Journal of Business Ethics (2008) 78:153–164
DOI 10.1007/s10551-006-9320-1

Ethical Stewardship – Implications for Leadership and Trust

Cam Caldwell
Linda A. Hayes
Ranjan Karri
Patricia Bernal

ABSTRACT. Great leaders are ethical stewards who generate high levels of commitment from followers. In this paper, we propose that perceptions about the trustworthiness of leader behaviors enable those leaders to be perceived as ethical stewards. We define ethical stewardship as the honoring of duties owed to employees, stakeholders, and society in the pursuit of long-term wealth creation. Our model of relationship between leadership behaviors, perceptions of trustworthiness, and the nature of ethical stewardship reinforces the importance of ethical governance in dealing with employees and in creating organizational systems that are congruent with espoused organizational values.

KEY WORDS: stewardship, leadership, trust, ethics

Cam Caldwell is Assistant Professor of Management in the School of Business at Weber State University. His research is primarily in the areas of organizational governance, ethical leadership and trust. He received his Ph.D from Washington State University where he was Thomas S. Foley Graduate Fellow. He has worked as a City manager, Human Resource Director, and Management Consultants for 30 years.

Linda A. Hayes is Assistant Professor and Director of Program Assessment in the School of Business Administration of the University of Houston – Victoria. She received a B.S.M.E. from Clarkson University, an M.B.A from the University of Houston, and a Ph.D from University of California at Berkeley. Dr. Hayes has 15 years of industry experience. Her research interests include decision-making, stakeholder behavior, business strategy. Dr. Hayes was a 1996 NASA Faculty Fellow. Recently, she has published in the Journal of Management Development, Journal of International Marketing, Business Horizons and International Journal of Mobile Communications.

Ranjan Karri is an Associate Professor of Management at the University of Illinois at Springfield. He received his Ph.D from Washington State University. His research interests are in the areas of entrepreneurship, ethics and strategy.

Patricia Martinez is a cum laude graduate of the University of Houston – Victoria School of Business and works for the Learning Education Achieve Dreams program at that University to help young people in the Victoria, Texas Community set and achieve personal and educational goals.

From the biting whimsy of Adams (2005) daily *Dilbert* cartoons to the wickedly familiar corporate setting of Barry's (2006) *Company*, the satirical insights of business humorists remind us that those who lead the modern organization need to be laughed at – lest we cry in frustration at the seemingly unending examples of mismanagement, ethical misconduct, and patterned dishonesty of a society currently dubbed ''the cheating culture'' (Callahan, 2004, p. 1). In contrast to the constant pessimism about what seem to be unending ethical blunders in business ethics, a small but growing group of management scholars have advocated that business leaders can help their companies create long-term wealth (Paine, 2003; Pfeffer, 1998, 2005) and build organizational trust by governing as ethical stewards (Caldwell and Karri, 2005; Pava, 2003). Leaders, these scholars suggest, owe both society and those with whom they work a complex array of normative and instrumental duties that extend the obligations of governance beyond the scope commonly taught in today's numbers-oriented business schools or valued by a Wall Street fixated on the illusion of prosperity (Mintzberg, 2004).

In this article we focus on the role of the leader as ethical steward and offer five propositions about the nature of leadership and trust. Section one of this article briefly describes the role of the ethical steward as a normative and instrumental leader. Section two explains how those stewardship roles relate to the building of trust, explaining why trust is intimately associated with each individual's personal perceptions. Section three offers five propositions about the impacts of trust on value creation and in creating sustainable competitive advantage. Section four identifies the contributions of this article and its implications for both practitioners and management scholars.

Ethical stewardship and the leadership role

The concept of ethical stewardship has its roots in stakeholder theory, and is a theory of governance in which managers are stewards whose motives are aligned with the objectives of several parties (Davis et al., 1997). Governance theories are concerned with (1) how an organization seeks to optimize performance and accountability, (2) how values and goals are integrated within the systems and structures that are created, (3) how leaders develop and maintain relationships that generate the commitment and cooperation of those who work with and for them, and (4) how principles of leadership and management are formally applied in the conduct of organizational business (cf. McClusky, 2002; Steinberg and Pojunis, 2000). Although stewardship theory is most commonly compared with agency theory and stakeholder theory, two new theories of governance called principle theory and principal theory also offer insights about the ''covenantal'' nature of the leader's role (Caldwell et al., 2006).

Barney and Hesterley (1996) suggested that businesses commonly choose a governance form based upon problems created by bounded rationality and opportunism – even though the form of governance substantially impacts both leader behaviors and organizational culture (Thomsen, 2005). Agency theory advocates the hiring of a professional manager to work for the interests of the shareholders in an effort to maximize organizational performance (Jensen and Meckling, 1976). The acknowledged risk of this theory has been that the managers were presumed to pursue self-interest unless constrained by carefully developed mechanisms that provided incentives for achieving economic growth while protecting against self-serving behaviors (Canella and Monroe, 1997). Stakeholder theory was designed to balance the needs of corporate owners with other stakeholders as an alternative governance model to traditional agency theory. Carroll (1996, p. 23) explained that the task of management under stakeholder theory was to ''reconcile the conflicts of interest that occur between the organization and the stakeholder groups.'' Principal theory proposed that it was the principal rather than the agent who was prone to act with opportunism to the detriment of other stakeholders – hiring the manageror agent to carry out the task of achieving short-term profits at the expense of long-term wealth creation (Caldwell et al., 2006). Principle theory described a governance approach that pursued a set of guiding principles –sometimes to excess – resulting in suboptimization of results because ideal principles and their rigid application may be either inappropriate for every situation or misapplied by unskilled practitioners (Caldwell et al., 2006).

