Agency and Stewardship Attitudes of Chief Financial Officers in Private Companies

Structured Abstract

Purpose: This paper aims to explore the differing attitudes of salaried chief financial officers (CFOs) that can be associated with agency theory and stewardship theory. CFO attitudes are investigated because CFOs typically face additional agency conflict in their roles as overseers of the financial and accounting functions that are responsible for the production of numerical information used as a basis for incentive compensation.

Design/methodology/approach: A qualitative field study of fourteen large privately held Austrian manufacturing companies was conducted. The findings rely on information retrieved from eighteen semi-structured interviews conducted with individuals from these companies.

Findings: The findings reveal a number of contextual factors that influence stewardship and agency attitudes of salaried CFOs. CFOs, who mainly report formally to owners, perceive more control in the hands of the owners. Short-term management appointments appear to facilitate agency-like behavior, whereas the existence of owner-managers as well as the typical CFO's maturity in terms of age and wealth seem to nurture stewardship behavior.

Research limitations/implications: Further (quantitative) research is needed to corroborate the findings in this study, which are derived from a qualitative research approach. Further research on agency and stewardship behavior should also include the view of principal with respect to agent actions, as this paper shows that principal opinion strongly affects the way agents perceive control.

Practical implications: The findings suggest that the behavior of company owners can influence and change a manager's agency or stewardship attitude. Owners who desire a culture of stewardship should set long-term goals and facilitate long-term management appointments. Moreover, owners can lower a manager's perceived level of owner control by adopting an active role in management.

Originality/value: This paper is the first to analyze stewardship and agency attitude of salaried CFOs in privately held companies. It therefore adds to the current literature on the role of the CFO as well as to the literature on governance issues in privately held firms.

Type: Research paper

Keywords: Chief Financial Officer (CFO), Agency Theory, Stewardship Theory, Attitude, Private Company

1. Introduction

A major area of interest for finance and accounting research over the last decades has been the collaboration of company owners (principals) and salaried managers (agents). Inevitable problems arise in this collaboration because of the separation of ownership (in the hands of the owners) and control (in the hands of managers) (Shleifer and Vishny, 1997). A key area of interest has been to determine how to overcome conflicts of interest between owners and managers (Jensen, 1986; Shleifer and Vishny, 1997). One root cause of these conflicts, as well as one of agency theory’s key assumptions, is that employed managers do not (only) pursue the owners’ intended goals when exerting managerial power over the owners’ funds but pursue goals of self-interest instead. Such self-interested goals may include excessive compensation for themselves or using the firm’s funds for low-return takeovers to increase the resources under management control (Jensen and Meckling, 1976; Jensen, 1986; Eisenhardt, 1989; Shleifer and Vishny, 1997). Such self-serving behavior is generally referred to as “agency behavior” (Le Breton-Miller *et al.*, 2011). Two basic mechanisms are most frequently discussed as possible methods to limit self-serving behavior and to align the interests of managers and owners: monitoring and incentive payments (Jensen and Meckling, 1976; Davis *et al.*, 1997). Monitoring includes implemented measures that are conducted by the principal that monitor agent behavior (e.g., the request of oral and written reports by the agent to governing bodies such as the board of directors). Incentive payments are an attempt to align manager compensation with business outcomes so that the level of manager compensation is a reflection of owner achievement with respect to intended business outcomes (Jensen and Meckling, 1976; Eisenhardt, 1985).

For both types of mechanisms, the respective company’s finance and accounting functions are important suppliers of data. These data include numerical information used in assessing how the agent proceeds in achieving the goals set by the principal and whether the goals are attained, as well as information for the actual calculation of agent compensation based on goal achievement (Lambert, 2007). The corporate functions of finance and accounting are usually overseen by the chief financial officer (CFO) (Mian, 2001; Merchant and van der Stede, 2007). If the CFO is not a major owner of the company but a salaried manager, then additional conflicts of interest may become apparent (Hiebl, 2013). CFOs are typically responsible for financial and accounting functions and oversight of the production of numerical information used for the development of goal alignment mechanisms between owners and managers. If the CFO is salaried, he may be tempted to display or manipulate financial and accounting data in a way that is favorable to their own compensation (Shleifer and Vishny, 1997; Feng *et al.,* 2011). Thus, procedures for immunizing goal alignment mechanisms from CFO (and other managers') manipulation is a heavily discussed topic. However, research suggests that such immunization is difficult to achieve (e.g., Holthausen *et al.,* 1995; Murphy and Oyer, 2001; Denis *et al.*, 2006). In addition, scandals such as Enron have shown that pronounced agency behavior by managers may lead to severe manipulation of financial and accounting data and even to firm breakdown (Kulik, 2005).

Salaried managers and CFOs do not necessarily have to act as self-serving agents. From a corporate perspective, stewardship theory implies that managers pursue the long-term well-being of the company instead of their own (Davis *et al.,* 1997; Hernandez, 2012). Empirical studies have shown that managers not only pursue self-serving interests but also behave, at least partly, in a steward-like manner (Davis *et al.,* 2007; Vallejo, 2009; Davis *et al.,* 2010). However, none of these studies has yet focused on CFO behavior and corresponding steward-like behavior given the aforementioned conflicts of interest.

