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THE STRATEGIC ROLE OF MANAGERIAL STEWARDSHIP BEHAVIOUR FOR ACHIEVING CORPORATE CITIZENSHIP

Corporate citizenship is defined as the establishment and management of company's influence on the society in a way that benefits for the company and society are realized at the same time. De facto corporate citizenship represents responsibility for social action and action in the local community, which reflects on the reputation and business results in a long-term time perspective, thus providing an additional impetus for further activities. The fundamental postulate of stewardship theory is that managers always act in such a way to maximize the interests of a company and contemporary business environment is forcing management towards ethically responsible, innovative, but profitable businesses. Therefore, the strategic role of managerial stewardship behaviour is hypothesised as support for the realization of corporate citizenship. It is assumed that achieving a win-win situation for all stakeholders and aligning the interests of organization and society will be somewhat difficult in organizations where there is incongruity in stewardship behaviour between top management and lower level management, what is confirmed by the structural equation modelling in empirical research on large Croatian companies.

Key words: stewardship theory, corporate citizenship, strategic role of management, structural equation modelling, large Croatian companies

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Introduction

Contemporary business environment is rapidly changing and forcing management and organizations towards development of ethically responsible, innovative and profitable businesses. Corporate citizenship is defined as the establishment and management of company's influence on the society in a way that benefits for the company and society are realized at the same time (Marsden and Andriof, 1998.). Corporate citizenship involves responsibility for social action and action in the local community, which reflects on the reputation and business results in a long-term time perspective, thus providing an additional impetus for further activities (Windsor, 2001.).

Since different theories have different purposes and therefore different validity criteria and different implications, goal of this paper is to appraise stewardship theory and managerial stewardship behaviour for achieving corporate citizenship since it has extreme potential compared to other theoretical approaches that do not go beyond the descriptive observation that "organizations have stakeholders."

Literature review

Prior to intellectual fragmentation of organizational theories in 1970's, structural contingency theory dominated. In order to achieve optimal performance, organizations structurally adjusted to contingent factors meaning size, technology and strategy (Chandler, 1962.). Although indeterminate, managerial role was perceived positively. Development of diverse paradigms started in 1970's. Novel theories critically studied organizational rationality and managerial benevolence. Population-ecology theory, institutional theory, resource dependency theory and organizational economics, explicitly and/or implicitly contradicted structural contingency theory.

Organizational economics - including agency theory and transaction cost theory - represent contemporary dominant paradigm. Grounded on economic model of human behaviour, organizational economics' theories assume that individual's behaviour is opportunistic, self-serving and motivated by satisfying personal goals. Intellectual foundation for agency theory development was in the work of *Coase* along with *Alchian* and *Demsetz*. Incentive for agency theory development was relationship between ownership and control function within large corporations. Pioneers, *Jensen* and *Meckling*, tried to verify that corporations do not operate according to the maximization principle, mainly because of the conflicting interests of major governing parties (Jensen and Meckling, 1976.). Agency theory describes economic exchange relation between principal and

agent (Noorderhaven, 1992.). Principal-agent relation, in which principal delegates work to the agent, is described using the metaphor of a contract (Jensen and Meckling, 1976.). Agency theory objective is to determine optimal contract between principal and agent. Agent (manager or employee) tries to maximize personal gains by satisfying principal's economic objectives and agent's commitment level is function of perceived reward value for satisfying principal's objectives.

Stewardship theory (Davis, Schoorman and Donaldson, 1997.) is relatively new theory that rejects the assumptions of agency theory (Jensen and Meckling, 1976.; Eisenhardt 1989.; Donaldson, 1995.). Stewardship theory has its roots in the socio-psychological model of human behaviour, which assumes that manager's behaviour is pro-organizational and collectivistic, achieving higher utility by serving a group (organization), instead of satisfying personal goals (Podrug, 2010.).

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 as opposite 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 that 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 and Donaldson, 1997.).

Table 1.

FUNDAMENTAL ASSUMPTIONS OF STEWARDSHIP THEORY

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

Source: Podrug, N. (2010) *Stewardship relations within management hierarchy*. Doctoral Dissertation. Zagreb: Faculty of Economics and Business, pp. 37.

