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The Diversification-Performance relationship in Spanish Firms: Does The CEO´S Behaviour Style matter?

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Abstract:

The agency-stewardship theoretical framework posits that CEOs may choose to act as agents or as stewards. CEOs as agents are economically rational individuals driven by self-interest, whereas CEOs as stewards are self-actualizing individuals that behave pro-organizationally. Our study extends this framework to analyze whether the CEO´s behavior style affects the diversification-performance relationship. After applying Heckman´s method on a sample of Spanish firms, our results verify that diversification affects positively on firm performance and such effect is significantly strong when this strategy is managed and implemented by a CEO inclined to behave as steward.

Keywords: *Diversification strategy; firm performance; CEOs behavior style; agent; steward*

1. Introduction

An extensive research examines the relationship between diversification strategy and firm performance in strategic management and corporate finance (Denis *et al.*, 1997, 1999; Miller, 2004; Villalonga, 2004). Despite this research, the empirical evidence is inconclusive (Palich *et al.*, 2000). Thus, new approaches are necessary to investigate the diversification-performance relationship. One option is to consider the moderating role that certain variables can exercise on such a relationship. In this paper, we introduce one moderator that does not seem to have been the focus of any previous research: the behavior style of the CEO managing diversification.

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Different behavior styles of the diversifying CEOs may lead to different styles of formulating and implementing diversification and the effects derived from this strategy depend on how it has been managed and implemented (Datta *et al.*, 1991). For this reason, this paper aims to investigate whether the impact of diversification on firm performance depends on the behavior style of the CEO that engages in such strategy. Our study attempts to throw light on this question and its main innovation is to identify the CEO´s behaviour style according to psychological and situational factors within the agency-stewardship theoretical framework (Davis *et al.*, 1997, 2004; Lee y O´Neill, 2003).

The chosen theoretical framework seeks to explain variation in managerial behavior (Chrisman *et al.*, 2007; Waserman, 2006). It argues that a manager may choose to behave as an agent or as a steward, and that this choice is contingent on his personal atributes -*psychological factors*- and on his perceptions of the firm that he manages -*situational factors*- (Davis *et al.,* 1997, 2004). While agent-type managers are self-serving individuals that act oportunistically, steward-type managers are self-actualizing individuals that act pro-organizationally. Drawing on this framework, we assume that CEOs inclined to behave as agents will diversify to attain personal benefits at the expense of firm wealth, whereas CEOs inclined to behave as stewards will use diversification to achieve corporate benefits from maximizing firm wealth.

The contribution of this article to the existing literature is threefold. First, the study tests the applicability of the agency-stewardship debate by recognizing the different behaviors styles of the CEOs that diversify and including this recognition in the empirical testing. Such a debate is one of the most promising lines of inquiry in the field of management, but little empirical evidence exists to justify its potential (Hoskisson *et al.*, 1999). Second, the study goes beyond the literature on diversification effects by analyzing whether the diversification-performance relationship depends on the behavior style of the diversifying CEO. This variable may be a key moderator in such a relationship, since consequences derived from the participation in new activities may be contingent on the way CEOs formulate and implement this strategy (Datta *et al.*, 1991; Hoskisson y Hitt, 1990). Finally, the study also contributes from a methodological perspective by controlling econometrically for endogeneity bias from self-selection in the diversification-performance relationship.

The structure of the article is as follows. The next section develops the hypothesis under study through a review of the related literature. Section 3 contains the data and empirical methodology. Section 4 reports the results. The final section offers some concluding remarks.

2. Literature review

2.1. The CEO´s behaviour style within the agency-stewardship theoretical framework

Agency theory is an economic approach to corporate governance and appears to be the dominant paradigm underlying most governance research. This perspective suggests that managers as agents are rational individuals that seek to maximize their own utility at the expense of corporate wealth (Jensen and Meckling, 1976). Although the divergence of interests between ownership and management may differ to varying degrees, agency theory claims that the model of the agent remains as inherently opportunistic, that is, in that there is an ever-present possibility of opportunism, unless it is curbed through controls.

