İşletme | The Business Journal 2022, 3(1), 15-31
e-ISSN: 2757-9433

Agency Problem in Corporate Governance: Worldcom Case

(Kurumsal Yönetimde Vekâlet Sorunu: Worldcom Vak'ası)

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Abstract

Corporate governance is a form of management that ensures the long-term sustainability of businesses and aims to protect the interests of shareholders and stakeholders. At the forefront of the theories that contribute to the development of corporate governance are the agency theory and the agency problem that emerges as a result. The agency theory regulates the relations between principals and agents and analyzes the agency problems that may be encountered as a result of these relations. In particular, the corporate scandals experienced since the beginning of the 2000s have increased the importance of corporate governance and revealed the benefits of corporate governance and the lessons to be learned from these scandals. When we look at the historical development of the company scandals, one of the most prominent is the collapse of Worldcom, which was operating in the US telecommunications sector and was one of the most important telecommunications companies in the world in 2002, when it declared bankruptcy. In this study, the collapse of Worldcom is analyzed from the perspective of the agency problem, which is one of the most important conceptual foundations of corporate governance.

Keywords:
Corporate Governance, Agency Problem, Worldcom

Paper type:
Case Study

Öz

Kurumsal yönetim, işletmelerin uzun vadeli sürdürülebilirliğini sağlayan ve hissedarların ve menfaat sahiplerinin çıkarlarını korumayı amaçlayan bir yönetim şeklidir. Kurumsal yönetimin gelişimine katkı sağlayan teorilerin başında vekâlet teorisi ve sonucunda ortaya çıkan vekâlet sorunu gelmektedir. Vekâlet teorisi, asiller ile vekillerin arasındaki ilişkileri düzenlemekte ve bu ilişkiler neticesinde karşılaşılabilecek vekâlet sorunlarını analiz etmektedir. Özellikle 2000'li yılların başından itibaren yaşanan şirket skandalları kurumsal yönetimin önemini artırmış ve kurumsal yönetimin faydaları ile bu skandallardan alınacak dersleri ortaya koymuştur. Şirket skandallarının tarihsel gelişimine bakıldığında en öne çıkanlarından birisi ABD telekomünikasyon sektöründe faaliyet gösteren ve iflasını açıkladığı 2002 yılında dünyanın en önemli telekomünikasyon şirketlerinden birisi olan Worldcom'un çöküşüdür. Bu çalışmada, Worldcom'un çöküşü kurumsal yönetimin en önemli kavramsal temellerinden olan vekâlet sorunu perspektifinden analiz edilmiştir.

Anahtar Kelimeler:
Kurumsal Yönetim, Vekâlet Sorunu, Worldcom

Makale türü:
Vak'a Analizi

Başvuru/Received: 04.11.2021 | Kabul/Accepted: 14.01.2022 , iThenticate benzerlik oranı/similarity report: %6

Atıf/Citation: Çakalı, R. K. (2022). Agency Problem in Corporate Governance: Worldcom Case, *İşletme*, 3(1), 15-31.

Introduction

Corporate governance is a system in which businesses are directed and managed. The purpose of corporate governance is to protect the shareholders and stakeholders of the company, to ensure its long-term existence, to ensure that the businesses carry out their activities in a healthy way in the light of certain principles to prevent corporate scandals. The most fundamental role in ensuring that corporate governance fulfills its objectives falls to the board of directors, which is responsible for corporate governance. It is extremely important that boards of directors are aware of their responsibilities and fulfill their duties in a way that protects the interests of shareholders.

The agency theory focuses mainly on the differentiation of the interests of the shareholders of the company, called principals, and the board of directors, called agents. It is also possible for the same situation to occur between the board of directors and the CEO, who is elected by the board, and the company's senior management. Here, boards of directors represent the principals, and the top managers elected by the board of directors represent the agents. According to the agency theory, the fact that the principals and the agents have different interests causes the agents to engage in acts that are incompatible with the interests of the principals. This situation creates agency problems in businesses.

