

## Differences and Conflicts between Owners and top Managers in the Context of Social Responsibility

Külliki Tafel-Viia, Ruth Alas

*Estonian Business School, Management Institute,  
Estonia, Tallinn 10114 Lauteri 3, kylliki@eti.ee, ruth.alas@ebs.ee*

*Management and organization literature has treated conflicts in numerous times and from various perspectives. Still, the theoretical literature holds different views about the essence of owner-manager relationship, including the view that the top manager and the owner are seen as subjects with different goals and interests. And these differences may cause conflicts created within this relationship.*

*The research question here is about the subject of CSR as an enhancing factor in the deepening of special interests of the owners and the managers, as well as in emphasising their different roles.*

*The in-depth interviews contained 60 questions and were recorded. With nearly all questions, two aspects were addressed: on the one hand, the difference between the periods 1995–1999 and 2000–2004, and on the other, between enterprises based on foreign and domestic capital. By the beginning of the former period – that is 1995 – the privatisation period in Estonia was predominantly over and the first legislative framework concerning the operation of corporations in the Western sense started to develop. The second turning point is represented by the year 2000, when the “purge” following the Asian and Russian crises presented new demands on economic activities and economic thinking as a whole. A total of 25 individuals were interviewed: 7 owners, 12 top managers and 6 of those who had been both as owners and top managers. This article concentrates on the results that concern the possible sources of conflict between the managers and the owners and their perception of social responsibility and the links between those questions.*

*When summing up the opinions of the interviewees it should be admitted that the responses reflected the insignificance of the conflicts issue rather than their serious topicality. As the respondents remarked on several occasions, the existence of owner-manager conflicts is not considered normal or built-in; as the respondents added, this should not be considered such. Thus the claim of built-in conflicts in the owner-manager relations, derived from the agency theory (at least the classical agency theory) should be questioned according to the responses of the Estonian owners and managers. At the same time this does not mean that the responses coincide with the standpoints of stewardship theory, because the results of the interviews do not enable to make general conclusion that Estonian managers tend to act in the best interest of their principals.*

*The results of the interviews lead us to conclude that the difference between the way top managers and owners understand ideas and activities is quite clearly presented*

*in the context of social responsibility; despite the fact that the respondents usually do not admit the existence of conflicts when discussing them in general.*

*When comparing the opinions of the owners and top managers about social responsibility, considering the theoretical literature, we may claim to certain extent that owners and managers have a different perception of social responsibility and this leads to the conflicts between them.*

*To conclude, the authors present the understanding that the context of CSR brings out the conflicts between managers and owners more clearly, or even intensifies the conflicts between them. Results from an empirical study, undertaken in Estonia, are used.*

*Keywords: conflicts, owners, top managers, corporate social responsibility, Estonia, transition.*

### Introduction

The significant influence of owners and other investors of capital on the organisations and the developments in them were understood several decades ago. Global experience proves the importance of this sphere quite clearly: the much-quoted Enron case is an obvious example of the important role of relations and mutual trust between owners and managers as well as of the disasters, which could be caused by problems in their cooperation.

Management and organization literature has treated conflicts in numerous times and from various perspectives. Still, this approach to conflicts remains in the frames of the internal context of organization leaving one level that influences the organization but exists mostly outside the organization's internal environment untouchable. This level is the governance level. Expanding the approach and including also the level of governance gives us an opportunity to explore not only the conflicts between managers and employees, employees themselves, etc. but also conflicts taking place between owners and managers and between owners themselves.

The theoretical literature holds different views about the essence of owner-manager relationship, including the view that the top manager and the owner are seen as subjects with different goals and interests. And these differences may cause conflicts created within this relationship.

The research object of current study is the conflict between owners and managers. The aim is to find differences in views on corporate social responsibility between owners and managers. Research question here is about possible conflict relationship between owners and

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managers and corporate social responsibility, which is one of the potential sources of the owner-manager conflict, is used as the context. In order to answer this complex question a qualitative approach was chosen. The in-depth semi-structured and relatively non-standardised interviews with 25 individuals were carried out. The interviews contained 60 questions.

This article focuses on the treatment of conflicts between the owner and the top manager – using Estonia as an example and taking a general view of the sources of conflicts, but concentrating on the treatment of these sources in the context of social responsibility. While using the example of Estonia in the analysis of the owner-top manager conflicts, it is significant to point out that Estonia is predominantly characterised by the core owner and the absence of the classical small shareholder.

A difference, sometimes even a remarkable one, can be noticed in the context of how owners and managers see the issue of social responsibility. The reason for these differences is undoubtedly different roles of owners and managers as well as their different goals. The context of social responsibility gives a different point of view to analyse the classical treatment of owner-manager conflicts according to agency theory by supporting and arguing against it at the same time.

### Theoretical Background On the Treatment of Organizational Conflicts

Management and organization literature has treated conflicts in numerous times and from various perspectives. According to Bercovitch (1983), dual perspective is most apparent in approaches to the issue of conflict in organizations. On the one hand, normative approaches which reflect attitudes and beliefs which identify all conflicts as destructive and promote conflict-elimination as the formula for organizational success. On the other hand, descriptive approaches accept conflict as inevitable and consider its proper management the primary responsibility of all administrators. Bercovitch (1983) who is referring to Singer (1949) argues that the normative conception of conflict is strongly influenced by preoccupation with stability and equilibrium in organizational design and therefore the conflict is linked to violence, destruction, inefficiency and irrationality. Descriptive approaches challenge the whole basis and rationale of these assumptions.

