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AN EMPIRICAL TEST OF STEWARDSHIP THEORY

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This study tests the model of Davis, Schoorman, and Donaldson (1997) that proposed determinants of a company's governance structure. In particular, we focus on the stewardship theory aspects of the model and its ability to predict the presence of a stewardship-orientation CEO at publicly listed U.S. companies. Using survey based data obtained from CEOs and directors of 100 companies in a match-pair design, we identified three variables that predicted the occurrence of stewardship-oriented behaviors by the company's CEO. These results lend support for the model's ability to predict the conditions under which stewardship-oriented individuals become CEOs.

INTRODUCTION

Worldcom, Adlphia, Tyco, and Enron, are among the numerous examples of wanton opportunism leading to the decline or demise of large, important economic institutions. This crisis of integrity poses hardships for multiple constituencies, and will continue to receive legal and regulatory attention for years to come. The common wisdom of today's dominant corporate governance theories (e.g. agency theory) prescribe stronger monitoring and more lucrative alignment incentives in the hope of diminishing the dangers opportunistic managers pose to society (Fama & Jensen, 1983). However, questions regarding whether such structural remedies can cover all possible threats continue to persist. For example, DeAngelo (1988) found that managers manipulate income to achieve bonus targets in the presence of incentive alignment mechanisms, bringing into question whether incentive alignment mechanisms can reliably attain their intended goals. Similarly, Williamson (1985) argued that managers pursuing self-interest with guile may be sufficiently inventive and ingenious to thwart even well-conceived monitoring mechanisms. In such light, it is doubtful that structural protections could successfully guard against all threats an inventive executive could improvise.

An alternative approach to controlling the appetite of the opportunistic sharks that may manage a given corporation is to avoid employing such individuals in leadership positions. Davis et al. (1997) proposed a heuristic to identify executives reflecting an opportunist orientation or a stewardship orientation to the firm. They contended that executive psychological and firm situational factors could be measured and evaluated to determine the approach the executive would employ at the firm. Thus, if opportunists and stewards can be reliably distinguished, optimal governance structures and policies for either approach could be implemented. While the model provides a valuable heuristic, the authors recognized a need for the empirical testing of its components. In this paper we empirically examine the proposed psychological and situational antecedents to stewardship-orientated corporate governance that Davis et al. (1997) proposed.

The creation and maintenance of a managerial system based on stewardship principles aligns executive psychological and company situational variables so that CEOs can be empowered, rather than controlled (Davis et al., 1997). Williamson (1985) acknowledges this possibility but sides in favor of employing structural protections against opportunism, arguing that the trustworthiness of a particular manager may not be known with complete assurance. However, others argue that trustworthiness is reliably recognizable, and when unfettered with undue control structures, may lead to profitable opportunities that would otherwise not be present (Frank, 1988; Quinn & Jones, 1995; Uzzi, 1997). Davis et al. (1997) argue that opportunist- or steward-oriented governance can be successful when principals correctly identify underlying agent psychology and firm-level situational factors.

Stewardship Theory

Stewardship theory (Davis et al., 1997; Donaldson & Davis, 1989, 1991) provides a normative perspective into the nature of the managers that serves as an alternative to agency theory. While stewardship theory has borrowed some of the same terms commonly used in agency theory research, such as "agent," "principal," and "alignment," radically different roles are assumed. These terms will be used to describe executive-shareholder relations under either an agency or stewardship governance structure. Grounded in psychology, sociology, and leadership theories, stewardship theory argues for the possible alignment between principals and agents which is reflective of a psychological contract (Schein, 1965; Yan, Zhu, & Hall, 2002) or a close relationship (Uzzi, 1996), with agents behaving in a community-focused manner, directing trustworthy and/or moral behaviors towards their firms and its stockholders. Stewardship-oriented leaders derive utility by serving the needs of the corporation and its stakeholders rather than by pursuing short-term opportunism at their employers' expense (Davis, et al., 1997; Frank, 1988). The primary obstacle to effectively implementing a stewardship approach to governance is to accurately distinguishing between opportunists and stewards. Misaligning corporate governance structures with executive orientation could result in severe losses to the firm. Davis et al. (1997) identified psychological and situational antecedents that would permit principals to distinguish between opportunistic and trustworthy agents. They

argue that when situations at a company favor a stewardship-oriented governance structure, then steward-oriented executives should be employed as CEOs.

