Journal of Business Ethics (2009) 90:239–249
DOI 10.1007/s10551-009-0039-7

Agents or Stewards? Linking Managerial Behavior and Moral Development

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ABSTRACT. The goal of this paper is to connect managerial behavior on the ''agent-steward'' scale to managerial moral development and motivation. I introduce agent- and steward-like behavior: the former is self-serving while the latter is others-serving. I suggest that managerial moral development and motivation may be two of the factors that may predict the tendency of managers to behave in a self-serving way (like agents) or to serve the interests of the organization (like stewards). Managers at low levels of moral development are more likely to behave like agents, while managers at higher levels of moral development are more likely to behave like stewards. I also argue that managers at the highest level of moral development may serve the interests of people other than the firm's owners and thereby transfer wealth from the firm's owners to third parties. Moral motivation is likely to be a factor that moderates the proposed relationships. Finally, I develop propositions that address the role of material incentives in controlling behavior of managers at different levels of moral development.

KEY WORDS: agent-like behavior, steward-like behavior, moral development, moral motivation, interest alignment

Introduction

Agency theory (Eisenhardt, 1989; Fama and Jensen, 1983; Jensen and Meckling, 1976) has been offered as an explanation of managerial behavior toward the principals. The main postulate of agency theory is that the owners of the company (the principals) hire professional managers (the agents) to manage the company. This paper, along with agency theory, assumes that the principals are interested in profit maximization. I will address possible other interests of the principal in the Discussion section. Agency theory states that the agency problem occurs because of separation of ownership and control (Fama and Jensen, 1983; Jensen and Meckling, 1976). The agency problem refers to the situation when the agent's interests do not coincide with the interests of the principal. I assume that the owners of the firm are interested in increasing the firm's profitability (it could be short-term or long-term profitability). However, the agent's interests may be different. For example, the agent may be more interested in increasing his/her own material wealth, even at the expense of the principal.

Stewardship theory (Davis et al., 1997) has been offered as an alternative explanation of managerial behavior. Stewardship theorists argue that many managers will actually choose to serve the interests of the principal even if it means foregoing some of the manager's own material interests. Material interests include increasing one's wealth and any other interests that involve acquisition of valued material possessions. Such managers are assumed to be positive stewards of the principal's wealth. Stewardship theorists have proposed that managers who are intrinsically motivated and identify with their organizations will be more likely to become stewards (Davis et al., 1997).

It is reasonable to assume that neither agency theory nor stewardship theory alone offers a comprehensive model of managerial behavior. Managers have different personalities and are motivated by different things: some of them will serve their own interests at the expense of the principal, while others will choose to serve the interests of the principal. Still other managers will serve the interests of the principal simply because the interests of the manager and the principal coincide. This paper is an attempt to describe agent- and steward-like managerial behaviors and propose a factor that may help predict how a manager will be likely to behave. I suggest that this factor is the level of moral development of managers. I will argue that a conflict of interest presents managers with an ethical dilemma, which they may resolve according to the level of their cognitive moral development. I will offer propositions that connect managerial moral development with their likely behavior. The gist of the argument is that the moral development of managers is likely to affect their behavior toward the principal, and that managers at different levels of moral development may respond differently to different means that the principal might use to control their behavior. This paper proposes that the higher the level of managerial moral development, the less positive influence monetary rewards will have on managerial behavior. For managers at the highest level of moral development, monetary rewards may actually be counterproductive if these rewards attempt to induce the manager to do something that is against his/her principles. Moral motivation is a factor that is likely to affect the strength of the proposed relationship so that managers with a stronger moral motivation will exhibit greater consistency between their moral development and behavior.

