AGENCY THEORY, STEWARDSHIP THEORY AND RESIDUAL RIGHT: LOGICS AND INTERPRETATIVE MODELS[1]

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Abstract

The observation of the Governance systems in use in the industrial countries underlines diametrically opposite points of view in the interpretation of the art of corporate governance. Such a difference, according to a part of the doctrine[2], is linked with an evident evolution that, even if it is still in an embryo stage, could characterize the enterprises in the XXI century, if compared with those of the last fifty years. Up to 1970's, in fact, management philosophy was based on the idea that enterprise is a purely economic entity where the duty of the management is the one to sustain the capital, being an insufficient resource. The principles and information deriving from that, above all thanks to Alfred Sloan's work and his experiments to the General Motors, lead to a business philosophy based on the concept of strategy, structure and system, where the duty of the Organ of Government (OdG) is planning an organizational model, that is able to ensure dynamics of government in agreement with over- and sub-systems; that's in the awareness that the critical resource is no more exclusively the financial capital, but also the ideas, knowledge, enterprise and human capital. Such a concept, that corresponds to the value produced in the enterprise, leads to deep contradictions in corporate governance so that forms of governance, which are more opened to cooperation and mostly directed to protect the aims of the organization in itself, rather than those ones of the only ownership, have been outlined next to the interpretations of Governance, based on the necessity to check opportunism.

Considering such contradictions, today more than ever, it would seem useful wondering how governance systems influence the distribution of the value produced by the enterprise, or better what stakeholders must profit of the economic wealth as a result of the business and, in the end, what relationships can be established with the wealth in favour of development, employees and ownership. In the attempt to interpret such problems, this work proposes a reading key that integrates the perspective of the Agency Theory and the Stewardship Theory. For this aim, the work ends with a model that, starting from the comparison of the figure of the Agent with that one of the Principal, shows the actual limits in extreme methodological choices, like the two approaches that are object of the study (Agency theory and Stewardship theory), underlining as it is not possible to plan the corporate governance on the base of absolute paradigms that emerge from both the socio-organizational culture and the one at the base of corporate finance studies.

Keywords

Agency theory, stewardship theory, residual right, risks neutral and risk aversion.

1. The corporate governance between governance structure and interests to be protected

The subject of the corporate governance in its relationships between ownership and management always calls researchers and economic dealers' attention; already beginning from the early 1930's, in fact, Berle and Means made an empirical survey about the composition of shareholding of big railway enterprises, public utilities and manufacturing enterprises in the United States. The results of that survey were astonishing and underlined that, in all the examined cases, the major shareholder owned less than 1% of the shares of the company. As a consequence, there was the necessity to investigate the effects of the separation between ownership and control on the corporate governance, putting to the test Smith's "invisible hand" theory, definitively, according to which entrepreneurs must pursue their individual profit for such a behaviour, in a free market system, allows to maximize the public welfare.

Nevertheless, the expression Governance was part of the business lexicon only during 1980's; the term Corporate Governance was used for the first time by Eellas to mean "the structure and working of corporate policy" and began to be widely used in the United States and Great Britain as a consequence of the several scandals that struck some big enterprises and financial companies[3]. Beginning from those years, several contributions have been given on such a question without reaching a shared definition up to now. According to the literature, the different contributions treating this theme are placed along two relevant dimensions concerning, from a hand, the share splitting /concentration, from the other hand, the joint of the mechanisms of governance and control.

Matching such dimensions, it is possible to get a matrix, where expressions and interpretations of more organizational statement[4] take place close to the concept of Corporate Governance, interpreted as a financial model based on the control rights of the enterprise and the relative mechanisms of remuneration.

The Corporate Governance

Board of directors	I	II
Structures and mechanisms of the corporate governance Numerous structures and mechanisms	III	IV
	Shareholders	Stakeholders
	Interests to be protected	

Zattoni, 2004

The aforesaid considerations mean two different interpretative models, through which Agency Theory and Stewardship Theory are shaped, somehow referable to the quadrant I and IV in figure 1.

More in detail, in the agency logic, the Board of directors is the body that must carry on the function of economic governance. The stakeholders of the enterprise, different from the shareholders, have no right of economic governance, as the relationship they have with the company is efficiently ruled by the strengths of the market. The shareholders are, instead, the category of stakeholders that has the right of control on the enterprise, for they, as holders of the residual right, have the interest that the efficiency and wealth produced in the long period are maximized. Implications concerning with the creation of value for the shareholders derive from that. Such a model finds its main elements in the American company law that establishes the supremacy of the shareholders over the other stakeholders.

The model that is linked with the Stewardship theory recalls, instead, to the experience of countries where it prevails the search of a compromise of interests among the several and different stakeholders, the enterprise interfaces with, in the daily process of governance. We are referring to the interests, not only to managers and shareholders' interests, but also to the interests of those subjects who have permanent and not occasional relationships with the enterprise, as contributors of critical resources for the enterprise surviving (employees), that is, those who are able to put pressure through rules and ties (financial system and institutional system). Such a model, consolidated in Germany and Japan, considers as important the interest of several stakeholders different from the shareholders, overturning, in this way, the theory of value creation for the shareholders. From this point of view, we can say that the processes of Governance should include, besides the structures and inside business mechanisms (as the shareholders' meeting, the board of directors, etc), external corporations like review companies and authority of control on the Stock Exchange, the working of markets where it acts (for instance, the financial market and the one of the finished products), values and customs that characterize the national culture.

1.1. Principal and property rights in agency theory

The hypotheses at the base of Corporate Governance models, based on the separation between management and ownership, are linked with Jensen and Meckling's studies in 1976[5] and, mainly, to the relationships of agency theory, that reconsiders the optimization of the structure of the capital considering the discretion margins that the directors enjoy separately from the ownership, above all in the big enterprises. In such a perspective, the enterprise doesn't shape itself either as an individual or as a union of individuals with specific aims, but as a legal fiction, that is a link for the definition of contractual relations among individuals.

The enterprise, therefore, appears as a simple business name for the formalization of contracts that are as numerous as the activities existing with owners of raw materials, equipment, job, capital and consumers. From this point of view, the shareholders/manager relationship foresees managers'constant subordinate position if compared with the business ownership. The shareholder, in fact, calls himself "principal" who delegates the agent (the manager) to the business management. Particularly, the shareholders have the formal power to replace the manager if the activity, he carries on, isn't completely addressed to maximize the market value of the net wealth; in this way, the shareholders, who hold significant shares of the capital, can influence the managers'activity through the board of directors, which has the function to control the actions of the management.

