

**A STEWARDSHIP COST PERSPECTIVE ON THE GOVERNANCE OF  
DELEGATION RELATIONSHIPS – THE CASE OF SOCIAL FRANCHISING**

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**A stewardship Cost perspective on Nonprofit governance And Delegation  
Relationships – the case of Social Franchising**

**ABSTRACT**

We explore how nonprofits can effectively govern delegation relationships. We extend stewardship theory by conceptualizing stewardship costs; costs in delegation relationships based on stewardship behavior. As stewards are theorized as other-regarding, self-actualizing and intrinsically motivated, so far, literature almost exclusively points to the positive performance potential of stewardship behavior. Addressing this shortcoming, we develop propositions showing how stewardship selection costs rooted in the psychological characteristics of stewardship behavior and stewardship management costs rooted in situational factors of stewardship behavior occur during relationship formation and maintenance and how they counteract the potential to increase performance. We identify and systematize opportunity costs of delayed growth, limited growth potential and lost standardization gains, as well as increased selection and management costs. To demonstrate the theoretical potential and empirical relevance of our framework, we illustrate our arguments by referring to social franchising, a scaling strategy considered relevant for nonprofits as well as social enterprises.

**KEYWORDS**

Stewardship theory, social franchising, delegation relationships, scaling strategy, social enterprise

## INTRODUCTION

In this paper we explore how nonprofits can effectively govern delegation relationships. By delegation relationships, we mean the interactions between an actor that hands out a task - the principal - and the recipient of the task - the agent or steward. Delegation relationships are ubiquitous in both for-profit and nonprofit contexts and can be found in various stakeholder relationships such as between owners/boards and managers (e.g., Caers et al., 2006; Hazelton, 2012; Kreutzer, 2009; Van Puyvelde et al., 2011), managers and employees or volunteers (Caers et al., 2006; Van Puyvelde et al., 2011), or franchisor and franchisees (Beckmann & Zeyen, 2014; Combs, Ketchen, & Short, 2011; Tracey & Jarvis, 2007). Traditionally, research on the governance of delegation relationships has been concerned with minimizing the costs arising from opportunistic behavior and goal conflict. Theories that propose control and financial incentives to govern delegation relationships, such as agency theory (Eisenhardt, 1989), still dominate the for-profit governance literature today. Moreover, they are widely used in nonprofit and social enterprise governance literature (e.g., Beckmann & Zeyen, 2014; Kistruck, Webb, Sutter, & Ireland, 2011; Tracey & Jarvis, 2006, 2007).

In contrast, theories that characterize delegation relationships as mutually consensual relationships between self-actualizing and collective-serving individuals, such as stewardship theory (e.g., Davis et al., 1997; Donaldson & Davis, 1989, 1991; Hernandez, 2012), have begun to attract academic interest, mainly in contexts where actors are less likely to exhibit opportunistic behavior such as in nonprofits (e.g., Caers et al., 2006; Hazelton, 2012; Kreutzer, 2009; Van Puyvelde et al., 2011) or family-owned firms (e.g., Corbetta & Salvato, 2004; Eddleston & Kellermanns, 2007; Greenwood,

2003; Le-Breton-Miller & Miller, 2009; Miller, Le Breton-Miller, & Scholnick, 2007). However, while the relevance of stewardship theory to explain delegation relationship governance is now acknowledged, most studies paint a very positive picture of stewardship relationships based on an alleged ethical superiority of stewardship behavior (e.g., Block, 2013; McCuddy, Pinar, Zeliha, & Bahar, 2011). Scholars thus emphasize the stewardship-relationship potential to increase performance (e.g. Chrisman, Chua, & Litz, 2004; Corbetta & Salvato, 2004; Davis et al., 2010; Le-Breton-Miller & Miller, 2009; Lee & O'Neill, 2003) and neglect the idea that they can also incur costs. Rarely, studies have pointed towards potential problems of stewardship behavior such as groupthink, faulty attribution of success, rigidity, and escalating commitment (for an exception see Sundaramurthy & Lewis, 2003).

Thus, the current academic debate about how to effectively govern delegation relationships is stuck between either focusing on minimizing costs in agency relationships or increasing performance in stewardship relationships. With this paper we aim to move beyond the current state of debate by arguing that, while stewardship relationships do hold the potential for increased performance, they also incur costs significantly limiting performance potential. In this view, costs in delegation relationship do not only result from actors' opportunistic behavior or occur because of goal misalignment. Instead, they can also result from the psychological and situational characteristics underlying stewardship relationships. Thus, they may occur in relationships between self-actualizing and collective-serving individuals and in situations of goal congruence. Understanding costs in stewardship relationships helps to enhance nonprofit managers' skills so they can exploit the benefits of stewardship relationships while minimizing the costs of these relationships. The goal is to improve their

performance potential and to prevent their failure. Our main contribution then is an extension of stewardship theory by conceptualizing stewardship-specific costs in these relationships. We term those costs *stewardship costs*.

