
Aleksey Martynov
Sergey Logachev

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Managerial Cognitive Moral Development and the Firm’s Owners’ Salience: Empirical Evidence

Aleksey Martynov, Ph.D.
University of Houston—Clear Lake

Sergey Logachev, M.S.
School of Professional Development “Dogma,” Perm, Russia

Abstract

In this paper, we study the agency relationship between the firm’s owners and managers. We apply the theory of Cognitive Moral Development (CMD) to answer the question: what factors affect salience of the interests of the firm’s owners to the managers? Using a sample of Russian managers, we found that higher levels of CMD weaken the relationship between the owners’ perceived urgency and the owners’ salience and strengthen the relationship between the owners’ perceived power and the owners’ salience. We also found that managerial CMD is positively associated with the perceived legitimacy of the owners’ demands to the managers. Our results show that the higher the managers’ CMD, the less applicable are the recommendations of agency theory to incentivizing and controlling the managers.

Keywords: cognitive moral development; top managers; agency theory; owners’ salience

Managers are hired by the owners of a firm (shareholders, partners, or sole proprietors) or by their representatives, such as the board of directors. The owners are naturally interested in seeing their wealth increased as a result of professional management. Because of the separation of ownership and control (Fama & Jensen, 1983), a firm’s managers have the ability to make decisions that are not always in the best interests of the owners. The resulting agency relationship (Jensen & Meckling, 1976) creates the need for the owners to monitor managerial behavior and align their incentives. Since monitoring and incentivizing are expensive, the firm’s owners may be interested in other factors that might lead the managers to make decisions in the owners’ interests.

The amount of attention that the managers will pay to the interests of the firm’s owners depends on three factors: the perceived power of the owners, the perceived legitimacy of the owners’ demands, and the urgency with which the owners demand attention to their needs (Agle, Mitchell, & Sonnenfeld, 1999; Mitchell, Agle, & Wood, 1997). The owners’ salience to managers should be positively associated with perceived power, legitimacy, and urgency of the owners (Agle et al., 1999). However, the owners
cannot assume that their interests will be salient to all managers. A manager’s personality and values will likely affect the propensity of the manager to serve his/her own interests or the interests of the owners (Audia, Locke, & Smith, 2000; Hammond, Keeney, & Raiffa, 1998; Hayward & Hambrick, 1997; Musteen, Liang, & Barker, 2011). Since balancing the interests of the managers and owners of the firm requires making difficult choices and tradeoffs, managerial decisions are by definition moral decisions (Jones, 1991). This is why we hypothesize that managerial Cognitive Moral Development, abbreviated as CMD (Chang & Yen, 2007; Trevino, 1986; Dubinsky, Natarajang, & Huang, 2005; Goolsby & Shelby, 1992) may affect the amount of attention the manager pays to the owners’ interests. We test our hypotheses on a sample of Russian managers and find that the results confirm our hypotheses. In addition to contribution to the theory of managerial behavior, these findings may have practical relevance because they point at a factor that can be used as a predictor of the amount of agency costs that a specific manager might incur, as well as the specific mechanisms that can help the firm’s owners motivate managers at different levels of CMD.

Managerial Behavior and the Owners’ Salience: Theory and Hypotheses

Due to the separation of ownership and control in modern firms (Fama & Jensen, 1983) managers have the opportunity to serve their own interests and agendas at the expense of the firm’s owners. It is reasonable to assume that different managers will require different amounts of monitoring and incentivizing, depending on their personality and values. For example, a manager who has worked for the firm for a long time may be more likely to serve the interests of the owners than a newcomer because a long-tenured manager might more fully identify with the firm and its owners, especially if he or she knows some of the important owners personally. Furthermore, such a personality trait as conscientiousness has been found to affect managerial behavior (Fong & Tosi, 2007): less conscientious managers were more likely to respond to rewards and monitoring than more conscientious managers. In effect, less conscientious managers behaved like agents that had to be rewarded and monitored, while more conscientious managers behaved like stewards that did a good job regardless of rewards and monitoring. On a more general level, previous researchers argued and/or have empirically shown that such managerial characteristics as background (Hambrick & Mason, 1984), hubris (Hayward & Hambrick, 1997), persistence in pursuing specific strategies (Audia et al., 2000), or locus of control (Musteen et al., 2011) affect the way managers perceive and evaluate strategic choices and make decisions.