In contrast, the stewardship theory is a new perspective to understanding top managers´ behavior (Davis *et al.*, 1997, 2004; Lee and O´Neill, 2003). This theory is a psycho-sociological approach to corporate governance that depicts managers as stewards of organizations; their behavior is such that pro-organizational and collectivist conducts have a higher utility than individualistic and self-serving ones (Chrisman *et al.*, 2007). These managers are responsible for managing heterogeneous organizations with competing stakeholders objectives and make decisions that they perceive to be in the best interest of the group. In such a situation, this theory assumes that a steward that enhances corporate wealth will generally satisfy most stakeholders with competing interest (Wasserman, 2006). While stewardship theory in no way denies that managers may be self-interested, it nevertheless propounds that given a choice between self-serving conduct and pro-organizational conduct, stewards´ behavior will not depart from corporate interests. Also, as their thought is that, behave according to it and not opportunistically does not involve a lack of rationality (Hernández, 2007).

The agency-stewardship debate posits that a CEO´s behavior style as agent or as steward may be described in terms of psychological and situational factors (Chrisman *et al.*, 2007; Davis *et al.*, 1997, 2004; Wasserman, 2006). Psychological factors refer to the manager´s personal characteristics and include work motivation, organizational identification and use of power. Situational factors denote the manager´s perception of certain variables concerning the firm that he manages such as management philosophy and organizational culture, particularly the individualism-collectivism and power distance dimensions. Within this framework, managers are more likely to behave as agents when they are motivated by extrinsic factors (e.g., income, work conditions, security of employment,…), when they have low identification with the company, use institutional power to influence subordinates, and belong to firms with a control-oriented management philosophy and an individualistic and a high power distance culture. In contrast, managers are more likely to become stewards when they respond to intrinsic factors (e.g., recognition, personal satisfaction,…), when they identify closely with the firm, use personal power, and work in companies with an involvement-oriented management philosophy and a collectivist and low power distance culture (Davis *et al.*, 1997, 2004).

2.2. The CEO´s behavior style as a moderator of the diversification-performance relationship

Many strategy scholars have explained the importance of considering CEOs´ behavior style when studying the effects of diversification on firm performance, since the extend to which potencial benefits of diversification are actually achieved depends largely on how effectively it is managed and

implemented (Datta *et al.*, 1991; Hoskisson y Hitt, 1990). In fact, CEOs may directly contribute to diversification success or failure because they are responsible for formulating and implementing this strategy. This involves that the agency-stewardship framework might be used to analyze the moderating effect of the CEO´s behavior style on the diversification-performance relationship, given that the impact of this strategy on firm wealth may be different under the management of a CEO that acts as an agent that under the management of a CEO that acts as a steward.

CEOs inclined to behave as agents will be willing to diversify, even at expense of corporate wealth, when large personal benefits are likely to ensue (Denis *et al.*, 1997, 1999). Specifically, diversification may allow them to increase their compensation and status in the business community, to reduce their personal employment risk and to become entrenched by directing this strategy in a way consistent with their own skills (Aggarwal and Samwick, 2003). As a result, CEOs closer to the agent model will place greater emphasis on managerial benefits when managing diversification. For this reason, they will choose the most adequate strategy and try to implement the most effective organizational structure, culture and processes to attain such personal benefits, even if this come at the cost of organizational losses (Hoskisson y Hitt, 1990; Datta *et al.*, 1991). Consequently, we expect that the closer the behavior style of the diversifying CEO is to agent model, the lower the effect of diversification will be on firm performance.

In contrast, CEOs inclined to behave as stewards, as individuals prone to serve the good of the firm, are likely to use their position to pursue wealth-maximizing diversification strategies (Fox and Hamilton, 1994; Ramaswamy *et al.*, 2002). Market power, economies of scope and internal market efficiency arguments allow us to explain how diversification can maximize corporate wealth (Palich *et al.*, 2000). Thus, when managing and implementing diversification, these top managers will place greater emphasis on corporate benefits derived from any of the above three sources. For this reason, they will formulate the best strategy and establish the best organization to achieve such benefits, which will have a favorable effect on firm wealth. Therefore, we expect that the closer the behavior style of the diversifying CEO is to steward model, the greater the effect of diversification will be on firm performance.

