Corporate Social Responsibility and Multiple Agency Theory: A case study of internal stakeholder engagement

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ABSTRACT

Employee engagement via Corporate Social Responsibility (CSR) involves conflicts of interests among firms, employees and political institutions. We studied the international transfer of employees in an airline company as a case study of a CSR strategy based on human resource management. From a double approach of Multiple Agency Theory and Resource-Based perspective we found that, by increasing worker mobility costs, the European Union hindered the firm´s CSR strategy of employee engagement. This contrasts with the stated aim of the European Union to promote worker mobility.

Key words: Corporate Social Responsibility, stakeholders ‘engagement, multiple agency problems, internationalization.

1. AGENCY PROBLEMS IN INTERNATIONAL BUSINESS: UNSOLVED PROBLEMS

Corporate Social Responsibility (CRS) involves "the commitment of businesses to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life" (Fox et al., 2002). In this sense, firms often extends the effects of their CSR policies to people inside and outside of the organization (Hopkins, 2006). This is especially relevant when CSR is applied to human resource policies. Designing these policies involves not only to find the right incentives to encourage employees' involvement, but also to be responsible of obeying the work regulations (Celma et al., 2014).

According to the constructivist approach, cause-effect relationships emerge between cultural ideas and behaviors. From an international approach, culture is dependent of human behavior patterns, although these behaviors and their inferred meanings may change across cultural boundaries (Uemura, 2015: p.360). In regard with the necessary dialog between constructivism and other approaches as Agency Theory, foreign policy decisions require a good understanding of individual and social constructions (Houghton, 2007) through figurations (Bucher, 2015).

Agency problems (Jensen and Meckling, 1976; Fama and Jensen, 1983) arise because contracts among agents with conflicting interests are not cost-less enforced. Agency costs include the costs of structuring and monitoring contracts among these agents, plus the residual loss incurred because the cost of full enforcement of contracts exceeds the benefits. In this sense, the survival of a firm will depend on the benefits of risk sharing, the outcomes of specialized management, the results of the contractual payoffs and the cost of separating decision management.

Agency theory focuses on industrial relationships. One party (the principal) delegates work to another (the agent), who performs that work (Eisendhardt, 1989). According to this approach, principal-agent relationships should efficiently manage information asymmetries and risk-bearing costs, assuming that each one takes decisions looking for his self-interest, with the limitations of the bounded rationality and risk aversion. Most of the contracting issues of a firm deals with agency problems (moral hazard and adverse selection) and risk sharing, because principal and agent have different goals and risk preferences.

However, what does it happen if, apparently, principal and agent find a common space for agreement, but a third part (Government) includes a new conflict of interests? In this sense, Dutta et al. (2012) propose different public systems of incentives to reinforce social awareness depending on the agency culture of firms. Literature of moral landscape also offers a conceptual link between Corporate Social Responsibility and sustainability (Larssaether and Nijhof, 2009). Otherwise, the multiply agency framework provides new insights that allow to link the cross-national interference of institutions and the corporate responsibility strategies of the firms, an issue that remains relatively under-researched in the literature (Jung and Ha-Brookshire, 2017).

This paper contribute to fill the research gap of the analysis of multiple agency problems in CSR strategy from a constructivist perspective, including a third part moderating the traditional relationship principal-agent that adds complexity to the previous contractual agreement. Therefore, this research is aimed to find evidences that support the existence of incongruences between the particular interest of national institutions and the common interest of firms and stakeholders involved, in order to identify leverage points that guide more effective CSR strategies.

We identified a situation of institutional interferences in the case study of the CSR strategy of an airline company, regarding with the human resource policies guiding the international movements of employees. One of the firm's managers of the firm, a Dutch national (we will name her Greta, a fictitious name), works for the airline company in Curçao (Holland) and lives there with her Argentinian boyfriend, (Franco, also fictitious). They have signed a cohabitation contract in Holland, and both have been working there for several years. On June 2016, the airline company offers a professional promotion to Greta that compels her to move to Spain. Greta agrees with the work conditions but requests from the company the management of the legal issues to let her boyfriend look for a new job in Spain. As Argentinian, he only has the right to live legally in Spain for three months as a tourist until he gets his permanent residence in this country. He can get the residence because he is the official couple of Greta (even if they are not married). However, in practice he had to wait for the job permission during six months, what was not the scenario that neither the company nor Greta had agreed. This situation prevented the company from fulfil the Corporate Social Responsibility strategy and it broke the trust between employer and employee.