In describing stewardship theory, Davis et al. (1997, p. 26) suggested that the steward ''will not substitute or trade self-serving behaviors for cooperative behaviors'' but will seek to maximize utility for the organization based upon rational principles. Block (1996, pp. 23–25) proposed that stewardship was founded upon ''service over self-interest'' and that treated employees like ''owners and partners.'' Caldwell and Karri (2005, p. 251) wrote that ''[t]he fundamental assumption underlying stewardship theory is that the maximization of long-term economic wealth will ultimately serve to be in the best interests of the principals and the various stakeholders collectively, in addition to maximizing social welfare and the long-term economic benefit to society.'' Principle-based and founded upon a virtue ethics model (Solomon, 1992), ethical stewardship integrates long-term wealth creation, a commitment to the transformational interests of stakeholders, and creating organizational systems that reinforce both instrumental and normative organizational goals.

Caldwell and Karri (2005) listed 15 characteristics of stewardship theory, comparing it with both agency theory and stakeholder theory. Table 1 identifies each of those 15 characteristics while adding insights as to how those characteristics impact the leader's role in achieving organizational goals.

The most significant point of this table is to demonstrate that these 15 characteristics of stewardship theory have significant leadership implications. Specifically, when leadership behaviors rise to a virtue-based ethical level akin to what Cameron

TABLE 1
Stewardship characteristics and their implications for leadership

Issue of Governance	Stewardship theory characteristic	Leadership implication
Ethical focus	Virtue ethics based upon a commitment to society-based virtues and rights.	The leader owes a duty to benefit society and to create added value and wealth.
Manager role	Integrator of shared interests	Short-term priorities that hurt long-term outcomes are inappropriate.
Time focus	Primary concern is long term	Seductive short-term outcomes need to be weighed carefully in light of overall benefits, values, and principles.
Manager motivation	Virtues, values, and society	There are citizenship duties owed in honoring the responsibilities of leadership.
Use of information	Achieve synergies	Information is shared and helps to reduce risk, improve decision quality, and integrate opportunities.
Basis of trust	Integrity	Congruence and alignment of organizational rules, roles, and values creates trust.
Moral Position	Principled	Duties must be honored and interests of all parties must be protected.
Function of roles	Define opportunity	Creating a learning organization that empowers each member is a high yield investment.
Key value	Authenticity	Opportunities and risks are carefully weighed and choices reflect a commitment in the welfare, growth, and wholeness of all parties.
Manager's primary function	Steward	Leaders create meaning and pursue outcomes that benefit everyone.
Organization goal	Create long-term wealth and achieve best interests of all	The organization owes duties to society and to its members and stakeholders.
Manager's personal goal	Achieve potential	The leader's greatness comes from understanding and achieving what is achievable by combining everyone's talents.
Motivational model	Self-actualizing model with intrinsic motivations	The leader values relationships, duty, and virtues and achieves her identity by being an effective "servant and debtor" to others.
Vision/Focus	Increasing organizational wealth to serve all interests	Wealth and value are measured in context with their contributions to society, but harm that may be caused is avoided whenever possible.
Assumptions about People	People are collective self-actualizers who achieve utility through organizational achievement	Each person is valued as intrinsically important and the rights of all are considered precious. Society balances individual rights of citizenship and the collective welfare and growth of the community.

et al. (2003) identified as virtuousness, then those behaviors represent characteristics found in stewardship theory.

Leadership theories abound in the management literature but typically reflect a common interest in "influencing leaders and followers to achieve organizational objectives through change" (Lussier and Achua, 2004, p. 5). These theories range from personality and trait theories to assessments of leader roles and behaviors) that have describe what leaders do (Mintzberg, 1973; Westley and Mintzberg, 1989) or the qualities that they possess (Kouzes and Posner, 2003). Schein (2004) has noted that organizational leaders play the key role of establishing an organizational culture that articulates the behaviors, rules, and values critical to the achievement of an organization's mission and strategies.

Leadership behaviors are both instrumental or outcome-focussed and normative or value-based (Kolp and Rea, 2006). Chemers has described leader behaviors in terms of three key activities: (1) *relationship development* – the interactions of the leader with other key stakeholders to develop relationships, facilitate the needs of employees in achieving those outcomes. and the partnering with individual organization members to create high quality interpersonal ''connection'' with people; (2) *resource utilization* –the management of competing demands, acquisition of organizational resources, and effective utilization of those resources to achieve desired goals; and (3) *image management* –the day-to-day management of tasks and interpersonal contacts to demonstrate who the leader is, and the communication of key ideas to stakeholders, and the integration of beliefs with one's behaviors to perform congruently with how one advertises (Chemers, 1997).

Chemers (1997) reported that leadership behaviors reflect the values of leaders, how they perceive organization priorities, and their methods of dealing with changing organizational demands. Chemers' acknowledge the critical importance not only of achieving the goals of the market place, the *external adaptation* (Schein, 2004) described but also of creating sustainable internal relationships, the *internal integration* (Schein, 2004) of the organization or the degree to which the individual needs of employees are met as they worked within the organization. We suggest that ethical stewardship is a special type of leadership relationship consisting of six elements:

(1) *The leader–follower relationship is established as a dyadic one-on-one relationship*. Ethical stewardship ''examines how leaders form one-on-one relationships with followers'' (Lussier and Achua, 2004, p. 223) consistent with vertical dyadic linkage theory (Evans, 1975). Consistent with leader–member exchange theory, the ethical steward ''attempts to understand the quality of each dyadic relationship and its effects on organizational outcomes (Lussier and Achua, 2004, p. 225).'' The relationship with employees is nose-to-nose and treats employees as highly valued ends rather than as means, commodities, or human resources (Kouzes and Posner, 2003).