We develop our argument as follows. First, we review the existing literature on stewardship theory and pinpoint two main shortcomings. Second, we develop propositions to conceptualize different types of stewardship costs, showing how (ex-ante) selection costs can result from the psychological factors and (ex-post) management costs can result from the situational factors of stewardship relationships, counteracting the potential to improve performance. To demonstrate the theoretical potential and empirical relevance of our conceptualization of stewardship costs, we illustrate our arguments by referring to social franchising, a scaling strategy considered potent for nonprofit organizations and social enterprises (Beckmann & Zeyen, 2014; Dees, Anderson, & Weiskillern, 2004). Finally, we discuss implications of our theoretical framework and point to potential future research avenues.

## **EXISTING LITERATURE ON STEWARDSHIP THEORY**

This section will provide an overview of the current state of research on stewardship theory. In particular, we address the dominant arguments that stewardship relationships lead to superior performance and point to two shortcomings of the current research.

### ***Stewardship Theory – An Introduction***

Stewardship theory conceptualizes delegation relationships as consensual, i.e., the goals of both parties are a priori aligned. In order to explain this goal alignment, stewardship theory draws its elements from psychology and sociology (Schoorman, Wilson, Davis, Hundley, & Bagnoli, 2012). According to the psychological characteristics of stewardship theory, stewards are intrinsically-motivated, identify with the other party's goals and the organization they belong to, and follow a desire to self-actualize (Davis et al., 1997). Moreover, stewards tie their own utility function to that of others (Corbetta & Salvato, 2004; Davis et al., 1997; Hernandez, 2007), a behavior that is called other-regarding (Davis et al., 1997; Hernandez, 2007).

A second set of characteristics draws on sociology to identify situational factors essential to enable stewardship behavior including a greater response to involvement-oriented management, their collectivistic nature, and the preference for low power distance (Davis et al., 1997). Management in stewardship relationships is involvement oriented instead of control oriented and is characterized by participation, shared leadership practices, collaborative communication, empowerment, and trust (Hernandez, 2012; Meek, Davis-Sramek, Baucus, & Germain, 2011). As stewards are conceptualized as collective-serving and other-regarding (Davis et al., 1997; Hernandez, 2012), a

collectivistic culture that emphasizes organizational membership and harmony among members is more favorable for the development of stewardship relationships than an individualistic culture (Hofstede, 1980). Due to the collectivistic sociology and the motivational aspects, stewardship relationships are facilitated by a low power distance culture, which usually favors decentralized organization (Davis et al., 1997; Hernandez, 2012).

### ***Current Research on Stewardship Theory and its Limitations***

Stewardship theory has been applied to different phenomena such as employee supervision (Caers et al., 2006), decision-making (Matherne, Ring, & McKee, 2011), team work (Cuevas-Rodríguez et al., 2012), creativity (Kuppelwieser, 2011) and in different contexts such as for profits (e.g., family firms) (Le-Breton-Miller & Miller, 2009; Miller, Le Breton-Miller, & Scholnick, 2007) and nonprofits (Caers et al., 2006; Hazelton, 2012; Kreutzer, 2009; Van Puyvelde et al., 2011).

Reviewing the body of literature going beyond the nonprofit context, we identified two major shortcomings: First, - and the major issue this study aims to contribute to - existing literature promotes an overly optimistic perspective on the performance of stewardship relationships, neglecting potential problems and costs. Building on Davis et al. (1997)'s seminal theorization of stewardship relationships' "performance maximization", one of the key arguments of stewardship scholars is that stewardship relationships lead to superior performance (Cuevas-Rodríguez, Gomez-Mejia, & Wiseman, 2012; Davis et al., 1997; Le-Breton-Miller & Miller, 2009; Matherne, Ring, & McKee, 2011; Miller et al., 2007; Toivonen & Toivonen, 2014; Zahra, Hayton, Neubaum, Dibrell, & Craig, 2008). While some scholars focus on stewardship's alleged normative ethical superiority stressing the performance enhancing

nature of “serving others” (e.g., Block, 2013), we engage with the behavioral stewardship literature (Davis et al., 1997).

Focusing on *psychological characteristics* of stewards, for instance, Taylor (2012) argues that stewardship relationships stem from the pro-organizational behavior of steward leaders, whereby they value and promote skill development in their followers more than their non-steward counterparts. Due to this active development of skills and capabilities of employees, the overall human capital of an organization increases thereby increasing its performance. Furthermore, studies indicate that individuals who identify with a specific group – e.g., the organization – tend to make more beneficial decisions on behalf of that group (Matherne et al., 2011). Based on the link between the stewards’ and the group’s utility function stewards aim at increasing welfare for all (Matherne et al., 2011). Furthermore, Vallejo (2008) found that identification and involvement are positively linked with survival of for-profits while identification is also positively linked with profitability.