Theoretical literature describes a whole range of different sources of organizational conflicts. Most commonly authors point to the following possible sources of conflict: (1) structural conflict<sup>1</sup>, (2) role conflict<sup>2</sup>, (3) resources conflict<sup>3</sup>, (4) communicational conflict<sup>4</sup>, (5) personal conflict<sup>5</sup> (see e.g. Katz, 1964; Robbins, 1974). All these

<sup>1</sup> Structural conflict – arising out of the need to manage the interdependence between different organizational sub-units or conflict related to organizational roles (Bercovitch 1983: 107).

<sup>2</sup> Role conflict – arising from sets of prescribed behaviour (Bercovitch 1983: 107).

<sup>3</sup> Resources conflict – stemming from interest groups competing for organizational resources (Bercovitch 1983: 107).

<sup>4</sup> Communicational conflict – conflicts arising from misunderstandings etc. (Bercovitch 1983: 107).

<sup>5</sup> Personal conflict – conflicts stemming from individual differences (Bercovitch 1983: 107).

sources of conflict can be further categorized. Ranking the sources of organizational conflicts is quite problematic. This depends on the context, situation, etc. Still, interpreting Bercovitch (1983), if the source of the conflict is a goal (e.g. goal of the organization or strategy) the source of conflict should be considered quite important: if the parties are in a situation of goal incompatibility, constructive changes are needed or otherwise, destructive consequences may happen.

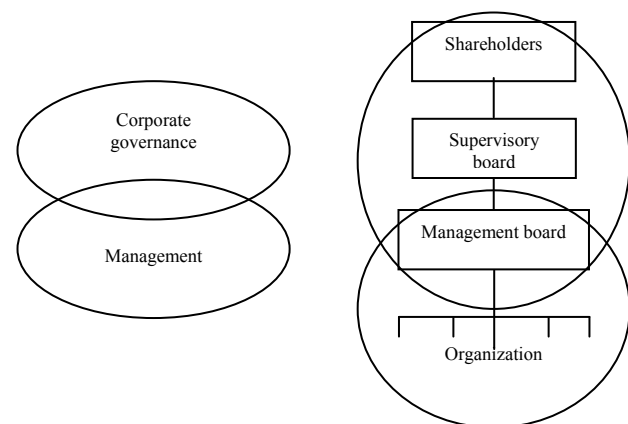
The third aspect which rises in the context of organizational conflicts is the question about the parties: between whom the disagreement is taking place. Most commonly the theoretical literature on organizational conflicts refers to conflicts between managers and employees or between different structures inside the organization (between different departments, other levels in the organizational hierarchy).

The question about parties leads us to the aspect which, as authors find it, has got less attention. Discussion about organizational conflicts tends to remain in the frames of the internal context of the organization. The authors argue that one level – the governance level – which influences the organization, but exists outside the organization's internal environment, remains untouchable.

### Corporate Governance as Framework for Organizational Conflicts

Within the last decade the issue of corporate governance has been continuously getting more attention. This has brought the 'additional' group of actors, who are concerned with the organization – the owners – into focus. Hendry & Kiel (2004) argue that recent media attention highlights more than ever that boards of directors are being held accountable for the organizations they govern.

As previously mentioned the analyses of organizational conflicts tend to remain in the frames of the internal context of the organization. In this article the authors treat the conflicts in a wider framework proceeding from the framework of corporate governance (See Figure 1). This approach means a change in the parties, among whom the conflict may occur, rather than the sources of conflict.



**Figure 1.** The content and overlap of the terms of corporate governance and management

*Adapted from: Gerndorf, K. (1998) 'Corporate Governance', manuscript, Tallinn: Tallinn University of Technology*

As it can be seen in Figure 1, corporate governance leaves a narrow framework of management and organization and brings along a new level as well as new parties, which do not directly belong to the organization, but nevertheless (and quite significantly) influence the activities of the organization. The context of corporate governance also introduces potential new conflicts and their involved parties – concisely speaking (treating the general meeting and the supervisory council as united) the owners.

The focus of this article is to analyse possible conflicts between managers and owners. Theoretical literature describes several different possible sources of conflicts that may cause conflicts between managers and owners describing their relationship as a conflict due to its very nature. In this article the authors take closer look on these sources of conflicts that occur on the basis of corporate social responsibility.

### **Conflicts between managers and owners. Context of corporate social responsibility**

Referring to Hirvonen *et al* (2003), it was already in 1930s when economists started to pay attention to the fact that owners and managers sometimes had different views on how to use company's resources. In order to conceptualise owner-manager conflicts, the authors use different theoretical approaches which conceptualise owner-manager relations as well as visions about corporate social responsibility.

Corporate social responsibility (CSR) can be and also is defined in numerous ways. For instance, Takala & Pallab (2000) point to several issues concerning this subject including the importance of distinguishing between egoistic and altruistic motives, and not only the observation of formal laws, but also how the organization or individual follows informal principals (Takala & Pallab, 2000). CSR has been divided as the firm performance concerning social issues and the firm respects the interests of agents (Ubius & Alas, 2009). Here the authors refer to Wartick & Cochran (1985) according to whom CSR has been defined as 'actions and decisions, which consider legal, economic and societal factors in both the short and long term as well as organizational interests'.

