

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economic Theories



Bachelor Thesis

**Information asymmetry, moral hazard and agency
problem - Theoretical overview and practical
implications**

Nurzada Mussaliyeva

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BACHELOR THESIS ASSIGNMENT

abs. v. š. Nurzada Mussaliyeva

Economics and Management

Thesis title

Information asymmetry, moral hazard and agency problem – Theoretical overview and practical implications

Objectives of thesis

Main objective of this thesis is to develop ways to improve management by using information asymmetry, moral hazard, and agency problem concepts.

Partial thesis goals are such as to conduct a content analysis of scientific papers on the information asymmetry, moral hazard, and agency problem, and suggest ways how management can benefit from this theoretical framework and avoid its limitations.

Methodology

The methodology of the thesis is based on the analysis of relevant literature, such as academic papers and expert opinions. The practical part will use rules of thumb methods (monitoring, comparison, dimension).

The main methods of research consist of economic monitoring, modeling, and projection.

The proposed extent of the thesis

30-40

Keywords

Information asymmetry, moral hazard, agency problem, management, attitude, economic policy, information

Recommended information sources

- Andreoni, J. (2018). Satisfaction Guaranteed: When Moral Hazard Meets Moral Preferences. *American Economic Journal: Microeconomics*, Vol. 10(4), 159–189.
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The Bachelor Thesis Supervisor

Ing. Jana Kalabisová, Ph.D.

Supervising department

Department of Economic Theories

Electronic approval: 18. 11. 2022

doc. PhDr. Ing. Lucie Severová, Ph.D.

Head of department

Electronic approval: 24. 11. 2022

doc. Ing. Tomáš Šubrt, Ph.D.

Dean

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Declaration

I declare that I have worked on my bachelor thesis titled “Information asymmetry, moral hazard and agency problem - Theoretical overview and practical implications” by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 15 March 2023

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Information asymmetry, moral hazard and agency problem - Theoretical overview and practical implications

Abstract

The topic of this bachelor's thesis is "Information asymmetry, moral hazard and agency problem - Theoretical overview and practical implications". The three theoretical concepts mentioned above are considered in the theoretical section of this work. The phenomena of information asymmetry theory, its cost and demand, different attitudes toward information asymmetry, the significance of asymmetric information, and information asymmetry and capital structure are all analyzed as part of the evaluation of information asymmetry theory.

Furthermore, in the theoretical section of the thesis, a description of "moral hazard," its various conceptions, and examples of moral hazard are provided. The third chosen theoretical concept, agency theory, describes its definition, the practice of the agency problem, the concentration of control and ownership in the agency problem, and the shareholders' and managers' attitude toward the agency problem.

The practical part of the thesis is devoted to the description and evaluation of the expert interviews, as well as the results and discussion. The primary goal of this thesis is to compare the theory to the practical findings. The methodology of the thesis' theoretical section is based on a review of relevant literature. The practical part makes use of information derived from expert opinion analysis and interview synthesis.

Keywords: Information asymmetry, moral hazard, agency problem, management attitude, economic policy, information

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1 Introduction

There are three theoretical approaches - information asymmetry, moral hazard, and the agency problem - which can be used to analyse the enterprise management problem. These different theories examine the challenges that occur in the management from different viewpoints. The notion of information asymmetry underlines how various organisational relationship participants, such as business owners, managers, and customers, receive different kinds of information about how the company evolves and reaches its financial goals.

Since it is unrealistic and practically impossible to give equal access to data for all parties in business enterprise, there is always a certain degree of information asymmetry. Nevertheless, some level of transparency should be provided by the legislation of the states of business participants as well as by the legislation of various international organisations.

Better transparency can not rely only on the legislation, companies should create and reinforce their code of ethics. This code of ethics should aim at better and fair information distribution among all parties, and those parties with more power would be responsible for providing equal access to information to parties with less power and advantages.

The impact of the availability and quality of information on an economic institution's capacity to carry out its activities profitably and effectively is the main issue addressed in the study of information asymmetry. A method that would enable more fair information distribution is necessary in order for companies to function in a more equal position on the market.

The next theoretical approach - the moral hazard - is a concept in economics and finance that refers to a situation where one party has less incentive to act prudently because it is protected from the consequences of its actions by another party. In other words, moral hazard occurs when one party's actions affect the welfare of another party, but the first party does not bear the full costs or benefits of those actions.

The concept of moral hazard is often used in the context of insurance, but now it often occurs in other contexts, such as in the relationship between a company and its shareholders. If the company's managers are not fully responsible for the risks they take on behalf of the company, they may be more likely to take on risky projects in the pursuit of short-term gains.

This can result in losses for the company and its shareholders in the long run. Overall, the concept of moral hazard highlights the importance of aligning the incentives of different parties in order to ensure that they act in the best interests of the organisation as a whole.

The concept of moral hazard investigates the issue of the rationality of economic parties and cases in which rationality causes harm. Moral hazard refers to the idea that people or organisations may take more risks or behave less responsibly if they know that they will be protected from the negative consequences of their actions.

In the case of insurance, moral hazard can occur when an insured party has an incentive to take unnecessary risks or engage in risky behaviour because they know that the insurance company will cover any losses they incur. This can lead to a situation where the insured party is less careful or less diligent in avoiding losses, because they know that the insurance company will bear the financial burden if anything goes wrong.

Moral hazard is a problem because it can lead to inefficient outcomes and can discourage people and organisations from taking responsibility for their actions. It is important for policy makers and organisations to try to minimise the risks of moral hazard in order to encourage responsible behaviour and promote efficiency.

The third theoretical approach considered in this bachelor's thesis is the concept of agency problem. The agency problem refers to the conflicts of interest that can arise between different parties in a business relationship. It often occurs when one party (the "agent") is acting on behalf of another party (the "principal").

The agent is typically responsible for making decisions or taking actions that will benefit the principal, but the agent may have their own interests that are different from or even conflicting with those of the principal. For example, a manager of a company may have their own goals and interests that do not align with the goals of the business owners. The manager may be more concerned with their own career advancement or financial gain, rather than maximising the profitability of the company. This can lead to a situation where the manager makes decisions that are not in the best interests of the company or its owners.

The agency problem arises when the goals and interests of the agent are not aligned with those of the principal. How to integrate the objectives and interests of various economic activity participants within the boundaries of this economic activity is the main problem this approach tries to solve.

To address the agency problem, various solutions have been proposed, such as aligning the incentives of the agent with those of the principal through the use of performance-based pay or performance evaluations, implementing oversight mechanisms to monitor the actions of the agent, and increasing transparency and communication between the principal and the agent. These solutions can help to reduce the likelihood of the agency problem leading to inefficiencies and losses within the firm.

This bachelor's thesis' theoretical section examines the three concepts mentioned above. Following the introduction to the current thesis, the objectives and methodology of the bachelor's thesis are presented. The "Goals and Methodology" section of the thesis contains a list of the primary and secondary goals of this work as well as the methodology applied to the theoretical and practical parts.

The thesis's practical section explains how the three concepts—information asymmetry, moral hazard, and the agency problem—are used in real-world situations and outlines the research methodology used in that section. The interview with experts (managers with prior managerial experience) is then discussed and assessed. Following this section of the thesis, the Result and Discussion section and the Conclusion section are presented, where the study's and the thesis's overall results are examined.

2 Objectives and Methodology

2.1 Objectives

The main objective of this thesis is to compare the theory to the findings of the practical part. This comparison serves to improve practical management in the chosen organization by using the theoretical basis of three theories - information asymmetry, moral hazard, and agency problem concepts, as well as expert information. Partial thesis goals are to get a scientific knowledge from conducted content analysis of academic sources on the information asymmetry, moral hazard, and agency problem, and suggest ways how management can solve the organisation's problems from this theoretical framework.

2.2 Methodology

The methodology of the thesis' theoretical part is based on the literature review of relevant sources, such as academic books, papers and expert opinions and the description of the mentioned theoretical attitudes. A literature review allows one to find scientific sources that will reveal the essence of the three selected theoretical concepts (information asymmetry, moral hazard, and agency problem). The main information about the theoretical basis and practical application of these concepts is applied in the practical part of the work in relation to the chosen organization.

The practical part uses rules of thumb methods (interview with experts, analysis of the experts' opinion and synthesis of the information from interview). Interviewing experts will help us to learn what theoretical knowledge managers utilize in practice and how the provisions of the selected theories (information asymmetry, moral hazard, and agency dilemma) are employed or can be applied in their organizational management practice. A survey of managers will also reveal what potential and real problems exist when using the methodologies suggested in the three theoretical notions discussed above.

3 Literature Review

The key concepts of three theories - concept of information asymmetry, theory of moral hazard, and concept of agency problem - are presented in this chapter in different subparagraphs.

3.1 Concept of information asymmetry

3.1.1 The phenomena of information asymmetry

The economic phenomena of information asymmetry (also known as information incommensurateness) is well-studied. It is described as a circumstance in which one group has more information (typically better) than the other in a transaction or conversation. Researchers have been pointing out the catastrophic consequences of information asymmetry, which is the breakdown in the operation of the capital market, since the 1970s.

Information asymmetry (XU, Y. a W. HE. 2019, p.1-2) is now being investigated not just as a financial issue, but also as a possible cause of important social issues such as a deteriorating doctor–patient relationship (DPR) and a trust crisis across many social groups. Information is commonly referred to be the resolution of uncertainty as a means of communication. In the setting of information asymmetry, however, information clearly fails to achieve its goal of removing uncertainty.

Asymmetric information intensifies uncertainty for one side while allowing the other to succeed. This type of ambiguity can have a variety of negative repercussions, including a decrease in the weaker party's trust in the leading party and possibly increased hostility on the part of the inferior party. (XU, Y. a W. HE. 2019, p.1-2)

Information asymmetry (HUYNH, TLD, J WU a AT DUONG.. 2019, p.3-4) is regarded to be a sort of market failure. In case of its presence, it has an impact not only on the market as a whole, but also on the value of the companies listed on the stock exchange. This is because information asymmetry may cause individual investors and enterprises to make poor financial decisions, resulting in the loss of their investment and the value of their company's stock. Firms with a lot of money and a lot of earnings, for example, are more likely to finance their businesses with their own money and avoid taking on a lot of debt.

