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Agent and stewardship behavior: How do they differ?

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Abstract

The purpose of this study is examine how agency theory and stewardship theory lead to different firm-level outcomes on an array of different outcomes. Based on these differences, we argue for the development of an agent–steward measurement scale, which will help researchers classify chief executive officers (CEOs) along an agent–steward continuum. This, in turn, will spur research to predict and test CEO behaviors and firm-level outcomes. Agency theory suggests CEOs take advantage of their powerful positions to maximize their personal economic utility, whereas stewardship theory suggests CEOs are motivated through intrinsic awards and will balance their interests with those of other stakeholders. We use these theories to examine possible differences in CEO behaviors. This is important because different CEO behaviors might lead to differing impacts on important firm-level outcomes. This paper reviews the relevant agency and stewardship literatures, then offers propositions regarding CEO behaviors from agent and steward perspectives.

Keywords: agency theory, board of directors, CEO behavior

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Chief executive officers (CEOs) are critical to organizational outcomes. The CEO is appointed by the board of directors, who are elected by the shareholders to provide oversight of the CEO. The CEO's role is to run the day-to-day operations of the firm and is involved in making the most important decisions of the firm. CEOs have enormous influence on the strategic direction their firm takes. For example, with board approval (Fama, 1980), CEOs routinely approve significant financial decisions, such as major projects, acquisitions, divestitures, alliances, as well as other key decisions, including changes in organizational structure. In addition, the CEO helps set the overall vision for the firm, and is a key figurehead who can help set the tone for corporate culture. Moreover, they also interact with numerous external stakeholders. Through these interactions, the CEO helps to legitimize the firm and craft the external image of the firm that customers, suppliers, and communities perceive.

Unfortunately, the dominant theoretical approach taken by researchers is agency theory (Dalton, Hitt, Certo, & Dalton, 2007), and in practice, the implications from this perspective are often used, which assumes that CEOs are self-interested and thus need to be monitored and incentivized by boards in order for them to conform to shareholder desires. Well-known stories of CEO indiscretions exist, which help to reinforce the agency theoretic perspective, such as Tyco International's former CEO Dennis Kozlowski and chief financial officer, who were indicted in 2002 on racketeering charges

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related to $600 million in stock fraud (*New York Times*, 2002). Or, take former WorldCom CEO Bernard Ebbers, who was sentenced to 25 years in prison for his role in $11 billion of accounting fraud (CNN, 2005). On the other hand, numerous examples of outstanding CEOs exist that suggest monitoring and incentives cannot take a one-size-fits-all approach. For example, Facebook's shares have risen substantially from their initial public offering price of $38 to over $100 and CEO Mark Zuckerberg and his wife Priscilla have donated $75 million to San Francisco General Hospital (CNBC, 2015). Another example is that of Dan Price, CEO of Gravity Payments, who cut his salary to $70,000 per year while paying his staff a 'minimum wage' of $70,000 per year as well (*Guardian*, 2015). In addition, Costco's CEO Craig Jelinek is well known for a modest salary package of $650,000 (*USA Today*, 2014).

The above examples suggest that there is a dichotomy in CEO behaviors. As such, agency theory and stewardship theory are contrasting theories about CEO behavioral intentions and thus the two theories also conflict on how best to monitor and incentivize CEOs. Agency theory suggests controls are necessary to mitigate CEO behaviors that may negatively impact shareholder wealth (Eisenhardt, 1989). In contrast, stewardship theory encourages collaboration between the CEO and board such that boards are in a service and advice, rather than discipline and monitoring, role (Sundaramurthy & Lewis, 2003).