Considering the theoretical approaches which conceptualise owner-manager relations, the authors find important to bring out the following two extremes. **Agency theory** which is underlied by the concept of separation of ownership and control (see e.g Fama & Jensen, 1983) according to which the owner who has capital, but doesn't have necessary human capital to generate returns on his funds, delegates the work to the manager who employs such specialized human capital, but does not have enough capital of his own to invest (Schleifer & Vishny, 1997). The problem which arises from such contractual relationship – the agency problem – touches upon "the difficulties financiers have in assuring that their funds are not expropriated or wasted on unattractive projects" (*Ibid.*). Accordingly, agency theory sees the owner-manager relation as a conflict due to its very nature. Four key problematic areas or sources of conflict can be identified: moral hazard, earnings retention, risk aversion, and time-

horizon. Moral hazard means the following situation: while the owner maximises the profit, the hired manager maximises his welfare, the relation between his contribution and salary (Chade & Vera de Serio, 2002). For the sake of his personal welfare a manager acting in opportunistic manner can increase the firm's expenses or to invest in projects, which are beneficial for him personally. McColgan (2001) points to Shleifer and Vishny (1989) who argue that rather not investing, managers may choose investments best suited for their own personal skills. Such investments increase the value to the firm of the individual manager and increase the cost of replacing him, allowing managers to extract higher levels of remuneration from the company. The different attitude towards risk-taking is interpreted as follows: the owners invest their financial capital in the enterprise and in order to minimize their risks usually diversify the portfolio; as a result, the capital in a particular enterprise may form only a minor share of their overall property. Accordingly, the failure of a project will have a minimum impact on the owners' welfare. The managers, while accepting a post, involve a majority of their human capital, therefore the managers' assurance of a job and their income is generally linked to a single particular enterprise. Thus, according to this logic, it is sufficient for the owners to invest in the project they plan and which has positive net present value, while the managers, noticing an excessive risk of failure, may obstruct the realization of the project. The retention of salary means the managers' desire to increase the firm's size and power, since their salary and reputation depend on it. Accordingly, the managers tend to prefer short-term profits, without considering the impact of the decisions in the longer perspective. The different time horizon means that the managers predominantly reckon with the period of their employment by the firm, i.e. they do not tend to take a long-term view. Therefore the managers tend to prefer short-term projects and investments, whose payoff period is shorter, unlike the owners, who view the enterprise in the long perspective. (McColgan, 2001; Ettevötte ..., 2002)

It is certainly necessary to keep in mind while interpreting the agency theory that this is an approach based on the Anglo-American context, which needs not to be applied to other types of (economic) contexts or situations (e.g. the issue of dispersal of ownership, which is typical of the Anglo-American, but not to the same extent of the continental European countries). It should also be pointed out that the above view reflects the so-called classical approach to the agency theory and has been criticised by various researchers<sup>6</sup>.

Wirtz (2002) has pointed that this kind of perspective is somewhat oversimplified and narrow, representing human behaviour as fundamentally opportunistic.

**Stewardship theory** argues against the opportunistic self-interest assumption of agency theory, claiming that managers do not proceed from self-interest, but from the

<sup>6</sup> For instance Arthur, Garvey, Swan, Taylor (1993: 93) argue that according to the modern agency theory firms create long-term wealth for their owners *because* those owners are relatively diverse and cannot intervene, while managers motivated by (among other things) debt and capital structure are put in charge. Positive agency theory, for example, simply assumes a conflict of interests between different stakeholders (Wirtz 2002: 2).

needs of the organization/owners (see e.g. Tricker, 1999). According to Davis *et al* (1997), the managers as stewards are motivated to act in the best interest of their principals. According to Donaldson (1990), managers are motivated by “a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby gain recognition from peers and bosses”. Managers subordinate their goals to those of the organization and operate in the interests of the owners. The steward’s conception is that the utility gained from pro-organizational behaviour is higher than the one that would be gained from individualistic self-serving behaviour. (Väänänen, 2005).

On the other hand, the authors view such approaches which help to conceptualise owners’ and managers’ understandings about corporate social responsibility. Here also two opposite approaches can be distinguished. The so-called **shareholder paradigm** (see e.g. Letza *et al*, 2004) approaches to corporate governance through owner-manager relations. Accordingly, the corporate governance is defined as ‘the system by which companies are directed and controlled’. On the other hand, the **stakeholding paradigm** sees corporate governance more broadly. Demb & Neubaur (1992) define corporate governance as ‘the process by which corporations are made responsive to the rights and wishes of stakeholders’. According to Turnbull (1997), these two approaches can be distinguished based on their definition of the firm. Referring to Turnbull (1997) one group of authors, mainly financial economists, view firm as an organization which is servicing mainly its owners (and obtaining resources from its employees and suppliers). On the other, the stakeholder view, as Turnbull (*Ibid.*) claims, is different: it considers that investors, employees, suppliers, customers and stakeholders generally both contribute and receive benefits from a firm. The stakeholder approach focuses on the combination of interests (incl. those of the owner and the manager), rather than emphasises the differences of their opinions. The term “stakeholders” refers to individuals or their groups connected with the corporation. Such groups and individuals have been divided in various ways in the theoretical works, but predominantly in pairs: primary and secondary, broader and narrower, internal and external etc. (Pajunen, 2002). According to the founders of this theory, Freeman & Reed (1983), the stakeholders can be divided in two groups: a wider sense and a narrower sense. In the wider sense the stakeholder is any identifiable group of individuals who can affect the achievement of an organization’s objectives or who are affected by the achievement of an organization’s objectives. This includes non-profit pressure groups (e.g. the Greens), the trade unions, local residents, the government and other state structures, etc. In the narrower sense the stakeholder is any group or individual on which the organization is dependent on its continued survival. They include employees, clients, so-called key suppliers, owners/shareholders, etc. As a separate dimension it should be added that the considering of the various stakeholders can also depend on the proximity or remoteness of the latter.

