



MODERN-DAY PROXY WARFARE: FROM AGENCY THEORY PERSPECTIVE

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Abstract

Proxy warfare, in which one party uses a third party to achieve its own goals, are known for centuries, however, the conceptualization studies of proxy warfare are relatively new. Thereby, in this paper, we assess proxy warfare in terms of agency theory. According to agency theory, the owner of the company delegates their authority to another person (agent) to make decisions on their behalf. If there is information asymmetry between the parties or differentiation in the goals of the principal and the agent or they have different risk-sharing perceptions, agency problem exists. This study discloses that identical problems are common in proxy warfare. That is, if the principal and proxy have unmatching goals or desires accompanying information asymmetry and different risk perceptions, the principal may lose control of the proxy or the principal may exploit the proxy, likewise, the proxy may prefer a different way of action which is not compatible with the goals of the principal. However, this study shows that the remedies for agency theory's "moral hazard" and "adverse selection" problems might be used in proxy warfare problems by establishing outcome-based contracts and a strong knowledge structure between the parties of proxy warfare.

Keywords: Agency theory, proxy warfare, moral hazard, adverse selection.

JEL Codes: G30, G40, H56

GÜNÜMÜZ VEKALET SAVAŞLARININ VEKALET KURAMI ÇERÇEVESİNDE İNCELENMESİ

Öz

Bir tarafın kendi amaçlarına ulaşmak için üçüncü bir tarafı kullandığı vekalet yüzyıllardır bilinmektedir, ancak vekalet savaşının kavramsallaştırma çalışmaları nispeten yenidir. Bu nedenle, bu çalışmada vekalet savaşı vekâlet teorisi açısından incelenerek değerlendirilmektedir. Vekalet teorisine göre, şirket sahibi, yetkisini başka bir kişiye (temsilciye) kendi adına karar vermesi için devreder. Taraflar arasında bilgi asimetrisi veya temsil edilen ile vekilin hedeflerinde farklılaşma varsa veya farklı risk paylaşım algıları varsa vekalet sorunu ortaya çıkar. Bu çalışmada, vekalet savaşında da benzer sorunların yaygın olduğunu ortaya konmaktadır. Yani, vekil ile vekili kullanan unsurun uyumsuz amaçları/istekleri ve ilave olarak iki taraf arasında bilgi asimetrisi ve farklı risk algısı varsa, vekili kullanan unsur, vekil üzerindeki kontrolünü kaybedebilir veya vekili kullanan unsur, vekil ile olan ilişkisini kendi yararına kullanabilir, aynı şekilde vekil, vekili kullanan unsurdan farklı bir hareket tarzını tercih edebilir. Ayrıca vekâlet teorisinde ortaya konan ahlaki tehlike ve ters seçim problemlerine yönelik çözüm önerilerinin, vekâlet savaşı problemlerin çözümünde de kullanılabileceği ortaya konmaktadır. Söz konusu iki sorunu engellemek veya çözmek için vekalet savaşının tarafları arasında sonuç odaklı sözleşmeler üzerinde durulması ve güçlü bir bilgi altyapısının tesis edilmesi faydalı olacaktır.

Anahtar Kelimeler: Vekalet teorisi, vekalet savaşları, ahlaki tehlike, ters seçim.

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Introduction

Proxies, which have become increasingly popular recently, have been used throughout history. Many empires in history have had mercenaries to fight on their behalf. Proxies, known as mercenaries years ago, have undergone many evolutions over time, and today a wide range of figures from private companies to terrorist groups, paramilitary groups and even states can be defined as proxies.

Today, the use of private military companies and contractors as proxies is at the center of discussions. The fact that these companies were established to protect states from legal, political and humanitarian risks on the battlefield brings with it discussions (Erbay, 2022:8) In the past 50 years, it has been observed that contractors have been active in African and Asian countries such as Angola, Sierra Leone, Afghanistan, Iraq, Libya, Syria, Nigeria, Sudan, the Central African Republic, and most recently Ukraine. The use of such companies has increased day by day. For example, the number of personnel in the private military companies used by the US in Afghanistan and Iraq has in some areas almost outnumbered the US military personnel in the region (Erbay, 2022:8). However, proxies are not only contractors, in some cases, opposition groups, in some cases terrorist organizations or local or paramilitary groups, and sometimes other states conduct proxy warfare on behalf of another state or group of states.

