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THE DANGERS OF DISPERSAL OF RESPONSIBILITIES

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Abstract

Taking into account that it is in the nature of the modern corporation that risks are distributed over several agents, we discuss in this paper the organisational behaviour as it results from such dispersal of responsibilities for both the principal and the agent. We explore the hypothesis that dispersal of responsibilities could be the result or a cause of a lack of consensus between the principal and the agent. Our findings suggest that a dispersal of responsibilities has a negative impact on the principal-agent relationship and that it represents a foundation for theoretical and empirical approaches to organisational behaviour. We find that agent perceptions of a dispersal of responsibilities are linked to his/her resistance to the principal's interests, but this relationship is deeper than was suggested by previous research. However, if the sharing of responsibilities does not run parallel to that, we may have as a result what we call an agency problem.

Keywords: dispersal of responsibilities, agency theory, risk, information asymmetry

JEL Classification: M51, M59, L22, L29

Introduction

Our research places value on the impact of dispersal of responsibilities on organisational behaviour and the relationship between the dispersal phenomenon and the principal-agent theory.

Agency theory is an instrument that helps the principal to identify and to exploit the agent's competencies. Stephen Ross (1973) states that "The relationship of agency is one of the oldest and most common codified modes of social interaction". The parties are connected via a contractual relationship. If the principal and the agent have the same interests, they act in the same direction to reduce the uncertainty of the decision-making process. Therefore, the principal and the agent are expected to clearly establish their responsibilities and the costs of their actions.

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Jensen and Meckling (1976) have considered that the agent may not take the risk to make a decision with the intention of improving organisational performance because it is possible to generate an agency conflict with the principal. This agency conflict would be a consequence or a cause of the dispersal of responsibilities in organisations. Therefore, the principal delegates the decision-making power to several agents.

The risk sharing amongst principal and agent is strongly related with the dispersal of responsibilities, because the parties have different perceptions towards risk, as will be demonstrated in this study.

Should the agents want to enhance their performance, then they have to act from assumptions on their responsibilities at organisational and also on an individual level. Furthermore, the agents are also found to take on more risks by engaging in new and challenging activities. As a result, the frequent organisational changes trigger a signal for the need to arrive at equitable sharing of responsibilities among agents. The principal explores new approaches to responsibilities and desire to share the risk with the agent. The agents may make decisions on behalf of the principal and to take on risk with an eye on profit maximization.

Wiseman and Gomes-Meija (1998) assert that a dispersal of responsibilities in such context is associated with the agents' risk level, because they perceive the role of the decision-making process and they may exhibit risk-seeking as well as risk-averse behaviour.

Next to that, Holmstrom and Milgrom (1998) see as a consequence of the dispersal of responsibilities, that the agents who are aware of their position in the organisation are presumably to manifest a hostility to taking risk and as a result the principal thinks to change the agent or to change the agent's approach, but we may comment that the agent with an entrepreneurial behaviour and with a strong feeling of responsibility is likely to assume more risks and also to consider the risk as a challenge and to be over confident in his/her abilities and experiences (Heaton, 2002; Simon and Houghton, 2003).

The risk-taking behaviour of the agent is for this study associated with a low level of dispersal of responsibilities. However, the agent's risks are at an individual level, but the consequences of his/her decisions are directly propagated at organisational level. As a result, the principal receives the negative feedback of his/her decisions based on self-interest as a source of agent risk.

Current management theory lacks a theory of organisational behaviour process that successfully integrates the individual and organisational elements. We focus on the question how agency costs and dispersal of responsibilities co-evolve during a decision-making process and offers some answers.

The questions of the further research are the following:

How does the dispersal of responsibilities have an impact on the relationship between the principal and the agent?

How does the dispersal of responsibilities affect the decision-making process?

We build our answers based on agency theory literature (Eisenhardt, 1989; Jensen and Meckling, 1976) by introducing the dispersal of responsibilities concept based on previous work (Burlea Schiopoiu, 2015; Burlea Schiopoiu, 2010).