Despite these apparently equal theoretical tensions, agency theoretic assumptions have garnered far more attention and action than stewardship theory's predictions, at least when judged by public policy changes over the last two decades. For example, under the assumption that more independent directors leads to better governance, '…as of 2006, companies regulated by the SOX/listing exchanges provisions are 100% compliant with the majority of independent directors' guidelines, 100% compliant with the composition guidelines for audit committees, and 99.6% compliant with those guidelines for compensation committees and nominating/corporate governance committees' (Spencer Stuart, 2005). At issue is not which approach (agency theory or stewardship theory) is appropriate – arguments and logic suggest that each has merit. Rather, we think broadly applying either approach at a macro level is shortsighted and does not take into account the motivational differences among individual CEOs. Understanding the motivations of individual CEOs is important to determine if a control or collaborative approach – or some combination thereof – is appropriate. CEOs who exhibit self-interested behaviors that are in conflict with shareholders should be labeled 'agents,' whereas CEOs who are cooperative and whose intentions are aligned with shareholders should be labeled 'stewards.' It is important, however, to understand what an agent or a steward would look like based on their behavioral patterns. While some initial work has examined agency and stewardship theories on organizational performance (Taniman & O'Shannassy, 2015), there is still much research needed to understand the differences in behaviors of agent and steward CEOs. Therefore, one of the main objectives of this study is to propose certain behavioral patterns between agent and steward CEOs. We do so by addressing several firm-level outcomes and describe the expectations that each theoretical perspective would take. As a result, we then create propositions with a dichotomous type approach to these outcomes. Based on these predictions, a contribution of this study is to call for the creation of an agent–steward measurement scale, whereby researchers can first begin the process of classifying CEOs along an agent–steward continuum based on multiple factors, and then study the differences in outcomes among CEOs depending on where they fit along the continuum. In sum, we hope to motivate researchers to conduct studies and develop theory that assumes a more complex 'model of economic man.' This is especially the case as agency theory can be a major 'oversimplification of complex financial and business reality' (Clarke, 2014: 272). From a practical perspective, being able to identify agent versus steward behaviors will allow boards to tailor their roles depending on identified CEO characteristics. Rather than using either an agent or a steward perspective regardless of CEO, boards that are armed with CEO characteristic information will develop the proper mix of monitoring and incentives to motivate CEOs in alignment with shareholder preferences. Ultimately, this could lead to improved firm outcomes, which benefits shareholders, employees, and other stakeholders.

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In the next sections we discuss agency and stewardship theories in greater depth. Then, we develop propositions regarding agent and steward behaviors. We do this in order to suggest the need for different governance approaches depending on CEO behavior. After our propositions are shared, we argue for the development of an agent–steward measurement scale, which we believe will help boards (and others) classify CEOs along a continuum and thus lead to optimal board oversight and support for CEOs.

THEORETICAL BACKGROUND

Agency theory

The roots of agency theory can be traced to Berle and Means (1932) who discussed the concept of the separation between ownership and control of a corporation. One of their propositions was that the professional managers of corporations are actually in control, not the shareholders, as a result of the shareholder diffusion through geographic distance. These professional managers, or CEOs, are hired by the shareholders and charged with monitoring the output of the workforce. Shareholders are challenged with incentivizing CEOs to adequately monitor their output and motivate superior performance. One solution is to give CEOs a claim on the residual profits of the firm (Jensen & Meckling, 1976). This incentive helps to align a CEO, who might otherwise engage in shirking behaviors, with the interests of the shareholders.

As the CEO (agent) may have different goals than the principal (shareholders), the principal may also be forced to keep track of the agent through monitoring mechanisms, which can be expensive. Thus, the focus of agency theory is to address conflicting goals that otherwise cooperating partners have in common, as well as the division of labor between those parties (Eisenhardt, 1989). Bruhl (2003) sums up this inherent conflict nicely, noting that when the shareholders hire the CEO to look after shareholder affairs, CEOs may look after their own self-interests, thus sacrificing shareholder priorities when goals are not mutually congruent. One need not look far for a recent real-world example of a former CEO fitting the agency perspective. Dennis Kozlowski, former head of Tyco, International, is now serving prison time for stealing $600 million from Tyco.

Agency theory tries to resolve not only the conflict that occurs due to differing goals between principal and agent, but the monitoring costs required when principals are so scattered from the home office they cannot adequately monitor whether the agent is acting in their best interests. As a result, contracts are established between principal and agent and are designed to incentivize behaviors that will align CEO behaviors with the goals of shareholders. These contracts are an attempt to reconcile human issues such as self-interest, bounded rationality and risk aversion and organizational issues, which include goal conflict among members and differences in coordinating information. In sum, while the principals and agents are in a cooperative relationship, they can still have conflicting goals and attitudes regarding risk (Eisenhardt, 1989). For instance, principals may introduce variable compensation into CEO pay packages, such as stock, stock options, and/or bonuses. Agency costs include the costs of monitoring the CEO, such as hiring a board of directors, as well as losses when the CEO does not act in the best interests of the principals (Tosi & Gomez-Mejia, 1989). Other costs include hiring auditors to verify the CEO is properly reporting accounting results (Jensen & Meckling, 1976).

Principals face three problems when trying to reduce agency costs. First, as the activities of CEOs are complex or ‘nonprogrammable,’ CEOs are challenging to monitor and therefore cannot be effectively supervised. Simply put, it is too difficult for shareholders to measure the day-to-day performance of the CEO. In addition, CEOs have an information advantage over principals as they are more familiar with the processes and relevant decisions in the firm. This is in contrast to shareholders who are scattered and are not intimately familiar with the important processes and decisions of the firm. Finally, CEOs

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can influence firm resources in a self-serving manner, rather than in ways that are aligned with shareholders. For example, a CEO can attempt to influence the compensation committee to use firms that pay exorbitant CEO compensation packages as benchmarks when they undertake salary surveys (Wade, Porac, & Pollock, 1997). Engaging in this influence tactic would tend to inflate the compensation of the CEO. As a result of these three problems, contracts are put into place between principal and agent in an attempt to develop a monitoring system so principals can ensure agents are acting in their interests, while also providing incentives for the agent should outcomes of performance (such as profitability) be achieved (Tosi, Werner, Katz, & Gomez-Mejia, 2000).