Nonetheless, if companies are exposed to asymmetric information, the pecking order theory argues that in order to limit information risk, firms choose debt financing over stocks. It is noted that when a market is unable to differentiate between strong and weak investment prospects, companies in advantageous situations frequently choose self-financing. (HUYNH, TLD, J WU a AT DUONG.. 2019, p.3-4)

These examples show that information symmetry/asymmetry is a key component in defining a company's capital structure, investment decisions, and, as a result, its value. The term "information asymmetry" was coined from the research of Akerlof's "Market for Lemons" theory (Akerlof, 1970), which said that product consumers had less knowledge about the quality of the product they purchased than sellers. (Ibid, p.3-4)

3.1.2 Cost and demand information asymmetry

The number of actors engaged is a common way to classify information asymmetry. Unilateral, bilateral, and multilateral information asymmetry are all included in this suggested classification. Only one entity has superior knowledge of a factor influencing decisions in unilateral or one-way asymmetric information. Both parties have distinct levels of information in the bilateral scenario, which can be regarding the same or different components. Multilateral information asymmetry exists when there are more than two actors, each holding asymmetric information. The multilateral information asymmetry of several entities appears to be more realistic of actual conditions than the unilateral scenario. (VOSOOGHIDIZAJI, M., A. TAGHIPOUR a B. CANEL-DEPITRE. 2020, p.12)

Considering various asymmetric information scenarios based on the type of information can give additional tool for analyzing these models, in addition to this standard classification. Two forms of asymmetries are frequently introduced and examined: cost information and demand information. A list of key asymmetric information forms can be found below (VOSOOGHIDIZAJI, M., A. TAGHIPOUR a B. CANEL-DEPITRE. 2020, p.12):

One form of information asymmetry is *cost information asymmetry*: This is a fairly typical scenario in which one (or more) entities in a supply chain have better quality cost-related information, such as production costs, holding costs, and ordering costs.

Second type of information asymmetry is *demand information asymmetry*. Demand information asymmetry exists when parties' demand knowledge differs from one another.

Buyers' demand, customer demand, retailer demand, or market demand are all examples of demand terminology. The ways demand information asymmetry is addressed can be different. Real demand data, demand forecasts, a demand component or characteristic, and demand distribution, for example, are all utilized.

“Information asymmetry—a condition wherein one party in a relationship has more or better information than another—is a cornerstone of management research. The concept is central to subfields such as corporate social responsibility, organization theory, international business, and entrepreneurship.” (D. BERGH, D. et al. 2019, p.123)

3.1.3 Different attitudes to information asymmetry

Many theories, including as agency theory, transaction cost economics, resource-based theory, institutional theory, resource-dependence theory, and signaling theory, are developed around the problems and possibilities generated by information asymmetries. The field lacks a sufficient understanding of information asymmetry due to a lack of systematic evaluation. Instead, understanding of information asymmetry is built on various subfields and ideas, the concept's interpretation and implementation are subject to discrepancies, and there is no cohesive foundation for future study. (D. BERGH, D. et al. 2019, p.130)

The lack of perfect information is referred to as information asymmetry.

Mentioned understanding of information asymmetry shows how participants in information markets deal with the fact that they don't know everything there is to know about one another. By contrasting informationally disadvantaged buyers and advantaged sellers, as well as their opposing techniques for gathering or distributing information, it gives important insight. (Ibid, p.130)

In asset markets, the formulation of this tension highlighted how imperfect and asymmetrically dispersed information among transaction participants affected seller and buyer behavior. Soon after, the notion of information signals—expensive features that offer information about otherwise unobservable qualities—was created, which highlighted how members of information marketplaces may utilize signals to differentiate seller value.

The influence of information. Within "organizational failures" theory, information asymmetry was examined as a source of transaction costs. It may also be claimed that due to the high cost of obtaining informational parity and the inclination to behave

opportunistically when given the option, information asymmetries between possible transaction partners enhance the search, monitoring, and bonding costs of a transaction.

Because achieving informational parity is costly for poorly informed firms, some businesses may use information to their advantage, causing genuine companies to quit the marketplace. Information asymmetries, it is suggested, might increase transaction costs between potential business partners, forcing them to establish partnerships rather than utilize markets or hierarchical (i.e., merge or acquire) approaches. (D. BERGH, D. et al. 2019, p.130)

According to theory of the swollen middle, alliances can reduce information asymmetry-based transaction costs by limiting the ongoing search and bonding costs associated related to market transactions, while also allowing parties to limit specific investment opportunities and withdrawal costs associated with hierarchical management. From this perspective, partnerships lower transaction costs caused by knowledge asymmetry while increasing transaction value. (Ibid, p.130-131)

Assumptions, processes, constructs, and boundary conditions are listed as the key components of a theory in theory construction. Assumptions are theoretical conditions that are assumed to be true or assumed to be true; they are used to connect ideas, constructions, and variables. Information asymmetry is a fundamental feature of theoretical reasoning in this position. (D. BERGH, D. et al. 2019, p.131-132)

For example, when claiming that there is a significant degree of information asymmetry and dependency in the connection between shareholders (i.e., audience) and senior management of organizations, the idea might be utilized as an assumption. It is supposed that "foreign firms with higher intangible assets have greater information asymmetry between them and their domestic competitors, which increases the barriers to imitation," and that "foreign firms' intangible assets can also create higher barriers to imitation by increasing causal ambiguity of their competitive advantage." (Ibid, p.131-132)

Information asymmetry as a mechanism. Mechanisms are feasible influence pathways that allow theorists to "predict beyond chance" how causal effects transfer from independent to dependent variables. Actors can utilize information asymmetry to actively seek their own self-interests in this way. "Information asymmetries cannot be considered as just another impediment in the competitive war," for example, because they can be a powerful source of competitive advantage for service companies that intentionally offer new services for their existing consumers. (D. BERGH, D. et al. 2019, p.131-132)

Information asymmetry as a construct. Conceptually, a construct exists, yet it "cannot be observed directly." Theory construction includes clarifying links between constructs; such interactions are frequently shown using box-and-arrow diagrams to communicate notions about causation and influence. (D. BERGH, D. et al. 2019, p.131-132)

Information asymmetry as a boundary condition. Information asymmetry can also be used as a boundary condition for theories, constraining their applicability. When implemented in this role, the notion usually acts as a mediator inside a theoretical model, causing central actors to alter their behaviors as the level of information asymmetry changes. (Ibid, p.131-132)

Because this boundary condition tends to influence purchasers' buying behavior, information asymmetry can modify the connection between the purchase of experience services and business performance. The dynamic impacts of buyer-seller information asymmetry and experience services, the quality of which can only be assessed after purchase, will be favorably linked to performance.

When knowledge asymmetry among group members is considerable, groups can outperform individual decision makers and social combinations of individual votes. Information asymmetry is portrayed as playing a moderating function in the link between independent and dependent variables, with varying amounts of information asymmetry changing the relationship. (D. BERGH, D. et al. 2019, p.131-132)

3.1.4 The significance of asymmetric information

The significance of asymmetric information in reconciling classical economic theory with observable economic behavior is essential. Most interactions between economic agents are influenced by the intensity and substance of asymmetric information, especially in circumstances of adverse selection or ethical hazard. As a consequence, one of the most fundamentally significant notions examined by modern economics is asymmetric information. (JOHNSON, T. L. a E. C. SOB., 2017, p.1)

Financial economists are especially interested in it since one of the key social advantages of an active securities market is that it integrates heterogeneous data into market values. As a result, comprehending the impact of information asymmetry on agent interactions is critical to comprehending financial market outcomes and operations. (Ibid, p.1)

Most financial market trading models incorporate two categories of agents: those who trade because they have an information advantage and those who trade without an information advantage for reasons such as liquidity or hedging. The predominance of informed trade influences liquidity, transaction costs, and trading volumes, and it can also assist to explain market failures. (JOHNSON, T. L. a E. C. SOB., 2017, p.1)

As a result, the proportion of volume originating from knowledgeable traders is a significant variable in most theoretical and empirical studies on information economics in financial markets. Measuring the proportion of volume that is informed is difficult due to the fact that it is fundamentally unobservable and time-varying. Thus, one of the primary goals of research into information asymmetry in financial markets is to create proxies that can be represented as a function of observable inputs and whose fluctuation conveys empirically demonstrable effects of informed trading. (JOHNSON, T. L. a E. C. SOB., 2017, p.1)

A measure of income shifting was established, and multiple empirical methodologies were used to investigate the relationship between income shifting and information asymmetry. A simultaneous system of equations technique was utilized to address concerns that income shifting, and knowledge asymmetry are linked. The connection between income shifting and information asymmetry may be modelled using this approach. (CHEN, C.-W., 2018, p.960)

Consistent with assumptions, evidence was discovered that income shifting had a negative impact on information asymmetry. Income shifting has been shown to be positively related to the adverse selection component of the bid-ask spread and atypical insider trading profit, both of which directly reflect information asymmetry. (Ibid, p.960)

The phrase "information efficiency" refers to the fact that the market price completely reflects all available information. This information efficiency is accomplished when information about stocks is swiftly, equitably, and affordably provided to all investors, and the information is correctly factored into the price of the stocks. However, information asymmetry occurs when this knowledge is not given equitably to all market participants. (CHAI, S., PARK, M., ed., 2020, p.4044)

It refers to a difference in the amount and accuracy of information possessed by two or more market players on a given occurrence that has a large ripple impact. Furthermore, they may adopt measures that are advantageous to them but destructive to the other investors. Although information asymmetry in the market can be lessened by external

sources of information such as financial analysts, asymmetry is difficult to completely address. (Ibid, p.4044)

For a long time, there has been information asymmetry in the market. Informed traders may be able to benefit from their privileged positions of information. They may take activities that are advantageous to them but destructive to the other investors. As a result, asymmetric information frequently leads to large price volatility and, eventually, market failure. Information asymmetry has been identified as a key component in determining stable prices. (CHAI, S., PARK, M., ed., 2020, p.4044)

Because it is an essential method via which information sharing may be valued, information asymmetry can also be regarded in terms of "ownership." As a result, a party's share of ownership for a specific project tells other parties about how much knowledge the underlying party has about the project in question. This kind of information asymmetry can be shown in the case of a syndicated bank loan. (SIMPLICE, A. a O. NICHOLAS M., 2021, p.5)