(2) *The relationship established is transformational and transactional*. Transformational leadership pursues group goals and organizational needs *in addition to* the individual needs of individuals and provides a ''compelling vision'' of what people and organizations can become (Lussier and Achua 2004, p. 356) . Transformational leaders serve to change the status quo by offering a vision of what can be (Bass, 1995). Transactional leaders seek to maintain the status quo through regular economic exchanges (Bass, 1990). Ethical stewardship seeks to protect the personal interests of followers by creating secure exchange relationships, but uses that resulting safety to unlock the potential of followers to transform the organization.

(3) *The relationship incorporates both implicit and explicit social contracts*. Duties that are unspoken yet covenantal abound in organizations (DePree, 1989). Those duties are inherently a part of the personal relationship between leaders and followers (Rousseau, 1995, 2003). A growing body of literature about social and psychological contracts confirms that leaders who honor social contracts increase both the levels of commitment and performance of those who they lead (Caldwell and Hansen, 2005; Suazo, et al., 2005; Turnley et al., 2003).

(4) *Each follower participant interprets the relationship based upon subjective self- perception*. The nature of relationships and the perceptions of followers in viewing issues associated with fairness, justice, and trust are subjective perceptions based upon an individual subjective lens that consists of an ethically based filter (Primeaux, et al., 2003). The ethical steward, like all leaders, is viewed through the individual lens of each follower.

(5) *The focus of ethical stewardship is long-term rather than short-term*. Ethical stewardship honors the duty of long-term wealth

creation to benefit all stakeholders, rather than the short-term allure of personal self-interest (Hosmer, 1996).

(6) *Ethical stewardship demands the constant management of meaning.* Great leaders emphasize "leading with meaning" (Pava, 2003, and leadership becomes the management of that meaning. Ethical leaders seek to change the basic values, beliefs, and attitudes of followers so that they are willing to perform beyond minimum levels deemed acceptable. Ethical stewardship acknowledges that meanings are in people, and the relationship between the leader and the follower defines that meaning.

Leadership rises to the level of ethical stewardship when leaders earn the trust and followership of those whom they serve by creating integrated organizational systems that demonstrate the leader's commitment to honoring the steward's duties (Caldwell,et al., 2002; Caldwell and Karri, 2005; Pfeffer, 1998).

Ethical stewardship and the development of trust

Ethical stewardship's covenantal nature reflects the unique perspective of the steward towards others, and it is in honoring covenants that leaders develop trust and honor relationships (Rousseau, 1995, 2003). Covey (2004, p. 98) defined leadership as "communicating to people their worth and potential so clearly that they come to see it in themselves." Ethical stewards build trust by truly investing in and affirming the identities of those whom they serve. Pava (2003) noted that the covenantal role of leadership involved not only a responsibility to serve but to help to create meaning by discovering the true nature or identity of individuals within a complex world. Burke (1997, p.135) described one's identity as "the meanings that actors hold for themselves within a role," and noted that we constantly compare our self-perceptions to an "identity standard" through which we hold ourselves accountable.

The ethical steward seeks to help each person to achieve their greatest possible potential (Covey, 2004), and is dedicated to the "welfare, growth, and wholeness" of others whom they serve (Caldwell, et al., 2002 p. 161). Kolp and Rea (2006) have emphasized that ethical leadership demands a heart-to-heart connection that honors the relationships that exist between leaders and followers and that establishes personal and organizational credibility. It is this heart-to-heart connection that enables leaders to be truly authentic and to demonstrate the level of commitment that allows organizations to fulfill their potential (Cooper and Sawaf, 1997). It is this same connection that creates "authentic trust" that is based upon clarity "about one's own identity and of one's relationships with others" (Solomon and Flores, 2001, p. 91).

Trust is an affirmation of one's own identity and an investment in one's future. When we trust we not only acknowledge our desire to enter into a social contract with another party, but we willingly accept the risks involved within that relationship (Caldwell and Clapham, 2003; Mayer et al., 1995, Mayer and Gavin, 2005). Ultimately, when we trust we relinquish our personal choice or control to another in the expectant hope that the other party will honor the duties that we believe we are owed within our relationship (Caldwell and Clapham, 2003). Although many scholars suggest that trust is a belief, action, intention, propensity, or psychological state, Senge (1990) noted that organizations ultimately depended upon the behaviors of those who trusted. Trust is ultimately demonstrated on a continuum – the degree to which an individual is willing to give his or her complete commitment to the party being trusted (Caldwell and Hansen, 2005; Caldwell and Clapham, 2003). Ethical stewards earn that trust by being trustworthy (Caldwell et al., 2002).

This relinquishing of control that drives the decision to trust is based upon an "internal, personal, subjective" (Barnard, 1938, p. 89) reflection of an individual's willingness to comply within a "zone of indifference" or acceptable. range of behaviors requested by the other party. Simon (1997 pp. 201–203) labeled this zone of indifference a "zone of acceptance" to emphasize that those who follow a leader are willing to accept a leader's authority and actively cooperate and collaborate with the leader. Caldwell and Hansen (2005) suggested that this zone represents a "zone of trust" which defines the boundaries in which followers are willing to personally commit their efforts and relinquish personal control in compliance with the roles requested of the leader (Solomon and Flores, 2001).