Managers often have to make decisions in situations of conflict of interests. By definition, such decisions are moral decisions because managers have to balance the interests of the firm’s owners and their own interests. The very existence of agency theory (Jensen & Meckling, 1976) is based on the argument that not all managers will choose to serve the interests of the firm’s owners without monitoring and incentives. A trait that may differentiate between managers who are more or less likely to serve the owners’ interests without incentives and monitoring is the managers’ Cognitive Moral Development (CMD). Our choice of CMD as a predictor of managerial attitudes was dictated by several reasons. First, CMD affects people’s decision making in situations of conflict of interest. Top managers have to balance the interests of the owners and their own interests. Moral decisions are decisions made in situations of conflict of interest where a decision to serve one party’s interests can hurt the interests of another
party. Second, CMD is a trait that is relatively stable in mature people (Rest, 1979) and can be measured. Third, CMD may be a better predictor of managerial behavior than self-serving vs. others-serving values (Agle et al., 1999) because CMD addresses complex moral reasoning that managers may engage in when they decide whose interests to serve.

The construct of CMD is based on the theory of moral development (Chang & Yen, 2007; Dubinsky et al., 2005; Kohlberg, 1969) which argues that all people are characterized by a certain level of CMD that affects the way people make decisions in complex situations of conflict of interests. Managers at the first level of CMD (pre-conventional level) are primarily motivated by punishments and rewards. These managers are most likely to need monitoring and incentives because they evaluate moral dilemmas in light of how they can profit from the situation or how they can be punished for not doing what they are supposed to. In general, individuals at the first level of moral development are characterized by relatively weak or absent principles: they choose the course of action that is most likely to benefit themselves, their families, and closest friends (their “in-group”).

Managers at other levels of CMD are more likely to have values that go beyond personal wealth maximization. Level 2 individuals (conventional) are pro-social and consider the interests of their in-group (their team, organization, community, etc.) in evaluating possible options and making decisions. Level 3 individuals (post-conventional) have moral principles that go beyond serving their in-group. These people are most likely to take the course of action that they perceive to be legal, ethical, and fair according to their moral values.

CMD is a relatively stable characteristic that tends not to change much in people that have reached the age of maturity (Rest, 1979). Managers characterized by higher levels of moral development might be less likely to engage in opportunistic behaviors such as shirking and using corporate resources to serve their personal goals (Martynov, 2009). In the next section, we argue that the owners’ salience to the managers will depend on the interaction between the managers’ CMD and the owners’ power, legitimacy, and urgency.

**Perceived Owner Attributes and Managerial Behavior**

Not all managers are equally likely to pay attention to the interests of the firm’s owners. The owners of some firms are more salient to their managers than owners of other firms and will receive greater attention to their demands. Owners differ in three important attributes: power, legitimacy, and urgency (Agle et al., 1999; Álvarez-Gil, Berrone, Husillos, & Lado, 2007; Mitchell et al., 1997). Owners that are powerful and have legitimate and urgent claims will receive the greatest amount of attention from the firm’s managers (Agle et al., 1999).

**The Moderating Effect of Managerial CMD on the Owners’ Attributes-salience Link**

First, we examine the possible moderating effect of managerial moral development on the owners’ power-salience link. Powerful owners are those that can directly affect the well-being of the managers. However, not all managers will respond equally to material stimulation and threat of punishment. In
fact, being primarily concerned with possible punishment or benefits are characteristics of the pre-conventional level of moral development. Managers at higher levels of moral development will be more likely to use other criteria while evaluating various options, such as benefits for the team or the entire firm (conventional managers) or even the match between the proposed course of action and the moral values of the manager (post-conventional managers).