In the context of the stakeholding paradigm it is important to analyse the corporate action – how corporate social responsibility is being expressed. Several authors

(see e.g. van Marrewijk, 2003; Wilenius, 2005) have narrowed down the concept of CSR so that it covers three dimensions of corporate action: economic performance, social accountability and environmental management. Miller *et al* (1996) describe how companies progress on a ladder of CSR. When companies start out, the first task is survival and the level of CSR is economic responsibility, which, according to the Nobel Prize winner M. Friedman, is essential from the point of view of increasing company profits. In the next developmental stage of the company, public responsibility emerges – if a company already has steady profits. In addition to economic responsibilities, it is important to determine public policies on key issues that effect society. The third stage in the development process involves the meeting of social requirements – firms actually develop and implement social programmes impacting society. This is still usually connected with social pressures. The fourth level is qualitatively different, because at this stage a company has already a socially orientated management. The eye is constantly kept on the internal and external environment in order to respond immediately with appropriate programmes to social problems that may arise; and finally, social programmes in response to social pressures are developed.

Putting these two sides together – the conflicting or non-conflicting essence of owner-manager relations and the different views towards firm and accordingly towards corporate social responsibility – the authors raise the question about **how can CSR be the source of conflict between owners and managers?**

McWilliams & Siegel (2001) who point to Friedman (1970) assert that engaging in CSR is symptomatic of an agency problem or a conflict between the interests of managers and shareholders. He argues that managers use CSR as a means to further their own social, political, or career agendas, at the expense of shareholders. Interpreting Friedman (1970), the authors argue that comparing managers and owners it can be stated hypothetically that the managers tend to be more self-centred as they try to put their interests first and thus behave less socially responsible (moral hazard problem).

In addition, the agency theory points to the shorter time horizon of the managers. Since social responsibility by its nature presumes a long-term mentality, based on the given narrowly theoretical approach one could claim that the managers committing themselves to the enterprise for a certain time period could theoretically pay less attention to social responsibility, unless the owners, who view the enterprise on a longer perspective. The managers’ focusing on a shorter time period is also reinforced by their desire to maintain their income. As it is mentioned in the agency theory: the managers tend to prefer short-term profits, without considering the impact of the decisions in the longer perspective.

The managers’ negative attitude towards risk speaks in “favour” of the managers and in “detriment” of the owners. The latter circumstance enables to interpret the managers’ attitude or behaviour as more socially responsible course of action, compared to the owner’s greater willingness to take risks.

It is also possible to proceed from the stakeholder theory, which centres on the consideration of various

stakeholders' interests and thus the combination of interests rather than their opposition, and point out possible conflicts in the CSR context. The cause of the owner-manager conflicts could be the fact that the owner and the manager need not agree regarding the consideration of the various stakeholders' interests. The owners could want to consider the interests of some stakeholders and the managers of some others. This is another way of viewing the emergence of the owners' and managers' different interests in the CSR context.

The research question here is about the subject of CSR as an enhancing factor in the deepening of special interests of owners and managers, as well as in emphasising their different roles.

The empirical findings, which are presented in the next part of the article, will give more detailed view how the managers and owners perceive social responsibility and how different their views can be; and if these different views give occasion to conflicts between them.

### **A Method for Empirical Research in Estonia**

The results outlined below are from the last study that has focused on owner-manager relationship and also touched upon the issue of social responsibility in Estonia. This was the first stage of a corporate governance research program, where in-depth interviews with owners and top managers were carried out. We still have to take the views expressed below as the opinions of a limited number of Estonian owners and managers. It should not be considered as the final opinion about the existence and perception of social responsibility in Estonian enterprises. Therefore, the attempts to connect the research results with the theoretical conceptions of social responsibility are rather experimental and hypothetical, and therefore the aim of this article should not be seen as finding proof of the theory in practice.

The study of CG in Estonia is a multi-year joint research programme between the Estonian Business School and the Estonian Institute for Future Studies, and involves partners from other universities as well. Within the framework of the first stage of this research programme, in-depth interviews with owners and top managers were carried out. The in-depth interview as a method was favoured since there has hitherto been little in-depth study of CG in Estonia and therefore there was no foundation in the CG studies to base the work on or to use as a starting point for a detailed study. This meant that it was necessary to begin by defining the range of issues in this area. So the authors of the article, as well as other participants in the research programme, considered that the most practical way to start was to map the general situation by approaching the agents of corporate governance – the owners and top managers. The method used was an in-depth interview lasting for two or three hours.