Trustworthiness continues to be confused with trust in the academic literature (Hosmer, 1996; Caldwell and Clapham, 2003), but scholars agree that each person trusts another when the second person is trustworthy (Mayer et al., 1995). Trustworthiness is a subjectively defined attribution about another person or party that is determined by each person at the individual or organizational level (Bews and Rossouw, 2002). Caldwell and Clapham (2003) noted that the subjective nature of one's personal experiences profoundly impact the decision to trust. Mishra (1996) has identified a four-factor model that frames the decision to trust that incorporates competence or ability, openness and integrity, concern for others, and reliability or consistency. Trustworthiness is subjectively perceived and measured along a continuum (Mayer et al., 1995; Caldwell and Clapham, 2003), with the perceived trustworthiness of the leader being reflected by an increased personal commitment from the follower (Senge, 1990).

The decision to trust at the interpersonal level encompasses one's perceptions about the degree that the behavior of another party demonstrates the key elements of trustworthiness (Mayer et al., 1995). Those perceptions reflect six key beliefs that identify critical perceptions about how we each interpret relationships and frame how we view the world. These six beliefs consist of the following:

(1) *Beliefs about Self.* Self-perception is fundamental to our identities and includes how we view our talents, individual worth, our roles in life, and the nature of our spiritual origin.
(2) *Beliefs about Others.* These beliefs encompass the key relationships in our lives and our conceptualizations about the nature of people and organizations, our relationship to society, as well as our expectations about the duties that others have toward us.
(3) *Beliefs about the Nature of God.* An individual's beliefs about the nature and character of God, the role that God plays in the world and in daily life, and the responsibilities that divine law or doctrines impose on one's duties make up this belief – as well as whether one chooses not to believe in God at all.
(4) *Beliefs about the Past.* Our individual circumstances are influenced past events, personal and family history, and past relationships. These experiences create limits on how individuals view the world. Significant personal experiences, key historical events, and the duties that we owe and are owed also make up our beliefs about the past.
(5) *Beliefs about Current Reality.* Current reality is defined individually based upon how we filter data and interpret information in a boundedly rational and boundedly moral world.
(6) *Beliefs about the Future.* Our view of what would like the future to become creates a tension between that vision and our assessment of current reality. This view of the future includes our beliefs about relationships with others and our duties to them, their duties to us, and the implications of our relationship to deity. (cf. Primeaux, et al., 2003, p. 196)

These six personal beliefs reflect how each individual views duties that they owe and are owed in relationships, the values that they consider to be personally important, and their biasses about how their world should be governed (Caldwell et al., 2002). The six beliefs model also enables individuals to assess the degree to which leaders behave as ethical stewards and the degree to which those leaders are trustworthy.

The trust decision incorporates subjective perceptions about leader behaviors together with one's beliefs about the world. This process incorporates a complex conceptual calculus (Creed and Miles, 1996) that makes intuitive and often unconscious decisions about the often unspoken social contracts that exists between people and organizations (Rousseau, 1995). Vroom's (1964) Expectancy Theory is useful in explaining the complex nature of the social contracts and exchange relationships that impact the decision to risk and the value of outcomes associated in following leaders. The ethical expectations about the obligations of governance, the role of leadership, and duties owed in the social contract that exists between the parties have leadership and stewardship implications related to the decision to trust (Caldwell et al., 2002; Rousseau, 1995; Turnley, et al., 2003).

According to Expectancy Theory, each person assigns value to desired outcomes based upon their individual value system (Lewicki and Stevenson, 1997; Creed and Miles, 1996). Expectancy theory identifies three factors: (1) an effort–performance expectancy (E_1) that represents a subjectively estimated probability that effort will lead to a desired personal performance level, (2) a performance outcome expectancy (E_2) that predicts the likelihood that one's individual performance will result in a sought after outcome, and (3) the valence or subjective value of that outcome (V_O) that measures the degree to which a person actually seeks the expected reward (Pierce and Gardner, 2002, p. 247).

For example, if an individual works as a saleswoman for an upscale shoe department, and is expected to sell shoes, her expectancy probability to reach a monthly performance bonus goal would be based upon whether or not her sales and the sales of similar employees had met or been close to that performance goal in the past. A sales person who had never met the sales volume requirements to meet the performance bonus and who had few ideas to increase sales volume would be likely to have a low expectancy that she would be able to sell the amount of shoes required to qualify for the bonus. Similarly, if the shoe store manager had been known to consistently rewrite the rules and had previously manipulated the bonus quotas, sales personnel would be hesitant in believing that the manager really intended to award a bonus for selling the required volume of shoes within a given month. Finally, if the saleswoman did not value the proffered bonus as worth the additional effort required to achieve the bonus, she would be disinclined to invest those efforts to attempt to achieve the sales bonus quota.

The decision to trust another is entirely consistent with hopeful expectations that another party will deliver a sought after benefit within his or her capabilities (Solomon and Flores, 2001, p. 138). Coupled with that hope, however, is a deeply held recognition that there is both an acknowledged duty owed and a potential harm that could occur to the trusting party if that duty is breached (Hosmer, 1996). Dulany (1967) suggested that behavioral intentions are a function of 1) the individual's subjective perceptions of the likely response of an event, and 2) the individualized or subjective value of that benefit. Consistent with Dulany's model, the decision to trust is represented in the following formula:

$$\mathrm{TB} = [(\mathrm{PT})\ (\mathrm{LoB})]\ (w_1) + [(\mathrm{PVoB})\ (\mathrm{PcoB})]\ (w_2)$$

In this formula TB represents the individual's trust behavior and is the dependent variable. PT represents the perceived trustworthiness of the person to be trusted, based upon the subjective perceptions of the individual perceive (Caldwell and Clapham, 2003). PVoB represents the perceived value of the benefit of trusting and is the valence of expectancy theory (Vroom, 1964). PcoB represents the perceived cost of the benefit; it is the expected cost incurred by the individual to personally cooperate as part of the action to trust. W_1 and W_2 reflect regression weightings for these variables. Dulany's formula represents a model that may be used to assess the degree to which an individual is likely to demonstrate trust behavior. This formula also provides a tool for both scholars and practitioners to increase the likelihood of increased employee commitment, which manifests the decision to trust.