Agent-like and steward-like behavior

Much of the debate in the agency and stewardship literature arises because scholars cannot agree on the unit of analysis. What do we study: a behavior, a person, a situation, or a relationship? Positivist agency theory seeks to identify ''situations in which the principal and the agent are likely to have conflicting goals and then describe the governance mechanisms that limit the agent's self-serving behaviors'' (Eisenhardt, 1989, p. 59). Principal-agent theory is a general theory of principal-agent relationships (Harris and Raviv, 1978). In general, one of the main goals of agency theory is to identify the different contract alternatives and choose the most efficient one. As a result, agency theory tends to assume away individual differences among people or at least suggests that such differences cannot be reliably measured and proposes to design contracts and governance structures in order to control ''the average manager.'' It could be argued that contracts are written to induce desirable behaviors regardless of the particular manager. However, managerial behavior is influenced by a variety of factors, and the stipulations of the contract are just part of them. Other factors, such as personal values, the level of moral development, motivation, situational factors, organizational culture, and national traditions may all exert greater influence on the behavior of a manager than the contract.

Stewardship theory (Davis et al., 1997; Donaldson and Davis, 1991) looks at the alternative model of human behavior – that of a collectivist, social individual who chooses to serve the principal rather than himself/herself. Stewardship scholars suggest that people's personality traits and motivations are different, and thus they are likely to exhibit a variety of behaviors. For example, Davis et al. (1997) propose that managers will be more likely to become stewards if they are intrinsically motivated, have higher order needs, identify with the organization, and operate in a collectivist culture.

To sum up, the main assumption of agency theory is that of a self-serving, opportunistic manager, while the main assumption of stewardship theory is that of a pro-social, collectivist manager.

Let us now describe agent- and steward-like behaviors. I define agent-like behavior as behavior that serves one's interests at the expense of the principal. Thus, in order for either agent- or steward-like behavior to occur, a conflict of interests must be in place. Agent-like behavior occurs when a manager consciously or unconsciously transfers wealth from the principal to himself/herself or third parties. The recipient of this wealth transfer from the principal determines the type of agent-like behavior.

Self-serving agent-like behavior occurs when the manager maximizes his/her own wealth at the expense of the principal. Examples of self-serving agent-like behavior are many. Perhaps the most extreme example is the behavior of Enron executives and traders. Another example is the empire-building behavior described by Amihud and Lev (1981) that increases managerial compensation and job security at the expense of the shareholders. More mundane examples of self-serving agent-like behavior are the use of corporate cars, jets, office equipment for personal purposes, coming to work late and leaving early, or engaging in job-unrelated activities during the work day. Thus, agent-like behavior may in principle be exhibited by any employee, not only top managers.

Others-serving agent-like behavior is probably less common but also potentially damaging to the principal. This behavior involves the use of corporate resources on side projects that do not maximize the principal's wealth, for example, on charitable giving or supporting the environment. Berman et al. (1999) and Hillman and Keim (2001) found that paying attention to a broad range of corporate stakeholders and spending corporate resources on social projects resulted in decreased firm performance. Possibly the most extreme example of such behavior was the behavior of Dame Anita Roddick, the founder and CEO of the Body Shop, who knowingly and willingly used corporate resources to promote the interests of different people who had no direct relations with the Body Shop, even when the shareholders were openly dissatisfied with her actions. I do not suggest that paying attention to various stakeholders' interests is unimportant. Rather, I assume that the principal is interested in profit maximization and thus spending corporate resources on various corporate stakeholders may occur at the expense of the principal' wealth.

I define steward-like behavior as behavior that serves the interests of the principal when there is a conflict of material interests between the manager and the principal. A manager that behaves like a steward does not try to transfer wealth from the principal to himself/herself or third parties even if an opportunity is present. On the contrary, if the situation calls for choosing between maximizing his/her own welfare and maximizing the welfare of the principal, a manager behaving like a steward chooses the latter. Steward-like behavior is likely to be driven by intrinsic motivation; stewards are likely to identify with the organization (Davis et al., 1997). The welfare of the organization is explicitly important to a steward. Managers that behave like stewards are primarily interested in the success of the organization as a whole.