However, in reality, it often happens that the members of the board of directors are inattentive for other professional activities and/or they don't have the necessary competence to control what managers[6] do. Such a situation gets worse as a consequence of two determinant conditions: uncertainty and information asymmetry that clearly produce costs of agency to control the agent's behaviour by the principal (costs of control), that is, by the agent who will reassure the principal that he won't take any decisions against his interests (costs of reassurance), or to reassure him for the residual loss of wealth that is created in the relationship for the impossibility to be successful in conciliating the divergent interests of the parts involved (residual loss).

Both a part of the doctrine and the observation of recent empirical evidences showed that, whereas the typical forms of control from the Corporate Governance (the shareholders' meeting and the board of directors) are ineffective, the power of the management could grow excessively.

In other words, the manager, who controls the information, has no difficulty to introduce poorly convenient (or even harmful) initiatives as highly profitable ones; so, it could happen that some plans are carried out even if they have a negative VAN, that one manager, or more of them, benefits in terms of more personal prestige, for example, due to the growth of the corporate size.

Substantially, when the relationship between principal and agent is particularly out of balance under the information aspect, ownership has got limited possibilities to put in action effective control and monitoring tools. In such a case, the principal could " lay" his own costs of agency on the agent and the latter one could try to influence judgments and evaluations of the principal, the total rewards are based on, giving warranties on the positivity of his own behaviour (coherence with the principal's aims), and introducing the positive results as "visibly" and "available" as possible[7]. For a greater protection of the ownership, the agent can also submit to the payment of a deposit of money (bounding), as a warranty of the perfect execution of the contract, that is covering the risk when his actions are unfavourable to the Principal's interests; such expenses are established with costs of insurance that are some costs for the agent and have a double value, for:

- they give the agent warranties on the risks of breaking off the contract and they generally reassure the Principal on the evaluation and the reliability of the agent's work;
- they impose the definition of specific standards to be respected, in carrying out their own activity, to the agent.

The methods suggested by the Agency Theory, as well as the relative tools of co-alignment of the positions, underline the different role of the principal and the agent: the former is, in fact, directly interested to the net economic incomes achieved by the enterprise being itself (totally or partly) residual paid (residual right); the latter, being salaried, tends to identify himself with the business aims in a more reduced way.

Considering that the principal is neutral to the risk while the agent is adverse to it (Fig. 1).

The risk for the agent and the principal

		ACTOR	
		Principal	*Agent*
RISK	*Neutrality*	X	
	Aversion		X

On the other hand, if the level of risk is defined by the environmental uncertainty, consisting "in the possibility that an unfavourable event could happen", and, therefore, it is rightly set in the situations of indeterminability of the external environment[8], and if the risk is immanent to the decisional process (as choices are made on the base of foreseeable future events, too, and they, in their turn, affect these last ones), in such a context it happens that the principal isn't particularly influenced by the problem of the risk, appearing as a wealth maximizer; while the agents tend to raise the utility functions connected to the level of their rewards, power, safety of their employment and status[9]. So the agent chooses - on the base of a subjective ability to evaluate the possibility that an unfavourable event could happen (which, in its turn, can use, or not, reliable likely evaluations of an objective kind[10]) - the way that easily allows him to reach good results. In such a way, he shows a certain aversion for the risk, as he chooses alternatives of action riskier and riskier only if levels of social benefits are associated with them, besides monetary rewards, higher than the additional strain he must stand. A combined action of stimulating system and environmental uncertainty influences his own choices encouraging his tendency to the risk without making him exceed the threshold of socially sustainable maximum risk. The hazard connected to the contract of agency, substantially, consists in the strong possibility that, despite the control practiced by a stimulating system, and considering the factors of environmental uncertainty, there is a certain incoherence of aims and behaviours between agent and principal[11].

That being stated, in the respect of the conceptual frame previously described, in the years the perspectives of analysis on agency theory have assumed different characteristics and observation angles. According to Perrow, the agency theory is very different from organizational theory; agency theory has several links to mainstream organizational perspective. Agency theory is also similar to political models of organizations. Both agency and political perspective assume the pursuit of self-interest at the individual level. Also, in both perspectives, information asymmetry is linked to the power of lower order participants. The difference is that in political models goal conflict is resolved through negotiation and coalitions; in agency they are resolved through the co-alignment of incentives[12].

Comparison of Agency Theory Assumptions and organizational perspective

	Perspective				
Assumption	**Political**	**Contingency**	**Organization Control**	**Transaction Cost**	**Agency**
Self-interest	X			X	X
Goal conflict	X			X	X
Bounded rationality		X	X	X	X
Information asymmetry		X		X	X
Pre-eminence of efficiency		X	X	X	X
Risk aversion					X
Information as a commodity					X

Eishenardt K.M., 1989 p. 63

Generally, two interpretative currents have been developed on the agency in literature: the positivist approach and the formal one. The former, more faithful to the most important paradigms of the agency theory, is referable to Jensen and Meckling's studies and focuses on the relationships between owners and Agents of large public and private corporations. Fame and Jensen (1983) belong to the same current and discussed about the role of the Directive Council as an information system useful for the shareholders of big companies to monitor the managers' opportunism (Agents)[13]. This perspective concerns with the separation of ownership from management in large corporations. Particularly, one of the earliest studies of this type was conducted by Amihud and Lev (1981). These researchers explored why firms engage in conglomerate mergers. In general conglomerate mergers are not in the interests of the stockholders because, typically, stockholders can diversify directly through their stock portfolio. In contrast conglomerate mergers may be attractive to managers who have fewer avenues available to diversify their own risk[14].

The formal approach to the study of the agency theory is placed in opposition to the positivist perspective and among its main exponents there is

Eisenhardt K. M. (1989)[15], who faced the theme of the risk connected to the type and degree of achievement of the contract between P. and A. The hypotheses taken as a reference from the author are:

Hypothesis 1: The risk aversion of the Agent is positively related to behaviour-based contracts and negatively related to outcome-based contracts and negatively related to outcome-based contracts. In such a situation the behaviour-based control is suitable to reduce the risk of adverse selection. Such type of control must be preferred when efficient information systems are available;

Hypothesis 2: The risk aversion of the Principal is negatively related to behaviour-based contracts and positively related to outcome-based contracts and negatively related to outcome-based contracts. The control based on the results allows, therefore, a reduction of the moral hazard risks, that's why it can be applied in the post-contractual phases.