Agency problem is a problem that the majority of businesses experienced or that they experience in a certain period of their activities. Although many different examples of agency problems have been encountered in history, Worldcom case is one of the most prominent among them in terms of both the size and impact of the scandal. In this case, the CEO of the company managed the company by keeping his personal interests in the foreground, and the collapse of the company occurred due to the agency problem that emerged as a result of the management style in question, which was also condoned by the board of directors.

In the study, firstly, information about the agency theory and academic studies in the national and international literature on the agency problem is given. In the following sections, corporate governance, agency theory, agency problem and agency costs are explained theoretically. Afterwards, Worldcom's development and collapse are examined from the perspective of the agency problem. Finally, the study was concluded with the conclusion part.

1. Literature Review

The prominent studies in the national and international literature on the agency theory and the agency problem are given below.

Berle and Means (1932) is considered to be the earliest work in this field. In their study, it was stated that the separation of the managerial mechanisms of the enterprises into ownership and control, in other words, as principal and agent, revealed agency problems.

Jensen and Meckling (1976), in their study, stated that the main purpose of businesses was to maximize firm value and profit. It has been concluded that the parties of the business might have different interests from each other, this might cause conflicts of interest, and these conflicts of interest could be reduced by managerial ownership and control.

Babacan and Eriş (2006) discussed the agency theory in terms of marketing. In their study, basic concepts related to agency theory and agency theory models were included. In addition, following the explanation of the place of agency theory in the marketing literature, a model has been proposed for the functioning of agency theory in marketing.

Mustapha and Che Ahmad (2011) examined the effect of managerial ownership in businesses in conjunction with agency theory. As a result of the study conducted on 235 publicly traded companies, it was determined that there was a negative relationship between managerial ownership and total monitoring costs.

Çelik and Bedük (2014) analyzed the relationship between principal-agent problems in institutions and transaction costs. In their study, the relationship between agency theory and transaction cost was explained in the theoretical framework.

Cai et al. (2015) conducted a study examining the relationship between audit committees and agency costs over the data of 1,126 listed companies for the period 2002-2004. In their studies, it has been determined that the presence of audit committees in enterprises positively affected the reduction of agency costs.

Rashid (2015) investigated the effect of the independence of the board of directors on agency costs in listed companies. In this study, it has been determined that the independence of the board of directors could reduce the agency costs under the asset utilization rate. However, in cases where there was moderate board independence, it stood out as a factor that reasonably controlled the agency costs of independent board members.

Çoban (2018) carried out a study explaining the agency theory through the case of Turkcell. In the study, basic information about the agency theory was given, the basic principles of the theory were explained and the Turkcell case was analyzed in the light of these explained principles. As a result of the study, the dominant position of the effect of the state on the board of directors of the enterprise was expressed as the prominent finding. In addition, it has been concluded that the issue in question was in contradiction with the neo-liberal system.

Capuroğlu and Korkmaz (2018) analyzed the relationship between agency theory, capital structure of businesses and business performance. For this purpose, the data of the companies operating in the BIST manufacturing sector between 2007 and 2014 were used. In their studies, it has been concluded that financial leverage had a negative effect on financial performance in our country, unlike the generally accepted agency theory assumptions.

ElKelish (2018) investigated the relationship between corporate governance risk and agency costs. For this purpose, a regression analysis was performed on the data of 4,135 companies from 27 countries. In the analysis, it was concluded that agency costs had negative effects on corporate governance risk. In addition, it has been determined that the said relationship was more pronounced in non-financial sectors compared to the financial sector.

Öner and Uyar (2018) investigated the effect of control systems and audit activities on management risk within the framework of agency theory. For this purpose, a study was carried out by using the survey technique in the companies selected as sample. As a result of the study, it was concluded that external audit practices had no effect on reducing managerial risks. On the other hand, it has been concluded that internal control and internal audit practices reduced managerial risks, and internal control, internal audit and external audit practices reduced operational and financial risks.

Yaşabay Kobal and Ataman (2018) investigated the relationship between the structure and roles of boards of directors and financial performance in public food businesses with a survey method. In the study, it was concluded that there were detailed audit processes in these businesses, which were mostly family businesses, the agency problem was experienced at a very low level and the agency costs were at the highest level. However, no relationship was found between the structural characteristics of the boards of directors of these companies and their performance.

