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Organizational Performance Relative to Aspirations: Exogenous Roots of Performance Feedback

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ABSTRACT

This dissertation offers new insights on organizational decision making with respect to performance relative to aspirations and the role of external coalition members and reciprocal internal organizational responses. In doing so, it contributes to the behavioral theory of the firm literature. While most behavioral theory of the firm studies focus mainly on the outcomes of performance relative to aspirations and have taken aspirations for granted, this dissertation elaborates on the existing literature to identify the gaps in our understanding of organizational aspirations and makes suggestions on how to extend the theory of organizational aspirations. I further focus on external coalition members that exist beyond formal organizational boundaries of the firm and study their systematic reactions to performance relative to aspirations and how those reactions are looped back into organizational responses to performance discrepancies.

Essay 1 reviews the literature on aspirations from the behavioral theory of the firm perspective. By discussing origins, definitions, loci, dimensionality and adaptation of aspirations as well as organizational attention to aspirations and outcomes, I propose revisions to the existing understanding of aspirations. In particular, an inverted model of aspirations that abandons the assumption of psychological neutrality of aspirations as well as stability and progress aspirations on single performance measure would allow for explaining the decisions of emerging organizations and co-existence of multiple organizational aspirations.

Essay 2 combines behavioral theory of the firm with Hirschman's exit and voice concepts and develops a theoretical model that explains how external coalition members, namely shareholders, are looped into the performance feedback mechanism that links organizational responses to performance relative to aspirations. I pose that voice and exit are two alternatives that individual shareholders can pursue in response to performance discrepancies, both below

and above aspirations, and that collective shareholder voice motivates the firm to adapt to such performance discrepancies. The essay further empirically tests the proposed conceptual model using a set of panel data methods.

Essay 3 further elaborates on the idea of external roots in performance feedback by looking at the organizational slack as the barrier between external and internal coalition members. Unlike the earlier literature which associated slack with organizational innovativeness, this paper demonstrates that slack is a political instrument that enhances the position of internal coalition members and mutes the voice of external coalition members, hence, hindering organizational reaction to performance below aspirations. This paper further argues that high slack amplifies the negative effect of self-enhancement on problemistic search.

KEYWORDS

Aspirations, behavioral theory of the firm, performance feedback, attainment discrepancy, targets, goals, referents, performance dimension, upward striving, stability, progress, coalitions, shareholders, shareholder voice, shareholder exit, slack, self-enhancement, problemistic search, change.

SUMMARY FOR LAY AUDIENCE

It is a common sense notion that businesses should strive to increase their performance. An aspect of organizational performance that is often overlooked is that absolute performance rarely matters, it is relative performance, a comparison of actual performance to certain benchmarks, or aspiration levels, that is important for decision making. Interestingly, however, not only is pursuit of performance important for organizations, but also the outcome, that is, the difference between performance and aspiration levels, can be a strong predictor of future organizational actions.

This thesis is concerned with two things: how organizations form aspiration levels that facilitate evaluation of performance outcomes of the firms, and how actors external to the firm are looped into the link between the relative performance and organizational responses.

By reviewing the existing literature on aspirations, I emphasise the fuzziness of organizational aspirations as each point of comparison makes a separate aspiration. Moreover, I pose that firms may have multiple aspirations even for a single performance measure, each such aspiration representing different values and frames, such as organizational stability or organizational progress. This significantly contrasts with the extant focus on past performance and performance of peer firms as sources of aspirations.

I also highlight the role of coalitions of decision makers who reconcile their own aspirations into organizational level aspiration. This suggests that external coalition members also take part in the creation of aspirations and in the way organizations respond to the relative performance outcomes. I find significant support for the hypotheses that shareholders, as external coalition members, systematically raise their voice when firm performance deviates from the aspired level and that such shareholder voice triggers organizational search. However, firms with

a high level of slack are reluctant to listen to benevolent external voice and are mostly concerned about the interests of the incumbent managers, even when these managers engage in self-enhancement and misrepresent the actual performance of the firm for their personal benefit.

CO-AUTHORSHIP STATEMENT

I developed Essay 3 of this thesis in co-authorship with Dr. W. Glenn Rowe. Originally this essay emerged as the extension of Essay 2 from my dissertation. I developed the initial research idea and design, used part of the data from Essay 2, and prepared the first draft of Essay 3. Dr. Rowe contributed by editing, refining, and providing valuable advice throughout the research. Dr. Rowe also contributed by the acquisition of data on accounting restatements which were used as a proxy measure of self-enhancement in Essay 3. Except for the above-mentioned contribution by Dr. Rowe, this thesis represents my own work.

TO MY CHILDREN

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I am indebted to my family, my parents, my wife, and my children who supported my choice and were always nearby on my way to the doctoral degree in business at Ivey Business School.

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CHAPTER 1: INTRODUCTION

Is a firm more like a fortress or like a marketplace? Depending on the initial framing (Cornelissen & Werner, 2014) one will see and, hence, understand firms differently. For decades, the strategic management field has been concerned with maximization of firm performance (Friedman, 1970) as the outcome of interest, and hence, saw a firm as a fortress with clear boundaries (Coase, 1937; Williamson, 1981) and clear managerial preferences (Jensen & Meckling, 1976). Everything that is beyond the perceived boundaries of the firm was of a secondary importance and was aggregated into a fuzzy category – the environment. While such simplification of a firm is theoretically plausible, its consequence is somewhat myopic identification of those parts of the firm which were cut off by the theoretically imposed boundaries of the firm.

In contrast to the outlined framing, the original work of Cyert and March (1963), a behavioral theory of the firm, adopted a perspective of a firm as a marketplace, where organizational membership is defined by the participation, where coalitions bargain about goals, and where distribution of surplus slack keeps firm participants together. Indeed, actual firms are overlapping jurisdictions (Blau, 1996), an amalgamation of internal and external coalitions with diverse interests and adaptive behavior (Cyert & March, 1963), for whom organizational performance is a desired outcome as much as the predictor of their own behavior and, eventually, the behavior of the firm (March & Sutton, 1998). It is ironical however that despite the 'coalitions' argument, that Cyert and March (1963) employed to construct their model of organization, the behavioral theory studies rarely put the importance of external coalitions in the spotlight and focuses mostly on managers or the firm within its formal boundaries (Audia & Greve, 2021; Mithanyi & O'Brien, 2020).

External coalitions, of which stakeholders is probably the most prominent category, are merely an environmental constraint for the firm. Their influence on the firm is very much determined by what the firm is doing while their evaluation of firm performance is made inside their own 'external' context. Therefore, it is an interesting puzzle to consider external coalitions as part of the broader 'boundaryless' firm, at the same time keeping the context and firm-specific aspirations that are valid for these external coalitions. In this dissertation I acknowledge the role of external coalition members and their agency conditional on firm performance. By examining shareholders of the firm, I show that they are concerned with firm behavior as much as internal coalition members, and that their systematic responses to firm performance feedback are looped into firm behavior. Bringing shareholders, and external coalitions in general, into our understanding of the firm is also important because it requires us to acknowledge the competition of internal and external perspectives on how organizations should make decisions and to appreciate the fact that external stakeholders have regular conversations with the firm and the incumbent management, these conversations are the diverse evaluations of the firm performance, and that these conversations are not static, and they matter for how a firm behaves.

Second important line in this dissertation, which is linked to the feedback from external coalitions, is concerned with the importance of performance evaluations relative to the context in which these coalitions operate and their aspirations about organizational performance in particular. Vast literature on performance feedback (Audia & Greve, 2021; Kotiloglu et al., 2021) puts aspiration in the centre of the performance evaluation and shows that it is performance relative to aspirations that matters to decision makers (Greve, 1998; 2003). Aspirations allow organizations to evaluate their performance and depending on performance feedback, or the difference between the aspired and actual performance, adapt organizational behavior (Cyert &March, 1963). On one hand, the idea of aspiration stems from the works of Simon and March (Simon, 1957; March & Simon, 1959) on the models of boundedly rational decision making and aspiration works as a benchmark that bisects the performance evaluation into satisfactory and non-satisfactory. In a broader sense, aspiration is a combined representation of context relative to which firm performance is evaluated. So far, aspirations have received much less attention than the outcomes of performance feedback, and the use of aspirations was often based on arbitrary average measures of performance. The embracing of simultaneous external and internal evaluations of firm performance also warrants the reassessment of our understanding of organizational aspirations.

My interest in organizational aspirations is also motivated by my professional experience in finance, where I saw how relative performance can be a powerful trigger of organizational responses and how meaningless were the absolute performance measures decoupled from the historical background, internal and external environment, and the perceived future of the organization. Moreover, I witnessed intense interest in a firm's past, future, and comparative performance from diverse shareholders and their representatives who sought regular contacts with the managers. Eventually, the behavioral theory of the firm (Cyert & March, 1963) and performance feedback studies (Audia & Greve, 2021) resonated well with my pre-academic intuition about how organizations work but lacked sufficient external perspective and used aspirations rather mechanically. Hence, I decided to further research organizational aspirations and performance feedback in order to better understand the essence of organizational aspirations as well as apply this understanding to the external coalition members, the empirical phenomenon in the behavioral theory of the firm which so far was largely overlooked.

Most of the behavioral theory of the firm research concerned with the performance feedback is focused on the outcomes of performance discrepancies (Posen et al., 2018), rarely putting organizational aspirations in the spotlight. With this dissertation, I intended to critically assess the existing body of knowledge on organizational aspirations and synthesize the important aspects of aspirations, which could enrich our understanding of the behavior of the firm. Secondly, I focused on the aspirations of external coalition members, namely shareholders, to elaborate on another missing puzzle piece of the performance feedback studies: systematic involvement of external coalition members in organizational responses to performance relative to aspirations. Hence, this dissertation is comprised of 3 essays, the first of which reviews and synthesizes the existing literature on aspirations and the other two that study the role of shareholders in the performance feedback mechanism.

Essay 1 (Chapter 2): Give me an aspiration and I will move the world. Reviewing the role of aspirations in the Behavioral theory of the firm.

The notion of organizational aspiration is central to the behavioral theory of the firm as firms seek adjusting their performance to or above the aspired level (Cyert & March, 1963) in order to meet the demands of the dominant coalition. Since the publication of the original work by Cyert and March (1963), scholars used the notion of aspirations and performance relative to aspirations to explain a broad set of organizational behaviours, yet, most used the brief definition of aspiration as some weighted function of historical and social performance (Cyert & March, 1963) without truly investigating what organizational aspiration actually is. Hence, I conduct a broad review of the literature concerned with the behavioral theory of the firm and aspirations from the selected top tier journals to highlight the important aspects of organizational aspirations and propose further trajectories of research on organizational aspirations.

In particular, organizational aspirations are reconciled from the aspirations of individual coalition members about the desired level of organizational performance and hence, are subject to individual biases and interpretations. Moreover, external and internal coalition members might have a different understanding of organizational aspiration levels, and this could become a subject of political battles between the two sub-groups of organizational coalitions. Aspirations are multi-dimensional as a comparison of firm performance with each reference point would pull the assessment of the status-quo into respective directions. Aspirations are subjected not only to external comparisons but also to the cognitive frames of the assessor, as stability and progress frames would set aspirations differently. By concluding the review of aspirations literature, I further focus on a specific overlooked area of research on performance feedback: external coalition members.

Essay 2 (Chapter 3): Performance feedback, voice and search. Bringing shareholders into the behavior of the firm.

Elaborating on the idea that external coalition members have their own visions of organizational aspirations and their own set of responses to performance discrepancies, this paper suggests a model of responses to performance feedback by shareholders and how these responses loop back into organizational reactions to the performance feedback. I borrow from Hirschman's (1970) ideas about voice and exit as alternative stakeholder actions during organizational decline and show that shareholder voice systematically increases when organizational performance deviates from aspiration level, both below and above. Furthermore, I show that shareholder voice increases organizational search.

This paper extends the existing body of knowledge on performance feedback by showing that the external coalition members are part of the performance feedback mechanism and the involvement of the shareholders is instrumental for the firms to respond to attainment discrepancies. While earlier studies saw search as automatic response to performance discrepancy (Posen et al., 2018) this work highlights the importance of voice as an overlooked link between performance feedback and organizational responses to it. Moreover, the systematic nature of shareholder involvement in the performance feedback mechanism reinvigorates the debate about organizational boundaries. Essay 2 empirically demonstrates what Cyert and March (1963) envisioned as the boundaryless firm, where self-selected external affiliates of the firm are engaged in performance feedback and hence, become part of a firm's decision making. Moreover, such external coalition members have their own vision of organizational aspirations, which is captured in Essay 2 empirically through construction of social aspirations of the firm that are relevant for the shareholders. The conceptual model in Essay 2 is further tested using panel data methods with mixed results.

Essay 3 (Chapter 4): The silence of the slacked: The negative side effect of slack on problemistic search.

The last essay of this dissertation takes further steps in the application of the external perspective on organizational performance feedback by theorizing about the political role of organizational slack, which acts as a boundary between external and internal coalition members. A simple juxtaposition of internal and external coalition members allowed me to take an unusual perspective on one of the foundations of organizational theory. While the behavioral theory of the firm sees slack as the vehicle for holding the organization and its coalition members together by enabling semi-resolution of conflicts (Cyert & March, 1963), Essay 3 shows that slack is also a barrier that isolates internal coalition members from external ones, which prompts two negative side effects of slack. Firstly, the higher the slack, the weaker the positive effect of shareholder voice on problemistic search. When firm performance relative to aspirations is in decline, shareholder voice increases problemistic search, according to this research. Slack, however, reduces this positive effect of shareholder voice. Moreover, as slack reinforces the position of internal coalition members, it also amplifies the negative effects of managerial self-enhancement on problemistic search. In Essay 3, I test the conceptual model using comprehensive panel data and find support for all the hypotheses. However, in contrast with Essay 2, which looks at all the performance spectre, Essay 3 is particularly concerned with situations when firm performance falls below aspirations and where the effects of self-enhancement and the importance of problemistic search are elevated.

This dissertation makes the following theoretical and phenomenological contributions to the academic management literature and behavioral theory of the firm in particular. Firstly, it elaborates on a broad body of literature that discusses organizational aspirations to gain a focused perspective on the complex nature of the organizational aspirations phenomenon. I highlight the unwritten assumptions that constrain the use of aspirations by the behavioral theory of the firm literature and provide a new perspective on aspirations, which could broaden the generalizability of the behavioral theory of the firm, in particular, on new and emerging firms. Secondly, I elaborate on the overlooked element of the performance feedback--the external coalition members--and show that formal organizational boundaries do not constrain the locus of organizational decision making. Furthermore, external coalition members, such as shareholders, are looped into the performance feedback mechanism, both below and above aspirations, and motivate organizational search as response to performance feedback. Lastly, I demonstrate how juxtaposition of external and internal coalition perspectives is useful in revisiting selected foundations of the theory, such as organizational slack. This thesis is structured in accordance with the structure of the ideas in the Introduction, such that Chapter 2 presents a review of the literature on aspirations, Chapter 3 includes the essay on shareholder voice and exit as responses to performance feedback and the impact of shareholder voice on organizational search, and Chapter 4 concludes the thesis with the paper on the dark side of the slack.

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CHAPTER 2: GIVE ME AN ASPIRATION AND I WILL MOVE THE WORLD. REVIEWING THE ROLE OF ASPIRATIONS IN THE BEHAVIORAL THEORY OF THE FIRM (ESSAY 1)

ABSTRACT

This review paper is concerned with the use of aspirations in the behavioral theory of the firm literature. By focusing on research published in top academic journals, I summarize the existing perspective on the definitions, loci, dimensions, activation, and outcomes of organizational aspirations and propose a set of directions for future research. I highlight limited advances in understanding of organizational aspirations since the original conceptualization of the term, propose an inverted perspective on the performance-aspirations relationship, and suggest the bias-driven nature of aspirations, which allows the existence of multiple aspirations on a single performance dimension, such as stability and progress aspirations. I also discuss prospects, limitations, and future avenues for the aspirations literature concerned with multiple goals.