The criticisms connected to the plans of stock options stand in line with such considerations; in fact, although big enterprises tend to link the managers' remuneration to the business performance more and more, such tools amplify the moral hazard risk, rather than to reduce it under conditions of poor information efficiency: for example, in the case of Parmalat and Enron, the managers being aware of serious difficulties of the enterprise they belong to, spread false news to speculate on the difference between current stock quotation and exercise price, before the condition of business crisis was known by everybody. Such formulation shows how the economic incentive tends to stimulate the risk of deceitful behaviours from those people who govern the information, in some cases, rather than to eliminate it.

In Ghoshal's last work, particularly, the main mistake of the agency theory consists in too restrictive leading hypotheses as he considers, in the positivist perspective "…that the labour market is perfectly efficient and the salary of each employee fully represents the contribution that he gives to the company; in case it doesn't happen this way, the employee can immediately change his job without additional costs. According to such interpretation the shareholders carry the highest risk making their contribution of capital more important than the contribution of human capital by managers and workers, that's why their profit must be maximized"[16]. "…The truth is, of course, exactly the opposite. Most shareholders can sell their stocks for more easily than most employees can find another job. In every substantive sense, employees of a company carry more risks than do the shareholders. Also their contributions of knowledge, skills are typically more important than the contributions of capital by shareholders, a pure commodity that is perhaps in excess supply…". Such an interpretation is also present in Thomas Clarke's work, who confirms the necessity to separate the ownership of the capital from that one of the enterprise.

This last difference is extremely necessary if we refer to the value created in the enterprise, rather than to the residual allowance. In fact, if part of the literature justifies the allowance of the residual right to the shareholders, it is not the same in the case of the distribution of the created value, which must be given to the enterprise owners and not to the capital owners.

On this matter Alchian and Demsetz[17] treat the problem of the measurement of the inputs productivity and the relative proportion of the rewards in a team production. In such situations it is difficult to individualize, only with the observation of the final output, the contribution of the individual to create the value. The authors observe, "when… the output is produced by a team like an enterprise, it cannot be the sum of separable outputs of each of its members, for definition. The team production of Z implicates at least two inputs Xi and Xj with $\partial_2 Z/\partial Xi \partial Xj \neq 0$[5]|.

The function of production is not, therefore, separable in two functions, each of them including only inputs Xi and Xj. Consequently, no sum of the Z of two separable functions can exist that can be treated as Z of the function of team production. In this last case, in fact, the marginal product of the members who cooperate is not directly observable and, when that's possible, it imposes the support of very high costs. What a team and, therefore, an enterprise, offer to the market can be taken as marginal product of the team, but not of the members; so the cost of measurement or check of the marginal product of the team members imposes the adoption of new organizational logics. From this point of view, the great business profit-sharing, as a stimulating system to line up the positions between P and A, could compromise the enterprise surviving. According to Alchian and Demsetz, if the profit-sharing is extended to everybody, the consequent increase of costs will exceed the benefits connected to the reduction of possible elusive behaviours; On the contrary, such a sharing could work as a self-control mechanism when the enterprise is small and the number of the active partners is low. Moreover, such a self-control mechanism could become an effective system when the activity of enterprise has got a low correlation between inputs and outputs, that is towards artistic, professional, or highly innovative jobs, where the cost of the control is too high.

If we would find a conclusive consideration on the agency theory, we should add that the approach suggested by Jensen and Meckling was consolidated in a period when the companies seemed to be taken prisoners by the managers and the public asked for the triumph of the capitalism on any other economic system[18]. Today, more than ever, such a theory appears unsuitable for the new context of reference as it proposes a negative, gloomy vision of the enterprise, and above all a vision that is too anchored to the defence of a part of the system. The enterprise is, instead, part of a complex system of relationships where as many systems act and, either directly or indirectly, influence its surviving. In such a picture, as Thomas Clarke[19] affirms, the enterprise reveals itself as a more complex reality that doesn't exclusively concern with the managers and owners' opposite interests but also the system of relationships among the enterprise and its sub-systems (employees, managers, etc) and its over- systems (suppliers, clients, ownership etc).

1.2 The model of the stewardship theory and the increase of the risk

The different currents of thought that alternated in the agency theory study underlined the slow and gradual evolutive process that has recently characterized the studies on management and governance, in general. The necessity to change direction has been recently declared in Ghoshal's last work who reported, to researchers and the economic operators' attention, the need to apply more positive, less gloomy, managerial visions that, above all, are not rigidly anchored to mechanisms of corporate governance, based on pessimistic theories like the agency theory. In such a perspective the Stewardship Theory is places and it speaks about the necessity to simultaneously pay attention to the interests of clients, employees, shareholders and community where they act. The approach proposed by the doctrine (Davis J.H & Donaldson L., 1991; Davis J.H., Schoorman F.D., Donaldson L., 1997; Fox M.A. & Hemilton R.T., 1994; Preston, 1998) turn the role of the ownership and management over, comparing the figure of the steward to the one of the principal.

Particularly, starting from the hypothesis that managers positively contribute to the social and business wealth, independently on the mechanisms of control and incentive that are adopted by the ownership, the authors give a positive vision of single managers' motivations and intentions. As a consequence, the monitoring and control on the Agent's activities, through a strong non-executive Board of directors, is frustrating and it is often favourable for starting a demotivating process that, in the middle-long term, can compromise the productivity of the managers themselves.

In some searches on the field, for instance, they asserted that the managerial approaches based on the control, instead of reducing the opportunistic behaviour, seem to increase such attitudes[20]: the use of supervision, monitoring and authority, in fact, would induce to the lack of confidence of the management toward the employees and the perception of a need (from the management) of more control and supervision. For the employees, the use of hierarchical controls reveals that neither they have any trust in them, nor they believe they would appropriately behave with no controls. There is an odd relationship as a consequence, thanks to which the supervisors don't trust the employees really, as a consequence of their supervision, and the employees become more and more unmotivated and mistrustful .