According to theoretical calculations, the lead bank's portion of the collective loan (in comparison to participating banks) indicates how much knowledge the lead bank has about the borrower's viability, and therefore information asymmetry in a loan may be seen via the lens of a loan spread. These information asymmetry dynamics are based on the fact that the lead bank acquires and analyzes client information as an agent in the loan syndication. (Ibid, p.5)

3.1.5 Information asymmetry and capital structure

Information asymmetry occurs when one party (usually sellers) in a transaction has more information or is more knowledgeable about the quality of the product than the other parties (usually buyers). This feature may be found in a lot of second-hand marketplaces. (YANGA, L., K.W. CHAU a Y. CHEN., 2021, p.2)

For example, information asymmetry can be found in the property market. Because some property attributes are not highly apparent, landlords and renters often do not exchange symmetric information on the quality of the property. In particular, both landlords and tenants are aware of some property qualities, and such symmetric knowledge would have little impact on the discussion (and transaction). Other qualities, on the other hand, are more familiar to landlords (sales), and such asymmetric knowledge might influence the negotiation (and the transaction). (Ibid, p.2)

Information asymmetry has a negative impact on company capital structure, which is a widely discussed topic in corporate finance. The asymmetry of knowledge has a significant influence on company capital structure decisions. It causes market uncertainty because insiders, particularly managers, have greater information about the firm's investment possibilities and assets than market participants. Firms with more information asymmetry issues end up paying higher transaction costs and asymmetric information costs when seeking external finance. Furthermore, the costs of information asymmetry are expected to be substantial for developing market enterprises. (AHMED, Z. et al., 2020, p.176-177)

Through the Pecking order theory, the problem of information asymmetry and capital structure may be better understood. It is based on the idea that organizations' capital structure is influenced by asymmetric information concerns. Information asymmetry is one of the primary drivers among capital structure determinants, according to pecking order theory. (Ibid, p.176-177)

It was also stated that managers know more about a firm's value than market players, resulting in information asymmetry; the market penalizes stock issuance where projected payoffs are crucially tied to the evaluation of firm value. As a result, the pecking order theory predicts that, as a last resort, the financing imbalance should be addressed by stock issue. Firms with a financial deficit prefer debt, and subsequently they will be regarded at larger debt rates, whereas stock issuances should be used as a last resort to address financing shortfalls. (AHMED, Z. et al., 2020, p.176-177)

Due to the relationship between asymmetric information and external finance, firms prefer internal financing over external financing, i.e. debt and equity, according to this theory. Managers favor internal funds because they are unaffected by transaction costs and knowledge asymmetry, but debt is preferred over equity in external financing. As a result of the high external cost of capital associated with knowledge asymmetry, the firm develops a preferred ranking of financial resources. (AHMED, Z. et al., 2020, p.176-177)

3.2 Theoretical basis of moral hazard

3.2.1 Definition of "moral hazard"

The phrase "moral hazard" was coined in the insurance business in the nineteenth century to describe some hazards connected with parties who purchase insurance policies, but its formal definition has been debated since its inception. Some people used the word to apply

exclusively to insured parties who purposefully destroyed property in order to collect insurance money, or to those who purchased specifically to do so. (JEBARI, J.. 2021, p.2)

Philosophers and sociologists have attempted to better define the concept of moral hazard as it has moved beyond economics and insurance. Economists adapted and refined the notion by defining it in terms of risks presented by unrecognized changes in participants' behavior caused or worsened by insurance provision. This eliminated previously included elements (for example, insured party characteristics like as health history) that raise their risks. (Ibid, p.2)

It also included risks that stricter definitions sometimes excluded, such as people becoming less cautious because they have insurance. For example, even if they have no intention of burning down the building, someone who refuses to install expensive fire protection equipment in a building because it is insured demonstrates moral hazard in the economist's understanding. (JEBARI, J.. 2021, p.2)

The term "moral hazard" has its origins in nineteenth-century insurance markets, where it originated from the use of probability theory to develop a "doctrine of chances" for estimating the odds on which new insurance businesses relied to stay successful.

As insurers wanted only individuals who were upright, honest, economical, and hardworking as customers, the Victorian ideal of the moral person became inextricably entwined in the vocabulary of insurance. Those with a lower moral standing posed a higher risk since they exhibited undesirable qualities such as intemperance, laziness, improvidence, lethargy, and untidiness, which provided insurance firms with a higher probability risk.

Insurers took into account the "moral dangers" provided by persons regarded less upstanding and trustworthy, just as they did the "physical hazards" that might cause accidents and loss: weak character and bad habits raised the risk of loss. However, insurers knew that moral hazard could readily extend beyond people of questionable moral character, and that the fact that the insured was shielded from the vagaries of chance might easily lead to the insured taking on extra, and unneeded, risk. As a result, moral risk began to refer not just to the hazards of insuring "immoral" persons, but also to the perverse incentives enabled by the mere notion of insurance. (VAGLE, J. L., 2020, p.76-77)

The law and economics movement in the 1960s expanded the concept of moral hazard to the broader concept of rational reactions to incentives, removing the moral standards and judgements formerly connected with the phrase. In other words, the economic interpretation of moral hazard — which has since become conventional wisdom on the

subject — assumes that people are rational, self-interested agents who aim at reducing loss and achieve greater profit, and will act differently when the risks and consequences of actions can be transitioned to others.

Although moral hazard is strongly anchored in insurance research, its implications have moved to fields as diverse as products liability, welfare, finance, companies, and workers' compensation. Moral hazard is economically unproductive in all of these domains, according to law and economics.

The notion that moral hazard is built on a social construct rather than economic absolutes is a shortcoming in this theory. When we say that moral hazard is either beneficial or harmful for society, we're making value judgements about which behaviors should be guarded or supported. Looking at the early economics literature on the idea of moral hazard, this issue can be clearly seen. (VAGLE, J. L., p.77-78)

3.2.2 Different conceptions of moral hazard

The early economist's version of moral hazard linked the old conception of the moral sin of temptation to the more modern economic theory of incentives, replacing a theory of moral choice with one based primarily on cost-benefit analysis. It may be argued that this school of thought is not inherently incorrect, but rather incomplete, in that it fails to adequately address the moral risk associated with security of connected devices.

The magnitude and distribution of risks associated with these novel technologies are difficult to quantify or predict, a point that the cost-benefit analysis overlooks; a more robust approach would combine quantitative and qualitative analysis, relying on principles to guide decisions despite the inherent complexities of technology. (VAGLE, J. L., p.79)

A moral hazard might apply to persons or situations for nineteenth-century fire insurance, according to Tom Baker. "[t]he'moral' insured was honest, careful, chaste, thrifty, hardworking, moderate in habits, and... did not gamble," according to Baker. Moral hazard arose when situations increased the incentive to participate in risky activity. (GREENE, J., 2019, p.229-230)

Early applications of the phrase emphasized its normative aspects, and labeling someone a "moral hazard" was the foundation for an explicit refusal to insure. When Kenneth Arrow studied moral hazard in the context of medical insurance in the 1960s, the concept entered the economic theory literature. Arrow recognized that the cost of medical

care is determined not only by the form of the sickness, which is unpredictably unpredictable, but also by the doctor chosen and the medical services required. (Ibid, p.229-230)

Such decisions are at least partially under the patient's power, and if a third person pays the expense, they are likely to be more costly. Mark Pauly, in a well-received response to Arrow, underlined that the decision look for greater medical treatment in the context of insurance was "not a product of moral perfidy, but of rational economic behavior." In a traditional insurance arrangement, "the expense of the person's excessive use is distributed among all other consumers of that insurance," and therefore "the individual is not motivated to limit his use of treatment." (GREENE, J., 2019, p.229-230)

As a result, even in a perfect competitive market, the best amount of insurance would not be complete insurance if the fact of insurance impacts its cost, as it would in a moral hazard situation. The response of Arrow to Pauly's remark concerning the morality of moral hazard is noteworthy since it relates to the concerns of this Essay. "Moral perfidy" and "rational economic activity" in this situation, according to Arrow, are not mutually exclusive. Even if it is logical to seek further medical treatment because one is insured, he argued, "it does not follow that no constraints should be imposed, or indeed that individuals should not impose constraints on themselves in certain contexts." (GREENE, J., 2019, p.229-230)

An incentive to spend as much as one wishes on medical treatment with a third party paying the bill does not result in a socially efficient distribution of resources, hence insurance firms should conduct some cost control, according to Arrow. Auditing, depending on "physician professional ethics," or relying on "the individual's willingness to act in line with certain universally accepted norms" might all be used to enforce this restriction. (GREENE, J., 2019, p.230)

3.2.3 An examples of moral hazard

When parties cannot completely assess or manage a risk, the party that can better control it or obtain market insurance should carry it. Owners (or contractors) must absorb the extra expenses of any risk phenomena that should be paid by owners, according to this principle (or contractors). However, because many situations of cost overrun risk involve both owners and contractors, assigning sole ownership to either side becomes challenging.

Furthermore, in circumstances when the owner's undisclosed practices add to cost overrun concerns, if the owner avoids the risk by passing it on to the contractor, the contractor may be able to avoid it through opportunistic behavior. Double moral hazard refers to a situation in which both the owner and the contractor turn to opportunistic behavior. (SHI, L. et al., 2019, p.1)

Moral hazard issues in building projects have been intensively studied in recent decades, presuming that the contractor may refuse to do his duty. Moral hazard behavior of contractors presents itself in building projects mostly by taking shortcuts, misappropriating cash, or putting in insufficient resources, none of which are visible to the owners. According to agency theory, the best risk-sharing strategy maximizes the overall surplus (owner's payout) from a transaction while adhering to the IR and IC restrictions that encourage contractors to avoid opportunistic conduct.

