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ASSESSMENT OF RELATIONS BETWEEN STEWARDSHIP AND STAKEHOLDER THEORY

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Abstract: *Developed as alternative to agency theory, stewardship theory rejects the agency theory assumptions and presupposes context in which managers perceive that satisfying stockholders' goals is also in their personal interest. With the extension of the corporation duties beyond the shareholders – based upon the assumption that the corporation had citizenship responsibilities within society and an array of ethical and moral obligations to different stakeholders, intention of this paper is to compare stewardship theory to stakeholder theory specially concerning relations towards employees. Presented theoretical assumptions indicate that in reality, stewardship theory is consistent to stakeholder theory and upgrades stakeholder theory.*
Key words: *stewardship theory, stakeholder theory, business-society relation*

1. INTRODUCTION

Contemporary business environment is rapidly changing and forcing management and organizations in pursue for developing ethically responsible, innovative and profitable businesses. The goal of this paper is to theoretically indicate stewardship paradigm as competitive asset in terms of sustainable competitive advantage.

Sustainability is a strategic orientation of investment in social and natural environment for achieving sustainable growth and profitability of a company; therefore the goal is to achieve a *win-win* situation for all *stakeholders* by aligning the interests of company and society. Since different theories have different purposes and therefore different validity criteria and different implications, goal of the paper is to appraise stewardship theory in comparison to stakeholder theory which is general and comprehensive, but goes well beyond the descriptive observation that "organizations have stakeholders."

2. FUNDAMENTAL ASSUMPTIONS OF STEWARDSHIP THEORY AND PROPOSITIONS OF STAKEHOLDER THEORY

Stewardship theory is a theory that rejects the assumptions of agency theory (Davis et al, 1997). Stewardship theory has its roots in the socio-psychological model of human behavior, which assumes that manager's behavior is pro-organizational and collectivistic, achieving higher utility by serving a group (organization), than by satisfying personal goals (Tipurić, 2008).

Stewardship theory has emerged in the field of corporate governance as an alternative to agency theory, so it is understandable that the basic assumptions are defined distinctive to the agency theory assumptions. In the agency relation the emphasis is on building institutional and contractual mechanisms so that managers cannot achieve their own goals at the expense of the owner's goals, while in the stewardship relation, if it is successfully achieved, there are no such problems: the goals are shared, so the manager's activities are also in the organization's interest. Consequently, in the stewardship relation the agency problem of hidden information and hidden agent's actions (Arrow, 1985) becomes trivial and scientifically not interesting. In this sense, the primary difference between agency and stewardship theory lies in the mechanisms of risk management: agency theory promotes control mechanisms while stewardship theory promotes trust development (Davis; Schoorman, & Donaldon, 1997).

managers as	***stewards***
governance approach	***sociological and psychological***
model of human behavior	***collectivistic, pro-organizational, trustworthy***
managers motivated by	***principal's objectives***
manager's and principal's interests	***converge***
structures that	***facilitate and empower***
owners' attitude	***risk propensity***
principal-manager relationship based on	***trust***

Tab. 1. Fundamental assumptions of stewardship theory

Stakeholder analysts argue that *all* individuals or groups with legitimate interests participating in an enterprise do so in order to obtain benefits and that there is no priority of one set of interests and benefits over another (Smith, 2003). Although stakeholder concepts have been applied in other settings (e.g., government agencies and social programs), these situations are fundamentally different, and simultaneous discussion of a variety of possible stakeholder relationships leads, to confusion rather than clarification (Donaldson & Preston, 1995). One of the central problems in the evolution of stakeholder theory has been confusion about its nature and purpose. For example, stakeholder theory has been used, either explicitly or implicitly, for descriptive purposes. Brenner and Cochran (1991) offered a "stakeholder theory of the firm" for "two purposes: to describe how organizations operate and to help predict organizational behavior." The stakeholder theory can be, and has been, presented and used in a number of ways that are quite distinct and involve very different methodologies, types of evidence, and criteria of appraisal.