In specular optics, Vargas & Garcìa analyzed the determinant factors of members-managers relationship on four agrarian cooperative enterprises located in Wales (UK). In the paper the authors found nine proxy variables, whose mutual dependence was analyzed through the test of the who squared. From the analysis the following recommendations emerged:

- considering that among the agent's personal attributes what determines more their behaviour is their identification with the enterprise, it is necessary to take under control such a variable, as well as the relative factors that can influence its trend;
- considering that among the situational factors in the enterprise the distance of power between A and P is the one that seems to influence the agents' behaviour more than everything, it is necessary to focus better on such a cultural dimension;

- if we admit that in enterprises the figure of the Agent must get near the model of the stewardship as much as possible, it is necessary that the inside stakeholders show a strong identification with the business organization and, in doing that, an organizational culture characterized by a strong alignment between P and A prevails.

To support such interpretations in an empirical search Donaldson and Davis (1991) asserted that in those cases when the figure of the Principal and the one of the steward tend to coincide, higher performances are given, in comparison with those cases when the governance system has some Boards of directors where the President is not executive. In other words according to the authors "…agency theory argues that shareholder interest require protection by separation of incumbency of roles of board chair and CEO. Stewardship theory argues shareholder interests are maximised by shared incumbency of these roles. Results of an empirical test fail to support agency theory and provide some support for stewardship theory…"[21]. Starting from such methodological formulations in a following work Davis, Schoorman & Donaldson (1997) explain that the manager cannot be interpreted as an agent, who exclusively aims to satisfy his own economic interests; on the contrary he must be seen as a steward, who protects and maximises the shareholders and ownership's interests. In such a perspective, the managers' behaviour depends on their psychological motivations, that normally tend to a good result of the enterprise-plan[22] and no more, therefore, on control and monitoring systems that tend to reduce the information asymmetry between P and A. In particular there is a number of dimensions on which agency theory assumptions differ from stewardship theory. These dimensions, for the authors, can be characterized broadly as either psychological factors or situational factors.

So the psychological factors regarding the model of man. In the agency theory, man is rooter in economic rationality. The model of man near Stewardship Theory is described by Argyris whose assumption is "self actualizing man". This model is based on the view that human shave to need to grow beyond their current state and reach higher levels of achievement and that the assumptions of the economic view of man limit people from attaining their full potentiality. About the situational factors the authors dwell upon the managerial philosophy and culture with a particular reference to the Individualism-collectivism and the power distance.

	Agency theory	Stewardship Theory
Model of man		
Behaviour	Economic Man. Self-serving	Self actualizing man. Collective serving
Psychological mechanisms		
Motivation	Lower order/economic needs (physiological, security, economic)	Higher order needs (growth, achievement, self-actualization)
Social comparison	**Other managers**	**Principal**
Identification	Low value commitment	High value commitment
Power	Institutional	Personal
Situational mechanisms		
Management philosophy	Control oriented	Involvement oriented
Risk orientation	Control mechanisms	Trust
Time Frame	Short term	Long term
Objective	Cost control	Performance enhancement
Cultural difference	**Individualism**	**Collectivism**
	High power distance	Low power distance

Davis J.H., Schoorman F. & Donaldson L., 1997

The conclusions reached by Davises J.H., Schoorman F. & Donaldson L. are that "the choice between agency and stewardship relationships is similar to the decision posed by a prisoner's dilemma. In such a perspective, independently on the individual choices of either the Principal or the Agent, the excellent strategy for the actors in game, that is the achievement of Nash equilibrium, depends on the attitudes carried out. For example, when two individualistic parties are involved, the inevitable choice is an agency relationship; when there are collectivistic orientations, that is both parties subordinate their personal goal to that of the collective, they will evaluate the joint utility and mutually choose a stewardship relationship. In a more schematic way the following choices can be determined:

- if a mutual stewardship relationship exists, potential performance of the firm is maximized;
- if a mutual agency relationship exists, potential costs of the firm are minimized;
- if a mixed motive choice exists, the party choosing stewardship is betrayed, and the party choosing activity is opportunistic.

	Principal's choice	
	Agent	Steward
Agent	Minimize potential costs Mutual agency relationship	Agent acts opportunistically Principal is angry Principal is betrayed
Manager's choice		
Steward	Principal acts opportunistically Manager is frustrated Manager is betrayed	Maximize potential performance Mutual stewardship relationship

Davis J.H., Schoorman F. & Donaldson L., 1997

The approach adopted in the stewardship also avoids the critics made by the economic theories towards managers; such theories would show a greater propensity from the managers to choose organizational structures that are able to protect their own interests. About that, from an empirical analysis by the doctrine on the divisional organizational structures emerges, in fact, that the adopted organizational models can influence the efficiency of the organization (Donaldson, 2001). Equally, the changes in the relationship between manager and administrative personnel with the employees were defined positive by a search (Donaldson, 1996), rather than aberrations suggested by a personal political interest (Freeman & Hannan, 1975).

On the base of what we have observed up to now, it results that the substantially new element emerging from the stewardship theory is given by the evident alignment, rather than by an obvious difference of interests between agent and principal, considering that both of them are interested in the surviving and success of the enterprise[23]. This puts into discussion the leading principle of the agency theory that regulates the agent's delegation to operate in the principal's interest. In the new vision, in fact, the steward will operate in the interest of the enterprise that coincides with that one of both the Principal and the personnel; instead, in Jensen and Meckling's theory, the agent tends to maximize his own utility and activate opportunistic attitudes exploiting the information asymmetry for his own advantage.

Therefore, if the stewardship theory puts on the same level the Principal and the Agent eliminating the resort to the costs of agency to equally compare the divergences of interests, it is necessary to consider again the corporate governance systems, that don't tend to the protection of the Principal's exclusive interests anymore, but to the protection of all the actors in game's interests. Adopting such a perspective, it is opportune to wonder if the residual right, perceived in the studies on the agency theory as an exclusive prerogative of the ownership of the capital, mustn't be distributed to everybody proportionally to the created value; this is also in relationship with the fact that the value produced in the enterprise is the result of both the producers of the ownership of the capital and the holders of the intangible ownership, that is, of the immaterial resources such as knowledges, competences and skills of coordination and governance.