KEYWORDS

aspirations, behavioral theory of the firm, performance feedback, stability, progress

INTRODUCTION

Aspirations is one of the theoretical pillars of the behavioral theory of the firm (BTOF) (Cyert & March, 1963) and performance feedback (PFB) studies (Audia & Greve, 2021), and the use of aspirations as reference points has received significant attention in organizational theory and strategic management literature (Shinkle, 2012) in recent years. However, confusion continues to exist about the meaning of the term ’aspiration‘ and the use of terms, such as goals, targets, reference points, and aspirations, sometimes interchangeably and sometimes with different meanings. Also, while aspirations are important for understanding organizational decisions (Cyert & March, 1963), most of the studies within the paradigm of the behavioral theory of the firm have focused on organizational outcomes, such as problemistic search (Posen, Keil, Kim, & Meissner, 2018), risk-taking (Smulowitz, Rosseau, & Bromiley, 2022), learning (Argote, Lee, & Park, 2021) and change (Kacperczyk, Beckman, & Moliterno, 2015), while using aspirations mechanically.

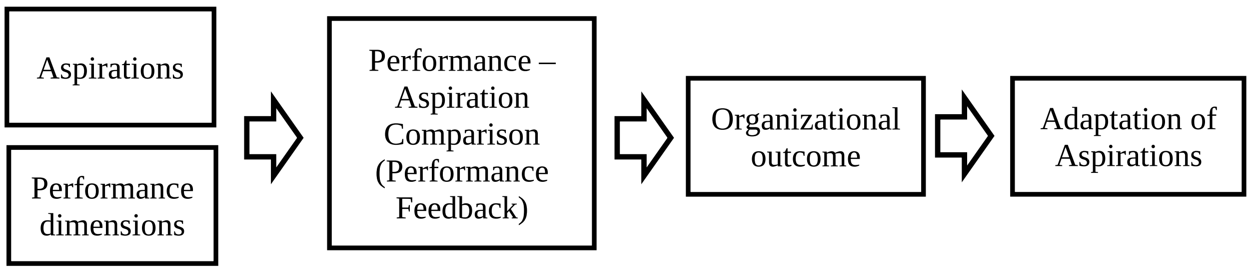
At the same time, there is increasing empirical evidence on inconsistencies in organizational responses deriving from multiple comparisons, such as internal and external comparisons (Kacperczic, Beckman, & Moliterno, 2015; Hu, He, Blettner, & Bettis, 2017), historical and peer comparisons (Kim, Finkelstein, & Haleblian, 2015), backward and forward looking comparisons (Chen, 2008; Blagoeva, Mom, Jansen, & George, 2020), and comparisons of performance on multiple goals (Gaba & Greve, 2019; Levinthal & Rerup, 2021). Also, there are functional inconsistencies in organizational responses to performance relative to aspirations (Kim et al., 2015; Ref & Shapira, 2017). All this suggests that our understanding of aspirations is incomplete, and instead of taking aspirations for granted, we need a better theory about the origin, the essence, and the impact of aspirations on organizations.

Moreover, the embrace of the idea that external coalition members are looped into organizational decision making, warrants better understanding of how organizational aspirations are set, how they encompass the competing, external and internal perspectives on the referent points and trajectories of further organizational development. Cyert and March (1963) discuss bargaining processes by the coalition members and organizational goals as one of the outcomes of such bargaining. This motivates me to review aspirations literature more broadly and to present a comprehensive perspective on aspirations.

The notion of aspirations was introduced into organizational studies from the works on rational choice of Herbert Simon (1956) in which he borrows the term from the field of psychology. The term 'aspiration' is also used in multiple disciplines including linear programming (Steuer, Silverman & Wishman, 1993; Lotfi, Yoon, & Zionts, 1997), negotiations (Balakrishnan & Eliashberg, 1995) and strategic management and behavioral sciences (Shinkle, 2012). Shinkle's (2012) review of research on aspirations compared 3 perspectives, namely, Ansoff's strategic management view (Ansoff, 1979), strategic reference points (Fingebaum, Hart, & Schendel, 1996), and the behavioral theory of the firm (Cyert & March, 1963).

Proliferation of research of the behavioral theory of the firm stream in recent years and the important, yet often mechanical use of aspirations in the theorizing (Posen et al., 2018) motivated me to review the aspirations literature represented by the works that align with the paradigm of the behavioral theory of the firm. Extant reviews of the behavioral theory of the firm (Gavetti, Levinthal & Ocasio, 2007; Gavetti, Greve, Levinthal & Ocasio, 2012; Posen et al., 2018) and performance feedback studies in particular (Greve & Gaba, 2017; Kotiloglu et al,. 2021) also discuss aspirations, yet this literature is mainly concerned with the outcomes of performance-aspiration comparisons and departs in multiple idiosyncratic directions but pays limited attention to the notion of aspiration. Hence, this review will focus primarily on organizational aspirations used in works which honor Cyert and March's behavioral theory of the firm (1963).

Figure 1. Conceptualizing the role of aspirations in organizations

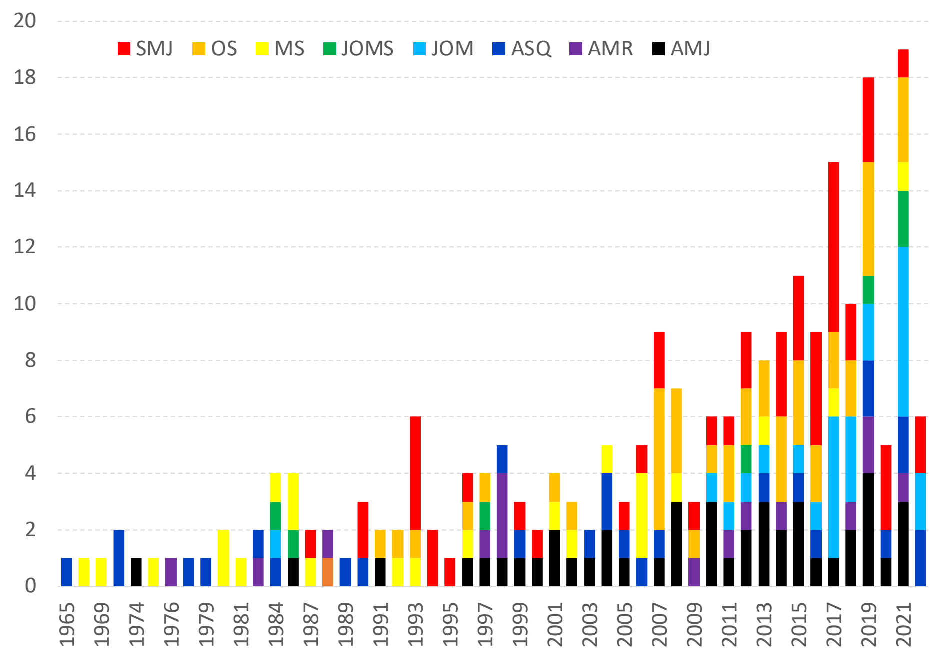


Methodology of the literature review

Following the literature review guidelines suggested by Posen et al. (2018), I focused on reviewing aspirations literature within the paradigm of the behavioral theory of the firm published in top tier management journals, namely, Administrative Science Quarterly, Academy of Management Journal, Academy of Management Review, Journal of Management, Journal of Management Studies, Management Science, Organization Science, and Strategic Management Journal. I used the Google Scholar search engine, which provides more comprehensive search results than the Web of Science articles search and also allows users to search for keywords within the articles rather than the abstract. Because I narrowed my focus of interest to aspirations in the behavioral theory of the firm, I searched for journal articles containing the exact phrases 'aspiration' and 'behavioral theory of the firm' in the time frame between 1963 and 2021.

The starting year of search was chosen as 1965 because the seminal paper on the behavioral theory of the firm was published in that year. My initial search yielded 710 results, many of which included articles from journals beyond my scope of interest. After the first round of filtering and exclusion of articles from my list of journals above, I ended up with a list of 563 journal articles. However, many articles only cite or mention the behavioral theory of the firm without actually incorporating it into their theoretical reasoning. Therefore, I read those articles and kept only those which used the behavioral theory of the firm as the article's main theoretical lens or as a supporting theory which nevertheless contributed to the theoretical reasoning in the article. I also included in the list of articles several fundamental works in the realm of the behavioral theory of the firm which were published in journals beyond those mentioned earlier. Ultimately, my review list included 235 articles published between 1963 and 2021 as well as some articles with early online access, available in print after 2021.

Figure 2. Number of reviewed publications in the selected journals



Distribution of reviewed articles by journal and year can be seen in Figure 2. While the studies in this domain gained popularity throughout time, a significant boost in publications happened after the introduction of spline-function in Henrich Greve's journal articles (Greve, 1998; 2003a) and detailed explanation of his methodology in his book (Greve, 2003b). As this literature was gaining traction, it became accepted for publication in more journals. For instance, Journal of Management started regularly publishing articles on aspirations that use the behavioral theory of the firm from 2010.

Background and original assumptions

The notion of aspiration evolved in the Carnegie tradition from the concept of bounded rationality (Simon, 1956), which, in turn, was a reaction to the rational behavior model. In contrast with the rational behavior model, where all the necessary information is known, cognitive limits are absent and decision makers maximize their utility through making optimal choices, the bounded rationality model suggested that decision makers decide whether the choice or the outcome is acceptable by comparing it with reference points, also known as aspirations. Under bounded rationality assumptions, aspiration becomes the pillar stone of the decision making, a benchmark which informs whether a decisionmaker needs to take action.

Simon's views of aspirations largely informed the use of the term in the future literature, such as Cyert and March's (1963) idea of problemistic search and Greve's (2003b) spline specification of the performance feedback model, where aspiration bisects the performance dimension into satisfactory - above aspiration, and non-satisfactory - below aspiration. Consequently, the non-satisfactory performance area received significant attention from the behavioral theory studies (Posen et al., 2018), as in line with Simon's (1956) argument, the decisionmakers will strive towards achieving the aspiration level in order to 'satisfice' themselves. In their fundamental work, Cyert and March (1963) made a set of assumptions about aspirations, which largely informed the future research on the topic of interest. Firstly, Cyert and March suggest that there are two underlying reference points: historical comparisons and social comparisons. Secondly, Cyert and March assume that these two reference points can be aggregated into a single measure of organizational aspiration, defining aspiration as some weighted function of historical performance of the firm and performance of similar organizations. While this definition provides an incomplete explanation about the underlying nature of organizational aspirations, it also provides an accessible empirical method of calculating what Cyert and March describe as aspirations, which largely informed the future use of aspirations by the organizational and management research.

Lastly, Cyert and March (1963) suggested that aspiration level plays the role of the "master switch" (Greve, 2003a, p. 696) for organizational behavior. When aspiration level is met, it is assumed that the organization enjoys a period of stability and accumulates slack resources. Failure to meet aspiration switches the firm into a problemistic search mode because failure to meet aspiration represents a problem that needs to be solved. Most of the subsequent research in this area focuses on organizational responses or outcomes of organizational performance relative to aspirations, such as search (Greve, 2003a), risk (Bromiley, 1991) and a broad set of parameters representing organizational change (Kotiloglu, Chen, & Lechler, 2019), while the assumptions about aspirations remained largely intact until some of the most recent works.

Since Cyert and March's aspirations are self-referential (Levinthal & March, 1993) and risk taking or search is possible only when firm performance happens to be below its past performance or below the performance of the peer firms, this perspective however has a significant flaw because it can not explain why there are peer firms that improve their performance when they already exceed aspirations, other than attributing such superior performance to some random process. At the same time, empirical evidence suggest that firm performance is heterogeneous and firms strive to increase their performance beyond the status-quo level, hence, surpassing their aspiration levels regardless of the mechanisms explained by historical and social comparisons only.

TERMS AND DEFINITIONS

The BTOF literature uses a broad set of terms related to aspirations, sometimes interchangeably (Washburn & Bromiley, 2012) and sometimes with different meanings of these terms (Levinthal & Rerup, 2021). Moreover, the dominant part of research on aspirations avoids defining aspirations or mechanically uses Cyert and March's (1963) proposition that aspiration is some weighted function of historical performance and performance of similar organizations, a proposition that does not give a true definition of aspiration. Hence, I believe it is important to disentangle the terminological hubris in the aspirations literature and clarify the available definitions.

Extant definitions

One particular definition of aspiration that was introduced into the BTOF literature by Henrich Greve (1998) is a citation from the earlier work on psychology and defines aspiration as "the smallest outcome that would be deemed satisfactory by the decision maker" (Schneider, 1992, p. 1053). Twenty-two articles from my sample use this definition of aspiration. This definition emphasises the function of aspiration as the boundary between satisfaction and dissatisfaction conditional on the outcome.

Table 1. Definitions of organizational aspirations

Themes	Definitions	Example of journal articles
Boundary between failure and success	Borderline between perceived success and failure	Greve, 2003a; Sakhartov & Folta, 2013
	Goals or aspirations can be seen as reference points separating regions of gain from regions of loss	Hu, Blettner & Bettis, 2011
	Reference point that simplifies performance evaluation by transforming continuous outcome measures into discrete measures of success or failure	Baum & Dahlin, 2007
	Reference point, such as a firm's prior performance, that firms and managers use to determine whether there is a gap between their current performance and past performance	Vidal & Mitchell, 2015
	Reference point that is psychologically neutral	Kameda & Davis, 1990
Satisfactory level of outcome	The smallest outcome that would be deemed satisfactory by the decision maker	Schneider, 1992; Greve 1998, 2003a; Gaba & Joseph, 2013; Iler & Miller, 2008; Tyler & Caner, 2016
	Level of outcome that will satisfy the individual or organization	Washburn & Bromiley 2012
	Neutral point at which decision makers have satisficed on the goal variable	Gaba & Greve, 2019
Target, desired or anticipated performance	Internal standard for the service level that ought to be delivered	Oliva & Sterman, 2001
	Target for organizational performance	Lant & Mezias, 1992; Mezias, Chen & Murphy, 2002
	Level of performance that organizational leaders expect to achieve	Madsen, 2013
	Desired performance levels in specific organizational outcomes	Shinkle, 2012
	Managers' anticipated performance or expectation for a specific goal	Aranda, Arellano & Davila, 2017
Product of comparisons	Product of comparisons with other similar firms and with the firm's past performance	Baum, Rowley, Shipilow, & Chuang, 2005; Park, 2007; Ben-Oz & Greve, 2015; Eggers & Kaul, 2018
	Function of the organization's own previous experience and the experience of 'comparable' organizations	Argote et al 2021

A second set of similar definitions emphasise the role of aspiration as “boundary between success and failure” (Greve, 2003a, p. 868), or “reference point separating regions of gain from regions of loss” (Hu, Blettner & Bettis, 2011, p. 1426) which is similar to Schneider’s earlier definition. Both, ‘boundary’ and satisfaction-based definitions stem from March and Simon’s (1959) work on organizational decision making, where organizations bisect the continuous measure of performance into dichotomous success or failure evaluation, where success is satisfactory and failure is a problem which requires solution (Cyert & March, 1963).

Another set of diverse definitions of aspirations takes a different perspective and emphasises the function of aspiration as a forward-looking target and desired state (Lant & Mezias, 1992; Shinkle, 2012; Madsen, 2013). Unlike definitions that incorporate the switching function of the aspiration, these definitions emphasise the directional nature of organizational aspirations, portraying aspirations as vectors rather than the discontinuities. The works that adopt this set of definitions also discuss upward striving (Lant, 1992) or upward pressure (Mezias, Chen, & Murphy, 2002) and acknowledge aspirations as sources of organizational progress (Winter, 2000).