Examples of steward-like behavior are many. Managers of many Japanese companies (e.g., Toyota) are very loyal to their organizations. They are usually promoted from within, and they operate in a collectivistic culture that places a great emphasis on serving the interests of one's organization (Davis et al., 1997). Managers at Nucor, an American steel producer, were willing to take pay cuts when the company was going through hard times. Managers may take great pride in their job and be intrinsically motivated by it. According to self-determination theory (Deci and Ryan, 1985; Gagne and Deci, 2005), individuals who identify with the organization may consciously choose to serve the organization even in the absence of controls or extrinsic, material rewards. Fong and Tosi (2007) found that conscientiousness is a personality trait that makes individuals less likely to shirk even in the absence of monitoring and incentives. Of course, not all steward-like behaviors will be beneficial to an organization. An incompetent steward trying to act in the best interests of the principal can do more damage than a highly qualified agent who tries to maximize his/her own material wealth.

Thus, the main distinction between agent- and steward-like behaviors is the presence or absence of transfer of wealth from the principals to the manager or third parties. This paper assumes that steward-like behavior is instrumental to achieving the interests of the principals (the firm's shareholders). Here, I do not enter the debate about whether managers should also serve the interests of the broadly defined corporate stakeholders. As was found in Berman et al. (1999) and Hillman and Keim (2001), and argued in Jensen (2002), serving the interests of the shareholders means considering the interests of key stakeholders as well.

A special case of managerial behavior is serving the principal's interests because it is also in the interests of the manager. For example, if the principal is using a compensation scheme that ties managerial pay to firm performance, many managers will likely choose to maximize profitability of the firm: would-be idealized agents will be motivated by higher pay for good performance and would be idealized stewards will try to do a good job regardless of potential compensation. For the purpose of this discussion I will assume that this behavior is neither agent- nor steward-like. This paper will concentrate on situations in which there is a potential conflict of material interests of the principal and the manager.

The existence of ''pure'' agent- and steward-like behavior is an empirical question. It is possible that in real life such behaviors are mixed and people tend to exhibit features of both at the same time. For example, a manager may believe that organizational interests must be served, but he/she may engage in satisficing (Cyert and March, 1963) rather than maximization of the principal's wealth. Satisficing means that such a manager may try to satisfy his/her conscience by fulfilling his/her minimum contractual obligations and then engage in personal wealth maximization. Another example would be a manager who is serving himself/herself, but at the same time tries to make sure that the organization is not much harmed by his/her actions. There is a possibility that agent- and steward-like behaviors exist on a continuum, where extreme 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.

Moral development and managerial behavior

The goal of this paper is to argue for the existence of stable, measureable characteristics of managers that may influence their decision making in a situation of conflict of interest between the manager and the principal. Moral development (Kohlberg, 1969; Rest and Narvaez, 1994) is a likely candidate to the role of such a characteristic for a few reasons.

First, moral development relates to the way people reason about ethical dilemmas (Kohlberg, 1969; Trevino, 1986). A situation of a conflict of interests between the manager and the principal presents a manager with such a dilemma. Based on the previous discussion and definitions of agent- and steward-like behavior, a typical agent will likely choose to serve his/her own interests at the expense of the principal, while a typical steward will probably choose to serve the interests of the principal. It is reasonable to assume that the way managers reason about the ethical dilemma posed by the conflict of interests will be related to their behavior. For example, Trevino and Youngblood (1990) found that the level of moral development was positively related to ethical decision-making behavior in a group of MBA students.

Second, moral development is a relatively stable characteristic in adults (Rest, 1979). People are supposed to move along the stages of moral development as they develop throughout childhood and adolescence and mature into adults. Each person eventually stops at a certain stage, which tends not to change for the rest of his/her life. Since managers, especially CEOs, tend to be mature adults way past the age when their moral development stops, their level of moral development tends not to fluctuate much.