In summary, one can see that the tenets and assumptions of agency theory tend to find themselves rooted in economic models, and assume self-interests. Therefore, monitoring mechanisms and costs increase and the benefits to the shareholders can be attenuated. This perspective tends to dominate the direction on how CEOs contracts are drawn up and how government regulations (e.g., Dodd-Frank Wall Street Reform Act; Sarbanes-Oxley) are designed.

Stewardship theory

Contrasting agency theory is stewardship theory. Jones (1995) painted a picture of a moral person, describing stewards as those who are: honest; have personal integrity; do not lie, cheat or steal; and, honor their commitments. Further, these individuals should be desirable in principal–agent relationships because monitoring costs will be lower. As a result of lowered monitoring costs, firms managed by a steward may experience a competitive advantage over its rivals. Jones concludes by stating moral behavior that is not opportunistic will give the firm a competitive advantage, contrary to many who would feel altruistic behaviors could harm firm performance. A CEO who embodies such behavior is John Chambers of Cisco. In 2001, he took a pay cut to $1 in an effort to save jobs (*Intelligencer*, 2002). Further exhibiting stewardship behaviors, they lead and embody core values of integrity, service and excellence.

Whereas agency theory assumes a conflict between principal and agent, stewardship theory attempts to describe situations where the principal and agent have aligned motives. Derived from psychology and sociology, stewardship theory posits individuals will place the motives of the firm ahead of their own motives. Generally, the motives of the firm and individual will be equal, but when they are not, the individual will place a higher utility on cooperating with organizational desires than behaviors in their own interest. Also, these individuals are collective in nature, seeking to benefit the organization and the principals as well. Stewardship theory does recognize these individuals must still make a living, but rationalizes individual economic needs by assuming the individual places a higher value on collective behavior than on self-serving behaviors, and further, that these individuals will receive a fair return for their efforts.

As individuals placing a high value on organizational outcomes over their personal outcomes would seem to agree with Jones' (1995) comment that reduced monitoring costs should result, examining the strength of the corporate governance structure seems prudent. Davis, Schoorman, and Donaldson (1997) discussed the influence of the corporate governance structure on stewards. Strict structures, those that assume the CEO is an agent rather than a steward (when they are in fact stewards) would run counter to the values stewards possess, even decreasing steward motivation; they suggest an empowering structure instead, where the steward can exhibit pro-organizational behaviors. One method of an empowering structure is making the CEO the Chairman of the Board of Directors, so they can have unchecked authority for strategic actions rather than being controlled by an outside interest.

Tapping into the psychology literature, Davis, Schoorman, and Donaldson (1997) describe some key differences between stewardship theory and agency theory. Using Maslow's Hierarchy of Needs as an illustration of motivation, they discuss an individual's need to grow. An agency theorist might view this growth through extrinsic factors such as pay and benefits, while a stewardship theorist might take

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an intrinsic satisfaction view, believing CEOs will be motivated to work harder for the organization in order to experience positive feelings. With regard to identification or organizational commitment, Davis, Schoorman, and Donaldson (1997) suggest those who have a strong identification with the organization are more likely stewards, while those who are more likely to externalize the organization, especially in rough times, are agents. Finally, they discuss the concept of power, including institutional power and personal power. Personal power is the focus in the principal–steward relationship, which is more organizationally focused; personal power develops over time and includes referent and expert power. In the principal–agent relationship, institutional power, such as the power to reward and punish are the norms; the principal can terminate the agent from their duties if performance is poor. Further distinctions can be made between stewardship and agency theory on the basis of situational mechanisms as well.

In summary, agency and stewardship theories make different assumptions about CEOs and their behaviors, and as a result research tends to view these theories as an either/or scenario. These differences, however, create a stark choice for boards of directors in their monitoring and incentive roles – assuming CEOs will behave in accordance with agency theory predictions, or that CEOs will behave in accordance with stewardship theory predictions.

TOWARD AGENT AND STEWARD PREDICTIONS

Now that broad, conceptual definitions of agents and stewards have been developed, proposed impacts on firm outcomes are considered. Taking a variety of situations that CEOs influence at the firm level, propositions are made regarding whether certain behaviors are more likely to be made by agents or stewards. This is an important step that underscores the critical need for development of an agent–steward measurement scale – one that, if developed, will have important implications for how boards monitor and incentivize CEOs.