The in-depth interviews were rather extensive, relatively non-standardised, but structured interviews. These interviews concentrated on the corporation and levels within it at which capital is managed, the ties

between these levels and the influence of the environment in which the corporation and capital operate<sup>7</sup>.

The in-depth interviews contained 60 questions and were recorded. With nearly all questions, two aspects were addressed: on the one hand, the difference between the periods 1995–1999 and 2000–2004, and on the other, between enterprises based on foreign and domestic capital. By the beginning of the former period – that is 1995 – the privatisation period in Estonia was predominantly over and the first legislative framework concerning the operation of corporations in the Western sense started to develop. The second turning point is represented by the year 2000, when the “purge” following the Asian and Russian crises presented new demands on economic activities and economic thinking as a whole.

A total of 25 individuals were interviewed. The criterion for inclusion in the sample has had a broad experience in business and the resulting ability to generalize. Therefore a ‘traditional’ division – dividing the respondents by sphere of activity, by size and type of company – could not be used this time since the key criterion has had broad experience in different areas and in different positions. Although, it can be said that the background of the respondents was diverse; nevertheless, they were more representatives of larger enterprises (in the Estonian sense); at the same time experience from industrial and service companies was almost equally represented. Generally speaking, the dominant sphere of activity for the group of owners was commerce and for the top managers, energy or the fuel industry – these were the fields the interviewees had had most experience. It also has to be emphasized that the respondents were asked to generalize according to several years of experience, and not to give answers based on the enterprise they were concerned with at the moment.

The selection of interviewees observed the principle of more or less equal representation of owners and managers, as well as a separate group of owner/top managers – individuals, who had had experience of both roles. The interviewees were divided as follows: 7 owners, 12 top managers and 6 of those who had been both as owners and top managers.

The article is based on a preliminary summary of the interviews. This article concentrates on the results that

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<sup>7</sup> The authors treat CG as a four-level construction. (1) *The level of operation of capital* concentrates on the issue of whether and how the type of capital (foreign vs. domestic, large vs. small, active vs. passive) influences CG, how the duration of investment of capital has changed in the various periods of time and its effect on CG; this level also enables us to study the problems of the owners' groupings and their ties. (2) *The corporate level* means the study of the success models of corporations and top managers in connection with the CG subject. The issues of study at this level are the change of the models over time, which top managers or agents are valued (by the principals) and how the agents can operate at the corporate level. (3) *The level of ties between capital and corporation* concentrates on the problems of the so-called principal-agent relations. Emphasis is laid on the relations between the owners and managers, the managers' freedom of action and regulation, as well as on conflicts between the owners and the managers. (4) *The environment level* determines the relationship between the corporations and the general environment. The subjects of study at this level are corporate social responsibility, the consideration of various stakeholders by the corporation or the absence of such a consideration, as well as how and whether the general environment, including the legislative one, influences the activities of the corporation.

concern the possible sources of conflict between the managers and the owners and their perception of social responsibility and the links between those questions.

### **Results of the Interviews: the Apparent Absence of Conflict between Owners and Top Managers in the Context of Social Responsibility**

The general interviews were treated within the owner-management relations issue as a separate block of questions, the potential sources of conflict between them. Generally it was stressed by the interviewees that the owner-manager relationship cannot be seen a conflict due to its very nature. A somewhat different picture is provided by an in-depth study of various issues and problems, comparing, according to the answers, the ideas of the owners and the managers of different problems. One of these areas is the problem of social responsibility, which the present article is focusing on.

### **Conflicts in the context of social responsibility**

The discussed sources of conflict and the related issues did not hint at the subject of conflicts being particularly urgent in the owner-manager relations. One reason or explanation could be that this issue cannot be discussed in detail at the abstract level and via direct interviews. The situation changes somewhat as the coinciding and possible difference of opinions of the owners and the managers can be assessed within some particular set of issues. The problems of social responsibility discussed in these interviews bring out, not predominantly, but quite clearly, the different ideas of owners and top managers, taking the issue of conflicts to a more emotional level. The latter can be generally, to a greater or lesser degree, derived from the sources of conflict mentioned so far, viewing the latter from the aspect of whether and how they could become sources of conflicts concerning social responsibility in particular. The authors find that the most-quoted source of conflict 'different ideas about the way to achieve goals', as well as 'differences in interests and goals between owners and managers', 'lack of ethics and trust' an 'attitude to staff' can primarily develop into sources of a social responsibility conflict.

### **The owners' 'own' social responsibility and the managers' 'own' social responsibility?**

As the interviews did not define social responsibility, but rather supplied a general conception, the respondents had a chance to give their own definitions. Therefore, the whole process could be considered less directed or even neutral with the respondents not being locked into a framework set by the researchers.

On the whole, it can be said that Estonian owners and top managers see the issue of social responsibility similarly, but rather narrowly – primarily as the foundation of funds or charities, as sponsoring some activity etc.

Asking the interviewees a separate question about the position of the enterprise in society – whether their business is only there to earn profit and to increase the value of the enterprise or to make a broader contribution to

the development of society – the responses to this question painted a remarkably diverse picture of how owners and top managers understand the role of social responsibility. This question also serves as an example of how the sources of conflict discussed above 'differences in interests and goals between owners and top managers' and 'different ideas about the way to achieve goals' can turn into a social responsibility conflict between the owners and the managers.

