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TOWARD A STEWARDSHIP THEORY OF MANAGEMENT

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Recent thinking about top management has been influenced by alternative models of man.[1] Economic approaches to governance such as agency theory tend to assume some form of homo-economicus, which depict subordinates as individualistic, opportunistic, and self-serving. Alternatively, sociological and psychological approaches to governance such as *stewardship theory* depict subordinates as collectivists, pro-organizational, and trustworthy. Through this research, we attempt to reconcile the differences between these assumptions by proposing a model based upon the subordinate's psychological attributes and the organization's situational characteristics.

Organization theory and business policy have been strongly influenced by agency theory, which depicts top managers in the large modern corporation as agents whose interests may diverge from those of their principals, the shareholders where both parties are utility maximizers (Jensen & Meckling, 1976). According to agency theory, losses to the principal resulting from interest divergence may be curbed by imposing control structures upon the agent. Although agency theory appears to be the dominant paradigm underlying most governance research and prescriptions, researchers in psychology and sociology have suggested theoretical limits of agency theory (Hirsch, Michaels, & Friedman, 1987; Perrow, 1986). In particular, assumptions made in agency theory about individualistic utility motivations resulting in principal-agent interest divergence may not hold for all managers. Therefore, exclusive reliance upon agency theory is undesirable because the complexities of organizational life are ignored. Additional theory is needed to explain relationships based upon other, noneconomic assumptions (Doucouliagos, 1994).

Although agency theory addresses manager-principal interest divergence, additional theory is needed to explain what, if anything, causes

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[1] By *man* we mean the nongender-specific refrence to human beings in general.

interests to be aligned. Stewardship theory has been introduced as a means of defining relationships based upon other behavioral premises (Donaldson & Davis, 1989, 1991). Stewardship theory defines situations in which managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals. Because stewardship theory is relatively new, its theoretic contribution has not been adequately established. Previously, researchers have contrasted agency and stewardship theories (e.g., Donaldson & Davis, 1989, 1991, 1994; Fox & Hamilton, 1994), but failed to examine the psychological and situational underpinnings of stewardship theory. Clear understanding of the characteristics of the manager and of the situation are essential to understanding manager-principal interest convergence. Although the assumptions underlying stewardship theory have been discussed in general terms (e.g., Donaldson, 1990), as yet, no author has attempted to define the theory of stewardship in terms of its underlying assumptions and mechanisms. Finally, previous research seems to be based upon one-best-way thinking, that is, stewardship theory is correct and agency theory is incorrect (Donaldson & Davis, 1991). Research is needed that shows where stewardship theory fits in the theoretic landscape, relative to agency theory, rather than opposed to it.

In this study, we make three contributions to previous stewardship research. First, we provide a much more detailed description of stewardship theory, its language, definitions of terms, and units of analysis. Second, we explore the psychological and situational mechanisms that motivate stewards to behave pro-organizationally. Finally, we do not assume that agency theory is wrong or inferior to stewardship theory, as previous researchers have stated. We attempt to reconcile the differences between stewardship and agency by describing the conditions under which each is necessary. By articulating stewardship theory in contrast with agency theory, the boundaries within which each of these two theories applies can be charted. In these ways, we hope to contribute to the growing body of stewardship research.

The relationship between stockholders and the manager of a firm has been described as the "pure agency relationship," because it is associated with the separation of ownership and control (Jensen & Meckling, 1976). Therefore, in this research, we focus primarily on upper level managers. We begin with a brief description of agency theory, its origins, underlying assumptions, and theoretical limits. Stewardship theory will then be described along with its teminology, scope, assumptions, and limits. The psychological and situational factors that explain manager-principal interest alignment are discussed. A framework for agency and stewardship theories is provided, through which the interaction of personal characteristics of the manager and the characteristics of the situation are discussed. Through this framework we suggest the theoretical limits of agency and stewardship and avenues for future research.

AGENCY THEORY

At the heart of agency theory are assumptions of man that can be traced to 200 years of economic research. The model of man underlying agency theory is that of a rational actor who seeks to maximize his or her individual utility (Jensen & Meckling, 1976). Both agents and principals in agency theory seek to receive as much possible utility with the least possible expenditure. Thus, given the choice between two alternatives, the rational agent or principal will choose the option that increases his or her individual utility.

The advent of the modern corporation created a separation between ownership and control of wealth (Berle & Means, 1932). Even though owners would prefer to manage their own companies and reap the maximum utility for themselves, this is impossible because of the capital requirements of the modern corporation (Berle & Means, 1932). Corporations grow beyond the means of a single owner, who is incapable of meeting the increased economic obligations of the firm. As a result, the modern corporation typically has multiple owners, each intent on maximizing his or her investment in the enterprise.

Owners become *principals* when they contract with executives to manage their firms for them. As an agent of the principals, an executive is morally responsible to maximize shareholder utility; however, executives accept *agent* status because they perceive the opportunity to maximize their own utility. Thus, in the modern corporation, agents and principals are motivated by opportunities for their own personal gain. Principals invest their wealth in companies and design governance systems in ways that maximize their utility. Agents accept the responsibility of managing a principal's investments (wealth), because they perceive the possibility of gaining more utility with this opportunity than by accepting other opportunities.

If the utility functions of self-serving agents and principals coincide, there is no agency problem; both agents and principals enjoy increases in their individual utility. Agency costs are incurred by the principals when the interests of principals and agents diverge, because given the opportunity, agents will rationally maximize their own utility at the expense of their principals. The chance that agents do not share the same interests and utility choices as their principals is substantial. According to agency theory, it is difficult for principals to know ex ante which agents will self-aggrandize, and so it is prudent for the principals to limit potential losses to their utility (Williamson, 1985). The objective in agency theory then is to reduce the agency costs incurred by principals by imposing internal controls to keep the agent's self-serving behavior in check (Jensen & Meckling, 1976).

Walsh and Seward (1990: 444) argued that "if a firm's managers entrench themselves with the sole objective of ensuring their own power, prestige, and perquisites, the organization is likely to lose sight of its

competitive environmental position and will fail." If the internal control mechanisms suggested by agency theorists fail, more expensive, external control mechanisms (e.g., acquisitions, divestitures, and ownership amendments) will emerge to control self-serving managers (Walsh & Seward, 1990). Because of the expense of the external mechanisms to the principal's utility, internal mechanisms are generally preferred (Walsh & Seward, 1990).

