TO MICRO AND SMALL ENTERPRISES: THE USE OF AGENCY THEORY FOR CONFLICT RESOLUTION



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### ABSTRACT

The agency's problem, according to Panda and Leepsa (2017), is one of the oldest, which has been perpetuated since the evolution of corporations. Even though it is an old problem, it is also current, which has been gaining strength throughout the history of the development of commercial exchanges and the evolution of the capital constitution of organizations. But how can we use a theory idealized under the pillars of Corporations and apply it in the context of micro and small companies? In view of this question, this work aimed to review the evolution of the Agency Theory and to show, through an empirical study in a microenterprise, how researchers can use this theory in a micro and small enterprise. This work is methodologically characterized as qualitative and descriptive. Semi-structured interviews and observation were used as data collection procedures. We also conclude that the theoretical ideas of conflict and conflict resolution from the Agency Theory can become new ways of understanding micro and small enterprises.

**Keywords:** Agency Theory. Micro and Small Companies. Conflict Resolution.

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## INTRODUCTION

Markets are constituted and remodeled by continuous socio-technical processes, where it is possible to verify how a certain practice influences (or shapes) another practice within the same market (Silva, Ribeiro and Santos, 2024a, 2024b and 2024c). However, problems can arise when divergent forces act in these remodeling, both externally and internally. When dealing with these internal problems, the concept related to the Theory of Agency arises.

The agency's problem, according to Panda and Leepsa (2017), is one of the oldest that has been perpetuated since the evolution of S/A companies (Corporations – publicly traded companies). Even though it is an old problem, it is also current, which has been gaining strength throughout the history of the development of commercial exchanges and the evolution of the capital constitution of organizations (Wright, Mukherji and Kroll, 2001; and Bendickson et al, 2016).

It is a problem that cannot be ignored, as all organizations have possibly suffered and still suffer from this evil in different ways, not only the S/A, but also micro and small companies. With the change of time, the problem of agency has taken different forms and the literature has evidence about this. Analysis of the literature on agency theory is necessary to understand the problem, its various forms, and the various costs involved in minimizing them.

Eisenhardt (1989) explains that the Agency Theory is concerned with solving two problems that can occur in relationships.

- i. The first is the problem of agency that arises when: (a) the wishes or goals of the principal and the agent conflict and (b) it is difficult or expensive for the principal to ascertain what the agent is actually doing. The problem here is that the principal can't verify that the agent has behaved appropriately.
- ii. The second is the problem of risk sharing that arises when the principal and the agent have different attitudes toward risk. The problem in this case is that the principal and the agent may prefer different stocks because of the different risk preferences.

Such problems are not exclusive to Corporations, they can also be perceived in micro and small companies. Thus, how can we use a theory idealized under the pillars of Corporations and apply it in the context of micro and small companies?

In view of this question, this work aims to review the evolution of the theory and show, through an empirical study, how organizational researchers can use this theory (originally thought under the aspects of a corporation) in a micro and small company. Therefore, the work was structured seeking to answer four relevant questions. The first is about "what is agency theory?" The second deals with "what agency problems are organizations subject to?". The third verifies "how can agency conflicts be resolved?" And finally, "how can researchers make use of this theory in the understanding and search for solutions to resolve organizational conflicts?"

The search for answers to the questions raised was carried out through a theoretical survey based on the most relevant articles on agency theory in the Scopus database (and articles cited by these most relevant works) and an empirical study in an artisanal cachaça production still located in the interior of the State of Minas Gerais.

In methodological terms, the empirical study was qualitative and descriptive, carried out in an alembic located on a farm that does everything from the planting of sugarcane to the commercialization of cachaça. Two previously scheduled formal visits were carried out, in which the interview and observation procedures were used to collect the data. The first visit was made with the production manager who introduced the company's employees, showed their activities and showed the farm, the place of planting and production of the drink. The visit ended in the store that is combined with the aging cellar. After this visit and informal conversation, the formal interview began following a previously established script that included: company history, socio-historical context, strategy, production practices, marketing practices and management practices.

About 15 days later, he returned to the farm for the interview with the owner. After a brief conversation, the formal interview began following the same script that was applied with the production manager. After the interview, the owner presented the production process in a guided tour. The conversations about the cachaça business, his aspirations and experiences, continued at a nearby restaurant.