Third, moral development is a measurable characteristic. Rest (1979, 1986a) described the Defining Issues Test (DIT) that can be used to measure cognitive moral development. While criticism exists as to the validity of this test (for a review see Fraedrich et al., 1994), it remains one of the standard accepted ways of measuring moral development.

Fundamentally, I contend that Kohlberg's theory of moral development captures the fact that people tend to exhibit a certain amount of consistency in their behavior. Some people will not steal, cheat, or hurt other people even if when they could easily get away with it. Other people will routinely engage in such behaviors if they are not controlled. To deny the existence of a central tendency in most people's moral behavior is to engage in extreme situationist thinking that a person's behavior is completely determined by his/her environment at the moment. I do not suggest that the environment is unimportant, but I believe that environmental forces interact with the person's moral development to produce a variety of behaviors which will "dance around" a certain "mean." Kohlberg's scale may not be very fine-grained, but it captures the fact that people differ in the way they reason about moral problems and that they will, *ceteris paribus*, behave differently in similar situations.

Moral development is not the only determinant of moral action: another predictor is moral motivation/intention (Rest, 1986b). Managers must be motivated to act on their moral beliefs. According to Rest et al. (1999, p. 101), moral motivation is the "degree of commitment to taking the moral course of action, valuing moral values over other values, and taking personal responsibility for moral outcomes." Moral motivation can be seen as a connecting link between cognitive moral development and behavior. At the same time, it has been claimed that the boundary between moral development and moral motivation is blurred (Trevino et al., 2006). The reason for this is the fact that not every moral decision is a conscious one. Managers are likely to act according to their level of moral development even if they process information intuitively (Haidt, 2001; Reynolds, 2006) without much conscious reasoning. Trevino et al. (2006) state that people can use moral schemas (Narvaez and Lapsley, 2005) to evoke automatic responses in situations of moral significance. To sum up, moral development may be used to hypothesize about managerial behavior, with moral motivation being used as a possible moderating factor.

The purpose of this paper is to argue for a connection between two factors (moral development and motivation) and agent/steward-like behavior. Other factors, such as the manager's interests, values, beliefs, etc. may all influence behavior. I have no doubt that further research will identify other factors that may determine whether a manager will behave like an agent or like a steward. However, agent/steward behavior has an ethical core: managerial behavior toward his/her principal has implications for the principal's wealth, and the manager consciously or unconsciously makes a decision whether to serve the principal or himself/herself. This clearly is an ethical issue, and moral development has been shown to be connected to ethical decision making (Trevino et al., 2006).

The theory of moral development (Kohlberg, 1969; Rest and Narvaez, 1994; Trevino, 1986) states that there are three levels consisting of two stages each that can describe a person's level of development of moral reasoning. Level 1 is called pre-conventional. Its main characteristic is the prevalence of personal interests above the interests of others. Level 2 is called conventional. Its main characteristic is the desire to be a ''good citizen'' and maintain fairness, reciprocity, the overall organizational well-being, and in general live up to the expectations of one's peers. Level 3 is called post-conventional. Its main characteristic is the existence of strongly held values and principles that guide a person's behavior.

Level 1: Pre-conventional managers

Level 1 is most clearly connected to agent-like behavior: a pre-conventional person is interested in serving one's own interests, either by trying to avoid punishment or by taking actions instrumental in advancing one's interest. Pre-conventional individuals are likely to exhibit agent-like behavior in the absence of external factors that force them to modify their behavior. Trevino (1986, p. 605) states that pre-conventional individuals try to avoid punishment (Stage 1) or behave instrumentally by selectively following the rules only when it is in their own interests (Stage 2). Thus, pre-conventional managers will tend to behave like self-serving agents: they will serve their own interests as long as they are not punished for doing this (Stage 1) and they will only follow contractual obligations if it increases their material well-being (Stage 2).