Not all firms have powerful owners. For example, low ownership concentration has been shown to shift the balance of power from the owners to the managers (Amihud & Lev, 1981). From the point of view of agency theory, it is beneficial for the owners to be powerful because powerful owners may enforce their claims more easily. We suggest that the effect of the owners’ power on their salience will be contingent on the level of CMD of the managers. Managers at low levels of CMD are primarily motivated by the threat of punishment and the prospect of a reward. Such managers are likely to pay great attention to the owners’ interests if the owners have the power to punish or reward the managers. Managers at high levels of CMD are less motivated by punishment and rewards so they are less likely to respond to perceived power of the owners.

**Hypothesis 1.** The higher the level of managerial CMD, the weaker the effect of the owners’ perceived power on the owners’ salience.

Another attribute that impacts the owners’ salience is the urgency of the owners’ demands (Mitchell et al., 1997). However, managerial CMD is likely to impact the way perceived urgency relates to the owners’ salience. Managers at the pre-conventional level of CMD are unlikely to pay attention to urgent owner claims if these claims are not backed by power because, as we argued above, powerless owners cannot do much to affect the managers’ wealth directly. Managers at higher levels of CMD have values that go beyond maximization of personal gain. These values include care for one’s team, organization, or human beings in general. If a manager cares for his/her company and its owners, he/she will be likely to pay attention to the needs and demands of the owners. Urgent demands by the owners will make the owners’ demands more salient (Agle et al., 1999). We argue that managers at higher levels of CMD will be more likely to pay attention to urgent owners’ claims. Therefore, there will be a positive interaction between managerial CMD and the urgency of the owners’ demands.

**Hypothesis 2.** The higher the level of managerial CMD, the stronger the effect of urgency of the owners’ demands on the owners’ salience.

**The Effect of Managerial CMD on the Perceived Owners’ Legitimacy**

Managerial CMD is likely to impact managerial perceptions of the owners’ legitimacy. The owners’ demands are perceived as legitimate if the manager believes that the owners have a justifiable right to demand attention to their needs and if the owners’ needs are at risk (Mitchell et al., 1997). Managers at low levels of CMD will be unlikely to pay attention to the owners’ claims if those claims are not supported by power because weak owners cannot influence the managers’ wealth directly. A manager at high levels of CMD has principles that go beyond avoiding punishment or chasing a reward. Managers at high levels of CMD will be more likely to see the owners’ claims as legitimate if the owners have a
legal right to make those demands. Therefore, we suggest that managerial CMD may be positively related to perceived owners’ legitimacy because the owners of the firm usually have legal claims to the firm’s profits.

Hypothesis 3. The level of managerial CMD will be positively related to perceived legitimacy of the owners’ claims.

Method

In order to test the hypotheses formulated above, we collected a unique dataset in which we obtained data on the owners’ power, legitimacy, urgency, and salience, as well as on managerial moral development. We collected only primary data by administering surveys to managers.

Sample

We collected the data in Russia in 2009-2010. Most up-to-date studies that use managerial CMD as a variable have concentrated on English-speaking subjects in developed countries (e.g. Ashkanasy, Windsor, & Trevino, 2006; Boss, 1994; Goolsby & Shelby, 1992; Wang & Calvano, 2013). We wanted to test the applicability of the concept of CMD in a cultural context that is very different from that of the U.S. and other English-speaking countries. Recent studies have begun to explore the construct of CMD outside the English-speaking world: for example, Ee (2014) measured CMD of Singaporean secondary school students using a measure similar to ours. However, to the best of our knowledge, no previous studies used the construct of CMD in research of Russian managers.

In order to collect the data, we approached 412 managers of Russian companies of various sizes and asked them to fill out surveys. This was a convenience sample as all of these managers were participating in executive education programs and seminars held in various cities in Russia. One of the authors personally distributed the surveys to the managers taking part in the seminars and asked them to complete the surveys. No incentives to complete the surveys were provided. We received 104 completed surveys. Out of these 104 surveys, 14 surveys contained incomplete responses to the survey questions, and four surveys were unreadable. We discarded these 18 surveys, which resulted in 86 surveys that were complete and usable for the purpose of our study. The final response rate was thus 20.9% which should be considered significant given the strong reluctance of Russian managers to fill out surveys. We were unable to compare the respondents to the non-respondents because of the lack of data about the non-respondents. Fifty-one of those managers worked for large companies (over 1000 employees). These managers were not only CEOs but also CFOs, Chief Technology Officers, Chief Accountants, Chief Sales Officers, division and department managers, and HR managers. The managers in our study came from the largest cities in Russia (Moscow, St. Petersburg, Perm, Yekaterinburg, and Novosibirsk). This gives us reason to believe that the managers who took part in the study provided a broad cross-section of Russian industries in large cities, including oil and gas, retail, professional service firms, manufacturing firms, and financial firms. The participants in the study were a mix of genders, ages, educational backgrounds, and tenures in their firms. The results of this study are most easily generalizable to Russia and the culturally similar countries that were formerly part of the USSR.
Measures of the Main Variables