Quinn and Jones (1995) and Uzzi (1996, 1997) argued that, with experience, one can identify trustworthy agents and then safely rely on these agents to behave with self-restraint and to serve the good of the company. Such individuals forge relationships wherein they create unique competitive advantages through investment in relationship-specific assets (Jones, 1995), pursuit of long-term value-building strategies (Davis et al., 1997), access to proprietary and/or fine-grained information (Uzzi, 1996), increased commitment and involvement in the affairs of the firm (Yan et al., 2002), and improved access to key resources (Uzzi, 1996).

Hypotheses: Testing Davis, Schoorman, and Donaldson's Heuristic

We test the model that Davis, et al. (1997) proposed to predict the conditions for a stewardship-oriented corporate governance to flourish. We obtained survey responses and then associated CEO-reported psychological and situational factors against director-reported observations of the stewardship attributes of their CEOs.

Psychological Factors

Motivation: Stewards are primarily motivated by higher order needs, such as opportunity of growth, achievement, affiliation, and self-actualization (Davis, et al., 1997). This differs from opportunists, who are motivated by extrinsic factors like tangible rewards and incentives possessing a measurable market value. CEOs primarily motivated by higher order needs find performance of organizational work itself to be a strong motivating factor. The basis for the assumption linking the pursuit of higher order needs to a stewardship orientation can be found in most of the established theories of motivation, in particular, higher order needs as described by Maslow's hierarchy (1970), Alderfer's growth need (1972), and the achievement and affiliation needs of McClelland (1975) and McGregor (1967). Opportunists, look at work instrumentally, expending efforts when there is material compensation for their efforts (Fama & Jensen, 1983).

A steward will tend to be intrinsically motivated and will form internal challenges that lead to higher levels of performance as well as satisfaction with his/her work. Hackman and Oldham (1976) argued that three psychological states (experienced meaningfulness of work, experienced responsibility for outcomes, and knowledge of actual results) mediate the relationship between task characteristics and internal work motivation. This model of work motivation is one of the foundational assumptions of stewardship theory. Manz (1986) argued that self-efficacy, self-determination, and feelings of purpose are characterized as being critical determinants of intrinsic motivation. Conversely, the agency approach emphasizes the role of extrinsic rewards in motivating a CEO, employing a tit-for-tat perspective in which rewards are contingent on effort and tangible results. Absent extrinsic motivators, agents would tend to shirk their responsibilities.

Hypothesis 1: Executives reporting higher order needs motivation will be positively associated with director observation of stewardship-oriented CEO behavior.

Hypothesis 2: Executives reporting low extrinsic motivation will be positively associated with director observation of stewardship-oriented CEO behavior.

Identification: Managers identify with an organization when they define themselves in terms of an organizational membership wherein they accept its mission, vision, and objectives (Kelman, 1958; Mael & Ashforth, 1992). Under these conditions, the organization becomes an extension of the manager's psychological structure (Brown, 1969). An identifying manager interprets comments about the organization as referring also to himself or herself, allowing managers vicariously experience the organization's successes and failures (e.g., Katz & Kahn, 1978; Turner, 1981). This view of organizational identification is consistent with stewardship.

When managers externalize organizational problems to avoid blame or shift responsibility to others (D'Aveni & MacMillan, 1990) they do not identify with the organization and he/she will view the organization only in instrumental terms, focusing on how using it may personally benefit him or her (Jensen & Meckling, 1976). Thus, an organizational focus required for identification is lacking. This is consistent with the agency theory perspective.

Hypothesis 3: Executives reporting high identification with the organization will be positively associated with director observation of stewardship-oriented CEO behavior.

Value commitment: Value commitment is the belief in and acceptance of organizational goals and values (Mayer and Schoorman, 1992). The self-image of organizationally value-committed managers reflects the company's image (Eccles & Nohria, 1992). Value committed executives define themselves in terms of their membership in their particular organizations (Mael & Ashforth, 1992), producing a satisfying relationship (Sussman & Vecchio, 1982). Value committed executives possess a psychological alignment with their organizations or principals because they share the same vision, values, and mission, and exert considerable effort to see that the organization succeeds (Davis, et al., 1997). Conversely, opportunists tend to place importance on material gain rather than values. They lack commitment or allegiance to organizations, viewing the firm as an instrument with which to achieve personal material gain (Fama and Jensen, 1983).