In addition to these on-site visits, two interviews from television programs in the alembic under study were visited on Youtube, which brought complementary information. Information was also collected from the company's official website and the virtual store.

## WHAT DOES THE THEORETICAL FRAMEWORK SAY?

### EVOLUTION

The appreciation of the Agency Theory precedes its formality arising from Jensen and Meckling (1976). It dates back to an older time, the time of the constitution of the City-States and the end of feudalism, with the emergence of the bourgeois class; the division of labor promoted by the industrial revolution and the delegation of investment tasks to specialized agents in the stock market (Linder and Foss, 2015).

Adam Smith (1996 [1776]) in his work *An Inquiry into the Nature and Causes of the Wealth of Nations* (original title), exposes some issues related to the problem of agency. On this occasion, (p. 392-393), the author reports the outsourcing of the economic administration of the fief. Passing the administration of the sovereign's fief to the borough, which was supposed to manage all economic production of his reign. In some fiefdoms where the sovereign was more liberal, the burghs were allowed to administer in their own favor through political articulations.

Although Adam Smith did not focus his efforts on this conflict of interests (conflict of agencies), but rather on an economic study of the time, the essence of the Theory of Agency can be perceived, which is the conflict originating from the separation of property rights, where the owner of the resource outsources its use for the purpose of economic and financial gains (Rashid, 2015).

In 1932, Berle and Mean fostered this concern of agency conflict in their thesis, where they analyzed the ownership structure of large U.S. corporations and obtained that the owners appointed agents to control the large enterprises and carry out the business operations. They argued that the appointed agents could use the firm's property for their own purpose, which would create conflict between the directors and the agents (Berle and Mean, 1932).

But it was in the 1960s and 1970s that the financial literature described the problem of agency in organizations through the problem of risk sharing among cooperating parties, as can be appreciated in the works of Arrow (1971) – *Essays in the theory of risk bearing* and Wilson (1968) – *On the theory of syndicates*. According to these studies, there are individuals and groups with different risk tolerances within the company and their actions differ according to this willingness or not to take risk.

The principal or the owners, who invest their capital and take the risk of acquiring the economic benefits, while the agents, who run the company, are risk-averse and

concerned with maximizing their private benefits. Both the principal and the agent are having opposite risk preferences and their problem in risk sharing creates the agency conflict, which is largely covered by agency theory.

The confirmation of these points can also be seen in the work of Jensen and Meckling (1976) who comment that the manager can make decisions to favor himself rather than the investor, because the managers of large publicly traded companies do not seem to be inclined to risk when compared to the holders of equity. This fact is mainly seen in public service companies, according to the authors. The logic seems to be the opposite, the administrator seeks to avoid risks instead of looking for the greatest gains.

This problem between the principal and the agent was studied by Ross (1973) and Mitnick (1975). The authors differ as to the cause of this problem. For Ross (1973), the cause of this conflict of agency between the principal and the agent is due to the issue of incentives, or the lack of them. In this sense, the cause of the problem for Ross (1973) is as a result of the compensation decision. If the agent is well rewarded by the principal and feels satisfied and valued, he will act in the principal's interest.

However, for Mitnick (1975) the cause of this conflict between the principal and the agent is a problem of the institutional structure. The agent's opportunism occurs through a gap or gap in the norms and rules that govern the contract or the market in which it is operating. It was this institutional approach of Mitnick's that helped develop the logics of the central theory of agency and was possibly designed to understand real-world behavior. His theory propagated that institutions are built around agency and evolve (or adapt) to reconcile with agency.

Jensen and Meckling (1976) portrayed the company as a black box, which operates to maximize its value and profitability. Wealth maximization can be achieved through proper coordination and teamwork among the parties involved in the company. However, the interest of the parties differs, the conflict of interest then arises and can only be remedied through managerial control and action. The interested parties (principal and agent) must also be aware that their interest can only be satisfied if the company exists. Thus, they must ensure the smooth operation for the survival of the company.

Similarly, Fama (1980) argued that firms can be disciplined by the competition of other players, which monitors the performance of the entire team and of individual people.

But it was at the end of the 1980s that Eisenhardt (1989) classified the theory of agency into two models, the positivist agency model and the main model. The two models

share a common unit of analysis: the contract between the principal and the agent. They also share common assumptions about people, organizations, and information. However, they differ in their mathematical rigor, dependent variable, and style. It can be said, according to the author, that the principal-agent model is more mathematical than the positivist model.