The last set of definitions focuses on a comparison process rather than on the aspirations themselves and poses that aspirations arise when organizations make sense from comparing themselves either with themselves in the past or with external organizations and the environment (Baum, Rowley, Shipilov, & Chuang, 2005; Eggers &Kaul, 2018; Argote et al., 2021). These definitions, however, focus on the assumed functional form of aspirations rather than the actual meaning of aspirations for organizations and decisionmakers. In sum, target-based definitions of aspiration are more relaxed compared to borderline-based definitions because they do not assume that an organizational target or aspiration should be ‘the smallest’ (Schneider, 1992) and emphasise the role of managerial agency in the formation of aspirations. Comparison-based definitions offer a functional perspective on aspirations formation applicable to both borderline-based and target-based perspectives. Lastly, many definitions from each of the themes point out that aspiration is manifested as an outcome or certain value of the performance measure (Vidal & Mitchell, 2015; Lant &Mezias, 1992; Baum et al., 2005).

Targets, goals, aspirations, reference points, prospects, and expectations.

The behavioral theory of the firm has used terms such as targets, goals, and aspirations sometimes interchangeably (Mezias, Chen, & Murphy, 2002) and sometimes as slightly different concepts (Levinthal & Rerup, 2021). For instance, Washburn and Bromiley (2012, p. 899) point out, “The BTOF uses the terms aspirations, targets, and goals almost interchangeably. Most subsequent research replaces the term goal with aspiration, and the term experience with performance”. Mezias, Chen, and Murphy (2002, p. 1285) also highlight the conceptual and empirical convergence between these three terms but subsequently use the term aspiration “to ensure consistency throughout the paper”. At the same time, some works differentiate the term goal from the term aspiration, posing that an aspiration is a particular value of interest on the goal dimension (Gaba & Greve, 2019; Levinthal & Rerup, 2021), while others (Winter, 2000; Hu, Blettner, & Bettis, 2011; Gary, Yang, Yetton, & Sterman, 2017; Bauman, Eggers, & Stieglitz, 2019) equate goals and aspirations. There is more clarity, however, with the convergence of the terms aspiration and target (March & Shapira, 1987; Levinthal& March, 1993; Desai, 2008; Matta & McGuire, 2008, Keum & Eggers, 2018), with only one exception (Chen, 2008), which considers aspiration as a backward-looking reference and target as a forward-looking reference.

Also, because aspirations literature adopts some concepts from the prospect theory (Kahneman & Tversky, 1979), BTOF scholars differentiate the terms used in these two theories.. Lant (1992) defines expectations as anticipated actual performance and aspiration as a performance target set by the managers of the firm. Palmer and Wiseman (1999), Chen (2008), and Blagoeva et al. (2020) also differentiate aspirations from expectations with the latter being probabilistic and the former administrative or political. The difference between aspiration and expectation is called prospect (Blagoeva et al., 2020), which mimics Kahneman and Tversky's (1979) prospect theory where aspiration equates to prospect theory's status quo. Aranda, Arellano, and Davila (2017), however, equate aspirations and expectations and pose that aspirations act as expectations for a specific goal. Lastly, as with prospect theory, the BTOF literature often establishes aspirations as reference points with which an organization or its managers compare current performance (Kunreuther & Bowman, 1997; Greve, 1998).

LOCUS OF ORGANIZATIONAL ASPIRATIONS

There is also confusion in the BTOF literature regarding the locus and the roots of aspirations. Cyert and March (1963) describe aspiration as an organizational level construct that is factored into organizational level behavior. At the same time, a notable portion of the BTOF literature uses individual level aspirations about organizational level performance (March &Shapira, 1987; Kacperczik, Beckman, & Moliterno, 2015). The stance of the foundational Cyert and March's work on this is also conflicting. On one hand, Cyert and March (1963) state, "People have goals; collectivities of people do not"; on the other hand, Cyert and March discuss aspirations as organizational level constraints that satisfy the demands of the coalition members (Mithani & O'Brien, 2021).

The straightforward way to deal with this ambiguity is to equate organizational aspirations with the aspirations of the top management teams (Hambrick & Mason, 1986; Finkelstein, Hambrick, & Cannella, 2009). Indeed, research that uses a managerial-level approach to organizational aspirations (Palmer &Wiseman, 1999; Lim & McCan, 2014; Kacperczik, Beckman, & Moliterno, 2015) is as popular as organizational level studies on aspiration, which deliberately emphasise an organizational level focus (Shinkle, 2012; Gaba & Joseph, 2013; O'Brien &David, 2014). This approach might work with powerful coalition members because they do have a say in how organizational aspirations affect a firm's behavior (Hu, Gentry, Quigley, & Boivie, 2021); however, it ignores the broad range of other coalition members which come into play (Cyert & March, 1963).

A more nuanced alternative is to acknowledge that although aspirations are managerial level constructs (Bromiley, 1991, p. 39), organizational aspirations are reconciliation of member aspirations (Denis, Lamother, & Langley, 2001) or a strategic consensus among the coalition members (Bragaw & Misangyi, 2019). Lant (1992) and Lanaj, Hollenbeck, Ilgen, Barnes, and Harmon (2013) also see aspirations as the product of team work in the organization. Mone, McKinley, and Baker (1998, p. 119) extend the boundaries of the teams, which define aspirations by posing that organizational aspirations are based on aspirations of "managers and external constituents." Indeed, external stakeholder pressure is instrumental in organizational responses to performance relative to aspirations (Washburn & Bromiley 2014; Brauer &Wiersema, 2018; Audia, Rosseau, & Brion, 2021).

Gary, Yang, Yetton, and Sterman (2017) discuss the exogenous roots of aspirations, posing that an "exogenous goal for performance is set for decision makers by others" (p. 397), but when the goal is adopted in practice by the decision makers it becomes an aspiration. Gary et al. (2017) further theorize that “when decision makers are fully committed to the exogenous goal, aspirations are unaffected by actual performance. As goal commitment falls, the aspiration level is increasingly contingent on past performance” (p. 398). Denis, Lamother, and Langley (2001) and Mishina, Dykes, Block, and Pollock (2010) second this view, with the idea that aspirations are internal and validated through environmental fit.

From the multiple works discussed above, we can conclude that organizational aspirations reside on the individual level of the coalition members, such as managers and employees (Aranda, Arellano, & Davila, 2017; Logan & Lovelace, 2021), board members (Zhang & Greve, 2019), and shareholders (Brauer & Wiersma, 2017; Bascle & Junk, 2021), or even the broader audience, and that these individual coalition members have their own visions of what constitutes organizational aspiration and hence, where organizational performance should be. These individuals, however, also have aspirations about their own performance which may differ from the organizational aspirations (Logan & Lovelace, 2021). Finally, it is through some sort of bargaining (Cyert & March, 1963) or reconciliation (Denis, Lamother, & Langley, 2001) that some individual aspirations about organizational performance are promoted to the broader acceptance and hence become organizational level aspirations. It is also thought that identification with the firm or “higher collective” (Tarakci, Ates, Floyd, Ahn, &Wooldridge, 2018, p. 1141) motivates managers to forego personal goals in favor of organizational aspirations (Logan & Lovelace, 2021).

Therefore, while there is a reconciliation process that promotes certain individual aspirations about organizational performance to the organizational level, there is also a plurality of aspirations on the level of coalitions and individual members of the organization in a broad sense. The dominant idea is that the most influential are the aspirations of coalitions and individuals who are internal and central to the organization, and this perspective particularly dominates the performance feedback studies (Mithanyi & O'Brien, 2020). However, the fact that external coalition members and potentially the broader set of external stakeholders shape organizational aspirations has been poorly studied and requires further attention.

PERFORMANCE DIMENSIONS AND MULTIPLE LEVELS OF COMPARISON

Performance measures

Because aspirations are manifested through measures of performance, the BTOF literature articulates several types of performance, with financial performance being the dominant one. Return on assets (ROA) as a measure of performance is the most commonly used in the BTOF studies (Posen et al., 2018). This measure has been used so widely that scholars called for exploration of alternative performance measures and acknowledgement of the fact that firms have multiple performance goals (Audia & Greve, 2021). Speaking about other financial performance measures, the BTOF studies also use revenues (Ertug & Castellucci, 2013; Kim & Rhee, 2017), cash-flow (Busenbark, Semadeni, & Withers, 2022), value of non-performing assets (Krisnan & Kozhikode, 2015), and abnormal market returns (Cho, Arthurs, Townsend, Miller, &Barden, 2016) as performance measures.

Despite the dominance of finance performance measures in the BTOF, non-financial performance measures based on non-financial outputs of the firm or its place in the social hierarchy are also widely used. One group of studies used performance measures that stem from social hierarchies, such as ratings (Rowley, Shipilov, & Greve, 2017), reputation (Ertug & Castellucci, 2013; Krisnan & Kozhikode, 2015), status (Baum et al., 2005; Shipilov, Li, & Greve, 2011; Prato, Kypraois, Ertug, & Lee, 2019) and market share (Shrader, 2001; Joseph &

Gaba, 2015). Performance measures based on non-financial parameters include volume of product output (Hu, He, Blettner, &Bettis, 2017), new product introduction (Tyler & Caner, 2015), safety (Gaba & Greve, 2019), and CSR performance (Wang, Jia, Xiang, & Lang, 2021).

Comparison of organizational aspiration to the current performance of the organization can lead to identification of a problem and could trigger consequential organizational response (Cyert & March 1963). Organizational attention to multiple aspirations on a single performance measure and multiple aspirations on multiple performance measures complicates the behavioral mechanism from the original performance feedback model of Cyert and March (Audia & Greve, 2021; Levinthal & Rerup, 2020). Further on, I will unfold this complication by discussing a comparison of aspirations on a single performance dimension and progress into multiple aspirations and multiple performance dimensions.

Original perspective - single performance dimension and two referent points

Originally, Cyert and March's work (1963) envisaged organizational aspiration as a weighted function of two referent points on a single performance dimension: the performance of the firm in the past, or historical reference, and the performance of similar firms, or social reference. The idea that a firm might aspire for progress beyond historical and social performance referents (Winter, 2000) was not clear from Cyert and March's (1963) theorizing. Cyert and March's assertion of aspiration as a combination of inward- and outward-looking comparisons offered a convenient empirical tool for the proliferation of performance feedback research (Greve 1998, 2003b; Audia & Greve 2021), but this assertion also leapfrogged the explanation of why only these two referent points should constitute an organizational aspiration and why these referent points should be weighted into a single aspiration measure rather than being considered separately or in some form of interaction with each other and potentially other reference points.

While popular in the earlier performance feedback works, Cyert and March's (1963) approach of combining two referent points later gained criticism based on empirical evidence that suggested that considering historical and social references as separate aspirations has better explanatory power (Washburn & Bromiley, 2012) of organizational behavior. Further studies show that there are functional inconsistencies between the dependent variable and each of these referent points (Kim, Finkelstein, & Haleblian, 2015) and that social comparisons are more complex (Gaba & Joseph, 2013; Hu, He, Blettner, & Bettis, 2017) and are associated with risky behavior (Kacpercik, Beckman, & Moliterno, 2015). Many BTOF studies, however, focus only on single reference points or include multiple referent points as standalone aspirations rather than weighting them into an aggregate single aspiration measure. Furthermore, relaxing the boundary condition from the original Cyert and March's (1963) model about single aspiration based on two reference points allows us to explore the complexity of relative multidimensional aspirational pulls of the firm. Below I will discuss organizational aspirations starting from a single performance measure dimension and single reference point and progressing into multiple performance dimensions and multiple referents.

Single performance dimension and single referent point

Historical aspirations

In the original BTOF literature, Cyert and March (1963) suggested that a firm, when evaluating its performance, uses cues based on its past performance and performance of similar organizations. While Cyert and March suggested that these inward-looking and outward-looking organizational comparisons should be combined into a single aspiration, researchers used these reference points separately long before Washburn and Bromiley's (2012) and Kim et al.'s (2015) critiques. Lant and Mezias (1992), Greve (2002), Madsen (2013), Ertug and Castellucci (2013), Vidal and Mitchell (2015), and Ref and Shapira (2017) used aspirations based on past performance of the firm, or historical aspirations, in their empirical models solely, without accounting for social aspirations. Following Lant and Mezias (1992) and Greve's (2003b) guidebook on performance feedback, the majority of aspiration literature calculates historical aspirations as an exponentially weighted sum of a firm's own performance in the past years and chooses weighting coefficients in a way that maximizes the predictive power of the empirical model (Baum et al., 2005; Moliterno & Wiersma, 2007; Audia & Greve, 2006; Vissa, Greve, & Chen, 2009; Hu, Blettner, & Bettis, 2011; Joseph & Gaba, 2015; Kuusela, Keil, & Maula, 2017).

However, other works equate historical aspiration to firm performance in the previous year (Chen & Miller, 2007; Barreto, 2012; Lim & McCann, 2014; Parker, Krause, & Covin, 2017; Lucas, Knoben, Meeus, 2018; Gomez-Mejia, Patel, & Zellweger, 2018; Smulowitz, Rosseau, &Bromiley, 2022) or to a simple average of firm performance in the last three years (Vidal & Mitchell, 2015; Gubbi, Aulakh, & Ray, 2015; Tyler & Caner, 2016; Busenbark, Semadeni, &Withers, 2022). The choice of depths and weighting methods for calculating historical aspirations seems to be arbitrary and might require further investigation. Yet, there is a consensus that organizational past performance represents a historical aspiration which impacts organizational evaluation of current performance and subsequent decisions.

Social aspirations

BTOF literature poses that performance of similar firms represents social aspiration and that organizational comparison of its current performance to this aspiration also impacts organizational evaluation of current performance and subsequent decisions. Social aspirations are mostly used in works that follow Cyert and March's (1963) classical approach and combine historical and social aspirations into a single aspiration measure (Koticoglu et al., 2019). However, some aspirations literature uses social aspirations only (Steensma, Chari, & Hedil, 2015; Calabro, Micinello, Amore, & Brogi, 2018; Wang et al. 2021).

Despite the definition of social aspirations as performance of similar organizations (Cyert & March, 1963), only a few works follow this path and select a group of firms similar to the focal firm in order to calculate average performance as a measure of social aspiration (Baum et al., 2005; Aarfelt, Wiseman, & Hult, 2013; Kuusela, Keil, & Maula 2017). Instead, the dominant majority of the aspirations literature calculates social aspirations as an average performance of the whole industry in which a focal firm operates, and the boundaries of the industry can be quite broad, ranging from 2-digit SIC code (Mishina, Dykes, Block, & Pollock, 2010) to 3-digit SIC code (Vissa, Greve, & Chen, 2009; Kuusela, Keil, & Maula, 2017; Busenbark, Semadeni, & Withers, 2022), 4-digit SIC code (Iler & Miller, 2008; Lim& McCan, 2014), or even a narrow set of homogenous firms from a pre-defined industry (Greve, 1998, 2003a; Joseph &Gaba, 2015). Vashevko (2019) argues that average performance of the industry represents market threshold or the bounded rationality threshold of the audience rather than social aspiration of the firm, but firms tend to conform to such thresholds and align their internal aspirations with them.

Mezias, Chen, and Murphy (2002) and Vissa, Greve, and Chen (2009), when measuring social aspirations of the firm, follow a two-way approach by constructing two measures of social aspirations: one as the industry average performance and another based on the close peers that work in the same narrow business area. Such a two-way approach seems reasonable because imitation of large peer groups can differ from imitation of smaller peer groups due to the negative effect of intra-group performance variance on imitation (Rhee, Kim, & Han, 2006). Also, firms derive their reference group threshold based on historical aspirations (Moliterno, Beck, Beckman, & Meyer 2014).