In comparison to the psychological factors, the *situational factors* of stewardship theory received much less attention. For example, Toivonen and Toivonen (2014) identified situations of trust loss in which stewardship behavior ceased, leading to lower performance. Waters and colleagues (2013) argue that stewardship orientation leads to a more balanced perception of power between employees and employers, thus increasing employee’s performance. Furthermore, employees under stewardship management are found to be more creative (Kuppelwieser, 2011) and work better in teams (Cuevas-Rodríguez et al., 2012). However, despite the general notion that stewardship relationships increase performance, existing evidence is far from conclusive, leading to the observation of the second shortcoming.

As second limitation, the literature investigating stewardship framework is conceptually ambiguous and empirically fragmented. Overall, most studies on stewardship behavior did not distinguish conceptually between the psychological and situational variables but rather address stewardship as a *holistic construct*. However, this does not necessarily mean that they address all variables and it often remains unclear what they mean by stewardship behavior. Moreover, most studies focus on the delegator's perspective.

There is only a limited number of empirical studies that investigate stewardship relationships. These studies vary greatly in their operationalization of key variables. For instance, while some authors use customer orientation as a proxy for stewardship orientation (Le-Breton-Miller & Miller, 2009; Segaro, Larimo, & Jones, 2014), others point to the ill-fit of this operationalization (Caers et al., 2009; Kuppelwieser, 2011), making the comparison of results difficult. Together with the conceptual ambiguity, the fragmentation of empirical studies makes it difficult to judge the (performance) effect of stewardship behavior.

We argue that stewardship relationships - like all transactions (Arrow, 1969) - incur costs. For example, Sundaramurthy and Lewis (2003) suggest that stewardship behavior can lead to problems like groupthink, faulty attribution of success, rigidity, and escalating commitment eventually leading to failure. Neglecting a better understanding of costs in stewardship relationships impedes our ability to improve their performance potential and to prevent their failure. Thus, the contribution of this paper is to help closing this gap by conceptualizing costs in delegation relationships that are not based on agency but on stewardship behavior and demonstrate their empirical relevance through illustrative examples.

## **STEWARDSHIP COSTS IN SOCIAL FRANCHISING DELEGATION RELATIONSHIPS**

This section conceptualizes stewardship costs based on the psychological and situational factors of stewardship theory introduced in the seminal paper by Davis and colleagues (1997). The aim of this paper is not to provide a comprehensive list of all conceivable stewardship costs, but to introduce the idea that stewardship relationships do incur costs and to develop propositions outlining costs that are most plausible theoretically and empirically.

### ***Stewardship relationships in social franchising***

To demonstrate the potential of our conceptualization of stewardship costs in this section we apply it to the phenomenon of social franchising. Franchising occurs when one organization (the franchisor) sells “the right to market goods or services under its brand name and using its business practices to a second firm” (Combs, Michael, & Castrogiovanni, 2004, p. 907) or an individual (the franchisee), while social franchising transfers this concept to nonprofits and social enterprises (Sivakumar & Schoormans, 2011; Tracey & Jarvis, 2007). Social franchising is a suitable context for studying stewardship relationships. Based on the characteristics and success of commercial franchising as a means of scaling and due to its promise of broad social mission diffusion at limited cost (e.g., Dees et al., 2004), the popularity of social franchising in both practice and research has been growing (Beckmann & Zeyen, 2014; Kistruck, Webb, Sutter, & Ireland, 2011; Tracey & Jarvis, 2006, 2007). A prominent example of a social enterprise franchises from the literature is Aspire. The UK-based nonprofit social

franchise helped homeless people by providing them with employment and housing (Tracey & Jarvis, 2007). While Aspire failed, successful examples exist. These include Dialogue Social Enterprise (DSE), a German-based social franchise that employs blind people to work as guides in their dark exhibitions and the Danish nonprofit organization Specialisterne that employs people with autism and utilizes their special abilities to offer services to IT companies (Dialogue in the Dark India, 2013; Heinecke & Sonne, 2012; Specialisterne, 2013a).

Most importantly, while stewardship theory has been applied to delegation relationships within organizations it has not been applied to franchising and most surprisingly not to social franchising despite the fact that members of social enterprises and nonprofits are often portrayed as strongly self-actualizing, deliberately willing to accept low financial compensation while pursuing a social mission (Brooks, 2008; Heinecke & Mayer, 2012; Weerawardena & Mort, 2006). So far, analogous to commercial franchising, social franchising has been studied through the lens of agency theory (Beckmann & Zeyen, 2014; Kistruck et al., 2011; Tracey & Jarvis, 2006, 2007), suggesting a clear gap in the literature.