The focus of the literature on the principal agent is on the determination of the optimal contract, behavior versus outcome, between the principal and the agent. The simple model assumes objective conflict between the principal and the agent, an easily measurable outcome, and an agent that is more risk-averse than the principal (Eisenhardt, 1989).

The positivist model, on the other hand, focused on identifying situations in which the principal and the agent are likely to have conflicting goals, and then describing the governance mechanisms that limit the agent's self-serving behavior. The positivist model is less mathematical. Moreover, positivist researchers focus almost exclusively on the special case of the principal-agent relationship between owners and managers of large public corporations. From a theoretical perspective, the positivist current has been more concerned with describing the governance mechanisms that solve the problem of agency (Eisenhardt, 1989).

### **Types of Agency Problems**

According to Panda and Leepsa (2017), the types of agency problems can be classified into three categories: Type 1, problem between principal and agent; Type 2, problem of the majority principal with the minority principal; Type 3, the principal's problem with the creditor.

#### **Type 1 – problem between principal and agent**

The problem of agency between owners and managers in organizations is due to the separation of ownership from control. In other words, the one who owns the property is not the same as the one who controls it. Owners assign the task to managers to run the company with the hope that managers will work for the benefit of the owners. However, managers are more interested in maximizing their own compensation. The argument about self-satisfying agent behavior is based on the rationality of human behavior, which states that human actions are rational and motivated to maximize their own ends. Misalignment of

interests between principal and agent and lack of proper monitoring due to diffuse ownership structure leads to conflict, which is known as principal-agent conflict (Panda and Leepsa, 2017; Wiseman, Rodríguez and Mejia, 2012).

#### Type 2 – problem of the majority principal with the minority principal

The underlying assumption of this type of agency problem is the conflict of interest between majority and minority owners. Major majority owners are termed as a person or group of people who hold the majority of a company's shares, whereas minority owners are those who hold a much smaller share of the company's stake. Majority owners or blockers have greater voting power and can make any decision in favor of their benefit, which hinders the interests of minority shareholders. This type of agency problem is prevalent in a country or company, where ownership is concentrated in the hands of a few people or with the family owners, so minority shareholders find it difficult to protect their interests or wealth (Panda and Leepsa, 2017).

#### Type 3 – principal's problem with creditor

The conflict between the owners and the creditors arises due to the projects carried out and the financing decision made by the shareholders (Damodaran, 1997). Shareholders try to invest in risky projects, where they expect higher returns. The risk involved in the projects increases the cost of financing and decreases the amount of outstanding debt, which affects creditors. If the project is successful, then the owners will enjoy the huge profits, while the interest of the lenders is limited, as they receive only a fixed rate of interest. On the other hand, if the project fails, creditors will be required to share some of the losses, and usually, this problem persists in these types of circumstances (Panda and Leepsa, 2017).

### **Solving the Agency Problem**

The above assessment has shown that, regardless of the levels of information asymmetry between the principal and the agent, there is still the potential to incur agency costs due to the agent's opportunistic behavior. The focus of agency theory is to determine the most efficient contract that governs the relationship between the principal and the agent, given the assumptions about people (e.g., self-interest, bounded rationality, risk



aversion), organizations (e.g., conflict of purpose among members), and information (e.g., information is a commodity that can be purchased) (Mason and Slack, 2005).

Eisenhardt (1989) in a review of the agency literature, identified two ways in which agency theorists argue that the principles can stop this unwanted behavior:

- ✓ Solution 1, create monitoring mechanisms; and
- ✓ Solution 2, contract based on the agent's result.

#### Solution 1 – Create monitoring mechanisms

Monitoring mechanisms are useful in situations where agent performance can be easily evaluated. The logic here is that because the actor is less likely to act stealthily if they are being monitored, opportunistic behavior will be reduced. However, monitoring costs are appropriate only when the costs incurred to reduce carelessness do not exceed the value of the resources consumed by the agent who is dodging. In other words, monitoring costs should not exceed the potential residual losses of opportunistic action (Mason and Slack, 2005).

