

THE IMPACT OF CONSISTENT AND INCONSISTENT PERFORMANCE FEEDBACKS ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

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Despite the argument that firms have multiple performance aspiration levels, including historical and social aspirations, prior work on behavioral theory of firm (BTOF) (Cyert & March, 1963) largely uses single referent aspiration or assumes that the two aspirations influence firms' behavior in the same way. Recent studies have encouraged scholars to pay attention to the distinct effects of historical and social aspirations and develop a more holistic view about how performance feedback influences decision-making in firms (Audia & Brion, 2007; Bromiley and Harris, 2014; Jordan & Audia, 2012; Lucas et al., 2018). How does meeting or failing to meet either of or both historical and social aspirations influence firms' engagement in corporate social responsibility (CSR)? Addressing this question is important because BTOF remains under-utilized to understand the impact of firms on society. We integrate BTOF and prospect theory and use regression analysis to reveal that firms become risk averse by spending more on CSR activities when they fail to meet both historical and social aspiration levels. Our analysis also shows that firms exhibit risk seeking behavior by spending less on CSR activities when they (1) perform better than both historical and social aspiration levels, and (2) meet historical aspiration level but fail to meet social aspiration level. Our predictions find support using difference in differences methodology as well. We leverage a research setting that allows us to treat CSR as non-voluntary, which in turn enables us to overcome the barriers to examining CSR through the lenses of BTOF. Clarity on how the satisfaction and the dissatisfaction derived from financial performance manifests into conscious efforts toward performing CSR activities may enable scholars to help firms (and policy-makers) enhance the positive impact on the society.