However, not only is average performance of the industry or average performance of similar firms important for social aspirations; the performance of individual peers is important too. Kilduff (2019) suggests that firms "in forming social aspirations, may focus heavily on just one or two firms with whom they have a long-standing history of competition" (p. 792) instead of focusing on the whole industry. Beckman and Lee (2020) second this idea and add that also a "breadth of experiences within a reference group might be useful to understand what and how firms learn from others" (p. 3).

Lastly, a firm's embeddedness and affiliations matter for choosing social aspirations. Firms that are part of larger corporations or autonomous business units of a particular corporation choose social referents internally within the same organization and externally between similar businesses outside their organization (Hu, Gu, & Xia, 2011; Gaba & Joseph, 2013; Gubbi, Aulakh, & Ray, 2015; Joseph, Kingbel, & Wilson, 2016; Hu, He, Blettner, & Bettis, 2017).

Therefore, unlike historical aspirations, which are quite straightforward to reconcile, social aspirations are more complex and actually represent a group of aspirations that include industry average performance, performance of similar organizations, and performance of prominent individual peers, and this complexity of social referents is further complicated by internal and external social comparisons for businesses embedded in larger organizations.

Progress aspirations

I use ‘progress aspirations’ as an umbrella term for the diverse set of aspirations which differ from standard historical or social aspirations by being anticipatory, intentional, directional and forward-looking, as opposed to traditional reactive and backward-looking (Gavetti et al., 2012) way of seeing organizational aspirations. As soon as Cyert and March’s (1963) book went to print, critics started to point out that the BTOF is not able to explain the behavior of developing organizations (Cangelosi & Dill, 1965), and this criticism remained largely valid until recently as the BTOF takes an “overly routinized view with only a limited role for managerial cognition” (Posen et al., 2018, p. 232) and BTOF’s use of aspirations is often ‘backward-looking’ (Chen, 2008; Shinkle, 2012, DesJardine & Bansal, 2019) and poorly suited for continually improving organizations (Washburn & Bromiley 2012).

Cyert and March (1963) seem to miss the point that entered into the organizational literature later: organizations balance between stability and change (Lant & Mezias, 1992) or stability and development (Rivkin & Siggelkow, 2003) and each perspective is necessary for organizational survival. Both Lant & Mezias (1992) and Rivkin & Siggelkow (2003) highlight that organizational aspirations have two contrasting goals, and Lant and Mezias (1992) propose that these two different aspirations are produced by different types of learning.

However, Cyert and March’s (1963) backward-looking perspective on aspirations was further institutionalized in the literature (Greve, 1998) after adoption of Schneider’s (1992) definition of aspiration as ‘the smallest outcome that would be deemed satisfactory’, which reflects Lant and Mezias’s (1992) and Rivkin and Siggelkow’s (2003) stability perspective and rejects aspirations of organizational development and progress. March, Sproull, and Tamuz’s (1991) claim that “social construction of aspirations tends to be conservative, to reinforce shared behavioral preferences" (p. 7) further explains why the original theorizing of aspirations adopted the stability perspective and ignored the progress perspective on aspirations.

Yet, Cohen and Levinthal (1990) point out that aspiration level is not simply determined by past performance or performance of referents but also by organizational ability to produce technological opportunities and associated absorptive capacity. Keum and Eggers (2018) discuss the dual role of organizational aspirations, which, on one hand work as benchmarks and on the other hand influence acquisition of limited resources, which allows managers to "set more aggressive performance targets" (p. 1175). Identification of new opportunities by the dominant coalition members can raise aspirations (Grinyer & McKiernan, 1990).

While earlier works on aspirations rarely discussed the progress component of aspirations, they nevertheless mentioned the role of ambitions (Cravusgill, 1984; McGrath, McMillan, & Venkateraman, 1995; Zhu, Jia, & Li, 2021), perceptions of new opportunities (Grinyer & McKiernan, 1990), and team optimism in setting up aspirations (Lant, 1992; Mezias, Chen, & Murphy, 2002). Wiseman and Bromiley (1996) argue that managers always want to achieve more and multiplied past historical performance by the arbitrary factor of 1.05 to account for such upward striving. Jordan and Audia (2012, p. 213) suggest that managers set aspiration levels "moderately ambitious." Aspirations not only depend on historical and social comparisons, but also on expectations among stakeholders (Petkova, Wadhwa, Yao, & Jain, 2014), and pressure to meet high stakeholder expectations increases aspiration level. Explicit normative growth requirements for businesses can strongly influence their aspiration levels (Shakun, 1975) and elevated aspirations will constantly motivate the firm to change in pursuit of performance improvement (Neave & Petersen, 1980). Hence, progress aspirations might be responsible for organizational search even if the firm performs above stability aspirations.

Chen (2008) and Blagoeva et al. (2020) attribute to forward-looking aspirations as targets and argue that targets can drive organizational search behavior as much as backward-looking aspirations do. Blagoeva et al. (2020) also find that performance targets interact with historical aspirations in their effects on search. These targets or forward-looking aspirations also depend on managerial self-confidence (Mone, McKinley, & Baker, 1998), managerial compensation agreements (Wiseman & Gomez-Meja, 1998), stretch goals (Winter, 2000; Sitkin, See, Miller, Lawless, & Carton, 2011), and positive momentum bias in expectation of future performance (Lehman & Hahn, 2013), among others.

Progress aspirations are important drivers of organizational growth as “high aspirations can contribute to high achievement” (Winter, 2000, p. 990). Researchers, however, mostly focus on inward-looking progress aspirations related to increase in organizational performance relative to its performance in the past. One work (Clough & Piezunka, 2020) looks at vicarious performance feedback, where firms respond to the aspirations of their peers. Hence, as in stability aspirations, for progress aspirations, both inward and outward looking perspectives are valid.

Also, the psychological faucet is more prominent in progress aspirations as compared to stability aspirations. Simon (1956) borrowed the term ‘aspiration’ from psychology as he was contrasting the decision-making process of living organisms with the abstract rational decision-making model used in other decision sciences, particularly in economics. In an attempt to depart from the individual level of analysis, organizational studies often diluted the psychological aspect of aspirations. Studies on progress aspirations suggest that psychological factors attributable to organizational leaders and groups, such as ambitions, expectations, self-confidence etc. influence aspiration setting and should not be ignored.

However, both stability and progress aspirations work as prototypes of what a focal organization should be and where it should evolve compared to the existing state. Consideration of different reference points suggests that these prototypical images of organization are sourced from the environment through social comparisons (Beckman & Lee, 2020), from firm's recent experience, and from the mental representations (Gavetti & Levinthal, 2000) of the firm in the minds of the different coalition participants. One can infer that the plurality of coalition members with various values and attention focus assumes the co-existence of different perspectives on organizational aspirations and allowing for latent duality (Farjoun, 2010) of stability and progress aspirations.

Table 2. Perspectives on organizational aspirations

PERSPECTIVES	**INWARD LOOKING PERSPECTIVE**	**OUTWARD LOOKING PERSPECTIVE**
STABILITY PERSPECTIVE	*Aspiration to perform as good as in the recent past.* ◊ Historical aspirations (Lant and Mezias, 1992; Greve, 2003b)	*Aspiration to perform as good as peer firms and the environment.* ◊ Social aspirations • performance of the industry (Greve, 1998; Audia and Greve, 2006) • performance of the peer firms (Baum et al., 2005; Lee and Marguilo, 2021) • performance of one or two key referents (Kilduff, 2019) • performance of peer units within the same corporation (Hu, Blettner and Bettis, 2011)
PROGRESS PERSPECTIVE	*Aspiration to perform better compared to the existing performance.* ◊ Upward striving (Lant, 1992; Wiseman and Bromiley 1996) ◊ Targets (Chen, 2008; Blagoeva et al. 2020) ◊ Stretch goals (Winter, 2000; Sitkin et al. 2011, Gary et al. 2017) ◊ Positive momentum bias (Lehman and Hahn, 2013)	*Aspiration to perform better than peer firms or general environment.* ◊ Vicarious performance feedback (Clough and Piezunka, 2020)

Multiple performance dimensions and multiple referent points

One recent development in the aspirations literature is the acknowledgement that firms attend to multiple aspirations on multiple goals, or performance dimensions[1] (Hu & Bettis, 2018; Gaba &Greve, 2019; Levinthal & Rerup, 2020; Audia & Greve, 2021) and that this introduces interpretative challenge, ambiguity of performance evaluations, conflict, and politics. For instance, attending to aspirations on multiple performance dimensions at the same time could be mutually exclusive or problematic (Gaba & Greve, 2019). Also, an excessive number of simultaneous aspirations saturates attention and decreases organizational responsiveness (Hu & Bettis, 2018). Self-enhancing managers could choose performance dimensions on which the firm fares well relative to aspirations (Levinthal & Rerup, 2020), so both interpretation of performance outcomes on specific performance dimensions, or goals, as well as the choice of these performance dimensions could be political. Multi-dimensional performance-aspirations perspective can explain the heterogeneity of organizational responses or non-responses to performance relative to aspirations on a single performance dimension, which the original BTOF model failed to do. Along with the progress aspirations literature, multiple aspirations studies acknowledge the essential role of managerial agency in setting up aspirations and interpreting the outcomes of organizational performance (Levinthal & Rerup, 2020).

Complex reference points

Some organizational reference points stand out from typical aspirations due to their saliency and the complexity of their impact on organizations. Also, rather than being a specific value on a specific performance dimension, these complex reference points are compound

[1] For the sake of consistency of the terms in this review and avoiding the confusion with literature that equates aspirations and goals, I will use the term 'multiple performance dimensions' rather than multiple goals.

constructs themselves and depend on organizational performance on multiple performance dimensions simultaneously. However, activation of such complex reference points supresses the role of conventional aspirations, which we reviewed earlier. Although the literature rarely labels these complex reference points as aspirations, their salience to organizations amends organizational behavior in ways similar to the ‘master switch’ of conventional aspirations. So far, researchers (Kunreuther & Bowman, 1997; Shinkle, 2012; Kim & Rhee, 2017) have identified two such complex referents: survival point (March & Shapira, 1987) and slack (Levinthal & March, 1981).

Survival point (March & Shapira, 1987) is the threshold for organizational existence, such that performance below the survival point is the ultimate unsatisfactory state of the firm and warrants its collapse. As firms approach the survival point, their attention shifts from the pursuit of progress to the pursuit of survival, and hence, their risk preferences change from risk-seeking to risk-aversion (March & Shapira, 1987). However, unlike aspiration level, which can be measured on specific performance dimension, survival point is a complex construct that is a function of many variables (Audia & Greve, 2006; Desai, 2008). Moreover, profitability, which is the key performance dimension for organizational aspirations (Audia & Greve, 2021), is not necessarily the best predictor of organizational survival. For instance, Tesla was able to operate at losses for 18 years before reporting its first annual profit (Boudette, 2021), so decline in profit does not necessarily lead to a switch of attention from aspiration to survival point.

A second complex reference point is organizational slack (Cyert & March, 1963; Levinthal & March, 1981). Slack, in essence, is an excess resource or capability which can be utilized by the firm (Cyert & March, 1963). Opposite to survival point, abnormal slack has been associated with risk-taking and innovativeness (Levinthal & March, 1981), while normal slack works as an organizational lubricant allowing an organization to propel through conflict resolution and facilitation of bargaining by the organizational coalition members (Cyert & March, 1963). As with survival point, slack is also a complex organizational measure and a function of multiple parameters (Bourgeois III, 1981; Bentley & Kehoe, 2020), but unlike survival point, slack increases organizational improvisation and risk (Chen &Miller, 2007).

Symbolic aspirations

While prior discussion of aspirations was concerned with the evaluative function of aspirations, which saw aspirations as reference points relative to which organizational performance is assessed, Askin and Bothner (2016) also offer a perspective on aspirations as symbolic actions used for signalling to external audiences. Firms can display aspirations to support their claims of status (Askin & Bothner, 2016). Celebrity CEOs claim higher aspirations but pay lower premiums to reinforce their symbolic status (Cho et al., 2016). Firms can signal about socially important aspirations, such as sustainable goals (Bansal, Kim, & Wood, 2018) yet systematically fail to meet such aspirations. Firms can also use impression management to reduce aspirations of external audiences (Washburn & Bromiley, 2014), hence reducing future performance demands from the stakeholders. These are examples of the symbolic use of aspirations by firms that fall beyond the theoretical framing of the behavioral theory of the firm. Such symbolic aspirations can demonstrate the ambitions of the management teams in the organization (Sitkin et al., 2011) and hence, also perform the evaluative function, or they can be purely directed toward external audiences and disconnected from the true evaluation of performance feedback.

ACTIVATION, DEACTIVATION AND ADAPTATION OF ASPIRATIONS

As mentioned earlier, aspirations make sense to the organization when they are compared to current performance and such comparison comprises the performance feedback (Greve, 1998; 2003b). Difference between an aspiration and current performance is often called ‘attainment discrepancy’ (Lant & Mezias, 1990). Many earlier works in the behavioral theory of the firm adopted a ‘mechanical’ approach (Posen et al., 2018) and assumed the activation of aspirations as almost automatic, such that any performance discrepancy would be sufficient for the firm to decide whether its performance is satisfactory or not and what kind of organizational outcomes it should seek in response to such performance feedback.

The ‘mechanical’ approach, however, fails to explain how firms attend to multiple aspirations derived from different reference points as well as from different performance dimensions. Attention could be one of the answers to that challenge; in particular, firms respond to attainment discrepancies on the performance dimensions to which their attention is oriented (Greve, 2008; Blettner, He, Hu, & Bettis, 2015). Greve (2008) suggests that organizations shift their attention to aspirations sequentially, such that when aspirations of higher rank goals are fulfilled, the firm turns its attention to the aspirations of the lower rank goals. Greve (2008) does not equate goals and aspirations and instead, equates the term goal to the performance dimension of interest, such as profitability or growth. A similar approach proposed by March and Shapira (1987) puts organizational survival as an apex aspiration such that when it is threatened, the managers focus on survival rather than on other performance aspirations. However, Washburn and Bromiley (2012) criticize this attention-switching approach because it suggests that only performance below aspiration is important and once performance exceeds aspiration level on a particular parameter, the relationship between positive attainment discrepancy and organizational outcome becomes unimportant, which is a very strong assumption.

Another stream of research suggests that the magnitude of attention to particular aspiration is fluid rather than sequential and constantly changes depending on environmental volatility (Berchicci & Tarakci, 2022), the life cycle of focal and parent organizations (Blettner, He, Hu, & Bettis, 2015), and the consistency of the performance feedback (Hu, He, Blettner & Bettis, 2017). Also, the magnitude of performance discrepancy (Vissa et al., 2009) as well as proximity to reference points (Chen & Miller, 2007) increases attention to such aspirations. Organizational attention to aspirations also depends on embeddedness of the firm in larger corporations (Vissa, Greve, & Chen, 2009; Gaba & Joseph, 2013), network position (Hu, Gu, & Xia, 2011), industry leadership status (Boyle & Shapira, 2012), external pressures (Rowley, Shipilov, & Greve, 2017), and managers' identification with the firm (Tarakci et al., 2018). Fluidity of attention to aspirations eventually explains heterogeneity in organizational responses to performance feedback on multiple aspirations.

There is also an element of managerial agency which directs attention to specific aspirations, in particular propensity of the managers to engage in self-enhancement (Jordan & Audia, 2012; Audia & Greve, 2021). Existence of multiple aspirations and ambiguity of performance feedback allows managers to divert attention from aspirations on which the firm performs poorly and enhances the saliency of the aspirations which show the firm and the managers from the positive side (Levinthal & Rerup, 2021). Moreover, self-enhancing managers are likely to choose and emphasize to other coalition members and external audiences the set of aspirations which are either ambiguous or based on performance which is more likely to enhance the image of the firm, at the cost of ignoring other important organizational aspirations

(Levinthal & Rerup, 2021). Other than a deliberate act of self-enhancement, organizations can choose aspirations strategically and not connected with their actual performance in order to signal their high status (Askin & Bothner, 2016). Lastly, strength of aspirations depends on the values, priorities, and institutional background of the firms (Shinkle a& Kriaucinaus, 2012), with pro-market firms having stronger effects of aspirations on organizations.