The descriptive aspect of stakeholder theory reflects and explains past, present, and future states of affairs of corporations and their stakeholders. Simple description is common and desirable in the exploration of new areas and usually expands to generate explanatory and predictive propositions. Instrumental uses of stakeholder theory make a connection between stakeholder approaches and commonly desired objectives such as profitability, clearly implying that corporate managers must induce constructive contributions from their stakeholders to accomplish their own desired results, e.g., perpetuation of the organization, profitability, stability, growth (Jones, 1995). In normative uses, the correspondence between the theory and the observed facts of corporate life is not a significant issue, nor is the association between stakeholder management and conventional performance measures a critical test. Instead, a normative theory attempts to interpret the function of, and offer guidance about, the investorowned corporation on the basis of some underlying moral or philosophical principles. Although both normative and instrumental analyses may be "prescriptive", they rest on entirely different bases (Podrug, 2010).

3. COMPARISON OF STEWARDSHIP AND STAKEHOLDER THEORY

Distinctiveness among these theories in terms of manager's role, motivational model, use of information, rules' function, key values etc. is presented in table 2. Organizational goal, from stakeholder theory's perspective, is to balance profits with other objectives across all participants, while stewardship theory defines organizational goal in terms of creating long-term and achieving best interests for all. On managerial level, personal goal of steward is to achieve potential whereas manager from stakeholder theory's viewpoint honors relationships (Podrug, 2010).

Integrating stakeholder and organizational interest is focus of stakeholder theory; however stewardship theory's vision is to increase organizational wealth to serve all interests (Caldwell et al., 2006).

	Stakeholder theory	***Stewardship theory***
manager's role	*advocate of collective interests*	*integrator of shared interests*
manager's primary function	*mediator*	*steward*
motivational model	*mixed model with mixed motivators*	*self-actualizing model with intrinsic motivators*
manager motivation	*equity and stakeholders*	*virtues and values and society*
manager's organizational commitment	*high identification and high in value commitment*	*high identification and high in value commitment*
use of information	*identifies tradeoffs*	*achieves synergies*
basis of creating trust	*fairness*	*integrity*
rules' function	*clarify process*	*define opportunity*
key value	*balance*	*authenticity*
economic assumptions	*zero sum and variable sum results may occur*	*variable sum opportunities exist*
assumptions about people	*people are concerned with equity and fairness; utility is measured distributively*	*people are collective self-actualizers who achieve utility through organizational achievement*

Tab. 2. Distinctive assumptions of stakeholder and stewardship theory

Stakeholder theory and stewardship theory idiosyncratically approach to employees, perceive their role and contribution.

According to stakeholder theory employees are stakeholders, but in reality their position is inferior to other stakeholders. In process of decision making employees experience that their interests are not consistently treated when compared to other stakeholders (McCall, 2002). If employees are involved in decision making process with repercussions concerning them as well, then they will almost certainly be controlled by formal mechanisms as in agency theory (Podrug, 2010).

In stewardship theory employees are valued as ends in themselves and their values and needs are respected. Employees are empowered owners and partners in creating wealth and are supervised in the best possible manner, while employees in stakeholder theory's perspective are stakeholders to whom a balance of benefits is guaranteed – but are often treated in contradiction to that rule (Lea, 2004).

To end with, distinction lies also in perception of the future. The corporation is able to benefit all stakeholders and the future is a function of balancing their needs in stakeholder theory, meanwhile in stewardship theory the corporation creates value for society and all stakeholders by maximizing long-term wealth creation.

4. CONCLUSION

Stewardship theory is still in its embryonic stage with a lot of open questions, but noticeably theory is compatible to stakeholder theory. Presented theoretical assumptions indicate that in reality, stewardship theory is consistent to stakeholder theory and upgrades stakeholder theory. Respect of interests, needs and expectations of diverse stakeholders is irreplaceable segment of business *ethos*, and therefore stewardship theory proposes optimal governing model in contemporary business environment.

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