Although proxy warfare has been a popular theme recently, it has not been analyzed much theoretically. For this reason, there is a need for academic studies seeking the answers to the question of "on what theoretical basis can the proxy war be explained?". Therefore, to fill this gap, this study aims to assess proxy warfare in terms of the agency theory.

Agency theory, which is rooted in information economics, has become a theory used in social and management sciences to clarify the association between the principal and the agent. Agency theory generally concentrates on the contracts between the principal and agent to examine the conflicts of interest, problem areas, and solutions between them. The state (principal) and the proxy, which are the parties to the proxy warfare, are in the same state of principal and agent as in agency theory. The relationship between proxy and state also begins with a contract. In this relationship, processes and problems are similar to those between principal and agent. From this point of view, agency theory provides a convenient pathway to examine the relationship between principal and proxy, as of the similarity of source, process, and solutions of the association between the company owner and the management.

The findings of this paper show that if there is an inconsistency between the expected results of the principal and the proxy and risk sharing problem exists between these two parts, there would be potential dilemmas that are so similar to the problems that occurred between the company owner and the agency which are pointed out by the agency theory in management sciences. More likely the classical principal-agent problems of "adverse selection" and "moral hazard" prevail in the relationship within proxy warfare. As recommended in agency theory, the "moral hazard" problem between the principal and the proxy can be resolved through outcome-based contracts. Moreover, the "adverse selection" problems can be alleviated by establishing a strong knowledge structure between the two parties.

The rest of the study is structured in the following way: proxy warfare and agency theory are explained in Section 2 and Section 3, respectively. Assessment of proxy warfare in terms of agency theory is provided in Section 4. A discussion about how the principal and agent relationship can be broken or strengthened is presented in Section 5. The conclusion is provided in the last section.

1. Proxy Warfare

The roots of the proxy warfare phenomenon, where one side uses a third party to achieve its own goals, date back many years. We can find many examples of proxy warfare in history books. Two hundred years ago, the military strategist Clausewitz addressed the proxy warfare in his work. Clausewitz (1989: 603) argues that *“One country may support another’s cause, but will never take it so seriously as it takes its own. A moderately-sized force will be sent to its help, but if things go wrong the operation is pretty well written off, and one tries to withdraw at the smallest possible cost.”*

However, although the applications of proxy wars on the battlefield date back many years, the conceptualization studies of proxy wars are very new. Hence, we do not have a comprehensive definition articulating the dynamics of current proxy warfare and its borders. Mumford (2013: 40) stresses that definition of proxy warfare is ubiquitous and yet chronically under-analyzed and under-theorized. Some areas of definitional disagreement on proxy warfare still remain relevant, in this context, thus an intensive discussion in academia on this matter continues.

Particularly after the II. World War, the number of conventional wars, direct confrontation of the states with destructive weapons, have diminished as the states painfully understand the destructive cost of direct war. Thereby the developed countries have pursued alternative, covered, and cheaper ways to attain their interest, such as proxy warfare. Deutsch (1964: 102) defines proxy warfare in the conditions of the Cold War as an international conflict in which two states fight out on the lands of a third country in order to realize their foreign policy interest. The conflict takes place using the capacity and manpower of the third party, under the cover of an internal conflict in its territory. Deutsch’s definition reflects the reality or conditions of his age, the Cold War era. His definition is mostly state-oriented and above all mainly excludes non-state actors. During the bipolar world order, the United States of America- (USA) and the Soviet Union- (USSR) fought in third countries (Yeisley, 2011: 75). Most of the proxy wars in the Cold War era were sponsored by the USA and USSR in support of these two great powers ideological and geographical differences. As nuclear parity of these two great powers and costly involvement in direct conventional armed conflicts moved each of them away from direct confrontations and toward reaching their goals using proxy states in the third countries (Yeisley, 2011: 78-79). Civil wars in El Salvador, Mozambique, Angola, Somalia, Chad, and Ethiopia are some examples of using states as proxies by other more powerful states.