To protect shareholder interests, minimize agency costs and ensure agent-principal interest alignment, agency theorists prescribe various governance mechanisms. Two mechanisms that have received substantial literary attention are alternative executive compensation schemes and governance structures (e.g., Demsetz & Lehn, 1985; Jensen & Meckling, 1976). Financial incentive schemes provide rewards and punishments that are aimed at aligning principal-agent interests. If managers receive compensation that is subject to the successful completion of shareholder objectives (e.g., long-term rewards tied to firm performance), they will be motivated to behave in a manner consistent with stockholders' interests. Such incentive schemes are particularly desirable when the agent has a significant informational advantage and monitoring is impossible. A second mechanism aimed at bringing agents' behavior into alignment with their principals' interests is governance structure. Boards of directors keep potentially self-serving managers in check by performing audits and performance evaluations. Boards communicate shareholders' objectives and interests to managers and monitor them to keep agency costs in check. Outside (nonmanagement) board leadership and membership are desirable to ensure that proper management oversight occurs. Controlling governance mechanisms are prescribed, because agency theorists assume that agent-principal interests may diverge and that given the opportunity the agent *will* maximize his or her individual utility at the expense of the principal's utility. Although the divergence of interests between the agent and principal may differ to varying degrees, the model of the agent remains as inherently opportunistic, in that there is an ever-present possibility of opportunism, unless it is curbed through controls; moreover, because controls are imperfect, some opportunism will remain.

Agency theorists in no sense specify total control of the agent. If control were total, then the agent would have no discretion and the firm would be owner-managed. The crux of agency theory is that principals delegate authority to agents to act on their behalf. It is this delegation that allows agents to opportunistically build their own utility at the expense of the principals' utility (wealth). Thus, agency theorists specify an intermediate condition of control, that is, first delegation and then controls to minimize the potential abuse of the delegation (Jensen & Meckling, 1976).

The application of agency control does not imply that all managers' decisions will result in increased wealth for principals; it implies only that the managers will strive to attain outcomes favorable for the principals. There are many reasons other than poor motivation for agents'

failing to deliver high performance for their principals (e.g., low ability, lack of knowledge, and poor information). Agency theorists are not as concerned with these failings as they are with those resulting from motivational problems.

The limits and boundaries of agency theory are determined by its model of man. Where individualistic, self-serving executive motivation is assumed, shareholders desirous of minimizing the risks associated with perceived nonalignment of principal-agent utility functions should implement agency prescriptions. However, this model has its critics. Jensen and Meckling (1994) criticized this model of man as being a simplification for mathematical modeling and an unrealistic description of human behavior. Doucouliagos (1994) argued that labeling all motivation as self-serving does not explain the complexity of human action. Frank (1994) suggested that this model of man does not suit the demands of a social existence. Hirsch, Michaels, and Friedman (1987) said that in exchange for simplicity and elegance in their models, economists engage in a somewhat broad-brush approach that may reduce empirical verisimilitude and engender less than robust policies. In short, agency theory assumptions limit its generalizability.

Agency theory provides a useful way of explaining relationships where the parties' interests are at odds and can be brought more into alignment through proper monitoring and a well-planned compensation system. Additional theory is needed to explain other types of human behavior, and this is found in literature beyond the economic perspective. To that end, stewardship theory will now be described.

STEWARDSHIP THEORY

Stewardship theory has its roots in psychology and sociology and was designed for researchers to examine situations in which executives as stewards are motivated to act in the best interests of their principals (Donaldson & Davis, 1989, 1991). In stewardship theory, the model of man is based on a steward whose behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors. Given a choice between self-serving behavior and pro-organizational behavior, a steward's behavior will not depart from the interests of his or her organization. A steward will not substitute or trade self-serving behaviors for cooperative behaviors. Thus, even where the interests of the steward and the principal are not aligned, the steward places higher value on cooperation than defection (terms found in game theory). Because the steward perceives greater utility in cooperative behavior and behaves accordingly, his or her behavior can be considered rational.

According to stewardship theory, the behavior of the steward is collective, because the steward seeks to attain the objectives of the organization (e.g., sales growth or profitability). This behavior in turn will benefit

principals such as outside owners (through positive effects of profits on dividends and share prices) and also principals who are managerial superordinates, because their objectives are furthered by the steward. Stewardship theorists assume a strong relationship between the success of the organization and the principal's satisfaction. A steward protects and maximizes shareholders' wealth through firm performance, because, by so doing, the steward's utility functions are maximized.

Given the potential multiplicity of shareholders' objectives, a steward's behavior can be considered organizationally centered. Stewards in loosely coupled, heterogeneous organizations with competing stakeholders and competing shareholder objectives are motivated to make decisions that they perceive are in the best interests of the group. Even in the most politically charged environment, one can assume that most parties desire a viable, successful enterprise. A steward who successfully improves the performance of the organization generally satisfies most groups, because most stakeholder groups have interests that are well served by increasing organizational wealth. Therefore, a pro-organizational steward is motivated to maximize organizational performance, thereby satisfying the competing interests of shareholders.

This explanation does not imply that stewards do not have necessary "survival" needs. Clearly, the steward must have an income to survive. The difference between the agent and the principal is how these needs are met. The steward realizes the trade-off between personal needs and organizational objectives and believes that by working toward organizational, collective ends, personal needs are met. Hence, the steward's opportunity set is constrained by the perception that the utility gained from pro-organizational behavior is higher than the utility that can be gained through individualistic, self-serving behavior. Stewards believe their interests are aligned with that of the corporation and its owners. Thus, the steward's interests and utility motivations are directed to organizational rather than personal objectives.

Stewardship theorists argue that the performance of a steward is affected by whether the structural situation in which he or she is located facilitates effective action. If the executive's motivations fit the model of man underlying stewardship theory, empowering governance structures and mechanisms are appropriate. Thus, a steward's autonomy should be deliberately extended to maximize the benefits of a steward, because he or she can be trusted. In this case, the amount of resources that are necessary to guarantee pro-organizational behavior from an individualistic agent (i.e., monitoring and incentive or bonding costs) are diminished, because a steward is motivated to behave in ways that are consistent with organizational objectives. Indeed, control can be potentially counterproductive, because it undermines the pro-organizational behavior of the steward, by lowering his or her motivation (Argyris, 1964). The essential assumption underlying the prescriptions of stewardship theory is that

the behaviors of the executive are aligned with the interests of the principals.