Managerial CMD was measured using a survey that was similar to the Defining Issues Test (DIT: Schlaefli, Rest, & Thoma, 1985). In this survey, managers were asked to read about complex moral dilemmas and then decide on the relative importance of certain issues for making decisions. While tests of moral development and the underlying construct of CMD have been criticized in the literature (e.g. Fraedrich, Thorne, & Ferrell, 1994; Sachdeva, Singh, & Medin, 2011), DIT and similar tests remain the most frequently used instruments for assessing the CMD of individuals and are supported by insights from cognitive science (Narvaez & Bock, 2002). DIT does not exist in Russian. We had the option of translating the existing DIT instrument from English into Russian or writing our own scenarios and questions. We translated two sample DIT scenarios and questions accompanying them into Russian and asked twenty seminar participants to express their opinions regarding these scenarios and questions (none of these 20 people took part in the main study). While the scenarios were deemed acceptably clear by these 20 people, many of the questions were found to be vague and confusing. This is why we wrote our own scenarios in Russian similar to those used in the original DIT (one such scenario translated into English is given in the Appendix) and supplied our own questions, which were easier to understand for Russian speakers. The test calls for evaluation of “issues” in order to assess a person’s level of moral reasoning. The test generated a single variable: the moral development score, which was based on the level of issues that the managers indicated as important when evaluating the dilemma.

Since we wrote our own scenarios to measure the subjects’ CMD levels, we wanted to ensure the content validity of the test. In order to do that, each scenario included a question (measured on a 7-point Likert scale from “strongly disagree” to “strongly agree”) whether the main character in the scenario should steal or cheat in order to improve his/her situation. If our test is valid, subjects scoring high on the test should be unlikely to approve illegal/unethical acts, while subjects scoring low on the test should be more likely to approve illegal/unethical acts. We found a strong negative correlation (-0.906, p < 0.001) between the subjects’ CMD scores as measured by our test and their propensity to condone stealing or cheating in the described scenarios. Since high levels of CMD should correlate with the propensity of subjects to use principle-based reasoning, we concluded that our test measured the subjects’ CMD well. We also found that the CMD score had insignificant correlations with any of the demographic variables such as age, gender, tenure in the firm, or education, which suggested that the test measured a construct that was more closely related to personality than demographics.

Owner attributes and owner salience were measured using the scale in Agle et al. (1999). We translated the items into Russian and had them back-translated into English to ensure the accuracy of the translation. The items are given in the Appendix. The managers responding to the survey questions were specifically instructed to think about the owners of the firm they worked for. Our approach to measuring the owners’ salience is in line with the approach taken by Agle et al. (1999). Since the scale in Agle et al. (1999) used specific terms such as “urgency,” “legitimacy,” “power,” and “salience,” we took care to explain these terms in the surveys.

Control variables that were used in this study were the manager’s gender, age, education level (coded as 1 – high school or less; 2 – technical college or incomplete higher education; 3 – bachelor’s degree or 5-
year diploma of higher education; 4 – master’s degree or two diplomas of higher education – this latter option is common practice in Russia; 5 – Ph.D. – the Russian equivalents are Kandidat Nauk and Doktor Nauk), length of tenure in the firm (the number of years the manager has worked for this firm, not necessarily in the present position), age of the firm, log of the firm size (defined as the number of employees reported by the manager), and subjective evaluation of the firm’s profitability (on a Likert scale from 1 – “much worse than that of the main competitors” to 7 – “much better than that of the main competitors”). We could not obtain objective data on firm performance because many firms in our sample were private and because even publicly-traded firms in Russia do not always report accurate, up-to-date performance information.