Kalash (2019) investigated the effect of financial leverage on the financial performance of businesses. For this purpose, the data of the companies in the BIST service sector between 2008 and 2017 were analyzed. As a result of the analysis, it has been determined that financial leverage had a negative effect on operating profitability, and this effect was higher in companies with high agency costs and lower in companies with low agency costs.

Haroon et al. (2020) analyzed the effect of ownership structure and corporate governance quality on the relationship between agency costs and financial performance. In their studies, the data of the public companies operating in China for the period 2008-2016 were used. According to the results of the study, performance in the enterprises could be managed by the concentration of ownership in the agency relationship, the quality of governance and non-public ownership. However, it was concluded that there was a negative relationship between agency costs and financial performance.

Şişmanoğlu et al. (2020) conducted a study on the types of agency costs and how they should be reported in the financial statements of businesses. In their study, the theoretical background of agency theory was mentioned, and explanations were made about how to report monitoring, bonding and residual costs in financial statements. As a result of the study, it was concluded that the agency costs were included in the general expenses of the enterprises and therefore these costs could be reported by separating them from all expenses.

Vitolla et al. (2020) conducted an analysis on 134 international businesses regarding the impact of integrated reporting quality from board characteristics within the framework of agency theory. In the study, it was concluded that there was a positive relationship between the quality of integrated reporting and the size of the boards of directors, the diversity of their structure, their activities and their independence.

Tan and Bal (2021) carried out a study to measure the relationship between board diversity and financial performance within the scope of agency theory, specific to investment institutions. In their study, the data of the investment institutions selected as a sample between the years 2014-2019 were used. As a result of the analysis, a negative relationship was determined between the number of independent and foreign members in the board of directors and business performance. On the other hand, it was concluded that the relationship between the number of board members, the number of female members in the board of directors, general manager duality and company performance was statistically insignificant.

Zor and Merkan (2021) conducted a study on the effect of the agency problem on the internal audit processes of family companies. In their study, examinations were made on a family company selected as an example. As a result of the study, it was determined that the two families under the control of a significant part of the business management and the agency problem that arose between these families and the managers of the company positively affected the scope of the internal audit processes within the business, the adaptation of internal audit practices and the performance of the business.

2. Corporate Governance

Corporate governance has evolved as a result of corporate collapses, financial scandals and systemic crises all over the world (Iskander and Chamlou, 2000) It is necessary for the survival of companies, governments and countries. It is also necessary for the interests of company shareholders, business owners and stakeholders.

"Corporate governance is maintaining the balance between economic and social goals and individual and social goals. The governance framework exists to promote the efficient use of resources as well as to enforce accountability for the management of these resources. The aim is to align the interests of individuals, companies and society as much as possible" (Cadbury Report, 1992).

Corporate governance deals with the relationships among companies' board of directors, management, shareholders and stakeholders. Its main objective is to ensure the management of the company by taking into account the interests of shareholders and stakeholders (Mallin, 2004).

With corporate governance, it is aimed for businesses to have a healthy management structure and to become resistant to crises, collapses and abuses. Corporate governance can also be considered as the establishment of protective structures within the enterprise for employees, shareholders, investors and stakeholders. In this way, the sustainability of the institutions is ensured and the interests of the relevant parties are secured.

Looking at the historical development of corporate governance, it is seen that many different theories contribute to the development of corporate governance and form its theoretical framework. It would not be wrong to say that the most prominent of these theories and the most studied academically is the agency theory. In the next section, the agency theory and explanations about the concepts related to this theory are given.

3. Agency Theory

Agency theory is accepted as one of the most important theories affecting the development of corporate governance (Mallin, 2004). In agency theory, principal-agent relationships refer to relationships in which governance arrangements are at the center. According to this theory, there are two parties interacting with each other. These are principals and agents. Principals represent shareholders who invest in a company and elect the boards of directors, which are the agents. The main task of the board of directors is to represent the interests of shareholders or principals. The board of directors is responsible for ensuring that the management behaves responsibly and that the managers fulfill their duties (Plumptre, 2004).