This research has focused on the relationship principal-agent in terms of dispersal of responsibilities, with a focus on the Romanian economy. We explain how dispersal of responsibilities can have an impact in the decision-making process and we use the agency perspective of dispersal of responsibilities to explain the agent behaviour. We test our hypotheses using a sample on agents (employees) of SMEs, given the prevalence of SMEs in the Romanian economy. We discuss the findings and the practical implications of our results from the perspective of research on agency theory. Finally, by investigating how dispersal of responsibilities leads to specific decision-making processes, we developed a new approach to agency theory taking into account that the individual agent differences in the decision-making processes have often been attributed to meta-cognitive experience (Flavell, 1987; Forbes, 2005).

1. The relationship between agency theory and dispersal of responsibilities

Jensen and Meckling (1976) have developed an agency theory based on a discrepant and complementary relationship between two (or more) actors:

- The principal, an individual that has authority and he is involved in the decision-making process, and
- The agent, a person that received from the principal the power to act in his/her name and to make decisions.

Adding to their contribution, we could say that this relationship between the principal and the agent leads to many challenges, which have to be solved, taking into account the resources involvement level. For example, one challenge is that if the agent's interests do not converge with those of the principal, the agency costs can be expected to rise. It will therefore be necessary to develop a mechanism to reduce these costs.

Starting from this basic assumption related to the costs of the agency, we are interested to answer the question that arises: What are the consequences for organisational behaviour from dispersal of responsibilities?

We try to answer this question by using agency theory and to establish a relationship between control of the assets, the principal's interests, the agent's behaviour, and dispersal of responsibilities.

Particularly, applied to the Romanian situation, we see that the problem is aggravated by the source of dispersal of responsibilities in a "preferential interpretation and application of some parts of the many pieces of legislation with is responsibility the same meaning, bureaucracy, and unlimited power of the principals". We have established that some legislation (Government Emergency Ordinance no. 109/2011; Labour Code, 2016) in Romania is ineffective and thereby leads to a dispersal of responsibilities (henceforth called 'DR').

Bureaucracy is one of the main sources of dispersal of responsibilities, because it may create a lack of communication between the principal and the agent, due to its formalisation and its creation of boundaries within the organisational structure. This has at least two visible consequences:

- It leads to creating a barrier that prevents the promotion of the principal's interests;
- It discourages the agent from accepting ownership of the risk.

The typology of dispersal of responsibilities is very complex. A criterion for classifying dispersal of responsibilities *on the level at which it acts*.

- The dispersal of responsibilities at the principal level (DRPL)
- The dispersal of responsibilities at the agent level (DRAL)

DR is complex in the sense that leads to actions at multiple levels in the organisation:

• *Level one* (organisational change as a result of decision-making process level): is a source of uncertainty and doubt, and of strategies that often have no connection with real decisions that organisations can implement.

• *Level two* (principal level): shows behaviour with an ethical quality.

• *Level three* (agent level): it generates competition between different agents for promoting the principal's interests.

• *Level four* (attitude towards risk level): is a means to justify the negative attitude towards risk.

The agent is faced with the dispersal of responsibilities in the following situations:

- The principal's interests do not converge with the ethical principles of the agent.
- The agent does not make decisions because the task is not his/her responsibility and there is another agent who has the duty over the task.
- The agent considers that the principal wants to transfer the risk and not to empower.

The sources of information for the decision-making process are contradictory. The agent is facing with a real dilemma and he/she has to find the answer to the following questions:

- Do I use as information in the best decision-making process? and
- Do I have the necessary data for that decision-making process?

We distinguish within the dispersal of responsibilities the following levels:

- The agent level, impacting directly on the agents' attitude towards risk;
- The organisational level, characterized by change as a result of the decision-making process;
- The interaction of agents, leading to role ambiguity;
- Individual acts, impacted on by several contradictory sources of information.

Knight (1921) already pointed out in the early twentieth century that the dispersal of responsibilities has in common with uncertainty that some risk and lack of information is taking place. The principal of the organisation then has to be very clear concerning the agent's responsibilities, because the agent's responsibilities are related with the principal expectations and can lead to achievement or to failure of the organisational change.

Therefore, it must be said that "dispersal of responsibilities" is a complex phenomenon that acts on many different perspectives of influence (e.g. economic, social, legal) and supplies

irresponsible organizations with tools for illegal and unethical actions. (Burlea Schiopoiu, 2015).