Data analysis

Table 1 provides the means, standard deviations, and correlations of all the variables used in the analyses.

Table 1

Measures, Standard Deviations, and Correlations among the Variables Used in the Study

<table>
<thead>
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<th>Mean</th>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
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<td>.10</td>
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<td>-.18</td>
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<tr>
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<td></td>
<td>.57**</td>
<td>-.14</td>
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<tr>
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<td>.03</td>
<td>-.16</td>
<td>.03</td>
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<td>.07</td>
<td>.32**</td>
<td>.06</td>
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<td></td>
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<td>.12</td>
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<td>-.12</td>
<td>-.15</td>
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<td>.03</td>
<td>.06</td>
<td></td>
<td>.12</td>
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<td>.11</td>
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<td>.23*</td>
<td>.03</td>
<td>.01</td>
<td>.12</td>
<td>.06</td>
<td>.37**</td>
<td>.11</td>
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<td>.06</td>
<td>-.10</td>
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<td>.36**</td>
<td>.17</td>
<td>.45**</td>
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<td>-.04</td>
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<td>.32**</td>
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<td>.11</td>
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<td>-.12</td>
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<td>-.15</td>
<td>.46**</td>
<td>.44**</td>
<td>.47**</td>
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</table>

In order to eliminate potential multicollinearity problems, we orthogonalized the interaction products to the variables that were used to form the products (Lance, 1988; Singh, 2000; Tiwana, 2008). This procedure removes the variance of the product that is explained by the variables forming the product and leaves only the unique variance that is completely unrelated to either variable. As a result, the interaction term is uncorrelated with either variable that was used to form it and does not create problems with multicollinearity.
Results: Managerial CMD and Owners’ Salience

In order to test Hypotheses 1 and 2, we ran a series of regressions with interaction terms between managerial CMD and attributes of the owners (see Table 2). The dependent variable in Models 1-7 was the owners’ salience. In order to evaluate the impact of including CMD as a predictor of the owners’ salience, we estimated three preliminary models. The base model included only the demographics (gender and age). Model 1 added other characteristics of the manager and the firm. Model 2 also included owner urgency, legitimacy, and power. Model 3 included managerial CMD. Models 4-6 included the single interactions between managerial CMD and one of the three owner attributes. Model 7 included all three interactions between managerial CMD and owner attributes. Model 8 tested the impact of managerial CMD on perceived owner legitimacy. Models 9 and 10 did not test any hypotheses but are given here to show the absence of effect of CMD on perceived power and urgency of owners’ claims. Tables 2 and 3 report standardized regression coefficients.

Table 2

Results of Regression Analyses. The dependent variable in Models 1-7 is the owners’ salience. Standardized coefficients are reported.

<table>
<thead>
<tr>
<th></th>
<th>Model 1 Added Firm Characteristics</th>
<th>Model 2 Added Owner Characteristics</th>
<th>Model 3 CMD Added</th>
<th>Model 4 CMD x Urgency</th>
<th>Model 5 CMD x Legitimacy</th>
<th>Model 6 CMD x Power</th>
<th>Model 7 All Interactions</th>
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<td>Male</td>
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<td>.19*</td>
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<td>.28*</td>
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</table>

Note: *: p < 0.1; *: p < 0.05; **: p < 0.01; ***: p < 0.001
Table 3
Results of Regression Analyses. The dependent variables in Models 8-10 are the perceived attributes of the owners.