The fundamental postulate of stewardship theory is that managers always act in such way to maximize the interests of a company and contemporary business environment is forcing management towards ethically responsible, innovative, but profitable businesses.

The origin of the concept of sustainability is connected with 1987 and the publication *Our Common Future*. The initial concept was related to the natural environment, and eventually expanded to other social activities and care for future generations (WCED, 1987.). Marrewijk and Werre (2003.) connected the concept with stakeholder management by saying that “sustainable development is related to company activities – meaning voluntary activities – in implementing social and environmental endeavors in business activity and interaction with stakeholders.” A critique of sustainable development is primarily related to the failure of the ethical perspectives of business and legislative responsibilities, and failure of conceptual and empirical validation (Norman and MacDonald, 2004.).

The newly established relationship between business and society is phenomenon of corporate citizenship. Altman and Vidaver-Cohen (2000.) believe that corporate citizenship is not a new concept but the concept whose time has arrived. Initially, the concept was related to philanthropy and involvement in the community, but eventually expanded the business and social framework of action. Ackerman and Bauer (1976.) were the pioneers of management approach to corporate citizenship, and Abt (1977.) was a pioneer of social audits in the 1970s. Logsdon and Wood (2002.) believe that corporate citizenship is only terminological alternation for corporate social responsibility. Davenport (2000.) actually identifies corporate citizenship with the concept of corporate social performance. Post (2000.) defines corporate citizenship as a process of identification, analysis and reaction to social, political and economic liability of companies where these liabilities are defined by laws, policies, stakeholders’ expectations and voluntary activities arising from corporate values and strategies. The superiority of the concept of corporate citizenship towards stakeholder management, Morrison (2003.) proves by the following: stakeholder management considers society as a whole to be a stakeholder... while, corporate citizenship suggests that a reasonable manager should do the assessment of rights and obligations of all those who are influenced by corporate activities, before dealing with their requirements.

By analyzing the concept of corporate citizenship Matten and Crane (2005.) have identified two conventional approaches towards corporate citizenship which are derived from the concept of corporate social responsibility and offered extended theoretical conceptualization of corporate citizenship. Conventional approaches are: 1) limited concept of corporate citizenship and 2) the concept of corporate citizenship equivalent to the concept of corporate social responsibility.

Limited concept of corporate citizenship refers to the corporate philanthropy as a strategic orientation (so called strategic philanthropy). Attribute of limitation refers to the fact that the concept includes only one dimension of corporate social responsibility. In financial terminology, this concept corresponds to the term “social investment” (Waddock, 2001.), in developing “social capital” (Habisch, Meister and Schmidpeter, 2001.) or “reputation” (Fombrun, Gardberg and Barnett, 2000.), which consequently improves the business results of corporation. Thus, corporate citizenship is a manifesto of specific investment decisions in the external social environment (Warhurst, 2001.). The concept of corporate citizenship equivalent to the concept of corporate social responsibility includes four dimensions - economic, legal, ethical and philanthropic dimension (Carroll, 1998.). Matten, Crane and Chapple (2003.) shaped extended theoretical conceptualization of corporate citizenship, according to which corporation’s role is to administer the citizens’ rights and to take over a growing portion of the government’s role in administration of these rights. Consequently, the failures of various government institutions diverted corporate involvement from the voluntary level to the imperative.

With proponents of corporate citizenship, there are many criticisms that can be summarized in three key arguments. Korten (1995.) points out the pressure of international financial markets towards short-term value creation, and not sustainable long-term values propagated by the concept of corporate citizenship. Morgan (1986.) thinks that corporations only internalize those externalities that are profitable and ignore the structural inequalities, and Power (1997.) argues that the attempts to manage negative effects through a transparent environmental and social reporting and auditing are illusory.