This study addresses this research gap and analyzes CFO attitudes associated with agency and stewardship theories. This study aims to reveal how agency and stewardship behaviors and attitudes of CFOs are manifested and the motivation for these attitudes. The study relies on an exploratory, qualitative field study. The main components of this field study are semi-structured interviews with both CFOs (agents) and firm owners (principals) of privately held companies. The study focuses on privately held firms because the relationship between majority owners and managers will not be distorted by equity market pressures and the agent-principal relationship can therefore be studied more directly. Although the majority of global companies are privately held (La Porta *et al.,* 1999), finance and accounting research, including research on CFO positions (e.g., Mian, 2001; Geiger and North, 2006; Feng *et al.*, 2011; Hoitash *et al.*, 2012) has mostly analyzed publicly traded companies. Therefore, another motivation for studying private companies in this paper is to enrich CFO research using insight from companies that are not listed on the stock market.

This paper's findings suggest that a CFO's agency- or steward-related attitude is influenced by several factors. One such factor is that the presence of owner-management in private companies seems to lower the level of perceived control by CFOs and in turn fosters a culture of reciprocal trust – a culture often associated with stewardship theory (Davis *et al.,* 1997; Hernandez, 2012). Moreover, the findings indicate that while maturity in terms of age and wealth foster stewardship attitudes, a corporate culture that is focused on short-term management appointments and short-term performance facilitates agency attitude. The study also gives examples of CFO stewardship attitude and its manifestation – for instance, a CFO who openly criticizes company owners and risks job loss for the sake of the company's long-term well-being.

These findings imply that company owners can decisively influence and also change agency or stewardship attitude among their salaried managers. Moreover, agency theory (Jensen and Meckling, 1976; Shleifer and Vishny, 1997) research findings suggest that by closely monitoring salaried CFOs, owners can diminish agency-related attitude among CFOs. In contrast to extant stewardship theory (Davis *et al.*, 1997; Hernandez, 2012), this study's findings suggest that if close monitoring is enacted informally (by active owner involvement in management), close monitoring is not necessarily detrimental to a manager's stewardship attitude. Furthermore, by promoting long-term goals, long-term performance and long-term management appointments, stewardship-like attitudes can be fostered. Although these results were derived by analysis of private companies, certain findings may also be applicable to publicly traded companies. For instance, the results may be interpreted as suggesting that closer monitoring of managers by supervisory boards (or public authorities, see Prorokowski, 2013) should not be limited in scope to a small number of annual board meetings but should include more intense information flow between directors and managers – and during the intervening period between two formal board meetings. This monitoring could help to reduce or limit detrimental agency-related attitudes and related scandals.

The remainder of this paper proceeds as follows: section 2 provides more details on what constitutes agency and stewardship attitudes and behaviors of managers. Section 3 presents the methodology of the qualitative field study conducted, and section 4 presents the field study's main findings concerning CFOs' agency and stewardship attitudes. Finally, in section 5, these results are discussed, and in section 6, the conclusions with respect to research and practice are drawn. The study's limitations are also presented in the last section.

2. Study background: agency and stewardship attitudes of managers in private companies

The basic difference between agency and stewardship theory is the underlying model used to define human nature. Whereas agency theory posits that agents are economically rational humans who try to maximize their self-interest (Jensen and Meckling, 1976; Eisenhardt, 1985), stewardship theory posits that stewards as individuals are willing to subjugate personal interest to support the long-term welfare of other beneficiaries (Hernandez, 2012). The main distinction between the two theories is the focus on self-interest in the case of agency theory, as opposed to protecting the interests of others with respect to stewardship theory. This difference implies that extreme agents and extreme stewards represent the polarized ends of a shared continuum, which ranges from a complete focus on self-interest to a complete focus on the interests of others (Davis *et al.*, 1997; Caers *et al.*, 2006). Davis *et al.* (1997) have portrayed the agent as an entirely extrinsically motivated individual (e.g., motivated by high cash compensation) and the steward to be intrinsically motivated because he or she sacrifices extrinsic rewards for the long-term well-being of the beneficiaries that the steward serves.

Primary extrinsic or intrinsic motivation might also have an impact on the temporal orientation of manager action. Managers with the agency attitude can be expected to be short-term oriented, as they try to maximize their private benefits in the shortest time period possible. Corresponding behavior might include action that increases company short-term performance, which might in turn sacrifice the firm's long term sustainable development (Palley, 1997; Krafft and Ravix, 2005). In contrast, stewards – e.g., those with the aim of securing the firm's long-term success – might act contrarily and sacrifice their own short-term performance to secure the company's long-term well-being. An agent's short-term orientation is especially applicable to stock-market listed companies, where shareholders or analysts often require short-term successful performance (Marginson and McAulay, 2008). Agency-oriented managers therefore might attempt to deliver short-term performance to secure their own jobs or advance their career (Palley, 1997), whereas stewardship-oriented managers might be willing to risk their job security for the interests of the company and its longer-term success.

Acknowledging the two extremes of managerial attitude towards self-interest has important effects for a company's general management philosophy. If the principal can be confident that the salaried managers will act according to the steward model, the managers will intrinsically act in a way that supports the longer-term well-being of the firm. Therefore, only minimal control mechanisms are necessary. Consequently, reciprocal trust replaces formal control mechanisms such as close monitoring or incentive compensation (Davis *et al.*, 1997). Imposing such control mechanisms on managers who adhere to stewardship attitudes might result in destructive effects (Hernandez, 2012). If a principal implements rigid control mechanisms (such as frequent reporting duties or a high share of variable compensation elements) to a steward-oriented CFO, then the CFO might perceive that the principal is lacking trust in their role as steward. Moreover, tight controls limit the CFO's autonomy and responsibility and thereby might be detrimental to their motivation and, consequently, to their personal performance and pro-organizational attitude (Donaldson, 2008).