<table>
<thead>
<tr>
<th>Model 8 Owner’s legitimacy as dependent variable</th>
<th>Model 9 Owner’s power as dependent variable</th>
<th>Model 10 Owner’s urgency as dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>.18*</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>.17</td>
<td>.30**</td>
</tr>
<tr>
<td>Education</td>
<td>-.01</td>
<td>.13</td>
</tr>
<tr>
<td>Tenure</td>
<td>.00</td>
<td>-.25*</td>
</tr>
<tr>
<td>Age of the firm</td>
<td>-.09</td>
<td>-.12</td>
</tr>
<tr>
<td>Subjective profitability</td>
<td>.17</td>
<td>-.05</td>
</tr>
<tr>
<td>Log (number of employees)</td>
<td>-.05</td>
<td>.37***</td>
</tr>
<tr>
<td>Owners’ power</td>
<td>.49***</td>
<td>.35**</td>
</tr>
<tr>
<td>Moral development</td>
<td>.28**</td>
<td>-.02</td>
</tr>
<tr>
<td>Moral development X Owners’ power</td>
<td>-.19*</td>
<td></td>
</tr>
<tr>
<td>R-square</td>
<td>.41</td>
<td>.27</td>
</tr>
</tbody>
</table>

Note: *: p < 0.1; **: p < 0.05; ***: p < 0.01

As we can see from Table 2, the interaction coefficient between perceived urgency of the owners’ demands and managerial CMD is positive and highly significant. This result supports Hypothesis 2: managers at higher levels of CMD were more likely to pay attention to urgent owners’ demands than managers at lower levels of CMD. The interaction coefficient between perceived owners’ power and managerial CMD is negative and significant. This result supports Hypothesis 1: managers at higher levels of CMD were less likely to pay more attention to the owners’ demands simply because the owners are powerful. The interaction coefficient between the perceived owners’ legitimacy and managerial CMD is non-significant. This result means that managerial CMD has no effect on the relationship between owners’ perceived legitimacy and owners’ salience. We should add that we did not find any relationship between owners’ perceived legitimacy and owners’ salience (See Models 2-7 in Table 2 – the coefficients for Owners’ legitimacy are not significant). Managerial CMD was found to be a predictor of the owners’ perceived legitimacy (Model 8): managers at higher levels of CMD tended to see the owners’ demands as more legitimate. This result supports Hypothesis 3. We also found that perceived owners’ power was positively associated with perceived legitimacy of the owners and that the interaction coefficient between the owners’ power and managerial CMD was negative in Model 8. This result suggests that Russian managers may associate legitimacy with power. As Figure 3 suggests, managers at high levels of CMD were more likely to view the owners’ demands as legitimate than their counterparts at low levels of CMD. Also, the effect of the owners’ power on the owners’ perceived legitimacy was greater for managers at low levels of CMD than for managers at high levels of CMD. This result suggests that the relationship between power and legitimacy may be primarily a feature of managers characterized by low levels of CMD.
We did not find a direct effect of managerial CMD on the owners’ salience. While this result may seem unexpected, we believe that it reflects a complex relationship between managerial CMD and the actual attitude of managers. We will return to this result in greater detail in the discussion section.

Discussion

Our results suggest that managerial CMD may be a factor that affects the amount of attention that the managers pay to the company’s owners’ interests. This finding complements the insights from agency and stewardship theories. According to agency theory, managerial behavior is primarily driven by the incentives that the owners can provide and by monitoring of managerial actions (Jensen & Meckling, 1976). As long as the owners can align the managers’ interests with their own, the managers will behave in the interest of the owners. Stewardship theory adds some situational factors, such as the firm’s culture, and personal factors such as the amount of intrinsic motivation and the managers’ values (Davis et al., 1997). Our findings qualify the arguments of agency and stewardship theories. We found evidence that urgent owners’ demands are especially salient to high-CMD managers. Our results also suggest that managers at higher levels of CMD may be less likely to respond to rewards and punishment as means of controlling their behavior than managers at lower levels of CMD. Finally, we found that managers at higher levels of CMD perceived the owners’ demands as more legitimate than managers at lower levels of CMD and that perceived owners’ power was positively associated with perceived owners’ legitimacy. However, our results did not indicate that perceived legitimacy of the owners’ demands was associated with the salience of the owners to the managers. It is possible that the Russian managers that took part in the study paid attention either to the owners’ power (at low levels of managerial CMD) or to the urgency of the owners’ demands (at high levels of the managerial CMD) but ignored legitimacy, which has similar connotations in the Russian language as “legality.” Russian people in general tend to attach lower importance to the legal aspect of their actions due to the existence of a great number of laws and regulations in Russia that often contradict one another and to the overall perception that laws exist to make people’s lives difficult. Therefore, we believe that the absence of a direct effect of the owners’ legitimacy on the owners’ salience may have been a consequence of cultural characteristics of Russian managers.