### ***Stewardship Costs based on Psychological Factors***

Existing research argues that the superior performance of mutual stewardship relationship relies on the actors' psychological stewardship characteristics such as intrinsic motivation, strong identification with the delegator, and responsiveness to the use of personal power (e.g. Chrisman, Chua, & Litz, 2004; Corbetta & Salvato, 2004; Davis et al., 2010; Le-Breton-Miller & Miller, 2009; Lee & O'Neill, 2003). An important assumption of stewardship theory in this context is that stewardship behavior of delegates is usually enacted with the delegator they identify with (Ashforth & Mael, 1989). We

pinpoint two effects through which those psychological characteristics can create costs in delegation relationships, i.e., an increased relevance of selection and increased selection cost intensity.

First, it is essential to identify and select stewards to establish a stewardship relationship. However, psychological characteristics and motivations are usually hidden and can easily be obscured by actors due to information asymmetry (Connelly, Certo, Ireland, & Reutzel, 2011; Eisenhardt, 1989). To alleviate information asymmetry, agency theorists can resort to ex-ante signaling, screening and contract design as well as to ex-post goal alignment mechanisms such as financial ownership incentives and control mechanisms like reporting and monitoring (Connelly et al., 2011; Eisenhardt, 1989; Nyberg, Fulmer, Gerhart, & Carpenter, 2010; Van Puyvelde et al., 2011). However, ex-post goal alignment is difficult in stewardship relationships due to stewards' non-responsiveness to financial rewards as well as ex-post monitoring and control mechanisms (Davis et al., 1997). While it may be possible to align goals ex-post through, e.g. intensive involvement or joint mission-building, the costs are likely to be prohibitively high. Thus, it is crucial to determine the "fit" between delegator and delegate ex-ante (Caers et al., 2009), increasing the importance of the selection process and associated selection costs.

Secondly, there is a rich literature on the signaling of traditional characteristics such as quality, skill and education (Clarkin & Swavely, 2006; Jambulingam, Joseph, & Nevin, 1999) helping actors to screen partners for an agency relationship. In stewardship relationships, however, actors need to screen beyond traditional characteristics to select partners based on their intentions and the potential to establish a trust relationship. Literature on signaling behavioral intentions and psychological characteristics is scarce

(Connelly et al., 2011) with recent research showing that intuitive and easy-to-use mechanisms such as selecting partners according to similarity with oneself are ineffective (Caers et al., 2009). Furthermore, different intrinsic motivations such as mission-orientation and client-orientation have to be distinguished, as ex-post conflicts can arise with delegates who are too client-oriented rather than mission-oriented (Caers et al., 2009). Thus, in comparison to establishing agency relationships, selecting partners for a stewardship relationship is more costly (Caers et al., 2006; Steinberg, 1990), as there are fewer objective measurement methods to uncover motivation and establishing trust takes time. This reasoning can also help to explain why stewardship relationships are common in family firms, where actors have prior ties that reduce the difficulty of identifying an actor's true intentions and establishing trust (Miller et al., 2007), thus reducing stewardship selection costs.

Thus, stewardship costs based on psychological factors materialize as selection costs in the form of resource and time investment that happens prior to relationship formalization. Importantly, stewardship selection costs occur in addition to selection costs previously identified in the literature.

*Proposition 1a: The more important psychological stewardship characteristics are as partner selection criteria, the higher both delegator's and delegate's selection costs in the form of resource and time investment.*

From the delegator's perspective and as a longer-term consequence, the increased selection cost and time will likely lead to slower organizational growth and thus the number of relationships formalized will be lower in a given timeframe. Therefore,

stewardship costs based on psychological factors further materialize as opportunity costs of delayed organizational growth, which become visible long term and are specifically detrimental to organizations relying on growth or economies of scale.

For example, Andreas Heinecke, founder of DSE, characterizes himself as “the worst salesman” because he reveals the most unpleasant facts in the very first meetings with potential franchisees to ensure he only selects franchisees that are truly motivated by the mission and who understand that financial returns are limited (Volery & Hackl, 2010). It usually takes an average of 2 years from the first contact until the contract is signed at DSE (Heinecke & Sonne, 2012). Established as a franchise in 1995 (INSEAD, 2010), in 2015 DSE operates 25 permanent exhibitions worldwide (Dialogue Social Enterprises, 2015). While the two locations in Germany are company-owned, the remaining 23 outlets are franchised (Dialogue Social Enterprises, 2015). Thus, DSE has grown by approximately one outlet per year, while Specialisterne is growing at an even slower rate despite following an active growth strategy (Specialisterne, 2013b) and enjoying global media coverage. Thus, both cases are at the bottom end of absolute franchise growth rate numbers (Taylor & Campbell, 2015) and show very low and declining relative growth rates when new outlets are calculated as percentage of the number of existing outlets (Elgin, 2015). We thus formulate the following proposition.