However, after the Cold War, due to changing political conditions and technological developments severely altered the nature of proxy warfare. In line with this argument, Rondeau & Sterman (2019: 18) argue that the shift from bipolar world order to multipolarity after the Cold War era has introduced many more armed actors. Especially advances in communication technologies, the spread of high-tech weapons such as drones, MANPADs, and explosive devices, and development in financial and supply chain products and services to support armed operations have enabled the use of non-state actors in proxy warfare. Thus, flexible and autonomous non-state actors such as local paramilitary groups, private military contractors and even terrorist groups and transactional organized criminal groups have become an element of contemporary proxy warfare.

Therefore, the definitions describing proxy warfare began to be broadened for adaptation in the post-Cold War era. Contemporary studies have highlighted an expanding range of non-state proxies, from individuals to networks and local groups, contractors to terrorist groups. In this sense, Mumford (2013: 41) defines proxy war *“...as conflicts in which a third party intervenes indirectly in order to influence the strategic outcome in favor of its preferred faction.”* Rondeau & Sterman (2019: 18) describe proxy warfare more comprehensive approach as the *“... sponsorship of conventional or*

irregular forces that lie outside the constitutional order of states is best placed to avoid these flaws and form a platform to reassert accountability and clear lines of command responsibility, which is essential to avoiding the threats posed by twenty-first-century proxy warfare.” These two definitions extend Deutsch’s definition of proxy warfare from a narrow scope to a wider scope. According to both definitions, states and non-state actors can be both principal and agency.

Correspondingly, Rondeau & Sterman (2019: 18) stress that existing literature agrees that proxy warfare is a typical association between a principal, also referred to as the sponsor, who delegates a certain authority over the pursuit of strategic war goals to a proxy, also referred as the agent. On the other side, Rauta (2020:11) describes proxy forces as armed groups that fight on behalf of states that are not directly part of the conflict but wish to change the strategic outcome of a conflict by staying out. According to this definition, proxy forces are not regular forces but they replace regular forces of the principal on the battlefield.

Alca (2020: 34) defines the proxy war as a “cheap war” for principal in terms of finance and policy as the principal avoids bloody and costly direct confrontation. Alca (2020: 34) argues that the proxy war will be cheap for the principal as the agent will use cheap weapons rather than expensive aircraft, armored vehicles, missiles, and ships, likewise, the principal can hide itself; also the principal can politically evade itself from taking the liability of the proxy warfare.

The number of academic studies examining proxy wars has increased rapidly in recent years. Oğuz & Çelik (2018: 63) give evidence that proxy warfare can be more complex than envisioned in academic studies. Syria has been hosting proxy wars since 2011. In the region, not only the USA and Russia are competing for geopolitical supremacy, but also regional states such as Saudi Arabia and Iran are waging proxy wars. Ünalmış & Oğuz (2019) argue that the war between Russia and Georgia is a decent example of a proxy war between the West and Russia for global hegemony, rather than a regional conflict between Georgia and Russia. Karasoy (2022: 52) mentions that the war that began in 2022 between Russia and Ukraine is another example of a proxy war. As the USA and other Western countries support Ukraine with high-tech weapons, ammunition, and training and various ways, thus Ukraine gets substantial support from these countries to fight against Russia. According to this study, if the proxy, Ukraine, is successful in the war, the principals of this war benefit substantially by gaining prestige against Russia and enabling the return of Ukraine refugees from the West to their own country.

Some studies examine the principal and proxy’s motivation for this relationship and the potential dilemmas that may arise due to the inconsistency of the expected results of both parties. Fox (2019: 5-13) argues that a proxy relationship is driven by the political interest of both sides, the relationship can be exploitative in which the proxy is totally dependent on the principal for existence, on the other side, the relationship also can be transactional in which the proxy is respectively independent of the principal and looks for help from the principal to defeat the common adversary. Gök (2021: 144) states that the proxy forces in Syria are exploitative manner as proxies in Syria try to survive and principal actors provide the lifeblood of proxies' survival. These proxies have their own interests and preferences, and each with some degree of autonomy, however, they need to work with principals to make decisions. For example, if the USA cuts off its support, the terrorist organization PKK/PYD/YPG has no chance to survive neither against Syria and Iran nor against Türkiye. Gök (2021: 144) also argues that the forces of Haftar and the Government of National Accord are two important local actors in Libya and they are examples of transactional proxies. These two forces act independently from the principals in most cases, but they continue to seek support in order to defeat each other and become the sole authority in Libya.