Adopting such a perspective, it is opportune to specify that the theme connected to the assignment of the residual right has been treated by literature with a particular reference to the perspective of insider / out investigation that has faced the matter of the resources and competences. About that, in an interesting work of Gerard van der Zaal a bidimensional matrix is proposed that compares the actors of the relationship (Principal and Agent) with a reference to two levels of analysis: the level of the agent-principal relationship, as well as that one of the context of the principal and context of the agent relationship.

Potential sources of uncertainty and dependence can be found at both levels. So, in those cases where (cell 1 and 2) uncertainties about the partner's behaviours in the relationship are determined, the hypotheses can derive from the agency theory; in the other cases, instead, the reference is not to the traditional agency theory as the agency relationships are analyzed independently on the context; the reference is, instead, to other studies among which that one of the resource dependency.

	Agent	Steward
Environmental uncertainty	Uncertainty about the relationship with the agent	Uncertainty about the relationship with the principal
	Uncertainty about the environment where the principal/agent relationship is carried out	
Environmental dependence	Dependence on the relationship with the agent	Dependence on the relationship with the principal
	Dependence on the environment where the principal/agent relationship is carried out	

Gerard A.W. van der Zaal, 1994

It is possible, therefore, to integrate perspectives of analysis and study, that can apparently seem contradictory, and alternatives that, instead, if jointly applied, can give useful methodological lens to find corporate governance systems, which are more suitable to the actual context. About that, Hill and Jones[24] propose an integration between the agency theory and the stakeholders theory, in the perspective that "…the paradigm stakeholder-agency theory can be viewed as a modification of agency theory to accommodate theories of power including resource dependence theories of organizations. Hitherto these theories have been seen as offering mutually exclusive interpretations of organizational phenomena. While agency theory assumes efficient markets and reject the idea of power differentials between managers and stakeholder, resource dependence theory implicitly assumed inefficient markets which allow for the existence of unequal resource dependences between managers and stakeholders".

Equally, attending the recent debate provided by Ghoshal's last work, Hambrik[25] affirms "… the challenge is to blend the best of the stewardship model and the best of the agency model".

From this point of view, in this work we decided not to adopt an approach of excellent choice between the agency theory and the stewardship one, convinced that the choices depend on several factors, each of them requiring mechanisms of coordination and different regulation.

On the contrary, we consider opportune to develop some methodological hypotheses through the following logical propositions:

Proposition 1: the business performances are the result of the joined efforts of all stakeholders in game, both the insiders and the outsiders. In such a complex power game, the organ of governance must adopt behaviours to protect all interests, not to involve the surviving of the enterprise itself;

Proposition 2: if the business performances depend on all the actors in game, it is not opportune to plan governance systems where the subject to be protected is only the ownership of the capital. It is necessary, therefore, to think about a residual distribution system that considers both the Principal and the Agent;

Proposition 3: if the figure of the Agent is totally compared with that one of the Principal, it is inevitably determined a transfer of the risk from the P. to the A.;

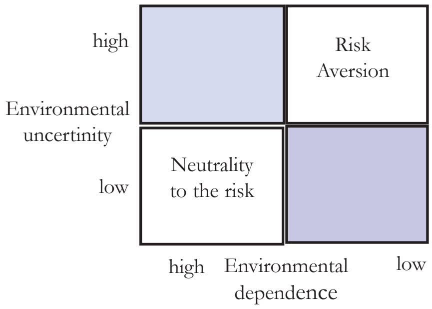
Proposition 4: the surviving of the enterprise not necessarily depends on the effectiveness of control and monitoring mechanisms, applied to employees and managers. The business performances are often connected to complex regulation and coordination mechanisms, whose effectiveness can derive from the level of environmental uncertainty, and/or the relative level of dependence. Depending on the cases, it is possible that different reactions towards the risk of enterprise are produced.

To better explain what will be described later, the work didn't want to propose a paradigmatic approach to valorize a theory against another; on the contrary, the methodology that is introduced here tries to integrate the two approaches, previously illustrated, with the aim to get to a model that can continue the analysis started by Alchian and Demsetz and propose a possible methodology through which decomposing and distributing the value produced in the enterprise and its relative residue, in favour of both the Principal and the Agent.

Considering that, two models based, respectively, on the distribution of the added value and the residual right between P and A will be illustrated. The former, as it will be later described in details, analyzes the only distribution of the added value. The results seem to underline an extension of the separation between P and A because the added value tends to emphasize the distinction between Ownership of the capital and ownership of the enterprise.

The model of assignment of the residual rights would seem, instead, to configure a correct equilibrium, in Hambrick way, between the agency theory and the stewardship theory as it explains how much both of the subjects risk in terms of capital, independently on the role they have, even if the residual sharing is extended to the agent. In the model, in fact, the presence of logics near the stewardship theory is recognized, whereas it is tried to compare the role of the A and the P, through the assignment of the residual right. Moreover, the residual right underlines the presence of an extrinsic formality of coordination, typical of the agency theory. In the proposed approach, therefore, they tried to integrate the sociological and psychological formulation adopted by the stewardship with the economic formulation of the agency, considering the steward as a subject not only directed by philanthropic and pro-organizational finality, but also by personal and subjective interests. So the steward shows levels of neutrality to the risk in those cases when the Principal cannot renegotiate the relationship with the agent, while he is potentially adverse to the risk, whereas the agent's remuneration is completely compared to the Principal's one.

Connecting to the considerations of Davis and others, previously recalled on the prisoner's dilemma, we could assert that, obviously, an excellent choice doesn't exist, but so many options can be determined according to the situation in which the relationship occurs. In general it is possible to formalize the considerations of Zaal with the following matrix:



So, in the cases when the dependence on the environment is high and the agent's return is not parametered to the performances of the enterprise, he will show an attitude of neutrality to the risk; in the cases when, instead, the environmental uncertainty is high, and the agent's return is parametered to the performances of the enterprise, he will show a risk aversion. Of course, risk aversion or neutrality of the A depends on the level of uncertainty of the agent himself. So, we can deduce that in the case of residual sharing of the A, but in absence of the risk of loss, we must consider the hypothesis of high neutrality, even if it is of lower level than the case when the return of the A is completely asymmetrical in comparison with that one of the P.

2. The analysis of the distribution of the added value according to a logic of portfolio

The Global Added Value (VAG), as total wealth produced by the enterprise within an exercise, results to be the element of conjunction between balance of exercise and social report, as its qualitative/quantitative analysis allows to underline the relationship between activity of enterprise and wealth produced for the different stakeholders.

