Stewardship Theory

History and overview

Stewardship theory is a relatively new concept (Karns, 2011) and assumes that the manager is a steward of the business with behaviors and objectives consistent with those of the owners. The theory suggests that the firm’s purpose is to contribute to humanity by “serving customers, employees and the community” (Karns, 2011, p. 337). At the center of the theory’s foundation is the concept that the business is here to serve rather than produce a profit. However, to be able to serve, the firm must be able to sustain itself economically and this theory promotes efficient use of resources through working with stakeholders. It views profits as necessary and an important funding mechanism to the primary objective of meeting the service-oriented mission.

A stewardship focused firm aligns itself with the needs of society and through risk taking and innovation, attempts to improve the life of others utilizing a business approach (Karns, 2011). The managers of such a firm are not motivated by personal needs and desires, but rather see themselves as stewards with the same motives and objectives as the owners of the firm (Davis, Schoorman, & Donaldson, 1997). Integrity, justice, and respect are the core values of the firm and serve as the foundation for management’s actions on all decisions. The pursuit of wealth building is secondary to service for the common good from sustainable business functions focused on the betterment of people and planet.

Underlying this philosophy of service is the perception that management is composed of trustworthy individuals working together with all levels of employees and other stakeholders (customers, suppliers, communities) who share the same philosophy (Davis, Schoorman, & Donaldson, 1997). This behavior is a collective effort and will result in positive benefits to the owners of the business through increased sales and profits. Decisions are made by management based on the perception of what is best for the group rather than the individual. The more groups satisfied, the more profits will be created, and the greater the financial rewards. Consequently, stewardship theorists build structures that empower and facilitate management believing that it is not necessary to develop control or monitoring mechanisms since management has the same intrinsic values as the owners (Davis, Schoorman, & Donaldson, 1997).

Comparison to Agency Theory

The roles of management and purposes of business are what are under discussion in this analysis. The differences between agency theory and stewardship theory are not whether the business should produce a profit, but how the profit concept is integrated into the operational activities of the business. In agency theory, the primary focus is the production of profit. In stewardship theory, the primary focus is the betterment of
humanity. In agency theory extrinsic rewards such as tangible commodities having measureable value are of prime importance whereas in stewardship theory the focus is on intrinsic rewards that are not easily quantifiable such as affiliation, growth, and achievement (Davis, Schoorman, & Donaldson, 1997). The relationship of the individual within the organization is different between the two theories. In agency theory, the individual oftentimes does not identify with the organization, may blame the organization for problems, or blame others for the shortcomings of the organizations (Davis, Schoorman, & Donaldson, 1997). In stewardship theory, the individual is connected to the organization, accepts the responsibility for problems, and works with others to resolve the issues without concern for personal reward (Davis, Schoorman, & Donaldson, 1997).

The use of power is another difference. In agency theory, power is based on the owner-agent relationship and is bestowed on the agent (manager) by the owner with appropriate recognition and incentive mechanisms put in place to control the process. In stewardship theory, power is gained on a personal level over time and is not based on formal roles within the organization but rather knowledge and relationship to the specific issue (Davis, Schoorman, & Donaldson, 1997).

Conclusion

The primary difference between agency theory and stewardship theory is the purpose of business. In agency theory, the purpose of business is to build shareholder wealth. In stewardship theory, the purpose of business is to promote the well-being of society.

Stewardship theory is much more of an altruistic approach to business than agency theory. It promotes a broader focus and purpose than agency theory and assumes not only that management’s incentives are not in conflict with those of the owners but also that the role of business is to promote the health of our society. Given the history of business scandals and failures, one could argue that maybe business isn’t capable of implementing such a concept today or in the near future.

Stakeholder Theory

History and overview

Stakeholder theory was first advanced by R. Edward Freeman in 1984 (Emerson, Alves, & Raposo, 2011). A significant amount of research and writings have been conducted by numerous researchers since the introduction of the theory in an attempt to measure its impact on the business environment. It is not a fully developed theory (Emerson, Alves, & Raposo, 2011) because of its age, but has attracted widespread support because of its simplicity and logical application (Emerson, Alves, & Raposo, 2011). Nevertheless, for such a simplistic and logical model, stakeholder theory has also generated wide discussion among the academic community and professionals alike because of the inherent lack of grounded conceptual definitions, measurement capabilities, and implementable constructs (Emerson, Alves, & Raposo, 2011).