It can be argued that pre-conventional manages may be motivated by things other than pure material gains. According to Maslow (1970), a manager's primary motivation may be a desire for the satisfaction of physiological needs, for safety, belongingness, esteem, or self-actualization. However, Level 1 managers are primarily characterized by serving their own interests at the expense of others. Therefore, no matter where their needs are in Maslow's hierarchy, pre-conventional managers will tend to behave like agents because they will be more likely to forego the interests of the principals to satisfy their own needs.

Proposition 1: *Managers at the pre-conventional level of moral development are more likely to exhibit self-serving agent-like behavior than managers at other levels of moral development, ceteris paribus.*

Level 2: Conventional managers

A conventional (Level 2) manager's response to ethical dilemmas involves considering the interests of others in addition to one's own interests. Level 2 consists of two stages: 3 and 4 (Kohlberg, 1969; Trevino, 1986). Stage 3 individuals try to promote interpersonal accord and mutuality. They exhibit stereotypical ''good neighbor'' behavior and try to live up to the expectations of those close to them. Stage 4 individuals are ''social people.'' They contribute to the group, organization, or society to which they belong. They try to maintain the social accord and the ''system.'' Stage 4 individuals follow accepted social rules and laws and fulfill agreements.

Conventional managers are thus less concentrated on their own interests than pre-conventional managers. When faced with a problem of choice between serving their own interests and the interests of others, they are likely to look at the norms of the group they identify with. For Stage 3 individuals, this group is likely to be their immediate peers (friends, neighbors, and close colleagues at work), and for Stage 4 individuals, this group is likely to be their organization or even the broader society. According to Self-Determination Theory (Deci and Ryan, 1985; Gagne and Deci, 2005), identification with an organization is likely to produce social, pro-organizational behavior. Such organization-serving behavior is defined as steward-like in this paper. Level 2 managers are thus more likely to serve the interests of the principals if they identify with their organizations (Davis et al., 1997).

Proposition 2: *Managers at the conventional level of moral development are more likely to exhibit steward-like behavior than managers at the pre-conventional level, ceteris paribus.*

One complication arises because of the status of managers within organizations. Managers (especially top managers) occupy positions in the hierarchy above the rest of the employees. They will not necessarily look at their subordinates in order to evaluate moral dilemmas. A top manager's referent group may be other top managers in similar organizations, especially if the manager was not promoted from within and has relatively low loyalty to his/her present organization. In this case, a Level 2 manager may not serve the interests of his/her firm, especially if top managers in other firms engage in unethical, selfish practices.

Proposition 3: *Managers at the conventional level of moral development are less likely to exhibit steward-like behavior if their referent group is managers in other firms and/or if they have been hired from outside, compared to conventional managers who were promoted from within and whose referent group is their organization.*

Level 3: Post-conventional (principled) managers

Level 3 individuals are different from the rest in the following ways. First, they are loyal to humans in general, not only to a particular organization. Their main distinctive characteristic is the existence of strongly held ethical principles and values. Thus, principled individuals are least likely to behave according to the situation. Trevino (1986) suggests that principled individuals are likely to exhibit the greatest consistency in their behavior. There are two stages in Level 3. Stage 5 individuals are aware of the existence of a variety of human values relative to the group. They uphold social values because they are the social contract. Also, Stage 5 individuals uphold non-relative values and rights regardless of the majority opinion (Trevino, 1986, p. 605). Finally, Stage 6 individuals live according to their ethical principles. Such people are least likely to be influenced by external regulation: when their ethical principles conflict with external norms and laws, they act according to their principles.

Thus, if a conflict arises in which a Level 3 manager must choose between maximizing his/her material wealth and following his/her principles, such a manager is likely to choose the latter. The stronger the ethical principles held by such a manager, the less likely he/she is to violate them. In the case of very strongly held principles, no amount of material gain will induce a Stage 6 manager to act against his/her principles. In fact, considering the often espoused view of money as the "root of all evil" (Friedman, 1996), a highly principled manager is even less likely to violate his/her principles if a considerable monetary reward is involved.