Fox (2019: 5) also states that the association between the principal and the agent is very tricky and fragile in which the agent gains the power to stand alone, the agent receives support from powers other than the principal, or the agent gains superiority over the common enemy will significantly affect this principal-proxy relationship.

Likewise, Mumford (2013: 40) notes that proxy warfare is a reasonable alternative for states that want to achieve their particular strategic goals but at the same time evade engaging in a direct, bloody and costly war. However, on the other side, the agent has the desire to follow its own interest, and these two different interests of the sides make handling the principal-proxy relationship during the conflict complicated.

2. Agency Theory

The problem of agency appears to be a problem that has emerged since the emergence of joint stock companies, when the families or individuals who owned the organization began to appoint an agent to manage their organization.

It is thought that the first and most important contribution to the agency problem in terms of thought was made by Berle & Means (1932) with their study "modern corporation and private property " In this study, it was stated that ownership and control should be considered separately from each other and although it was not discussed as a theory, the foundations of agency theory were laid and the situations that may arise in the agency problem were tried to be explained (Weidenbaum & Jensen, 2010).

The widespread presence of the agency problem in diverse types of organizations has made it one of the most influential theories in some literature such as finance and economics. Thereby it has been analyzed in various fields such as political theory (Hammond & Knott, 1996), finance and economic studies (Ross, 1973; Jensen & Meckling, 1976; Fama, 1980; Fama & Jensen, 1983; Jensen, 1986), accounting studies (Ronen & Balachandran, 1995), marketing research (Bergen et al., 1992), sociology and organizational behavior (Kosnik & Bittenhausen, 1992; Adams, 1996) and many more (Panda & Leepsa, 2017).

While principals or owners take risks to gain economic benefits by investing their capital, agents who manage the organization and make decisions will avoid risk and work to increase their individual benefits (Wilson, 1968). In fact, this is the origin of the agency problem and this is where the field of study of agency theory begins.

In this context, the agency relationship, which is the subject of agency theory, is outlined as a relationship in which one or more people (principal(s)), who are the owners of the organization, delegate their authority to another person (agent) to make decisions on their behalf, based on the assumption that the interests of principals and agents are separated (Ross, 1973).

Rooted in information economics, agency theory attempts to explain how principals can organize their relationships with agents more efficiently by using appropriate combinations of incentive alignment and monitoring mechanisms (Jensen & Meckling, 1976; Eisenhardt, 1989).

However, it builds this explanation on some assumptions it accepts. In this context, the main assumptions of agency theory are that;

- (1) all actors follow their personal interests,
- (2) all players are boundedly rational and

(3) the agents are relatively more risk-averse than principals (Eisenhardt, 1989).

Conforming to agency theory, the principal can bound the deviation of the organization from its self-interest by providing convenient incentives for the agent and getting monitoring costs created to curb the agent's opportunistic action, and may even pay the agent to assure that the agent will not take certain actions that harm the principal (Hill & Jones, 1992).

Some definitions and explanations of agency theory are;

- Modeling the relationship between the party doing the work and the party delegating authority (Fama,1980; Fama & Jensen, 1983)
- Explaining “ownership and agency relationship” (Jensen & Meckling, 1976)
- It is a theory of managing differences between individuals, including goal conflict (Dees, 1992)
- Parties do not hesitate to resort to cheating and deception when necessary and when their interests require it (Noreen, 1988)
- There is no need for the necessity for opportunistic behavior. Individuals use it whenever they assess that they will benefit from it (Heath, 2009).