Objectives and hypothesis

Unlike the dominant agency theory that has undergone review in different organizational contexts and hierarchical levels, the researches of stewardship theory so far were related only to the relationship owner/principal – manager/steward. The aim of the research study is to verify the validity of the theory applying it to the relationship principal – steward within the management structure. The change in the way of thinking and consistency in higher levels of management are crucial because, if a higher level of management estimates that the change of paradigm is in the interest of organization, they are the ones who have the power, knowledge and skills for the implementation of changes (Yankelovich, 2006.).

The decision about the application of stewardship principles and activities is a question of business strategy, but basically, it is primarily a decision of each

individual. Top management can create a foundation for the development of stewardship through partnership and authorization; however, the individual himself makes a final decision. The transition to stewardship behaviour in an organization first requires a transition on an individual level and with the ultimate aim of achieving corporate citizenship.

Agency theory representatives believe that the stewardship phenomenon is impossible to realize, therefore the aim of this research is to confirm or reject the possibility for managers to behave as stewards in collective interest which finally means collective economic, social and environmental interests. It is expected that the managerial stewardship behaviour should be exercised predominantly on the highest management levels due to the nature of their work and the level of responsibility. The difference between top management's stewardship behaviour and stewardship behaviour of the lower levels of management is expected and it is expected to have influence on achieving corporate citizenship.

Hypothesis - The discrepancy in managerial stewardship behaviour within management hierarchy is associated with achieving corporate sustainability.

Corporate citizenship represents a partnership relation between company and society with numerous economic, social and environmental objectives which include a range of activities that go beyond legal requirements for the corporation. This phenomenon is consistent with managerial stewardship behaviour in substance and conceptually. Therefore, the strategic role of managerial stewardship behaviour is hypothesised as support for the realization of corporate citizenship. Manager-steward performs a central role of optimization of the relations manager/non-manager, organization and society. It can be assumed that achieving a *win-win* situation for all *stakeholders* and aligning the interests of organization and society – corporate citizenship – will be somewhat difficult in organizations where there is incongruity in stewardship between the levels of management, what is proposed by the hypothesis.

Empirical research and discussion

The empirical research has been conducted in large Croatian companies measured by the number of employees. The chosen criterion of size measured

by the number of employees is argued by the fact that the complexity of an organization intensifies the possibilities to analyze the stewardship behaviour and corporate citizenship. In the period of sixty days 129 completed questionnaires were obtained from 33 different companies, representing a 7.35% response rate.

Measuring instrument (questionnaire) consisted of a set of statements¹ that were either originally developed for the research or revised and adapted from existing measurement scales that can be found in the scientific literature, of course, bearing in mind the theoretical meaning and content coverage of some latent variables. The instrument also contained general information about the respondent including the position of the company, gender, age, education, tenure and ownership of company's shares in which the respondent (top managers and lower level managers) is employed.

Pre-testing was conducted on a sample of 25 managers with the aim of analyzing user-friendliness of individual items, eliminating any problems responding to individual items, and the reliability of measurement scales also has been tested.

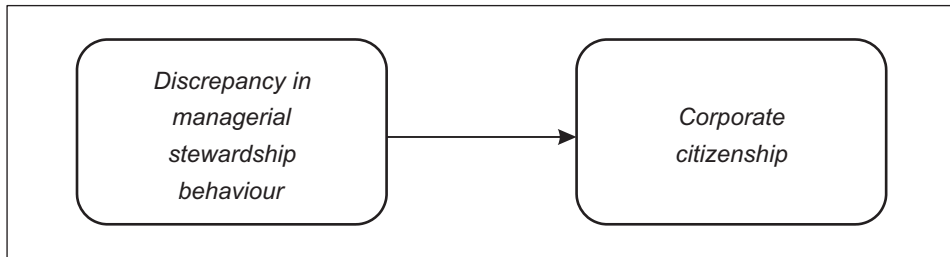
Managerial stewardship behaviour was analyzed as composite variable of personal responsibility (sense of personal ownership) and balancing the interests of different stakeholders (balancing the interests of internal stakeholders and personal interests, balancing the interests of shareholders and personal interests, and balancing the interests of internal stakeholders and external stakeholders). Corporate citizenship was measured by eight dimensions and in total 20 items. These dimensions are: engagement in fair and honest business practices with stakeholders, setting high standards of behaviour for all employees, exercising ethical oversight at the executive and board levels, well-managed corporation from stakeholder perspective, engagement in genuine dialogue with stakeholders, implementation of disclosure and commitment towards environment and sustainable development.