For example, it would not be feasible to install a video surveillance system in a still that produces cachaça to detect an employee's theft of sugarcane if the surveillance system costs the company more than the sugarcane that is stolen. However, there are cases in which the creation of monitoring mechanisms affects the relationship between principal and agent, as the honesty of the agent can be questioned, making this employee feel dissatisfied in the service, or on the contrary, monitoring can provide greater symmetry of information between principal and agent, improving the performance of tasks.

Mason and Slack (2001) also comment that the monitoring of agent behavior is not necessarily the exclusive responsibility of the director. In some cases, state governments will become involved in regulating agent behavior or professional associations within the agent's given field.

#### Solution 2, contract based on agent result

While increasing the information available to the principal regarding agent behavior can reduce agency costs, the most commonly discussed solution to agency problems requires hiring based on the outcome of agent behavior. The logic behind this practice is that, if the main objective is to maximize profit, the solution to the problems is to give the



agent a reward that is linked to the financial performance of the company itself (Mason and Slack, 2005).

However, when you create a performance-based contract, a transfer of risk from the principal to the agent can occur. This is because agents make beneficial decisions that can affect the entire organization, but they are only rewarded with a portion of the results (a commission). In contrast, an agent who makes bad decisions or performs poorly may not receive a reward (if using a performance-based payment system). For this reason, agents can be encouraged to act in ways that ensure a minimum level of reward, rather than pursuing opportunities that may be in the best interest of the organization. Therefore, if the agent is risk averse; he will choose investment opportunities that will reduce risk (Mason and Slack, 2005).

Thus, the solution to the problems would be to adopt a fixed base payment and at the same time a commission linked to performance. This performance could be directly linked to the economic or financial gain of the company or not. For example, an insurance salesperson from a financial company could have a fixed salary and a bonus linked to the monetary value of the insurance sale, or have a fixed salary and have a bonus linked to the number of people served or visited, or even have a fixed salary and have a bonus linked to the level of satisfaction of the customers who contracted the insurance (through the application of a customer satisfaction survey). These are just a few examples that could be followed in order to resolve this agency conflict.

It should be explained that the term risk should not be confused with uncertainty, which presupposes the unpredictability of the future, but on the contrary, risk refers to the level of competitive return that will be required by a risk bearer for a certain degree of risk that is assumed (Jones and Butler, 1992).

Jones and Butler (1992) further comment that the agency theory holds that by giving the manager a financial reward, or offering bonuses based on the organization's performance (whatever the owner's interests), the manager will have a greater incentive to increase the company's wealth, as this will ultimately increase his own personal wealth. However, agents will still be risk averse, as they will only be rewarded for successful entrepreneurial activity.

Using an example from a professional sport, Mason and Slack (2005) expound that professional athletes who are less risk-averse are more willing to accept contracts with

incentives based on team or personal performance. These athletes will get paid more for being successful because they will get a risk premium for accepting an unsecured contract.

## WHAT DOES THE EMPIRICAL STUDY SHOW?

### **Characterization of the object of study**

Located in the interior of the State of Minas Gerais (Brazil), Alambique Mineiro is a private micro-enterprise whose partners are a retired couple, henceforth principals, who constituted this low-tech capital company, but with a high asset specificity.

The main ones, from the southern region of Brazil, after retiring, participated in a course of "Master Alambiqueiro" in the city of Belo Horizonte, capital of the State of Minas Gerais. Delighted with the course, they decided to open a still for the production of artisanal cachaça. As they already knew the interior of Minas Gerais, and in search of a new experience for this stage of their lives, the main ones acquired a farm to set up a still for the production of artisanal cachaça.

The initial objective of this new venture was not profitability, but to have a pleasant occupation in the midst of nature and the possibility of meeting other people through this new business. However, as mentioned by the owner in the on-site interview, "there is nothing wrong with making some money doing what you like". In this case, in addition to the gain in well-being, economic gain and social gain are associated with it.

The way of conducting the business is very particular to the owner, who during his professional career worked in companies that cared a lot for quality and honesty. Therefore, the management of the still takes place in the same way, with a zeal for quality in all production processes, as well as honesty when dealing with employees and customers.

The still has the general direction of its main majority, the owner, it also has two managers, one administrative and the other production, and four more permanent and two temporary employees. The owner's relationship with the managers is very open, taking care to maintain a good relationship. The administrative manager is the daughter of the principals and takes care of the purchase, sales, customer service, website, accounts payable, among other administrative functions. The production manager, also retired (professor), takes care of the production of cachaça, supervising employees and actively acting in the process of converting sugarcane juice into alcohol and extracting impurities in the still.