2.1. Streams of Agency Theory

Rooted in knowledge economics, agency theory has made progress in two streams; principal-agent (Jensen, 1983) and positivist (Eisenhardt, 1989). The contract between the agent and the principal is the common unit of analysis of these two streams and they share the same assumptions (about person, organization and knowledge), but diverge in mathematical rigor, and dependent variables.

2.1.1. Principal-Agent Research

Principal-agent researchers are interested in a general theory of the principal-agent relationship, a theory that can be applied to buyer-supplier, lawyer-client, employer-employee and many more other types of the agent relationships (Harris & Raviv, 1978).

The principal-agent literature simply focuses on finding the optimal contract in terms of behavior and output in the principal-agent relationship, based on the assumption that the principal is more risk averse than the agent and that what the agent is doing is not known by the principal exactly.

2.1.2. Positivist Agency Theory

Positivist agency theory concentrates on outlining situations in which the principal and agent have possibly differing aims and then identifying governance mechanisms that curb the agent's self-serving behavior (Eisenhardt, 1989).

Positivist agency theory is relatively less mathematical than the principal-agent stream and from a theoretical perspective, the positivist stream is concerned with governance mechanisms that focus on solving agency problems (Eisenhardt, 1989). The positivist stream presents two propositions that deal with governance mechanisms. The first one is "outcome-based contracts", which are effective in controlling agent opportunism, reducing conflicts of self-interest between principal and agent, and aligning the preferences of agents with those of principals, where the resulting rewards depend on the same action. The second is "information systems" that control agent opportunism by informing principals about what the agent is actually doing (Eisenhardt, 1989).

Jensen and others (Jensen, 1983; Jensen & Roebuck, 1983) developed this approach with the concept of the golden parachute, which is the power of agents who have valuable information about the management of the organization and who do not share this information to leave the organization at any time and managerial power based on the technical knowledge possessed in the management of the organization.

2.2. Types and Causes of Agency Problems

According to Panda & Leepsa (2017), the agency problem, which was initially thought to be caused by various conflicts between the principal and the agent, was later observed to involve creditors, large and small shareholders, and the agency problem was classified into three types among these actors.

- Type-1: Principal (Owner) - Agent (Manager) Problem: This problem arises from the conflict between agent and principal due to differences in interests and lack of appropriate monitoring by the reason of the scattered ownership structure.
- Type-2: Large Shareholder - Small Shareholder Problem: A problem arising from the conflict of interest between large and small shareholders.
- Type-3: Principal (Owner) - Creditor Problem: A problem between creditors and owners arising from the risks in the projects produced by the owners and the risk aversion of the creditors.

Of these agency problems, the one that will be encountered in proxy wars is usually the first type of problem. According to Panda & Leepsa (2017), the causes of this type of problem are presented in Table 1.

Table 1: *Sources of Agency Problem*

Sources of Agency Problem	Description
Separation of Ownership from Control	Segregation of the ownership from control in large organizations results in to the loss of appropriate monitoring by owners over managers, where managers use business property for personal purposes and to maximize their well-being.
Risk Preference	Parties in organizations have diverging perceptions of risk and try to compromise their decisions. This conflict takes place between owners and managers.
Duration of Participation	Managers (agents) work in organizations for a restricted time, while owners (principals) are an integral part of organizations. Therefore, agents strive to enhance their benefits within their restricted staying and then move to another organization.
Information Asymmetry	Managers keep an eye on the organization and are conscious of all business information and owners depend on managers to acquire the information. Consequently, the information may not attain the owners in the same way.
Moral Hazard	Managers work intimately for owners, using their skills and knowledge in risky projects, however, the owners are not conscious of the risks associated with the investment decision to which the managers are exposed.

Source: Panda & Leepsa (2017).

2.3. Solutions to the Agency Problem

How to solve the agency problem is an issue for which solutions are sought both in the management world and in the academic world (Panda & Leepsa, 2017). Eisenhardt (1989) underlined that a proper governance system can minimize the agency problem and offered two suggestions for this. First of all, it is important to create an outcome-based contract whereby the actions of the agents could be controlled, and the other one is to create a sound information structure in which the principal is conscious about the actions of agents.