The responses given by the **owners** revealed that contributions emerging simply from the normal operation of the enterprise are not seen by the general public as part of its social responsibility. Many owner-respondents expressed the idea that **the mere existence of an enterprise already represented a contribution to society**.

To quote the respondents:

*"An existing company is a part of society – it has its own workforce, pays its employees for work, pays its taxes; indirectly participates in the infrastructures – companies use infrastructures and support and improve them by their activity, e.g. by using energy the company pays for it and with this money the energy supplier is able to develop this infrastructure. My principle is that an existing and operating company has already given society something."* (owner 6)

Another example:

*"Companies are very important employers, which is the most essential (task) they have in the society and their aim is maybe not to support cycling sport. The duty of a company is to produce the surplus value of employment for society."* (owner 16)<sup>8</sup>

Owner respondents found that the above-mentioned surplus value is not sufficiently appreciated. As one respondent said: *"... when you open a newspaper, an article says that 'the boat' of an entrepreneur sank... we seem to be happy when somebody fails. This is a sick nation that is not proud of its entrepreneurs."* (owner 16)

At the same time the **top manager** interviewees, unlike the owners, stated that **they see social responsibility more broadly**, remarking that the owners value profit above all. Quoting the respondent:

*"Top managers care more about the status of the company than owners ... the owner always aims at making profit... Estonian entrepreneur says – I pay my taxes, so leave me alone, I have done my duty in front of society. Should (the owner) have any need for charity, ... (it serves) generally two purposes – to increase reputation and start new businesses."* (top manager 8)

### **Acting socially responsible**

**Self-centred owner versus more responsible manager?** There was a difference between the owners and top managers in regard to the format – how social responsibility is expressed. Some top manager respondents said that the issue of social responsibility in Estonia is 'personified',

<sup>8</sup> In order to understand the responses of the interviewees it is important to add that unemployment has been a serious problem in Estonia, and there has been a significant positive change only in the last years (the rate of unemployment 13.6% in 2000 fell to the level of 9.7% by the end of 2004, www.stat.ee).

which is maybe a specific trait of Estonian owners, as one respondent suggested. Quoting the interviewee:

*“When money is supplied by a company then it involves very clear personal positioning as the owner always in the background. This is a fact for all the big owners without exception, but is generally also true in the case of middle-size enterprises and even some small businesses; i.e. the money was not given by company X, but by owner X. ...Estonian owners have not yet come to the point of thinking that my company must be representative, but [they have] reached the level of thinking that I am the person who is doing something good.”* (top manager 15)

In a nutshell, an average Estonian owner expresses himself *“in the form of me, not our company”* (top manager 15).

At the same time (in the opinion of top manager respondents themselves), top managers stand up for their company and act in the name of the company, which seems rather logical. Quoting a respondent: *“top managers cultivate the so-called our-feeling: they position themselves through their teams when this is useful to them – this is their letter of indulgence and protective mechanism”* (top manager 15).

At the same time it should not be ignored, however, that the top managers also view social responsibility as a tool for boosting and maintaining *their* reputation – something they can realise because of and with the support of the enterprise.

Quoting an interviewee:

*“Many top managers have understood that this is a field where it is relatively easy to boost and maintain their reputation rather than via business results. The issue [for them] not only involves the reputation of the company, but is also about the personal challenges of top managers. This is rather expensive to do on a personal budget, but much better on a company account ... [considering this principle] they also lead different sports unions....”* (owner - top manager 20)

**Reckoning with different interest groups – do managers and owners share a common vision?** The interviewees were asked to name up to four of the most important interest groups out of a list of ten and state whether consideration of the interests of these groups had increased or decreased in the period of 1995–2004. The interest groups were as follows: (1) employees except top managers; (2) clients; (3) suppliers; (4) banks; (5) local government (city/county/rural municipality level); (6) top managers at the state level; (7) Estonian political elite; (8) social pressure groups (e.g. green movement, trade unions); (9) the media, public opinion; (10) personal acquaintances and friends related to the key persons of an enterprise. The three major interest groups highlighted were:

- the media, public opinion and the employees except top managers were mentioned equally;
- clients;
- suppliers.

Here it is important to emphasize that the responses from the interviewees reveal that the circle of interest groups that are considered important depend on whether we are dealing with the owner or the top manager. There is the opinion that owners tend to consider public opinion, media, politicians (especially when the owner plans to

enter politics) and the state more. While top managers, on the other hand, consider suppliers, clients and employees more. These preferences are clearly related to the different roles of the owners and top managers. The top manager has to consider employees more as he is closer to them; the owner has to consider the politicians and public opinion more, because these influence the strategic decisions made by the owner.

The authors provide the following example in this context, so as to illustrate the different ideas of the owners and managers regarding considering different stakeholders. A few years ago a conflict broke out in an Estonian region dependent in principle on a single employer between the Swedish owner of the industry (Kreenholm) and the Estonian top manager. The owner demanded a radical reduction of employment so as to bring the enterprise out of loss and to earn money for the shareholders. The Estonian manager, who could foresee a potential social disaster following the move, disagreed. The Estonian press reviewed the case as a difference between the Estonian owner’s and the manager’s ideas at the strategic level and the manager’s actions were interpreted as the latter’s desire to protect the staff. The situation was “solved” by the dismissal of the manager.