Contrastingly, if the principal is convinced that company managers have self-serving agent attitudes and might only be interested in maximizing their short-term private benefits, then the principal is well advised to impose tight controls to align agent behavior to principal goals. Thus, the existence of tight formal control is often used as a proxy in the study of principal beliefs with respect to agency-related attitudes of the salaried manager (Jensen and Smith, 1985; Boyd, 1994). Consequently, the absence of tight controls might be interpreted as an indicator of a stewardship culture, and the stewards in such an environment might perceive more trust from the principal than they might perceive in an agency environment.

It has been assumed that the principal's goals mimic company goals. Consequently, if a steward intrinsically follows company's goals, then the steward would serve the principal well. However, research has found that principals may also impose goals that do not serve the longer-term development of a company. For instance, in family business, which is a common private company business type (Shanker and Astrachan, 1996; La Porta *et al.*, 1999), the controlling family (serving as the principal) might use its power to provide family members with management roles. However, this strategy can threaten the long-term development of the company if the family members are not the best managers of the company. In such a case, the principal's goal of creating employment options for family members cannot be regarded as steward-like because it could be detrimental to the company's well-being (Schulze *et al.*, 2001; Schulze *et al.*, 2003a; Schulze *et al.*, 2003b). Contrastingly, both the family principal and family manager behavior could be regarded as motivated by self-interest and not company-interest, and they could be accused of acting in an agency-like manner. This example illustrates that with respect to overall agency analysis, or analysis of the stewardship culture of a company, owner perspective must also be incorporated to fully capture the prevailing corporate culture.

The majority of extant literature on agency-like behavior cited in this study has focused primarily on stock-market listed companies and not on private companies (including the seminal papers by Jensen and Meckling, 1976; Jensen, 1986; Shleifer and Vishny, 1997). However, the listing status of a company may have an important influence on agency and stewardship attitudes of their managers. First, managers of public companies might be more frequently subject to short-term performance demands by shareholders than managers of private firms. Public companies might therefore attract managers with an agency-like attitude, who are willing to subjugate the company's long-term well-being for short-term performance and their related career advancement. Second, private companies usually have only a small number of shareholders that is substantially lower in comparison to public companies (Beatty *et al.,* 2002; Uhlaner *et al.,* 2007; Nagar *et al.,* 2011). Consequently, the average number of shareholders in private companies is larger than in public companies and shareholders in private companies should have higher utility in closely monitoring management actions (Shleifer and Vishny, 1997). This includes the premise that owners of private companies are likely to have a closer collaboration with company managers, which translates into owners of private companies enjoying a richer set of information than their public company counterparts, who often rely on earnings-based heuristics (Ke *et al.,* 1999; Beatty *et al.,* 2002). Moreover, private company managers may have less freedom to exert agency-like behavior because they are more closely monitored. The empirical section of this paper (section 4) examines the collaboration between CFOs and company owners. This issue is also of importance with respect to agency and stewardship attitude analysis because a central interest of both agency and stewardship theory is how tightly company owners control their salaried managers (Eisenhardt, 1985; Hernandez, 2012).

Third, and possibly related to the second point, private companies on average rely more on debt financing than public companies do because they enjoy limited access to public equity markets (Goyal *et al.,* 2011). Thus, following Jensen's (1986) free cash flow hypothesis, higher debt levels in private companies reduce private company manager latitude of action; they therefore result in lower agency costs as managers have fewer funds available at their discretion. Consequently, private company managers enjoy less freedom and resources to pursue self-serving and agency-related goals such as empire building. This reasoning would indicate that managers of privately held companies have less room to develop agency-like behaviors. However, having closer controls and fewer funds available for use in self-serving goals does not necessarily result in private company managers actually showing less agency theory related attitudes. From the extant literature, it therefore seems impossible to predict how CFO agency or stewardship attitudes might be manifested in private companies. Therefore, to analyze these attitudes, this paper uses an exploratory, qualitative research methodology, which is discussed in the next section.

3. Methodology

3.1 Qualitative research approach

Research on CFO agency and stewardship attitudes is scarce. Thus, to facilitate theory development on this topic (Creswell, 2009) this study relies on an exploratory, qualitative research approach to analyze CFO stewardship and agency attitudes. For data collection, a total of eighteen semi-structured interviews were conducted with a cross-section of thirteen CFOs and five firm owners or spokesmen from a group of owners. This approach was chosen because conducting semi-structured interviews enables the researcher to study complex phenomena – such as agency or stewardship attitudes – with more depth in comparison to survey approaches (Wengraf, 2001; Qu and Dumay, 2011). In contrast to survey approaches, an interview enables the researcher to investigate and clarify topics if initial statements from information sources are ambiguous or not fully understood by the researcher (Rubin and Rubin, 2005; Yin, 2009).

To obtain an optimal company comparison and to control for the working environment of the CFO and firm owners, the study focused only on privately held companies that had their headquarters located in Austria. Moreover, all companies were large in size (according to the European Commission, 2003's criteria), and they could be classified as manufacturing firms and had obtained the legal form of a limited or a private limited company. In all companies, the CFO was not a major shareholder (holding less than 5% of shares). For the purposes of this study, managers were regarded as CFOs if they held primary responsibility for the management of the company's financial system, as with being responsible for the company's treasury activities and raising capital, overseeing the company's accounting function, and preparing financial results (Mian, 2001).