Because the contractor's actions are frequently unobservable or unverifiable, risk-sharing policies link project success to contractor payment, subjecting the contractor to the risks that are within his control. Contracts encourage risk-sharing principles in building projects, such as payment methods, penalty costs, and dispute resolution processes. Performance guarantees, project bonds, and insurance schemes are also included in contracts to provide the contractor with appropriate incentives to increase project efficiency. (SHI, L. et al., 2019, p.1)

A policy of the International Monetary Fund (IMF) is one example of moral hazard in organization. Political inequalities in IMF governance, it may be claimed, have larger implications for the global economy. Expectations regarding whether and how the IMF will act in the case of a crisis are influenced by political power over the organization. This changes politicians' and private investors' incentives, boosting risk-taking in certain nations but not in others. (Y. LIPSCY, P. a H. NA-KYUNG LEE., 2019, p.36)

Moral hazard exists in countries that expect favorable treatment from the IMF: the prospect of a large rescue lowers the perceived costs of riskier actions like maintaining less overseas reserves or weakening banking rules. Countries with little political weight in the IMF, on the other hand, have tremendous incentives to pursue self-insurance. In fact, the IMF functions as a biased global insurance mechanism, with moral hazard linked with IMF funding dispersed asymmetrically throughout the global community. (Ibid, p.36)

Even though the IMF has been accused of creating moral hazard, concrete proof has been difficult to come by. The organization has a nearly worldwide membership and has

operated since World War II, when the modern international financial system evolved and consolidated. In most cases, admission to the IMF is a result of self-selection. As a result, there is no evident control condition against which the impact of IMF moral hazard can be measured. (Y. LIPSCY, P. a H. NA-KYUNG LEE., 2019, p.36)

The IMF's ability to create moral hazard in the international system has been widely discussed. One notion is that the risk of moral hazard is allocated asymmetrically. Because of direct disproportionate representation or strong political or economic links to powerful governments within the IMF, moral hazard is especially problematic for countries that expect favorable treatment from the organization.

The distortion caused by a lack of influence with the IMF is also significant, although less commonly mentioned. Financial institutions' incentives to participate in cross-border lending may be harmed by the idea that the IMF is unresponsive to their concerns, leading governments to aggressively accumulate foreign reserves as a kind of self-insurance.

Political contradictions at the IMF have far-reaching economic impact on world economy. The international system is essentially managed by a biased insurance mechanism since IMF decision-making may be politicized and biased toward the interests of a small group of powerful governments. This bias creates uneven moral hazard, pushing certain nations to adopt riskier policies while forcing those with less power to attempt abrasive self-insurance by building up international funds. (Y. LIPSCY, P. a H. NA-KYUNG LEE., 2019, p.39, 59)

3.3 Concept of agency problem

3.3.1 Definition of agency theory

Agency theory is concerned with the analysis of issues that occur when one party (the principal) transfers authority – in terms of decision-making and responsibility for specific activities and tasks – to another party (the agent). This approach focuses on interactions in which the principal and agent cooperate but have different aims and opinions about risk.

Since the agreement establishing the principal-agent relationship is the object of study, the focus of agency theory is on determining the most efficient agreement controlling the principal-agent relationship, provided the assumptions about people (self-interest, bounded rationality, risk aversion), organizations (goal conflict or inconsistencies), and information (information asymmetry between principal and agent). (DELBUFALO, E., 2018.)

The basic agency issue among shareholders, debt holders, and corporate management emerges when the firm managers' aims disagree from the interests of the company's owners—the shareholders. This misalignment of objectives leads to inefficiencies and costs, which restrict investments in innovation and have an impact on a company's long-term financial sustainability.

Business owners appoint managers to run their businesses for them. However, in other cases, firm executives may prefer predictable cash flows in order to limit the chance of the company's failure, as their positions and incomes are challenged in crisis situations. Company managers are hence encouraged to defend the interests of creditors rather than shareholders, and projects with a greater risk profile that could maximize the company's asset value and stimulate development are disregarded.

Stock option schemes and other incentives are developed with the goal of aligning business executives with shareholders. On the contrary, if managers' incentives are largely aligned with shareholders, businesses may invest in highly risky initiatives that can quickly lead to financial crisis. A long-term equilibrium is needed. Inadequate resource allocation caused by the agency problem could have a negative impact on company profitability and, in the long run, be harmful to a business's sustainability, resulting in defaulted or debt-dependent companies that do not add value to stable economic growth, innovation, or social development. (HUERGA, A. a C. RODRÍGUEZ-MONROY., 2019, p.1)

“The agency problem cannot be eliminated as long as there is an agent who is not completely the true owner of the company. This problem has been recognized by the regulators and policy makers worldwide, and they have tried to safeguard listed companies by requiring them to comply with numerous regulations designed to promote the independence of the board of directors.” (LAL, J, S. SRIVASTAV a M. SINGH., 2019)

3.3.2 The agency problem' practice

The agency problem is concerned with recognising the ideal balance between risk-taking and risk avoidance, as well as the tools to achieve that equilibrium, such as corporate governance or business audit. Management motivation agreements are examples of such mechanisms. Compensation systems are designed by corporate boards to reward firm managers and match them with shareholders, although in other circumstances, compensation plans are constrained by government, market, or society. These schemes are

insufficient remedies since they do not necessarily address the basic issue of excessive leverage, excessive risk, or a company's long-term financial viability. (HUERGA, A. a C. RODRÍGUEZ-MONROY., 2019, p.1-2)

The contrasting aims of shareholders and managers result in agency difficulties, with the shareholders expecting a fair return on investment and therefore that companies increase shareholder value, and the managers optimizing their personal financial (and non-financial) income. Many internal and external governance systems, such as pay-for-performance compensation, contract design, and internal monitoring by boards of directors and director committees' systems, as well as centered voting authority held by monitoring blockholders and corporate governance regulation and institutions, are used to address agency problems.

In practice, there is plenty of empirical evidence that many organizations suffer from agency issues, such as poor design of management compensation contracts and a lack of corporate monitoring, which leads to corporate investment decisions that do not increase company profit. (LIANG, H. a L. RENNEBOOG., 2018, p.54)

Agency theory is widely regarded as one of the most influential theories directing the evolution of corporate governance. In agency theory, principal-agent interactions are those in which governance systems are central. Two parties are engaging with each other, according to this viewpoint. These are principals and agents, respectively. Principals are the shareholders who invest in an enterprise and appoint the boards of directors, who act as agents. The board of directors' primary responsibility is to represent the interests of shareholders or principals. The board of directors is in charge of guaranteeing that management acts properly and that managers carry out their responsibilities.

Employees, directors, shareholders, and investors comprise the corporation. Conflicts of interest may occur between these entities occasionally. The principals instruct the agents to increase the company's worth. The term "agency problem" refers to a conflict scenario that can occur when managers, who are the agents of the shareholders, pursue their own interests. Agents may not act in the best interests of the principals, or they may act only partially in the principals' best interests.

Shareholders are unable to actively participate in the day-to-day management of enterprises and supervise the business. As a result, the shareholders elect the board of directors, and the board decides on the company's management and controls the enterprise.

From this perspective, the board of directors' function is critical, and board members must carry out their responsibilities properly. (ÇAKALI, K. R. 2022, 15-31., p.20)

Nevertheless, the board of directors' ability to work effectively may be impaired for a variety of reasons. There are both executive and non-executive members on the board of directors. Non-executive members are external managers, whereas executive members are part of the management team. Non-executive board members may be unable to adequately monitor operations since they have no financial interests, typically have limited time, and might even transfer their obligations to the company's management.

Agency theory addresses two kinds of difficulties in agency interactions. The first of these is the agency issue. The agency problem manifests itself primarily in two circumstances. It occurs if there is a conflict between the intentions and ambitions of the agent and the principal, and whether it is problematic for the principal to legitimize the agent's actual activities. The risk-sharing problem is the second kind of difficulty. It is described as a scenario in which the agent and principle have contradictory opinions regarding risk. They may choose to act differently due to differing risk attitudes. (ÇAKALI, K. R. 2022, 15-31., p.20)

3.3.3 Concentration of control and ownership in agency problem

In the context of the agency problem, concentration of control can be regarded as the most effective kind of ownership in terms of minimizing the agency problem and lowering agency expenses. In this situation, shareholders may exert influence over management and maximize resource allocation, therefore reducing conflicts of interest, information asymmetry, and agency costs. Ownership concentration also enables for rationalization of investment and dividend distribution decisions, resulting in more financial discipline among the agents.

Concentrated ownership, on the other hand, is defined ambiguously since it may lead to new disputes between majority and minority shareholders. As a result, in nations where minority shareholders' interests are not adequately protected by law, controlling owners may engage in widespread expropriation of minority shareholders (such as related-party transactions, asset stripping, and other types of income 'tunneling'). (POKHODUN, Y., 2021, 9(2), p.64-65)

“Ownership structure can affect agency problems in the sense that it can be used as a mechanism to control such problems. For example, if the contract between a firm and managers cannot mitigate agency conflict, an increase in the level of insider shareholding can be an effective corporate governance mechanism for this purpose since it increases managerial monitoring and alignment with shareholders’ interests.” (PHAM, H. N. a S. M. N. ISLAM., 2022., s.46)

Furthermore, concentrated ownership can result in a unique sort of agency problem known as a principal-principal conflict in businesses, in which family interests may outweigh non-family shareholders' interests and generate a predisposition for family income. However, a significant degree of overlap between the ruling family and management may result in poor supervision and the possibility of shareholder expropriation.

Based on the information presented above, it is possible to presume that the ownership structure does have an effect on agency costs. Some researchers have argued that institutional ownership reduces agency costs; nonetheless, it does not completely eliminate self-serving decision-making. Ownership concentration has shown to be a highly successful structure for drastically lowering agency expenses. Simultaneously, the latter can only function in legal regimes that provide broad protection under the law for smaller stockholders.

A substantial proportion of management ownership can help owners and managers align their interests, reducing both the agency problem and expenses. Moreover, management ownership increases managers' drive to strive towards the maximum of the company's worth. Managers are more accountable for identifying lucrative investment plans and incurring shareholder risks since they possess a specific number of shares.

Nonetheless, apart from aligning interests, management ownership does not alleviate the problem of agency costs, primarily contributing to a decrease in operating expenditures. Agents (if they are not also owners) would concentrate on increasing company growth and size, whereas principals would seek value maximization by examining the existing value of cash flow generated by corporate investment.