The description of the Level 3 leader seems to correspond to the ideal: an ethical, principled, selfless manager, unlikely to try to gain personal material wealth at the expense of the principal. However, such a manager may not always be the best choice. The source of problems with post-conventional managers is the potential conflict of interests between such managers and the principals. The moral values that the manager holds may not necessarily include the necessity to maximize shareholder value. A principled leader may wish to serve the interests of different stakeholders of the firm and even of the broader society, not necessarily of the shareholders only. According to stakeholder theory (Donaldson and Preston, 1995; Freeman, 1984; Mitchell et al., 1997), some conflict of interests among different stakeholders always exists. Stakeholders can be classified as powerful, legitimate, and/or urgent (Agle et al., 1999; Mitchell et al., 1997). Powerful stakeholders are those that can influence the firm for better or worse; legitimate stakeholders are those whose interests are perceived to be valid and deserving attention; and urgent stakeholders are those whose claims cannot wait. Post-conventional managers may perceive the greatest percentage of stakeholders to be legitimate compared to conventional and pre-conventional managers because their values may drive such manager to see many stakeholders' needs as legitimate. According to stakeholder-agency theory (Hill and Jones, 1992), the manager may be viewed as an agent of all stakeholders. In fact, a principled manager may perceive him/herself to be the agent/steward of all the various stakeholders of the firm, all of whom he/she may consider legitimate principals. Perceived legitimacy of diverse stakeholder interests may lead to diverting resources away from maximizing shareholder value. Using corporate resources to serve the broadly defined social interests may hurt shareholder value (Berman et al., 1999; Hillman and Keim, 2001). If a manager's utility function includes maximizing the welfare of the various corporate stakeholders and not only of the shareholders, this means that the manager *de facto* maximizes his/her utility at the expense of the legal owners of the firm. Thus, such managers will exhibit other-serving agent-like behavior.

Proposition 4: *Managers at the post-conventional level of moral development are more likely to exhibit others-serving agent-like behavior than managers at other levels of moral development, ceteris paribus.*

Proposition 5: *The greater the number of legitimate stakeholders a manager perceives, the less likely he/she is to maximize shareholder value and the more likely he/she is to exhibit others-serving agent-like behavior.*

What role does moral motivation play in the connection between moral development and agent/steward-like behavior? Moral motivation is necessary for moral reasoning to be translated into action (Rest et al., 1999; Trevino et al., 2006). It is reasonable to assume that managers with stronger moral motivation will be more likely to act on their moral beliefs as opposed to merely reasoning about the situation. Thus, moral motivation should moderate the relationship between the level of a manager's moral development and his/her behavior. According to the definition given earlier, moral motivation exists when a person is committed to a certain moral course of action. In this case, the word "moral" is not used in its usual meaning of "ethically and socially desirable," but only in the sense that it describes some situation where a conflict of interest is present and the manager must choose one course of action over the other.

Proposition 6: *The strength of moral motivation will moderate the relationships offered in Propositions 1–5: the stronger the manager's moral motivation to act on his/her moral values, the stronger the relationships will be.*

Instrumental means of controlling managerial behavior

The previous chapter suggested ways of predicting when agent or steward-like behavior is more likely from the manager's level of moral development. In addition to this, the principals may be interested in possible ways of modifying managerial behavior. Replacing a manager simply because he/she is at the "wrong" level of moral development is both impractical and illegal. Rather, the principal may be interested in modifying the behavior of a potentially good, knowledgeable manager.

Level 1 managers seem to be the most likely candidates for modification of their behavior according to the prescriptions of the classical agency theory (Eisenhardt, 1989; Jensen and Meckling, 1976). Agency theory states that managers can be induced to behave in the best interests of the principal if their interests are aligned with those of the principal. One way of doing this is making managerial compensation contingent on firm performance. This can be an effective measure provided the manager's primary motivation is money. If the manager is mainly motivated by other things (e.g., prestige, recognition, social status, etc.), he/she may not respond well to contingent compensation. In this latter case, the principal may be better off recognizing the needs of the manager and responding to them. For example, if the manager desires public acclaim, the principal may organize a special event that celebrates the manager's unique contribution to the well-being of the firm.