3.2 Data collection and analysis

The semi-structured interviews were conducted between June and October 2011 and lasted for an average of two hours. At the start of each interview, quantitative information on interviewees and their companies was obtained using closed-ended questions. Descriptive information on the interviewees, their companies and on the interviews can be found in Table 1. Each of the companies was assigned a Greek letter (see Table 1) to secure their anonymity.

After the introductory closed-ended questions, interviewees were asked open-ended questions with respect to their collaboration with the CFO or firm owners. After briefly introducing the interviewees to the main tenets of agency and stewardship theories, they were asked how accurately their company's current CFO reflects the behaviors predicted by these theories. Furthermore, two more open-ended questions were designed to determine how control is exerted by company owners and if/how CFOs perceive control by company owners.

With respect to CFO interviewees, answers to questions concerning self-perception as agent or steward might be biased because of social desirability bias (Tourangeau and Yan, 2007). For instance, there could be a tendency for CFO interviewees to view themselves as stewards rather than as agents because agency-like attitudes hold character traits such as egotism and avarice in low regard (Kulik, 2005; Heath, 2010). Interview responses from CFOs were therefore critically analyzed for reporting ostensibly on stewardship-like attitudes only. Moreover, as will be shown in section 4, some CFO interviewees portrayed themselves as having an agency-like attitude. This finding shows that despite lower social desirability, openly asking for agency attitudes yielded responses confirming such attitudes.

All interviews were recorded digitally and transcribed verbatim after obtaining approval from the interviewees, resulting in more than 400 pages of transcribed textual information. This information was then coded using Thomas' (2006) general inductive approach. Following this approach, all transcripts were read closely, and themes related to the research objectives were identified. If one such theme emerged in one transcript, all other transcripts were scanned for the same theme and coded analogically. More than 2,000 codes were developed. Subcategories and larger main categories of codes were then formed. In general, this approach is inductive in nature and allows "research findings to emerge from the frequent, dominant, or significant themes inherent in raw data, without the restraints imposed by structured methodologies" (Thomas, 2006, p. 238). The general inductive approach also involves a deductive element, namely, a focus on certain themes of interest and research objectives. However, the data analysis *per se* is considered to be fully inductive.

Table 1 - Descriptive information on interviews, interviewees, and their companies

	Interviews		**Interviewees**				**Companies**			
Company	Date	Length	Position	Age (years)	Education level	Working experience (years)	Number of Employees	Annual revenue (Euro millions)	Year of foundation	Owner actively involved in management
Alpha	June 17, 2011	1:38 hrs.	CFO	40-55	Master	15-30	250-500	50-100	1900-1950	Yes
Alpha	June 17, 2011	0:58 hrs.	Owner and CEO	>55	PhD	15-30	250-500	50-100	1900-1950	Yes
Beta	June 21, 2011	1:56 hrs.	Owner and chairman of the supervisory board	40-55	PhD	15-30	250-500	50-100	Before 1900	Yes
Gamma	July 11, 2011	2:02 hrs.	CFO	40-55	Master	<15	>1,000	>300	1900-1950	Yes
Gamma	August 25, 2011	1:20 hrs.	Owner and chairman of the supervisory board	40-55	Master	15-30	>1,000	>300	1900-1950	Yes
Delta	July 8, 2011	2:30 hrs.	CFO	<40	Master	<15	501-1,000	101-300	After 1950	Yes
Epsilon	July 11, 2011	1:57 hrs.	CFO	40-55	PhD	15-30	250-500	50-100	1900-1950	Yes
Zeta	July 14, 2011	1:47 hrs.	CFO	>55	Master	>30	501-1,000	101-300	Before 1900	Yes
Zeta	July 20, 2011	1:06 hrs.	Owner and CEO	40-55	Master	15-30	501-1,000	101-300	Before 1900	Yes
Eta	July 25, 2011	1:54 hrs.	CFO	<40	Master	<15	>1,000	101-300	Before 1900	Yes
Theta	July 27, 2011	2:01 hrs.	CFO	40-55	Master	>30	501-1,000	50-100	After 1950	No
Iota	August 17, 2011	1:37 hrs.	CFO	40-55	Master	15-30	>1,000	101-300	1900-1950	No
Kappa	August 31, 2011	2:09 hrs.	CFO	40-55	Master	15-30	250-500	50-100	1900-1950	Yes
Lambda	September 16, 2011	3:37 hrs.	CFO	40-55	Master	<15	>1,000	>300	1900-1950	No
Mu	September 29, 2011	1:53 hrs.	CFO	>55	No degree	>30	250-500	50-100	After 1950	No
Mu	September 27, 2011	1:32 hrs.	Chairman of the advisory board	>55	PhD	>30	250-500	50-100	After 1950	No
Nu	September 28, 2011	1:20 hrs.	CFO	40-55	Master	15-30	>1,000	>300	Before 1900	No
Xi	October 14, 2011	1:50 hrs.	CFO	40-55	Master	15-30	>1,000	>300	1900-1950	No
	Total	33:07 hrs.								

Notes: The table summarizes key characteristics of this study's informants and the companies they worked for or owned.
Source: Author's compilation.

4. Findings

4.1 CFO collaboration with company owners

To assess CFO collaboration with company owners, both formal and informal means of collaboration were discussed during the interviews. More formal means of collaboration included supervisory board meetings and CFO written reporting duties.