Our findings suggest that agency theory recommendations are more applicable to managers at lower levels of CMD, while stewardship theory recommendations are more applicable to managers at higher levels of CMD. Agency theory and stewardship theory were offered as universal theories that aimed to describe managerial behavior and means to control it. Our results suggest that there might be a limit to the applicability of both these theories. The recommendations of each theory are most applicable to managers at a specific level of CMD: the higher the manager’s CMD, the less applicable agency theory becomes and the more applicable stewardship theory becomes. We do not suggest that managers at higher levels of CMD should not be incentivized or that managers at lower levels of CMD should not hear about the urgent demands of the firm’s owners. Rather, we suggest that the appropriate mix of incentives and direct communication of the owners’ urgent needs should take into account the managers’ CMD and perhaps other personality characteristics.
There are certain practical implications from our theoretical findings. First, it makes sense for the firm’s owners to hire managers at high levels of CMD, all else being equal. Not only might such managers spend more effort trying to serve the owners’ interests, but they will also be more likely to serve the owners’ interests when there is conflict of interest. Such managers will not require as much incentivizing and monitoring as managers at low levels of CMD. Simply reminding these managers that a certain job is urgent and important for the owners will be likely to make them serve the owners’ interests. Thus, managers at higher levels of CMD may incur lower agency costs and may serve as better stewards of the owners’ interests.

In general, our results suggest that incentives may not work for all managers equally well (cf. Fong & Tosi, 2007). Some managers respond better when they are under threat of being punished; others are motivated when they are chasing a specific reward; still others may feel compelled to act in the owners’ interests when the owners have communicated the urgency of a specific demand. Managerial incentives should match the level of the managers’ CMD. While CMD tests are not routinely used when managers are screened for potential employment, it is possible to introduce such tests in future. These results could be easily extrapolated to situations of hiring lower-level employees as well. The old maxim “hire for attitude, train for skill” (Jeffcoat, 2002) further confirms the findings in this paper: it is generally more difficult to change an employee’s attitude and personality traits, such as his/her level of moral reasoning, than it is to teach the employee new skills.

The Zero Direct Effect of Managerial CMD on the Owner’s Interests Salience

According to the theory of CMD, people at high levels of CMD make decisions based on their principles, while people at low levels of CMD make decisions based on the situation (e.g. the presence or absence of potential for punishment or reward). The mere fact that the manager’s level of CMD is high or low does not mean that this manager will pay more or less attention to the demands of the owners without considering the perceived characteristics of the owners and their demands. Our results suggest that the level of the manager’s CMD will affect the characteristics of the owners to which the manager will pay attention: low-CMD managers will pay relatively more attention to the owners’ power when evaluating the owner’s salience, while high-CMD managers will pay relatively more attention to the urgency of the owners’ demands. The level of the manager’s CMD is thus a pure moderator that does not have a direct effect on the owners’ salience. As our results indicate, the manager will not necessarily perceive the owners as more powerful or their demands as more urgent depending on his/her CMD level. Rather, he/she will ignore perceived owners’ power if his/her CMD is high and will ignore perceived owners’ urgency if his/her CMD is low.

The Russian Context

Our study was conducted in Russia. We found that Russian managers were more or less likely to exhibit agent-like (reward- and punishment-driven) or steward-like (driven by the interests of the owners of the company) attitudes depending on their CMD levels. Previous arguments (McCarthy & Puffer, 2008) suggested that agency theory may not be applicable in Russia because of the cultural context, which is different from the cultural context of Western economies where agency theory was developed. In
particular, McCarthy and Puffer (2008) suggested that the traditional Russian values may affect the norms of behavior that are usually described by agency theory. For example, a person’s respect for private property in Russia depends on whether the private property in question belongs to someone within or outside of the person’s network (McCarty & Puffer, 2008, p. 21). According to the argument by McCarthy and Puffer (2008), the amount of attention that the manager pays to the owners’ interests should depend on whether the owners belong to the manager’s personal network. If that is correct, we can expect that the manager’s tenure will have a significant effect on the manager’s attitude and the owners’ salience because a manager’s longer tenure in the firm is likely to result in greater familiarity and identification with the owners, especially considering the fact that many managers in our sample worked for small, private firms where contacts with the owners are frequent and direct. However, we did not find this result: in none of the models was the effect of managerial tenure on the owners’ salience significant. On the other hand, the effects of managerial CMD, which was hypothesized without any reference to the cultural context, were significant.