Hypothesis 4: Executives reporting high value commitment will be positively associated with director observation of stewardship-oriented CEO behavior.

Personal Power: Gibson, Ivancevich and Donnelly (1991) classified power as either personal or institutional. A manager's

personal power is developed within the context of the interpersonal relationships rather than the manager's position within the firm, and is grounded upon the subordinate's identification with and respect for their leader's competence and ability. This form of power includes French and Raven's (1959) referent and expert power. Directors will perceive CEO stewardship when they observe their managers utilizing personal power to modify the behavior of their followers (Davis et al., 1997). Conversely, opportunists will tend to employ different types of power than do stewards. For instance, they will tend to use coercive or institutional power that is derived by virtue of their formal authority in the organization (Davis, et al, 1997).

Hypothesis 5: Executive reporting high personal power will be positively associated with director observation of stewardship-oriented CEO behavior.

Situational Factors

Management philosophy: Argyris (1973) argued for the development of normative models of organization based on self-actualizing assumptions to create an organizational culture that supported the development of stewardship types of relationships between executives and their firms. The position advocated by Argyris (1973) was similar to the arguments advanced earlier by McGregor (1960) in his discussion of Theory Y management and by Likert (1961) in his comparison of System 4 management with more control-oriented systems. Each of these theorists advocated the development of normative models of organization, breaking with traditional management philosophies to facilitate the self-actualizing behaviors that are consistent with stewardship theory.

Walton (1980, 1985) advocated a high-commitment management philosophy that was characterized by high participation, open communication, empowerment of workers, and the establishment of trust. Lawler (1986, 1992) elaborated on this view by contrasting the management philosophies he described as control-oriented versus involvement-oriented. According to Lawler, the control-oriented approach is based on a management philosophy that the thinking and controlling part of the work must be separated from the doing part of the work. Involvement-oriented approaches emphasize self-control and self-management and do not create a separation among thinking, controlling, and doing the work. The key assumption in involvement-oriented approaches is that when employees are given challenges and responsibility they will develop self-control of their behavior.

The management philosophy of an organization can create a context in which a stewardship approach is maintained. The creation of the involvement-oriented management will lead to the emergence of organizational behaviors consistent with stewardship theory.

Hypothesis 6: Executives reporting high involvement situations at their companies will be positively associated with director observation of stewardship-oriented CEO behavior.

Culture: Hofstede (1980, 1991) described an individualism-collectivism dimension of culture that would support a stewardship-oriented governance structure. The individualism dimension emphasizes personal goals over group goals while the collectivist dimension defines the self as a part of the group. One's group memberships are an important statement of identity and achievement. Collectivists have very positive attitudes toward harmony within groups, avoiding conflict and confrontation, while individualists see confrontation as an opportunity to actively resolve conflict by communicating more directly. Collectivists prefer long-term relationships and will frequently require more time and expend greater effort to become familiar with others prior to a business transaction. Individualists are more short-term oriented, choosing to conduct business independently of personal relationships, using a cost-benefit approach to evaluate business exchanges, and attempting to reduce the risks of doing business through formal contracts. Hence, collectivist cultures are more conducive to stewardship governance structures while individualistic cultures tend to foster opportunism.

Hypothesis 7: Executives reporting collectivist cultures at their companies will be positively associated with director observation of stewardship-oriented CEO behavior.

Power distance: A second dimension developed by Hofstede (1980, 1991) to characterize the cross-cultural differences this is particularly relevant to stewardship is the concept of power distance. Power distance is generally defined as "the extent to which less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally" (Hofstede, 1991: 28). In certain cultures, relatively large differences in power among members are accepted and tolerated. In a culture with high power distance, there is an acceptance that less powerful members will be dependent on more powerful members and privileges and status symbols are both expected and popular. In low power distance cultures, inequalities are minimized, the independence of the less powerful is valued and encouraged, and status and class symbols are frowned upon (Hodgetts & Luthans, 1993). In high power distance cultures, organizations are centralized, and they include large differences in authority, salary, and perquisites. The opposite would be true in a low power distance organization. Low power distance cultures are more conducive to the development of stewardship relations because their members place greater value on the essential equality of all people.