This moderating role of the dispersal of responsibilities on decision-making process is expressed in the following hypothesis:

Hypothesis 1: The more dispersal of responsibilities, the fewer decisions are initiated by the agent.

1.1 A threefold bottom line: agency theory - dispersal of responsibilities - information asymmetry

The principals have, from the assumptions used in this research, an advantage over the agents, as they have access to information and are shielded by rules that alleviate the dispersal of responsibilities and promote information asymmetry between them and the agents. The principal can use the informational advantage to motivate the key decisions and to improve the agent's attitude towards risk. The principal influences the agent's decision and to induce a positive organisational change.

A large part of dispersal of responsibilities stems from the information asymmetry between the principal and the agents, as the principal has more detailed information about the organisational change and the decision-making process. In difficult situations, only the principal has an overview of the information and by using the dispersal of responsibilities he/she is in the position to potentially satisfy self-interests by means of the agent's actions. Unfortunately for the agent, the decisions related to this difficult organisational change are plagued with uncertainty and information asymmetry.

Eisenhardt (1989) concluded that the success of the agency relationship is based on the degree of information quality and on a lower level of dispersal of responsibility. This suggests that the principal should be completely informed and the agent should not be engaged in an opportunistic decision-making process.

It was stated by Huse (2007) that the higher degree of information asymmetry between the principal and the agent increases dispersal of responsibility and thereby increases the opportunistic behaviour of the agent, especially in small and medium-sized enterprises. Therefore, the principal has the role to reduce the information asymmetry and to alleviate the dispersal of responsibilities.

Eisenhardt (1989) affirms that information asymmetry is one of the key problems of agency theory and also that the real information between the principal and the agent helps in solving a potential agency problem. We consider that the agency problems arise from the information asymmetry between the principal and the agent, and can lead to conflict, rivalry, and agent opportunism, which might be detrimental for organisational change, as also pointed out by Blanco-Mazagatos et al. (2007).

The information asymmetry and the dispersal of responsibilities may apply when the agent is being confronted with a difficult problem associated with this role. Therefore, it might be difficult to identify the right responsibility and relate the agent interest with the principal's interest, especially when the consequences are not immediately tangible. The uncertainty generated by the information asymmetry leads to the necessity to alleviate the dispersal of

responsibilities by rule and procedures to ensure a clear assigning of the responsibilities and for putting ethical principles into practice.

Schulze et al. (2003) concluded that the relationship between the information asymmetry and the dispersal of responsibilities is clearly supported by the importance of key agents with specific skills and those capabilities for organisational change underscore the relationship between information asymmetry and dispersal of responsibilities. A higher level of the dispersal of responsibilities leads to a negative risk attitude and the agent will be less willing to make strategic decisions with impact on the organisational change.

As a consequence,

Hypothesis 2: The existence of the agent's resistance to organisational change is positively related to the information asymmetry.

1.2 The agent's attitude towards risk

The relationship principal-agent may be successful in advocating individual responsibilities and in building an environment of trust. There is a risk at agent level that the decision-making process may not be optimal in terms of the principal's interest. The agent has to take into account the principal's interest, even when his/her responsibilities are not clearly defined.

Flavel (1987) considers that the principal-agent relationship is based on a cognitive process that serves to organise the agent's tasks and to help the agent in the decision-making process.

Eisenhardt (1989) takes into account that the principal and the agent try to maximize their own interests through using different approaches to the same problem. Agency theory, by its nature is based on human agency, for this reason the agent, in some situations, manifests resistance to decisions that contradict its ethical preferences. This resistance can be generated by the dispersal of responsibilities. As a consequence, the dispersal of responsibilities expresses the agent's risk avoidance.

Chakravarthy (1982) pointed out that a high quality agent decision-making process depends on both the dispersal of responsibilities and the changing environmental conditions. Eisenhardt and Martin (2000) and Elsbach et al. (2005) have pointed to the result, the organisational change and the dispersal of responsibilities influence the unpredictability of the decisions.