Ethics

Recently, ethics has moved to the forefront of business discussions in the popular press. Examples abound of unethical practices at firms such as Wells Fargo, Enron, WorldCom, Tyco International, and several others. Evening news shows have routinely covered trials of indicted former executives, such as Kenneth Lay of Enron and Dennis Kozlowski of Tyco International. There are likely several reasons for engaging in unethical behavior. Hambrick, Finkelstein, and Mooney (2005) examined the role stress can play on executives and suggested that under high levels of stress to perform, CEOs might engage in aggressive accounting practices. In fact, engaging in these questionable accounting practices is precisely why former Enron executives, such as Jeffrey Skilling, is serving a 24-year sentence. In a study of managerial wisdom, Alammar and Pauleen (2016) found that senior managers never addressed ethics. They related this to a possible agency theoretic position and concern that managerial wisdom does not include an ethics component.

One of the concepts used to define a steward is trust (Davis, Schoorman, & Donaldson, 1997; Davis, Schoorman, Mayer, & Tan, 2000), and those exhibiting trustworthy behavior would be unlikely to misstate accounting figures for personal gain. Further, steward CEOs in a culture of trust would be likely to embark in environmentally responsible behavior, not taking ‘shortcuts’ that would inflate short-term profits at the expense of long-term performance. On the other hand, agents, who are assumed to be opportunistic, may try to inflate the perceptions of firm performance for personal gain. Thus, we suggest:

Proposition 1: Agents are more likely than stewards to be the subject of ethics investigations.

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Corporate social responsibility

Corporate social responsibility is another area in which agents and stewards may differ in their approaches. Corporate social responsibility essentially involves firms that do things for other stakeholders, such as their communities, when they are not required to do so. It moves a step beyond ethics from activities the firm should do to activities the firm might do. One form of measurement that has been used to assess social responsibility is the reputation index where top managers from other firms assess the social responsibility of the firm under question (Cochran & Wood, 1984). As corporate social responsibility is optional, it is logical to infer that stewards would be more likely to take part in these activities than agents. Evidence points to the proposed collectivistic nature of stewards (Davis, Schoorman, & Donaldson, 1997), who put the needs of others before themselves. This is not to suggest agents do not take part in corporate social responsibility. However, empirical evidence has shown that other motives might be present in agent situations. Atkinson and Galaskiewicz (1988) studied corporate philanthropy and found that agents who had significant ownership positions in the firm were less likely to engage in corporate philanthropy than those who had smaller ownership positions in the firm, allegedly because those donations would hurt the bottom line, stock price, and ultimately the potential income of the CEO. Accordingly, we offer:

> Proposition 2: Agents are less likely than stewards to personally take part in acts of corporate social responsibility.

Research and development

Research and development involves investigating new technologies and deciding whether or not to adopt these new technologies into the firm, depending on the degree to which doing so will be congruent with the firm's mission or vision. Often operationalized as the number of patents or copyrights introduced in a time period; new product offerings; or intensity, such as research and development spending as a percentage of sales, agents and stewards may differ on this dimension. As agents have a short-term orientation (Davis, Schoorman, & Donaldson, 1997), they may be less likely to take a long-term outlook required for a research and development orientation. Ungson and Steers (1984) noted empirical research that showed reduced research and development was due to a focus on short-term performance. As a result, agents, who focus on short-term performance due to stock options and other factors, may avoid substantial research and development investments. Further, research on managers who are own restricted stock are risk averse because there are not diversified in their investments (Hodge, Rajgopal, & Shevlin, 2009). In a recent study, Lim (2015) concluded that restricted stock is associated with decreased research and development intensity. Stewards, with interests aligning with their principals (Davis, Schoorman, & Donaldson, 1997), consider the organization as an extension of themselves (Ranft & O'Neill, 2001), and may want to engage in more intensive research and development than agents, as doing so could lead to obtaining shareholder goals such as increased firm performance and long-term survival. This long-term orientation characteristic of stewards fits nicely with a sustained commitment to research and development. Therefore, we predict:

> Proposition 3: Agents will be less likely than stewards to engage in high levels of research and development.

Competitive strategy

Porter (1980) introduced the concept of competitive strategies, where businesses face two broad strategic options. Either they can engage in a low-cost strategy, focusing on reducing costs throughout

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the supply chain and selling at a low cost to their customers, or they can choose a differentiation strategy, where customers will pay higher prices for items because the firm has created psychological value in the minds of the customer. Arguably, the cost leadership strategy is a more straightforward strategy to imitate, as differentiation may involve more tacit approaches in order to succeed. As a result of the complexities and risks associated with differentiation strategies, agents may favor standardization (Jackofsky, Slocum, & McQuaid, 1988) and engage in mimetic isomorphism by copying low-cost strategies used by others[1].