Discussion of other results

Our results indicate that male managers, managers of larger firms, and managers of more profitable firms were more likely to pay attention to the owners’ interests. Male managers may see their job as more narrowly defined (serving the owners’ interests only) while female managers may care about the well-being of many different people. This result suggests opportunities for further research into the attitudes and behaviors of managers based on their gender. The positive relationship between subjective firm profitability and the owners’ salience may be due to the fact that managers paying greater attention to the owners’ interests achieve better performance of their companies. Another possible explanation is that managers working for well-performing firms may believe that they are paying a lot of attention to the owners’ interests because the firm is performing well. Finally, owners of larger firms may have more effective means of controlling and disciplining their managers, especially top managers. In addition, this could be a selection effect: managers that serve the interests of the firm’s owners best will tend to be hired by larger companies that can pay larger salaries. Future researchers will be well-advised to pursue these research avenues further.

Limitations

Our study was done within a country-specific context (Russia). We acknowledge the difficulty in generalizing our results to other countries. We also used single respondents to answer all the questions of the survey. As we indicated earlier, it was not possible to use other informants to fill out the surveys due to the personal nature of the data that we were seeking. Common method bias (Podsakoff, McKenzie, Lee, & Podsakoff, 2003) may be a problem when the same person fills out all the surveys. We performed Harman’s single-factor test to see whether there was one factor that accounted for most of the variance observed in the variables. The unrotated solution produced four factors with eigenvalues greater than 1. None of the factors explained more than 20.6% of the variance. While this test is not definitive proof of the absence of common method bias (Podsakoff et al., 2003), we believe it provides evidence that common method bias was not a serious problem in this study.
The cross-sectional design of our study does not allow us to draw causal inferences. In particular, it is possible that the owners’ salience may affect their perceived legitimacy and urgency. We did not find evidence of a direct association between salience and legitimacy; however, there is a significant association between salience and urgency. While we believe that perceived urgency of the owners’ demands conceptually precedes the owners’ salience (see Mitchell et al., 1997), we cannot rule out the reverse causation. This is why we ask the readers to use caution when interpreting our results regarding the direction of causality between urgency and salience.

Social desirability may have been a problem in our study because the survey questions touched upon rather sensitive issues of endorsing or condemning theft or cheating. Finally, our sample size was not very large. We are confident that 86 respondents is plenty for a study of real managers (compare to the sample size in Agle et al., 1999); however, we could probably get more power in our statistical tests if we had been able to survey more managers. Given these limitations, readers are urged to apply caution in interpreting our findings.

Conclusion

We found that Russian managers at higher levels of CMD were more likely to pay attention to the owners’ urgent demands. We also found that Russian managers at higher levels of CMD were more likely to see the owners’ demands as legitimate than managers at lower levels of CMD. Managers at lower levels of CMD were found to be more likely to pay attention to powerful owners. These findings suggest that managerial CMD may affect the optimal incentives and other ways to control managerial behavior.

References


About the Authors

Aleksey Martynov, Ph.D. ([martynov@uhcl.edu](mailto:martynov@uhcl.edu)) is an Assistant Professor of Management at the University of Houston – Clear Lake. He got his Ph.D. from the University of Kansas. Dr. Martynov’s research interests span strategic alliances, business ethics, sustainability, and international business.

Sergey Logachev, M.S. ([sml@yandex.ru](mailto:sml@yandex.ru)) is a business coach working for Dogma, a school of professional development for managers. Dogma’s operations span Russia and a few other former Soviet republics. Mr. Logachev holds a master’s degree in history and psychology from Perm State University, Russia. Mr. Logachev’s teaching and research span managerial decision making, negotiations, and sales techniques.