Haynie and Shepherd (2009) Jost et al. (1998) and Nelson (1996) introduced the concept of meta-cognition in this context they point out that as a conscious process, meta-cognition influences the agent's attitude towards risk and the DR plays an important role in the decision-making process (Haynie and Shepherd, 2009; Jost et al., 1998; Nelson, 1996). Meta-cognition is different from individual intelligence and is related to individual responsibilities (Nelson, 1996). If the agent knows his/her responsibilities very well, then he/she should be able to manage the decision-making process. The agent is more willing to assume a risk in the principal has a stronger interest.

2. The evaluation of the dispersal of responsibilities

In this section we describe the methods used in our research.

Sample

The sample, composed of 242 agents from small and medium-sized enterprises, was used to cross-validate the results. The structure of the sample of 242 agents, most respondents 64% (154) were male, and 36% (88) female. The age of the respondents was between 25 and 65 years old. They were family and non-family small and medium-sized enterprises (SMEs) members – and not members of the family.

Measurements

All ratings were made on a five-point Likert scale (1=strongly disagree to 5=strongly agree).

To put in value the impact of dispersal of responsibilities on the agent's behaviour, we adapted some items from the scale developed by Haynie and Shepherd (2009) which contains 36 items Measure of Adaptive Cognition (MAC), the scale related to empowerment developed by Denison (2000), Robbins and Mukerji (1994), Sigler and Pearson (2000), and we have constructed the following items:

The information asymmetry was measured by three items: one is about the relationship between the decision-making process and the information asymmetry ('I make decisions only if I have the best information'); the second is about the difficulty of the decision-making process when the sources of information are contradictory ('It is difficult for me to make decisions when the sources of information are contradictory'); and the last is whether or not the agent collaborates well with the principal based on the information related to the task ('When I have clear information related to the task, I am collaborating very well with the principal').

These three items had a reliability coefficient of .85.

The attitude towards risk was measured by three items: one is about the relationship between the decision-making process and risk aversion ('I am responsible to make a decision, but I avoid risk'), the second is about the agent's attitude towards risk and the principal's interest ('My attitude towards risk depends on the principal's interest'); and the last is whether or not the agent evaluates the risk of his/her decisions for achieving the principal's goals ('I evaluate the risk to best achieve the principal's goals').

These three items had a reliability coefficient of .89.

The dispersal of responsibilities was measured by four items: one is about the agent's perception of his/her responsibility in performing a task ('When I receive a new task I know very well my responsibilities related to this task'); the second is whether or not the agent perceives the decision-making process as his/her responsibility ('I make decisions only if I am convinced that they are my responsibility'), the third is about the dispersal of responsibility as a phenomenon generated by the principal ('The principal delegates the same problem to several employees (agents)'), and the last is about the person who has the main responsibility in the decision-making process in organisational change ('Every employee in our organisation believes that the principal has the main responsibility of the decision-making process in organisational change').

These four items had a reliability coefficient of .95.

Cronbach's alphas are calculated for each construct and the results are over 0.84 (0.845 and 0.947, respectively). This suggests a strong reliability and validity of the study (Nunnally, 1994).

3. Results, discussions and findings

The evaluation of the measurement model was realised by a confirmatory factor analysis (CFA) and we arrived at the conclusion that the model fit is good and the root mean squared an error of approximation [RMSEA]=0.08; confirmatory fit index [CFI]=0.92 (Anderson and Gerbing, 1988).

Table no. 1 presents the means, standard deviations, and correlations among the variables related to the principal-agent relationship.