The hypothesis will be tested by structural equation modelling. Proposed model is presented in the following figure.

¹ Response scale was Likert scale: *1-strongly disagree, 2-somewhat disagree, 3-neither agree nor disagree, 4-somewhat agree, 5-strongly agree.*

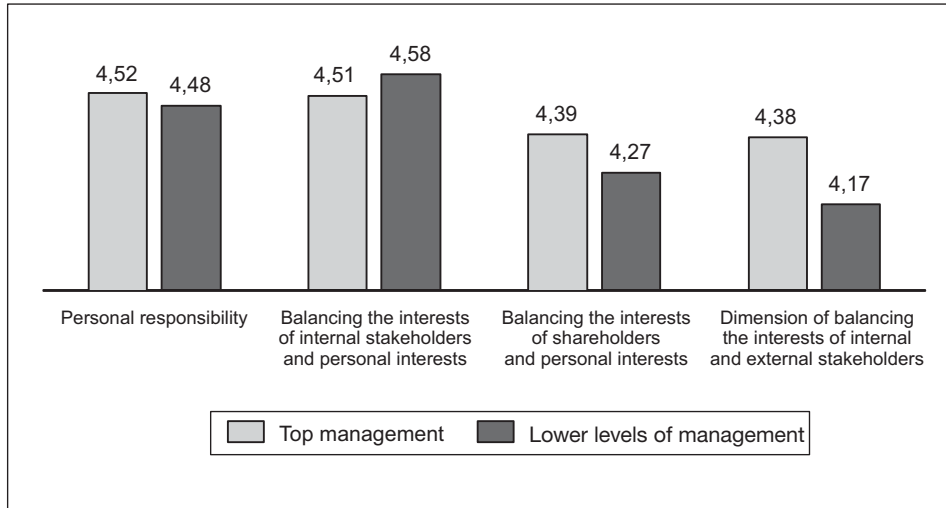
Figure 1.

PROPOSED MODEL FOR HYPOTHESIS



Descriptive statistics confirm the assumed greater stewardship behaviour of the top management versus lower level management's stewardship behaviour. A statistically significant difference was identified in the dimension of balancing the interests of internal and external *stakeholders* between top management and lower levels of management, while the remaining dimensions and the analyzed stewardship phenomenon, at 5% level of significance, do not record statistically significant differences in stewardship behaviour between top management and lower level management. Top management is characterized by the highest degree of personal responsibility, which is consistent with the position in the hierarchy of management and the level of their formal responsibility, while lower levels of management identify the primary role of balancing the interests of internal *stakeholders* and personal interests. The dimension of balancing the interests of internal *stakeholders* and personal interests is the only dimension that lower levels of management consider more important compared to the top management. Given the scope of power and responsibilities, one comes to an understandable conclusion that by lowering in the hierarchy of management, the dimension of balancing the interests of internal *stakeholders* and personal interests assumes greater significance and delicacy.

Figure 2.

CALCULATED STEWARDSHIP DIMENSIONS FOR TOP MANAGEMENT
AND LOWER LEVELS OF MANAGEMENT

Corporate citizenship model that focuses on long-term economic, environmental and social performance was assessed - in terms of importance – by top managers and a larger number of lower level managers. Ethical corporate governance structure has been identified as extremely important, while the remaining dimensions of corporate citizenship are identified as important. Table 2. presents calculated results of all corporate citizenship dimensions for Croatian companies.

Table 2.