With respect to supervisory board meetings, in the field study, CFO interviewees emerged as either regularly participating in such meetings or not participating at all. In nine of the fourteen companies investigated (Alpha, Gamma, Zeta, Iota, Kappa, Lambda, Mu, Nu, and Xi), the CFO was a regular participant in board meetings, and in the remaining five companies, the CFO was not. Interestingly, in all five companies (100%) in which the CFO did not regularly participate in supervisory board meetings, one of the company owners was actively involved in the company's management team (Table 2). In six of the nine cases (67%) in which the CFO did participate in supervisory board meetings, none of the owners were actively involved in management. Alternatively, in all six companies (100%) in which the owners were not actively involved in management, the CFO was regularly participating in supervisory board meetings and was reporting to the owners with respect to the financial direction of the firm. This nurtures the idea that the integration or absence of owners in a company's management team might be a driver of CFO reporting duties in the form of regular participation in supervisory board meetings. In this regard, the absence of owners in the management team may be a driver for tighter control of the CFO by owners (at least in a formal way).

Table 2 - Formal collaboration of CFOs and company owners through board meetings and written reporting

		Companies	
	Values	Owner actively involved in management	Owner not actively involved in management
CFO regularly participating in supervisory board meetings	Yes	3	6
	No	5	0
Frequency of written reporting to owners or owner representatives	Daily (+ monthly + quarterly)	0	1
	Weekly (+ monthly + quarterly)	0	1
	Monthly (+ quarterly)	4	4
	Quarterly	4	0

Notes: The table reports on the interviewed CFO's regular participation in supervisory board meetings and CFO reporting to owners in a written form in dependence of whether company owners are actively involved in management.
Source: Author's compilation.

This view was also supported when analyzing CFO written reporting duties, which are supplementary to regular supervisory board meetings. As the primary person responsible for financial and accounting tasks, all interviewed CFOs were also in charge of preparing the management team's written reports to company owners. Interestingly, a high frequency of written reports (daily or weekly) was observed in two companies only. Both companies share the feature that none of their owners was a member of the management team. Moreover, a low frequency of written reports (quarterly) was found in four companies only, all of which had owners actively involved in the management team. CFO Iota (working for one of the companies with daily reporting to their owners) explained:

> *"We have a high reporting frequency, and the company owners also regularly have full-day visits at the company site every five or six weeks. Thus, we have intensive reporting and information systems for the owners, but they do not intervene in decisions. Specifically, all decisions, operational or strategic, such as*

> *corporate development or growth, are all made here on-site. We report very intensely, yes, but there is no active intervention by the owners."*

While such high reporting frequency may be regarded as an indicator of higher formal control, the interviewed CFOs with frequent reporting duties interpreted these duties as normal, or the owners' legitimate right to be informed, and not as an indicator of mistrust. Another CFO (company Theta) also noted that he felt controlled to some extent but that he did not disagree with the frequent reporting practices:

> *"We have weekly reports on sales turnover, order backlog and new orders. […] We place these reports in a virtual data room, and the owner and other members of the supervisory board can download these reports. […] I like this way of reporting very much. In earlier days, the owner often called my personnel and did not call me directly. I then stopped this practice, and in return, we offer all of these reports on a weekly basis. I also feel it is important for the owner to know this information, and if the owner has questions, he can call me. […] In this regard, he also controls me. In particular, he calls me if we are lagging behind our targets."*

The above-stated quotes already indicate that company owners who are not actively involved in management also use informal ways, such as regular telephone calls, to gain insight into the CFO's actions. However, other informal ways of collaboration, such as chance interactions, were also frequently mentioned in interviews by CFOs and owners in owner-managed companies. In such firms, owners who also act as managers participate in management meetings, where they act as managers rather than owners and thus obtain in depth information regarding the actions of the salaried CFO. Therefore, such owner-managers are well informed without intense formal CFO reporting, as company Alpha's CEO explains:

> *"Currently, from the ranks of the owners, I am the one who is actively involved in managing the company. Therefore, because of my management position, I consider my curiosity being well satisfied. […] This would certainly be different if I was not actively involved anymore, for whatever reason. If I were retired, then I think I would still wish to receive the monthly results, even if the supervisory board members normally only receive the quarterly results. […] There was also a similar situation when my father retired from the CEO position. At that time, he also had other questions outside of the formal supervisory board meetings as well as for the CFO. In this regard, the CFO has an additional task, which is most likely comparable to an "investor relations" function."*

In summary, the findings derived from the interviews suggest that independent of whether the owners are actively involved in management, the owners attempt to obtain sufficient information from the CFO on the company's financial situation. Evidence from the field study suggests that the difference between owner-managed and alternatively-managed private companies might be that in cases where the owners are not actively involved in the management team (anymore), owners prefer to impose more formal and more frequent reporting duties on the CFO. The owner-management role in owner-managed firms, however, ensures that relevant information is already accessible to the owners in a less formal manner. Therefore, from an agency perspective, the owners in both types of private company exert control over the CFO actions.

Table 3 - CFO perception of control exerted by company owners

	Companies	
	Owner actively involved in management	Owner not actively involved in management
CFO perceives control by owners	1	5
CFO perceives weak control by owners	2	0
CFO does not perceive control by owners	4	1

Notes: The table reports on the interviewed CFOs' perception of control exerted by company owners in dependence of whether the company owners are actively involved in management.
Source: Author's compilation.