The structure of the paper is the following: In order to address the problem presented above, in section 2 we reviewed the academic approaches of the Agency Theory and Resource-based perspective applied to CSR strategies. In section 3, we contextualized the case study and proposed a conceptual framework to analyze the strategic implications of the problem. Finally, in sections 4 and 5 we concluded the analysis and discuss implications for future research and managerial practice.

2. APPLYING MULTIPLE AGENCY THEORY TO HR AND SOCIAL RESPONSIBILITY STRATEGIES

2.1.Agency Theory and strategic issues

The Agency Theory contributes to organizational literature reinforcing two ideas (Eisenhardt, 1989: p.58): (1) organizations can control agent opportunism through investments in information systems to get a clearer picture of the agent's behavior, and (2) environmental effects such as government regulation, innovations and new competitors create risk and affect to the problems of risk sharing in contracts.

The Agency Theory assumptions involve: a) self-interest of each part, b) goal conflict between principal-agent, c) bounded rationality of decision makers, d) information asymmetry, e) preeminence of efficiency, f) risk aversion and g) information as a commodity (Eisenhardt, 1989: p.59). This approach has been applied to CSR through the analysis of the effects of the integrated reporting in the investors' behavior (García-Sanchez and Nogueira-Gámez, 2017) and the effects of the independence and size of the board of owners in CSR practices (Kaymak and Bekas, 2017). However, the effects of agency problems between managers and employees (internal stakeholders) in the design of CSR strategy of firms are still unclear.

Otherwise, following a constructivist approach, managers that build the business strategy taking into account social interactions contribute to define the cultural boundaries of the strategic behaviors of their organizations (Wendt, 1992; Uemura, 2015). In this sense, managers has to assure not only the technical abilities of their employees, but also the behaviors and actions that support the core benefits of their companies across different cultures (Williams, 2011). In this sense, there are also empirical evidences supporting the idea that CSR strategy is determined by the institutional context of the firm's country of origin (Duran and Bajo, 2014; Ortiz-de-Mandojana et al., 2016). Therefore, firms should also take into account the normative pressures of the countries where they are involved.

The Resource-based perspective (Penrose, 1959) links Human Resource (HR) and Corporate Social Responsibility (CSR) strategies when firms look for reinforcing their market value through a better management of distinctive resources or capacities like the performance of their employees or the firm's reputation (Wernerfelt, 1984; Peteraf and Barney, 2003). According to this approach, the same as firms manage the environmental responsibility as resource to build reputation valued from the stakeholder's perception (Dutta et al., 2012; Walker and Mercado, 2015), companies should look for the valued resource of the loyalty of their talented employees through the linkage between CSR and HR policies (Backhaus et al., 2002; Zhu et al., 2014).

The economic and social dimensions of Corporate Responsibility (Dahlsrud, 2006) reinforce the idea of aligning the company's interests with the employee's demands from an overall perspective, involving not only the professional demands but also the personal demands of employees. The application of this approach to the Human Resource strategy is aimed to achieve long-term loyalty of employees (compared to competitors), higher productivity and better reputation of the firm as responsible employer for the current and potential employees. In this sense, the integration of human resource policies and corporate responsibility blurs the borders between the Human Resource and the Public Relations departments, in the same way of what happened before with the integration between the marketing promotional mix and the public relations activity (Robinson, 2006).

Thus, from a Human Resource approach, the company that looks for a good adjustment between the employer's interests (principal) and those of employees (agent) should consider that the conflicts between the self-interest of firm and employee along the professional life of the employee.

According to the Agency Theory assumptions, companies and employees have to address specific HR issues (Table 1) using business indicators:

Insert Table 1. Agency Theory Assumptions and HR issues

Table 1 presents an overview of the relations between principal (employer) and agent (employee) involved in the HR strategy of the firm from both company and individual perspectives. From this approach, the interest and final engagement employer-employee will be the consequence of how they manage their agency problems.

(1) Along the professional life of employees, both companies and employees look for their respective interests. Particularly, companies are interested in obtaining resources and capacities from their employees that support a competitive advantage in the market (Peteraf, 1993; Grant, 1996). Meantime, employees look for getting higher salaries and professional promotions than in other companies (Harrison et al., 1996; Trevor et al., 1997).

(2) Goal conflict between employer and employee regards with the terms of the collaboration agreement, salary or responsibilities. Organizational changes can involve an unbalance between the new job requirements (job profile) and the employee's skills (professional profile). Moreover, a professional change can have social costs for employees in terms of compatibility with new co-worker or a change of residence far away from their social group of reference (Hatch and Dyer, 2004).

(3) The rational decisions of the decision makers (company's representative, employee) are biased by the perception of previous experiences, mutual trust and hidden costs that let to know in some extent the expectations of the other part. From this approach, each part could consider different systems of decision (Wright and McMahan, 1992).