Sankar (2003) found that leaders who dealt with employees with integrity, told employees the truth, and treated employees with dignity and respect were more likely to be perceived as trustworthy, and more likely to earn the commitment and respect of employees. Organizations who invest strategically in helping employees to learn and to improve are also more likely to see performance improvement than leaders those who are less invested in their employees' success and unaware of what employees need to improve performance (Hogan, 2005). Pfeffer (1998, 2005) has effectively advocated the economic value of caring about the best interests of employees and creating organizational systems that invest in employees. Paine (2003) has also advocated the importance of meshing ethical and economic principles to maximize benefits to organizations and the society they serve.

Propositions for performance

A growing body of empirical evidence and scholarly opinion suggests that viewing employees simply as cost centers fails to optimize their value as a source of competitive advantage (Collins, 2001; Greer, 2000, Pfeffer, 2005). Collins and Porras (1994) have documented the importance of a value-based commitment to core values that benefited and characterized the most productive businesses of the past 50 years. Cameron (2003, p.190) has advocated that organizations that are ethically based outperformed those led by leaders with low scores in virtuousness in "profitability, productivity, innovation, quality, customer retention, and employer loyalty." Consistent with our discussion of ethical stewardship, we offer our first two propositions:

P_1 Organizations with leaders who adopt an ethical stewardship model of governance will have employees who have higher trust in their leaders than organizations with leaders who adopt another governance strategy.

P_2 Organizations adopting an ethical stewardship mode of governance will also have employees who demonstrate greater personal commitment, as measured by a personal willingness to invest in the achievement of organizational goals and who feel better about themselves.

The connection between the willingness to invest in behaviors that reflect high personal commitment and the perceived trustworthiness of leaders is a largely affective perception of the credibility of those who lead (Kouzes and Posner, 2003; McAllister, 1995). This affective connection between leaders and employees is critical to creating trust (Jones and George, 1998). Firms may enjoy a competitive advantage vis-à-vis other firms to the extent that such firms are marked by high trust and closer interpersonal relationships between employees and leaders (Pfeffer, 1998, 2005). The perceived trustworthiness of leaders makes the development of these interpersonal relationships possible, suggesting our third proposition:

P_3 Organizations with leaders who are perceived as highly trustworthy will view those leaders as having closer interpersonal connection and a greater emotional commitment towards the organization than do organizations with leaders that are perceived as lest trustworthy.

Sustainable competitive advantage occurs because an organization is able to create economic value in ways that competitors are unable to duplicate (Steensma and Corley, 2001; Barney, 1991). A firm can create a competitive advantage that is (1) valuable in allowing a firm to exploit environmental opportunities, (2) rare among current or future competitors, (3) difficult or costly to imitate, and (4) without close substitutes (Barney, 1991). Scholars have increasingly recognized that wealth creation is based upon high levels of stakeholder commitment (Rowe, 2001). When organizational policies and practices are congruent with claimed values, firms create trust that is also innovative in valuable, rare, and costly to imitate ways that may be without close substitutes (Caldwell and Hansen, 2005; Barney and Hansen, 1994).

Employee perceptions of aligned policies and human resource practices influence levels of commitment and the resulting willingness to engage in extra-role behaviors. Aligned human resource practices can create enduring competitive advantage, particularly in managing existing talent and creating partnership relationships that build loyalty and commitment with employees (Heinen and O'Neill, 2004). Tacit, or subtle interpersonal relational behaviors of the type created by authentic high trust relationships are among the most difficult elements of competitive advantage to replicate (Reed and DeFillippi, 1990, p. 90). A growing body of literature has acknowledged the correlation between sustainable competitive advantage and the creation of powerful relationship-based upon commitments to employees that integrate trustworthiness and effective governance (Cameron, 2003; Cameron et al., 2003; Pfeffer, 1998 and 2005). Pfeffer (1998 , 2005) has provided strong anecdotal and empirical evidence about organizations that effectively manage people and create aligned human resource management systems which build trust, develop employees, and reward excellence while simultaneously creating sustainable competitive advantage. Consistent with these ideas, we propose two more propositions:

P_4 Employers that demonstrate a commitment to employee welfare and that comply with principles of ethical stewardship are more likely to have employees who view their leaders as trustworthy than do organizations that do not demonstrate that commitment.

P_5 Employers that have adopted human resource policies that reflect a commitment to principles of ethical stewardship have employees that demonstrate higher commitment to organizational goals than do organizations that do not adopt such policies.

The behaviors of leaders in creating human resource practices that engender loyalty and commitment demonstrates a commitment to long-term employee welfare but also lays the foundation for creating a competitive advantage that Pfeffer (1998, 2005) has suggested will lead to greater wealth creation – a long-term objective of ethical stewardship.