*Proposition 1b: The more important psychological stewardship characteristics are as partner selection criteria, the higher the opportunity costs of delayed organizational growth.*

Second, existing stewardship literature has mainly argued that the strong identification between delegator and delegate decreases the risk of opportunistic behavior in the relationship (Le-Breton-Miller & Miller, 2009; Miller et al., 2007). However, existing literature on organizational identification shows that strong identification can have dysfunctional effects when overemphasized (Sluss & Ashforth, 2007). “Over-identification” is a psychological dysfunction leading to selective information processing and perception (Sluss & Ashforth, 2007) and can lead to non-consideration of traditional selection criteria (Katz & Genevay, 2002), such as the delegates’ capability to perform the task or the viability of the delegator’s business. Thus, over-identification between delegator and delegate during selection can crowd out the ability to accurately assess the partner’s quality characteristics.

Therefore, stewardship costs based on psychological over-identification can materialize as costs of dysfunctional partner selection. While the negative performance effects of selecting a wrong partner despite everyone’s honest efforts may be difficult to distinguish from the negative effects of adverse selection due to opportunism, they are conceptually different (Hendry, 2002). Whereas the performance of an opportunistic but capable delegate can be manipulated with appropriate incentives ex-post (Eisenhardt, 1989; Jensen & Meckling, 1976), the performance of an honest but incapable delegate is more difficult to manipulate ex-post.

For example, one aspect contributing to the failure of Aspire was the fact that the charismatic personality of one of the founders obscured flaws in the business model and led investors and franchisees to invest despite apparent issues (Tracey & Jarvis, 2007). The franchisor dysfunctionally selected mainly nonprofits as franchisees, emphasizing

their ability to deal with homeless people, while neglecting their capabilities to run a business (Tracey & Jarvis, 2007). Overall, we propose:

*Proposition 2: The stronger the identification between delegator and delegate, the higher the likelihood of costs of dysfunctional partner selection.*

### ***Stewardship Costs based on Situational Factors***

Existing conceptual research has further argued that the superior performance of mutual stewardship relationship relies on the relationship's situational stewardship characteristics such as involvement orientation, collectivism, and low power distance (Davis et al., 1997). We identify three ways in which those situational factors can create costs. While stewardship costs based on psychological factors mainly result from the efforts and inefficiencies of establishing a mutual stewardship relationship during selection, stewardship costs based on situational factors arise predominantly due to efforts and inefficiencies of maintaining the previously established mutual stewardship relationship during relationship management.

First, existing stewardship research highlighted that involvement orientation can increase decision-making quality, which leads to an increase in a stewardship relationship's performance potential (Davis et al., 1997). Involvement orientation is characterized by participation and shared leadership practices (Hernandez, 2012; Meek et al., 2011), which rely on personalized relationship maintenance through frequent individual interactions, reciprocal feedback, and informal communication (Bleeke & Ernst, 1993; Hernandez, 2012; Meek, Davis-Sramek et al., 2011). However, practices of participation and shared leadership in involvement orientation will incur ex-post

stewardship management costs of slow and complex decision-making and coordination as multiple delegates need to be involved.

*Proposition 3a: The more the management philosophy relies on involvement orientation, the higher the delegator's management costs of decision-making and coordination.*

Furthermore, these issues will likely increase with the growth of the organization as the involvement of more actors further complicates and slows down decision-making and coordination. Thus, growing organizations will likely experience a threshold size beyond which involvement orientation costs will outweigh its benefits. As a consequence, involvement orientation limits an organization's growth potential as larger organizations will need to - at least partly - revert to control orientation with an increasing number and complexity of decision-making processes (Morck & Yeung, 2003). The more an organization's management philosophy involves control orientation, however, the more it will incorporate elements of agency rather than stewardship relationships (Morck & Yeung, 2003). Thus, stewardship costs based on involvement orientation further materialize as opportunity costs of limited organizational growth.