As a result, it is impossible to say definitively whether kind of ownership is the most or least successful in terms of agency costs. The tools of effective governance, as well as the legal framework within which these processes are implemented, and the ownership

structure, all contribute to minimizing the agency problem and lowering agency costs. (POKHODUN, Y., 2021, 9(2), p.64-65)

3.3.4 Shareholders and managers' attitude to agency problem

Shareholders who are focused on agency difficulties created by managers are unable to consistently oversee the activities of managers and, as a result, are unable to properly comprehend the genuine circumstances behind crucial company choices. Shareholders, for example, demand significant dividend distributions in exchange for more cash and rises in the present value of the capital share that they own. Managers who have easy access to important information, on the other hand, have a higher risk tolerance. As a result, they may prefer to keep a big portion of their income in order to purchase more pivotal assets or advance in technology.

As an outcome, risk perceptions and corporate objectives vary. This conflict between outsider shareholders and business managers can lead to inefficiencies and even loss for the enterprise. Managers pursue gains that raise their personal wealth in a variety of settings, which leads to ethical concerns and decision-making conflicts. To reduce these conflicts, shareholders must observe and supervise the actions of management through clear communication and sound company policy. In other words, laws should be regulated in order to increase shareholder control over the Board of Directors. (NGUYEN, A. H., D. T. DOAN a L. H. NGUYEN., 2020, p.3)

A mirror image of the agency issue has emerged in recent years: businesses are prepared to give up their executive directors (i.e., their agents) in favor of the corporation's best interests. This phenomenon is known as "the reverse agency problem" and it is a comparatively recent phenomena that did not exist previously, and has been mainly unseen or ignored.

Nevertheless, it is substantial and persistent, and it is only going to expand in the future. The reverse agency issue is a result of the compliance period. Since the mid-2000s, for example, US companies have been subjected to enforcement actions by various federal regulatory agencies, including the Department of Justice (DOJ), the Securities Exchange Commission (SEC), and the Internal Revenue Service (IRS), as well as criminal proceedings initiated by state agencies, such as the New York State Department of Financial Services (DFS). (ECKSTEIN, A. a G. PARCHOMOVSKY., 2019., p.3-4)

A substantial share of these inquiries do not result in criminal charges. Instead, they are resolved outside of court through "Pretrial Diversion Agreements" (PDAs), which primarily comprise Deferred Prosecution Agreements (DPAs) and Non-Prosecution Agreements (NPAs) (NPAs). Numerous further issues are solved through plea bargaining after they have been indicted. These agreements are referred to together as settlement agreements.

The corporations must confess to numerous charges of misconduct by their directors, managers, and other workers according to terms of these agreements. Such agents, some of whom are not employed by the involved firms at the time the agreement is signed, generally have little or no input in the process and will have to live with the admissions made by their corporations, admissions that accuse them in misconduct. Despite the fact that these admissions do not bind people in any way, they have a significant influence on their future. As a result of these agreements, many employees experience serious reputational damage, which frequently leads to the loss of jobs and money. (ECKSTEIN, A. a G. PARCHOMOVSKY., 2019., p.3-4)

Companies can be thought of as black boxes that operate in order to maximize their value and profitability. Wealth maximization can be accomplished through effective coordination and collaboration between the actors involved in the organization. However, because the parties' interests differ, conflicts of interest arise, and this occurs because each participant prioritizes their own interests. Competition from other actors, who observe the productivity of all teams and individuals, can restraint companies. To minimize agency problems, an independent party is needed to function as a control instrument for management, ensuring that they work in the best interests of the company and its shareholders. (RINALDO, D. a V.A. PUSPITA., 2020., p.16)

It has been demonstrated that agency problems are a common occurrence, for example, in state-owned enterprises (SOEs). SOE managers are typically entrenched bureaucrats, resulting in more severe agency problems. SOEs belong to the public but are controlled by politicians. As a result, individuals have a strong incentive to monitor managerial behavior.

Executive government agencies are usually in charge of monitoring the performance results of SEOs. Monitoring, on the other hand, inevitably turns into an inefficient bureaucratic pyramid of multi-level administrative control and inadequate reports. Furthermore, the goal of SOEs is frequently not profit maximization, but rather redistribution to favored interest groups, employment levels, patronage, and so on.

As a result, SOE managers are judged based on the attainment of political goals and are less vulnerable to pressures from the stock, product, or labor markets. Internal and external corporate governance procedures are both deficient; managers of SOEs are incentivized to consume private benefits.

It is argued that substantial state ownership is associated with weaker monitoring by non-state shareholders or outsiders, significant information asymmetry, and increased agency difficulties. As a result, enterprises with substantial residual state ownership, for example, store more cash, according to this agency theory. State ownership is related to business cash holdings in a beneficial way. Furthermore, they find that privatized state-controlled enterprises or firms with political ties have more cash than their competitors. There is also evidence that state-controlled enterprises hold more cash than non-state-controlled firms in some Chinese firms. (DAO, T. T. 2020, s.50-51)

4 Methodology of the research

The qualitative research carried out in the practical section of this bachelor's thesis consists of various steps outlined below, which allow to progress from the study's aims to the interpretation of its findings.

Step 1 (JOHNSON, J. L., D. ADKINS a Sh. CHAUVIN., 2020, p. 139-143):

Identifying a Research. Topic Identifying and developing a research topic consists of two major tasks: formulating a research question and developing a conceptual framework to support the study, which was accomplished in the theoretical part of the work. The research question begins with a problem statement that describes the relationship between various concepts, behaviors, or experiences. The research question in this study is, "How do the interviewed managers face manifestations of three theoretical concepts - information asymmetry, moral hazard, and agency problem - in their personal activities?".

Step 2: Design a Qualitative Study. The above- mentioned qualitative research is concerned with understanding the observed phenomena in a specific context with carefully selected participants. In this qualitative study, the sampling design is purposefully defined to include the most appropriate participants in the most appropriate context for answering the research question.

Qualitative researchers understand that some participants are more relevant and useful in achieving the research goal and answering the question at hand. The conceptual framework has a direct impact on sample definitions, sample size, and participant recruitment. Persons with specific experience (critical case sampling) or expertise may be best suited to answer the research question (key informant sampling).

In the framework of this qualitative study, a survey of 3-5 managers with managerial experience is carried out. The survey is structured as an interview with open-ended questions. The questionnaire for managers consists of 15-20 questions, 5 of which are aimed at determining respondents' socio-demographic characteristics (age, gender, education, position and work experience).

The remaining questions are designed to determine how managers deal with manifestations of information asymmetry, moral hazard, and agency problems, as well as the negative consequences of practical problems associated with these three theoretical concepts. The survey of managers in the study is conducted remotely by sending questions to managers, who respond in writing and then return their answers to the study's author.

Step 3: Data Analysis. The survey data is analyzed after the managers send their responses to the survey's author. Data analysis is carried out by thoroughly examining each manager's response and comparing the responses of all managers. The analysis of survey data reveals a comprehensive picture of the trends observed in individual managers and all managers in general.

Step 4: Drawing Valid Conclusions. The goal of qualitative research is to gain a better understanding of specific perspectives, observations, experiences, or events as evidenced by the behaviors or products of individuals and groups in specific contexts or circumstances. Conclusions derived from study results should improve the conceptual framework or contribute to the development of a new theory or model and are typically found in the discussion and conclusion sections of a manuscript.

The study's findings will help to better understand how information asymmetry, moral hazard, and agency problems manifest themselves in the labor practices of particular managers, as well as how managers deal with the negative consequences of these manifestations. Furthermore, the study's findings will reveal the respondents' competencies and experience in preventing and combating the negative phenomena of information asymmetry, moral hazard, and agency problem.

In general, the structured interview results will show whether the organizations where the interviewed managers work have mechanisms in place to prevent and eliminate problems associated with the three theoretical concepts mentioned above. The findings of the qualitative study will allow us to better understand the general (i.e., organization-independent) implications of information asymmetry, moral hazard, and the agency problem for organizations.

Based on the findings of the practical study, appropriate recommendations for the organizations where the survey participants work were developed. The recommendations concern the development of more effective methods for preventing and combating negative manifestations of information asymmetry, moral hazard, and agency problems in these organizations' activities.

5 Practical Part

The practical application of the concepts of information asymmetry, moral hazard, and agency problem are considered in the practical part of this thesis, followed by the Methodology of the research, which is carried out in the following chapter of the work. The description and assessment of the interview with experts (managers with experience in the manager's position) is covered in Chapter 4.3 of the thesis.

5.1 Practical application of the information asymmetry, moral hazard and agency problem' concepts

The theoretical concepts of information asymmetry, moral hazard, and the agency problem can be applied in practice utilizing qualitative research, in which selected managers answer questions and report on how certain characteristics of these theories were experienced in practice. It can also refer to how the interviewed managers deal with information asymmetry, moral hazard, and the agency problem, as well as how they seek to prevent the problems described in these theoretical concepts.

Any practical application of the above three concepts aims to understand how managers encounter information asymmetry, moral hazard, and agency problems in their daily work and what actions they take to resolve the issues that arise. Following that, it is critical to determine whether managers in their organization create a system of economic relations that contributes to the elimination of problems associated with these theoretical concepts.

The criteria for determining the extent to which these concepts are applied by managers are, first and foremost, the following:

- The establishment of an effective customer service system, as well as the establishment of a company code of ethics governing interactions with customers and employees (combating information asymmetry),
- Determination of the mechanisms by which the organization works to prevent moral hazard (for example, internal financial control of the organization),
- Ways to prevent the agency problem. Managers have some autonomy in determining the direction of the organization's development, and they are protected in the event of dismissal. At the same time, managers are effectively controlled by business owners and must demonstrate certain KPIs (key performance indicators).

5.2 Description and assessment of the interview with experts

1) Have you encountered in your practice that your company's managers have more detailed market knowledge than its customers?

Expert 1: Yes

Expert 2: Yes, it is normal for a manager to know the market better than the client in order to help him make an informed decision.

Expert 3: Yes. All the time. As a company that sells specific product all managers have more information than customers.

Expert 4: Every day. We, as a Consultant, have more detailed and reliable information than Customers and Contractors in most cases.

Expert 5: Of course! Customers don't know much about the product or service, but we can estimate that they only know about 30% of the information available (I'm talking about the majority now). Of course, managers have more information, but many also find it challenging to keep up with the market and trends.

Expert 6: In comparison to customers, managers have more information. Customers have no interest in getting more information.