The farm where the alembic was set up has a sugarcane plantation of a specific species for the production of cachaça. It also has two stills and a cellar with wooden barrels for aging the drink. In all, there are 6 different types of wood for aging, which makes the asset more specific and with an added value. Currently, the company's most valued cachaça is the two-year-old one in American oak barrels. The owner is still waiting for the maturation of another cachaça that is, according to him, "the apple of the eye", which is a cachaça that is being aged in European oak barrels that has already been used to age Port Wine which was purchased from a Portuguese winery after its use.

### **Marketing and management practices from the point of view of the production manager**

During the interview with the production manager, he reported that the company's most important sales channel is online. This is because the company is still new in the market (about 3 years) and has only one store that is inside the same farm where the still is located. However, the number of sales in the alembic store has been increasing. The manager attributes this increase to being located in a tourist region and together with a guided tour that takes the customer from the sugarcane extraction site to the storage cellar where the aging barrels are located.

It should be noted that the farm store is next to the aging cellar and that it has a cafeteria and a tasting table for the cachaças from the still. The environment is comfortable and refined. From the entrance of the farm to the store there is landscaping work that makes the place more pleasant.

In the store, in addition to the possibility of buying the main product (cachaça), the customer can purchase typical sweets (made by third parties) and souvenirs such as key chains, mugs and mini bottles of cachaça. You can also enjoy a coffee with cheese bread (traditional in the region).

The manager also comments that sales both in the store and on the website are for retail customers. The company does not have a policy for wholesale sales. The manager comments that the owner has no intention or motivation to sell wholesale, whether to a commercial representative or a distribution center. And there are also few commercial places outside the farm store where you can taste the drink from the Minas Gerais still. In the city and surroundings of the farm (interior of Minas Gerais) the drink can be found in only two restaurants, which are nationally recognized, one for its cuisine and the other for

its refinement. And in the southern region of Brazil, in two other restaurants also recognized for their refinement.

The manager comments that this is a strategy of the owner, of wanting to position his product, linking his drink to renowned restaurants and frequented by a clientele with greater purchasing power and who are used to more sophisticated drinks and who know how to value this type of drink. It is not the owner's desire for his drink to be linked to "drinkers" or popularized in such a way as to be found in any bar.

However, the manager believes that the owner could open up his range of sales more without losing this positioning. For example, the store has already been visited by a reseller who works with restaurants in the city of Rio de Janeiro and who asked for a lower price (discount on the purchase) to be able to insert the drink in restaurants in Copacabana, Botafogo and mediations. However, the owner did not want to lower the price or reach an agreement with this dealer. "If I made a discount, I could have gained in scale in the quantity that would be sold to the reseller," said the manager.

Asked to the manager if they have participated in fairs and events taking their cachaça to compete for prizes or just to exhibit, the manager replied that they have not. Although I believe that it would be good for the brand, to become better known among the connoisseurs and "lovers" of the drink who attend these fairs and events.

Still talking about the company's business, the manager reported that he has been working for the main since the beginning of the construction on the farm to make it a still. And that in all this period working at the company he witnessed only one disagreement between an employee and the owner. He commented that this misunderstanding took place in the first year of the still, when next to the farm store there was a small snack bar for the sale of sugarcane juice (garapa) and pastel.

The owner, being a vegetarian, did not allow the sale of pastries filled with meat foods, only cheese-based. The employee always disagreed with the owner saying that he was losing the opportunity to make money by selling pastries with meat filling, as they were the most sought after by customers. The production manager, despite agreeing with the employee, commented that "this is his toy and he invited us to play with it, but we have to play the way he wants", referring to the owner (him) and his business (toy).

As the employee was always irritated by such a situation and unhappy with the owner for not wanting to make the customers' wishes (meat pastry), she always got into

disagreement with the owner until he decided to close the small snack bar and fire the employee.

### **Marketing and management practices from the owner's point of view**

The main majority shareholder, owner of the company, commented that he is very happy because the business is starting to be self-sustaining. That the sales of the physical store are already enough to pay the employees and monthly expenses. He commented that he does not intend to make a lot of money with the business, but he also does not want it to make a loss. Managing to support himself is enough for him.