Previously, stewardship theorists have focused on enabling structures for upper managers (Donaldson & Davis, 1989, 1991, 1994; Fox & Hamilton, 1994). For example, Donaldson and Davis (1991) argued that, for CEOs who are stewards, their pro-organizational actions are best facilitated when the corporate governance structures give them high authority and discretion. Structurally, this situation is attained more readily if the CEO chairs the board of directors. Such a structure would be viewed as dysfunctional under the agency theory model of man. However, under the stewardship model of man, stewards maximize their utility as they achieve organizational rather than self-serving objectives. The CEO-chair is unambiguously responsible for the fate of the corporation and has the power to determine strategy without fear of countermand by an outside chair of the board. Thus, stewardship theorists focus on structures that facilitate and empower rather than those that monitor and control.

Given the advantage of stewardship to principals, why isn't there always a steward relationship, rather than an agency relationship? The answer lies in the risks that the principals are willing to assume. In the governance contract between owners and executives, owners must decide how much risk they are willing to assume with their wealth. Risk-averse owners will most likely perceive that executives are self-serving and will prefer agency governance prescriptions. Implementing stewardship governance mechanisms for an agent would be analogous to turning the hen house over to the fox. Agency prescriptions can be viewed as the necessary costs of insuring principal utility against the risks of executive opportunism. From this perspective, a better question might be Why would an owner ever take the risks of stewardship governance prescriptions?

Previously, empirical researchers have attempted to validate either agency theory or stewardship theory as a "one best way" to corporate governance, assuming that all managers are either stewards or agents. The results of these studies have resulted in mixed findings; thus, there is the need for both agency theory and stewardship theory explanations of management (Donaldson & Davis, 1994). For example, several researchers found that the agency prescription of independent board leadership (i.e., a nonexecutive board chair) is associated with higher firm performance (e.g., Berg & Smith, 1978; Daily & Dalton, 1994; Rechner & Dalton, 1991). Other researchers found that stewardship's executive-chaired boards have significantly higher corporate performance (e.g., Donaldson & Davis, 1989, 1991; Finkelstein & D'Aveni, 1994). Still others suggest there is no significant difference in firm performance between executive- and outsider-chaired boards (e.g., Chaganti, Mahajan & Sharma, 1985; Molz, 1988). Empirical evidence is similarly mixed with respect to other governance dimensions (Donaldson & Davis, 1994). The mixed support for agency and stewardship theories suggests a need to reconcile these

differences. To this end we now move to a discussion of the situational and psychological mechanisms underlying the agency and stewardship models of man.

FACTORS THAT DIFFERENTIATE BETWEEN AGENCY AND STEWARDSHIP THEORIES

There are a number of dimensions on which agency theory assumptions differ from the assumptions of stewardship theory and thereby serve to differentiate the theories. These dimensions can be characterized broadly as either psychological factors or situational factors, and they are discussed in this section.

Psychological Factors

The fundamental difference between agency and stewardship theories with respect to psychological factors can be traced to the historical debates regarding the "model of man" described previously in this article. According to agency theory, man is rooted in economic rationality. In an interesting response to the work of Simon (1957a,b), Argyris (1973a: 253) challenged this view of economic man as simplistic regarding human behavior and argued for a "more complex and humanistic model of man" in order to incresae the explanatory power and relevance of organizational theory. The model of man advocated by Argyris, characterized as "self-actualizing man," has its roots in the early work of McGregor (1960) and the later work of Maslow (1970). This model is based on the view that humans have a need to grow beyond their current state and reach higher levels of achievement and that the assumptions of the economic view of man limit people from attaining their full potential. Argyris argued that when humans are placed in organizations that are designed on this economic view, they tend to suppress their level of aspirations, thereby creating a self-fulfilling prophecy. He further argued that for those individuals who are unable to suppress their aspirations, frustration with the organizational structures may lead to withdrawal and aggressive behaviors. The model of man described Argyris is essentially the model of stewardship theory, and many of the predictions regarding the differences in the two theories of governance can be traced back to the basic arguments of the Simon-Argyris debate.

In this article, we focus on the specific differences that are most relevant to the distinctions between agency and stewardship theories. These differences are reflected in the assumptions about motivation, identification, and use of power in the context of the hierarchical relationship addressed in both theories.

Motivation

The major distinction between agency and stewardship theories is the focus on extrinsic versus intrinsic motivation. In agency theory, the focus is on extrinsic rewards: tangible, exchangeable commodities that

have a measurable "market" value. These extrinsic rewards form the basis for the reward systems that represent the control mechanisms of agency theory. For example, a principal may create a piecework incentive system to protect him- or herself from a self-serving agent. Similarly, medical insurance, 401k savings, and retirement plans may be instituted as a control mechanism to reduce the likelihood of turnover. Each of these rewards has a quantifiable value in terms of dollars that is recognized by both parties. In contrast, in stewardship theory, the focus is on intrinsic rewards that are not easily quantified. These rewards include opportunities for growth, achievement, affiliation, and self-actualization. Subordinates in a stewardship relationship are reinforced by these intrinsic, intangible rewards and are motivated to work harder on behalf of the organization. The bases for this distinction can be found in most of the established theories of motivation, but they are particularly apparent in the need theories. In a stewardship relationship, the focus would be on the higher order needs of Maslow's hierarchy (1970), on Alderfer's growth need (1972), and on the achievement and affiliation needs of McClelland (1975) and McGregor (1966).

A related model of worker motivation, the job characteristics model, was proposed by Hackman and Oldham (1975, 1976, 1980). These authors argued that three psychological states (experienced meaningfulness of work, experienced responsibility for outcomes, and knowledge of the actual results) mediate the relationship between task characteristics and internal work motivation. In order to facilitate the attainment of these psychological states, they advocated the redesign of jobs to increase skill variety, task identity, task significance, autonomy, and feedback. All of these factors are related to increasing the opportunity for growth and responsibility for the worker. This model of work motivation is consistent with the assumptions of stewardship theory that increasing the internal work motivation would lead to higher levels of performance as well as satisfaction with work. It is interesting to note that in their model Hackman and Oldham (1975, 1976, 1980) argued that the growth need strength of the worker is a moderator of the effectiveness of this model, suggesting that there are some workers for whom the assumptions of the stewardship model may not fit.