All 6 experts confirmed that managers have more information than clients. Expert 2 pointed out that this is quite normal and that the manager even helps the client with this. Experts 3 and 4 believe that managers always, on a daily basis, have more information than customers. Expert 5 claims that the client knows only 30 % of the information, that is, he has only a vague idea of what kind of product or service is being offered to him. Expert 6 is of the opinion that the client himself does not need as much information as managers.

Here the postulate from the theory of information asymmetry is confirmed, when companies are considered market participants with a more advantageous position, since they know the situation in the market better than potential customers. At the same time, this theory stems from the fact that each market participant strives to get as much as possible, that is, contrary to the statement of expert 6, customers want to have as much information as a company manager.

2) If so, how has your company taken advantage of better market knowledge?

Expert 1: Yes, it has taken advantage.

Expert 2: Of course, the client saw our expertise in this way, and the level of trust increased automatically.

Expert 3: Yes. Mostly only the advantages of our products are presented to customers.

Expert 4: Without a doubt, but how else to make money?

Expert 5: Of course! Various analyses are constantly being carried out, but I can't say anything more because of the NDA.

Expert 6: Yes, the business is trying to increase profits by using all available information.

All interviewed managers said that their company used the best knowledge of the market to their advantage. Manager 2 related this to the opportunity to demonstrate the company's expertise. Manager 3 indicated that it is the benefits of goods and services that are often presented to customers. Manager 4 believes that any company can make money only by knowing the market better than the client. Expert 5 replied that his company conducts a large number of different analyses in order to know the market better than customers. Expert 6 pointed out that all companies try to increase their profits with all available information.

The interviewed managers answered that they use information asymmetry to gain a competitive advantage and to demonstrate their expertise. The theory of information asymmetry does not specify what exactly companies use better market knowledge for, other than improving their position in the market and earning higher profits. One of the managers even pointed out a factor that allows his company to obtain more detailed information about the market and leads to information asymmetry - this is the conduct of a large number of different analyzes of target markets.

3) If not, could your company theoretically benefit from better market knowledge?

Expert 1: *skipped question

Expert 2: Yes

Expert 3: -

Expert 4: -

Expert 5: -

Expert 6: -

None of the managers answered question 3 in detail, since all experts answered yes to question 1.

4) Have there been any instances in your practice where the company for which you work had more detailed information than its partners?

Expert 1: Yes, there were such instances

Expert 2: Yes, so a business with big data will always be one step ahead.

Expert 3: Yes. In business talks we see all the information about the product details. For example we see all product characteristics and full pricing breakup.

Expert 4: Quite ambiguous. Everything depends on the type of tender, the country, the customer, and a number of other factors. However, such situations do have a place in the workplace.

Expert 5: It plays both ways. Sometimes one company knows more, or another, or together they know more in different areas, but do not disclose.

Expert 6: Yes, often, partners do not need all the information about the company with which they cooperate.

4 experts (1, 2, 3 and 6) unambiguously answered that they had situations in their practice when their companies had more information than their partners. Expert 4 said that everything depends on the specific situation and conditions. Expert 5 pointed out that this works in two directions - sometimes the partners of the company know more, sometimes the company itself.

Important from the point of view of the theory of information asymmetry is the fact that most companies where experts work have more information about the market than their competitors. Thus, expert firms are often better informed not only than their clients, but even competitive firms. Here, the role of information asymmetry is obvious as a factor of competition between organizations, and not as a factor in protecting consumer rights. This refers to the consumer's right to quality goods and services at affordable prices.

5) If so, how has your company taken advantage of better market knowledge?

Expert 1: Yes

Expert 2: Of course, this is an advantage worth taking advantage of.

Expert 3: The company has the advantage in business negotiations thanks to its expert position in market. Customers and partners do not know all the information about the products.

Expert 4: Of course

Expert 5: All businesses do this, but the issue with big businesses is that they take a long time to make decisions, which causes a lot of things to become irrelevant.

Expert 6: Yes, given that the risk fell on partners or customers, the business took advantage of the situation and accepted moral hazard as well.

All survey participants answered yes to the 5th question, that their company used the best knowledge of the market to their advantage. Expert 2 noted that better market knowledge is an important competitive advantage that should be exploited. According to manager 3, his company has the advantage of being considered an expert in its market, and customers and competition cannot know more about the company's products than the company itself.

Expert 5 assumes that all companies use better market knowledge as their competitive advantage, but large companies do not make decisions quickly, and because of this, many decisions become irrelevant. Expert 6 even indicated that his company used the best market knowledge for itself and even resorted to moral hazard, that is, the company tried its best to take advantage of its competitive benefit.

Expert 5 made an interesting observation, pointing out that while all businesses perceive greater market knowledge as a competitive advantage, decisions in large organizations take longer to make (likely because of a more complicated management hierarchy), which results in many decisions being made later than required and failing to have the desired positive impact. The theory of decreasing labor productivity due to complicated management hierarchies in large organizations exists in management theory and even in the economy.

6) If not, could your company theoretically use more detailed information to its advantage?

Expert 1: -

Expert 2: Of course

Expert 3: Yes

Expert 4: Of course, if the path to this is in line with the company's anti-corruption policy (compliance).

Expert 5: -

Expert 6: Yes

Despite the fact that all interviewed managers stated that their company already uses better market knowledge as a competitive advantage, 4 out of 6 experts stated that they allow the theoretical use of market information to achieve their commercial goals, even if their company would not yet acquire the best market knowledge.

It is clearly seen here that almost all managers see a strong relationship between having more detailed information about the market and achieving the company's commercial goals, that is, a better study of the market always provides additional information about it. It is this information that can strengthen the competitive position of the company in the target market.

7) Have there been situations in your management practice when your company had less detailed information than its partners or clients?

Expert 1: No

Expert 2: No, we try to be one step ahead of our competitors.

Expert 3: Yes it happened in direct competition with other producers. Our clients did not provide all the necessary information for us to have the same conditions as our competition.

Expert 4: Quite ambiguous. Everything depends on the type of tender, the country, the customer, and a number of other factors. However, such situations do have a place in the workplace.

Expert 5: With partners yes, with clients no. There were isolated cases with clients, but then it turned out that they worked or are working in a similar field.

Expert 6: This has happened before, but I can't recall the details of such situations.

Interestingly, only two managers (numbers 3 and 5) mentioned that their company sometimes has less detailed information about the market than its partners (but not clients). That is, by doing this, managers do not admit that their clients in some situations know the market better than the company where these managers work.

Expert 6 answered that previously partners and even clients sometimes had better knowledge of the market than the enterprise where he is employed. Expert 4 suggested that it all depends on the situation and clients, but did not directly answer whether these types of situations occurred or not. Experts 1 and 2 are of the opinion that in their practice there were no situations when partners or clients knew the market better.

Regarding who more often has more detailed information about the market - a company where managers or other market participants (competitors or customers) work, expert opinions differ. From the point of view of the theory of information asymmetry, however, it is clear that it is companies that most often have more detailed information about the market, and not their customers, since companies purposefully spend large resources on studying the market and gaining knowledge about it.

8) If yes, did partners or clients of your company use it?

Expert 1: -

Expert 2: Yes

Expert 3: Yes

Expert 4: Only competitors

Expert 5: Without a doubt! It's silly not to take this opportunity, we have used it as well.

Expert 6: Yes, but I don't remember particular cases. There wasn't much benefit.

5 out of 6 managers responded affirmatively to the 8th question, while the 4th expert said that when his company had less detailed market information, its competitors (not partners or clients) took advantage. Expert 5 underlined that partners and clients (just like his company) always take advantage of competitors, including information advantage. Expert 6 said that he did not remember any specific incidents in which partners and clients took advantage of their informational superiority.

The premise of information asymmetry is that one market player always has a more complete understanding of the situation than other market participants. Managerial claims are important to information asymmetry theory in the sense that the competitive advantage of better knowledge of the target market is almost always used by the market participant to improve their performance. First of all, we are talking about such indicators as an increase in the company's market share and an increase in sales.

9) If not, could your partners or clients benefit from more detailed information?

Expert 1: Yes

Expert 2: Theoretically, they could.

Expert 3: Yes

Expert 4: No, because it is a violation of the tender procedure.

Expert 5: Everyone can profit from this or that information, depending on their level of knowledge.

Expert 6: Yes

5 out of 6 experts believe that partners or customers can benefit from more detailed information about the market. Expert 5 pointed out that this depends on the level of knowledge of any market entity (the company itself, partner or customers). Only Expert 4 replied no, because that would mean violating the procedure of a particular process (tender).

All market participants, including clients of businesses, can benefit from the most up-to-date market knowledge. Although many clients do not have access to much market information, it is important to the theory of information asymmetries that clients can also benefit from more detailed market knowledge, for example, because non-profit companies will study the market and strengthen protection of consumers' rights.

10) Does your company have a code of ethics?

Expert 1: Yes

Expert 2: Yes

Expert 3: Yes

Expert 4: Yes

Expert 5: Yes, we have

Expert 6: Yes

All 6 managers unequivocally answered that their company has implemented and uses its own code of ethics.

The code of ethics in any company determines which behavior of employees is acceptable and which is not, and predetermines what values are important for the company.

A code of ethics is critical for limiting moral hazard in a company. This is understood by the management of all companies where managers work.

11) If so, what are the guiding principles of a code of ethics of your company?

Expert 1: Work transparency, competition without black product promotion

Expert 2: On the principles of equality, honesty

Expert 3:

- ✓ Respecting the laws set by constitution
- ✓ Be honest
- ✓ Work with maximum effort and good will
- ✓ Respect for all colleagues, partners and customers
- ✓ Respect the environmental aspects of work
- ✓ Keep the information about company confidential unless stated otherwise

Expert 4: Compliance with law, conflict of interest, corporate opportunity, confidentiality, protection and proper use of company assets, etc.

Expert 5: Companies represent professionalism, accountability, fairness, democracy, and consumer focus.