(4) Information asymmetries about the expectations of the collaboration employer-employee can derivate into opportunistic behaviors. This asymmetry is easier for the company, due to its higher capacity to gather information from the professional performance of the employees through appraisal systems. However, employees' behavior will also related to the information they can gather about the company's goals (Hay Group, 2004).

(5) The pre-eminence of efficiency relates with the potential synergies of the company's collaboration with the employee. Thus, there are some evidences of the increase of the rate income/cost per employee by combining the employees' knowledge with the organizational procedures (Lazear, 1998, 2004). On the other hand, employees also take into account the firm's involvement in their professional/personal balance (Kovach, 1987).

(6) The factor of risk aversion refers the perception of the uncertain future of the collaboration agreement. Companies care about the rivalry dynamics (Warren, 1999, 2003) that show how competitors can take advantage of the training investment of the firm by recruiting their qualified employees. Otherwise employees may care about dismissal possibility caused by organizational reasons.

(7) Finally, the factor of information as a commodity means in this context that employers could control the potential opportunism of the employee's behavior by investing in HR systems that gather data of the employees' skills, performance or even expectations. However, employees have few opportunities to do high investments in evaluating the opportunity costs of collaborating with their employer compared to others.

Thus, the application of Agency assumptions to the HR perspective lets company to design professional development policies that address the relation between employer and employee according to the CSR strategy (Dahlsrud, 2006).

2.2.Agency Theory and industrial relations

The competitive advantage of a company requires the imperfection of any strategic factor to prevent competitors from obtaining equally qualified human resources (Barney, 1986; Koch and McGrath, 1996). In this respect, there are some factors that prevent worker' mobility: (1) search costs; the cost of finding jobs that require the employee's skill set and offer adequate compensation; (2) uncertainty about job success; usefulness of the employee's skill set and compatibility with new co-workers cannot be known with certainty before joining the new firm; (3) social costs; removal from existing social networks, disruption of family members' social circles and costs of relocating, among others (Hatch and Dyer, 2004). Therefore, according to a competitive approach, companies should design professional development practices aimed to identify, among their employees, candidates with skills and competences that are suitable in the firm's idiosyncratic environment, and let company accumulate inimitable human capital as a basis of its competitive advantage.

From this approach, firms should gather information about the requirements of those employees to accept promotions that involve international transfers. Although organizational capital and intellectual capital can be "invisible" (from accountability criteria), their resources are not. They base on a working force able, motivated and flexible, and on a human resource management system aimed to develop and maintain this capital (Becker et al., 1997).

Following the Becker et al. (1997) approach, the model presented in Figure 1 shows the sequence between the strategy definition and the creation of market value, emphasizing the role of the human resource management system as an economic asset for the company.

INSERT Figure 1. HR-shareholder value relationship and Agency assumptions.

International assignments involve a bidirectional way of communication between firm and employees. On the one hand, the company provides to the professionals information about internal organization, competences required and firm's compromises with the employee; on the other, the potential candidates, who are owners of specific skills, give to the company information about their personal characteristics, resources and labor demands. These labor demands often do not relate only with economic compensation, but also personal demands related to placement costs or family issues.

2.3.European Government's strategy for foreign workers

Worker' mobility of foreign citizens has increased much in recent decades. Since 1950, Europe has been a continent of immigration and the work situation of more than 11 million foreigners has been legalized. The European countries that traditionally have received more immigrants have been Belgium, Denmark, Germany, France, Luxembourg, the Netherlands and Austria, but currently South Europe (Spain, Italy, Portugal or Greece) are the destination of most immigrants coming from North Africa and South America. In Spain, the Organic Law 4/2000, Aliens Act, regulates the legal framework of foreign workers. This Act is conditioned by international and European Union regulations. Regarding the European Union Regulations, this Law establishes a privileged system affecting the European Citizens and their couples (married or non-married).

The European legal frame in Spain bases on The Royal Decree (RD) 240/2007 of 16 February on entry, freedom of movement and residence in Spain of citizens of States members of the European Union and other States part in the Europe economic area agreement. According to this RD, the members of the family of a citizen of the European Union or the partnership shall be entitled to obtain the family card of residence in the European Union. This family card for residence lets non-European citizens have legal residence and work permission. This is mandatory in all European countries. The procedure to get the permission should be finished within the 3 months of legal residence like visitant. However, because of the risk aversion of the Government towards opportunistic behaviors of immigrants, the current administrative process requests each time more guaranties in order to detect fake unions that only aims to get a work permit. These requirements are causing a delay in the process of more than six months.