This example vividly points out two aspects: on the one hand it shows that the workforce as stakeholders, especially in case of a foreign owner, can be too “remote” for the owner to understand the need for consideration of their interests, as least equal to the manager. On the other hand, those differences in the social responsibility context can lead to serious and destructive conflicts between the owners and the managers.

## Conclusions and Discussion

In current study 25 individuals were interviewed. The in-depth interviews contained 60 questions. When summing up the opinions of the interviewees, it should be admitted that the responses reflected the insignificance of the conflicts issue rather than their serious topicality. As the respondents remarked on several occasions, **the existence of owner-manager conflicts is not considered normal or built-in; as the respondents added, this should not be considered such.** Thus, the claim of built-in conflicts in the owner-manager relations, derived from the agency theory (at least the classical agency theory) should be questioned according to the responses of the Estonian owners and managers. At the same time this does not mean that the responses coincide with the standpoints of stewardship theory, because the results of the interviews do not enable to make general conclusion that Estonian managers tend to act in the best interest of their principals.

When comparing the opinions of the owners and top managers about social responsibility, considering the theoretical literature, we may claim, to certain, extent that owners and managers have a different perception of social responsibility and this leads to the conflicts between them.

The research question about **CSR as an enhancing factor in increasing the owner-manager difference was reflected in the responses of the interviews** in current study as well. The results of the interviews lead us to conclude that the difference between the way top managers

and owners understand ideas and activities is quite clearly presented in the context of social responsibility; despite the fact that the respondents usually do not admit the existence of conflicts when discussing them in general.

The responses from the owners are more related to the sphere of economic responsibility and belong more to the shareholder paradigm; at the same time, top managers take into consideration the enterprise as a whole (at least by their own opinion). According to previously said, the manager respondents claimed that compared to them the owners pay only little attention to CSR. The conflict between the managers and owners occurs as the owners are quite sensitive about the fact that their activity is appreciated so little.

We interpret that the differences between the opinions of owners and top managers about the issue of social responsibility are related to the different roles they play. The difference in attitudes mainly lies in the difference in their roles and starting positions – for the owners their businesses should first and foremost make profit, and this makes the owners and top managers talk a ‘different language’. The tendency for top managers to have an attitude that is centred on ‘us’ and ‘ours’ is inevitable since they want to create a team spirit in their company. Furthermore, the owners’ apparent irresponsibility, which came out from the interviews, is confirmed by the opinions of the top managers and their criticism of the owners.

The critical attitude towards owners among the managers (and the general public) can be explained by the owners’ behaviour, especially in the first half of the 1990s after Estonia regained its independence. First, people perceived an apparent lack of honesty in raising initial capital. Secondly, there is a strong feeling of inequality between those who have been doing well and those who have not. This has given rise to a strong scepticism towards Estonian entrepreneurs as a whole.

It should be pointed out here that the group mentality expressed by the managers in the interviews does not coincide with the interpretation of the classical agency theory but not with the stewardship theory either. According to the classical agency theory, it is the manager, rather than the owner, who can be viewed as self-centred and motivated by self-interest, or even opportunistic. In other words: the theory hints at a socially irresponsible manager and responsible owner. The interviewees (although predominantly top managers rather than owners) stressed the opposite: the owner was described as self-interested party attempting to boost its image, while the manager was described as more socially responsible. The owners’ view of social responsibility coincides with this interpretation as well, viewing it primarily as economic responsibility. The results of the interviews tend to support the understanding that: **not only the managers, but also the owners can be described as being opportunistic**. The conflicts between the owners and the managers are not caused by opportunistic managers as the classical agency theory tends to claim, but the problem is at least equally initiated by the owner emphasising his interests, as could be concluded when viewing the conflicts within the social responsibility context.

The authors are on the position that one of the most important conclusion that the treatment of owner-manager conflicts in the context of CSR enables to draw, concerns

the time horizon. The issue of CSR shows quite clearly that agency theory treats the time horizon one-sidedly, stating that only the owners view the enterprise in the long perspective. The authors argue that such treatment is the simplification of the situation. Dependent on different situations and contexts (e.g. proceeding from the context of CSR) the managers can be those who devote their whole life to one company – i.e. thinking rather long-term than short-term; even up to arguing that the owners are those who tend to see the company in short perspective.

To sum it up, the interview results can be considered sufficiently significant as for pointing out possible aspects, where the actual situation can significantly differ from the theoretical positions. There have been argued more than once against (some of) the standpoints of classical agency theory. The authors consider it important to state that CSR is also one of these contexts which refer to the need of revising the classical agency theory, at least in some points. And also, that stewardship theory may not work as the opposite approach to agency theory in this point. Yet the authors are on the position that how exactly the issue of CSR can contribute to reformulating or even contradicting the standpoints or argumentations of agency theory requires further study in the future.

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Külliki Tafel-Viia, Ruth Alas

**Valdytojų ir vyresniųjų vadybininkų skirtumai ir konfliktai esant socialinei atsakomybei kontekste**

Santrauka

Buvo svarbi valdytojų ir kitų investuotojų kapitalo įtaka organizacijoms ir jų vystimuisi. Jau prieš kelis dešimtmečius pasaulinė patirtis liudija apie šios srities svarbą, Enron yra akivaizdus pavyzdys to svarbaus vaidmens, kurį atlieka abipusis valdytojų ir vadybininkų pasitikėjimas, taip pat pavojai, kurių kyla jiems bendradarbiaujant.