The owner explained that when he decided to open the business together with his wife (main minority shareholder), he thought a lot about the issue of selling the product, as he did not want to be just another "common", cheap cachaça being sold in bars. Because if it were like this, he would have to have a high production to be able to pay his costs, since the "common" cachaça is very cheap, being sold from US\$ 1.00 to US\$ 3.00 dollars per liter.

Therefore, he decided to produce a cachaça with greater specificity, with greater added value, so as not to have to spend all his time and effort in production. Produce a beverage that could be sold at US\$ 30.00, US\$ 40.00 or even US\$ 50.00 dollars per liter. In this way, he would have a lower production, with less work effort, with a gain capable of sustaining the enterprise and that there would still be time to be able to travel with his wife and enjoy retirement (which is the desire of the main minority shareholder).

Asked about future plans for the business, about expansion, the owner replied that he has two projects in mind and a third if his son wants it. The first project is a bar in the tourist center of the city where the still is located. But it wouldn't be a conventional bar. It would be a specialized bar, with exquisite drinks, with a harmonized atmosphere and decorated with a traditional old Minas Gerais architecture mixed with a certain refinement and sophistication that would attract its clientele.

The second project, which is a little further away, but which is liked by his wife (the main minority shareholder), is the opening of a store for resales and tasting in Italy (Europe). He mentioned that they (he and his wife) have already entered all documentation to have Italian citizenship and that as of 2019 they would already be Italian citizens. At first he would export cachaça from the interior of Minas Gerais to Italy and later a small aging

cellar there. But for this project, he would have to buy another still to increase production in Brazil to be able to export to Italy.

The third project that would only be viable if his son decided to take over, was to open a restaurant on the alembic farm, but specifically inside the aging cellar. He commented that on his last trip to Italy, he visited a vineyard and the visit ended at the aging cellar and this was a restaurant. He stressed that the experience was very good and that he would like to have a restaurant in his still along these lines, but he would not like to take on more responsibility, more work. As his son is training as a chef and will take over the administrative management of the still (in place of his sister), the main thought that his son could also take over the management of the restaurant.

Still on future plans for the company, we asked if you have ever thought about having a sales representative and prospecting new markets beyond the local market and the South of Brazil. The owner commented that he has no interest in selling on a large scale. That with a sales representative, he would have the commitment to produce a certain amount of liters of cachaça and to meet deadlines, and concerns with logistics, among others. "Since I'm already retired," he said, he no longer wants to be killing himself at work or worrying about achieving production goals or delivery deadlines. He also said: "I have my business for me", referring to his well-being and quality of life.

## AGENCY CONFLICTS

Starting the analysis of the case, we return to what was presented by Panda and Leepsa (2017) in this article, regarding the types of conflict arising from the problem of agencies. It was possible to identify two of the three types of problems, namely: Type I, a problem between the principal (owner) and the agent (production manager); and Type II, a problem between the main majority shareholder (owner) and the main minority shareholder (owner's wife). We also emphasize that Type III does not fit into the case, since all the investment made for the acquisition of the farm, purchase of machinery, construction works, hiring of employees, among others, came from the partners' own resources, so there is no external creditor, a third party.

We also emphasized at the beginning of this analysis that because it is a company and not a S/A, at first it was not the object of the research to interview the main minority shareholder, although it was identified in the interviews and conversations with employees that the wishes of the main minority shareholder diverge from the main majority

shareholder. While the minority shareholder wants to enjoy her retirement more by traveling and spending time with her family, the majority shareholder is thinking of running a commercial business in the center of the city where the farm is located, thus spending more time working than with his wife. So much so, that the minority shareholder almost does not appear at the farm-still or farm store, according to employees and managers, thus demonstrating a lack of interest in the enterprise.

The Type I problem between the owner and the production manager is then highlighted. We will set up a thematic parallel where both enter into asymmetry. After presenting this asymmetry between the principal and the agent, some points identified in the research that seek to solve this conflict will be presented, and suggestions will also be made for new practices to further mitigate the asymmetry in order to align the actions of the agent with that of the principal. It should be noted that due to the limitation of pages for this article, we will focus the analysis and discussion on only three problems of asymmetry: (i) acquisition of another still; (ii) prospecting in new national markets; and (iii) snack bar with pastel and sugarcane juice.