From this approach, the Government goals involved in this legal framework of immigrants' work add difficulties to the Agency problems we described earlier, so it is necessary to illustrate how these issues can influence the behavior of firm (principal) and employee (agent) through real cases studies.

3. CONTEXTUALIZING THE CASE STUDY

We used a single holistic case study design to apply the conceptual framework to a real situation (Eisenhardt, 1989; Yin, 1994, 2012, 2014; Maxwell, 1996; Villarreal and Calvo, 2015). The use of case study as the methodology for this research was especially indicated, because of the complexity of the conceptual framework selected.

According to the Spiller's (1990) approach, multiple-principals Agency Theory implies that Government's interests relates to those of multiplicity of groups. These groups of interest can have influence in some regulatory outcomes, which often lose their efficiency because of that. In the case study analyzed, the Government's procedure for foreign workers in Spain is regulated by internal immigration Laws that reproduce the European Politics of Immigration. In this case, the procedure is even more difficult, because the couple is not married and its union is not registered in Holland. In this country, unlike Spain, Government does not have a special Register Office for this kind of couples, so the administrative process to get the work permit becomes more complex and takes more time than expected.

The strategy of the airline firm aims to increase its market share in Spain. In order to do that, and according to the CSR strategy of the firm, HR department identified Greta as a qualified employee to contribute to this goal in Spain. The decision of the firm was to move her to Spain, assuming the associated costs of this action. On the other hand, Greta planned as strategic goal developing her professional career in the firm, taking advantage of this promotion as a way of getting more economic resources for her family. In order to achieve this, she required from the firm the solution of the legal problems associated with the Spanish work permit for her and her couple (Franco). If the firm agreed with this requirement, she would be able to assume the costs associated to this decision.

Considering the third part in conflict, the Spanish Government planned as strategic goal to condition the flow of foreign workers to the European regulation, avoiding at the same time opportunistic behaviors through fake unions. In order to get this, technical staff of the public institutions included guaranties that delayed the procedure to get work permits. This decision caused an increase of administrative and opportunity costs of maintaining these foreign people (currently living in Spain with their couples) out of the job market.

Figure 2 shows the strategic goals of the two principals (firm, Government) and agent (employee), and relates them with decisions and associated costs. The total cost of requirements (work permit for the new employee and work permit of the new employee's couple), including time delay and opportunity costs of not getting the permits are non-planned associated costs for the firm (principal 1) and the new employee (agent), which are risen due to the moderating effect of Government (principal 2).

INSERT Figure 2. Strategies and requirements of principals and agent

4. DIAGNOSIS OF MULTIPLE AGENCY PROBLEMS

As result of the delay imposed by the Government to get the work permit, the previous agreement between principal (airline company) and agent (employee) has to be re-negotiated. The interference of the self-interest of one of the principals (Spanish Government) increases the associated costs of the agent (Franco, the Greta's couple, cannot look for a job in Spain in at least six months) and of principal 1 (the airline company has to waste more money than expected in the legal services, and it has also to compensate Greta for the failure of their previous agreement).

The following conceptual framework (Figure 3) shows this situation from a multi-dimensional perspective. On the one hand, according to the Agency Theory approach, the efficiency of the agreements depend on the cost-benefit evaluation of the self-interests and associated costs of principal-agent. On the other, from a Resource-based approach, the firm's market value depend on the capacity of the firm to retain talented employees through the CSR strategy. Both approaches are involved in the design of the CSR strategy applied to HR policies from a systemic approach.

INSERT Figure 3. Multiple Agency problems in professional movements of foreign workers

In particular, this diagram shows a direct relation between self-interest of principal 1 and agent and the efficiency of the agreement. This case study offers evidences supporting that CSR strategies focused on getting value from employees can to align the interest of the firm and the employee in order to get benefits for both, reducing the costs associated to the agreement.

However, the effect of risk aversion of Institutions (to avoid fake unions) moderates the relation (indirect relation) existing between the self-interest of the Government and the efficiency of private agreements as the studied, increasing at this extent the associated costs not only for the principal 1 and agent, but also for the principal 2 (increase of administrative costs of the procedure).

This conceptual framework links previous results of CSR literature applied to HR policies (Celma et al., 2014; Zhu et al., 2014; Walker and Mercado, 2015) with studies regarded with the agency problems (García-Sánchez and Noguera-Gámez) and the moderating effects of institutions in CSR strategies (Durán and Bajo, 2014; Ortiz-de-Mandojana et al., 2016).