In a more recent approach to the study of intrinsic motivation, Manz (1986, 1990) developed a theory of self-leadership. According to Manz, "self-leadership is a comprehensive self-influence perspective that concerns leading oneself towards performance of naturally motivating tasks as well as managing to do work that must be done but is not naturally motivating" (1990: 589). Self-efficacy, self-determination, and feelings of purpose are characterized as being critical determinants of intrinsic motivation. He argued that self-leadership involves a belief in one's work that extends beyond the formal reward system and relates to the importance of shared organizational vision. These views are consistent with the motivational assumptions of stewardship theory.

One other group of motivational theories that present a unique perspective on the comparison between agency and stewardship assumptions is social comparison theories or equity theories (Adams, 1965; Cosier & Dalton, 1983). Although the basic premise of an exchange agreement that is a part of equity theory is more reminiscent of the economic view of man, the distinction between the perspectives is apparent in the social comparison that is assumed. In agency theory, there is an economic- or class-related separation between the principal and the agent. In developing an equitable work arrangement for the agent, the principal considers the fair market wage for the agent and arranges the compensation structure accordingly. The comparison for the agent in determining the "fairness" of the situation is with respect to other agents in similar contexts. In stewardship theory, the principal is a part of the collective and the basis of comparison would include the principal. Thus, according to stewardship theory, the principal would expect to be accountable to the collective for his or her contributions as much as the steward would be. Although the contributions of the principal and the steward may be qualitatively different and not easily quantifiable, the comparison and mutual accountability are expected.

> *Proposition 1: People who are motivated by higher order needs are more likely to become stewards in principal-steward relationships than are people who are not motivated by higher order needs.*
>
> *Proposition 2: People who are motivated by intrinsic factors are more likely to become stewards in principal-steward relationships than are people who are motivated by extrinsic factors.*

Identification

Identification occurs when managers define themselves in terms of their membership in a particular organization by accepting the organization's mission, vision, and objectives (Kelman, 1958; Mael & Ashforth, 1992), producing a satisfying relationship (O'Reilly, 1989; Sussman & Vecchio, 1982). Through identification, an organization becomes an extension of the steward's psychological structure (Brown, 1969). An identifying manager interprets comments about the organization as referring also to himself or herself (i.e., he or she takes the comments personally). Identification allows managers vicariously to take credit for organizational successes and to experience frustration for organizational failures (e.g., Katz & Kahn, 1978; Turner, 1981). Because managers vicariously take credit for organizational successes, identification can increase the work-related satisfaction described previously (e.g., Atkinson, 1957).

A number of authors have found that managers who identify with organizations attribute organizational success to themselves (e.g., Salancik & Meindl, 1984; Staw, McKechnie, & Puffer, 1983), and this attribution

contributes to the individual's self-image and self-concept (Kelman, 1961; Sussman & Vecchio, 1982). This view of organizational identification is consistent with stewardship theory.

In several studies, researchers argued that managers may externalize organizational problems to avoid blame (e.g., D'Aveni & MacMillan, 1990; Staw et al. 1983). When managers externalize attribution for organizational shortcomings, they no longer identify with the organization. In their effort to avoid incriminating evidence, self-serving managers may make organizational problems worse, because they avoid accepting responsibility and making decisions that may rectify the problems (D'Aveni & MacMillan, 1990). This type of manager falls within the domain of agency theory.

A manager who idenifies with an organization will thereby work toward the organization's goals, solve its problems, and overcome barriers that are preventing the successful completion of tasks and assignments (Bass, 1960). When individuals identify with their organizations, they more readily engage in cooperative, altruistic, and spontaneous unrewarded citizenship behaviors (e.g., Mowday, Porter, & Steers, 1982; O'Reilly & Chatman, 1986; Smith, Organ, & Near, 1983). Therefore, managers who identify with their organization are motivated to help it succeed and should be empowered to perform their jobs because this will enable them to use their initiative to promote the success of their organization and their principals.

A concept that is closely related to identification is organizational commitment. Porter, Steers, Mowday, and Boulian (1974) defined organizational commitment as the strength of the individual's idenification with and involvement in a particular organization. They also developed the organizational commitment questionnaire, which is the most widely used measure of organizational commitment. In more recent work, Mayer and Schoorman (1992: 672) characterized organizational commitment as a multidimensional construct consisting of continuance commitment, which represents the desire to remain in the organization, and value commitment, which is the "belief in and acceptance of the goals of the organization." This latter concept of value commitment is more closely related to the notion of identification, and it is an important component of the psychological profile of a steward. In agency theory, value commitment would not have economic utility and would not be a relevant part of the exchange agreement.

> *Proposition 3: People who have high identification with the organization are more likely to become stewards in principal-steward relationships than are people who have low identification with the organization.*

> *Proposition 4: People who are high in value commitment are more likely to become stewards in principal-steward*

relationships than are people who are low in value commitment.

Use of Power

Power is an important aspect of the relationship between a principal and a manger. A number of researchers have found that managers receive satisfaction from, and are motivated by, the use of power (e.g., McClelland, 1970, 1975; McClelland & Burnham, 1976). McClelland and Burnham (1976) defined the power motive as a psychological need to influence others toward the accomplishment of valid and accepted organizational goals. Managers who have a high need for power tend to "influence or direct other people; express opinions forcefully; enjoy the role of leader and may assume it spontaneously" (Steers & Black, 1994: 148).