Table no. 1: Descriptive statistics and correlations

Variable/	Mean	SD	1	2	3	4	5	6	7	8	9	10
IS	3.85	.59	(.85)									
	3.71	.95	.1	.43**	.46**	.21**	.49**	.14*	.18**	.20**	.58**	.58**
	3.80	.70	.43**	1	.26**	.38**	.22**	.44**	.12	.23**	.17**	.30**
	4.05	.62	.46**	.26**	1	-.07	.94**	.39**	.74**	.67**	.87**	.54**
ATR	3.35	.48	.64**	(.89)								
	2.62	.63	.21**	.38**	-.07	1	-.11	.29**	-.34**	-.08	.85	.14*
	4.00	.66	.49**	.22**	.94**	-.11	1	.31**	.65**	.53**	.83**	.56**
	3.44	.82	.14*	.44**	.39**	.29**	.31**	1	.29**	.56**	.17**	.01
DR	4.14	.51	.68**	.53**	(.95)							
	3.64	.88	.18**	.12	.74**	-.34**	.65**	.29**	1	.68**	.41**	.19**
	4.39	.53	.20**	.23**	.67**	-.08	.53**	.56**	.68**	1	.44**	.35**
	4.19	.70	.58**	.17**	.87**	.85	.83**	.17**	.41**	.44**	1	.66**
	4.36	.52	.58**	.30**	.54**	.14*	.56**	.01	.19**	.35**	.66**	1

Note: * Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

*** Numbers in parentheses on the diagonal are the Cronbach's alpha in coefficients of the composite scales.

As shown in Table no. 1, all correlations are greater than 0.8 and this supports our model. Therefore, the practical model had a good fit and all of the items had statistically significant ($p \leq .01$) loadings on their intended construct.

The items description and the standardized factor are presented in table no. 2.

Table no. 2: Items descriptions, standardized factor loadings

Item description	Standardized factor
<i>The information asymmetry</i>	
I make decisions only if I have the best information	0.77
It is difficult for me to make decisions when the sources of	0.89
When I have clear information related to the task, I am	0.82
<i>The attitude towards risk</i>	
I am responsible to make a decision, but I have risk aversion	0.69

Item description	Standardized factor
My attitude towards risk depends on the principal's interest	0.86
I evaluate the risk to best achieve the principal's goals	0.70
<i>The dispersal of responsibilities</i>	
When I receive a new task I know very well my	0.77
I make decisions only if I am convinced that they are my	0.88
The principal delegates the same problem to several employees	0.79
Every employee in our organisation believes that the principal	0.84

The dispersal of responsibilities. The agents mostly agreed with the following statement: "I make decisions only if I am convinced that they are my responsibility" (Mean = 4.39, SD = .53). The agents consider that the principal has the main responsibility of the decision-making process in organisational change (Mean = 4.36, SD = .52). The negative influence of the dispersal of responsibilities on the agent's decision-making process is reflected in the results concerning the fact that the principal delegates the same problem to several agents. In theory when a principal delegates a task, he or she keeps also the responsibility. Our research, however, has revealed that, in practice, the principal considers that when he or she delegates a task he or she doesn't keep the responsibility (Mean = 4.19, SD = .70). The agents are not convinced that when they receive a new task, this task is their responsibility (Mean = 3.64, SD = .88)

The multiple regression analysis conducted examined whether the decisions adopted by the agent are negatively associated with the dispersal of responsibilities. Therefore, we arrived at the conclusion that dispersal of responsibilities made a significant contribution to the prediction of the agents' decision-making process ($\beta = -0.46, p < 0.001$)

Hypothesis 1 predicts that the decisions adopted by the agent are negatively associated with the dispersal of responsibilities. We found support for Hypothesis 1 ($\beta = -0.46, p < 0.001$).

The information asymmetry. The agents who participated in this study considered that they make decisions only if they have the best information (Mean = 3.71; SD = .95), but it is difficult for them to make decisions when the sources of information are contradictory (Mean = 3.80; SD = .70). The lower information asymmetry has as result the improvement of the relationship between the principal and the agent (Mean = 4.05; SD = .62).

One of the consequences of a high level of DR, the agent and the principal may possess different information about the same problem that should be solved. In this case, the goals of the two actors seem to be divergent and that misunderstanding causes agency conflict.

The multiple regression analysis conducted examined whether the agent resistance to organisational change is positively related to the information asymmetry. Thus, the quality of information made a significant contribution to the prediction of the agents' decision-making process who generates organisational change ($\beta = 0.42, p < 0.001$)

Hypothesis 2 predicts that the existence of agent resistance to organisational change is positively related to the information asymmetry. We found support for Hypothesis 2 ($\beta = 0.42, p < 0.001$).

The decision-making abilities of the agents are influenced by the principal's prior interests, organisational change, and their knowledge about tasks (Nadkarni and Barr, 2008).