In both DSE and Specialisterne, the founder is the main supporter for franchisees and thus devotes a lot of time and resources in meetings, on the phone, or travelling to the outlets to nurture relationships with the franchisees (Heinecke & Sonne, 2012; Volery & Hackl, 2010). However, a franchisor can only manage a limited number of close personal contacts, which ultimately limits the total number of franchisees. As a rule of thumb there should be at least one full-time support person for each 15 to 20 new

franchisees (Elgin, 2015). Supporting this rule Heinecke states that he reached his capacity of relationship maintenance. Thus, further growth risks compromising the existing personalized and involvement-oriented management philosophy through the need to introduce levels of hierarchy between franchisor and franchisees and more formalization in their interaction (INSEAD, 2010). Limited growth, however, limits DSE's social impact. We thus conjecture:

*Proposition 3b: The more the management philosophy relies on involvement orientation, the higher opportunity costs of a limited organizational growth potential.*

Second, existing research has highlighted the performance potential of organizations relying on collectivist cultures (Davis et al., 1997). However, collectivism can spur goal conflict between parties when delegator and delegate prioritize different stakeholder groups or have a different understanding of how to serve them based on nonprofits' goal of attaining often-contradicting social and commercial objectives (Weerawardena & Mort, 2006). For instance, conflicts will arise in the frequent scenario of the delegator being more mission-oriented while the delegate is being more client-oriented (Caers et al., 2009). While delegators are concerned with the strategic long-term mission of the entire organization, delegates work more closely with and for their local clients (Tracey & Jarvis, 2007). Thus, as soon as trade-offs between client-orientation and mission-orientation emerge, the likelihood of a collectivism dilemma increases. In these situations, delegates are torn between the desires to serve both the client and delegator. This dilemma is likely to be more pronounced in delegation relationship where delegates enjoy high levels of autonomy, work in geographically distant locations from

the delegators' headquarters, or operate within a complex network of stakeholder relationships (Lumpkin, Moss, Gras, Kato, & Amezcua, 2011; Van Puyvelde et al., 2011).

For example, with due care, the conflicts at and the eventual demise of the social franchise Aspire as reported by Tracey and Jarvis (2007) could be interpreted as stewardship costs due to goal conflict based on collectivism. They quote: "The catalog business' struggle for survival meant that the needs of employees became less significant as the Aspire Group's priorities shifted to building competitive position and reducing overheads. But the priority for the franchisees remained the employment and support of homeless people." (Tracey & Jarvis, 2007, p. 679). Thus, collectivism can promote more conflict costs than individualism as it requires negotiations and mutuality, resulting in stewardship management costs of conflict resolution, such as negotiation and conciliation efforts. Importantly, those conflicts differ conceptually from moral hazard in agency theory whereby the delegate acts opportunistically and can be manipulated with financial incentives to align individualistic goals with those of the delegator (Eisenhardt, 1989). In a stewardship relationship both delegator and delegate act based on their collectivistic and other-regarding nature and thus cannot be manipulated with financial incentives (Davis et al., 1997). We formulate the following proposition.

*Proposition 4: With increasing divergence in stakeholder prioritization between delegate and delegator, a collectivistic orientation will lead to management costs of conflict resolution.*

Third, low power distance has been shown to lead to higher autonomy and decision making authority of the delegate, increasing their performance in a stewardship relationship (Schoorman et al., 2012). While decentralized power enables self-control and self-management of the delegate, it will also likely exacerbate issues generated by the other situational variables such as coordination costs (due to involvement orientation) and a potential collectivist dilemma. Furthermore, in large organizations that rely on centralization and standardization low power distance can counteract these through high autonomy and individualism.

In the context of nonprofits, low power distance increases the difficulty to standardize operations. However, standardization minimizes cost, increases scale economies, and facilitates benchmarking in quality control, which are all important performance factors in the social sector (Bradach, 2003). In the context of social franchising, standardization leads to image consistency, which is a key success factor of franchising (Kaufmann & Eroglu, 1998; Zachary, McKenny, Short, Davis, & Wu, 2011). Low power distance increases delegate autonomy, which, together with lacking ex-post goal alignment incentives, facilitates divergence from standard operating procedures. Furthermore, most social franchises are business format franchises (Heinecke & Mayer, 2012) with less detailed contracts (Volery & Hackl, 2010). Therefore, critical knowledge is often tacit (Bradach, 2003), making it more difficult to find the “delicate balance between the large-scale economies derived from system standardization and small-scale economies derived from local market adaptation” (Kaufmann & Eroglu, 1998, p. 70). Thus, the lack of standardization increases costs, reduces benchmarking and the associated potential for improvement, learning and innovation.

For example, while Heinecke from DSE uses the term “Friendchising” supporting the notion of low power distance, he also describes himself as a “toothless tiger” in his role as franchisor stating that franchisees are often unwilling to report results, accept changes or even pay royalties (Heinecke, 2011). Despite multiple attempts, DSE did not succeed in persuading their delegates to follow a uniform corporate identity, resulting in a great variety of logos (while the name is translated into the respective language, font type, and color scheme vary for every outlet). While low power distance has ‘only’ hurt DSE’s performance, in the case of Aspire, delegates’ unwillingness to support the delegator’s attempts to improve the organization’s financial situation has contributed to its demise. Thus, stewardship costs based on low power distance materialize as opportunity costs of foregone gains from standardization and an amplification of existing stewardship management costs. Thus, we propose the following.