The types of power used in the context of the relationship help to differentiate principal-agent relationships from principal-steward relationships. In the most widely cited typology of power bases, French and Raven (1959) described power in terms of coercive, legitimate, reward, expert, and referent power. In a compatible but simpler typology, the five bases of power are reduced to institutional or organizational power and personal power (Gibson, Ivancevich, & Donnelly, 1991). Institutional power is defined as being vested in the principal by virtue of his or her position in the organization. Thus, termination of organizational membership would terminate the individual's power. The coercive, legitimate, and many aspects of reward power described by French and Raven (1959) could be characterized as institutional power. In agency theory, institutional power is the basis of influence in the context of the principal-agent relationship. In this theory, reward power and legitimate power are used. Appropriate incentive systems and recognition of authority of the principal are combined to create the required level of control in the relationship. Coercive power represents the more severe method of agent control and is often present in a more subtle form through the threat of termination of employement. Personal power, an inherent part of the individual in the context of the interpersonal relationship, is not affected by position. Expert and referent power are characterized as personal power; referent power works through identification of one person with another person. Personal power is developed over time in the context of the relationship and is not affected by the formal roles in the organization. Although slower to develop, personal power can be sustained over longer periods of time. Personal power is the basis of influence in a principal-steward relationship. The choice of the type of power used is a function of the personal characteristics of the individual and the prevailing organizational culture. Certain organizational cultures facilitate the use of institutional power and therefore predispose members to principal-agent relationships. These organizational cultures will be considered next as situational factors.

Proposition 5: People who are more likely to use personal power as a basis for influencing others are more likely to become stewards in principal-steward relationships than are people who use institutional power.

Situational Factors

Management Philosophy

In the early debates between Argyris and the advocates of the economic model of man, one of the critical points of contention was whether organizational theory should be focused on descriptive or normative models of the organization. Simon (1957a,b; 1973) and others (e.g., Cyert & March, 1963) argued that the economic model, and therefore implicitly the agency theory assumptions, were the predominant basis of relationships in organizations. They cited numerous examples of behavior by both principals and agents to support this claim. In contrast, Argyris (1973a,b) argued that the management philosophy of most organizations was based on economic assumptions and that this became a self-fulfilling prophecy regarding the nature of relationships that would develop. He advocated the development of normative models of organization based on self-actualizing assumptions in order to create an organizational culture that supported the development of stewardship types of relationships. 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. The common message in each of these theories is that the assumption about the model of man drives the development of management philosophies and management systems, which then serve to produce behavior in the organization that is consistent with the assumptions. Each of these theorists advocated the development of normative models of organization and a break from the traditional management philosophies in order to facilitate the self-actualizing behaviors that are consistent with stewardship theory.

More recently, Walton (1980, 1985) advocted what he called a *high-commitment* management philosophy. This approach to management was characterized as being highly participative and consisting of 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 philosphy that the thinking and controlling part of the work must be separated from the doing part of the work. In contrast, 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. Lawler (1986, 1992) characterized the control-oriented approaches as a mature philosophy of management that flourished in the 1960s and 1970s largely because the competitive advantages of organizations in the United States were not based on their management philosophies. He characterized the involvement-oriented approach as a newer approach that is still not as widely adopted as the control-oriented approach. Although Lawler advocated the adoption of an involvement-oriented management philosophy as the merging dominant approach, he made this argument through a contingency model. When short-term cost control and productivity are important issues, the control-oriented approach produces better results. However, he argued that this approach cannot be sustained in the long term because of inherently faulty assumptions about the motivation of workers. Thus, when labor costs are low and unemployement is high, the control-oriented approach may work well, because turnover due to employee dissatisfaction will be minimal and replacement costs are low. In contrast, in an uncertain environment, with high labor costs, a focus on long-term effectiveness and quality through self-inspection, or the involvement-oriented approach, has significant advantages. The arguments in favor of the involvement-oriented approach as the dominant manaagement philosophy of the future are based on observations that the environment is changing in ways that make control-oriented approaches less viable.

One important difference between the two management philosophies is in their orientation to risk. We have already noted that in unstable, uncertain environments the involvement-oriented approach is more effective, but in stable environments, the control-oriented approach is best. When control-oriented management encounters an uncertain or risky situation, it manages the risk through the implementation of greater controls. For example, if the product design becomes more complicated, the organization may introduce a quality control unit to inspect the finished parts for defects. As workers feel less motivated because of boring jobs, more supervisors would adopt the control-oriented solution. In contrast, in the involvement-oriented approach, the means of dealing with increased uncertainty and risk is through more training, empowerment, and ultimately trust in workers. In the quality example, workers would be given additional training on the complex product and given the responsibility for self-inspection of quality. If the jobs are boring, they would be redesigned to be more challenging and therefore more motivating.

The issue of trust is a critical aspect of the high-commitment or involvement-oriented management philosophy. Work by Mayer, Davis, and Schoorman (1995) defined trust as a willingness to be vulnerable in the context of a relationship. Control-oriented systems are designed to avoid vulnerability and therefore to avoid the need to trust. Another important aspect of trust is that it occurs in the context of a relationship, and it is most likely to occur when the relationship is based on personal power

(respect and expertise). In a control-oriented approach, the relationships are generally transactional in nature or are based on institutional power.

The key point of this discussion is that the management philosophy of an organization creates a context in which the choice of agency or stewardship relationships is made by principals and managers. A control-oriented management philosophy is more likely to produce choices of agency theory relationships, whereas an involvement-oriented management philosophy is more likely to produce stewardship theory relationships. This view is completely consistent with the observations of Argryis (1973) that the design of organizations based on economic assumptions creates a self-fulfilling prophecy of producing behavior that is consistent with the assumptions. If we follow this reasoning, evolution of the involvement-oriented management philosophy into a more dominant model will lead to the emergence of behavior that is more consistent with stewardship theory.

> *Proposition 6: People who are in an involvement-oriented situation are more likely to become stewards in principal-steward relationships than are people who are in a control-oriented situation.*

Culture

Individualism-collectivism. There are also aspects of culture that may influence the choice between agency and stewardship relationships. In his pioneering work on cultural differences, Hofstede (1980, 1991) described the dimension of individualism-collectivism. Individualism is characterized as the emphasis of personal goals over group goals. Collectivists subordinate their personal goals to the goals of the collective (Triandis, 1995; Triandis, Dunnette, & Hough, 1993). Hofstede (1980) found that nations and regions of the world can be described according to the orientation on this individualism-collectivism dimension. For example, individualism is a cultural pattern found in the United States, Canada, and western Europe. Collectivism is common in Asia, South America, and southern Europe. Although much of this research was focused on the cultural pattern of a nation, there is distinctive variation within nations (Triandis, 1995, 1990). The generally accepted view is that the national culture predisposes members of that culture to either a collectivist or an individualistic orientation. However, the extent of this influence varies among individuals, and the effects of other experiences shape the ultimate orientation of each person.