The challenge associated with pursuing a low-cost strategy is that over time, it is possible that competitors will be able to imitate low-cost strategies and remove any competitive advantage. This suggests:

Proposition 4: Agents will be more likely than stewards to adopt a low-cost competitive strategy.

Composition of the executive compensation package

As agents may be less willing to take risks (Jackofsky, Slocum, & McQuaid, 1988) than desired by their principals, boards of directors may respond by placing a greater share of the executive's overall compensation at risk rather than in fixed salaries (Zajac & Westphal, 1995). This compensation can take the form of long-term incentives such as stock options, performance shares, or restricted stock, and are a primary means by which boards attempt to protect the interests of the principals (Zajac & Westphal, 1996). For example, using an agency theory perspective, Sanders (2001) found that CEO stock option pay (a long-term incentive) has a positive effect on acquisition activity, whereas CEO stock ownership does not. Stewards, in situations where the board trusts the CEO and treats them as a steward, should be less likely to have as significant a proportion of their compensation pegged to long-term incentives, as, almost by definition, they have high value commitment and exhibit behaviors in line with their principals (Davis, Schoorman, & Donaldson, 1997). In these situations, the steward would not need the extra motivation to align their interests with shareholders, as by default they would be undertaking strategies matching the overall desires of shareholders. Further, in situations where trust exists with the stewards, monitoring costs, such as designing elaborate compensation contracts, should be reduced. The assumption lies with the ability of the board of directors[2] to differentiate between a steward and an agent in this scenario. Therefore, we offer these two propositions:

Proposition 5a: Boards of directors are more likely to tie a greater proportion of CEO compensation to long-term incentives for agents than for stewards.

Proposition 5b: Boards of directors are more likely to design elaborate monitoring systems when agents, rather than stewards, are present.

Control issues

It has already been established that agents exhibit self-interest, and as a result, may take actions that bond them to the firm (Cannella & Monroe, 1997). For example, because agents may be greedy or too powerful, they might be more inclined to pay premiums for acquisitions (Hayward & Hambrick, 1997), rather than exhibiting due diligence and paying closer to the true market value for target firms.

[1] There are numerous examples of founders who would qualify as stewards that have started their organization around reducing costs in the value chain, thus pursuing a low-cost strategy, but this paper is concerned with the hired CEO and how they affect company strategy. We would like to thank an anonymous reviewer for this addition.

[2] We take the perspective of boards acting on behalf of the shareholders verse the issues proposed of dual agency by Deutsch, Keil, & Laamanen (2011). We address this more in the limitations section of this paper. We would like to thank one of the anonymous reviewers for this recommendation.

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Under opposite conditions, where the agent's firm is the target of a takeover that would be in the best interest of the firm, the CEO may resist, possibly due to their high levels of power and potential loss of his or her job. Ranft and O'Neill (2001) discussed a situation where a CEO resisted a takeover bid even though a majority of shareholders voted in support of the deal. Further, an agent may resist a takeover when they personally have little to gain from the transaction, and much to lose (Cannella & Monroe, 1997). Discussion among scholars has also pointed to examples of agents adopting golden parachutes and poison pill clauses in corporate charters, which could decrease the chance of their firm being a takeover target (Eisenhardt, 1989; Cannella & Monroe, 1997), even to the detriment of the firm.

Alternatively, stewards are collectivistic in nature and want what is best for their shareholders. Rather than seeking acquisitions at any cost, power is not as much of an issue with stewards as it is with agents. This lack of emphasis on power by stewards should lead to more balanced evaluations of acquisition targets and minimal use of tactics to protect the firm from takeover, such as poison pills and golden parachutes. This leads us to the following predictions:

Proposition 6: With high levels of power and control, agents will be more likely than stewards to pay higher premiums in acquisitions.

Proposition 7: With high levels of power and control, agents will be more likely than stewards to resist takeovers that are in the best interests of shareholders.

Proposition 8: With high levels of power and control, agents will be more likely than stewards to pass protectionist measures, such as golden parachutes and poison pills, to lessen the chances their firm will be acquired.

Growth strategies

As executive compensation is explained much more by firm size than firm performance (Tosi et al., 2000), agents obviously have an incentive to increase the size of the firm. One method of accomplishing growth is through large-scale acquisitions. Some have attributed these acquisitions to pressure, or stress, from principals (Hambrick, Finkelstein, & Mooney, 2005) or to overconfidence (hubris) on the part of the agent (Hayward & Hambrick, 1997) where agents may pay large premiums for acquisitions. Further, agents may pursue growth strategies, such as unrelated diversification, in order to inflate their own personal status (Westphal, 1998).