The voices of the VAG that mostly qualify the social report from the quantitative point of view are:

- remuneration of the personnel (P);
- remuneration of the enterprise;
- remuneration of the borrowed capital;
- remuneration of the P.A.;
- remuneration of the risk capital.

Calculating the relationship between the aforesaid elements of cost and the VAG we got, in terms of percentage, a distribution of the wealth produced by the enterprise in a certain administrative period among the different stakeholders. Moreover, this analysis can be easily extended to the verification of how the rate of global contribution (TCG) is distributed. With reference, for instance, to the remuneration of the personnel we got:

TCp = (P / VAG) (TCG) = (P/F)

where:

TCp = rate of contribution for the personnel;

F = sales.

The logic of the social report and the consequent analysis of the distribution of the VAG and/or of the TCG is near Thomas Clarke's thesis that, as already underlined, gives importance to the necessity to separate the ownership of the capital from that one of the enterprise.

On the base of such a resolution, moreover, it is possible to make an analysis of the distribution of the wealth totally produced by the enterprise on the base of the typical tools of the portfolio selection, based on the average-variance logic. For this, we should consider the following matrix charts:

Matrix of the covariances among rates of contribution

Stakeholder		1	2	3	4	5	6
	1	σ^2_1	σ_{12}	σ_{13}	σ_{14}	σ_{15}	σ_{16}
	2	σ_{12}	σ^2_2	σ_{23}	σ_{24}	σ_{25}	σ_{26}
Stakeholder	3	σ_{13}	σ_{23}	σ^2_3	σ_{34}	σ_{35}	σ_{36}
	4	σ_{14}	σ_{24}	σ_{34}	σ^2_4	σ_{45}	σ_{46}
	5	σ_{15}	σ_{25}	σ_{35}	σ_{45}	σ^2_5	σ_{56}
	6	σ_{16}	σ_{26}	σ_{36}	σ_{46}	σ_{56}	σ^2_6

Such matrixes underline the way the distribution of the added value can be analyzed, theoretically at least, according to the typical logics of the finance. The added value, in fact, finds the remuneration in the absolute value of the portfolio of activities developed in favour of the enterprise from all the stakeholders belonging to it. Each activity, therefore, incorporates a certain level of systematic risk, that is a certain level of sensibility to the volatility of the portfolio considered. As a consequence, the remuneration expected by each stakeholder should be anchored to two factors: the intrinsic quality of the offered activity and the systematic risk. Such a widening of view concerns above all with the managers, whose expected return is composed by both a certain and an uncertain remuneration: the former is obviously connected to the fixed salary; the latter to productivity bonus.

Besides, as underlined in a previous work of ours, the proposed chart of analysis allows to compare different Governance[26] systems in the space and in the time.

3. Free Cash Flow and value sharing between the principal and the agent

The analysis of the added value (or the one of the rate of contribution), in the terms shown, is based on a clear distinction among the different categories of stakeholders. Substantially, such a logic allows to study the distribution of the wealth produced by the enterprise and the risk incorporated by it; the value and the risk of the residue exclusively concerns with the P. This is in contrast with the hypothesis of the residual sharing between P and A and, therefore, it results more similar to the logic of the agency that puts P and A on different levels.

In the model that follows, instead, the risk-return relationship of the A is either totally or partially comparable to the one of the P: both of the subjects (P and A) are qualified as take risk because their expected return under conditions of uncertainty is a consequence of the capital transfer (financial capital in the case of the P and intellectual capital in the case of the A) in favour of the enterprise. As the residual distribution can only be commensurate to a financial capital, the consequence is that the intellectual capital offered by the A determines an ownership right on the book and economic value of the equity. In other terms, the residual right sharing involves, inevitably, an ownership right sharing. This logic is mostly in line with the Stewardship Theory, as it produces equity conditions between suppliers of risk capital and suppliers of intellectual capital. Vice versa, the focus on the added value always puts the A in a subordinate position in comparison with the P.

The analysis that follows, therefore, tends to show the financial effects due to the concept of comparison among A and P (proposition 3).

Taking remark from Alchian and Demsetz' work – who spoke about the difficulties to measure the intrinsic productivity of the individual stakeholders within a team game - and on the base of the thesis supported by van der Zaal, too - according to which the perception of the corporate risk between P. and A. is influenced by the environmental dependence and uncertainty – we intend to formalize the value sharing between P and A according to two perspectives:

- the value sharing between P and A in the case of neutrality to the risk from the A;
- the value sharing between P and A in the case of risk aversion from the A.

The first perspective produces an evident disadvantage for the P and, at the same time, it doesn't determine an effective ownership right of a quota of the financial capital from the A; the second one enlarges the condition of uncertainty of the A determining an effective ownership right of a quota of the financial capital, anyway.

Particularly, the model starts from the free cash flow (FCF), and such a parameter allows an analysis of the politics that the enterprise adopts regarding the distribution of the residual profit. The FCF represents, in fact, the area of the "freely" self-produced cash flow that can be used by the enterprise, once the permanent and circulating capitals, consumed for the function of production are reconstructed:

$$FCF = CF_a - R = (F - C) - R$$

where:
CF_a = self-produced cash flow calculated at the gross of the taxes and the financial burdens;
F = received proceeds:
C = paid costs;
R = renewal tie.

If the difference CF_a - R increases, the ability of the enterprise to monetarily satisfy the financial creditors, the State and the shareholders increases too. As a consequence, the shareholders' remuneration is calculated as follows:

$$D = (CFa – R - OF). (1-\tau)$$

where:
D = dividends;
OF = financial burdens;
τ = fiscal rate.

The tie R must be dynamically analyzed, considering the business trend in terms of stationary conditions, development and regress of the industrial activity. Particularly, in the phases characterized by stationary conditions, the self-produced flow must be intended for the reconstitution of the assets in terms of sacrificed goods because of the production; in the case of perspectives of development, the absorption of the self-produced flow exceeds the value of the sacrificed goods; at the end, because of foreseen reductions of the industrial activity, the tie of the self-produced flow disposition will be lower than the sacrificed goods[27]. In other terms, the FCF has got an inverse trend if compared with the business perspectives:

$FCF' = Cfa - R \cdot (1 + g)$

$(g > 0 \rightarrow (FCF' < FCF); (g < 0 \rightarrow FCF' > FCF)$

where:
FCF' = free cash flow under non-stationary conditions;
g = rate of increase or decrease of the industrial activity.