Several specific differences between individualists and collectivists are relevant to the choice between agency and stewardship theory relationships. In collectivist cultures, the self is defined as a part of the group. One's group memberships (e.g., family, university, and organization) are an important statement of identity and achievement. In collectivist cultures individuals are usually addressed by family names, whereas in

individualistic cultures "first" or given names are preferred. Success is defined in terms of the success of the group. Collectivists have a very positive attitude toward harmony in groups, avoiding conflict and confrontation. Individualists see confrontation as an opportunity to "work things out" and to communicate more directly. Collectivists prefer long-term relationships and will frequently take a longer time and expend greater effort to "get to know" someone prior to a business transaction. The development of the relationship is an important first step in business dealings, which often depend on a "handshake" or trust. Individualists are more short-term oriented, conduct business independently of personal relationships, use a cost-benefit analysis (economic model) to evaluate the business exchange, and will reduce the risks of doing business by signing a contract.

It should be apparent from the preceding discussion that collectivist cultrues are more conducive to the emergence of stewardship relationships and that collectivists are more likely to initiate a principal-steward relationship. Individualistic cultures would appear to facilitate agency relationships.

> *Proposition 7: People in a collectivist culture are more likely to develop principal-steward relationships than are people who are in an individualistic culture.*

Power distance. A second dimension developed by Hofstede (1980, 1991) to characterize the cross-cultural differences that is particualarly relevant to the agency-stewardship distinction 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). According to Hofstede (1980, 1991), in certain cultures, relatively large differences in power among members are accepted and tolerated more than they are in other cultures. 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. Class and caste systems are an accepted part of this culture. In low power distance cultures, inequalities are minimized, independence of the less powerful is valued and encouraged, and status and class symbols are frowned upon (Hodgetts & Luthans, 1993). The concept of power distance has its roots in the family structure and is pervasive in the institutions that socialize members of the culture (e.g., school, church, and social organizations). In high power distance cultures, children are expected to be obedient to their parents; respect for parents and elders is considered a basic virtue (Hofstede, 1991). In such cases, children are "looked after" and allowed to be dependent for a longer period of time, and, in turn, children treat parents and grandparents with formal deference even through adulthood. In contrast, in low power distance cultures, children are treated as equals, are encouraged to be independent at an

early age, and relationships are not related to status or role. Formal respect and deference are seldom shown. This pattern of differences is also observed in organizational life. In high power distance cultures, organizations are centralized, and they include large differences in authority, salary, and privileges between those at the top and those at the bottom. In low power distance cultures, organizations are decentralized, there is more consultation in decision making, and the differences in salary and perquisites are minimized. Similar to the discussion of the individualism-collectivism dimension, Hofstede (1980, 1991) and others (e.g., Triandis, 1995) have argued that although the national culture creates a predisposition to either high or low power distance, there can be considerable variance in power distance across organizations and individuals in the same country.

High power distance cultures are conducive to the development of agency relationships, because they support and legitimize the inherent inequality between prinicpal and agent. This idea is especially true in the context of work, because the development of hierarchies, of layers of supervision (as control mechanisms), and of inequalities in rewards and status may lead the agents to "ideologically reject the boss's authority completely, while in practice they will comply" (Hofstede, 1991: 35). This characterization by Hofstede is similar to the predictions regarding the self-serving agent described in agency theory. Low power distance cultures are more conducive to the development of stewardship relationships, because their members place greater value on the essential equality of the principal and the manager. This orientation encourages the development of relationships between principals and managers that are an essential part of stewardship theory.

> *Proposition 8: People in a low power distance culture are more likely to develop principal-steward relationships than are people who are in a high power distance culture*

Although the individualism-collectivism and power distance dimensions are not perfectly correlated, there appears to be a pattern of relationships that make the predictions regarding the cultural antecedents of stewardship theory somewhat complicated. For example, the United States is generally regarded as an individualistic culture with low power distance. Individualism would suggest a predisposition to agency theory, whereas low power distance would predict more stewardship theory outcomes. Simiarly, Japan is a high power distance, collectivist culture, leading to similarly conflicting predictions. The apparent contradictions in predictions suggested by these variables may provide a valuable explanation for the process by which agency and stewardship relationships develop. For example, we might expect that members of a collectivist culture would move very quickly to establish an organizational structure that is conducive to the development of stewardship relationships (e.g.,

flat decentralized, and team based), but they would have difficulty developing the truly participative, challenging style of trusting interpersonal relationships because of high power distance. This is a common characterization of Japanese attempts to develop high-involvement management philosophies. In contrast, in the United States, we might expect to encounter great resistance to the restructuring of organizations into flatter, more decentralized, team-based units, but once this restructuring is accomplished, we would expect the members to function well as a high-involvement team.

The conflict that is suggested by the cultural dimensions is not limited to culture. It is certainly conceivable that some of the psychological mechanisms may suggest one theory, whereas other mechanisms may suggest the alternate. We might also expect the possibility of a mismatch between the management philosophy and the psychological characteristics of the managers. Although the specific interactions of these antecedents in the prediction of stewardship versus agency relationships is very intriguing, we believe it is beyond the scope of this article. The further development of this model in terms of the more specific predictions would be a logical next step regarding the empirical testing of the main effects specificed in this model.

The disucssion so far has focused on the core issues underlying agency and stewardship theories. A summary of the primary differences between the two theories is shown in Table 1. The primary difference lies

TABLE 1
Comparison of Agency Theory and Stewardship Theory

	Agency Theory	Stewardship Theory
Model of Man	Economic man	Self-actualizing man
Behavior	Self-serving	Collective serving
Psychological Mechanisms		
Motivation	Lower order/economic needs (physiological, security, economic)	Higher order needs (growth, achievement, self-actualization)
	Extrinsic	Intrinsic
Social Comparison	Other managers	Principal
Identification	Low value commitment	High value commitment
Power	Institutional (legitimate, coercive, reward)	Personal (expert, referent)
Situational Mechanisms		
Management Philosophy	Conrol oriented	Involvement oriented
Risk orientation	Control mechanisms	Trust
Time frame	Short term	Long Term
Objective	Cost control	Performance Enhancement
Cultural Differences	Individualism	Collectivism
	High power distance	Low power distance

in the assumptions about human nature. According to agency theory, people are individualistic, utility maximizers. According to stewardship theory, people are collective self-actualizers who achieve utility through organizational achievement.