Contributions of our article

In a business environment in which trust toward management has reached its lowest point (Mintzberg, 2004), the need to win back employee trust and commitment is readily apparent and widely acknowledged (Galford and Drapeau, 2003a, b; Shaw, 1997). We suggest that our article offers four meaningful contributions:

(1) *Ethical stewardship is described as an ethically superior governance model that creates long-term organizational wealth by generating increased employee commitment.* That commitment is the direct fruit of the organizational leader's efforts to create aligned systems that build trust and ensure the welfare, growth, and wholeness of all stakeholders (Caldwell et al., 2002).

(2) *Leaders who follow principles of ethical stewardship are identified as more likely to create interpersonal relationships that generate high trust.* Organizations depend upon trust, commitment, and extra-role behaviors because those behaviors enable firms to be more creative, provide improved service, respond to the demands of change, and create long-term wealth (Cameron, 2003; Pfeffer, 2005). Understanding the importance of creating trust and building stronger personal relationships is essential to improving leader credibility within the organization and in society.

(3) *The importance of Expectancy Theory in understanding the nature of trust and trustworthiness is identified.* Consistent with the assumptions of Vroom's (1964) Expectancy Theory, trust behaviors reflect the mental models of employees and their often sub-conscious assessment of the likelihood that their cooperation and personal commitment will earn a valued return. That assessment is based upon the perceived trustworthiness of organizations and their leaders in honoring the social contracts that govern organizational relationships (Rousseau, 1995, 2003; Suazo et al., 2005).

(4) *The key role of core beliefs and the importance of the six beliefs model in assessing ethical duties, values, and realities is noted.* The fundamental beliefs set forth in the six beliefs model form the basis for assessing the nature of interpersonal relationships associated with trust and trustworthiness, as well as the duties owed between the parties that make up perceived social contracts (Primeaux et al., 2003; Caldwell and Clapham, 2003). These fundamental beliefs also are critical in defining reality in the leadership and governance relationship (Caldwell et al., 2002; DePree, 1989).

These contributions are significant to business leaders and corporate directors who have seen their organizations' lose credibility and public confidence in a world in which business leaders are largely distrusted, as well as to scholars and academicians who are struggling to improve both the quality of management being taught in business schools and the causes of distrust intellectually (Mintzberg, 2004).

Conclusion

Harvard scholar, Lynn Paine (2003), has noted that business interest in ethical behavior has increased exponentially since the disasters of Enron and WorldCom. She also argues that business success depends upon merging the normative and the instrumental – both social and financial performance – in a seamless integration of effective governance (2003). Although Paine's observations are profoundly true, business leaders continue to view governance through the traditional lenses of agency theory and stakeholder theory, even when mounting evidence suggests that a new perspective is required to create sustainable competitive advantage in today's economy (Pfeffer, 2005).

Stewardship theory and the principles of ethical stewardship provide a valuable alternative that can reverse the deterioration in public trust that characterizes society (Callahan, 2004). Applying principles of ethical stewardship can also help business leaders reframe their moral responsibilities, and honor the duties that they owe society (Solomon, 1992), as corporate citizens (Manville and Ober, 2003). Leaders owe those who they serve a complex set of ethical duties (Pava, 2003). As practitioners and scholars increase their understanding of how ethical stewardship can enable leaders to build trust, the ability of organizations to achieve normative and instrumental goals is likely to increase.

Although business leaders and academics need to continue to laugh at their foibles, they must also remember that the obligations of business to society are profound and ''covenantal'' in nature (Caldwell and Karri, 2005; DePree, 1989; Pava, 2003;). Max DePree observed that leaders must become ''servants and debtors'' in honoring their ethical responsibilities as stewards of their businesses. Understanding the implications of ethical stewardship and applying its principles provides business practitioners with the opportunity to build trust within their organizations, improve employee commitment, and create long-term wealth and sustainable competitive advantage.

References

Adams, S.: 2005, *Thriving on Vague Objectives* (McMeels Publishing, New York).

Barney, J. B.: 1991, 'Firm Resources and Sustained Competitive Advantage', *Journal of Management* **17**, 99–120.

Barney, J. B. and M. H. Hansen: 1994, 'Trustworthiness as a Source of Competitive Advantage', *Strategic Management Journal* **15**, 175–190.

Barnard, C. I.: 1938, *The Functions of the Executive* (The Harvard Press, Cambridge, MA).

Barney, J. and W. Hesterley: 1996, 'Organizational Economics: Understanding the Relationship between Organizations and Economic Analysis', In: Clegg S. R., Hardy C. and Nord W. R. (Eds) *Handbook of Organization Studies,* (Sage, London), pp. 115–147.

Barry, M.: 2006, *Company* (Doubleday, New York).

Bass, B. M.: 1990, 'From Transactional to Transformational Leadership: Learning to Share the Vision', *Organizational Dynamics* **19**(3), 19–31.

Bass, B. M.: 1995, 'Theory of Transformational Leadership Redux', *Leadership Quarterly* **6**(4), 463–478.

Bews, N. F. and G. J. Rossouw: 2002, 'A Role for Business Ethics in Facilitating Trustworthiness', *Journal of Business Ethics* **39**, 377–390.

Block, P.: 1996, *Stewardship: Choosing Service Over Self-interest* (Berrett-Koehler Publishers, San Francisco).

Burke, P. J.: 1997, 'An Identity Model for Network Exchange', *American Sociological Review* **62**(1), 134–150.

Caldwell, C., S. J. Bischoff and R. Karri: 2002, 'The Four Umpires: A Paradigm for Ethical Leadership', *Journal of Business Ethics* **36**(1/2), 153–163.

Caldwell, C. and S. Clapham: 2003, 'Organizational Trustworthiness: An International Perspective', *Journal of Business Ethics* **47**(4), 349–364.