The company is a team of employees, directors, shareholders and bondholders. From time to time, conflicts of interest may arise between these parties. Principals ask the agents to maximize the value of the company (Brealey, et al., 2006). Agency problem can be defined as a conflict situation that may arise due to the fact that the managers, who are the agents of the shareholders, may pursue their own interests (Bodie, et al., 2002). Agents may not act in the best interest of the principals or they may act partially in the interest of the principals (Mallin, 2004).

It is not possible for shareholders to actively engage in the day-to-day management of companies and monitor the business. For this reason, the shareholders elect the board of directors and the board decides on the management of the company and oversees the business (Bodie, et al., 2002). From this point of view, the role of the board of directors is extremely important and board members must fulfill their duties effectively. However, the effective functioning of the board of directors may be restricted for some reasons. The board of directors consists of both executive and non-executive members. Executive members are members of the management team, and non-executive members are external managers. Non-executive board members may not be able to follow the activities effectively, as they do not have financial interests, often have limited time, and may owe their duties to the management within the company (Hart, 1995).

In agency relationships, agency theory deals with solving two types of problems. The first one of these is the agency problem. Agency problem arises mainly in two situations. It arises whether there is a conflict between the agent's and principal's goals and desires, and whether it is difficult for the principal to justify the agent's actual actions. The second type of problem is the risk-sharing problem. It can be defined as a situation where the agent and principal have different attitudes towards risk. Due to different risk preferences, they may prefer different actions (Eisenhardt, 1989).

4. Agency Problem

Separation of management and ownership results in an asymmetric information situation. Asymmetric information arises due to the fact that the shareholders do not have the same information as the company management. Shareholders have to put pressure on the management of the company by voting or by buying and selling company shares (Andersen, 2003). In the information asymmetry problem, the principal and the agent reach different levels of information. The agent has more information than the principal and therefore is in a disadvantageous position compared to the principal (Mallin, 2004).

There may be information asymmetries between senior executives and board members or shareholders. These information asymmetries can lead to opportunistic behavior. There are two main situations which are moral hazard and adverse selection. Moral hazard can be defined as a situation in which the agent's action cannot be observed erroneously to the principal. For example, a manager may waste resources, take unacceptable risks, or not make enough effort (Heath and Norman, 2004). In the case of a moral hazard issue, principals have to give agents the right incentives to ensure that decisions are in the interests of shareholders (Coleman, 2007).

Adverse selection can be defined as a case of misrepresentation of noble skill by the agent. It occurs when the agent has more private information about the business than the principal. Also, the situation of managers hiding their missing talents and skills and being able to apply to the positions they want in businesses can also cause adverse selection problem (Heath and Norman, 2004).

Board composition and CEO duality represent key issues in agency theory for addressing the opportunistic behavior of managers. In order to ensure effective control, it is expected that the boards of directors will consist of more non-executive members. This ensures the independence of the board to monitor and make fair decisions and reduces conflicts of interest. In order to reduce the concentration of power in a person, it is expected that the CEO and the chairman of the board of directors are different from each other (Coleman, 2007).

There are different reasons for the agency problem, which arises as a result of conflicts of interest between the principal and the agent. These reasons can be listed as follows (Panda and Leepsa, 2017):

- Separation of Ownership from Control: This makes it difficult for business owners to monitor managers for whether managers prioritize their own interests over business interests.
- Risk Preferences: The fact that the parties within the business have different risk perceptions may cause conflicts between them.
- Term of Duty: Compared to business owners, managers work within the organization for shorter periods. For this reason, managers aim to maximize their own well-being during the limited time they work in the company.
- Limited Earnings: Employees and creditors, who are the main beneficiaries of the enterprise, earn a limited amount of income through the enterprise.

- Decision Making Processes: Decisions in businesses are predominantly taken by majority shareholders and minority shareholders have to comply with these decisions.
- Information Asymmetry: While managers have all kinds of information about the business, shareholders have access to less information compared to managers and are dependent on managers for information.
- Moral Hazard: It occurs when the interests of the principal and the agents are different and the principal cannot follow the actions of the agent.
- Retaining Earnings: Majority shareholders of the business may choose to keep the operating profits in-house rather than distribute them. This situation causes minority shareholders to be unable to obtain their earnings.