THE CHOICE BETWEEN AGENCY AND STEWARDSHIP RELATIONSHIPS

In the preceding sections, we presented a model suggesting that there are psychological and situational factors that predispose individuals to agency and stewardship approaches to relationships. As we discussed, many authors argued that humans prefer growth, responsibility, and self-actualization and advocated an involvement-oriented management philosophy and trust as a mechanism for dealing with risk. Although many of these researchers contended that these motivations are universally shared by all people, we frame these issues as a model in which the psychological and situational characteristics of the principal and manager are antecedents of their choice between agency and stewardship relationships. (The position that there is one best choice for psychological [e.g., self-actualizing assumptions] or situational [e.g., a universally dynamic environment] reasons would represent a special case of the model.)

The choice beween activity and stewardship relationships is similar to the decision posed by a prisoner's dilemma. First, it is a decision made by both parties to the relationship. The psychological characteristics of each party predisposes each individual to make a particular choice. Second, the situational characteristics have an influence on the choice. The management philosophy may have a significant impact on the choice by both parties. The cultural background (collectivism and power distance) of each party will also affect the choice. Finally, the expectation that each party has of the other will influence the choice between agency and stewardship. A longer history of these parties dealing with each other will provide more data to guide these expectations.

The nature of the dilemma is illustrated in Figure 1. When both the principal and the manager choose an agency relationship, the result is a true principal-agency relationship that is likely to achieve the expectations of each. The agency relationship is designed to minimize potential losses to each party. The manager's psychological profile fits that of the agent, and, thus, he or she will use any discretion to the disadvantage of the organization and principals. Such a manager requires a controlling situation to hold his or her opportunistic tendencies in check. The presence of controls in this case constitutes a fit and ensures that the agency costs are minimized. Thus, both parties have similar expectations of the relationship, and costs are controlled.

When both the principal and the manager choose a stewardship relationship, the results is a true principal-steward relationship that is designed to maximize the potential performance of the group. In this situation, the manager has the psychological profile of a steward and thus

FIGURE 1
Principal-Manager Choice Model

		Principal's Choice	
		Agent	*Steward*
Manager's Choice	*Agent*	Minimize Potential Costs Mutual Agency Relationship 1	Agent Acts Opportunistically Principal Is Angry Principal Is Betrayed 2
	Steward	3 Principal Acts Opportunistically Manager Is Frustrated Manager Is Betrayed	4 Maximize Potential Performance Mutual Stewardship Relationship

gains utility from fulfilling the purposes and objectives of the organization. Likewise, the principal chooses to create a stewardship situation that is involvement oriented and empowering. The mutual gains resulting from this state of fit are high.

The dilemma occurs because there is the possibility of a different choice by each party. If the principal chooses an agency relationship and the manager chooses a steward relationship, the result is likely to be a very frustrated manager who feels betrayed by the principal. When stewards are controlled as if they were agents, they cannot enjoy the types of internal rewards they desire (i.e., growth, achievement, or self-actualization), and as a reult, they may engage an antiorganizational behaviors (Argryis, 1964). The application of control may create disenfranchised employees, because principals, rather than those persons actually doing the work, assume the responsibility of deciding and orchestrating firm procedures. Managers in controlling, less trusting climates may not have the opportunity to behave as stewards and therefore may experience decreased feelings of self-worth, self-responsibility, and self-control (Argryis, 1964) and have less desire to behave as stewards. In this situation, the workplace becomes depersonalized, and the manager may begin to view him- or herself as an interchangeable unit. In such environments, employees may resort to antagonistic adaptive activities such

as absenteeism and turnover (Fleishman & Harris, 1962; James, Demaree, Mulaik, & Ladd, 1992); theft and vandalism; poor workmanship; slowdowns; stealing; causing waste (Argryis, 1964; James et al., 1992); and demanding better financial compensation, benefits, and working conditions (Herzberg, Mausner, & Snyderman, 1959).

If the principal chooses a steward relationship and the manager chooses an agency relationship, the manager acts opportunistically and takes advantage of the principal. A manager whose psychological profile fits that of an agent will behave as a "fox in the henhouse" and will seek to satisfy his or her personal utility at the expense of the organization and the principal. The situation created by the principal empowers the agent to work only to serve him- or herself. Thus, the psychological profile of the manager is out of harmony with the situation created by the principal. The principal is likely to feel betrayed and angry and may increase controls, withdraw from the situation, or attempt to remove the manager.

In Table 1, we presented a comparison of the characteristics of agency and stewardship theories. Because the apaprent dominance of stewardship theory one would ask why it would not be adopted by everyone. We believe the answer is in the level of risk that is acceptable to each individual and his or her willingness to trust the other party. Although the highest joint utility is in the principal-steward relationship, in which both parties choose the steward relationship (Cell 4), the least risk of betrayal (losses) is in the principal-agent relationship (Cell 1), in which both parties choose the agency relationship. It is easy to see from this illustration that when each party has an individualistic orientation, the best choice (regardless of the choice of the other person) is an agency relationship. Thus, when two individualistic parties are involved, the inevitable choice is an agency relationship. Only in a collectivist orientation, when both parties subordinate their personal goals to that of the collective, will they evaluate the joint utility and mutually choose a stewardship relationship.

> *Proposition 9: If a mutual stewardship relationship exists, potential performance of the firm is maximized.*
>
> *Proposition 10: If a mutual agency relationship exists, potential costs of the firm are minimized.*
>
> *Proposition 11: If a mixed-motive choice exists, the party choosing stewardship is betrayed, and the party choosing activity is opportunistic.*

FUTURE RESEARCH

We have attempted to sketch a broad outline of the psychological and situational processes that are presently somewhat neglected in contemporary management theory and that provide the underpinnings of stewardship theory. More fine-grained analyses are needed, which would include more detailed theory construction, the examination of new

variables, and empirical testing. In the future, researchers should inquire into the stewardship mechanisms identified in this article and examine their relative importance, their interactions, and the situational contingenices that affect them.