3. Methods

3.1. Population

The population of interest comprises Spanish public companies with total sales greater than three million euros and more than 100 employees every year during the period 1997-2001. The Dun&Bradstreet Directory yields a total of

3,655 firms fulfilling these criteria. However, the question of evaluating diversification effects is best broached by focusing on firms when they decide to diversify for the first time, that is, when they increase their number of business segments from one to two or more (Miller, 2004; Villalonga, 2004). For this reason, we restrict the research to firms reporting only one business segment at the four-digit SIC level in 1997, excluding all companies specializing in financial services, regulated utilities, government and non-classifiable establishments. After applying these restrictions, the final population consists of 1,256 specialized firms in 1997. Of these, 520 companies make the initial decision to diversify during the 1998-2001 period and 736 remain specialized.

3.2. Sample and data collection

The information required to identify the type of CEO that diversifies is not publicly available. We carried out a mail survey to collect these data between May and July 2003. The questionnaire was sent to the CEOs of the 520 diversifying firms in the population to obtain their psychological and situational profile. Furthermore, the questionnaire also inquired about the year they occupied the CEO position. As we knew the year when each firm diversified, we were able to determine whether the manager answering the questionnaire was also the CEO that managed and implemented diversification. If this was not the case, the firm was dropped from the sample. Next, CEOs were asked to state the firm´s different business segments when they decided to diversify and the percentage sales in each business segment. A valid response rate of 22.7 percent provides a sample of 118 diversifying companies (sampling error was 8.1 percent with a 95 percent confidence level).

However, "the confidence with which one can draw conclusions from empirical studies of strategic phenomena is significantly limited if the sample is constructed of firms that have experienced the phenomenon under study" (Jensen and Zajac, 2004: 512). Therefore, each diversifying firm from the sample was paired with one of the 736 specialized firms from the population to avoid the sample selection bias. Matching criteria were proposed by Miller (2004) for a similar purpose: sharing the same principal business at the two-digit SIC code level and having a similar size (within 70-130 percent of sales and/or employees) in the year prior to the diversification event. After applying these criteria, the final sample consists of 236 firms, distributed equally between diversifying and specialized companies.

3.3. Independent variable

We measured firm diversification using the entropy index (Jacquemin and

$DIV = \sum_{i=1}^{n} P_i \ln (1/P_i)$, where n is number of the firm´s business segments and P_i

is ith business segment´s sales divided by the firm´s total sales. The entropy measure increases with greater diversification and combines objectivity, content and construct validity, and simplicity.

3.4. Dependent variable

We measured the effect of diversification on performance in terms of variation in return on assets (ROA). After estimating the average ROA for the 3-year pre- and post-diversification periods, we calculated the percentage change in average ROA of both periods (Desai *et al.*, 2005). Performance data were taken from the SABI database.

3.5. Moderating variable

As there are no empirical tests for the agency-stewardship theoretical framework introduced by Davis *et al.* (1997), the study creates a measure of the behavior style of the CEO managing diversification. This measure consists of 30 items encompassing the three psychological factors and the three situational factors that define the construct to be measured. The theoretical basis for constructing items is as follows (see Appendix 1):

Work Motivation is measured with a four-item scale according to Maslow´s Model of Needs (1954); there are two items on intrinsic or higher order needs and two on extrinsic or lower order needs.

Organizational identification is quantified using a five-item scale adapted from Mayer and Schoormand´s approach (1992).

Use of power is assessed with five items that mirror French and Raven´s (1959) five bases of power: legal, reward, coercitive, referential and expert. The first three are manifestations of institutional power and the other two of personal power.

Management Philosophy is measured with a six-item scale adapted from Lawler (1986).

Organizational Culture is assessed with a ten-item scale adapted from Hofstede´s (1980) study; there are five items on the *individualism-collectivism* dimension and other five on the *power distance* dimension.