CALCULATED CORPORATE CITIZENSHIP DIMENSIONS FOR
CROATIAN COMPANIES

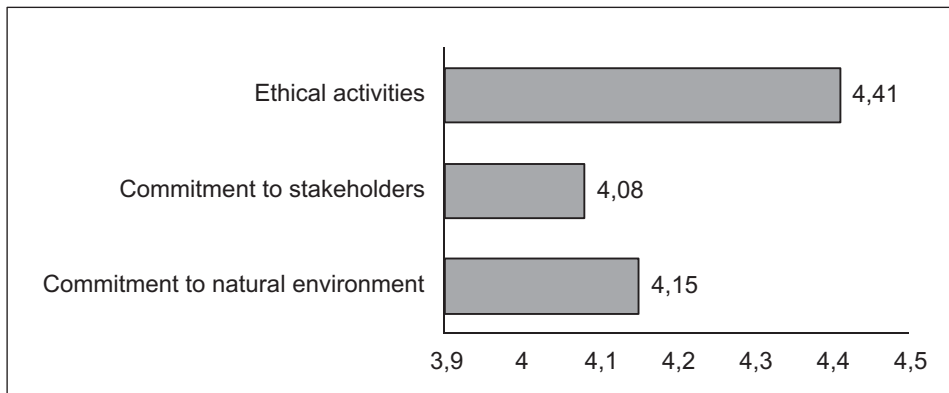
<i>Corporate citizenship</i>	<i>Mean</i>	<i>Standard deviation</i>
Engages in fair and honest business practices in its relationships with stakeholders.	4,4167	0,47462
Sets high standards of behaviour for all employees.	4,3333	0,47324
Exercises ethical oversight at the executive and board levels.	4,4672	0,39853

<i>Corporate citizenship</i>	<i>Mean</i>	<i>Standard deviation</i>
The company is well-managed for all stakeholders.	4,3359	0,37701
Initiates and engages in genuine dialogue with stakeholders.	4,0354	0,43051
Values and implements disclosure.	3,8712	0,43605
Demonstrates a commitment to the environment.	3,9949	0,51956
Demonstrates a commitment to sustainable development.	4,2955	0,45026

The observed composed mean scores of corporate citizenship dimensions indicate the priority of ethical activities, followed by the commitment to natural environment, and commitment to stakeholders.

Figure 3.

MEAN SCORES OF COMPOSED CORPORATE CITIZENSHIP DIMENSIONS FOR CROATIAN COMPANIES



The difference between top management’s stewardship behaviour and stewardship behaviour of the lower levels of management is expected and it is expected to have influence on achieving corporate citizenship. The difference between top management stewardship behaviour and stewardship behaviour of the lower level management was calculated as average of the difference in top management stewardship behaviour and stewardship behaviour of the lower level management for each company (company-level difference was calculated as difference between top management stewardship behaviour and the average value of stewardship behaviour of the lower level managers). The calculated difference in top management stewardship behaviour and stewardship behaviour of the lower level management was 0.2747 (standard deviation 0.23159).

In the next paragraphs testing of proposed model (Figure 1.) by structural equation modelling will be presented. Common indices to verify the proposed model are shown in the table 3. Chi-square test was significantly higher than the critical which confirms that the proposed model has good reliability. Deviations are low as can be seen from the graph of normalized residuals (Figure 3).

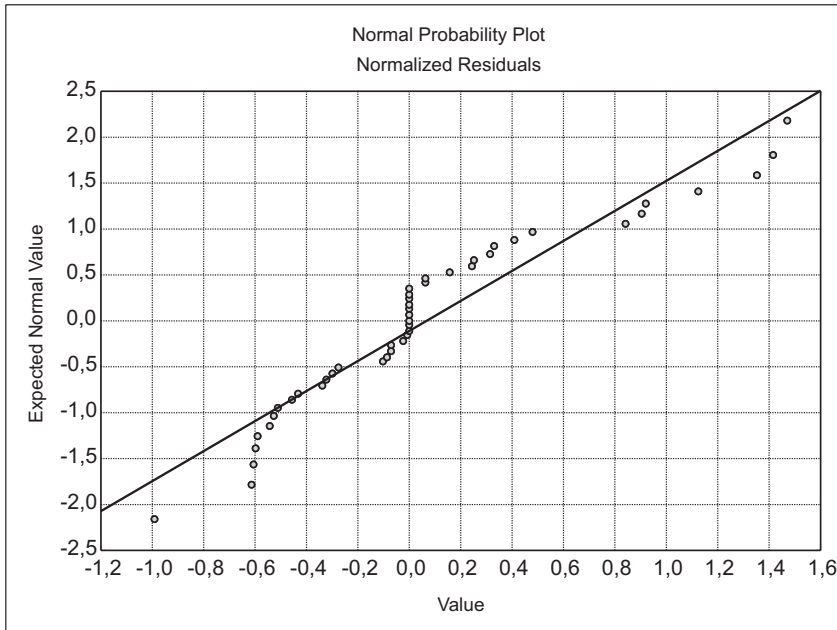
Table 3.