Various solutions to the agency problem have been proposed by some researchers. These are;

- **Managerial ownership:** It is argued by Jensen and Meckling (1976) that giving stocks to agents will increase their commitment to the firm, they will work as owners of the organization and focus on organizational performance; thus, the interests of the agent and the principal will overlap.
- **Executive compensation:** Core et al. (1999) argue that an insufficient compensation package may compel agents to use principals' property for their personal interest, so periodic pay revision and proper incentive packages can motivate agents to work harder to make the organization perform better, thereby maximizing principals' earnings.
- **Debt:** Frierman & Viswanath (1994) argue that an increase in the level of debt will discipline organizational managers (agents) and that periodic payment to creditors may make managers more cautious about making inefficient decisions that could hinder the firm's profitability.
- **Labor market:** Fama (1980) argued that managers' (agents') ability to be highly valued in the labor market in order to obtain better opportunities and wages in the labor market depends on proving their success in their current organization, which in turn increases their effectiveness and efficiency.
- **Board of Directors:** Rosenstein & Wyatt (1990) argue that including more independent and outside directors on the board would provide better monitoring of the actions of directors (agents) and assist to assure consonance of interests between owners (principals) and directors (agents).
- **Block shareholders:** Burkart et al. (1997) stated that a strong owner or block shareholders (principal) can firmly watch the behavior of managers (agents) and go over their activities to maximize the value of the organization.
- **Dividends:** Park (2009) argues that since dividends will reduce internal funds, the organization will need to attract external funds for financing, for which managers (agents) will work to make the organization perform much better to attract market attendees, thus leading to a reduction in the agency problem.
- **Corporate control market:** Kini et al. (2004) argue that underperforming organizations can be taken over by an efficient organization and the taker organization can eliminate inefficient management (the proxy).

3. Assessing Proxy Warfare in Terms of Agency Theory

According to Eisenhardt (1989: 58), an agency relationship occurs when one party (the principal) appoints work to another party (the agent, the proxy) who performs the work. Mostly two problem

arises within this agency relationship (Eisenhardt, 1989: 58). The first problem occurs when there is a differentiation in the goals of the principal and agent. Put another way, if the goals or desires of the principal and agent conflict, the principal can lose control over the agent, and the principal cannot follow what the agent is doing. Thereby the agent might not work in the principal's best interest. According to Eisenhardt (1989: 58), risk sharing is the second problem. Risk sharing problem occurs if the principal and the agent have separate risk preferences. Thus, the agent can prefer a different way of action that is not compatible with the desire of the principal.

In this sense, there is a sound linkage between agency theory and proxy warfare as both of them involve the assignment of an agent to achieve the goals of the principal. In proxy warfare, the principal is typically a state, a group of states, or a political entity; on the other side, the agent is the proxy force that is used to fight for the principal on the battlefield. Therefore, the assignment of proxies on the battlefield rather than the principal's military forces can cause agency problems because the motivation of the proxy might diverge from the interest of the principal, moreover, the risk perception of the proxy might differ from that of principal or agency and principal might have problems such as information asymmetry, moral hazard or adverse selection.

Thereby, Singer (2002: 203) postulates that in many cases, it is possible to observe the principal-agent concerns in proxy warfare. Even more, the principal-agent contracting environment difficulties such as loss of control, incomplete information, insufficient monitoring, and the problems of aligning incentives are intensified in proxy warfare. Likewise, Brown (2016: 255) mentions that counting on proxies as primary agents in the conduct of military operations carries a greater risk of serious unintended consequences than counting solely on the military of the country.