5. DISCUSSION: NEW APPROACHES FOR INTERNATIONAL MOVEMENTS

This case study provides evidence of how the legitimate interest of the Spanish Government in protecting the citizens of the illegal immigrants increases the risk aversion to opportunistic behaviors of foreign employees, affecting at the same time to the costs of agreements of international transfer between companies and employees. These behaviors make difficult and enormously expensive labor mobility in the European Union. Because of this situation, companies that previously defined their CSR strategies according to the constructivist approach of their country of origin find different behavior patterns in other countries, which can revert in multiple agency problems.

We presented the case study of an airline company that had to assume a non-planned associated cost when implementing a CSR strategy due to the interference of institutions as added principals in agency relations. In the real situation presented, the final cost of this procedure was so unexpected that the company decided not to assume it in future occasions, reducing the promotion opportunities of other employees as Greta. In this sense, this analysis highlights the negative effect of institutions –in this case through the national immigration policies- in one of the main European freedoms, the worker mobility, due to multiple agency problems.

According to the results of this analysis, we propose policies aimed to integrate information about the associated costs of all parts (employers, foreign employees and Government) in order to facilitate that all parts include simultaneously this information in their strategy. This proposal reinforces the outcomes of previous studies about the involvement of interest groups in the EU decision-making process (García Lorenzo, 2003). European institutions can play an important role in this issue, through the efficient dissemination of the legal frameworks of the country members. During the last decade, firms have had to deal with a lack of integration among the different regulations and administrative procedures of the European countries when the firms' strategy required an exponential increase of labor movements of foreign workers. From our point of view, the future analysis of more situations like this one as case studies from the Multiple Agency Theory could be a good opportunity for an in-depth analysis of the interference of the immigration procedures of different countries of the European Union in the international mobility of employees and their families.

This article aims towards a twofold contribution to the literature. First, relative to Agency Theory, its moves beyond the traditional focus on conflicts of interest between stakeholders and firms, to analyze the complexities of multiple agency problems involving the institutional context from an international perspective. Secondly, and from the perspective of CSR research, it offers a multi-dimensional conceptual model for the analysis of the HR policies involved in the CSR strategy of a firm from the double perspective of the agency problems and also from the resource-based perspective. Our analysis provides evidence that an effective CSR strategy should take into account the associated costs of internal and external stakeholders involved. In this case, the airline company should only move employees if there are: a) internal guarantees – if the profits obtained in terms of increase of the firm’s market value (based on a better employees’ performance and loyalty) exceed the associated costs of the movement of employees and families-, b) external guarantees –if the employee’s profits in terms of professional promotion and family wellbeing exceed the associated costs of the movement- and c) the absence of a negative moderating effect of national institutions –if the political benefits in terms of votes of limiting international movements of people exceeds the associated cost of the legal restriction-. In this sense, this research supplies detailed insights on which are the leverage points that firms should assess when define their CSR strategy, offering an alternative perspective to previous approaches like the Dutta et al.’s (2012). Future research should extend the evidences highlighted in this case study to other managerial situations with multiple agency problems involved in the CSR strategy. International cross-partnerships between non-profit organizations, private companies and public institutions could be a good field of practice to identify multiple-agency problems of corporate governance.

Finally, this analysis reinforces the need of considering organizations as open systems, permeable to personal relationships between employees and their families, and institutional relationships employer-employee-employee's family-Government. From this approach, the CSR strategies of multinational companies should take into account the self-interest and associated costs of all stakeholders involved in the international movement of their employees. As a consequence of this, expatriation policies should include as costs of the transfer of employees not only the organizational costs but also those derived from the institutional relations (administrative procedures of labor permits for all persons involved) and personal relations (family movements).

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Table 1. Agency Theory Assumptions and HR issues

Agency Theory Assumptions	HR issues	Indicators
1. Self-interest	**Employer**: to maximize the employee's outcomes for the company. **Employee**: to maximize the employer's outcomes for the employee.	**Employer**: absenteeism rate, productivity per employee, income per employee. **Employee**: salary, free time, training investment, promotion opportunities, employability opportunities.
2. Goal conflict	Organizational change Job place change	Job profile requirements vs professional profile Job needs vs personal needs
3. Bounded rationality	Employer's rationality Employee's rationality	Limited access to employee's expectations Limited access to employer's expectations
4. Information asymmetry	Employer's information gap Employee's information gap	Performance appraisal data Business goals data
5. Pre-eminence of efficiency	**Employer**: look for HR synergies **Employee**: look for personal synergies	ratio income/cost per employee perception of the personal/professional balance
6. Risk aversion	**Employer**: loss of valued employees **Employee**: job lost	Voluntary turnover rate Dismissal risk
7. Information as a commodity	**Employer**: HR systems **Employee**: market research	Investment in HR systems Time invested in market research