Examination of the CFOs' subjective perception of control, however, reveals a different perspective. Table 3 summarizes the interview results with respect to whether the CFOs themselves perceive that they are being controlled by the company owners. From these findings, CFOs clearly perceive controlling behavior by owners if they are not actively involved in management. The CFOs interviewed also regularly mention control in connection with formal reporting duties. Thus, it is evident that CFOs perceive higher levels of control because of formal reporting duties. Based on these findings, it can be deduced that although owners in owner-managed as well as not owner-managed companies seek detailed information from their salaried CFOs and therefore exert control over their CFOs, the primary way that they do so (formal vs. informal reporting/collaboration) seems to have a direct effect on the extent to which salaried CFOs feel controlled. CFOs perceive less control when they are not expected to formally report results to owners but are instead expected to discuss results in management meetings in a less formal way. This is illustrated by company Alpha's CFO (an owner-managed company):

> *"I do not perceive any control by the owners. […] Thus, I seem to enjoy a great deal of trust from the owners."*

In contrast, company Iota’s CFO (a company in which the owners are not involved in the management team) explains:

> *“There is control by the owners, including through reporting duties and supervisory board meetings. The owners want to be informed. Our budget also requires final approval by the owners. Even if the budget is coordinated and detailed by my team, it needs to be formally approved by the owners.”*

4.2 Agency attitudes

After a short introduction to the basic ideas of agency and stewardship theory, interviewees were asked to state whether they (in the case of CFO interviewees) or their company’s current CFO (in the case of company owner interviewees) exhibit an agency-like attitude or a stewardship-like attitude. The responses to this question are summarized in Table 4.

Table 4 - Perception of CFOs showing agency-like attitude or stewardship-like attitude

	Interviewees	
CFO's basic attitude	CFOs	Company owners
Rather agency-like	2	0
Rather stewardship-like	11	3
Balance between agency-like and stewardship-like	0	2

Notes: The table reports on interviewees’ perception of themselves (in case of CFO interviewees) or their company’s CFO (in case of owner interviewees) showing agency-like or stewardship-like attitudes.
Source: Author’s compilation.

Two CFOs (Lambda, Xi) described themselves as behaving in accordance with agency theory rather than with stewardship theory. Both CFOs declared that they took over their CFO position primarily to advance their personal career and not necessarily to guide the future course of their company in a steward-like manner. Thus, this behavior can be interpreted as extrinsic motivation and as a sign of agency-like attitude as outlined in section 2. In the words of company Lambda's CFO:

> *"To be honest, I took over this CFO position primarily in self-interest for my CV. However, it was not selfish in the sense of stock options or cash bonuses because at that time, we did not have these things. Rather, it was because I was very young and I wanted to show the world I was able to do it."*

The two CFOs who described themselves as behaving in an agency-like manner perceived controlling behavior by owners and worked for companies that were owned by publicly traded corporations. Although the companies they worked for were privately held, a corporate culture prevailed in parent companies listed on the stock exchange, which influenced their work environment. The CFOs explained that stewardship-like behavior aimed at safeguarding the long-term development of their company was hindered by their employer and was not encouraged. Both CFOs cited one factor as evidence of the perception of the short-term duration of management appointments, which typically lasted for a maximum of three to four years. This factor was that for the duration of management appointments, they were expected to deliver results and document personal impact. Consequently, the CFOs optimized their short-term personal results despite possible implications for the long-term goals or impact on the overall company.

Company Xi is an interesting case. Until a decade ago, the company was owned by several families and could be regarded as a family enterprise. The families sold their shares to the current owner of the company, a multi-national publicly traded corporation. The CFO interviewee worked for company Xi before the takeover and recalls that he has not always perceived himself as adhering to an agency-like attitude:

> *"For me personally, there has been a clear development from steward to agent. […] Now, in our group of companies, one primarily thinks about oneself. […] In our wider corporation, we see scores of managers who are really capable people, driven by their personal income and benefits that they are enjoying. That is the bulk of the people for which the corporation's sake is not the most important thing. However, they are also conditioned to act in this manner because they have to reach their goals, EBITs, profitability, and cash flows, and that is it. They are also only there for a certain period of time and know that after three or four years, they have to reach the next level. That is very different in a family enterprise."*

Although both CFOs regarded their basic attitude as agency-like, they denied that they would purposefully and unlawfully manipulate the level of their incentive payments through their power over company financial statements. Nevertheless, the CFO for company Xi explained that he did use his power as CFO to manipulate earnings and the balance sheet to his advantage:

> *"I think a CFO would be lying if he or she stated that they would not use their power to drive the P&L and the balance sheet in the right direction to meet their cash flow or EBIT targets. If the possibilities are there… and certain possibilities are always there, that is like lubricant to the business."*

In contrast to the CFOs of companies Lambda and Xi, none of the interviewed company owners perceived their CFOs to be strict agents. Two of the five company owners (Alpha, Beta) regarded their current CFO as adhering to neither the agency nor stewardship model, but they instead perceived a balance between agency- and stewardship-like attitudes. These two owners explained that their current CFO would act in accordance with a safe long-term development strategy for the company, but would also consider personal career and income. However, for these two owners, this type of CFO attitude was considered unproblematic and natural, as company Alpha's CEO explains:

> *"Concerning our current CFO, I think that he balances these extremes. And I think this is the right approach. […] Everyone wants to have good personal development and good perspectives, and it is clear that these personal perspectives and our company's success and perspectives are strongly interwoven. Thus, a kind of balance is needed."*