*Proposition 5: Low power distance between delegator and delegate will increase opportunity costs of foregone gains from standardization and other stewardship management costs.*

### ***Systematization of Stewardship Costs***

Stewardship costs can be systematized along different dimensions. One way is to systematize costs based on their origin along the relationship formation process and to distinguish whether costs are created before (ex-ante) or after (ex-post) the relationship is formalized. This allows for a comparison with existing delegation relationship costs, such as agency costs. Although ex-ante stewardship selection costs are created during selection, some costs only become effective after selection such as opportunity costs of delayed growth or dysfunctional partner selection. Here, ex-ante stewardship costs are

mainly created by the psychological factors of stewardship theory. As the situational factors of stewardship theory determine how delegator and delegate interact with each other once they have entered a mutual stewardship relationship, we conceptualize ex-post stewardship costs as predominately based on the situational variables of involvement orientation, collectivism, and low power distance. Furthermore, we systematize stewardship costs based on the type of costs such as selection, opportunity, or management costs. Table 1 illustrates and systematizes the stewardship costs we identified.

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## DISCUSSION AND IMPLICATIONS

In this paper we conceptualize costs in delegation relationships that are not based on agency but stewardship behavior, which we term *stewardship costs*. Stewardship costs have been neglected in the literature so far as researchers have emphasized its potential to increase performance, neglecting the notion that stewardship relationships can incur costs. Our conceptualization contributes to different streams of research. First, we extend stewardship theory. Second, by applying stewardship theory and our conceptualization to social franchising, we contribute to social franchising as well as nonprofit and social enterprise research.

### *Implications for Stewardship Theory*

We contribute to stewardship theory by introducing the concept of stewardship costs that arise from the establishment and maintenance of mutual stewardship relationships. We conceptualize stewardship costs as grounded in the psychological and situational characteristics of stewardship relationships and develop propositions outlining costs that are most plausible theoretically. Our study highlights that all delegation relationships, be it agency or stewardship, incur costs that need to be understood and managed. Thus, we see our contribution as complementing existing work that combines agency and stewardship theories by suggesting that costs do always occur but that the type of cost - stewardship or agency – depends on a relationship's location on the stewardship-agency axis (Caers et al., 2006). We show how stewardship costs are conceptually different from agency costs. While agency costs result from weak goal alignment due to opportunism, stewardship costs result from psychological and

situational factors at the core of stewardship relationships. These, in turn, lead to different recommendations for research and practice. The main intended contribution of this paper was to develop the idea of stewardship costs not benefits, which already have been elaborated in existing literature. Thus, when formulating our propositions we focused on the absolute cost effect not the net cost effect, which can be conceive as an inverted U-shaped curve given that stewardship behavior does have positive performance effects that may possibly be outweighed by stewardship costs. Future research could disentangle those effects. As the purpose of our study was not to introduce a comprehensive list of all stewardship costs, we encourage future research to identify more stewardship costs that may occur in different contexts.

These implications have to be considered against the background of some inherent limitations. For example, as we apply stewardship theory, our framework is prone to the same limitations. It is questionable whether the psychological and situational factors of stewardship theory cover all aspects that explain when stewardship behavior likely prevails over agency behavior. Since this study focused on the conceptualization of stewardship costs, an integrative approach that identifies the interplay between agency and stewardship costs was beyond our scope. However, we call for more work in the tradition of Caers and colleagues (2006) and Van Puyvelde and colleagues (2011) that combines both perspectives on delegation relationships while not neglecting potential costs. This may also help research and practice by determining which situations call for management based on agency or stewardship behavior.

Another important avenue for future research is the testing our propositions empirically and the operationalization of the stewardship constructs and costs. In particular, as stewardship costs such as dysfunctional partner selection may be difficult to

distinguish empirically from agency costs despite their conceptual differences. Existing research points to the importance for nonprofits to have more fine-grained selection mechanisms (Caers et al., 2009). For example, to measure identification, future research could draw on existing studies on organizational identification (e.g. Ashforth, Harrison, & Corley, 2008). Furthermore, we call for a more mainstream application of stewardship theory to both nonprofit and for-profit literatures.