Todėl šio tyrimo objektas yra valdytojų ir vadybininkų konfliktai. Tyrimo tikslas – nustatyti kuo skiriasi valdytojų ir vadybininkų požiūriai į bendrą socialinę atsakomybę. Tyrimo metodas – interviu, kurį atliekant buvo pateikta 60 klausimų. Beveik visi klausimai buvo susiję su dviem aspektais: 1) tarp įmonių skirtumu, kurios remiasi užsienio ir vidaus kapitalu, 1995-1999 m. periodu ir 2) šių įmonių skirtumu 2000 – 2004 m. periodu. Estijoje privatizavimas, prasidėjęs pirmajam periodui 1995 m., baigėsi. Išryškėjo pirmi teisinės sistemos, susijusios su vakarietišku bendrovių bendradarbiavimu ypatumai. 2000 metai – antrasis posūkio taškas, kai „valdymas“, susijęs su Azijos ir Rusijos krize, iškėlė naujus ekonominės veiklos ir mąstymo reikalavimus.

Atliekant tyrimą buvo apklausti 25 atstovai: 7 valdytojai, 12 vyriausiųjų vadybininkų ir 6 asmenys, kurie buvo ir valdytojai ir vyriausieji vadybininkai. Šiame straipsnyje aptariami tie rezultatai, kurie susiję su galimais valdytojų ir vadybininkų bei jų supratimo apie socialinę atsakomybę ir šių problemų sąsajas konfliktais.

Literatūroje, kuri susijusi su vadybos ir organizavimo problemomis, dažnai aptariami konfliktai ir jų priežastys. Valdytojų ir vyresniųjų vadybininkų konfliktas ir toliau domina mokslininkus tarptautiniame kontekste. Tai yra valdymo lygio problema. Išplėtus valdymo požiūrį, galima tirti ne tik vadybininkų ir tarnautojų bei pačių tarnautojų ir t. t. konfliktus, bet ir valdytojų ir vadybininkų bei pačių valdytojų konfliktus.

Literatūroje pateikti įvairūs požiūriai į santykius, savininkų ir vadybininkų tarp jų ir tai, kad vyriausiasis vadybininkas ir valdytojas yra subjektai, turintys įvairiausių tikslų ir interesų. Taip pat ir šie skirtumai gali sukelti konfliktus. Tyrimo tikslas yra atskleisti savitus valdytojų ir vadybininkų interesus ir pabrėžti skirtingus jų vaidmenis. Empiriniai rezultatai rodo, kaip vadybininkai ir valdytojai supranta socialinę atsakomybę ir kaip skiriasi jų požiūriai, galintys sukelti konfliktus.

Atliekant interviu buvo gana platūs ir struktūrizuoti. Jie buvo skirti į bendrovių lygiams valdomam kapitalui ir į sąsajoms tarp šių lygių bei aplinkos įtakai įvertinti.

Susumavus rezultatus reikėtų pastebėti, kad valdytojų ir vadybininkų konfliktai nėra normalūs arba natūralūs. Ši nuomonė buvo pateikiama ir ankstesnėse teorijose. Tačiau tai nereiškia, kad gauti atsakymai turėtų sutapti su ankstesnių teorijų teiginiais. Interviu rezultatai leidžia daryti išvadą, kad skirtumas, kaip vyriausieji vadybininkai ir valdytojai supranta idėjas ir veiklą, aiškiai matomas suvokiant socialinę atsakomybę, nepaisant tai, nežūrint to fakto, kad respondentai dažnai nesupranta esant konflikto ypač jeigu jis aptariamas bendrai.

Lyginant valdytojų ir vyriausiųjų vadybininkų aiškumus apie socialinę atsakomybę, galima teigti, kad tam tikra prasme vadybininkai ir valdytojai skirtingai suvokia socialinę atsakomybę. Tai ir skatina jų konfliktus.

Trumpai tariant, valdytojų atsakymai yra labiau susiję su ekonominės atsakomybės sritimi ir dar labiau su akcininkų praradimais. Be to, vyriausieji vadybininkai įmonę traktuoja kaip visumą. Remiantis tuo, kad pasakyta, galima teigti: vadybininkai pastebi, jog valdytojai kreipia mažai dėmesio į šią problemą. Konfliktas tarp vadybininkų ir valdytojų atsiranda tada, kai valdytojai nepakankamai jautriai vertina žmonių veiklą.

Galima būtų padaryti išvadą, kad svarbu atsiriboti nuo organizacijos vidaus ir nagrinėti jos konfliktus remiantis bendru organizacijos valdymo ir remtis bendra socialine atsakomybe konfliktų kontekste. Toks požiūris leidžia tirti valdytojų ir vadybininkų konfliktus. Šio straipsnio autoriai pateikia požiūrį, kad socialinė atsakomybė sukelia tarp valdytojų ir vadybininkų konfliktus. Taip pat jie, kad nurodo empirinio tyrimo rezultatai yra sėkmingai taikomi Estijos organizacijų veikloje.

Raktažodžiai: konfliktai, savininkai, vadovai, įmonių socialinė atsakomybė, Estija, perėjimas

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