Caldwell, C. and M. Hansen: 2005. ''Trustworthiness, Governance, and Wealth Creation.'' Paper presented at the Academy of Management Conference in Hawai'i on August 8.

Caldwell, C. and R. Karri: 2005, 'Organizational Governance and Ethical Choices: A Covenantal Approach to Building Trust', *Journal of Business Ethics* **58**(1), 249–259.

Caldwell, C., R. Karri, P. Vollmars: (2006). ''Principal Theory and Principle Theory: Ethical Governance from the Followers' Perspective.' *Journal of Business Ethics,* **66,** 207–223.

Callahan, D.: 2004, *The Cheating Culture: Why More Americans are Doing Wrong to Get Ahead* (Harcourt, Inc, Orlando, FL).

Cameron, K.: 2003, 'Ethics, Virtuousness, and Constant Change', in N. M. Tichy and A. R. McGill (eds.*The Ethical Challenge: How to Lead with Unyielding Integrity* (Jossey-Bass, San Francisco, CA), pp. 185–194.

Cameron, K. S., J. E. Dutton and R. E. Quinn: 2003, 'Positive Organizational Scholarship: Foundations of a New Discipline', *Future Survey* **25**(12), 23–34.

Canella, A. A. and J. M. Monroe: 1997, 'Contrasting Perspectives on Strategic Leaders: Toward a More Realistic View of Top Managers', *Journal of Management* **23**(3), 213–237.

Carroll, A. B.: 1996, *Business and Society : Ethics and Stakeholder Management* (South-Western College Publishing, Cincinnati, OH).

Chemers, M. M.: 1997, *An Integrative Theory of Leadership* (Lawrence Erlbaum Assoc, Mahwah, NJ).

Collins, J. C.: 2001, *Good to Great: Why Some Companies Make the Leap .. and Others Don't* (Harper Business, New York).

Collins, J. C. and J. I. Porras: 1994, *Built to Last: Successful Habits of Visionary Companies* (Harper Business, New York).

Cooper, R. K. and A. Sawaf: 1997, *Executive EQ: Emotional Intelligence in Leadership and Organizations* (The Berkley Publishing Group, New York).

Covey, S. R.: 2004, *The 8th Habit: From Effectiveness to Greatness* (Free Press, New York).

Creed, W. E. D. and R. E. Miles: 1996, 'Trust in Organizations: A Conceptual Framework Linking Organizational Forms, Managerial Philosophies, and the Opportunity Costs of Controls', in R. M. Kramer and T. R. Tyler (eds.*Trust in Organizations: Frontiers of Theory and Research* (Sage, Thousand Oaks, CA), pp. 16–38.

Davis, J. H., F. D. Schoorman and L. Donaldson: 1997, 'Toward a Stewardship Theory of Management', *Academy of Management Review* **22**(1), 20–47.

De Pree, M. : 1989, *Leadership is an Art* (Dell, New York).

Dulany, D. E.: 1967, 'Awareness, Rules, and Propositional Control: A Confrontation with S-R Behavior', in D. Horton and T. Dixon (eds.*Verbal Behavior and General Behavior Theory* (Prentice-Hall, New York), pp. 340–387.

Evans, P. B.: 1975, 'Multiple Hierarchies and Organizational Control', *Administrative Science Quarterly* **20**, 250–259.

Galford, R. and A. S. Drapeau: 2003a, 'The Enemies of Trust', *Harvard Business Review* **81**(2), 12–13.

Galford, R. and A. S. Drapeau: 2003b, *The Trusted Leader – Bringing Out the Best in Your People and Your Company* (The Free Press, New York).

Greer, C.: 2000, *Strategic Human Resource Management: A General Managerial Approach* 2(Prentice Hall, Upper Saddle River, NJ).

Heinen, J. S. and C. O'Neill: 2004, 'Managing Talent to Maximize Performance', *Employee Relations Today* **31**(2), 67.

Hogan, L. M.: 2005, 'TEAMing for Strategic Learning and Performance Improvement', *Performance Improvement* **44**(7), 8–14.

Hosmer, L. T.: 1996, *The Ethics of Management* (Irwin, Chicago).

Jensen, M. C. and W. H. Meckling: 1976, 'Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure', *Journal of Financial Economics* **3**, 305–360.

Jones, G. R. and J. M. George: 1998, 'The Experience and Evolution of Trust: Implications for Cooperation and Teamwork', *Academy of Management Review* **23**(3), 531–546.

Kolp, A. and P. Rea: 2006, *Leading with Integrity: Character-Based Leadership* (Atomic Dog Publishing, Cincinatti, OH).

Kouzes, J. M. and B. Z. Posner: 2003, *Credibility: How Leaders Gain and Lose It, and Why People Demand It* (Jossey-Bass, San Francisco).

Lewicki, R. J. and M. A. Stevenson: 1997, 'Trust Development in Negotiation: Proposed Actions and a Research Agenda', *Business and Professional Ethics Journal* **16**(1–3), 99–132.

Lussier, R. N. and C. F. Achua: 2004, *Leadership: Theory, Application, Skill Development* (South-Western Publishing, Eagan, MN).

Manville, B. and J. Ober: 2003, *A Company of Citizens: What the World's First Democracy Teaches Leaders about Creating Great Organizations* (Harvard Business School Press, Cambridge, MA).

McAllister, D. J.: 1995, 'Affect- and Cognition-Based Trust as Foundations for Interpersonal Cooperation in Organizations', *Academy of Management Journal* **38**(1), 24–59.