Hypothesis 8: Executives reporting low power distance at their companies will be positively associated with director observation of stewardship-oriented CEO behavior.

MEASURES AND METHODS

Sample

We created and mailed a survey to 500 randomly selected publicly listed corporations, targeting both the CEO and the

boards of directors of these companies in 1997. The result of the initial mailing and follow-ups is that 161 directors and 135 CEOs responded. Statistical tests comparing the mean response for the variables between waves of data collection were insignificant, suggesting that later respondents were similar to earlier respondents. We yielded 102 matched pairs of CEO and director responses. Missing data reduced the number of companies in our analysis to 100. This study meets the minimum acceptable response rate of 20% for survey-based research (Hitt, Hoskinson, Johnson, & Moesel, 1996). Unmatched responses were used in our factor analysis, but were discarded before we tested hypotheses.

Dependent Variable

We measured the dependent variable with director surveys. We developed an eight-item scale assessing the leadership approach their CEO exhibited. A principal-components factor analysis determined whether a reduced set of the component scale items could be extracted. The threshold established in advance for the selection of factor items were a factor loading of .50 or greater and at least a .20 difference between the item's loading with its factor and each of the other factors. The analysis of the eight component items indicated a two-component solution that explained 56.4% of the variance. The first component possessed five items reflecting a stewardship-orientation. These items were totaled for the subsequent analysis. The second component consisted of three items unrelated to stewardship and was not used.

Independent Variables

The independent variables were measured with CEO surveys. We employed pre-published scales to measure the five of the independent variables (high order needs, extrinsic motivation, value commitment, personal power, and power distance) and created new scales for the three remaining independent variables (identification, involvement, and culture) using factor analysis.

First, we selected the five pre-published scales. For the first two, we used Frankforter, Davis, & Vollrath's (2001) 10-item high order needs scale and their 9-item extrinsic motivation scale. The third was a 10-item scale developed by Schechter (1985) measured value commitment. The fourth and fifth were scales developed by Frost and Stahelski (1988) to measure power and power distance. These scales are based upon French and Raven's (1959) bases of social power and corrects several scale format confounds found in previous research. Referent and expert power subscales were combined to form an 11-item scale representing personal power. Coercive, legitimate, and reward power subscales were combined to form a 12-item scale representing power distance. Since these scales had previously-established reliability (alpha) measures, factor analysis was not necessary to formulate these five measures.

Second, we applied factor analysis to the CEO surveys for the three remaining independent variables, employing the same decision rules with the independent variables as we did in determining the dependent variable. The analysis of the 14 component items indicated a three-component solution. The first component (identification) had six items and explained 23.4% of the variance, the second (involvement) had three items and explained an additional 16.9% of the variance, and the third (culture) had five items and explained an additional 15.4% of the variance. The scales for the dependent and independent variables appear in appendix A.

Control Variables

We included seven control variables commonly found in corporate governance research: Profitability, capital expenditures, stock ownership, duality, firm size, long-term compensation, and board tenure. They are control variables in the usual, statistical sense of the term. In multiple regression analysis, they may compete with our hypothesized correlates to account for variance in the dependent variable. Although we do not frame formal hypotheses involving these variables, we note that each may serve as a mechanism to control CEOs.

Profitability: Davis et al. (1997) predicted that firms with good alignment between the CEO philosophy and the firm's governance structure would tend to have superior profitability. We measured profitability as the difference between firm and the mean industry returns on equity, based on four-digit SICs. Data were collected from Research Insight.

Capital Expenditures: Davis, et al. (1997) argued that CEOs with a stewardship perspective will possess a long-term perspective for the firm and will pursue strategies that support long-term performance, like making capital investments. Capital expenditures were computed as a firm's capital expenditures divided by its total assets and subtracting the equivalent industry mean, again based on four-digit SICs. Data were collected from Research Insight.