RELIABILITY OF PROPOSED MODEL

Method of Estimation: ML	Chi-Square Statistic: 68,549
Discrepancy Function: 2,21	Degrees of Freedom: 27
Maximum Residual Cosine: 3,92E-005	Chi-Square p-level: 0,0000018
Max. Abs. Gradient: 0,000378	Steiger-Lind RMSEA
ICSF Criterion: 6,71E-008	-->Point Estimate: 0,187
ICS Criterion: 3,41E-005	-->Lower 90% Bound: 0,118
Boundary Conditions: 0	-->Upper 90% Bound: 0,256
	RMS Stand. Residual: 0,109

Figure 4.

NORMALIZED RESIDUALS OF PROPOSED MODEL



Additional verification was conducted with confirmative factor analysis and the conclusion is that empirical data collected met all the prerequisites necessary for successful implementation of structural equation modeling method.

The method of structural equation modeling was used for analysis of the correlation matrix of manifest variables. Parameters that will determine the acceptance/rejection of the hypothesis were estimated using the maximum likelihood method (ML method). The maximum likelihood method is a very general method for estimating unknown parameters of statistical methods. The resulting ML estimates have desirable asymptotic characteristics: unbiased, efficiency and normal distribution. The essence of ML methods is that based on observations from the sample pick one estimate unknown parameters for which the likelihood to obtain value from the sample is maximal.

Table 4.

MAXIMUM LIKELIHOOD METHOD
FOR ESTIMATION OF PARAMETERS

Method of Estimation: ML	Chi-Square Statistic: 72,5699
Discrepancy Function: 2,27	Degrees of Freedom: 27
Maximum Residual Cosine: 2,39E-005	Chi-Square p-level: 0,000005
Max. Abs. Gradient: 5,71E-005	Steiger-Lind RMSEA
ICSF Criterion: 5,23E-008	-->Point Estimate: 0,196
ICS Criterion: 1,84E-005	-->Lower 90% Bound: 0,13
Boundary Conditions: 0	-->Upper 90% Bound: 0,263
	RMS Stand. Residual: 0,112

The following step in analyzing the results of structural equation modeling is to determine the degree of fitness of identified structural model with the empirical data. Table 5 displays the standard indices used to measure the degree of fitness.

Table 5.

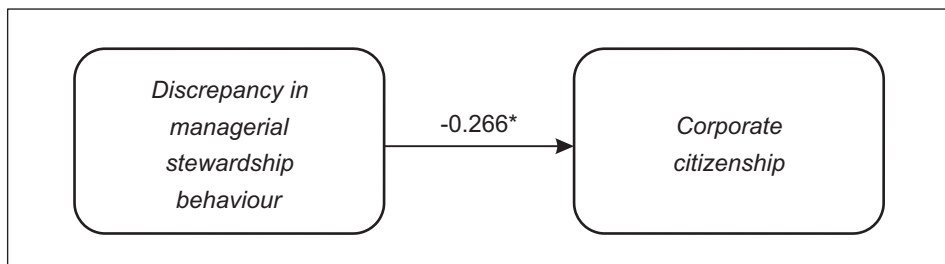
FIT INDICES

	Value
<i>Joreskog GFI</i>	0,705
<i>Joreskog AGFI</i>	0,508
<i>Akaike Information Criterion</i>	3,393
<i>Schwarz's Bayesian Criterion</i>	4,235
<i>Browne-Cudeck Cross Validation Index</i>	3,904
<i>Independence Model Chi-Square</i>	187,458
<i>Independence Model df</i>	36,000
<i>Bentler-Bonett Normed Fit Index</i>	0,613
<i>Bentler-Bonett Non-Normed Fit Index</i>	0,595
<i>Bentler Comparative Fit Index</i>	0,699
<i>James-Mulaik-Brett Parsimonious Fit Index</i>	0,460
<i>Bollen's Rho</i>	0,484
<i>Bollen's Delta</i>	0,712