Shareholder theory proposes that the responsibility of the business is to take into consideration the interests of other entities, in addition to the shareholders, who impact
the firm. These other entities include employees, suppliers, customers, governments, and even the environment. The focus is to acknowledge the influence of these other groups on the firm’s operations and to consider the influence of these groups on operational results in the strategic decision making process (Tse, 2011).

There are two general groups of stakeholders—primary and secondary (Emerson, Alves, & Raposo, 2011). Primary stakeholders are those entities that are contractually involved with the firm such as employees, customers, and suppliers. Secondary entities are those that have no formal contracts such as governments and the environment. Each group affects the firm’s operational activities and objectives and can be attributed to the success or failure of the firm.

Stakeholder theory has grown in importance as the impact of business failures on society has become clear in recent years. As business utilizes groups from the society in which it functions, the needs of society begin to require a firm’s consideration beyond merely the wealth of its shareholders. Interdependent relationships exist between the firm and other members of the society requiring a broader regard than internal reflection.

Firm’s that follow stakeholder theory, it is argued, will generate higher revenues because customers will be willing to pay more for services and products, lower costs because suppliers and employees will be either willing to accept lower fees or be more productive, and less regulatory oversight because the firm will be proactively working with government to address issues (Tse, 2011).

**Comparison to Agency Theory**

Under stakeholder theory, managers need to consider multiple groups and identify the needs of those groups, determine how those needs can be assimilated into the strategic planning process of the firm, and manage those groups in the daily decision making process. These groups include external and internal entities and each has a different set of goals and objectives. Under agency theory there is only one goal—the maximization of shareholder wealth.

At the present time, it is unclear under stakeholder theory how to evaluate the impact of multiple groups of stakeholders on the operations of the business and the impact of cross relationships (Emerson, Alves, & Raposo, 2011). Some relationships are truly linear as in a customer buying a specific product. However, expand the role of the customer to be involved with the design of the product as well as the packaging and marketing activities and this group of stakeholders takes on a different role and is involved in the operational activities of the firm (Tse, 2011). Agency theory deals only with the relationship between the management and the shareholder and is less complicated to measure and manage.

At the same time agency theory may create incentive systems that cause managers to make decisions that are not consistent with the long term goals of the owners as we have seen over time (Tse, 2011). Stakeholder theory requires relationship building between the firm and its stakeholders. Consequently, management incentives will be more focused on the development and nurturing of these relationships to the benefit of the firm over the long term.

**Conclusion**
Stewardship theory expands the focus of business beyond its own corporate boundaries. Since business is an integral part of today’s society, the firm must consider the influence of other entities in the conduct of its business. This doesn’t mean that the firm loses sight of profits. Quite the contrary, stakeholder theory promotes profitable operations (Emerson, Alves, & Raposo, 2011). Profits are necessary for the long term sustainability of the firm.

Most Credible Theory

Given the negative impact on society of the continuation of business failures and scandals of the likes of Enron and WorldCom in the early 2000’s and more recently the questionable business practices by the major financial institutions that created the world economic collapse that has lasted for years, it is time to change the way we view business. Business is essential to the prosperity of society and society provides the means to make companies successful. This interrelationship is mutually beneficial and involves multiple constituents (stakeholders). The era of agency theory with its limited focus of an owner/manager relationship is over. This is business being conducted in a vacuum when the world was not as linked as it is today. The need to expand the purpose of business to include consideration of the stakeholders is upon us if our society is to consistently grow and prosper. Stakeholder theory is the next step in the evolution of business philosophy and a pivotal step in our globalization efforts to eliminate barriers to commerce, increase markets, improve standards of living, enhance employee working conditions, and generally improve the world order.
References