Since organizational response to attainment discrepancy is conditional on attention, it is not clear whether the aspiration exists when there is no organizational attention to the particular performance dimension or whether attention creates aspiration in the eye of an organization. Kahanna, Guler, and Nerkar (2016) assume that aspirations exist even when unattended and that small failures on unattended aspirations remain unnoticed. Large failures, however, attract attention. Also, organizations learn well from aspirations which are important and towards which organizations direct their attention (Kahanna, Guler, & Nerkar, 2016), even if performance discrepancies are small. At the same time, aspirations based on stretch goals (Sitkin et al., 2011) or social reference groups (Prato et al., 2019) are constructed by the organizational attention.

As an organization progresses, aspirations get updated as they adapt to organizational experience (March, 1988), such that failure to reach aspiration would reduce future aspiration level whereas achievement of aspiration would increase future aspiration level. Yet, aspiration updates may happen slowly (Greve, 2002) as sticking to aspirations defines innovative search (Yu, Minniti, & Nason, 2019). Perlow, Oknuysen, and Repenning’s (2002) qualitative study found that performance discrepancy never disappears as the managers increase their aspirations along with the increase in organizational performance. However, such adaptation of aspirations is not always automatic. Firms that attribute organizational failure to external events are less likely to adapt their aspirations downwards (Li, Lee, & Kim, 2021) compared to firms that attribute performance decline to internal factors. Perceptions of controllability, ambition, and self-efficacy tend to support high aspiration levels (Mone, McKinley, & Baker, 1998; Sitkin, See, Miller, Lawless, & Carton, 2011) rather than adapt them. Persistency in aspirations tends to produce more pronounced organizational outcomes compared to highly adaptive aspirations (Ye, Yu, & Nason, 2021).

OUTCOMES OF PERFORMANCE FEEDBACK

Comparison of the aspiration level to current performance is associated with a vast array of organizational outcomes. As mentioned earlier in this review, a dominant part of the behavioral theory literature is concerned with the outcomes of performance-aspiration comparisons rather than the aspirations themselves and a number of comprehensive reviews (Greve & Gaba, 2017; Posen et al., 2018) and a meta-analysis (Kotiloglu et al., 2021) discuss in detail the outcomes of performance feedback. Yet, for the purpose of this review I believe it is important to mention the links between the aspirations and organizational responses triggered by the performance discrepancies.

The baseline relationship theorized by Cyert and March (1963) is that performance below aspiration is perceived as a problem that requires a solution, hence, it triggers problemistic search. A comprehensive review of the literature on problemistic search can be found in Posen et al. (2018). While it is not clear from the original theory (Cyert & March; 1963) whether performance above aspiration warrants a systematic organizational action, Levinthal and March (1991) suggest that performance above aspiration produces slack resources which in turn stimulate innovative ‘irresponsible search’, also known as slack search (Greve, 2003a). Greve (1998) suggests that aspiration level bisects the performance dimension into satisfactory (above aspiration) and non-satisfactory (below aspiration) ranges, such that the behavior of the firm differs between these two ranges and a firm's reaction to attainment discrepancy because a firm's risk orientation and learning requirements will differ in situations below vs. above aspirations. It is suggested that firms take more risk when negative attainment discrepancy increases (Bromiley, 1991; Greve, 1998) as compared to positive attainment discrepancy, hence, the latter situation would have weaker organizational responses, although there is some diversity in findings (Posen, 2018).

Today the vast literature on aspirations and the behavioral theory of the firm has accumulated evidence about various organizational outcomes which are triggered by the performance comparisons to aspirations. In the original theory,Cyert and March (1963) suggest that the first organizational outcome as response to negative performance discrepancy is problemistic search (Posen et al., 2018). Many works since then have shown that organizational search is a valid response to both positive and negative performance discrepancies because any deviation from the aspiration is a learning opportunity for the firm. In many cases search is operationalized as a function of R&D search (Greve, 2003; Chen & Miller, 2007; Chen, 2008; Vissa, Greve, & Chen, 2009; O'Brien & David, 2014; Blagoeva et al., 2020), and as a step further, research shows that the firms increase learning (Aranda, Arellano, & Davila, 2017), learning capabilities (Ben-Oz & Greve, 2015), and innovation (Eggers & Kaul, 2018) in response to performance feedback.

However, the first organizational outcome that supersedes search and was missing from the original theory is risk taking (Hoskisson, 2017). There is a mere consensus about the idea that firms take more risk when they perform below the aspiration (Singh, 1986; Bromiley, 1991; Wiseman & Bromiley, 1996; Palmer & Wiseman, 1999; Desai, 2008; Madsen 2013; Lim &

McCann, 2014); however, there is variance in the amount of risk that performance relative to different aspiration levels triggers (Kacperczyk, Beckman, & Moliterno, 2015) as well as with the amount of resources available to the firm and the size of the firm (Audia & Greve, 2006). Derivatives of risk orientation, such as aggressive striving (Keum &Eggers, 2018) or temporal orientation of the firm (DesJardine & Bansal, 2019) are also affected by the performance feedback on aspirations.

Because performance discrepancies modify organizational search and risk taking, a lot of research assumes that organizational change inherently follows from the performance discrepancies (Greve, 1998; Kacperczyk, Beckman, & Moliterno, 2015; Rudy & Johnson, 2016).

Many specific organizational practices are affected by the position of organizational performance relative to aspirations, such as governance practice adoption (Rowley, Shipilov, & Greve, 2017), new market entry (Ref & Shapira, 2017), new products introduction (Joseph & Gaba, 2015; Parker, Krause, & Covin, 2017; Eggers & Suh, 2019), product phase out (Joseph, Kingbel, & Wilson, 2016), and purchases and sales focus (Gaba & Greve, 2019), among others.

Also, firms' resource investment (Souder & Bromiley, 2012; Aarfelt, Wiseman, &Hult, 2013) and divestment (Moliterno & Wiersma, 2007), business acquisitions (Kuusela, Keil, &Maula, 2017; Li, Lee, & Kim, 2021), and down scoping (Vidal & Mitchell, 2015) are triggered by the performance divergence from the aspirations. Performance divergence from aspirations increases creation of interfirm ties (Shipilov, Li, &Greve, 2011) and alliances (Tyler & Caner, 2016).

Lastly, performance discrepancies increase organizational distinctiveness (Kim & Rhee, 2017) and divergence (Park, 2007), as well as amplify misconduct, both below (Harris &

Bromiley, 2007; Xu, Zhou, & Du, 2019) and above aspirations (Mishina, Dykes, Block, & Pollock, 2010).

In sum, as suggested by March and Sutton (1997), organizational performance relative to aspirations is a powerful predictor of many organizational outcomes that affect subsequent organizational performance (Miller & Laiblein, 1996; Wiseman & Bromiley, 1996). Also, most of the works in the behavioral theory of the firm area focus on the differential between performance and aspiration as a predictor of the parameter of interest. Very few works go further and elaborate on the development of organizational aspirations. Indeed, current performance of the firm is given, so the true predictor of the outcome parameter of interest is organizational aspiration. Ironically, the relative nature of performance feedback and the requirement to go one step further in order to unfold organizational aspirations has preserved the literature from doing that extra step and instead enabled the proliferation of the proxy measures often based on secondary data and the original theorizing by Cyert and March (1963). Nevertheless, even this approach shows that aspirations relative to current performance are powerful predictors of the future organizational decisions.

DISCUSSION

This review paper attempts to summarize and systematize the use of aspirations within the behavioral theory of the firm literature. An abundant body of literature demonstrates that relative performance of organizations and salience of organizational aspirations predicts organizational decisions as well as refinement and adaptation of aspirations to the new experiences. Despite the proliferation of research that uses aspirations in predicting organizational responses to performance feedback, the literature lacks consistency in the definition of aspirations as well as information regarding reconciliation of aspirations derived on multiple performance dimensions and diverse members of the organizational coalitions. Also, the behavioral theory of the firm remains largely faithful to the original unstated assumptions about aspirations, in particular, that aspirations are singular for each performance dimension, that aspirations are backward-looking referent points with a locus inside of the organization, and that reconciliation of organizational aspirations of individual coalition members is an automatic process. Hence, further on, I will outline areas in the behavioral theory of the firm and the theorizing about aspirations which warrant scholarly attention and elaboration.

Locus of aspirations

Locus of aspirations has been largely ignored by the literature equating aspirations to the perceptions of organizational leadership. While empirically plausible, such simplification overlooks the importance of reconciliation of aspirations of diverse individual coalition members who might have varied understandings of where organizational aspirations should be. In particular, we might see significant variance between aspirations as seen by internal vs. external coalition members because their requirements regarding distribution of slack resources (Cyert &March, 1963) as well as social referents (Beckman & Lee, 2020) will differ. Also, understanding locus of aspirations as decentralized suggests that coalition-level processes, such as membership turnover, change in balance of power, and values would impact overall organizational aspiration levels. For example, if adaptive aspirations are a function of experience (March, 1988) then hiring more experienced executives with stronger capabilities should increase overall aspiration level. Such reasoning, however, requires better understanding of the reconciliation of individual aspirations into organizational level aspirations. Another question pertains to the objectivity of aspirations, which cannot be attended to without a better understanding of the locus of aspirations.

Stability and progress duality

Also, the critique of the behavioral theory of the firm with respect to its inability to explain the behavior of new and emerging businesses relates to the unspecified assumption that each performance dimension has only one aspiration level which bisects the performance into satisfactory and non satisfactory. Assumption of only one aspiration level on a performance dimension is quite strong and conflicts with some industrial psychology research (Charnes & Stedry, 1966) that suggests that an individual can have more than one aspiration level for the same task because there are usually different standards that exist at the same time, such as ‘basis’, ‘attainable’ or, ‘ideal’ and each of these standards will be perceived by an individual as discontinuity in satisfaction. This is a clear flaw in the theory that explains the behavior of mature firms well but does not explain how these same firms evolved from entrepreneurial ventures into the state of maturity. If new businesses run by entrepreneurs do not have historical or even social referent points to come up with aspirations, then how do they activate their organizational search? The answer is that entrepreneurs make anticipatory performance comparisons to their aspirations and systematically satisfice prematurely (Cohen, Bingham, & Hallen, 2019). There are aspirations that are more relevant for mature businesses, such as historical and social aspirations, which correspond to the organizational stability, but there are also forward-looking anticipatory aspirations which are subjective and correspond to organizational progress. These progress aspirations received little attention from the behavioral theory of the firm. Furthermore, the ripple effect that stability and progress aspirations make on single performance dimension as well as the tension between progress and stability aspirations received no attention at all. Also, framing of aspirations as forward-looking and backward-looking assumes that the temporal orientation is the only difference between these referent points. However, stability and progress duality (Rivkin and Siggelkow, 2003; Farjoun, 2010) suggests that organizations can aspire for different aspiration levels within the same temporal and performance dimensions. Adoption of progress aspirations would also make the BTOF applicable to new and emerging firms, not only to large mature industrial businesses, as originally thought by Cyert and March (1963). Progress aspirations by definition are set above the current performance; therefore, any performance below the aspired progress level will constitute a problem which requires a solution and would motivate organizational search.

Non-neutrality of aspirations

Another limitation from deriving aspirations deductively is in the assumption of psychological neutrality of aspirations (Greve, 1998). The view of aspiration as status-quo performance might be plausible in a single aspiration on a single performance dimension setting. However, a more realistic perspective on the firm that attends to multiple aspirations on multiple performance dimensions simultaneously suggests that the only possible psychologically-neutral parameter in this theoretical model is the firm's current performance, while aspirations are biased evaluations about where a firm's current performance should be (Schumacher, Keck, & Tang, 2020). Organizational aspirations are pulled in multiple directions by the historical performance of the firm, social referents, ambitions of the top managers, demands of the shareholders, and so forth. It is these biases that drive organizational change in pursuit of the desired performance and by the misalignment of this desired state compared to the current state of the firm. Hence, a suggested direction of future research on aspirations could be achieved by flipping the existing performance feedback model (Audia & Greve, 2021) into a relativist performance-centered model that elaborates on how biased aspirations are created and activated in organizational behavior. This inverted model echoes Kahneman and Tversky's (1979) prospect theory, yet it should remain faithful to organizational level and administrative emphasis of the behavioral theory of the firm. An inverted performance feedback model thus would have current performance as the status-quo reference point and multiple aspirations as vectors directing organizational action relative to current performance. Yet, unlike prospects which are probabilistic in nature (Kahneman & Tversky, 1979), aspirations are desired or politically motivated states of organizational performance.

However, an inverted performance feedback model would have another strong assumption that the current performance is a psychologically neutral status-quo referent point. This would suggest that current performance alone, regardless of the aspirations, would not have any effect on organizational behavior. This raises the question whether current performance per se can trigger organizational responses in an unbiased manner unaffected by aspirations. Can firms conduct search conditional on their performance even if there is no attainment discrepancy?

Interdependencies, and conflict in multiple goals

Multiplicity of organizational goals and conflicts arising from the pursuit of multiple goals (Levinthal &Rerup, 2021) is an emerging area in the aspirations literature which broadens our understanding of how firms attend to performance feedback in a multi-dimensional performance setting. This stream however lacks clear rules that set the boundaries between different goals, hence allowing to differentiate them and argue about the interrelations between the diverse goals. For example, Levinthal and Rerup (2021) discuss sales and profits as conflicting goals despite the obvious interdependence between the two and the fact that profit is the function of sales and costs. Gaba and Greve (2019) portray safety and profitability as conflicting goals in the aircraft industry, but a very unfortunate array of incidents with Boeing's 737 Max jet which caused significant losses to the aircraft producer (Bogaiski, 2020) suggests that safety and profitability are interdependent. This anecdotal evidence of the use of seemingly conflicting goals in the emergent literature suggests that we need a clear criterion to define organizational objectives that are in clear conflict. Furthermore, because many organizational goals are interdependent rather than conflicting, we also need to take such interdependency into account when arguing for politics and conflicts in the organizations from the academic perspective.

This stream of literature also assumes that aspirations are the derivatives of goals, or performance dimensions, such that firms first decide which performance dimensions are important and afterwards define aspirations on such performance dimensions. However, we should not rule out reverse causality, particularly driven by external practices (Zbaracki, 1998) and social comparisons (Beckman & Lee, 2020), when firms adopt aspirations signalled by peer firms (Askin & Bothner, 2016), leapfrogging the prioritization of the performance dimension before setting the aspiration.

Levels of social aspirations

Aspirations literature addressed well the inconsistencies between historical and social aspirations (Kim et al., 2015) and made progress in identifying the complexity of social aspirations (Hu, Blettner, & Bettis, 2011). However, as this review points out, there are three levels of social aspirations, such as industry or macro level, peer group level, and one or two prominent peers. While I derived these three levels from external referents, they are also relevant for internal social comparisons, with, correspondingly, the overall corporation being the macro level internal social referent, group of peer business units as mezzo level, and important one or two business units as micro level. Needless to say, firms can receive inconsistent performance feedback from different levels of social comparisons, and this perspective warrants further investigation by the researchers.

Symbolic side of aspirations

Organizations can also use aspirations as the means of communications with external audiences rather than the means of performance evaluation, and this stream of research on aspirations has been overlooked. Symbolic aspirations can create noise or a false sense of performance evaluation while the firms will be less likely to respond to performance relative to symbolic aspirations. Self-enhancing managers can display aspirations based on convenience (Levinthal &Rerup, 2021), and the research can further investigate how self-enhancing managers would use symbolic aspirations to reinforce their positive image. Also, symbolic aspirations can be used to respond to the environmental trends and fashion but remain disconnected from the actual organizational actions (Zbaracki, 1998; Bansal et al., 2018). It is clear that symbolic aspirations are outside of the theoretical framework of the BTOF and incorporation of symbolic aspirations would better explain why some firms do not respond to attainment discrepancies in the traditionally anticipated way through search and change.