Stock Ownership: Where CEO's hold greater proportions of stock, there will be greater degrees of alignment with the interests of the firm and its shareholders (Eisenhardt, 1988; Jensen & Meckling, 1976). We computed stock ownerships as the percentage of the firm's common shares held by the CEO/President. Data were collected from proxy statements.

Duality: When the CEO also serves as chairman of the board (commonly referred to as the dual governance structure), he/she may limit the board's control of management (Donaldson & Davis, 1989, 1991; Williamson, 1985). Duality is a dichotomous variable in which 0 represents outside board leadership (known as the independent governance structure) and 1 represents instances where the CEO also serves as the chairman of the board. Data were collected from proxy statements.

Firm size: The size of the firm may influence the form of power a CEO uses. For example, a CEO in a very large firm may not have as much opportunity to have the direct contact necessary to establish personal power. We controlled for firm size by taking the log of the total number of employees (Frankforter, et al., 2001). Data were collected from Research Insight.

Long-term compensation: Executive compensation that is long-term in nature might be used to create alignment when a CEO is assumed to be opportunistic, rather than possess a

stewardship orientation (Jensen & Meckling, 1976). We calculated long-term compensation as the percentage of short term to total executive compensation. These data were collected from proxy statements.

Board tenure: With stewardship's emphasis on developing and maintaining long-term relationships, we anticipate that CEO's with stewardship philosophies will tend to have served on the board for a relatively long period of time. Board tenure was measured as the year the CEO first began service on the board. Data were collected from proxy statements.

Method

The data for all but one of the dependent, independent, and control variables were continuous. The other one was dichotomous. Therefore, we conducted hypothesis testing using multiple regression analysis.

Results

Figure 1 displays a visual representation of the control and experimental variables.

FIGURE 1: Visual Representation of the Control and Experimental Variables

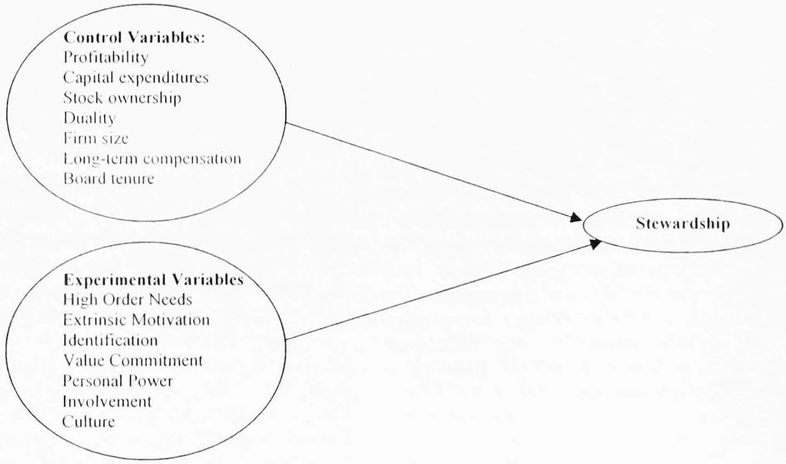

Table 1 below shows the descriptive statistics, alphas, variation inflation factors (VIFs), and the correlation matrix. We measured reliability by computing alpha scores. All alphas exceeded the minimum standard of .50 for experimental variables and were deemed acceptable (Nunnally, 1967). Additionally, we observed no multi-collinearity problems that would affect the results, with only one variable (high order needs) exhibited a VIF that exceeded 2.0, far from the critical limit of 10 (Netter, Wasserman, & Kutner, 1989).

Table 1: Descriptive Statistics, Alphas, Variation Inflation Factors (VIFs), and the Correlation Matrix