Conversely, stewards will still engage in growth strategies, but the manner in which they do so differs from agents. For example, a steward may emphasize developing existing markets and growing internally, utilizing existing resources to do so. In addition to exploiting existing markets, steward CEOs may be more likely to seek organic growth that presents itself from current markets and related diversification through internal development. Further, a steward, with their long-term orientation, would be more likely to carefully evaluate possible acquisitions, acquiring smaller firms that show potential. Rather than being concerned with firm size, the steward would systematically pursue a strategy of related diversification as they attempt to grow the firm and position it in a long-term competitive position.

Proposition 9: Agents are more likely than stewards to undertake rapid growth strategies such as large-scale acquisitions and other forms of growth such as unrelated diversification.

DISCUSSION

When discussing CEO behavior, there are two dominant theoretical perspectives: agency theory and stewardship theory. The purpose of this study was to contrast CEO behaviors into two broad camps,

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each corresponding to the dominant theories. We think it is important to do this because, depending on the type of CEO, there are important implications for corporate governance. On the one hand, agent CEOs will need to be monitored closely and their incentives will have to motivate them to act in shareholders' interests. On the other hand, steward CEOs should not need close monitoring from boards and the need for incentives for shareholder alignment should be minimal. As a result, there is likely a divergence in monitoring and incentive costs to boards depending on the type of CEO they hire.

As a result of these divergences in behavioral patterns suggested by the two theories, we developed several propositions that are broadly linked to firm-level outcomes. These propositions included the areas of ethics, corporate social responsibility, research and development, competitive strategy, design of executive compensation packages, control issues, and growth strategies. While our purpose was not to comprehensively cover every possible strategic decision impacting the firm, it is our hope that the issues we raised will motivate researchers to examine the behavioral differences between CEOs more holistically. This is due to the unlikely situation that an individual will behave in accordance with agency theory or stewardship theory prescriptions across all of the dimensions suggested above. It has been suggested that '[t]he existence of "pure" agent- and steward-like behavior is an empirical question. It is possible in real life such behaviors are missed and people tend to exhibit features of both at the same time' (Martynov, 2009: 241).

If researchers can determine behavioral differences between CEOs, boards will then have finer-grained prescriptions on how to manage the board–CEO relationship. In cases of agent CEOs, boards will have to be extremely diligent about executive compensation packages, ensuring they properly incentivize CEOs to behave in accordance with shareholder desires. Moreover, boards will have to more effectively monitor these CEOs. This might mean a difference in the ratio of insider to outsider directors, for example. Also, boards might have to meet more often in order to properly monitor the firm's strategic direction. In cases of steward CEOs, boards should be able to conserve important resources. First, although executive compensation is important from a labor market (equity) perspective, the board should not have to pay as high incentive compensation because stewards are nearly aligned with shareholders by definition. Also, rather than needing to closely monitor steward CEOs, the board should be able to switch to more of a partnership role.

Based on the previous remarks and associated propositions, it should be clear that determining whether an agent or steward is present in an agent–principal relationship is critically important. Given the divergence of paths an agent or steward may pursue due to their personal traits and interests, ramifications for the firm could range from short-term troubles to longer-term issues, simply based on the behaviors of the CEO. Knowing which form of CEO exists early on in the principal–agent relationship could lead to a menu of prescriptive behaviors for the principals and board of directors to take.

Thus, research is needed to determine whether it is possible to identify whether a CEO candidate is agent-like or steward-like. Knowing whether a CEO has agent or steward tendencies is crucial from the standpoint of the shareholders. If the CEO is agent-like, then systems can be implemented to more critically evaluate key firm decisions that the CEO and their top management team propose to the board. Also, if a study revealed certain classes of agents (ranging from 'barely' agents to 'extreme' agents), then relevant monitoring and incentive packages could be tailored to suit those particular agent classifications. The same benefits of a study would apply to situations where stewards are present. Armed with knowledge of steward tendencies, shareholders would again be better informed. For instance, compensation committees acting on behalf of shareholders could arrive at appropriate compensation packages more efficiently. Monitoring systems could be relaxed as well, and those critical resources diverted to other areas in the firm. This study could help advance our theoretical understanding of both agents and stewards while achieving some prescriptive use after some refinement.

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It is likely, however, that many CEOs possess some levels of stewardship attributes and of agent-like attributes, and these are likely to manifest on a contingent basis.