### **The acquisition of another still**

#### **Asymmetry**

Breaking the parallel between the point of view of the owner and the manager, the desire of the principal to acquire a third still for his business stands out, in order to increase production by 50%, as currently the enterprise already has two stills. This increase according to the main desire, is to be able to export the drink to Italy. But not only to export the bottled product, ready for sale, but to have an aging cellar in Italy, in order to add value to its possible new business. Leading the clientele to have the opportunity to get to know the place of the aging barrels, a place that will provide a sensory experience arising from the specificity of the place, provoking the senses, such as the sweet odors of the woods soaked in cachaça, ambient humidity, low light and different sound propagation.

For the current enterprise, the main one would only be an investment in machinery and another investment in logistics procedures. But for the production manager, this means a considerable increase in his working hours. The agent explained that the operational employees are responsible for cutting the sugarcane, grinding the sugarcane (juice extraction), measuring sugars and filtration, heating the furnace and general cleaning. From this step onwards, the operations are carried out by himself, the production manager.



In other words, in addition to supervising the other activities, he participates in the production in an operational way, taking care of the fermentation stage, alembic (boiling, extraction of impurities, collection of pure cachaça), rest and aging.

The production manager commented that he is no longer old enough and has the stamina for it, he is already retired, and does not want to have to "kill himself" working. His job in the still is to occupy his time, to help a friend and to have an extra income. He was categorical in telling the owner that he would not work with an extra still. On the other hand, the owner commented that he does not entrust the production of his cachaça to anyone else, because although a certain level of impurity is allowed by law, his tolerance is zero for impurities, the quality of his drink must be unquestionable.

#### Observed solution

To solve the acquisition of another still, the principal proposed to the production manager that he choose a person he trusted to train in the operational work that the manager had been performing. In this way, the production manager would not participate in production by operating the equipment anymore, but by managing. The agent accepted the suggestion and chose an employee he trusted and began to train him in the execution of the activities. During the visit, the manager was still responsible for the operationalization of part of the production, but explained that he was already preparing an employee to take over his operational post.

#### Suggestion

As a suggestion for the problem of increased production arising from the desire to acquire another still, the proposal is what has already been appreciated by Mason and Slack (2005) in this article, which is the implementation of a production bonus to the production manager in addition to his current salary. As the manager is still assuming operational responsibility for part of the production, despite training a replacement, he could be more solicitous to increase production if he saw any monetary gain in this increase. In this way, it could share more favorably the owner's thinking, ensuring less asymmetry between them.

## **Prospecting in new national markets**

### **Asymmetry**

The main one was vehemently against prospecting in new national markets. He mentioned not wanting to have to commit to big sales, lowering his price and having to profit from selling at scale. That his initial objective was exactly the opposite, he wanted to profit through a few products sold at a more expensive price to serve a clientele with greater purchasing power.

The production manager, on the other hand, thinks that it would be possible to have a sales representative without losing the target audience of the business. As mentioned earlier, the representative who visited the company prospected in the prime region of the city of Rio de Janeiro (Copacabana among others). Asked if it would not be equal to the increase for export, he replied that it would not and explained that in the case of exports, the owner wanted to add a third still to the production, so that the volume of production would increase during the harvest period. In the case of the increase in national sales, production would be activated in the off-season, in order to produce in a period that is currently idle.

### **Observed solution**

In this problem, the manager (agent) wanted greater efficiency in production, taking advantage of the idle period that occurs every year in the off-season. With the intention of mitigating this dissatisfaction, the principal (owner) proposed a more flexible working day to the manager during the off-season. In this way, the manager could make better use of his time in other activities outside the still, than to be focused on the operational idleness of the off-season.

Still with regard to this last problem, the main one also delegated to the production manager the responsibility of carrying out the guided tour with the customers when he, the owner, was not on the farm. In this way, idleness is reduced, as well as allowing the production manager to occupy his time in the relationship with customers, an activity that the manager reported to be one of the most pleasurable for him today.

### **Suggestion**

In addition to the flexibility in the service journey and the guided tour, the main can be asked to monitor (or follow) production, ensuring that it is not producing more than

necessary. As it was appreciated, the production manager's desire is to increase production to gain efficiency and have more products stocked for a future increase in sales. In this sense, if there is monitoring, it would be guaranteed that only what is desired by the owner would be produced. And this monitoring would not be costly, as it is enough to monitor the amount of sugarcane that is being cut for milling. By ensuring the right amount of sugarcane juice, the final volume of cachaça production would be guaranteed, as proposed by the literature review by Mason and Slack (2001).