	Mean	S.D.	Alp ha	VIF	Steward-ship	High order needs	Extrinsic motivation	Identifi-cation	Value comm-itment	Personal power
Stewardship	21.21	2.02	.79	---	---					
High order needs	43.41	4.58	.83	2.03	.30*	---				
Extrinsic motivation	29.92	5.62	.86	1.69	.07	.41**	---			
Identification	20.62	4.19	.71	1.35	-.05	.04	-.06	---		
Value commitment	45.06	3.98	.86	1.75	.28**	..31**	-.10	..30**	---	
Personal power	39.85	5.10	.81	1.48	.19	.47**	.23*	-.05	.16	---
Involvement	10.21	1.97	.71	1.16	.26**	.04	-.01	.09	.18	-.09
Culture	20.20	2.37	.50	1.61	.50***	.20	-.25*	.09	.44***	.18
Power distance	25.81	5.88	.81	1.20	-.14	-.08	.11	.03	-.20*	.12
Profitability	0.89	28.49	---	1.31	.09	.26**	.08	.12	-.02	.08
Capital expenditures	-14.60	51.36	---	1.16	-.13	-.03	-.09	.08	.04	.13
Stock ownership	8.08	12.6	---	1.12	.10	-.11	-.13	.14	.01	-.00
Duality	.60	.49	---	1.33	-.05	.02	-.21*	.11	.19	-.05
Firm size	2.66	.76	---	1.46	-.04	.08	-.14	.24*	.06	.06
Long-term compensation	.23	.20	---	1.50	.06	.09	-.13	.34***	.27**	.03
Board tenure	84.76	9.18	---	1.43	-.01	.07	.36***	-.25**	-.08	.08

Continued table 1

	Involve-ment	Culture	Power distance	Profita-bility	Capital Expendi-tures	Stock ownership	Duality	Size	Long-term Compen-sation
Involvement	---								
Culture	.15	---							
Power distance	-.10	-.24*	---						
Profitability	.09	.21*	-.05	---					
Capital expenditures	.05	.10	-.01	.07	---				
Stock ownership	.05	.16	.02	.19	-.16	---			
Duality	.17	.11	-.23*	-.08	.07	.12	---		
Firm size	.00	.08	.10	.11	.26*	-.02	.22*	---	
Long-term compensation	-.06	.12	.06	.10	.18	-.03	.21*	-.45**	---
Board tenure	-.19	-.20	.08	-.16	-.06	-.23*	-.28**	-.14	-.04

* $p < .05$
** $p < .01$
*** $p < .001$

Table 2 shows the multiple regression results. Model 1 evaluates only the regression results measuring the effect of the control variables on the dependent variable (stewardship). This allows us to distinguish between the effect of the control and the experimental variables on the dependent variable. In this model, if the control variables have no explanatory power over the dependent variable, the F statistic will not be statistically significant. The results for model 1 show no explanatory power for any of the control variables over the dependent variable. Similarly, the overall model's explanatory power over the dependent variable shows an insignificant F of 1.58 and an adjusted R^2 of -.04.

Table 2: Multiple Regression Results

	Model 1			Model 2			Model 3		
Variables	**Beta**		**t**	**Beta**		**t**	**Beta**		**t**
Constant	22.31		9.13***	7.20		2.54*	8.73		2.50*
High order needs				.06		1.19	.09		1.68*
Extrinsic motivation				.04		1.28	.01		.34
Identification				-.06		-1.38	-.07		-1.57
Value commitment				.02		.38	.02		-.37
Personal power				.01		.15	.01		.20
Involvement				.20		2.19*	.19		2.13*
Culture				.41		4.68***	.47		5.23***
Power distance				.01		.01	-.02		-.73
Profitability	.01		0.67				-.01		-1.08
Capital expenditures	-.01		-1.08				-.01		-1.69
Stock ownership	.01		0.66				-.01		.76
Duality	-.32		-.68				-.62		-1.57
Firm size	-.09		-.28				-.12		-.45
Long-term compensation	.77		.65				1.17		1.16
Board tenure	-.01		-.48				-.01		-.18
Adjusted R^2		-.04			.30			.36	
F		.54			6.29***			4.53***	
df		7			8			15	

* $p < .05$
** $p < .01$
*** $p < .001$

Model 2 evaluates only the regression results measuring the effect of the experimental variables on the dependent variable, excluding the effects of the control variables. If the experimental variables have explanatory power over the dependent variable, the F statistic will be statistically significant. We find that model 2 shows good explanatory power of the experimental variables over the dependent variable, with involvement and culture achieving statistical significance. The overall model's explanatory power over the dependent variable yielded a statistically significant F of 6.29 and an adjusted R^2 of .30.