We obtained this information from the questionnaire completed by the CEOs of the 118 diversifying firms in our sample. Managers are asked to rate the importance of each item on a Likert-type scale, using seven-point "strongly disagree" to "strongly agree" response options. After recoding inversely formulated items, a low score indicates that CEOs are inclined to behave as agents, whereas a high score indicates that CEOs are inclined to behave as stewards. Our 30-item measure has a Cronbach´s alpha of 0.909 and all items load strongly on one single factor (61.01 percent of total variance).

The study employed data obtained from the questionnaire to construct an index of the CEO´s behavior style for each diversifying firm in the sample. The index is computed by adding together each manager´s scores for all 30 items, providing a range of values between 30 and 210. We use a simple addition in this particular case for at least three reasons: a) information is not available to weight *a priori* any of the items utilized; b) reliability and dimensionality analysis highlight that all items measure the same construct and can thus be added to provide a single score, and c) a simple addition has the advantage of being clear and allowing easy interpretation. The index obtained was normalized to provide values of between 0 and 100, with CEOs closer to the agent model having the lower values and CEOs closer to the steward model having higher index scores.

Using a continuous variable is justifiable because our aim is to measure the type of CEO managing diversification more accurately. In fact, Davis *et al.* (1997) point out that their approach assumes that managers choose to act exclusively as agents or as stewards as a first step in establishing the contrast between agency and stewardship theories. However, they also accept that from a practical perspective such an assumption could be viewed as a limitation, as individuals tend not to behave in such a black and white fashion.

3.6. Control variables

The analysis utilized the following control variables: (a) one variable to identify the *type of diversification*, that takes a value of 1 if firms operate in different two-digit SIC industry (unrelated diversification) and a value of 2 if they operate in different four-digit SIC industries but within a two-digit SIC industry (related diversification); (b) one variable to account for the *corporate control*, that takes a value of 1 if firms are owner-controlled (external owners have 5 percent or more of the outstanding shares) or owner-manager controlled (CEOs have 2 percent or more of the outstanding shares) the year of diversification and a value of 2 if firms are manager-controlled (external ownership is diffused and CEO ownership is limited); and (c) three firm-level variables such as *size* (log of total assets), *profitability* (ROA) and *investment* (capital expenditures/sales), and one industry-level variable (four-digit SIC) such as *industry ROA*. We calculate 3-year pre-diversification averages for these four variables. All necessary data to construct control variables were taken from the SABI database and the Duns&Bradstreet Directory.

3.7. Model specification

Standard regression techniques are not able to control for the endogeneity bias from self-selection associated with studying the diversification-performance relationship. One solution is to apply Heckman´s (1979) two-stage method. In the first stage, the procedure estimates the selection equation as a maximum-likelihood probit model to analyze the propensity to diversify and calculate the inverse Mills ratio. In the second stage, the corrected regression equation is estimated by OLS regression to examine the effects of diversification on performance. In this case, the study considers the following selection and regression equations:

$Y_i = \alpha + \beta_1 D_i + \beta_2 C_i + \beta_3 (D_i \times C_i) + \beta_4 X_i + \varepsilon_i$ (*regression equation*) (1)

where Y_i is the diversifying firm´s i performance; D_i a diversification index; C_i an index of the CEO type; (D_i x C_i) an interaction factor between diversification and type of CEO; X_i a vector of control variables and ε_i a normal error term.

$DIV_i^* = \gamma Z_i + \mu_i$ (*selection equation*) (2)

where the latent variable DIV_i^* is observed as $DIV_i = 1$ (the firm *i* decides to diversify) if $DIV_i^* > 0$ or as $DIV_i = 0$ (the firm *i* decides not to diversify) if $DIV_i^* \leq 0$; Z_i is a vector of variables that affect a firm´s propensity to diversify (all control variables from the regression equation but the type of diversification, since they also relate to the choice to diversify) and μ_i is a normal error term. This model uses data from both diversifying firms and matching specialized firms.