McClusky, J. E.: 2002, 'Rethinking Non-Profit Organization Governance: Implications for Management and Leadership', *International Journal of Public Administration* **25**(4), 539–559.

Mayer R. C., J. H. Davis, and F. D. Schoorman: 1995, ‚An Integration Model of Organizational Trust', *Academy of Management Review*, 709–729.

Mayer, R. C. and M. B. Gavin: 2005, 'Trust in Management and Performance: Who Minds the Shop while the Employees Watch the Boss?', *Academy of Management Journal* **48**(5), 874–888.

Mintzberg, H.: 2004, *Managers Not MBAs* (Berrett-Koehler, San Francisco, CA).

Mintzberg, H.: 1973, *The Nature of Managerial Work* (Harper & Row, New York).

Mishra, A. K.: 1996, 'Organizational Responses to Crisis: The Centrality of Trust', in R. M. Kramer and T. R. Tyler (eds.), *Trust in Organizations: Frontiers of Theory and Research* (Sage, Thousand Oaks, CA), pp. 261–287.

Paine, L. S.: 2003, *Value Shift: Why Companies Must Shift Social and Financial Imperatives to Achieve Superior Performance* (McGraw-Hill, New York).

Pava, M.: 2003, *Leading with Meaning: Using Covenantal Leadership to Build a Better Organization* (Palgrave MacMillan, New York).

Pfeffer, J.: 2005, 'Producing Sustainable Competitive Advantage Through the Effective Management of People', *Academy of Management Executive* **19**(4), 95–108.

Pfeffer, J.: 1998, *The Human Equation: Building Profits by Putting People First* (Harvard Business School Press, Boston, MA).

Pierce, J. L. and D. G. Gardner: 2002, *Management and Organizational Behavior: An Integrated Perspective* (South Western, Versailles, KY).

Primeaux, P., R. Karri and C. Caldwell: 2003, 'Cultural Insights to Organizational Justice – A Theoretical Perspective through a Subjective Lens', *Journal of Business Ethics* **46**(2), 187–199.

Reed, R. and R. J. DeFillippi: 1990, 'Causal Ambiguity, Barriers to Imitation, and Sustainable Competitive Advantage', *Academy of Management Review* **15**(1), 88–102.

Rousseau, D. M.: 2003, 'Extending the Psychology of the Psychological Contract: A Reply to ‚Putting the Psychology Back into Psychological Contracts', *Journal of Management Inquiry* **12**(3), 229–238.

Rousseau, D. M.: 1995, *Psychological Contracts in Organizations – Understanding Written and Unwritten Agreements* (Sage Publications, Thousand Oaks, CA).

Rowe, W.: 2001, 'Creating Wealth in Organizations: The Role of Strategic Leadership', *Academy of Management Executive* **15**(1), 81–94.

Sankar, Y.: 2003, 'Character Not Charisma is the Critical Measure of Leadership Excellence'", *Journal of Leadership & Organizational Studies* **9**(4), 45–54.

Schein, E. H.: 2004, *Organizational Culture and Leadership,* 3rd edition (Jossey-Bass, San Francisco).

Senge, P. M.: 1990, *The Fifth Discipline: The Art and Practice of the Learning Organization* (Doubleday, New York).

Shaw, R. B.: 1997, *Trust in the Balance: Building Successful Organizations on Results, Integrity, and Concern* (Jossey-Bass, San Francisco, CA).

Simon, H. A.: 1997, *Administrative Behavior,* 4th edition (Simon & Schuster, New York).

Solomon, R. C.: 1992, *Ethics and Excellence: Cooperation and Integrity in Business* (Oxford University Press, New York).

Solomon, R. C. and F. Flores: 2001, *Building Trust in Business, Politics, Relationships, and Life* (Oxford University Press, New York)..

Steensma, H. K. and K. G. Corley: 2001, 'Organizational Context as a Moderator of Theories on Firm Boundaries for Technology Sourcing', *Academy of Management Journal* **44**(2), 271–291.

Steinberg, R. M. and D. Pojunis: 2000, 'Corporate Governance: The New Frontier', *Internal Auditor* **57**(6), 34–39.

Suazo, M. M., W. H. Turnley and R. R. Mai-Dalton: 2005, 'The Role of Perceived Violation in Determining Employees' Reaction to Psychological Contract Breach', *Journal of Leadership & Organizational Studies* **12**(1), 24–36.

Thomsen, S.: 2005, 'Corporate Governance as a Determinant of Corporate Values', *Corporate Governance* **5**(4), 10–27.

Turnley, W. H., M. C. Bolino, S. W. Lester and J. M. Bloodgood: 2003, 'The Impact of Psychological Contract Fulfillment on the Performance of In-role and Organizational Citizenship Behaviors', *Journal of Management* **29**, 187–212.

Vroom, V. H.: 1964, *Work and Motivation* (R E. Krieger Publishing Company, Malabar, FL)..

Westley, F. and H. Mintzberg: 1989, 'Visionary Leadership and Strategic Management', *Strategic Management Journal* **10**, 17–32.

Cam Caldwell
John B. Goddard School of Business,
Weber State University,
3802 University Circle, Ogden, UT, 84408,
U.S.A.
E-mail: camcaldwell@weber.edu

Linda A. Hayes and Patricia Bernal
School of Business,
University of Hoaston,
Victoria, TX, 84408,
U.S.A.
E-mails: hayesl@uhv.edu; trisha@tisd.net

Ranjan Karri
Department of Management,
University of Illinois at Springfield,
One University Plaza, UHB 4060, Springfield,
IL, 62703, U.S.A.
E-mail: karri.ranjan@uis.edu