Model 3 displays results for the full model, including both groups of control and experimental variables. If the control variables do not interact with the experimental variables, then the results found in model 3 will be similar to those found in model 2 and model 1. In this model, involvement and culture continued to be statistically significant, while higher order needs was statistically significant only in this model. The overall model's explanatory power over the dependent variable was similar to that of model 2, with a statistically significant F of 4.53 and an adjusted R^2 of .36.

We conducted hypothesis testing using one-tailed tests because direction was predicted. Hypotheses 6 and 7 achieved clear support in models 2 and 3, while hypothesis 1 was supported only in model 3. Thus, one of the five psychological and two of the three situational were statistically significant. Of

the psychological variables, CEOs pursuit of higher order needs (hypothesis 1) was positively associated with stewardship. Of the situational variables, involvement (hypothesis 6) and culture (hypothesis 7) were positively associated with stewardship. Overall, the Davis et al. (1997) stewardship model yielded good explanatory power, explaining highly significant levels of variance in models 2 and 3.

Discussion and Future Research

Davis et al. (1997) argued that stewardship- and agency-focused relationships result as a mater of choice between agents and principals. Our study finds the CEO-reported antecedents for stewardship associated with director perceptions of CEO type, consistent with cell 4 of the Davis et al. (1997) principal-manager choice model. From our results, we can conclude that a stewardship-oriented alignment between principals and CEOs can exist.

The findings of this article are significant in two additional areas. First, in testing the antecedents of stewardship, we confirmed that those factors will tend be present when directors perceive that the CEO is a steward. While Williamson (1985) argued that one cannot know *ex ante* which managers will act opportunistically and so agency controls should be universally applied, Frank (1988), Quinn and Jones (1995), and Uzzi (1996) provide arguments and/or evidence to the contrary. Our findings show that directors perceive stewardship traits in the CEO when the CEO reports psychological and situational factors consistent with Davis' et al. (1997) model.

Second, this study adds to previous research by employing survey-based data provided by both directors and CEOs at the same company. Corporate governance research is largely driven by data availability and is therefore limited in its predictive ability. This is true of previous research of agency theory, which has been plagued by inconsistent findings over time. We believe that our study's use of primary data serves as an example of the benefits of using primary data over secondary data, providing a standard for the conducting of future corporate governance research.

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Journal of Business and Leadership: Research, Practice, and Teaching
2007, Vol. 3, No. 1, 40-50

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Appendix A

Scales

Dependent Variable (Answered by directors)

Please indicate your reaction to each of the following statements.

Stewardship	Strongly Disagree				Strongly Agree
1. My strategic initiatives serve the company's interests	SD	D	U	A	SA
2. My budget initiatives serve the company's interests	SD	D	U	A	SA
3. My initiatives regarding my power and authority serve the company's interests	SD	D	U	A	SA
4. My initiatives regarding my perks serve the company's interests	SD	D	U	A	SA
5. I provide adequate, timely company information to board directors	SD	D	U	A	SA

Independent Variables (Answered by CEOs)

Please estimate how important each item is to you.

High Order Needs	NOT Important				VERY Important
1. Exceeding board expectations of you	1	2	3	4	5
2. The challenge of the work itself	1	2	3	4	5
3. Seeing the results of your work	1	2	3	4	5
4. Your finding a solution to a problem	1	2	3	4	5
5. Your agreement with company values	1	2	3	4	5
6. Your agreement with board interests	1	2	3	4	5
7. Increasing company value	1	2	3	4	5
8. Your being a company team-player	1	2	3	4	5
9. Performance is on par with managers in similar situations	1	2	3	4	5
10. Your loyalty to the company	1	2	3	4	5

Extrinsic Motivation					
1. Recognition for your success	1	2	3	4	5
2. Your status within the company	1	2	3	4	5
3. Your job security	1	2	3	4	5
4. Wages which compare favorably with others doing similar or same job	1	2	3	4	5
5. Respect and recognition from outside the company for your work	1	2	3	4	5
6. Amount of your salary	1	2	3	4	5
7. Opportunity for your advancement	1	2	3	4	5
8. Receiving praise from the board for a job well done	1	2	3	4	5
9. Your personal economic gain	1	2	3	4	5

Please indicate your reaction to each of the following statements.