4.3 Stewardship attitudes

The majority of CFOs and owners regarded themselves, or their current CFOs, as exhibiting stewardship-like attitudes (see Table 2). The rationale for these statements was detailed in the interviews and revealed interesting findings. For instance, four CFO interviewees (Alpha, Epsilon, Theta, Mu) described themselves as exhibiting strong stewardship behaviors because the achievement of personal growth and a successful career would only have been possible in conjunction with the company's sustainable longer-term development. This also implies that these CFOs excluded the idea of a job change during the remainder of their career. Therefore, another interpretation of this ostensibly stewardship-like attitude is that these CFOs adopt such an attitude to prevent losing their current job, which in turn could be interpreted as extrinsic motivation and thus a sign of agency behavior. When the maturity of these four

CFOs (all over 50 years old) is considered, this theory garners further support because job changes for older management personnel in the Austrian economy are difficult and rarely occur. Thus, motivation for claiming to have a stewardship-like attitude could also be regarded as agency-like behavior, namely, securing one's own job.

Four CFO interviewees (Zeta, Iota, Kappa, Mu) also mentioned that they would behave according to the stewardship model because company goals are more important to them than their own professional development or the development of personal income. However, this rationale was only offered by CFOs who were at least 44 years of age; therefore, this attitude may also be correlated with maturity in terms of age, a stage at which monetary compensation loses importance for the CFOs, as CFO Theta argues:

> *"I am now 50 years old, and with all of the memories and experiences in my mind that I have had in the past, together with the current situation, money has become only of minor importance to me. This is a natural development and one that you will see as well. It has now become more and more important to make decisions for the right cause and it is also getting more difficult to cope with wrong decisions. On the other hand, one is also more relaxed because one has more independence."*

This notion suggests that stewardship-like behavior may also be a matter of age and personal wealth. This would mean that CFOs, or salaried managers in general, may more easily adhere to the stewardship model if they are financially independent.

Another aspect of stewardship-like behavior mentioned in four of the interviews was the questioning of ownership plans for company development by the CFO. The salaried CFO proactively and critically evaluates the owners' plans and openly dissents if needed. This behavior may be regarded as stewardship attitude because such behavior may also include the risk of job loss, as company Gamma's CFO shows:

> *"In my position as CFO, I try to keep the owner CEO's back free and to keep him on the right track. Keeping him on the right track of course is very challenging, especially in terms of communication. I always have to remind myself that I am 'only' a salaried manager and that they are the owners. Thus, it is crystal clear in the case of conflict who stays and who has to leave. […] I definitely often reach my limits, even so far as to sometimes have thought that I would not return to the office the following day. However, so far, nothing has happened. Nevertheless, it is certainly always a balancing act if I want to do my job in a reasonable way. […] However, owners have to cope with critical feedback from salaried managers because if they are not able to cope with this and do not understand someone who critically scrutinizes things and who sometimes may also appear annoying to them, then they would have many different CFOs, and at times, may only have stooges as CFOs. Unfortunately, that happens all too often."*

This statement suggests that owners also have to cope with, and permit, a salaried CFO to act in a stewardship-like manner.

5. Discussion

The study explored agency and stewardship attitudes of salaried CFOs in privately held companies. The study utilized an explorative, qualitative field study among fourteen private Austrian companies and relied on the results of eighteen semi-structured interviews.

According to this paper's findings, CFO agency attitudes are manifested by a CFO being primarily concerned with (short-term) personal career advancement and goals, and not in the company's long-term success. The results also indicate that CFOs with an agency attitude may drive financial results to their advantage, but did not yield observations of unlawful behavior. The empirical findings show that stewardship attitude may manifest itself in a CFO who values the company's success over personal income and who openly criticizes company owners for plans that the CFO considers to be detrimental to the company's long-term success. This latter behavior includes the risk that CFOs may lose their job for offending their employer, and it therefore may be considered to be the clearest indicator in the study of a stewardship attitude.

Several contextual factors emerged from this study as driving or at least influencing a salaried CFO's actions in keeping with the tenets of either stewardship or agency theory. First, the existence of owner-management seems to influence the corporate control culture and thus the CFO's attitude. CFOs were found to perceive controlling behavior by owners if the owners primarily relied on formal reporting mechanisms to monitor the CFO's actions. Such reporting mechanisms may clearly be regarded as agency control mechanisms in the sense of agency theory (Eisenhardt, 1985; Bo and Driver, 2012). This was primarily the case in companies where owners were not (anymore) themselves participating in the company management team, but instead limited their role to the supervisory board or similar corporate bodies (such as advisory boards). However, regardless of how intense the CFOs perceived control is, all owners of the companies studied in this paper controlled the CFOs tightly, either through formal or informal controls, or by being part of the management team. Thus, these findings complement the literature on collaboration between shareholders and owners in private companies (see section 2) by showing that closely monitoring managers can be realized by formal as well as informal means – albeit with differing consequences with respect to manager perception of control. These findings may also be interpreted as contradicting extant stewardship theory, which proposes that close control and monitoring are detrimental to a manager's stewardship attitude (Davis *et al.*, 1997; Hernandez, 2012). The findings in this study suggest that managers may display a stewardship attitude despite tight control, especially if this tight control is not exerted in the form of formal controls but through informal controls, for instance, by owner involvement in the management team.