Unattended aspirations and performance unbiased by aspirations

The performance feedback model (Audia & Greve, 2021) of the behavioral theory of the firm (Cyert & March, 1963) offers a model of organizational behavior that is based on referent points on the performance dimension and relative performance rather than on the direct effect that performance has on the outcome of interest. Attention to aspirations is the driving force in defining organizational responses to the relative performance (Greve, 2008; Becikci & Tarakci, 2022; Ocasio, 1997), but the importance of direct relationship between the predictor and the outcome parameters has fallen out of behavioral researchers' attention so far. Does it matter for the behavioral theory of the firm whether there is a direct relationship between the performance parameter and the outcome parameter? Does attention to aspiration change the nature of the relationship between the performance and the outcome parameters, or does such attention to aspiration and relative performance create such a relationship which otherwise would not have any effect on the organization? In other words, is the relationship between performance and organizational level outcome objective or are organizational responses entirely constructed by attention and aspired biases of the decision makers? If there are several dimensions through which performance is related to organizational outcomes, such as behavioral and resource dimensions (Greve, 2021), how can we reconcile them into broader organizational level theory?

External roots of aspirations

This review of aspirations builds on the existing literature which often takes a firm centric or a management centric perspective on the firm. However, we can see from the list of discussed topics that there is a place for external coalitions amongst the factors defining and enacting aspirations. Greve and Teh (2018) theorize that some goals are imposed externally and propose integrating institutional theory to explain firm behavior relative to externally imposed goals. Alternatively one can envisage externally imposed goals as a product of a broader organizational coalition which includes stakeholders (Mithanyi & O'Brien, 2020). This second perspective would differentiate external coalitions from institutional forces (Greve & The, 2018) and allow them to be proactive members of organizational decision making rather than contingencies for a narrow group of internal actors. We know that locus of aspirations includes external coalitions (Brauer & Wiersma, 2017; Bascle & Junk, 2021), that their expectations may be associated with progress aspirations (Petkova et al., 2014), and they draw organizational attention to the goals which they perceive as important (Gary et al., 2017; Audia, Rosseau and Brion (2021). This warrants further research on how external coalitions are looped into firm behavior when there is a performance discrepancy.

CONCLUSION

In this paper I have reviewed the literature on organizational aspirations within the domain of the behavioral theory of the firm. This review calls for the pivot from mechanistic use of aspirations towards a more profound understanding of the nature, emergence, activation, and function of organizational aspirations. While aspirations-performance comparison is an important predictor of organizational behavior, the attention to aspirations by the BTOF literature should not remain secondary. This review elaborates on a set of existing issues in the aspirations literature and suggests avenues for the future research on aspirations.

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CHAPTER 3: PERFORMANCE FEEDBACK, VOICE AND SEARCH – BRINGING SHAREHOLDERS INTO THE BEHAVIOR OF THE FIRM (ESSAY 2)

ABSTRACT

By adopting a coalitions perspective on the firm from the behavioral theory of the firm, I theorize about the role of external coalition members in organizational behavior. I further propose a conceptual model of shareholder responses to organizational performance feedback and how these responses are factored into organizational search. According to my model, performance discrepancy, both below and above aspirations, triggers shareholder voice, an attempt to influence organization decision making, and shareholder exit. Shareholder exit, in turn, reduces the amount of shareholder voice. Ultimately, shareholder voice increases search as a response to performance discrepancy. I empirically test my conceptual model using panel data on US publicly traded firms. This paper contributes to the performance feedback theory by showing that a firm's performance feedback triggers systematic responses of external coalition members, such as shareholders, and their responses are instrumental for organizational search behavior.

KEYWORDS

performance feedback, external coalition, shareholders, voice, exit, search, aspirations

INTRODUCTION

Performance feedback theory has looked at organizational responses to performance discrepancy as an internal process (Audia & Greve, 2021). Scarce research on the role of external actors and institutions in the performance feedback mechanism (Zhong, Ma, Tong, Zhang, & Xie, 2020; Zhang & Greve, 2019; Greve & Teh, 2018) considered these external factors as conditions that moderate an internal performance feedback mechanism rather than an intrinsic part of this mechanism. However, a behavioral theory of the firm (Cyert & March, 1963) that is foundational for the performance feedback theory does not set formal organizational boundaries with respect to who can constitute a coalition (Mithanyi & O'Brien, 2020), which sets organizational goals and triggers organizational responses if aspiration levels of such goals are not met. Cyert and March (1963) specifically mention that "in a business organization the coalition members include managers, workers, stockholders, suppliers, customers, lawyers, tax collectors, regulatory agencies, etc." (47), suggesting that coalitions stretch beyond the legal boundaries of the firm.

Existing literature mostly focuses on performance feedback in an organization as a whole (Greve, 1998; Greve, 2003a; Chen & Miller, 2007; Kuusela, Keil, & Maula, 2013; Joseph & Gaba, 2015; Greve & Gaba, 2016) or on internal coalition members, such as senior managers (Jordan & Audia, 2012; Kacperczyk, Beckman, & Moliterno, 2015; Tarakci, Ates, Floyd, Ahn, & Woolidge, 2017; Keum & Eggers, 2018; Zhang & Gong, 2018; Blagoeva, Mom, Jansen, & George, 2020). However, external coalitions are situated in different context vis-à-vis internal coalitions and despite being concerned with the same organizational goals (Mithanyi & O'Brien, 2020) they may have different perspectives on aspirations as well as different sets of responses to the performance feedback which the literature has so far omitted. Hence, there is a gap in the literature concerning the behavior of external coalition members when organizational performance does not meet their aspirations. This paper attempts to fill this gap in the literature and explore the role of shareholders as external coalition members in the performance feedback mechanism. I am trying to answer the question of whether shareholders systematically respond to organizational performance discrepancies and whether such shareholder responses trigger search by the firm.

While performance feedback theory largely omits shareholders, some recent corporate examples demonstrate that shareholders are actively involved in organizational decision making and a robust behavioral theory of the firm should incorporate external coalition members. For instance, shareholders of Danone rebelled against the CEO in order to reduce CSR expenditures (Wernicke, 2021), shareholders of Unilever blocked the company's plan to relocate the head office (Young, 2018), and shareholders of Tesla scrapped Elon Musk's decision to make the company private (Stanton, 2018). Also, in two of the mentioned cases, Danone and Unilever, shareholder dissatisfaction with organizational actions led to CEO resignations, which, again, demonstrates the magnitude of the influence of external coalitions on the firm overall and its internal decision makers.

Another example of shareholder engagement with firms is the submission of shareholder proposals (see Appendix 1 for examples) which vary broadly in content and demonstrate that shareholders looped into diverse aspects of organizational life, and many corporate governance proposals can be motivated by the disagreement with the management on specific organizational actions. These are a few of the many anecdotal evidences of the agentic behavior of external coalitions, such as shareholders, a behavior that is reactive to what the firm is doing and with external perspective on where the firm should be going. External coalitions are not merely contingencies, they are active participants of the organizations and organizational theory should embrace the broader perspective on the firm which includes external coalitions. Limiting the firm within its formal boundaries is plausible but a restricted way of understanding how firms behave.

Hence, I develop and test a conceptual model of how shareholders of a firm, as a class of actors, react to performance discrepancies and how their reaction is factored into organizational level performance feedback mechanisms. This enriches the existing performance feedback theory by incorporating the external coalition level perspective. I borrow from Hirschman's (1970) ideas on responses to declines in firms and external coalitions' trade-offs between voice and exit, as responses to performance shortfalls, a behavioral alternative which performance feedback studies absorbed by the internal coalitions perspective (Audia & Greve, 2021) have not considered.

Empirically, I test my conceptual model by looking at shareholder voice and exit in US publicly traded firms. Following Hirschman (1970), I define voice as a critical opinion aimed at changing organizational practice and I define exit as a decision to break or reduce the relationship with an organization. Due to corporate governance regulations, US publicly traded firms are on the lower extremum of shareholder influence on managerial decision making (Bebchuk, 2005). Accordingly, if my theory is proven with US publicly traded firms, it is likely to be valid with firms where shareholders have more power over management. Also, US publicly traded firms allow us to trace variables of interest that represent organizational as well as shareholder level behavior and hence, build a comprehensive panel data to empirically test my hypotheses.

I predict that shareholders will raise voice during performance discrepancies, both below and above aspirations, and that this shareholder voice will trigger search by the firm. I also theorize that shareholder exit will increase during performance discrepancies and that shareholder exit will mute shareholder voice. Lastly, I theorize that shareholders will react differently to performance below social and historical aspirations and that shareholder exit will be stronger with social aspirations because a social reference point provides comparable alternatives to shareholders, motivating them to switch rather than engage.

My main thesis is that performance either below or above aspiration levels triggers systematic behavioral responses of external members of the coalition and that these behavioral responses push the organization to search for solutions and for slack search. I pose that performance feedback theory would be incomplete without external coalition members being part of the mechanism that triggers organizational search. I also highlight the difference between internal and external perspectives on organizational aspirations and propose that for external coalition members, social aspirations represent not only a point of reference but also a comparable alternative to the focal organization, which prompts switching behavior.

Shareholder responses to organizational performance were also examined by the shareholder activism research (Goranova & Ryan, 2014; Denes, Karpoff, & McWilliams 2017), but this paper significantly differs, both theoretically and empirically, from the shareholder activism stream. Firstly, I adopt theoretical lens of the behavioral theory of the firm and treat shareholders collectively as a class of the dominant coalition members. This differs from the basic assumption of the agency theory (Jensen & Meckling, 1976) which is often adopted by the shareholder activism research (Goranova & Ryan, 2014). Secondly, I consider separately shareholder responses to firm performance below aspirations and above aspirations whereas shareholder activism research ignores the important role which aspiration level plays in guiding shareholder responses. Many shareholder activism studies assume that the relationship between performance and shareholder activism is linear and does not change relative to the aspiration level (Karpoff, Malatesta, & Walking, 1996; Ertimur, Ferri, & Muslu, 2011), which is the opposite to what this paper finds in the empirical analysis. Hence, the importance of using the aspirations would be this paper's contribution to the shareholder activism studies.

This paper makes the following theoretical contributions. Firstly, my work challenges the dominant assumption that the behavior of the firm happens only inside the firm itself. I show that attachment to organizational goals exists beyond formal organizational limits and that external coalition members reciprocate with actions when an organization fails to achieve a certain aspiration level or achieve performance surplus. I also show that behavioral responses of external coalition members to performance discrepancies trigger search by the firm.

This paper is structured in the following way. An overview of the theory is followed by the elaboration of the set of hypotheses. I then discuss empirical strategy, data, the models through which I tested these hypotheses, and the empirical findings. I conclude the paper by outlining key theoretical and practical contributions as well as the limitations of this study.

THEORY DEVELOPMENT

External coalition members

A behavioral theory of the firm (Cyert & March, 1963) poses a fuzzy stance on the external coalition members. On one hand, Cyert and March (1963) view organizational goals and politics around goals as key in determining what constitutes a coalition, but on the other hand, they acknowledge that such an approach to defining a coalition is 'limitless', and to deal with this 'limitlessness', they set a blurry boundary of the coalition based on activeness of the coalition members (Mithani & O'Brien, 2021). Since Cyert and March's 1963 work, the majority of research on organizational goal attainment has focused either on the organization as a whole entity (Greve 1998; Chen & Miller, 2007; Joseph & Gaba, 2015; Greve & Gaba, 2016) or on senior managers of such organizations (Jordan & Audia, 2012; Kacperczyk, Beckman, & Moliterno, 2015; Keum & Eggers, 2018; Blagoeva, Mom, Jansen, & George, 2020). Industrial organization, for which Cyert and March (1963) crafted the behavioral theory of the firm, might be suitable for such boundary conditions on the coalition membership, but as Blau (1996) argues, “groups and organizations in contemporary, postindustrial society have unclear boundaries, lack spatial fixity, and might be conceptualized as loosely constituted, overlapping circles of partialled participations” (p. 174). The role of participants who are external to the organization in organizational decision making is increasing (Davis, 2009), and performance feedback theory needs to address this change (Audia & Greve, 2021).

Another issue with building a coalition boundary based on the activeness of the coalition members (Mithani & O’Brien, 2020) is the fact that activeness does not necessarily represent the power of the members of the coalition nor their influence on organizational decision making. While organizations learn from performance feedback (Greve, 2003a), power distribution within the coalition impacts organizational learning (Loch, Sengupta, & Ahmad, 2013), and orientation of coalition members with high power informs organizational decision making (Bunderson and Reagans, 2011). Shareholders, for instance, have significant power over the management of the firm despite being disconnected from the organizational daily routines (Connelly, Shi, & Zyung, 2017). We also know that the impact of senior managers on organizational outcomes is limited. For instance, impacts associated with CEOs explain only 16 to 24 per cent of variance in ROA (Quigley & Hambrick, 2015) and only 30 per cent of variance in a company’s CSR activity (Wernicke, Sajko, & Boon, 2021) while the majority of the variance remains unexplained or attributable to the firm as a whole. Hence, performance feedback theory should not ignore external coalition members who might have power over the firm, even if they do not actively interact with other coalition members or with the firm itself on a daily basis, and who can exercise their power in order to influence the behavior of the firm.

Furthermore, while the notion of coalition member activeness may seem intuitive, it is not clear how Cyert and March (1963) determine activeness. Shareholders who follow quarterly results (Hotchkiss & Strickland, 2003) and critical events (Dorobantu, Henisz, & Nartey, 2017), environmentally conscious stakeholders who monitor environmental impact of an organization (Bansal & Clelland, 2004), institutions and regulatory bodies who externally impose goals (Pache & Santos, 2010), and consumers evaluating organizational performance (Lapre & Tsikriktsis, 2006), among other stakeholders external to the firm, are likely active participants of goal centered coalitions.

One might claim that external stakeholders are excluded from internal organizational routines (Rerup & Feldman, 2011); however, it is hard to refute that these external stakeholders are attached to specific organizational goals on which both firms and external stakeholders focus their attention and which are factored into their respective behaviors. As Hirschman (1970) suggests, decline in organizational performance triggers responses from the broad scope of external and internal stakeholders; while some remain passive, others choose either to raise their voice in an attempt to change the organization or to exit and terminate any ties to the organization. Hence, in this paper, I suggest treating external coalition members as part of the goal-centered coalition and as part of performance feedback theory.

The challenge with pursuing a unified perspective on external coalition members, however, is that they are heterogeneous within their own classes and linked to different organizational goals. Therefore, before deriving a 'behavioral theory of everyone', it might be fruitful to first look at classes of external stakeholders and how each of these classes factors into organizational behavior, conditional on specific organizational goals.

Prior research on performance feedback offers scarce evidence of the impact of different classes of external coalition members on organizational decision making. Zhong, Ma, Tong, Zhang, and Xie (2020) argue that major customers of the firm inform managerial attention and organizational search and show that customer concentration is factored into the performance feedback model. Greve and Teh (2018) argue about externally imposed goals, which are accepted by the dominant coalition members of the firm and suggest that institutions impact performance feedback through goals. Shinkle, Hodgkinson, and Gary (2021) support this view and theorize how government policy changes impact organizational goals and dominant coalitions. Shipilov, Greve, and Rowley (2019) show how the tone of media coverage influences adoption of board reforms by firms.