### ***Implications for Nonprofit Research and Management***

The insights from our conceptualization are relevant to various issues addressed in the nonprofit literature, mainly selection and management of steward delegates such as employees or volunteers as well as organizational growth. For example, recent research suggests that many nonprofits focus on volunteer selection rather than retention and calls for a greater focus on volunteer retention to avoid high selection costs (Brudney & Meijs, 2009). Others have pointed towards the issue of selecting too client-oriented instead or mission-oriented candidates (Caers et al., 2009). While our conceptualization offers a theoretical framework to make sense of these findings, we can identify opportunities for future research and implications for practice. We identified the selection of steward delegates as a main growth constraint and over-identification as major risk of selecting unsuitable delegates. Thus, the selection of delegates has to take place at the ‘sweet spot’ of relying on prior ties to reduce selection costs but not over-relying on them to avoid the risk of over-identification. Stewardship research in the context of family-owned firms (Chirico, Ireland, & Sirmon, 2011) suggests relying on family members or friends as delegates to reduce selection costs.

Further research is needed to untangle those effects. Specifically, one potent path of research would be to understand how identification and personal power could be made

transferable, i.e. how to have multiple executives with whom staff members identify and whom they are willing to grant personal power. This research would further help to reduce the inherent instability of organizations built on stewardship management. Due to the reliance on individual perception of identification and motivation, the organization in turn depends on specific individuals. Thus, if those individuals leave the organization, the underlying functioning of that organization might shatter. Future research could help organizations to find mechanisms to avoid such organizational failures.

Regarding delegate management, recent research suggests that volunteer management approaches in nonprofits are usually designed as ‘one-size-fits-all’ approaches (Gaskin, 2003; Rochester, 2007). Our conceptualization, however, suggests that relationships between delegate and delegator have to be maintained on a personalized level. Thus, the challenge for nonprofits is to ensure effective, personalized management while keeping its costs low. To overcome this problem, larger social franchises have implemented hierarchical structures with regional representatives who intermediate between delegator and local delegate, such as German nonprofit wellcome gGmbH (Wellcome, 2013). The reasoning behind this approach is to implement agency governance structures, without crowding out stewardship motivation (Beckmann & Zeyen, 2014). Such an approach might also help to overcome the conflict between volunteerism and managerialism often found in nonprofits (Kreutzer & Jager, 2011). However, more research is needed to understand how such approaches can work and whether there exists a location on the stewardship-agency axis where costs are minimized or whether costs just change from stewardship to agency or vice versa.

Furthermore, important implications from our theoretical framework address the inherent issues of growth speed or limit of organizational size of nonprofits which can

cause significant problems for nonprofits for whom scale is imperative to create greater societal change (Uvin, Jain, & Brown, 2000). Opposing existing conceptualizations (Dees et al., 2004; Heinecke & Mayer, 2012), nonprofits may grow slower or more cost-intensively via franchising, than, for example, via branching. While branching requires more financial resource investment (e.g. Heinecke & Mayer, 2012), franchising requires more resources to select franchisees ex-ante as they cannot be monitored as effectively as employees via ex-post behavioral control. We conclude that social franchises may grow faster when the identification process between franchisee and franchisor can be shortened such as through prior ties. However, focusing on delegates with prior ties limits the size of the organization to the number of family and friends each delegator has. Even if partner selection costs and time can be reduced, stewardship management confines the growth to the delegator's capacity to maintain close relationships with delegates.

In conclusion, we hope that our framework will help to both enhance nonprofit managers' skills by creating an understanding of the costs involved when operating from a stewardship approach to delegation and to enrich the theoretical foundations and empirical findings of future research studying delegation relationships.

## ENDNOTES

<sup>1</sup> One exception is the study by McCuddy, and colleagues (2011). However, the authors address the ethical theory of stewardship, which differs from stewardship delegation theory.

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## TABLES AND FIGURES

Table 1: Systematization of stewardship costs

		<b>Stewardship Variables (Proposition)</b>	<b>Origin of Stewardship Costs</b>	<b>Type of Stewardship Costs</b>	<b>Example</b>
<i>Source of Steward-ship Costs</i>	<i>Psychological</i>	Intrinsic motivation, identification, and personal power (P1)	Ex- ante	Selection costs of resource and time investment (P1a)	2 years from first contact until signed contract
				Opportunity costs of delayed growth (P1b)	DSE's and Specialisterne's growth rate of max. one outlet per year
	<i>Situational</i>	<i>Psychological</i>	Identification (P2)	Ex-ante	Likely costs of dysfunctional partner selection
Involvement orientation			Ex-post	Management costs of	DSE's founder is managing all

		(P3)		coordination and decision-making (P3a)	franchisees individually and has reached capacity.
				Opportunity costs of limited growth potential (P3b)	
		Collectivism (P4)	Ex-post	Management costs of conflict resolution	Aspire: Franchisor's priorities shifted while franchisees remained collectivistic towards beneficiaries
		Low power distance (P5)	Ex-post	Opportunity costs of foregone gains from standardization	DSE's failed attempts of standardizing the brand
				Indirect costs through increase in other management costs	DSE's founder uses the term "friendchising" but describes himself as "toothless tiger"