However, the fact that Y_i is only observed if $DIV_i = 1$ might lead to endogeneity bias from self-selection. Heckman´s method eliminates this bias in the following way: on the one hand, it requires identifying at least one variable that may be a significant regressor in the selection equation but not in the regression equation. While other variables may be available, *the fraction of firms in the main industry that are diversified* (Villalonga, 2004) resulted to be appropriate. Due to data limitations, this variable had to be calculated from our population. On the other hand, Heckman´s method requires including the 'inverse Mills ratio' (λ_i) as an additional regressor in the regression equation. The inverse Mills ratio approximates the likelihood of diversification in each firm and is calculated by diverse statistical programmes using estimates obtained from the selection equation. After incorporating this correction, the final regression equation is:

$Y_i = \alpha + \beta_1 D_i + \beta_2 C_i + \beta_3 (D_i \times C_i) + \beta_4 X_i + \theta\lambda_i$ (*corrected regression equation*) (3)

4. Results

Table 1 presents means, standard deviations and correlation coeficients for all variables used in this study. Although the CEO-type variable shows high correlation with diversification, the examination of variance inflation factors (VIFs) indicates no evidence of multicolineality.

Table 1. Means, standard deviations and pairwise correlations

Selection equation Variables (N = 236)	*Mean*	*S.D.*	*1*	*2*	*3*	*4*	*5*	*6*
1. Diversification (dummy)	0.5	0.50	1.00					
2. Corporate control	1.2	0.42	0.01	1.00				
3. Log of total assets	17.1	1.23	-0.25***	-0.08	1.00			
4. Firm ROA	4.5	9.55	0.11†	0.01	0.04	1.00		
5. CAPEX/Sales	0.4	0.70	-0.06	0.10	0.03	0.02	1.00	
6. Industry ROA	-1.8	22.85	-0.16*	-0.09	0.19**	0.03	-0.07	1.00
7. Fraction diversified firms	6.3	3.19	0.16*	0.03	0.03	0.07	-0.11†	-0.03

Regression equation Variables (N=118)	*Mean*	*S.D.*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*
1. Change in ROA	0.2	1.46	1.00							
2. CEO type	50.1	13.70	0.31***	1.00						
3. Diversification	0.7	0.41	0.25**	-0.31***	1.00					
4. Type of diversification	1.4	0.48	0.22*	0.02	0.08	1.00				
5. Corporate control	1.2	0.42	-0.20*	-0.04	-0.14	-0.08	1.00			
6. Log of total assets	16.7	1.16	-0.05	0.10	-0.12	0.05	-0.01	1.00		
7. Firm ROA	5.3	12.19	0.06	0.04	0.05	0.06	0.09	0.07	1.00	
8. CAPEX/Sales	0.4	0.57	-0.04	0.03	-0.03	-0.02	0.03	0.05	-0.01	1.00
9. Industry ROA	-5.6	20.94	0.02	-0.04	0.01	0.09	-0.11	0.06	0.09	-0.12

†p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001

Table 2 reports the results of our first-stage probit regression. Using the full sample of diversifying and specialized firms, the study proves that firm size and industry ROA affect negatively and significantly on firms´ propensity to diversify for the first time, whereas firm ROA and the fraction of firms in the industry that are diversified have a positive effect.

Table 2. First-stage probit regression predicting propensity to diversify

Variables	*Coefficients*	*S.E.*	*z-Statistic*
Constant	4.265***	1.321	3.23
Corporate control	-0.061	0.205	-0.30
Log of total assets	-0.275***	0.075	-3.65
Firm ROA	0.022†	0.012	1.87
CAPEX/Sales	-0.106	0.130	-0.81
Industry ROA	-0.016*	0.008	-2.11
Fraction diversified firms	0.066*	0.027	2.41
Number of total observations			236
Number of censured observations			118
Log-likelihood test statistic			33.16***
Pseudo-R^2			0.1013