The dispersal of responsibilities reduces the positive effect of organisational change and increases information asymmetry between the principals and the agents (Burlea Şchiopoiu and Idowu, 2016). When the responsibilities are elaborated, the agents are able to integrate strategic decisions in their actions and to reduce the information asymmetry. Organisational performance increased when both the principal and the agent engaged in the exchange of accurate information and in sharing risk, facilitating actions and reducing the dispersal of responsibilities. As a result, the goals between the principals and the agents are in line and the information asymmetry between them contributes to a better understanding of the misalignment of goals and enabling effective decision-making. Therefore, the dispersal of responsibilities inhibits the principal from understanding the rationale behind the agent's decision.

The attitude towards risk. We used the descriptive analysis to put into value that the agents' attitude towards risk is influenced by the principal's interest. The agents are responsible for their decisions, but the agents have a higher risk aversion (Mean = 2.62; SD = .63) and that suggests that the agents' responsibility for decisions correlates with the risk aversion was high to very high (reverse score). This score is highly motivated by the principal's interest (Mean = 4.00; SD = .66), and the evaluation of the risk is correlated with the principal's goals (Mean = 3.44; SD = .82).

The principal can be expected to motivate the agent and he two actors have identical attitudes towards risks, but it is necessary that the principal and the agent co-operate to solve the problem generated by the dispersal of responsibilities. Therefore, the agent will make the decision that the principal most desires (Ross, 1973).

The multiple regression analysis conducted examined whether the agent's attitude towards risk is positively related to the principal's interest. The principal's goals and interests made a positive and significant contribution to the prediction of the agents' attitude towards risk ($\beta = 0.43$, $p < 0.001$)

Hypothesis 3 predicts that the agent's attitude towards risk is positively related to the principal's interest. As suggest by the data of our research we found support for Hypothesis 3 ($\beta = 0.43$, $p < 0.001$).

We have identified the key drivers of the organisational change and arrived at the conclusions that the agent used the dispersal of responsibilities as a shield to defend his/her personal interests. We find that agent perceptions of a dispersal of responsibilities are linked to his/her resistance to the principal's interests, but this relationship is deeper than the investigation has proved.

The decision-making process in agency relationship is positively related to a weak dispersal of responsibilities. The dispersal of responsibilities is costly for SMEs because their human resources management practices do not fit the organisational change. Therefore, when the agents are required to make decisions in the principal's interest, they are likely to evaluate their responsibilities in order to manifest a positive or a negative behaviour.

We have employed agency theory to explain how dispersal of responsibilities and information asymmetry interact to influence agent decisions.

We also suggested that the dispersal of responsibilities is a disturbing factor for both organisational behaviour and principal-agent relationship.

Conclusions and futures research

The role of dispersal of responsibilities in organisational behaviour depends on the key dimensions of the dispersal phenomenon and on the relationship between the principal and the agent. The dispersal of responsibilities has a negative impact on both the principal's and the agent's behaviours and the lack of consensus between the principal and the agent generates these negative influences. The principal's interests play an important role in the efficient decision-making process, because the principal has motivational levers for rewarding or sanction the agent's actions. The information asymmetry occurs when the agent is not in possession of information concerning his/her responsibilities and because the principal makes mistaken assumption about the attitude towards risk of the agent. Consequently, the agent will make a decision only if he/she is willing to have tangible information about the responsibilities, risks and costs.

Aversion to the risk may lead to a conflict between the principal and the agent and a source of this conflict results from the separation of self-interest and control. The self-interest and the control should converge for reducing the conflict, but this convergence depends on the level of dispersal of responsibilities.

The dispersal of responsibilities may be used by the agent as a justification for his/her inclination to benefit from opportunities. The relationship between the principal and the agent may be reinforced by developing a structural network to alleviate the dispersal of responsibilities.

We propose that our research provides new features and challenges for future research related to agency theory and institutional theory that enhance the opportunities for new approaches of organisational competitive advantage.

Future research should be oriented to impact on the information asymmetry on the agents' commitment and how the dispersal of responsibilities affects the corporate social responsibility.

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