### **The snack bar with pastel and sugarcane juice**

#### **Asymmetry**

As explained earlier, at the beginning of the alembic's activities, the owner opened a snack bar for the sale of pastel and sugarcane juice, which is a traditional combination in the interior of Minas Gerais. But because the owner was a vegetarian, he did not allow the sale of pastries filled with meat products. In this sense, the option he offered to customers was only pastry filled with cheese. The main also reported that the snack bar was a bad venture, because it was a lot of work and little return. In addition to completely clashing with the rest of his business (store and coffee shop) which were exquisite and the snack bar was not.

For the production manager, this snack bar was a great business option. Which could be a differential to attract more customers, tourists who passed through the locality. That it would cost nothing to sell meat products, as he himself said: "he doesn't eat meat, but there are those who do" (referring to the owner). The manager, before the flexibilization of the working day, even offered to take care of the cafeteria, which he would make it work. However, his request was not granted. The owner had said not to lose focus on the core business, and that the snack bar had been a mistake.

#### **Observed solution**

The solution made by the owner in this asymmetry was simple, but extreme. The owner closed the snack bar. During the visit, it could be observed that the physical construction of the snack bar is abandoned. And according to the manager, all the materials are still inside it. The owner said he is still thinking about enjoying the place, but he is not yet sure what he will do.

### Suggestion

In fact, in the way it was (in terms of structure), the snack bar would not be attractive to the target audience desired by the principal. He would end up serving two clienteles, one in the alembic store (coffee shop) and the other in the snack bar next door. Perhaps, due to the discrepancy between the audiences that would frequent each of the two businesses, it was not in fact feasible to have both.

But in this sense, and considering the future desire to open a restaurant in the aging cellar, it is suggested to demolish the structure and create landscaping on the site. Because the vision of the closed cafeteria always reminds the manager that he could be running this enterprise, and with the demolition, with the passage of time, this thought would remain in the past, not vivid in the mind as when he reported it to us with a certain regret.

### CONCLUSIONS

As the above discussion suggests, Agency Theory has many possible applications for research in micro and small business studies. As noted at the beginning of this work, the theory developed from the traditional economic theory of the firm, which originally analyzed the relationship between management and ownership. The separation of administration and ownership generated the conflict between this managing agent and the owner of the property, the principal.

Regarding the Agency Theory, two important observations were made based on the appreciation of the literature, the first of which is regarding the classification of the types of agency problems that can be found in organizations. In this sense, three types of conflicts were observed: the conflict between principal and agent; the conflict between the main majority and the main minority, and the conflict between the principal and the creditor. The second observation concerns the possible solutions to these agency conflicts. Two solutions were highlighted: the solution through the creation of monitoring mechanisms; and the solution based on the agent's outcome.

Despite these observations, it can also be seen that as organizations structure themselves and become more complex, information asymmetries between agents and principals also increase, giving rise to new conflicts between agents and an increase in transaction costs arising from greater monitoring or better incentive plans. All this in an attempt to mitigate the asymmetries arising from the separation of property rights. Future

research may build on existing empirical research on agency theory, focusing on the principal-agent dichotomy with varying levels of monitoring, information asymmetry, risk aversion, opportunism, and utility functions. We hope that this discussion will provide a starting point for further studies by testing the basic assumptions of the agency model. Although the focus of the Agency Theory research has been directed to the maximization of financial profit in corporations, studies of micro and small companies have shown that it is possible to use this theory with rewards that go far beyond financial gain.

Further research in this area may also consider Agency Theory to be a useful theory for researchers in the field of organizational studies and business management to further understand organizations. In order to enable the identification of the types of agency conflicts, as well as to propose solutions to resolve or mitigate these conflicts. In addition, the implied terms of agency relationships should be examined in greater detail, considering the complexity of existing agency relationships.

We also conclude that the theoretical ideas of conflicts between principals and agents, between majoritarians and minority, between principals and creditors may become new ways of understanding organizations through the study of practices. In addition, both creating monitoring mechanisms and incentive mechanisms based on results are ways to mitigate agency conflicts. As a result, Agency Theory can be adjusted or adapted to provide a richer understanding of the principal-agent dichotomy and possible ways in which their relationships can be altered to result in more efficient organizations.

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