† p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001

In the second stage of the Heckman method, the study applies a hierarchical moderated regression analysis in order to test the performance effects of diversification. Table 3 summarizes regression results. All models show that the coefficient of the λ_i variable is not significant, indicating the absence of sample selection bias. However, by controlling for this bias, diversification *per se* is shown to have a significant positive effect on change in firm ROA. Results also demonstrate that the management practices of CEOs inclined to behave as stewards have a substantial direct impact on enhanced firm profitability. Furthermore, the R^2 of Model 2 is significantly higher than in Model 1, indicating a possible moderating effect of the behavior style of the diversifying CEO on the diversification-performance relationship. Specifically, the positive and significant coefficient for the interaction term would suggest that the greater the value of the CEO´s behavior style variable (i.e., the closer the diversifying manager is to the steward model), the greater the effect of diversification on performance; or

alternatively, the lower the value of the CEO´s behavior style variable (i.e., the closer the diversifying manager is to the agent model), the lower the impact of diversification on performance. Thus, this result would, *a priori,* appear to confirm our hypothesis.

However, since the correlation between CEO-type and diversification is important (r_{DC} = -0.31***), the significant moderating effect might be simply a nonlinear effect between diversification and firm profitability (Carte and Russell, 2003). This can be checked by adding the quadratic effects of the dependent and moderating variables to regression analysis. Results after controlling for quadratic effects show a significant increase in R^2 of Model 4 compared to Model 3, and an interaction term with a positive and significant coefficient. Both indicators confirm the previously observed moderating effect and provide considerable support for the hypothesis under study.

Table 3. Hierarchical regression analysis: Effect of diversification on firm profitability
Dependent variable: Change in ROA

Variables	*Model 1*	*Model 2*[a]	*Model 3*[a]	*Model 4*[a]
Constant	-0.073 (2.722)	2.765 (2.482)	3.081 (2.704)	2.610 (2.460)
Diversification type	0.495* (0.237)	0.551* (0.232)	0.492* (0.238)	0.543* (0.228)
Corporate control	-0.481 (0.304)	-0.443 (0.280)	-0.496 (0.311)	-0.554* (0.284)
Log of total assets	-0.219 (0.189)	-0.178 (0.174)	-0.222 (0.190)	-0.178 (0.173)
Firm ROA	0.013 (0.014)	0.005 (0.013)	0.013 (0.014)	0.007 (0.013)
CAPEX/Sales	-0.171 (0.230)	-0.057 (0.220)	-0.174 (0.231)	-0.036 (0.218)
Industry ROA	-0.006 (0.009)	-0.003 (0.008)	-0.006 (0.009)	-0.004 (0.008)
Diversification	1.235*** (0.304)	1.385*** (0.300)	1.216*** (0.322)	1.226*** (0.307)
CEO type	0.044*** (0.009)	0.047*** (0.009)	0.044*** (0.009)	0.046*** (0.009)
Diversification x CEO type		0.058** (0.022)		0.084*** (0.026)
Diversification^2			0.073 (0.492)	0.098 (0.548)
CEO type^2			0.001 (0.001)	0.001 (0.001)
Lambda (λ)	0.899 (0.962)	0.359 (0.914)	0.919 (0.975)	0.425 (0.906)
Wald[b]	$\chi2(10)$ = 50.64***	$\chi2(11)$ = 60.52***	$\chi2(12)$ = 50.73***	$\chi2(13)$ = 65.82***
Adjusted-R^2	0.226	0.261	0.212	0.269
Δ Adjusted-R^2		0.035**		0.057***
N	118	118	118	118

[a] The two continuous variables used in interaction terms were centered. Results are similar if uncentred.

[b] Wald test is a χ^2 test of all coefficients in the regression model, except the constant, being 0 (Heckman, 1979).

Values are unstandardized coefficients, with standard errors in parentheses

† p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001

5. Concluding discussion

Several scholars have recommended examining whether the diversification-performance relationship may depend on how such strategy is managed and implemented (Datta *et al.*, 1991; Hoskisson and Hitt, 1990). This study takes up the call for action, analysing whether the behavior style of the CEO managing diversification may moderate the impact of this strategy on firm performance in Spanish firms.