Yet, research on the role of shareholders is missing from performance feedback studies, so far, while some studies look at boards of directors as a proxy for shareholder influence. For instance, Zhong, Ren, and Song (2021) show that influence of boards of directors amplifies the shareholder primacy norm in organizational responses to performance feedback at the expense of CSR. It is surprising that shareholders, who are briefly acknowledged by Cyert and March (1963) and who received significant attention by many other streams of management research (Westphal & Zajac, 1998; Hambrick, Werder, & Zajac, 2008; Goranova & Ryan, 2014; Bebchuk, 2005; Harris &Raviv, 2010), were overlooked by the performance feedback theory. In the remainder of this paper, I attempt to address this gap in performance feedback research by introducing shareholders into the theoretical model and testing a set of relevant hypotheses.

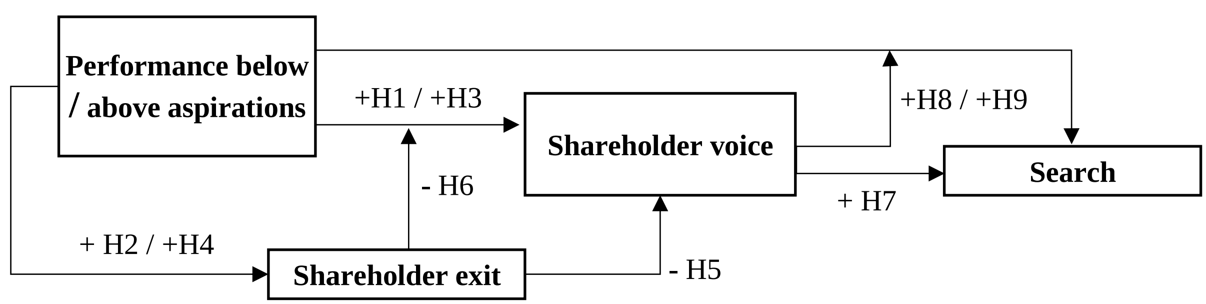
Reintroducing shareholders to the dominant coalition

A manager-centric approach to studying organizations (Hinings & Greenwood, 2002) is myopic in envisaging organizations beyond the limits of managerial control. Shareholders and other external coalition members have been largely ignored (Audia & Greve, 2021) or viewed as conditions for organizational decisions (Zhong, Ren, & Song, 2021; Audia, Rousseau & Brion, 2021) rather than an active part of the organizational decision-making process. At the same time, corporate governance and finance literature has produced significant evidence for the counter arguments. Westphal and Bednar (2008), for instance, show that institutional ownership influences the corporate governance and strategy of a firm. Top managers, in their decision making, tend to side with shareholders vis-a-vis other stakeholders, conditional on their values (Adams, Licht, & Sagiv, 2011), and shareholder rights' protection further indoctrinates shareholder-centric practices in the organizations (Schneper & Guillen, 2004). Important corporate decisions, such as mergers and acquisitions (Bethel, Hu, & Wang, 2009), significant asset purchases and sales (Gevurtz, 2019), share issuances (Holderness, 2018), compensation, and so forth (Brown and Caylor, 2008), often require shareholder approval. Yet, a manager-centric approach to studying organizations would hardly see shareholders as part of the organizational decision-making process.

Conversely, the goal-centric view of organizations offered by Cyert and March (1963) does not limit organizational decision making to the realm of managers and would naturally include all influential coalition members gravitating toward specific organizational goals. In discussion of who should be considered part of the coalition, Cyert and March (1963)) loosely suggest a set of criteria. Firstly, coalition members should remain in a particular temporal or functional region of the organization. Secondly, coalition members should influence a certain class of organizational decisions. Cyert and March (1963) further suggest that coalitions can include individuals and groups and that classes of coalition members can be distinguished over the long term. Lastly, Cyert, and March (1963) highlight inherent goal conflict between individual members of the coalition. Such a perspective on the coalition hardly limits the coalition to only those members who are internal to the organization; Cyert and March include donors as coalition members for non-profit organization and stakeholders or shareholders as coalition members of for-profit firms.

Extant research does not portray shareholders as direct actors in the dominant coalition; however, a latent presence of shareholders is seen in some works on performance feedback theory. Audia, Rousseau, and Brion (2021) portray shareholders as audiences for whom CEOs construct reference groups and whose pressure increases CEO conformity. Self-enhancement research (Jordan & Audia, 2012; Lim & Audia, 2020) further emphasizes the role of outside observers, such as shareholders, in managerial behavior. Boards of directors can interfere in problemistic search and amplify shareholder interests at the expense of CSR (Zhong, Ren, & Song, 2021).

Figure 3. Conceptual model*



* sign denotes theorized effect

The difficulty of including shareholders in performance feedback, however, lies in the heterogeneity of individual shareholders (Faccio & Lang, 2002), some of whom are passive while others are active (Hambrick, Werder, & Zajac, 2008), and the nature of their activism can vary (Goranova & Ryan, 2014). At the same time, shareholders as a class are attached to organizational performance goals (Jensen & Meckling, 1976; Karpoff, Malatesta, & Walking, 1996) and have power over organizational actions (Useem 1993; Connelly, Tihanyi, Cresto, & Hitt 2010; Connelly, Shi, & Zyung, 2017). Hence, instead of focusing on individual shareholders, I propose looking at shareholders as a class of external coalition members and considering group effects of shareholders on organizational behavior (Cyert &March, 1963). Notwithstanding shareholder activeness, shareholder wealth is a function of a firm's performance (Damodaran, 2006); hence, I argue that shareholders as a class should be reintroduced into the organizational coalition centered around organizational performance goals.

Shareholder voice and exit as alternative responses to organizational performance below aspirations

Consideration of a dyad of the top managers subgroup and the shareholders subgroup unfolds Cyert and March's (1963) notion of goal conflicts within the coalition and semi-resolution of this conflict through goal attainment. While organizational performance meets the required aspiration threshold, there is no conflict within such a simplified coalition. However, organizational performance that falls below aspirations becomes a threat to shareholder wealth (Damodaran, 2006), a problem that requires a solution. Performance below aspirations also triggers a power imbalance inside the coalition (March, 1962) by reducing the bargaining power of the internal coalition members and motivating external coalition members to challenge their internal counterparts in order to trigger change.

Hirschman (1970), in his seminal work, offers a complementary view on how organizational stakeholders behave when an organization is in decline and argues that stakeholders can engage in political behavior in an attempt to change the organization by raising their voices. Hirschman (1970) assumes deterioration in organizational performance in both absolute and comparable terms. Lack of voice inhibits identification of issues by the firm and leads to further decline of the organization (Hirschman, 1970). Hirschman's notion of voice aligns with Cyert and March's (1963) idea of organizational problem solving as a political process in which goal-centered coalitions play roles. Further research confirms that voice in organizations leads to better outcomes (Bashshur & Oc, 2015), such as learning and performance (Morrison & Milliken, 2000), because it acts as a feedback mechanism, making organizations knowledgeable about their issues, and organizational members use voice to attract attention to the issues (Bouquet & Birkinshaw, 2008). Performance feedback research also recognizes organizational attention as an important element of organizational decision making (Hu & Bettis, 2018) because shifts in organizational attention (Greve, 2008; Hu, He, Blettner, & Bettis, 2017) can either inhibit or amplify the feedback.

Shareholders form an instrumental group in directing organizational attention. Firms are required to circulate shareholder proposals (Denes, Karpoff, & McWilliams, 2017) to all the stakeholders, fund managers review these proposals (Ryan & Schneider, 2002), and firms' addresses to shareholders remain a salient source of managerial attention (Nadkarni & Barr, 2008; Eggers & Kaplan, 2009). That said, shareholder voice should be central in identification and responses to performance shortfalls in the organization because voice drives organizational attention (Bouquet & Birkinshaw, 2008).

Also, failure to meet aspirations could increase tensions between coalition members, and shareholders could challenge those internal coalition members who are responsible for performance goals achievement by the firm. Ocasio (1994) claims that power balance within the dominant coalition is subject to contestation and that poor performance of the firm triggers circulation of power and managerial succession. Research on CEO succession, for instance, confirms the idea of managerial shifts and power struggles within dominant coalitions as a result of poor organizational performance. Firms that perform poorly are more likely to receive outsider CEOs (Boeker & Goodstein, 1993); complexity of corporate governance, such as the board size, further magnifies this relationship (Ocasio, 1994), and other senior managers who serve on boards pose a threat to incumbent CEOs (Shen & Cannella, 2002). Research on conflict in teams provides additional evidence that negative performance feedback increases the level of conflict in an organization (Peterson & Behfar, 2003) and that group conflict motivates group restructuring (Langfred, 2007).

Hence, triggered either by the intent to draw attention to the problem of performance shortfall or to challenge the status of incumbent internal coalition members, shareholder voice should increase along with the increase in performance shortfall.

Hypothesis 1. Shareholder voice increases the more the performance of the firm is below the aspiration level.

Organizational failures can motivate political battles around interpretations and responses to the failure (Levinthal & Rerup, 2021; Rerup & Zbaracki, 2021). Internal coalition members can choose between search behavior and self-enhancement behavior as a response to performance shortfalls (Jordan & Audia, 2012; Levinthal & Rerup, 2021), with self-enhancement being a response to external stakeholder pressures (Audia, Rousseau, & Brion, 2021). On the other hand, external coalition members and shareholders in particular may exit from their relationship with the focal firm during performance shortfalls as an alternative to raising voice (Hirschman, 1970). Shareholders may exit if they do not believe their voice would change the firm or when the cost of switching to another firm is lower than the cost of raising voice (Hirschman, 1970). Researchers notice that shareholders are highly likely to "vote with their feet" (Van Essen, Otten, & Carberry, 2015, p. 171) or exit the firm (Ryan & Schneider, 2002) if they see a problem in the firm. While individual shareholders of the underperforming firm make choices whether to exit or raise their voices, on the group level, performance shortfall triggers two parallel processes of shareholder voice and shareholder exit.

Hypothesis 2. Shareholder exit increases the more the performance of the firm is below the aspiration level.

Shareholder voice and exit as alternative responses to organizational performance above aspirations

I have argued, so far, that shareholders are external coalition members attached to the firm's performance goals and that they will either raise voice or exit the firm when firm performance falls below the aspiration level. However, if shareholders react systematically to organizational performance shortfalls, why wouldn't they also systematically react to situations when organizational performance exceeds aspiration levels? In contrast to the performance shortfall, which threatens organizational stability (Cyert & March, 1963) and hence triggers problemistic search, performance above aspirations manifests the surplus of organizational slack

(Levinthal & March, 1981) and triggers slack search (Greve, 2003a). Surplus slack can be used to conduct irresponsible search (Levinthal & March, 1981) or to fulfill the claims of residual claimants (Cyert & March, 1963). From the economic perspective, surplus slack can also signal inefficient allocation of available resources (Cyert & March, 1963) which might cause shareholder voice.

Hirschman's (1970) exit, voice, and loyalty argument was developed in settings where organizational performance is in decline. In a broader sense, however, exit and voice can be seen as alternative responses of the stakeholders to various concerns, and voice manifests stakeholder choice of political action aimed at changing the firm (Hirschman, 1970). One of the reasons for such political action by the shareholders might be the allocation of surplus slack as result of excess performance.

In a broader sense, aspiration level acts as a reference point which splits the performance continuum into two parts, one, above aspiration, corresponding to organizational success, and another, below aspiration, corresponding to organizational failure. Hence, the nature and motivation of organizational and coalition level responses to performance below aspiration vis-à-vis performance above aspiration are different. Responses to performance below aspirations are driven by problem solving and risk-taking behavior (Greve 1998; Cyert &March, 1963). In contrast, responses to performance above aspirations are driven by experimentation, innovation and development (Levinthal & March, 1981; Greve 2003a). Therefore, I assume that shareholders of firms performing above aspirations would raise their voice to further motivate the allocation of slack resources and boost organizational development.

Hence, I hypothesise that the more the firm performs above its aspirations, the more shareholders will engage with the firm in order to influence the allocation of slack resources resulting from performance above aspirations.

Hypothesis 3. Shareholder voice increases the more the performance of the firm is above the aspiration level.

Performance above aspirations usually leads to an increase in firm valuation (Elton & Gruber, 1972), which means that shareholder wealth grows. This increase in shareholder wealth can motivate some shareholders to sell their ownership and exit the firm in order to secure their ownership gains. As mentioned earlier, performance above aspirations could trigger debates within the dominant coalitions about the allocation of surplus gains and resources. Uncertainty about allocation of such surplus gains and resources could further motivate some shareholders to exit the firm. Hence, my next hypothesis suggests the positive relationship between firm performance above aspirations and shareholder exit.

Hypothesis 4. Shareholder exit increases the more the performance of the firm is above the aspiration level.

Shareholder exit is an interesting phenomenon for performance feedback theory because shareholders' concerns about organizational issues do not necessarily translate into organizational search by the firm if there is general shareholder preference of exit over voice.

My first set of hypotheses indicates that performance below or above aspirations triggers two processes, namely voice and exit, within the shareholder group that are mutually exclusive on the individual level but interrelated on the group level. Hirschman (1970) poses that increased exit inhibits voice in the organization. Research on internal exit and voice (Bashshur & Oc, 2015) shows that exit and turnover in organizations is associated with reduced levels of voice.

When shareholders sell shares and exit the firm, they also relinquish their rights to influence the firm through various formal and informal corporate governance mechanisms; hence, they give away their legitimate right to raise shareholder voice. Therefore, on the group level, shareholder exit would negatively affect shareholder voice. Shareholders in general have a preference of exit over voice (Ryan & Schneider, 2002; Aguilera & Jackson, 2003), and shareholder exit conditional on organizational performance discrepancy should be a strong filter of shareholder voice in firms.

Hypothesis 5. Shareholder exit is negatively associated with shareholder voice.

Social aspiration as a switching option

So far I have considered the shareholder exit option as orthogonal to shareholder voice. This perspective, however, looks different when we address historical and social aspirations separately. While Cyert and March (1963) saw organizational aspiration as a weighted function of historical and social aspirations, significant recent research on performance feedback theory (Kim et al., 2015; Lucas, Knoben, & Meeus, 2018; Tarakci, Ates, Floyd, Ahn, & Woolidge, 2017) shows that historical and social aspirations have functionally different impacts on the behavior of firms; thus, these aspirations might need to be considered separately. Also, firm performance below social aspirations, as compared to historical aspirations, triggers different reactions by the managers of the firm, such as higher organizational change (Kacperczyk et al., 2015) and more divergent strategic behavior (Tarakci et al., 2017). Working with an external coalitions perspective and the exit option, I argue that shareholder engagement following negative feedback relative to social and historical aspirations will also differ and that shareholder voice after negative feedback from social aspirations will be weaker vis-a-vis historical aspirations. I explain this by the shareholder's option to switch to a comparable firm which substitutes shareholder voice and by the fact that performance below historical aspirations results in direct shareholder loss whereas performance below social aspirations, ceteris paribus, results in opportunity costs rather than direct loss.

A firm-centered perspective on aspirations, introduced by Cyert and March (1963), considers aspirations as prototypical images of where the firm wants to be in terms of performance. From this perspective, prior firm performance and performance of comparable organizations offer clues for creating an aspiration by the firm. For shareholders, however, comparable organizations often constitute a switching option due to low switching costs (Fama, 1980). When shareholders compare the performance of the focal firm to the performance of comparable organizations, they may consider switching to the different firm instead of staying with the focal firm that underperforms its peers. In this case, shareholder switching is a form of exit that substitutes shareholder voice. By switching to a comparable firm, shareholders can maintain the same type of investment in their portfolios without the need to engage in costly voice. In such a setting, shareholder exit acts as a shareholder selection mechanism, motivating unsatisfied shareholders to exit and switch to the equivalent alternative rather than stay with the same organization. With historical aspirations, ceteris paribus, the focus of attention is on a firm's current and historical performance rather than on the performance of other firms.