Moral motivation is not likely to affect the strength of the proposed relationship for Level 1 managers. As mentioned earlier, moral motivation is the "degree of commitment to taking the moral course of action, valuing moral values over other values, and taking personal responsibility for moral outcomes" (Rest et al., 1999, p. 101). This definition of moral motivation suggests that the individual should have moral values above and beyond personal wealth maximization. Thus, Level 1 managers may be committed to increasing personal wealth at the expense of the principal, but most people would hesitate to call their motivation ''moral.''

Proposition 7: *Level 1 managers will be least likely to exhibit self-serving agent-like behavior when the principal recognizes their needs and makes satisfaction of their needs contingent on good firm performance.*

Level 2 managers are more likely to exhibit steward-like behavior than Level 1 managers (see discussion above). Thus, for managers at Level 2 (especially at Stage 4), material rewards may not play a big role in shaping their behavior. For such managers, moral motivation may be a better predictor of their behavior. In particular, Level 2, Stage 4 managers with strong moral motivation are most likely to behave like stewards even if there is no alignment of interests. Meanwhile, Level 2 managers with weak moral motivation may be more context-dependent. Their behavior is more likely to be induced by the presence of rewards that they value. Thus, the behavior of Level 2 managers is likely to be affected by interaction of two factors: the strength of their moral motivation and the presence of rewards that they value.

Proposition 8: *Level 2 managers will be most likely to exhibit steward-like behavior if they have strong moral motivation.*

Proposition 9: *The weaker the moral motivation of Level 2 managers, the more likely their behavior will be affected by the presence of rewards that they value.*

Level 3 managers can be called the most principled: their behavior is likely to be shaped by their values and beliefs. If such a manager have strong moral motivation, his/her behavior is unlikely to be affected by the presence of interest alignment in the classic agency-theoretic sense (compensation contingent on firm performance). In fact, such managers may resent attempts of the principal to ''buy'' them. This may lead to the reverse effect of interest alignment: Level 3 managers with very strong moral motivation may be even more committed to acting according to their principles in the presence of ''interest alignment.'' A Level 3 manager is likely to uphold the interests of all corporate stakeholders regardless of whether they have property or another contractual relationship with the firm and with the manager. Strong moral motivation may lead such a manager to consistent and situation-free behavior according to the moral values that he/she holds. If moral motivation of a Level 3 manager is weak, he/she will be more likely to be influenced by factors in the environment, such as a compensation scheme. Thus, moral motivation is likely to be decisive in determining Level 3 managers' behavior.

Proposition 10: *Level 3 managers' behavior is least likely to be affected by material interest alignment between the managers and the principal.*

Proposition 11: *Level 3 managers' behavior is most likely to be affected by material interest alignment if their level of moral motivation is low.*

Discussion and conclusion

The following question arises: is the classification of managers as agents or stewards too narrow and artificial? On the surface, it may seem that this classification indeed oversimplifies managerial behavior. However, I do not suggest that managers are nothing more than just agents or stewards. In this paper I look at a very specific situation of conflict of interest between the manager and the principal and try to predict managerial behavior in this situation. Agent- and steward-like behaviors are defined only in relation to managerial behavior in situations of conflict of interest. Managerial behavior changes depending on circumstances, so that 'today's ''agent'' may be tomorrow's ''steward'', or vice versa' (Albanese et al., 1997, p. 611). This paper is an attempt to explain why managers at different levels of moral development may tend to behave more like agents or like stewards. Thus, the concentration in this paper is on the central tendency, not on the many factors that may cause deviations from the tendency. Further research is necessary to find other factors that may influence managerial agent- or steward-like behavior in different circumstances.