Expert 6: Customer orientation, responsibility, and quality

All 6 managers provided an answer regarding what ethical principles their company is guided by. Most of the experts answered that the code of ethics is related to the following aspects:

- ✓ compliance with the laws of the country/countries where the company operates (respecting the laws set by constitution),
- ✓ protecting the interests of society and the environment (respect the environmental aspects of work),
- ✓ company (protection and proper use of company assets),
- ✓ legal competition (without the intention of gaining an unfair advantage in the market over competitors),
- ✓ a fair approach to customers (ensuring high quality products, focusing on customer needs and responsibility)

The main principles of ethical codes, both in theory and in practice, are to achieve a certain fairness by respecting the values and interests of all market participants.

12) If not, what ethical standards does your company adhere to when dealing with partners and clients?

Expert 1: -

Expert 2: Equality, honesty, and transparency.

Expert 3: -

Expert 4: -

Expert 5: -

Expert 6: -

In the companies of all managers, ethical principles are used, so 5 out of 6 experts did not answer the 12th question and only the 2nd expert repeated which ethical principles are important for his company.

13) Have any of your partner companies engaged in unethical business practices (for example, profiting by deceiving customers or partners)?

Expert 1: No

Expert 2: No

Expert 3: Not that I know about

Expert 4: No

Expert 5: -

Expert 6: Yes, it had often happened. These things are small and invisible.

This question was answered by 5 managers out of 6. 4 experts indicated that they did not experience that their partners used dishonest practices. Only expert number 6 indicated that he often met with such actions of partners, but it was about insignificant things. Most managers have never witnessed their partners' dishonesty. Such dishonest practices are theoretically possible, but most businesses avoid working with untrustworthy partners.

14) If yes, which experience with dishonest practices of partner companies do you have?

Expert 1: -

Expert 2: Don't have such experience

Expert 3: Not that I know about

Expert 4: -

Expert 5: This has not happened in my practice. I have seen this in unrelated activities with my company

Expert 6: Often the products of management companies (complex products, structured products) are designed in such a way that they are beneficial to sellers, but disadvantageous to investors.

Experts 1 and 4 did not answer this question. Managers 2, 3 and 5 indicated that they did not encounter dishonest practices of partner companies in their activities. Expert 6 made an interesting conclusion that management companies (complex products, structured products) are created in such a way that they are beneficial only to the companies themselves, but not to their clients.

15) If not, what types of partner dishonesty could your company face in theory?

Expert 1: Bribery, gifts

Expert 2: For instance, deceit or mislead the client.

Expert 3: Fake information about competitor's business strategy and pricing

Expert 4: Bribery, modern slavery, corruption, etc.

Expert 5: Dishonest transactions, taking advantage of one's dominant position, and creating more favourable conditions for oneself at the expense of the consumer are all examples of unethical behaviour.

Expert 6: Unprofitable product, unprofitable deal on specific items, asymmetric information is always present. The most common dishonest practices of competitors, both theoretically and practically, include theft, corruption, and abuse of their market dominance.

All experts offered their own answers to question number 15. The theoretical dishonest practices of the company's partners, indicated by the interviewed managers, are different - from unprofitable products and deals, to the use of their own dominant position in the market, bribery, corruption and even modern slavery. Expert 6 directly mentioned that asymmetric information is always present in the market, that is, this manager considers it an integral part of supply and demand in any market relations.

**16) Have you experienced moral hazard* in dealing with clients and partners?
*Moral hazard is the desire to gain a benefit at any cost, even dishonestly (for example, some companies destroy property in order to collect insurance money).**

Expert 1: No

Expert 2: Yes, the client attempted to obtain a discount that was not offered.

Expert 3: Nothing but regular business negotiation strategy

Expert 4: Yes

Expert 5: Yes, in economics, insurance, and investments. In many circumstances. Moral hazard exists between the employee and the employer as well.

Expert 6: Yes, it is always present in investments.

Question number 16 was answered positively by 4 out of 6 managers. As an example of moral hazard (moral hazard) in communication with clients and partners, expert 2 cited the client's demand to receive a discount when it is not offered. Expert 5 argues that moral hazard occurs in a large number of areas of activity (economics, insurance, and investments) and even within the organization (between the employee and the employer).

Expert 6 emphasized that in his field of activity (investments), the factor of moral hazard is always present. Expert 3 has not encountered moral hazard in his practice, but he believes that it is necessary to use only the regular business negotiation strategy, and not seek to gain profit at any cost. Moral hazard takes many forms in theory and practice, but the experts interviewed encountered it in various areas of their work, as well as in the organization's internal and external relations.

17) If so, what kind of moral hazards in dealing with clients and partners have you encountered in practice?

Expert 1: -

Expert 2: The client imposed immense pressure and forced its incompetent opinion.

Expert 3: Not giving all the information to get advantage in business negotiations.

Expert 4: Manipulation on the results of the tender - as a result, the partner was disqualified in order to avoid corrupt activities.

Expert 5: When a business owner pays a salesperson a fixed salary, the salesperson may put in less effort, take longer breaks during the work day, and generally be less motivated to increase their sales than if their compensation were tied to sales volume.

Expert 6: It works both ways. I come across neglect, dishonesty, and resource consumption.

5 out of 6 managers answered which kind of moral hazards in dealing with clients and partners they had personally experienced. Expert 2 clarified about the moral hazard on the part of the client, while expert 4 spoke only about partners. On the other hand, the rest of the managers (3,5 and 6) emphasized that moral hazard manifested itself in their practice:

- ✓ informationally (for instance, not giving all the information to get advantage),
- ✓ psychologically (lower seller motivation when the business owner pays him a fixed salary), and also
- ✓ in the behavior of communication participants (psychological pressure and imposition of an incompetent opinion by the client, neglect and dishonest behavior on the part of clients and partners).

Managers mentioned certain types of moral hazard that apply to almost every aspect of how organizations operate, suggesting that experts know different types of moral hazard from practice rather than from theoretical concepts.

18) If not, what moral hazard you think you could possibly face in dealing with clients and partners?

Expert 1: Difficult to answer

Expert 2: Fraud, inaccurate data, and incompetence.

Expert 3: -

Expert 4: -

Expert 5: -

Expert 6: -

Only expert 2 answered that the type of moral hazard that he could face in dealing with clients and partners is insufficient qualification (incompetence), information (inaccurate data) and unethical behavior of other partners and clients (fraud). On the one hand, fraud, inaccurate data, and incompetence are regarded as hypothetical types of moral hazard by managers who have yet to witness them in action. On the other hand, we are discussing fairly common moral hazards (fraud and inaccurate data) as well as people's objective qualities (incompetence).

19) How do you think it is possible to deal effectively with moral hazard?

Expert 1: It is difficult to answer.

Expert 2: Initially, hire honest and decent employees and have ongoing conversations about moral hazard.

Expert 3:

To avoid situations that lead to use it. Be prepared to all possible events.

Work honestly.

Expert 4: Follow the laws of the country in which the services are provided, follow the company's policies to conduct a "transparent" business

Expert 5: Control of the performer's (agent's) activity - it is possible to tighten the supervision of the agent's activities by increasing the amount of resources spent on these purposes. The second approach to dealing with moral hazard is to combine the interests of the principal and the agent via incentive contracts or agent participation in performance.

Control may be too costly. Sometimes the activity of an agent can be judged by its result, in which case it is possible to create an incentive for correct behaviour by paying a reward for good results.

Expert 6: Two sides could be controlled. But it's too much of a hassle for most people, so they don't do it.

Question 19 was answered by 5 out of 6 managers. Expert 2 considers the personnel policy of the organization to be the solution to the problem of moral hazard (hiring honest and decent employees and explaining to them the essence of moral hazard). Expert 3 emphasizes caution in behavior and readiness for different situations (to avoid situations that lead to use moral hazard) and honest activity (work honestly).

Expert 4 argues that moral hazard can be combated through transparent business conduct and compliance with the law. Managers 5 and 6 suggest that the risk of moral hazard can be reduced by mutual control on the part of partners and clients, while both experts believe that the control process is very time-consuming and complex. Managers have mentioned various tools that are also mentioned in the theoretical concept of moral hazard. The majority of moral hazard tools are preventative in nature.

20) Have you ever encountered a situation in which the company's owners and managers have opposing business interests? The owner, for example, is interested in a

moderate risk for business growth, whereas the manager is not because he is afraid of a decline in the company's income.

Expert 1: No

Expert 2: Yes

Expert 3: Yes, this is reality in all companies to some extent

Expert 4: Yes

Expert 5: Of course, I think it's good to have different views and make different business development plans.

Expert 6: Yes, but such managers often leave the company without finding a common language. The value and name of the company has been created for a long time, and there are things that companies cannot risk.

Most of the interviewed managers (5 out of 6) answered that in their practice they met with the fact that business owners and managers had different interests in doing business. Experts 5 and 6 elaborated on their responses by saying that different interests are caused by different attitudes and that this is good for business and that different interests lead to misunderstandings between managers and company owners. Most experts believe that the agency problem in their practice stems from the different interests of owners and managers, or from the fact that they have different strategic goals.

21) If so, how exactly did these interests differ?

Expert 1: -

Expert 2: The management was focused only on making a profit, while the conditions for workers suffered.

Expert 3:

The managers try to achieve the goals set by their salary model.

In reality these goals can differ with the company best interest.

Expert 4: Expansion of business in Central Asia - strengthening influence in existing markets. Changes in staff.

Expert 5: All goals are mainly related to profit. Everyone aims to increase it and create different ways to achieve them. In my practice, different managers wanted to achieve goals in different ways. For example, one risked reputation, another budget

Expert 6: Someone risks the budget, some reputation, some resources or personnel. In my practice there has been a replacement of the current staff with a new one. Contribution to their training, for better customer service and creating motivation for employees, but the management did not want to spend money. As a result, sales suffered as customers did not want to experience poor service again.

5 out of 6 experts indicated exactly how the interests of the company's owners and its managers differ. Expert 2 noted that the management focused on profit, while the workers had poor working conditions. Expert 3 answered that in practice the system of rewarding employees and the interests of the company often differ. Expert 4 believes that business owners and managers have different interests in business expansion and personnel changes.

Expert 5 sees the interest of managers in achieving the main goal - profit in different ways, while risking the company's reputation or finances. Manager number 6 faced the fact that he had a situation where managers wanted to invest in training employees to improve the quality of customer service, but the owner of the company did not see the point in this, because they did not want additional costs. The agency problem theory, according to the experts, demonstrates a difference between the interests of the company's owners and its managers in terms of goals and methods of achieving them.