For our theory, we adopted the simplifying assumption of a choice of agency versus stewardship relationships at a single point in time (i.e., on trial one in a relationship). This assumption was necessary as a first step in establishing the contrast between agency and stewardship theories and for the development of the framework for the choice model. Although this simplification could be viewed as a limitation of our theory, the incorporation of the dynamic aspects of the theory were determined to be beyond the scope of this article. Clearly, the role of a long-term relationship is central to the choice of stewardship roles. One of the important implications of the theory of stewardship presented here is that if a mixed-motive choice is made and one party is betrayed, the inevitable progression of the relationship is toward an agency model. Researchers should explore the choice of agency versus stewardship relationships over time, incorporating variables that capture the dynamic nature of principal-manager relationships.

In developing a model of the choice between agency and stewardship theories, we have specified the psychological and situational antecedents of the choice in terms of direct main effects. However, we have not ruled out the possibility that even among the variables identified in this article there are likely to be more complex interactions and dynamic effects over time that determine the eventual choice. For example, in an organization that has a high-involvement culture, managers may change over time and learn to value the growth opportunities presented by the job; thorugh increased value commitment and identification, managers may develop and use more personal power. Thus, the argue that there may be an interaction effect between the organization's philosophy and the psychological variables, and in a long-term model, there may be a direct effect of the situation (philosophy) on the psychological factors. This argument is consistent with Argryis's (1964) views regarding the self-fulfilling prophecy created by organizational philosophy and structure. Researchers should explore these potential interactions.

An interesting implication of the theory is related to the cultural variables and the process of implementation of structural changes in organizations. As we noted previously, there appear to be several national cultures in which the values for individualism, collectivism, and power distance would lead to opposite predictions regarding the propensity for stewardshi prelationships. A more fine-grained examination of these variables may suggest that the impact of the cultural variables may be felt at different stages in the process of implementing structural change. Consider the example of an organization that is changing its traditional hierarchical structure to one that is flatter, more decentalized, more participative, and therefore more conducive to stewardship types of relationships.

(In terms of our model, this would be represented as a change from a control-oriented philosophy to an involvement-oriented philosophy). In the United States (high individualism, low power distance), we might expect this process to meet greater resistance as a firm moves toward collective action, but once such a structure is in place, the participants move rapidly to develop a highly participative environment where there is greater equality. In contrast, in Japan (low individualism, high power distance) we might expect such changes to proceed more smoothly as members accept the team concept, but progress beyond that point might meet great resistance in the absence of "leaders" who provide direction for the teams. Although these scenarios are speculative, they illustrate the richness of these issues as avenues for future research.

Another potential area for future research would include the relationships among theories about trust in organizations, risk-taking behavior, and stewardship. There has been much interest in the development of models of organizational trust (e.g., Chiles & McMackin, 1996; Hosmer, 1995; Mayer et al., 1995). It should be clear in this article that stewardship theory and the choices of stewardship relationships in organizations rely heavily on the trust between the principal and managers as well as the perceived risks. As we noted previously, Mayer and colleagues (1995: 712) defined trust as "the willingness to be vulnerable." This definition of trust is the antithesis of the basic premise of agency theory, which could be restated as "the unwillingness to be vulnerable." We believe there is much to be learned from exploring the relationships among trust and stewardship in organizations.

Finally, the stewardship theory presented here could be integrated into contemporary thinking regarding leadership in organizations. Are charismatic leaders more likely to develop principal-steward relationships? Are transactional leaders following the agency model? Also, is leadership a dyadic process (Liden, Wayne, & Dean, 1993; Scandura & Schriesheim, 1994)? When considered in the context of stewardship theory, this issue has very interesting implications. According to our theory, the choice of stewardship relationships is made one relationship at a time, and the success of the relationship is a function of the mutual choice by two parties in the relationship. This idea implies that any one principal could have both agency and stewardship relationships with mutliple manages at the same time and that managers could have both agency and stewardship relationships with different principals. Each of these issues deserves further investigation.

CONCLUSIONS

We use agency theory to help researchers to understand the conflicts of interest that can arise between principals and agents, the resulting potential problems of opportunism, and the structures that evolve to contain it, such as supervision and incentives. However, organizational

relationships may be more complex than those analyzed through agency theory. The propositions of agency theory may not apply in all situations. An alternative model of managerial motivation and behavior is stewardship theory, which is derived from psychological and sociological traditions. Our research adds to the understanding of stewardship theory by describig its terminology and theoretical contribution.

We extend previous stewardship theory research by defining several of the psychological and sociological characteristics that are antecedents to principal-steward relationships. Managers whose needs are based on growth, achievement, and self-actualization and who are intrinsically motivated may gain greater utility by accomplishing organizational rather than personal agendas. Likewise, managers who identify with their organizations and are highly committed to organizational values are also more likely to serve organizational ends. Finally, situations in which the managerial philosophy is based on involvement and trust and the culture is based on collectivism and low power distance generally result in principal-steward relationships.

We also add to previous stewardship research by examining a model based on manager-principal choice rather than a determinism. According to our model, managers choose to behave as stewards or agents. Their choice is contingent on their psychological motivations and their perceptions of the situation. Principals also choose to create an aency or stewardship relationship, depending upon their perceptions of the situation and the manager. If either the manager or the principal perceives that the other party will behave in an activity manner (defect), it is in his or her best interest to behave in an agency fashion, and the organization receives a suboptimal return on its investment. If both parties choose to develop a stewardship relationship (cooperate), the organization realizes the maximum reward. Unlike previous researchers, who assumed that managers are predisposed to act like stewards or agents, we base our research on choice rather than on determinism.

Finally, we suggest future avenues for stewardship theory research. We describe a need for more fine-grained analysis of the proposed psychological and situational factors. Through such research, management scholars can come to a clearer understanding of these and other variables that may influence principal-manager relationships. We also argue that more dynamic modeling is necessary to understand how time and prior decisions affect future relationships. We call for research on the interactions among the psychological mechanisms and situational factors and the relationship between trust and risk that each party is willing to assume. In short, a variety of theoretical and empirical projects are needed to help researchers to fully understand stewardship theory.

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