So, in case of increase or decrease of the industrial activity, the dimension of the dividends can be considered as it follows:

$D' = [CF_A - R \cdot (1 + g) - OF] \cdot (1-\tau)$

$(g > 0 \rightarrow D' < D); (g < 0 \rightarrow D' > D)$

where:
D' = dividends under non-stationary conditions.

The quantity D (or D', in the case of $g \neq 0$) substantially stands for the residual wealth - once the tie R and the ones of the financial creditors and State's remuneration have been respected – that concerns with the P. Such a quantity can be also expressed rendering explicit the ROE:

$D = ROE \cdot E$

where:
$ROE = D / E$;
E = equity.

As a consequence there is a creation (or destruction) of the value for the shareholder in case of excess (or insufficiency) of the ROE if compared with the hurdle rate expected by the stock market, that is compared with the cost of the original capital (ke):

Creation of the value for the shareholder = ROE – ke > 0

Destruction of the value for the shareholder = ROE - ke < 0

Nevertheless, if a residual right of the A is considered, a quota of the differential ROE – ke concerns with the managers. The hypothesis of the value sharing between shareholders and managers is, in fact, based on the presupposition that a part of the stock risk (risk remunerated by the rate ke) is transferred from the P to the A.

Such transfer of risk is directly correlated to the managers' productivity bonus. They must be considered, coherently with the thesis asserted by Alchian and Demsetz, untied to the intrinsic quality of the work offered by the A, that is, simply on the base of the skill of the enterprise to produce income; this skill implies the availability of both financial and intellectual capital for the enterprise. As a consequence the productivity bonus is exclusively defined as risk bonus.

In case the productivity bonus is given the A only when there are profits produced by the enterprise we get:

$D_T < 0 \rightarrow$ productivity bonus = 0

$D_T > 0 \rightarrow$ productivity bonus = $\pi \cdot D_T$

where:
π = unitary productivity bonus;
D_T = total residue.

On the base of these statements, therefore, the analysis of both the FCF and the residue can be made supposing, for an easier analysis, that the fiscal rate related to the personal taxes on the income of the P is equal to the fiscal rate related to the personal taxes on the income of the A[28].

$FCF = (F – C') – R$

$D_P = (CF_A – R – OF) \cdot (1 – \tau) - D_A$

$D_A = D_{AL} \cdot (1 – \tau)$

$D_T = D_P + D_A = Q_P \cdot (D_T) + Q_A \cdot (D_T)$

$D_{PN} = Q_P \cdot (D_T) \cdot (1 – \tau_p)$

$D_{AN} = Q_A \cdot (D_T) \cdot (1 – \tau_p)$

where:
D_P = residue concerning with the P;
D_{AL} = residue concerning with the A at the gross of the taxes burdening on the enterprise;
D_A = residue concerning with the A at the net of the taxes burdening on the enterprise;
C' = paid costs calculated at the net of the residue concerning with the A;
Q_P = part of the quota of D_T concerning with the P;
Q_A = part of the quota of DT concerning with the A;
τ_p = fiscal rate applied to the personal income of the A and the P;
D_{PN} = net residue concerning with the principal;
D_{PN} = net residue concerning with the A.

Being $D_T = ROE \cdot E$, $- \propto \leq D_P \leq + \propto \leq DA \leq + \propto$ we got:

$Q_P = [(ROE \cdot E) – (ROE \cdot \pi. E)] / DT = 1 - \pi$

$Q_A = 1 - [(ROE \cdot E) – (ROE \cdot \pi. E)] / DT = \pi$

From which it derives that:

$D_A = \pi \cdot Max[(D_T), 0]$

$D_P = D_T – \pi \cdot Max[(D_T), 0]$

In conclusion, once known the ROE effectively produced by the enterprise, the part of the quota of the created value concerning with the A is similar to the expiry value of a call option of European type:

$\Delta wA = \text{Max}[\pi . (ROE - ke), 0]$

From which it derives that:

$\Delta w_P = (ROE - ke) - \text{Max}[\pi . (ROE - ke), 0]$

where:

Δw_A = creation (or destruction) of the value for the P;

Δw_A = creation of the value for the A.

The residual sharing from the A causes, therefore, a cost for the P, estimable in terms of increase of the capital cost (ke) or reduction of the ROE:

$ke' = ke + \Delta w_A$

$ROE' = ROE - \Delta w_A$

where:

k' = cost of the capital for the P in the case of residual sharing from the A;

ROE' = ROE of the P in the case of residual sharing from the A.

So, the quantities Δw_P and Δw_A can be also expressed as:

$\Delta w_P = ROE - ke' = ROE' - ke$

$\Delta w_A = ke' - ke = ROE - ROE'$

As a consequence, from the P's point of view, the variable π must be dimensioned comparing the effect of the transfer of part of a residual quota to the A with a consequent effect to the issue of new shares.

Besides that, the proposed analysis, in the limits of the simplifications made, underlines a substantial neutrality to the risk for the A, as his exposure to the volatility of the business income doesn't create - except the hypothesis of failure of the enterprise - the possibility of loss, but only the risk not to get a surplus of income in comparison with the fixed remuneration contractually predetermined. The concept of neutrality must be interpreted considering the possibility that the A has to preserve the initial value of the offered intellectual capital. This means that the intellectual capital is changed into the financial capital only in case of positive business performances; vice versa, in case of negative performances, the financial and intellectual capitals are separated. In this picture, therefore, it appears appropriate to hypothesize a constant positive difference between Q_P and π and, consequently, a positive difference between D_P and D_A when $D_T > 0$. In other terms, the residual right to the A must be considered in a subordinate way in comparison with the residual right of the P:

Neutrality to the risk of the A $\rightarrow \pi < 0{,}5 \rightarrow \Delta w_A < \Delta w_P$

The asymmetrical stock risk sharing from the A involves, however, a deep similarity between ΔwA and the value produced at expiration by a stock option. So you can underline an element of incoherence in the field of the theories that assert the residual right of the A as a consequence of his ownership right on the financial capital: if the A has got the residual right because of his sharing to the capital ownership, to such a right should correspond a risk of loss. From this point of view, the Stewardship Theory shows evident limits, too, as it puts on the same level P and A without hypothesizing an increase of risk for the A, anyway. The thesis of Ghoshal, according to which the risk of the A exceeds the risk of the P, - because of the impossibility for the A to diversify the portfolio - appears, therefore, valid only with reference to either the risk of dismissal of the A or the failure of the enterprise; while it can be criticize in comparison with intermediate situations where the negative trend of the business performances is not so negative to compromise the position and remune-ration of the A established for contract.