5. Agency Costs

Agency costs can be examined in three main groups as monitoring costs borne by the principal, bonding costs borne by the agent, and unavoidable losses borne by both the principal and the agent. These are monitoring costs, bonding costs and residual losses.

Monitoring costs are enforcement costs incurred by principals. The aim here is to limit the behavior of the agents in order to ensure that they work in line with the interests of the principals (Lee and Wingreen, 2010). While the principals are watching, they are faced with the costs of obtaining information about the activities of the business, making decisions, communicating and the costs of the decisions taken in the business management. These costs are called monitoring costs (Hansmann, 1988). The most basic example applied in terms of monitoring is the preparation of performance reports by managers. The time spent by the managers during the preparation of such reports constitutes the monitoring costs (Turaboğlu, 2002).

The second of the costs that will inevitably be incurred according to agency theory is the bonding cost. Bonding costs provide assurance to the principal that the agent is performing his duties. It can also be defined as a guarantee that the agents will not act harmful to the principals (Lee and Wingreen, 2010). Bonding costs are the costs arising from the provision of concrete assurances through contracts regarding the damage that will occur in case of being found, which foresees that the agents will not take actions to the detriment of the principals. A contract is drawn up that the manager will not abuse his position and the manager bears the compensatory cost of the agreement. This burden of responsibility facilitates the monitoring of managers (Poston and Grabski, 2001). However, although sufficient monitoring and bonding costs have been incurred, this does not guarantee that the agent will act in the interests of the principal (Islam et al., 2010).

Residual losses can be defined as losses that can be incurred excluding monitoring and bonding costs. These are the costs that arise when the means of monitoring and bonding cannot guarantee that the actions of the agent are fully realized in the interests of the principal (Poston and Grabski, 2001). Residual losses can also be defined as the conflict between the interests of the principal and the agent, the refusal of the agents to make decisions to increase the welfare of the principals, and the monetary equivalent of the resulting loss of welfare (Peterson, 1994). Since the purpose of residual losses is to ensure that monitoring and bonding costs do not occur, it can be said that they are efficient if the cost of residual losses is less than these two costs (Hanes, 2007).

6. Worldcom Case

In this section, the bankruptcy of Worldcom company operating in the field of telecommunication in the USA in 2002 will be analyzed from the perspective of corporate governance and agency theory.

6.1. Chronology of Developments

The chronological order of the events that took place during the period from the establishment of the Worldcom company to the announcement of its bankruptcy is given below (Doğan, 2019):

- In 1983, the company was established under the name of "Long Distance Discount Service".
- In 1995, it started to implement a growth strategy by acquiring smaller businesses.
- In the same year, the name of the company was changed to Worldcom.
- It made a merger with MCI Communications Corporation in 1998 and as a result of this merger, it started to operate on wireless phone services.
- In the early 2000s, it became the second largest telecommunications company in the United States.
- In 2002, an accounting scandal emerged within the company. It has been determined that the accounting records and financial statements did not reflect the real financial position of the company.
- The size of the aforementioned accounting scandal, which was detected by the internal auditors of the institution, is that the revenues are shown to be more than approximately USD 11 billion.
- It filed for bankruptcy in July 2002.
- After the bankruptcy announcement, approximately twenty thousand employees of the enterprise were unemployed.
- Upon the detection of irregularities within the company, the auditors and managers were sentenced to various penalties.

6.2. The Development and Fall of Worldcom

Long Distance Discount Service, which operated in the telecommunication sector, faced a large amount of debt in a short time after its establishment in 1983 (Anthony, et al., 2011). In order to correct the current negative situation, Bernerd J. Ebbes, who had no experience in technology and one of the partners who founded the company, has been appointed as the CEO. In addition to fulfilling his full-time CEO role at Worldcom, Ebbes was both a business owner and a manager in many different sectors (Pakaluk and Cheffers, 2011). Ebbes, especially since 1995, has been successful with the growth strategy he has adopted by acquiring small-scale companies and has achieved a rapid growth (Doğan, 2019).