Brown (2016: 247) discusses that significant problems arise in a proxy relationship if the proxy's motives to fight diverge from the interests and values that the principal deems worth fighting for. Brown gives two examples to show how the divergence of the motivations affects the continuation of the conflict. The first example is that if the proxy's motivation is in a narrow framework such as making profit, it is highly likely that the proxy will avoid the fight and even lay down arms when the situation on the battlefield gets tough. For instance, private military contractors have recently been used on the battlefield by some states for various reasons such as financial concerns, political reasons and avoidance the liability of the conflict. But mostly private military contractors have their own motivation that is mostly profit, therefore private military contractors might not necessarily align themselves with those of the principals. Thus, they can be involved in activities that are not in expedience of the principal. Moreover, if private military contractors have low-risk and high-return contracts, to enjoy their high profit they can even refrain from taking reasonable risks to reach a solution. Even if the principal wants to end the war, the proxy may prolong it for longer profits and prolong a war that could have ended. Brown's second example is that if the proxy's motivation to fight is historical, deep, and emotional, but the principal's motivation is more pragmatic and strategic, the principal's efforts to resolve the conflict in its favor may be hindered by the proxy, as the proxy will try to destroy the enemy to fight and the proxy may want the continuation of the conflict. These types of proxies mostly have their own agenda, priorities, and loyalties that the principal might not look with favor on them. In these cases, the principal can lose control over the proxy to execute the principal-proxy relationship.

Rondeaux & Sterman (2019: 24) stress that the classic principal-agent problems of adverse selection and moral hazard challenges mostly emerge in proxy warfare. Adverse selection occurs when there is information asymmetry among the principal and agent. Adverse selection in proxy warfare refers to a situation in that one side has outstanding information about the risk of the situation or the conflict than

the other party. Thus, the side which has superior information can engage in risky and aggressive actions which are not in the best interest of the other side. One example of adverse selection in proxy war is that the proxies in a desperate situation and less to lose can choose to cooperate with the principal and then take aggressive and risky actions to handle the conflict. These actions can worsen the conflict and harm the principal's goals. The local proxies which have high-level knowledge about conflict, terrain, culture, and language might also chase their own hidden interest in the proxy relationship rather than common interest with the principal. On the contrary, a principal might use a proxy to achieve its own hidden self-interest in the situation there is always a risk for the proxy to be abandoned anytime. Therefore, adverse selection arises especially if the side doesn't know each other well enough and doesn't understand each other's motivation.

Moral hazard in proxy war is a situation where one party takes a risk that it would not otherwise take, as the other side bears the cost of this risk. Specifically, if the party taking the risk doesn't bear the consequences of its action, it can behave irresponsibly and recklessly. Also, the other part has to bear more cost. Thus, this inappropriate relationship worsens the principal-proxy relationship. For instance, a proxy's irresponsible actions such as violating international humanitarian law against civilians in a conflict area can prolong the conflict and result in accusations against the principal for these violations.

Table 2 gives the summary of the proxy relationship with the motivations for the proxy and areas of interest clash with the principal that might arise. Also, some examples of the proxy relationship are presented.

Table 2: Summary of Proxy Relationship

Principal	Agent / Proxy	Motivations	Areas for interest clash with the principal	Examples
A state, a group of state and/or a political entity	Private Military Contractors	Profit, economic income	- Avoid taking a risk, - Benefit from prolonging the conflict to enjoy the contract,	Black Water, Wagner,
	Local or paramilitary groups	Political motivation, historical, deep and emotional motivations.	Loss of control	Assignment of Afghani Muchaids as proxies by The USA, Pakistan, and Saudi Arabia against the USSR in Afghanistan in 1979.
	Terrorist groups			Appointment of PKK/PYD/YPG terrorist organizations by the USA in Syria and Iraq allegedly to fight against ISIS
	Other states	The motivation of the principal might be to move away from the high cost of direct confrontation or blame for international humanitarian law breaches.	Loss of control, gain dominance over the principal	- USA and USSR's involvement in civil wars in El Salvador, Mozambique, and Andora in Cold War. - Russia's direct support of Syria since 2011. - Western countries' supply/logistic support of Ukraine against Russia.

4. How the Principal-Agent Relationship Can Theoretically be Broken or Strengthened?

When we analyze the principal-agent relationship in terms of proxy warfare, two perspectives can be developed:

- a. How can the principal strengthen this relationship in a more profitable way and in a way that serves the principal's objectives?
- b. How can this relationship be broken by the principal's rivals?