Indices values are at the satisfactory level; therefore, the defined structural model is acceptable for further analysis. The following analysis is estimation of parameters of structural model. Standardized structural coefficient estimates direct causal relation between lateral variables meaning discrepancy in managerial stewardship behaviour and corporate citizenship.

Figure 5.

STRUCTURAL MODEL BASED ON EMPIRICAL DATA



* $p < 0,001$

Standardized structural coefficient presented in Figure 4 is in accordance with the stated hypothesis and it is statistically significant at level $p < 0.001$, from which a conclusion about the acceptance of hypothesis can be drawn. Corporate citizenship will increase by 0.266 standard deviations if incongruity in stewardship between the top management and lower level management decreases by one standard deviation. In that sense, a necessary prerequisite for creating the value of company, society and natural environment or achieving corporate citizenship is the coordination of activities of all management levels. Therefore, the reduction of incongruities in the stewardship behaviour between levels of management has a positive influence on achieving corporate citizenship, what is also confirmed by a negative sign of structural coefficient.

Conclusion

The accepted hypothesis of the empirical research and theoretical conclusions ratify the relevance of managerial stewardship behaviour in creating value and achieving satisfactory results that will contribute to the development of organization and entire society. Aware of a new business paradigm and conformed with the following assumptions that: (1) a company is an institution of people, with different members, and not one owner; (2) *stakeholders* have economic and non-economic interests, and personal interest does not exclude the concern for others; (3) a company is not only based on contractual relations, but it is also an association of people, and (4) the company's role is not a maximization of shareholders' wealth, but a self-actualization of all *stakeholders*. One can conclude that the presented model based on the central role of managers–stewards in the development of corporate citizenship should be addressed more profoundly in further research and ought to be adopted in business world since it has potential to become normative management model for perspective future.

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STRATEŠKA ULOGA USLUŽNOG PONAŠANJA MENADŽERA ZA OSTVARIVANJE KORPORACIJSKOG GRAĐANSTVA

Sažetak

Korporacijsko građanstvo definirano je kao uspostavljanje i upravljanje utjecajima korporacije na društvo i to tako da se istovremeno ostvaruju koristi za korporaciju i društvo. Korporacijsko građanstvo zapravo predstavlja odgovornost za društveno djelovanje i za djelovanje na lokalnu zajednicu, što se odražava na reputaciju i na poslovne rezultate korporacije u dugoročnoj vremenskoj perspektivi uz osiguravanje dodatnih poticaja za daljnja djelovanja. Osnovni postulat teorije uslužnosti jest da se menadžeri uvijek ponašaju tako da maksimiraju interese korporacije, a suvremeni uvjeti poslovanja orijentiraju menadžment prema etički odgovornom, inovativnom, ali i profitabilnom poslovanju. Stoga je postavljena hipoteza o strateškoj ulozi uslužnoga ponašanja menadžera za ostvarivanje korporacijskoga građanstva. Pretpostavlja se da će ostvarivanje *win-win* situacije za sve interesno-utjecajne skupine i povezivanje interesa korporacije i društva biti znatno otežano ako u korporaciji postoji razlika u stupnju uslužnoga ponašanja vrhovnoga i nižih razina menadžmenta, a to je potvrđeno metodom modeliranja strukturne jednadžbe u empirijskom istraživanju velikih hrvatskih poduzeća.

Ključne riječi: teorija uslužnosti, korporacijsko građanstvo, strateška uloga menadžmenta, modeliranje strukturne jednadžbe, velika hrvatska poduzeća