22) If not, how do you think these interests can possibly differ?

Expert 1: Difficult to answer

Expert 2: It happens in various ways, with different perspectives on profit, employees, and business in general.

Expert 3: -

Expert 4: -

Expert 5: In ways to achieve goals

Expert 6: There are a lot of things that could differ. It happens in almost all areas.

To question 22, only expert 2 answered more or less specifically that managers and business owners have different interests in approaches to profits, personnel, and doing business in general. Manager 5 assumes that this difference arises precisely in the ways of

achieving the goal, and expert 6 sees the difference in interests in areas of activity (almost all).

23) Who, in your opinion, has more responsibility in running a business - its owners or managers, and why?

Expert 1: Owner

Expert 2: Equally, it's just that everyone has their own area of responsibility and the owner has more risks.

Expert 3: It is the owner because there is always the biggest responsibility, that starts with choosing the managers.

Expert 4: Owners and individuals with PoA (Power of Attorney). Even with a manager's supervision, the person to whom the company is registered bears responsibility. Internal regulation in the form of a financial or disciplinary sanction is the only thing that can help. However, these procedures must be developed preliminary, approved by order, and presented to all company employees for familiarisation. The above measures cannot be implemented in the absence of a document with a live signature.

Expert 5: Two sides. Managers are elected by the company, and managers run the company.

Expert 6: It's fifty-fifty.

3 experts (1,3 and 4) suggest that the owners of the enterprise have more responsibility for doing business, while the other 3 experts (2,5 and 6) believe that this responsibility is distributed equally between managers and owners of enterprises (all have their own responsibility). No expert is of the opinion that managers have more responsibility than business owners.

24) Who, in your opinion, takes on more risks when doing business - its owners or company managers, and why?

Expert 1: Owner

Expert 2: The owner initially invests a lot in the business, sometimes building it from scratch, while the manager comes in and invests only his time, talent and experience.

Expert 3: The owner. Because the owner has always the last decisions word in important business.

Expert 4: Managers, since all business processes are regulated by them.

Expert 5: Owners. They invest in the business and risk it; the manager has fewer risks, similar to a company employee.

Expert 6: Owners. Managers don't lose much money when they make financial mistakes.

According to 5 experts out of 6, the owner bears more risks, because he builds a business from scratch and invests a lot of resources (effort, time and money) in it, and in case of a mistake, they lose more financially. Only expert 4 believes that managers are at greater risk, since they manage business processes. Business owners bear more risks than managers, not only in theory, but also in practice, because managers have less responsibility.

25) How does your company ensure the unification of the interests of the company's owners and managers?

Expert 1: Salary + Bonus

Expert 2: Through discussion, we maintain openness.

Expert 3: It is achieved by intense communication to share both points of view. It is also achieved by setting right goals for managers that leads to company progress.

Expert 4: Meetings, brainstorming, memos, strategies

Expert 5: The company allows the owner and manager to articulate themselves. The form, organisational structure, policy, and development strategy of the enterprise all point to the purpose of its existence. Because an enterprise is a manifestation of the owner's, its' creator's, goals.

Expert 6: It's difficult to say. The interests of the owners are more important, especially if the company has a council of owners. Managers set a course to achieve defined objectives.

Managers mentioned different ways of bringing together the interests of company owners and managers. These are salary and bonus (expert 1), organizational structure and development strategy (experts 5) and communication (meetings, brainstorming and discussion - in the case of experts 2, 3, 4 and 6). The experts suggested almost every possible way for the company's owners and managers' interests to be aligned, including

material (income), career (professional growth opportunities), and social (communication) aspects.

26) How, in your opinion, can you effectively deal with the fact that the managers and owners of the company have opposing interests?

Expert 1: Salary + Bonus

Expert 2: It makes sense to find out early on. If such a possibility does not exist, then it must be achieved through negotiations and discussion.

Expert 3: Through communication. Of there is not agreement the managers should leave the job and find different.

Expert 4: Depends solely on people. If the owner of the company has already formed thinking (fixed mindset), it is impossible to change his perception and manner of doing business. Difference adjustments are possible with a flexible mindset.

Expert 5: In my practice, more often managers changed according to the interests of the company

Expert 6: We believe in facts. Managers demonstrate their point of view through market analysis, and vice versa. Determine the best solution through discussion. Why should have a manager, or the owner, who is unable to correct and choose the best path for the company?

According to expert 1, financial instruments are an effective way to deal with conflicting interests among company managers and owners; experts 2, 3, 4, and 5 - mutual communication, discussion, and persuasion. Expert 6 emphasized that it is the managers who adapt to the company's owners. As in the theory of the agency problem, most experts' practice shows that communication is more important than financial instruments in dealing with conflicting interests among company managers and owners.

27) Please indicate your gender: a) Man b) Woman

Expert 1: a) Man

Expert 2: b) Woman

Expert 3: a) Man

Expert 4: b) Woman

Expert 5: b) Woman

Expert 6: a) Man

28) Please indicate your age:

Expert 1: a) 18-27 (24 years)

Expert 2: b) 28-37

Expert 3: b) 28-37

Expert 4: a) 18-27

Expert 5: b) 28-37

Expert 6: c) 38-47

29) Please indicate your education:

Expert 1: d) Higher education (Master)

Expert 2: c) Higher (bachelor)

Expert 3: d) Higher education (Master)

Expert 4: c) Higher (bachelor) + e) Higher education other (please specify - MBA)

Expert 5: c) Higher (bachelor)

Expert 6: c) Higher (bachelor)

30) Indicate your position in the organization:

Expert 1: Sales manager

Expert 2: HR manager

Expert 3: Product development / Quality

Expert 4: Proposal Manager CAR and CAU region

Expert 5: Public relations manager

Expert 6: Marketing director / investor

31) Please indicate your experience as a manager

Expert 1: b) 5-7 years (5 years)

Expert 2: b) 1-3 years

Expert 3: b) 5-7 years

Expert 4: c) 3-5 years

Expert 5: c) 3-5 years

Expert 6: f) More than 9 years

Of the 6 managers, 3 experts are women, the other 3 are men. 3 managers are aged 28-37, 2 experts are aged 18-27 and one is in the age group 38-47. 4 managers have a Bachelor's degree (one of them has an MBA) and 2 experts have a Master's degree. All managers have different positions and are involved in sales, product development, human resources, marketing, public relations and one of them is a proposal manager. 2 managers have 3-5 years of experience, 2 more experts - 5-7 years, one interviewed manager has 1-3 years of experience. One expert has more than 9 years of experience.

6 Results and Discussion

In order to understand how practical management can be improved in the organizations where the interviewed managers work, it is necessary to identify the main problems that the experts identified during their survey. Most managers believe that information asymmetry is used by market entities for their benefit, that is, in this area there is a risk of deception and manipulation. At the same time, many managers believe that the company knows the market better than customers and partners, and therefore the informational advantage should be used to the maximum.

Despite the fact that all managers' companies have implemented a code of ethics, a serious problem can arise when, in the formal application of the code of ethics, managers do not comply with ethical principles if they contradict the commercial interests of the enterprise and prevent the use of competitive advantage in the market.

To strengthen the market position of the companies where the interviewed managers work, strict control over compliance with the code of ethics can be proposed. It should be used for both internal (employee) and external control (on the part of public organizations). Such an approach will allow the companies of the expert survey participants to gain a market advantage in the form of confirmation of the company's ethical behavior in the market and encourage employees of companies to behave in good faith, which in the long run will make the enterprises where they work more successful.

From the point of view of the majority of experts interviewed, the main potential dishonest practices of partners include unprofitable products and transactions, the use of a dominant position in the market, bribery and corruption. Therefore, the ethical codes of the companies of the above managers should, among other things, fight these phenomena and prevent them from happening in their own country.

Even if a company uses bribery and corruption to achieve its commercial goals, it will always be used against the company that gives bribes sooner or later. This is because a company employee who bribes someone may then bribe others and act against the interests of his own employer.

According to the interviewed managers, moral hazard is almost a natural phenomenon in areas such as economics, insurance, and investments, as well as within the organization, and manifests itself in a lack of awareness of communication participants, low employee motivation, psychological pressure, incompetent opinion, and unethical behavior.

To solve the problems mentioned by managers, it is necessary to improve the skills of employees with additional educational courses (in the field of their specialty and psychology), create a better psychological atmosphere in the workplace through psychological training of employees, combine personal goals of employees with the goals of the company and implement corporate communication standards, as well as linking part of the income of employees to personal and collective results of work.

According to the interviewed managers, business owners and their managers have different interests in doing business (company owners focus on profits, while employees have poor working conditions). Improving financial incentives, changing the organizational structure of the company, developing a company development strategy, and establishing effective communication through meetings, corporate brainstorming, and discussions could be effective ways of combating the opposing interests of the company's managers and owners.

7 Conclusion

The main goal of this bachelor's thesis is to improve practical management in organizations in which the interviewed managers work based on 3 concepts described in the theoretical part of the work (information asymmetry, moral hazard, and agency problem) and based on the experience of managers. Since the managers' answers were quite informative, recommendations for improving company management practices were taken mainly from managers.

In the case of information asymmetry, companies must, in some ways, restrain themselves from abusing information advantage or from using it correctly and ethically (for example, to improve the quality of goods and services or services). If the public learns that the company has misused some information to its advantage and to the detriment of the market, the enterprise may face reputational risks and customer loss.

Most experts believe moral hazard is natural and is caused by subjective (motivation, psychological pressure, unethical behavior) and objective factors (professional competence). The main way to reduce the impact of moral hazard on company activities is to improve managers' and employees' psychological competencies so that they can rationally assess the degree of moral hazard.

Combating the opposing interests of company managers and owners can be solved, first and foremost, by improving financial incentives for employees so that they are motivated to achieve the goals set for them by company managers. At the same time, it is critical to establish effective communication between employees and managers so that both parties are aware of and understand each other's needs and can work together to achieve the company's common goals.

Secondary goals of this bachelor's thesis were also achieved, as an analysis of academic sources on information asymmetry, moral hazard, and the agency problem was accomplished in the theoretical section of the work, and solutions to company problems were proposed, taking into account theoretical concepts and practical experience of the interviewed managers.

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