An interesting question arises from the discussion of Level 3 managers: can a post-conventional individual rise to the position of a CEO? If such an individual does not respond well to interest alignment and in general behaves according to his/her moral principles, would that not preclude his/her appointment? According to Trevino et al. (2006), managers with more tenure in firms often have lower levels of moral development than their younger colleagues. This may be a result of adverse selection (Williamson, 1975): managers at lower levels of moral development may misrepresent their ability and engage in more favorable self-serving attributions (Clapham and Schwenk, 1991). On the other hand, a post-conventional manager can also become a CEO. His/her strongly held principles may appeal to the board of directors, especially if he/she is capable of connecting these moral principles with the future success of the company. For example, a manager may argue that his/her principles will allow him/her to serve the interests of the stakeholders who may influence the firm. Such a manager may honestly believe that serving broad stakeholder interests will be beneficial for the firm. In addition, as argued in the study, the level of moral development is not the only factor that influences managerial behavior. If the post-conventional manager has low moral motivation, his/her behavior is likely to be influenced by interest alignment. Finally, other factors, such as the manager's experience, knowledge, social capital, etc. may all impact the decision of the board to appoint him/her as the CEO. Finally, the principals themselves may be interested in serving the various corporate stakeholders. In this case, wealth maximization is not the only goal of the principal. In this case, it seems more likely that the principal will hire a Level 3 individual as the CEO.

Moral development and motivation are only two of many factors that may affect managerial behavior in a certain situation. Future research will no doubt study other factors. I suggest that future researchers should look at interactions among the various factors that may affect managerial behavior. In addition, the agent/steward dichotomy is merely one aspect of managerial behavior. Managers do much more than simply decide whether to maximize the principal's wealth. From stakeholder theory's point of view, the principal (the owners of the firm) is just one of the stakeholders that are interested in and affected by managerial decisions. As discussed in this study, the managers may see serving the interests of various stakeholders as more important than wealth maximization (whether their own or the principals').

Acknowledgments

I would like to thank Vincent Barker for suggesting the use of stewardship theory and for invaluable help and guidance in developing this paper. I would also like to thank the action editor, the two anonymous reviewers, the seminar participants at the AoM conference in Anaheim, CA in 2008 and at the University of Kansas for their great comments. All errors and omissions are my own.

Appendices

See Tables I and II.

TABLE I

Agent- and Steward-like behavior

Agent-like behaviors	Steward-like behaviors
Using organizational resources for one's personal gain (e.g., cars, jets, office equipment)	Acting regardless of the material outcomes to self if the interests of the principal require such action
Acting only if it is likely to result in the increase of one's personal material wealth	Working overtime even if one is not obliged to do so
Taking extended breaks, vacations	Working with great effort regardless of being supervised
Coming to work late and leaving early	
Working with reduced effort or engaging in work-unrelated activities if no one is watching	Selling the firm to the highest bidder (usually a good thing for the shareholders) regardless of personal consequences
Engaging in unrelated diversification if there is a clear material gain to the agent	
Spending corporate resources on social projects if it hurts the shareholder value	

TABLE II

Six stages of moral development according to Kohlberg and Trevino

Stage	What is considered to be right
Level 1: Pre-conventional	
Stage 1: Obedience and punishment orientation	Obeying rules to avoid punishment
Stage 2: Instrumental purpose and exchange	Following rules to advance one's own interest. "Right" is an equal exchange, a fair deal
Level 2: Conventional	
Stage 3: Interpersonal accord, conformity, mutual expectations	Stereotypical "good" behavior. Living up to expectations of one's friends, neighbors, colleagues
Stage 4: Social accord and system maintenance	Fulfilling duties and obligations to which one agreed. Upholding laws. Contributing to one's group and society
Level 3: Post-conventional	
Stage 5: Social contract and individual rights	Being aware of the existence of various human values; aware that rules are relative to the group. Upholding rules because they are social contract
Stage 6: Universal ethical principles	Following strongly held personal ethical principles. Acting according to principles even when they conflict with laws

Note: Adapted from Trevino (1986).

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