Leaving apart the hypothesis of neutrality to the risk from the A and, therefore, considering a symmetrical field of oscillation for D_A $(-\infty \leq D_A \leq +\infty)$ too, we theoretically got an equitable-distribution of the totally produced value. So, following such a perspective, from an hand the variable ? must be applied also to the negative values of D_A and the difference (ROE – ke), from the other hand, it must be set equal to 0,5:

Risk aversion from the A $\rightarrow \pi = 0{,}5 \rightarrow \Delta w_A = \pi . (ROE - ke) = \Delta w_P$

These two suppositions (neutrality and aversion to the risk from the A) refer to two ideal-typical cases, to the Weber, theoretically useful but hardly to be found in the reality. From an hand, in fact, the hypothesis of absolute neutrality to the risk involves the impossibility for the P to renegotiate the relationship with the A; from the other hand, the hypothesis of absolute risk aversion substantially implies that the remuneration of the A is completely equiparable to the one of the P and, therefore, 100% of such a remuneration is variable. Generally, the analysis, we made, suggests that the unitary productivity bonus π is inversely correlated with the bargaining strength of the A. In the Countries (such as Italy) where the rules of the Labour Law tend to be particularly rigid - in the sense that strongly limit the discretion of the P about the possibility to renegotiate the relationship with the A, as a consequence of the results achieved by the enterprise - π should tend towards 0; vice versa, in the Countries (such as the USA) where the rules of the Labour Law tend to be particularly flexible,π should tend towards 0,5.

4. Conclusions and future perspectives of search

The study we proposed, in the limits of the hypotheses made, underlines, at first, how the theme of the residue can be determinant to verify the coherence among certain theoretical considerations of socio-organizational type and the financial effects that derive from them.

In comparison with the agency theory, particularly, the work shows the limits of corporate governance systems that tend to protect exclusively a unique interlocutor, the Principal. It cannot be denied that about a qualitative analysis, in fact, in the actual systems characterized by increasing complexity, the maximization of the efficiency and effectiveness of the A. cannot exclusively occur for economical stimuli and through mechanisms of information reduction and behavioural asymmetries based on ex-ante, in-itinere and ex-post controls.

Contemporary it has emerged that the logic of the Stewardship theory, if brought to the extreme, seems partly to reproduce conditions similar to those of the agency theory. In fact, the realignment of the A to the P, if it is considered as an asymmetrical residual right for the A, puts this last one in a condition similar to that one of a manager who is owner of stock options. In case, instead, of a symmetrical residual right for the A, the aforesaid realignment would put the A under conditions of extreme risk, and such a condition is not coherent with the logic of the Stewardship theory, which has got as aim a higher protection of the A. Such considerations are based on the statement that the realignment in question cannot be determined without the either total or partial annulment of the separation between financial and intellectual capital.

We think, therefore, it is right, from an hand, to accept the general philosophy that subtends to the Stewardship theory and, from the other hand, to delimit its frontiers on the base of a risk-return analysis that is able to determine, case by case, the correct residual right for the agent. For this reason, you can notice that the model of analysis proposed could be examined closely according to several directions among which the one connected to the effects of the residual sharing from the agent on the formation of the capital cost of the enterprise and, therefore, of its value. These last aspects could make our following searches start.

Notes

1- The work derives from a joined engagement; nevertheless Esposito De Falco S. is responsible for the formulation of the paragraphs 1, 2, 2.1, 2.2; Renzi A. for the paragraphs 3, 4. The conclusions must be attributed to both of them.

2- About this matter, refer to Ghoshal S., 2006, pp.387-393.

3- As an example, we report some cases of that period: in the United States at Boesky, Levine, Milken time, inventors of junk bonds market, high risk and return bonds issued by the investment bank, Dnexel, Bumham and Lambert were charged with serious crimes of insider trading; in Australia the board of directors and the top managers of Rothwells and Girvan Corporation were charged with illegal company practice; in Great Britain the difficulty of BCCI and Maxwell came to the attention of the news.

4- About it, Bresciani refers of a "management approach" (where the ways of representation of composite interests, which are involved in the enterprise, are described); "managerial approach" (concerning with the working of bodies and mechanisms of decision and control of the enterprise; "institutional approach" (concerning with the interpretation of market rules, institutional rules and the working of the enterprise). Bresciani S., 2003: 26-27.

5- Jensen M.- Meckling W., 1976.

6- Damodaran M., 2001: 19-20.

7- For instance "keeping close personal relationships, giving excuses, making pledges and material or immaterial warranties (such as reputation) to assure correctness and quality of his own work". Grandori, A., 1995.

8- Borghesi A., 1985.

9- Pilati M., 1991.

10- Cabras F., 1995.

11- Gallinaro, 1995.

12- Eisenhardt K. M., P. 63.

13- Among the others, see Jensen M. and Meckling W., 1976; Fama E. and Jensen M., 1983; Fama E. F., 1980: 290.

14- Eisenhardt K. M., 1989: 68

15- Among the others, see Anderson, Eccles, Colon, Parks, D. Hill, and T. Jones 1992: 131-154 and others.

16- Jensen M. C. and W. H. Meckling, 1976;

Ghoshal S., 2005: 75-91.
17- Alchian A. A., Demsetz H., 1985: 131-159.
18- Kanter R. M., 2005: 93-95.
19- Clarke T., 2004: 371.
20- Ghoshal S. & Moran P., 1996: 13-47.
21- Donaldson L., Davis J. 1991.
22- Vargas Sanchez A., Garcia De Soto Camacho, 2005: 2-3.
23- Donaldson L., 2005: 109.
24- Hill C. L. & Jones T. M. 1992: 131/154.
25- Hambrick D. C., 2005: 104-107.
26- Esposito De Falco S., Renzi A., 2006.
27- Fanni M, 2000: 126-127.
28- Of course, this simplification is functional to eliminate the talkative effect that in such an analysis creates a classified taxation for the nature of the income (rate for financial returns ? rate for returns from work).

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