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My recommendation was for Geico to reinforce its presence locally in communities through captive and independent agencies rather than just relying on costly advertising and online or phone interactions. Across the Hampton roads, Geico has only 3 local agencies versus 86 for the industry-leader State Farm. While the strategic objective of my recommendation is for Geico to gain more market share, adequate governance mechanisms must be adopted in order for this plan to not go awry.

One major outcome that can arise while this strategy is in action is the agency problem. The operators of these store agencies will be granted decision-making authority and control over Geico's resources. Negative outcomes are expected when representing agents have goals that are misaligned with the values and goals of the company. These agents will almost always have more information on the resources they are managing and may use this information asymmetry to maximize their own interests at the expense of Geico's shareholders. This asymmetry can hinder Geico from appropriately measuring the performance of agents, therefore it can create an ambiguity in knowing how effective and efficient the agent's use of the entrusted resources is. Another typical issue that occurs when the interests of the principal and agent diverge is a behavior termed on-the-job-consumption. Motivated by desires for status and power, agents may use their authority and control over funds to satisfy their desires and acquire perks rather than investing those funds and resources in ways that would benefit the company's interest.

Governance mechanisms must be put in place in order to mitigate the scope and frequency of the agency problem and for my recommendation to serve its purpose. To align incentives between Geico and its captive agents is crucial for the company to establish order and to monitor and control its agents. I recommend that Geico constrains these agencies to sell Geico's products only and to have captive rather than independent agents. Therefore, Geico can ensure that the agents would not manipulate or share their customers data with its competitors in an industry where data is of vital importance. Additionally, Geico should set up standards and feedback systems that would allow its top managers to evaluate the performance of its agencies and how efficiently are they using their resources to maximize the company's long-term profitability and profit growth rate. Meetings on regular basis and random auditing can be good practices for agents to take corrective actions and for Geico to monitor and limit the agency problem.

Aside from control systems, Geico should also offer its agents stock options as a positive incentive system to motivate them and keep their interests aligned with the interests of the company's shareholders. By linking the pay of the agents to the stock price of the company, Geico can have more control on the behavior of the agents and have more assurance that they would work toward goals that are central to the company's long-term profitability.

Setting such positive incentive systems would complement the company's strategic control systems and create a balance in the governance mechanisms that Geico can implement to establish order and constrain the behavior of its captive agents to serve the best interest of Geico.

References:

Hill, Charles W., et al. Strategic Management: Theory & Cases: An Integrated Approach. Cengage Learning, 2016.