The company enlarged its scale by performing numerous mergers and acquisitions between 1989 and 1995 and became an institution operating in different geographies. As a result of this change and growth, it was decided to change the name of the company to Worldcom in 1995 (Doğan, 2019). In the following years, Worldcom's growth strategy and company acquisitions continued, and in 1998 it became a large-scale international corporation with an income of approximately USD 27 billion and operating with 79,000 employees (Markham, 2005). The company was not satisfied with this, it continued to grow by continuing its acquisition strategy and the value of its stocks remained at high levels. Its market value in 1999 was USD 115 billion (Beresford, et al., 2003).

By 2002, with the radical growth strategy of Ebbes, Worldcom had become an international corporation operating in approximately 65 countries and being the fourth largest company in the telecommunications sector according to the Fortune 500 list (Pandey and Verma, 2004).

As of this date, Worldcom was operating in the following two main segments (Pandey and Verma, 2004):

1. Worldcom Group Activities

The company activities under this group can be summarized as follows:

- International communication services,
- Data services,
- Internet-related services (website management, digital subscriber lines, virtual private networks, other Internet-related services),
- Design, implementation and management of communication systems.

2. MCI Group Activities

This group includes activities related to wholesale and retail communication services. Considering the Group's financial data for the year 2000, the revenues from the activities in this category constituted 41.8% of the total revenue.

The starting point of Worldcom's collapse can be taken as 1998, when the value of the company's stocks began to decline from its last quarter. On the other hand, in the three-year period between 2000-2002, the company managed to maintain its position among the top five companies in the telecommunications sector, based on the Fortune 500 list (Pandey and Verma, 2004).

In 2000, the telecommunications sector in the world started to slow down, Worldcom lost some of its important customers, and its revenues decreased and its indebtedness increased. The company's collapse began to accelerate after regulatory authorities prevented Worldcom from acquiring Sprint Communications in 2000. In 2002, an investigation was launched by the Securities Exchange Commission into a debt of approximately USD 400 million, which CEO Ebbes borrowed from Worldcom at a very low interest rate of 2.15% and used to pay off his personal debts secured by the company's shares. In April 2002, Ebbes resigned from his position on the condition that his loans be restructured and he was paid USD 1.5 million annually for life. As a result of the examination of the company's accounting records by the vice president responsible for internal audit, who was appointed by the new CEO, some errors and irregularities were detected. Upon the irregularities detected in the accounting records, the assistant general manager responsible for financial affairs was dismissed and the accounting manager of the company resigned (Pandey and Verma, 2004).

The biggest scandal related to Worldcom emerged in June 2002. In this period, the company made a statement that the profit figures in its financial statements published in the past were not correct and would correct them. In order to make the loss-making company appear to be making a profit, the management of the company resorted to financial statement fraud by improperly accounting for expenses and over-representing revenues. With the effect of accounting fraud, it has been revealed that the assets, income and expenses of the company did not reflect the truth. As a result of making the necessary corrections, it has been understood that the profit announced by Worldcom in the financial statements of 2001 and the first quarter of 2002 did not actually exist, and the company made a loss in these periods (Giroux, 2008). As a result of these events, in July 2002, the company declared bankruptcy (Doğan, 2019).

7. Evaluation of Worldcom's Collapse in Terms of Agency Theory

The Worldcom case would be evaluated in terms of corporate governance, accounting, auditing and ethics, and the weaknesses that caused the collapse in these areas could be revealed. In this part of the study, the analysis of the Worldcom case is included within the framework of the agency theory, which is one of the most important theories that contribute to the development of corporate governance.

Agency theory is a theory based on principal-agent relations. Principals refer to the shareholders, who are the investors of the company. Agents are the board of directors elected by the shareholders and responsible for protecting the interests of the shareholders. The main task of the board of directors is to ensure that the activities of the company are carried out in accordance with the expectations of the shareholders, and that the managers and activities of the business are regularly monitored and necessary actions are taken.

7.1. Agency Problems in Worldcom Case

In the Worldcom case, two types of agency problems can be mentioned. The first of these can be stated as the agency problem between the shareholders and the board of directors, and the other between the board of directors and the top management of the company.