Identification	Strongly Disagree				Strongly Agree
1. The longer I stay with this organization, the harder it is to leave	SD	D	U	A	SA
2. It would be difficult for me to adapt to a new organization	SD	D	U	A	SA
3. I would give up a lot by leaving this organization	SD	D	U	A	SA
4. I would be willing to stay with this organization until I retire	SD	D	U	A	SA
5. If I decided to leave this organization, it would be difficult to explain to my friends and family	SD	D	U	A	SA
6. Many changes would have to occur in my present circumstances to cause me to leave this organization	SD	D	U	A	SA

Value Commitment					
1. My values and the organization's values are very similar	SD	D	U	A	SA
2. I am willing to put in a great deal of effort beyond that normally expected in order to help this organization be successful	SD	D	U	A	SA
3. This organization inspires my best job performance	SD	D	U	A	SA
4. I usually agree with this organization's policies on important personnel matters	SD	D	U	A	SA
5. I care about the fate of this organization	SD	D	U	A	SA
6. I tell my friends that this organization is a good place to work	SD	D	U	A	SA
7. This is one of the best of all organizations for which to work	SD	D	U	A	SA
8. I am glad I chose this organization to work for over others I was considering at the time I joined	SD	D	U	A	SA
9. I am proud to tell others that I am part of this organization	SD	D	U	A	SA
10. I do not intend to leave this organization in the foreseeable future	SD	D	U	A	SA

Please estimate how often you used each behavior to exercise control over your subordinates.

Journal of Business and Leadership: Research, Practice, and Teaching
2007, Vol. 3, No. 1, 40-50

	Seldom				Often
Personal Power					
1. Promote them or recommend them for promotion	1	2	3	4	5
2. Recommend them for awards or commendation	1	2	3	4	5
3. Give them high performance ratings	1	2	3	4	5
4. Praise them	1	2	3	4	5
5. Give them extra time off	1	2	3	4	5
6. Advise and assist them	1	2	3	4	5
7. Give them good assignments	1	2	3	4	5
8. Rely on his/her good relations with them to get the job done	1	2	3	4	5
9. Rely on his/her people getting the job done because they do because they don't want to let him/her down	1	2	3	4	5
10. Set the example and rely upon his/her people to follow his/her example	1	2	3	4	5
11. Rely on them thinking that it's to their advantage as much as it is to his/her for them to cooperate with him/her	1	2	3	4	5
Power Distance					
1. Demote them or recommend them for demotion	1	2	3	4	5
2. Recommend them for disciplinary action or reprimands	1	2	3	4	5
3. Give them low performance ratings	1	2	3	4	5
4. Chew them out	1	2	3	4	5
5. Give them extra work as punishment	1	2	3	4	5
6. Let them know that I have the right to expect to have my orders followed	1	2	3	4	5
7. Expect that my orders and requests will be carried out because I am the boss and they will not question an order from a superior	1	2	3	4	5
8. Expect them to follow my orders because they realize that I probably have information they don't have and therefore a good reason for issuing any order	1	2	3	4	5
9. Get them to accomplish the work by demonstrating that I know how to perform the task	1	2	3	4	5
10. Impress them with my overall competence And ability	1	2	3	4	5
11. Make on the spot corrections	1	2	3	4	5
12. Give them bad assignments	1	2	3	4	5

Please indicate your reaction to each of the following statements.

	Strongly Disagree				Strongly Agree
Involvement					
1. Within a year, the board will become more involved in how the company spends money. (R)	SD	D	U	A	SA
2. Within a year, the board will become more involved with my decisions. (R)	SD	D	U	A	SA
3. Within a year, the board will act to promote riskier strategic decisions. (R)	SD	D	U	A	SA
Culture					
1. The board sees my initiatives as credible and attractive	SD	D	U	A	SA
2. The board generally accepts or complies with my initiatives	SD	D	U	A	SA
3. The board relies on trust more than on mechanisms to control me	SD	D	U	A	SA
4. The board takes a long-term more than a short-term view of its relationship with me	SD	D	U	A	SA
5. Within a year, the board will not change my power and authority	SD	D	U	A	SA

(R) = Item is reverse-scaled