Results show that CEOs inclined to behave as stewards act to maximize profitability in general, but they are particularly influential when using corporate resources to diversify; or alternatively, CEOs inclined to behave as agents make strategic decisions that reduce profitability in general, and this effect is significantly strong when they decide to diversify. Overall, our results provide general support for the notion that steward-managed firms obtain higher levels of performance from diversification than agent-managed firms. These findings highlight that the impact of diversification on performance is not homogeneous across all CEOs managing diversification. Indeed, we find evidence that the differences in profitability effects stemming from the decision to diversify are not driven by diversification *per se* but rather by the fact that the action of this strategy on profitability may be modified by the behavior style of the CEO that diversifies, whatever the level of diversification achieved.

The behavior style of CEOs managing the diversifying firm has implications on the way they exercise their power and hence on their preferences and styles of formulating and implementing the participation in new activities, which is reflected in profitability benefits derived from their diversification efforts. The findings also indicate that there are gains to be obtained by considering the gamut of human motivations and behaviors. Although agency problems certainly exist if agent-type CEOs manage diversification, such problems disappear when CEOs closer to the steward model expand firms' operations to maximize corporate wealth. Thus, the study shows that self-interest is not the only valid managerial behavior behind diversification.

Despite certain limitations to the study, such as assuming that diversification always coincides with CEOs´ preferences or that their profile remains constant over time, this article may be relevant to both researchers and practitioners. For researchers, the contradictory findings of the diversification-profitability relationship may be partially explained by considering that such a relationship may be contingent on how diversification is managed and implemented and, more specifically, on whether the CEO that diversifies is more inclined to behave as agent or as steward. For practioners, our results reveal that whenever diversifying firms stress profitability, it is important to foster the conditions under which stewardship relationships can flourish. Firms should therefore ensure that individuals selected to the post of CEO have a psychological profile that predisposes them to behave as stewards. Moreover, firms should pay particular attention to implementing the situational conditions that are necessary to guarantee the pro-organizational behavior of their top managers.

Appendix 1

Measure items of the CEO´s behavior style	
IM1	It is important for me to get the recognition I deserve when I do a good job
IM2	I need to feel proud of my own work
EM3	I like hard work to earn a lot of money
EM4	It is important for me to get promotion at work and have security of employment
ID1	I am committed to the goals of this organization
ID2	I really do not care what happens to this organization
ID3	I am proud to tell others that I am part of this organization
ID4	I find that my values and the organization´s values are very similar
ID5	I am not willing to put in a great deal of effort beyond that normally expected for helping this firm
PP1	Employees acknowledge my experience when they have to comply with my orders
PP2	Employees identify with me and try to act as I do
IP3	I gain my obedicence through sanctions and threats
IP4	I reward employees that act as I want
IP5	I use my authority to ensure that employees accomplish their duties
MP1	Within the firm there is a strict control over how employees do their work and the results obtained
MP2	The firm confronts increased uncertainty through more empowerment in employees
MP3	Employees not only carry out their work, but organize and control it
MP4	There is a low level of trust throughout this firm
MP5	Employees do not have the freedom to decide how they are going to carry out their work
MP6	There is fluent communication between employees and management team within this firm
IC1	The company´s members may be expected to give up their goals in order to benefit group success
IC2	The firm lacks team spirit
IC3	Firm success is usually attributed to all its members
IC4	There is a cooperative atmosphere in this firm to benefit group success
IC5	Employees´ individual development and independence is encouraged in this firm
DP1	The main function of the employees is to follow instructions given by the management team
DP2	The management team takes most decisions after consultation with subordinates
DP3	The company´s members are encouraged to express their own ideas and opinions
DP4	Individuals at the top have much more power than individuals lower in this firm
DP5	Employees can disagree with management decisions

Variables Code	
IM	Intrinsic Motivations
EM	Extrinsic Motivations
ID	Identification with the firm
PP	Personal Power

IP	Institutional Power
MP	Management philosophy
IC	Individualism/Collectivism
PD	Power distance

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