7.1.1. Agency Problem Between Shareholders and Board of Directors

Starting from the first example of the agency problem, principals represent Worldcom's shareholders, and the agents represent the board of directors elected by the shareholders. In Worldcom case, agents failed to fulfill the responsibility of protecting the interests expected of them by the principals and closely monitoring the company's activities. The necessary checks and balances mechanisms could not be established within the organization by the board of directors. The board of directors did not closely monitor the activities of the company, continued its duties with a limited number of meetings, and established an environment of trust more than necessary by giving all authority to CEO Ebbes. As a result of the failure of the board of directors, Ebbes was able to act freely, wield unlimited power, run the company the way he wanted and adopted a radical growth strategy. Thanks to his success on paper over the years, Ebbes was able to persuade the board of directors to obtain a loan from Worldcom and to manage his other personal affairs in conjunction with his managerial position at the company.

The interests of the principals were ignored by the fact that the board of directors did not establish the necessary governance mechanisms within Worldcom, did not closely monitor the company's activities, gave loans to Ebbes by extending loans at a very favorable interest rate, and allowed him to run his personal business. In addition, the compensation package, which included a lifetime payment, offered by the board of directors after Ebbes's dismissal is another example of the fact that the board of directors did not take into account the interests of the principals.

In enterprises where sound corporate governance mechanisms are established, there are close business relations between the board of directors and the CEO. The board of directors should be aware of its responsibilities to the shareholders and the CEO to the board of directors. In order to protect the interests of shareholders, boards of directors must be strong, knowledgeable, and close followers of business activities. In Worldcom case, the board of directors could not create a healthy balance and power structure over the company's management, and remained indifferent to business activities.

7.1.2. Agency Problem Between the Board of Directors and the Managers

The second example of agency problem in the Worldcom case can be described as an agency problem between the company's board of directors and senior management. In Worldcom case, company CEO Ebbes, appointed by the board of directors, put his own personal interests ahead of Worldcom's. The continuous growth strategy implemented by Ebbes and the numerous acquisitions and mergers realized in parallel with this have created a competitive and aggressive environment within the organization. The board of directors put too much trust in Ebbes and contributed to the creation of such an environment by not questioning his actions.

In agency problem between the board of directors and the CEO, Ebbes prioritized his own interests and ignored the interests of the board of directors and shareholders.

He did not give up on his personal business and tried to grow the company by applying an aggressive growth strategy. In addition, he has ensured that the company's revenues were reported much higher than it should be, by making irregularities in the accounting records together with the deputy general manager responsible for financial affairs and the accounting manager. Thus, the company shares he owed has increased in value. Also, using his own success and position, he convinced the Worldcom board of directors and borrowed USD 400 million from the company at a very low interest rate and used this money for his own business.

Agency problem between the Worldcom board of directors and the CEO, in fact, emphasizes the importance of establishing accountability and transparency in businesses for healthy corporate governance. It is extremely important to establish accountability in enterprises and to ensure their follow-up and measurement in a transparent manner.

7.2. Causes of Agency Problems in Worldcom Case

In the previous sections of the study, the reasons that revealed the agency problem were emphasized. In this section, an analysis of these reasons is given through the case of Worldcom. As explained earlier, Panda and Leepsa (2017) focused on eight main reasons. These reasons and comments specific to the Worldcom case are given below:

- Separation of Ownership from Control

One of the most important reasons for the agency problem is the separation of ownership from control. The same is true for Worldcom as with other corporate collapses. The divergent interests of the shareholders who owned Worldcom and the management of the company holding the control led to the agency problem.

- Risk Preferences

In the Worldcom case, risk preferences is another reason that triggered the agency problem. CEO Ebbes' perception of high risk and his radical growth strategy were among the most important factors that led to the collapse of the company. The differences in risk perception and risk preference between shareholders and managers have revealed the agency problem in this case.

- Term of Duty

Managers, who work for a limited period of time within the scope of their duty period, are trying to maximize their own welfare during the time they work. When the Worldcom case is evaluated from this point of view, it is seen that CEO Ebbes prioritized his own welfare, focused on increasing the stock value of the company as it would also benefit him with his radical growth strategy, and used his position to get a low interest rate loan from the company and spent this money for his personal business. In summary, Ebbes tried to take all actions to increase his own well-being during his tenure.