Toward this end, a research design strategy must be undertaken to measure agent or steward behaviors. One approach could use a questionnaire to survey CEOs (or CEO-like managers such as general managers of company-owned franchises) on a range of items that will help predict where a CEO falls on a steward to agent continuum. This is because '[t]here is a possibility that agent- and steward-like behaviors are found at the opposite ends of the continuum, and between them are the mixed behaviors that exhibit features of both' (Martynov, 2009: 242). In order to facilitate this identification of behaviors, one possible survey instrument, the Organizational Commitment Questionnaire (OCQ), was developed by Porter, Steers, and Mowday (1979), and could be used to predict the level of organizational commitment. This survey may reveal differences in organizational commitment between agents and stewards. Some items dealing with intent to leave would need to be dropped from this survey. Another survey instrument developed by Ferris et al. (2005) is the political skill inventory (PSI), an 18-item questionnaire designed to reveal the level of political skill one possesses. It is possible an agent CEO may score very high on the political skill dimensions, which could make detection more difficult. Further, surveying subordinates of CEOs may be a possibility. This survey would include items designed to determine if their respective CEOs were more agent-like or steward-like by leveraging the scenarios as highlighted above[3] on some form of aggregated measure. In addition, asking a different set of questions than the other surveys (e.g., OCQ and PSI), or even by asking some of the same questions, will allow for triangulation of behaviors to capture a more holistic measure of where an individual falls on the agent to steward spectrum.

Another part of research design could involve an archival study. News articles, CEO letters to shareholders, and other media reports could be content analyzed to determine agents and stewards. Using this method, interrater agreement could be used to help validate the two constructs. Once the agent and steward constructs are validated, performance data would be analyzed and links drawn between results for agents and stewards.

CONCLUSIONS, LIMITATIONS, AND FUTURE RESEARCH

The implications for scholars and practitioners are clear in the areas of corporate governance and firm outcomes. With regard to corporate governance, a steward would work better in an environment with less monitoring by the board. In fact, in situations where stewards are present, appointing them as CEO and chairperson of the board may be the proper solution. Under this arrangement, the CEO would have more control over the direction of the firm. They would spend less of their time seeking board approval for key projects and strategic moves. Unhindered, they could make changes in policy, allowing the firm to adapt to the business environment in a more rapid fashion. In contrast, agents need more monitoring. For instance, appointing more outsiders to the board of directors could help attenuate the influence of agents on the board. Initially, at least, the agent would need to prove their trustworthiness to these external board members, before receiving *carte blanche* approval to engage in key strategic decisions. Another area of corporate governance with obvious implications is executive compensation. Stewards, who by default are aligned with the interests of shareholders, should not require the precise incentives that agents need. Stewards should be able to work well with generally accepted compensation arrangements that mirror the market. However, agents would need a finely-tuned compensation package such that certain behaviors, such as risk-taking (e.g., Sanders & Hambrick, 2007), are encouraged, while other behaviors, such as carelessness, are discouraged.

[3] There are numerous other scenarios not covered, such as dividend payments and their influence on behavior.

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Relating to implications to strategic decisions such as research and investment, one could envision a situation where an agent, hoping to capitalize on short-term performance improvements, might cut research and development spending to inflate the return. In the short-term, this cut in investment spending may not have a noticeable impact on the bottom line of the firm, but artificially inflate ROI because of the large drop in investment spending. However, over the long-term such manipulations could spell trouble for the firm, possibly long after the CEO has left the firm. Another situation, supported in the literature, is that an agent CEO might go on an acquisition binge to increase the size of the firm, as most of the variance in executive compensation is explained by firm size (Tosi et al., 2000). As the size of the firm grows through this strategy, CEO compensation would be expected to rise as well. However, from a firm performance standpoint, valuable resources could be misused, and firm performance could suffer. A steward, on the other hand, would be expected to help with firm performance. As stewardship theory predicts lower monitoring costs will result because of the trust between the principals and steward CEOs, these funds could represent slack resources. These slack resources, in the form of time saved by board members, as well as actual cost savings, could be invested into key projects, hiring needed staff, and so on. Used properly, these slack resources could help improve the performance of the firm. For example, if board members are able to reduce the time required to monitor the CEO, they can better utilize their time for environmental scanning activities to identify threats and opportunities that the focal firm needs to be aware.

This paper has limitations. The propositions made above take a fairly binary position with regards to whether a CEO is an agent or a steward. However, reality is far more complex. In fact, one individual may behave as a steward when it comes to growth strategies, but more like an agent when it comes to corporate social responsibility investments. These relationships may be far more nuanced, and an individual may cover a spectrum of behaviors that align him or her with either being an agent or a steward. Finally, one may be able to argue, in some situations, that a steward would be just as likely to engage in a certain form of behavior that was attributed to agents in the proposition section. For instance, a steward could be enticed to overpay for an acquisition due to their hubris (e.g., Brown & Sarma, 2007). Thinking they are doing the right thing for the good of the firm, these stewards may think that by acquiring the target, they can create more value for the shareholders, leading to over-valuing the target firm. Or they get consumed in a bidding war for the target firm for the same reason above. This is yet another reason that researchers should try to begin looking at this as being a continuum. One of the challenges with this is that practice seems to treat all CEOs relatively equally (i.e., isomorphism) with their pay packages based on their industries (Wade, Porac, & Pollock, 1997). As a result of this, research needs to find a way to identify the conditions in which individuals operate as agents or stewards, thus the rationale for the proposition development above.