Second, indirect stock-market influence evolved as another contextual factor for CFO agency attitude in private companies. Two CFOs of separate companies that were not managed by owners themselves declared that they acted in keeping with agency theory rather than stewardship theory. The CFOs stated that the primary reasons for this behavior were personal career considerations as well as corporate culture, which did not facilitate the adoption of long-term strategies and safeguards for the entire company's successful development. Thus, their behavior may be regarded as extrinsically motivated, which Davis *et al.* (1997) labeled an indicator of agency-like attitude. The two CFOs that behaved in an agency-like manner perceived expectations by owners to deliver short-term results in their areas of responsibility and to achieve career progression in a short period of time. These results fit theoretical reasoning on stock-market influence outlined in section 2. Both CFOs worked for private companies that were owned by public companies. The focus on short-term performance seems to originate from the public parent company and influence the private subsidiary and the attitude of the CFO. Interestingly, one of the CFOs (company Xi) suggests that a manager's agency or stewardship attitude may change over time – in dependence of the requirements that company owners put in place. Following the sale of shares from a company that had been family-owned to a multinational public company, the CFO of company Xi shifted focus from company to personal interest. Thus, as with CFOs who described themselves as stewards, these examples show that principals must create a suitable environment if they want their company managers to act as stewards rather than as agents.

Third, a salaried CFO's personal characteristics also appear to influence their attitude as an agent or steward. The age and private wealth of a CFO emerged as important factors. Certain CFOs described themselves in interviews as having the ability and freedom to act as stewards because they enjoyed financial independence and could therefore focus on decisions that encourage longer-term company sustainability. The field study found evidence that salaried managers' attitude as stewards depends on the ability to "afford" such behavior. This includes having the latitude to openly criticize company owners without the risk of losing their jobs. Similarly, CFO maturity in terms of age also emerged from the field study as a factor that enabled them to act in a steward-like manner because they had achieved the pinnacle of career success and no longer had strong personal ambition, a situation that is quite different from the agency-like CFOs who described the same reasons as their motivation.

Certain CFOs described themselves as stewards most likely due to social desirability, although their stated reasons could be associated with extrinsic motivation, such as job security. One such reason was that a CFO's future personal growth was only available in conjunction with the growth of the company. Extrinsic motivation behind this rationale may be job security. Salaried managers may only indicate to principals that they would act in accordance with the company's well-being to prevent the risk of losing their job. This may be seen as an agent attempt to signal goal congruence and thus limit control mechanisms (Morris, 1987). Therefore, the results of this study may also be interpreted as evidence that ostensible stewardship attitude may also be rooted in hidden agency attitude.

6. Conclusions and limitations

The results from this study contribute to the literature in several ways. First, this study is the first to assess agency and stewardship attitudes of CFOs and thus contributes to a more comprehensive understanding of the role of a modern CFO. The study complements existing CFO research that has mainly considered CFOs of publicly traded corporations. The study suggests that CFOs of private companies are – confirming theories – closely controlled. However, the study also suggests that tight control may be exerted formally or informally by private company owners and that informal control (e.g., realized through owners being part of the management team) leads to lower perceived control by salaried CFOs. The findings of the study may also contribute to the growing body of literature on non-family executives in family enterprises because most of the companies investigated for this study may also be regarded as family enterprises. The study shows that the existence of owner-management (i.e., family management) has important effects on the attitude of non-family managers and their perception of control in the company.

Second, the present paper contributes to the growing field of research that views salaried managers not only as agents but also as stewards to their employer firms. The findings suggest that stewardship attitudes may be manifested by agents openly criticizing their employers and thus risking their jobs for the sake of the company. Moreover, the paper delivers evidence of the reasons why salaried top managers behave in a steward-like rather than agent-like manner. The study shows that a manager's private wealth and age might be important correlates for stewardship attitude, which to date have not been considered sufficiently in business and management research. Finally, this paper indicates that, in contrast to standard arguments by stewardship theorists, tight control is not necessarily detrimental to managers' stewardship attitudes.

Several rich areas of research remain that could enhance and further develop the results of this paper. One topic of research would be to test the relationships developed in this paper in a quantitative setting. For instance, this could include testing the impact of top managers' age and personal wealth on general stewardship or agency culture in the company. Davis *et al.* (2007, 2010) already developed a viable operationalization of the complex constructs of agency and stewardship culture that could be used for such research efforts. Further understanding on how company owners might foster a stewardship-like culture by promoting trust-based relationships and limiting formal reporting and monitoring mechanisms would be valuable. Further quantitative research should also link these questions to business performance to assess whether a more steward-like culture not only helps to reduce agency costs but also impacts bottom-line performance. Eventually, it would also be interesting to study companies and their management teams' agency or stewardship attitudes over a longer period of time and after a takeover. The case of company Xi in this paper has already indicated that a shift from a family enterprise culture to a culture influenced by a large multinational firm also affects the (former) stewardship behavior of its management team.

This study has underlying limitations, which are acknowledged as follows. First, the findings were derived from a qualitative field study and may not be readily generalized. The findings were generated from data obtained from large Austrian privately held manufacturing firms; therefore, studies in other countries, industries, or scales may create different results. In particular, results may differ in countries that feature a one-tier board system in comparison to Austria, which features a two-tier board system (Weimer and Pape, 1999). The board system may influence the collaboration between owners and managers of a company (Shleifer and Vishny, 1997; Jungmann, 2006). Third, research findings may be biased due to social desirability. Nevertheless, the qualitative research approach can be regarded as having facilitated the identification of new relationships, which would not have been revealed in a quantitative setting.

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