- Limited Earnings

According to the concept of limited earnings, business managers earn a limited amount of income from the company during their term of office. Such a situation brings with it conflicts of interest and leads to agency problems. In the case of Worldcom, Ebbes, a paid employee of the company, was not satisfied with the limited earnings provided to him and caused the collapse of the company by making irregular accounting transactions in order to earn more income.

- Information Asymmetry

Information asymmetry results from the fact that managers have more information than shareholders and shareholders have to be content with the information presented to them. Likewise, the members of the board of directors act with the data presented to them by the senior management of the company. In the case of Worldcom, the shareholders were not aware of the irregular transactions carried out within the company. Likewise, Worldcom's board of directors was not aware of the irregular transactions, due to its failure to fulfill its responsibilities properly.

- Moral Hazard

The main reasons for the moral hazard problem can be listed as the differences in the interests of the principal and the agent, and the principals' inability to effectively monitor the actions of the agents. When the Worldcom case is examined, it is concluded that CEO Ebbers prioritized his own interests, that both the shareholders and the board of directors could not monitor the actions taken by Ebbers, and as a result, agency problem has arisen.

- Retaining Earnings

Retaining earnings is one of the factors that arise between the majority and minority shareholders in the distribution of operating profits or retaining them within the organization and causing the agency problem. It is seen that such a factor did not cause the agency problem in the Worldcom case.

- Decision Making Processes

Decision-making processes, as well as earnings retention, occur between majority and minority shareholders. Decisions in businesses are predominantly taken by majority shareholders and minority shareholders have to abide by these decisions. In the Worldcom case, there is no such issue that caused the agency problem.

8. Conclusion

Corporate collapses in the world are examples of what problems the ineffective establishment of corporate governance mechanisms can cause for businesses. When these scandals are examined, it is concluded that the establishment of healthy governance mechanisms within the enterprises and their operation under the responsibility of the board of directors, especially due to corporate governance based collapses, can contribute to the prevention of losses.

In this study, starting from the Worldcom case, the agency problem in corporate governance, the causes and consequences of this problem are explained and it is tried to contribute to the literature. Worldcom was established in 1983 and after its establishment, Ebbes adopted a serious growth strategy with his appointment as CEO and became the fourth largest company operating in the telecommunications sector according to the Fortune 500 list as of the date it declared bankruptcy.

When the collapse of Worldcom is analyzed, it is seen that there is a relationship between the collapse process and the agency theory. This relationship can be examined from two main aspects. The first is the agency problem between the shareholders and the board of directors of Worldcom company. The agents, who are the board of directors of the company, acted without considering the interests of the shareholders, that is, the principals. By not being fully aware of their responsibilities in the company and failing to fulfill their duties to monitor the company's management, they paved the way for the collapse to occur. The second is the agency problem that arised between the company's board of directors and the CEO and managers elected by the board of directors. Here, on the other hand, the CEO and managers, who can be called agents, put their personal interests before the interests of the company and caused a great scandal by performing illegal transactions.

The Worldcom scandal is one of the important examples of principal-agent relations in businesses and their consequences. This example shows how weak corporate governance mechanisms and agency problems can confront businesses. From this point of view, the identification and management of the problems that may arise between the principal and the agent in the enterprises, and the establishment of corporate governance and ethical cultures within the institution become extremely important for the companies to continue their existence.

There are a limited number of academic studies on the subject, especially in the available domestic literature. Studies carried out in the form of case studies are almost non-existent. For this reason, it is thought that it can contribute to the literature on corporate governance and agency theory by conducting different academic studies on the subject, performing case studies on the collapse of businesses operating in different sectors and countries, and conducting studies in which the results obtained from different cases are compared.

Contribution Rate and Conflict of Interest statement

All stages of the study were designed by the author(s) and contributed equally. There is no conflict of interest in this article.

Ethics Statement and Financial Support

The article complies with academic and scientific ethical rules. Ethics Committee Report is not required in the study. No financial resources were used in this article.

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