The first question's answer is hidden in the principal-agent theory. Resolving the moral hazard and adverse selection problems in proxy warfare would strengthen the relationship between the proxy warfare parties. According to Eisenhardt's (1989) suggestions; the first solution is to create an

outcome-based contract where the actions of agents can be controlled, and the second one is to create a sound information structure in which the principal is conscious of all the information about the actions of agents and they cannot distort the principal. For the first solution, an outcome-based contract between private military contractors and the state with a well-detailed and time-bounded relationship could be an example. For the second solution, the relationship between local/paramilitary groups or terrorist groups and a state in the position of their principal, creating a sound information structure where the principal can be informed of all developments.

The answer to the second question can also be obtained by deepening the Type-1 problem in the principal-agent theory. This problem is Principal (state) - Agent (proxy) Problem: This problem emerges from the conflict between principal and agent due to differences in interests and absence of appropriate monitoring due to the dispersed ownership structure (Panda & Leepsa, 2017). A rival who wants to change the relationship between the state and the proxy in favor of his or her own goals can manipulate the relationship by diverting the proxy's interests away from the principal's interests through various manipulations, or disrupting monitoring activities by creating information pollution or various obstructions. Thus, the proxy acts in line with its own objectives and the relationship can be disrupted by creating a loss of control over the proxy by the principal. These and similar examples can be increased. As can be seen, the relationship between proxy and state can be explained by the principal-agent theory. Thus, the issue of proxy warfare can be analyzed on the basis of a certain theory and strategies based on the theoretical basis can be produced for both state, proxy and rival purposes.

5. Conclusion and Recommendations

Agency theory is rooted in information economics which is utilized to explain the relationship between principal and agent in many fields. This relationship can be between a company and its CEO, board of directors, shareholders or creditors. Agency theory seeks solutions to problems arising from the separation of ownership from control, risk preference, duration of participation, information asymmetry and moral hazard. In fact, the theory always approaches managerial problems from a business perspective.

The state (principal) - proxy etc. relations in the context of proxy war, which is observed increasingly today, are generally analyzed in the context of international security due to the nature of proxy war's causal consequences, its effects in the international arena and its financial implications. However, how to explain these relations theoretically is not examined much in the literature. To fill this gap, state-proxy parties and their relations within the concept of proxy warfare are explained by using agency theory in this study.

The similarity between the principal in agency theory and the state/group of state/political entity in proxy war and the similarity between the agent and the proxy have been clarified theoretically. As, not surprisingly, assigning the proxies on the battlefield rather than the official armed forces can lead agency problems as the motivation of the proxy may diverge from the interest of the principal. Moreover, more severe problems between the principal and agent can be observed in battlefield due to harsh contracting environment which result in insufficient monitoring, loss of control and insufficient information between the parties.

Thereby, while trying to explain the relations between proxy wars and agency theory in a theoretical way and to provide theoretical solutions for practitioners, this study also focuses more on the problems of the theory and the solutions it brings to these problems and how these solutions should be considered in terms of proxy warfare. From this perspective, it is introduced that agency theory can

explain the relationship between proxy war actors, especially in the context of the problem that **arises** from the conflict between agent and principal due to differences in interests and lack of appropriate monitoring by the reason of the scattered ownership structure. Agency theory can explain the strengthening and benefiting of the relationship between the state and the proxy that wants to benefit from the proxy war, but it can also provide solutions for the rival who tries to disrupt this relationship and use it for its own purposes. According to the agency theory, to be able to strengthen the relation between parties of the proxy war, namely state and proxy, problems of moral hazard and adverse selection could be resolved. Likewise, according to the agency theory, in favor of the rival's goals, to be able to disrupt the relations between parties, diverting the proxy's interests from principal's interest through manipulations, or creating information pollution or miscellaneous obstructions could be a good solution.

In this study, evaluations of the relationship and its consequences are theorized and elaborated with examples. In future studies, firstly, proxy warfare can be evaluated from other perspectives in the context of agency theory; examples of past and present proxy wars can be used to contribute to the theory and contribute to the explanation of proxy war with agency theory. As the second recommendation for the future studies; the problem of strengthening or disrupting the relationship between the parties reached as a result of this study can be analyzed in the context of agency theory by examining past examples and investigating which activities strengthen the relationship between the parties or which activities disrupt this relationship.

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