Our understanding of agents and stewards may help us predict implications regarding firm performance. As stewards are, by default, aligned with shareholders, we might expect long-run performance by stewards to exceed that of agents. For example, cumulative savings from lower monitoring costs in steward situations may lead to slack resources that are invested toward promising improvements in business processes. In addition, stewards increasing research and development expenditures that result in discoveries of new technologies and increased revenue.

The CEO to firm performance relationship is likely affected by one or more variables. One variable that should be investigated is the board of directors. As Davis, Schoorman, and Donaldson (1997) suggested, the degree to which the board makes the correct assumption whether the CEO is an agent or a steward may impact performance. In situations where the board makes the correct call, performance may be enhanced, while situations involving a misinterpretation by the board can lead to a mismatch and poorer firm performance. Other moderators may exist, and should be investigated.

Building off the idea of being able to identify agent or steward CEO candidates, it is necessary to examine the boards of directors more closely. As research has demonstrated, there are cases in which

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boards are also more agent-like, creating a 'dual-agency' problem (Deutsch, Keil, & Laamanen, 2011). While agent-like boards do exist, the same is likely for boards that are more stewards of the firm. This study did not examine the role of the board in this scenario, but there could be significant implications on strategic decisions made by CEOs based on the board of directors' position on the agent/steward continuum. For example, it was proposed earlier that agent CEOs were more likely to pursue a cost focused strategy. This may be magnified if a board is also behaving similar to agents. However, if the board is more stewardship leaning, they may fight the agent CEO's pursuit of this type of strategy, and even increase the likelihood of replacing such a CEO. Therefore, future research is needed to examine the board of directors from an agent/steward perspective.

CEOs are a key member of the firm, influencing the strategic direction a firm undertakes, providing a vision to employees, and helping validate the firm to external stakeholders. Thus, gaining a more in-depth understanding of their personality is of essence if the strategy field wants to further our research beyond the current conceptual definitions of agents and stewards. In fact, in the literature review conducted on agents and stewards, no direct empirical research was found that defined an agent or a steward.

Potential moderators of the relationship between CEO type and firm performance need to be explored. For example, firm size may play a role. Stewards may outperform agents in larger firms where activities are more difficult to monitor. As monitoring costs should be lower for stewards, complex monitoring systems could be relaxed and the steward could proceed, unfettered, with strategy implementation. Able to adjust to changes in the external environment more rapidly, these stewards could guide their firms appropriately and not have to engage in as extensive justification for important decisions with the board of directors. Performance differences may be more difficult to detect in smaller firms. In this case, the complexity of business operations and information asymmetries between the CEO and the board may be smaller, compared to larger firms. As a result, the motives of agent CEOs could be easier to detect and checks implemented to attenuate opportunistic behaviors.

Industry concentration may also moderate the CEO – performance relationship. In fragmented industries, which come closer to approximating perfect competition, firms with stewards may outperform firms with agents. This is because of lower monitoring costs incurred by boards in managing the CEO. In highly fragmented industries, any cost advantage relative to competitors can have a positive impact. In concentrated industries, characterized by a few dominant firms, customers do not have as many choices for substitute products. As a result, agent-run firms may perform just as well as steward-run firms.

This purpose of this paper was to first propose the firm-level outcomes of agent and steward CEO behaviors, and secondly, to argue for research that will classify CEOs along an agent–steward continuum. If future research is able to empirically define agents and stewards, prescriptive recommendations will be able to be made. These recommendations could improve board of director and CEO dynamics through improving the understanding of the conditions for which more monitoring is necessary or more collaboration is necessary.

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CONFLICTS OF INTEREST

This manuscript is an original work that has not been submitted to nor published anywhere else. Both authors have read and approved the manuscript and meet the *Journal of Management and Organization's* criteria for authorship. The key contribution of this paper is to propose differences between 'agent' and 'steward' behaviors at the chief executive officer (CEO) level, and to suggest the need to develop a measurement scale that identifies CEOs along a continuum, which will result in board of directors being able to more effectively govern and incentivize CEO behavior. This paper fits within the aims and scope of the journal because it juxtaposes two theoretical perspectives that suggest differences in CEO behavior, which ultimately can have implications for management theory and practice, specifically how boards treat CEOs.

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