Therefore, from the shareholder's perspective, historical and social aspirations represent very different logical puzzles; hence, shareholder reactions to performance below social and historical aspirations should be different, with exit playing a stronger role in the social aspiration setting. Also, while overall performance of an organization below either historical or social aspirations signals a downward drift from the acceptable reference point, for shareholders, this has different financial implications. Failure to meet historical aspirations by the firm, such as for earnings estimates (Elton & Gruber, 1972), would result in a share price decline and produce a direct loss for the shareholders who keep their investments in the firm. On the other hand, performance below social aspirations signals a missed opportunity rather than a direct loss for the shareholders and triggers regret for not investing in better peers (Lin, Huang, & Zeelenberg, 2006), which should further motivate firm-switching rather than firm-repairing behavior by the shareholders.

Hypothesis 6. Shareholder exit negatively moderates the relationship between performance below social aspirations and shareholder voice.

Shareholder voice and organizational search

To this point, I have been emphasizing the antecedents of shareholder voice but have not yet addressed the contribution that shareholder voice makes to performance feedback mechanism and organizational search behavior. Posen et al. (2018) indicate that most prior research on problemistic search considered this process as ‘mechanical’ in the sense that problemistic search happens automatically when a firm performs below aspirations. In the earlier part of this paper however I have argued how performance discrepancy, both below and above aspirations, motivates shareholders to challenge the organization by raising shareholder voice in pursuit or problemistic search and slack search respectively. Hence, I would expect shareholder voice to be positively associated with organizational search.

Hypothesis 7. Shareholder voice positively impacts organizational search.

Lastly, I theorize that shareholder voice should have a positively affect organizational search through attraction of managerial attention to the performance discrepancy and through contestation and discouragement of managerial self-enhancement. Self-enhancement literature (Audia & Brion, 2007; Jordan & Audia, 2012; Lim & Audia, 2020) advanced our understanding of performance feedback mechanism by showing that the relationship between performance shortfall and problemistic search is influenced by the propensity of self-enhancement behavior by the managers of the firm. Levinthal and Rerup (2020) and Rerup and Zbaracki (2021) add that interpretation of outcomes is also a political process, with multiple parties contesting the interpretations of the performance and influencing the subsequent organizational responses.

By applying external coalitions perspective to performance shortfall, I argue that performance shortfall triggers contestation of organizational practices and incumbent leadership by external coalition members through external voice. This external contestation, conditional on performance shortfall, should, in turn, motivate problemistic search and organizational change in order to recover from the decline (Cyert & March, 1963; Hirschman, 1970). I would not rule out the content of external voice because it may draw attention to the problem, inform or suggest solutions to the problem, or challenge the status of internal leadership (Audia, Rousseau, & Brion, 2021; King & Soule, 2007). Although not tested specifically with shareholders, voice in organizations is associated with better outcomes (Bashshur & Oc, 2015) because it forces managers to recognize the need for change (Floyd & Lane, 2000), and, in general, stakeholder voice is recognized as an effective instrument of corporate influence (King & Soule, 2007).

I assume that coherence between managerial solution-seeking behavior (Audia & Greve, 2021) and shareholder voice would result in stronger organizational search. Salient shareholder voice should drive attention of the organization as a whole (Vissa et al., 2010; Hu et al., 2017) and intensify the baseline performance feedback of the organization such that firms with significant performance shortfalls would search for solutions more when there is more shareholder voice. I also anticipate that shareholder voice positively influences the relationship between performance above aspirations and slack search. As mentioned earlier, when firms accumulate surplus slack, shareholder voice stimulates the distribution of such excess resource, motivating the firm to engage in slack search more promptly. Hence, my last set of hypotheses:

Hypothesis 8. Shareholder voice positively moderates the relationship between performance below aspirations and search.

Hypothesis 9. Shareholder voice positively moderates the relationship between performance above aspirations and search.

METHODS

Data

In order to test my set of hypotheses, I required data that addresses shareholder behavior as a response to firm performance relative to certain aspiration levels and that measures shareholder voice and exit as well as organizations' search. I used ISS (Institutional Shareholder Services) data on shareholder proposals of US publicly traded firms included in S&P1500 index over the period from 2006 to 2016 to develop the measure of shareholder voice. Data from Bloomberg was used for measures of firms' financial and operational indicators and for social aspirations from the shareholder perspective. I also used the Capital IQ database for measures of shareholder exit. Following the study of shareholder proposals by Goranova, Abouk, Nystrom, and Soofi (2017) I kept only those firms which had full membership in the S&P1500 index throughout 2006-2016. Shareholder proposals of firms with partial membership in S&P1500 index could be affected by the reasons related to their inclusion or exclusion from the index rather than the performance parameters.

Table 3. Summary statistics

Variable	Obs.	Mean	SD	Min	Max
Organizational search	4,807	0.005	0.902	-0.089	46.956
Shareholder voice	4,807	0.716	1.444	0.000	17.000
Shareholder exit	4,727	24.084	12.035	0.010	88.370
Performance - Aspirations (weighted)	4,669	0.008	0.120	-1.832	4.478
Performance Below Aspirations (weighted)	4,807	-0.021	0.067	-1.832	0.000
Performance Above Aspirations (weighted)	4,807	0.029	0.091	0.000	4.478
Ownership concentration	4,807	0.364	0.366	0.000	7.860
Revenue	4,807	13.167	29.724	0.001	433.526
Total Debt	4,765	10.241	52.841	0.000	877.843
Cash	4,765	1.937	10.521	0.000	318.043
Available slack	4,765	1.841	2.992	0.010	132.858
Age	4,378	69.164	46.247	1.000	232.000

Table 4. Correlations table

		(1)	(2)	(3)	(4)	(5)	(6)
Organizational search	(1)	1					
Shareholder voice	(2)	-0.02	1				
Shareholder exit	(3)	0.05*	-0.18*	1			
Performance - Aspirations (weighted)	(4)	-0.08*	0.02	-0.02	1		
Performance Below Aspirations (weighted)	(5)	-0.12*	-0.0	-0.12*	0.65*	1	
Performance Above Aspirations (weighted)	(6)	-0.00	0.04*	0.06*	0.83*	0.10*	1
Ownership concentration	(7)	0.01	-0.13*	0.08*	-0.02	-0.05*	0.01
Revenue	(8)	-0.03	0.49*	-0.25*	0.04*	0.01	0.04*
Total Debt	(9)	-0.01	0.32*	-0.13*	-0.01	0.03*	-0.03*
Cash	(10)	-0.01	0.24*	-0.11*	0.01	0.02	-0.00
Available slack	(11)	0.07*	-0.02	0.07*	0.01	-0.05*	0.05*
Age	(12)	-0.07*	0.11*	-0.23*	0.00	0.09*	-0.05*

		(7)	(8)	(9)	(10)	(11)
Ownership concentration	(7)	1				
Revenue	(8)	-0.14*	1			
Total Debt	(9)	-0.08*	0.36*	1		
Cash	(10)	-0.06*	0.30*	0.65*	1	
Available slack	(11)	0.05*	-0.05*	-0.04*	-0.02	1
Age	(12)	-0.20*	0.20*	0.18*	0.12*	-0.13*

* if p-value <0.05

Also, because some firms prefer addressing shareholder concerns informally, luring shareholders away from submitting formal proposals (Goranova, et al., 2017), I kept in my sample only those firms that had at least one shareholder proposal during the entire analyzed period. To avoid significant data mismatches resulting from misalignment between firms' fiscal and calendar years, I kept in my data sample only those firms whose fiscal year ends in December. Summary statistics and the correlation matrix for my data is presented in Tables 3 and 4. In total, I collected panel data for a 12-year period on over 4,000 firm-year observations.

Variables

The main empirical challenge of this paper was to develop the measures of exit and voice and to construct aspirations measures that are relevant to the shareholders of US publicly traded firms.

Shareholder voice. As a measure of shareholder voice, I used the total number of shareholder proposals submitted for the forthcoming annual general shareholder meeting, excluding sustainability proposals. Although shareholders have a variety of options for how to behave with respect to the firm whose shares they own, in the case of US publicly traded firms, the submission of shareholder proposals is the easiest way for shareholders to publicly voice their disagreement with a firm's management. In a sense, a shareholder proposal is a mechanism through which shareholders as organization members can raise their voices in response to poor firm performance (Hirschman, 1970) as an alternative to exiting the organization. Submission of proposals by the shareholders of US publicly traded firms is permitted under SEC rule 14a-8 and includes a supporting argument in total length of not more than five hundred words. These proposals are then included in a company's proxy statement, which is filed in advance of the annual meeting at the expense of the firm itself (Denes et al., 2017); thus, shareholder proposals are the least costly way for shareholders to express their disagreement with the way the firm is managed or governed as compared to other forms of shareholder activism (Denes et al., 2017).

Although few shareholder proposals receive support during shareholder meetings and are not as effective as other forms of activism (Karpoff et al., 1996), shareholder proposals are an efficient way to draw the attention of senior managers and other shareholders to the issues outlined in the proposals. In general, submitted shareholder proposals are distributed among and voted on by all the shareholders of the firm during the shareholder meeting, and senior management of the firm voices their own opinions whether and why they support or do not support each submitted proposal.

Because shareholder proposals are considered annually during shareholder meetings, the change in intensity of shareholder proposals represents a convenient cumulative signal about how shareholder voice changed during the previous year. Also, shareholder proposals are highly heterogeneous in nature; accordingly, it makes little sense to consider separate standalone proposals but instead, to treat the phenomenon in general as a proxy of collective shareholder voice. One can find a similar approach in the literature on innovation (Damanpour, 1991; Cardinal, 2001; Tyler & Caner, 2016) using number of patents or new products, which are heterogeneous in types but collectively and as a whole represent the degree of innovation. However, I excluded sustainability-related proposals from the measure of shareholder voice because these proposals can be submitted by sustainability activists and are not necessarily connected to a firm's ongoing performance.

We did not account for voting on shareholder proposals as potential measure of shareholder voice as the proponent's voting power would further bias the measure. Audia, Rosseau and Brion (2021) use a similar approach to measure accountability pressures based on shareholder resolutions. In our case however, we are interested in shareholder voice as a whole and focusing on shareholder resolutions rather than all shareholder proposals would filter those instances of shareholder voice which were not supported by the majority.

Exit. Following Hausknecht and Trevor's (2011) review of exit measurements, I use the quit rate approach to calculate shareholder exit over the calendar year. I use the CapitalIQ database on shareholdings in the publicly traded corporations and calculate exit as a percentage of company shares by which the shareholders reduced their holdings in the firm during the year. For instance, if 20 shareholders each held 5 per cent of a company's shares and 4 of these shareholders sold their shares during the year, the shareholder exit rate would be 20 per cent according to this methodology.

One may argue that reduction in holdings is problematic in measuring shareholder exit because shareholders sell their shares to new shareholders and the total number of shares remains intact, which has a net financial impact on the firm. This argument, however, omits the importance of the reasons underlying the reduction of stockholdings by the existing shareholders and the impact which such shareholder reshuffling has on the coalitions in the organization. Also, as discussed earlier, reduction in existing shareholder holdings would impact the associated shareholders' power in the firm and hence weaken their voice in the firm. An analogy to shareholder turnover as a measure of exit is employee turnover as a measure of employee exit (Hausknecht & Trevor, 2011). Although employees leave the firm, the firm hires new employees so that the total number of employees remains intact. Employee turnover, however, is still a good indicator of the internal organizational issues that force existing employees out of the organization.

Performance. In order to develop a performance relative to aspirations measure to test the majority of my hypotheses, I use return on assets (ROA) as a measure of firm performance; this is commonly used in the literature (Greve, 2003; Chen & Miller, 2007). This measure of firm performance is also highly relevant to the shareholders of the firm because it emphasizes financial aspects of organizational performance and is related to the basis of dividend payouts. This measure of performance is then used to calculate *performance relative to aspirations* separately for historical and social aspirations as current year performance less aspiration level. Following Greve (2003b), I used spline specification to account for performance *below* aspirations and performance *above* aspirations.

Aspirations. Shareholders manage their risk through portfolio investments (Fama, 1980; Jensen & Fama, 1983) and pay attention to peer firms whose performance is used for reference in relative valuation methods (Damodaran, 2006; Liu, Nissim, & Thomas, 2001). Accordingly, I calculated two types of aspirations--historical and social—and combined them into single measure of aspiration level (Cyert & March, 1963; Greve, 2003b).

For historical aspirations I use an exponentially weighted moving average approach, extensively used in the literature (Greve, 2003a; Chen & Miller, 2007; Greve, 2014; Kim, Finkelstein, & Haleblian, 2015; Tyler & Canner, 2016), by using the following formula:

$$\textit{Historical aspiration}_{t} = \alpha * \textit{performance}_{t-1} + (1-\alpha) * \textit{historical aspiration}_{t-1} \quad (1)$$

where α is the weighting parameter which represents attention to the recent historical performance (Berchicci & Tarakci, 2022). Since attention rules for the organization as well as for the affiliated coalitions can differ (Berchicci & Tarakci, 2022), I calculated this weighting parameter separately for each set of my dependent variables such that the weighting parameter would maximize the log-likelihood of the full model for each given dependent variable, which means the model has the best fit, or the lowest AIC value for the fixed dataset. This is in line with other studies which use weighted measures of performance feedback (Greve, 2003a, Eggers & Kaul, 2018). When calculating α, I incrementally alternated it with steps equal 0.1 and came up with α equating 0.2 for models estimating shareholder voice and organizational search, and 0.5 for models estimating shareholder exit. Given the available data, I used the depth of three prior years to calculate historical aspirations, such as historical aspirations for 2015 would be calculated based on firm performance during 2012, 2013 and 2014 using the abovementioned formula.

To derive social aspirations of comparable organizations (Cyert & March, 1963), I need to account for different perspectives that the firm and its shareholders might have on who these comparable organizations are so I used the lists of these comparable organizations from a data source that is legitimate and central to the shareholders. I used Bloomberg Terminal and extracted lists of peer firms from relative valuation tables for each stock in my list of publicly traded firms. An example of Bloomberg relative valuation function with shows a set of peer firms for the given equity is presented in the Appendix 2.[2] Relative valuation or multiples method is the common equity valuation technique and the most efficient predictor of share price (Liu et al., 2001). This method requires a selection of the group of comparable firms, whose performance indicators are then used in the valuation of the focal firm (Liu et al., 2001); accordingly, the lists of firms used in relative valuation would be the best match for measuring social aspirations of the firm from the shareholder perspective. Bloomberg Terminal is currently

[2] As can be seen from the Boeing's example in Appendix 2, circa 60 per cent of Boeing's revenues are generated by the aircraft and parts segment, hence Bloomberg's list of peer firms includes Airbus, Bombardier and Embraer, Boeing's major competitors, as well as other firms. If one instead used SIC based approach to determine social referents, those mentioned major competitors would not be included as they are not US based corporations, hence SIC based social aspiration measure would be less relevant as compared to the approach applied here.

the world's largest financial data provider with 32.5 per cent market share (Stafford, 2019); this justifies the choice of this source. After extracting the lists of peers for the firms in my sample, I collected ROAs of these peers and averaged those to come up with the social aspirations measure:

Social aspiration = average performance of the firms identified as peer firms (2)

I then followed the procedure from Greve (2003b) envisaged by Cyert & March (1963) and weighted and added historical and social aspirations into a single weighted aspiration measure. I incrementally alternated weighting parameter by 0.1 in order to find the full model for each set of dependent variables which has the best fit (Greve, 2003a, Eggers & Kaul, 2018). As a result of the described procedure, I ended up using 0.1 as the weight for historical aspirations for models estimating shareholder voice and organizational search, and 1.0 weight for models estimating shareholder exit.

Although combining historical and social aspirations has been criticized by performance feedback theorists (Kim et al., 2015), the focus of this paper is on shareholders of the firm and I need to acknowledge the importance to shareholders of a firm's performance relative to its prior performance and relative to its peer firms. However, using historical and social aspirations separately is not warranted by my conceptual model (except for hypothesis 6) and could further complicate my empirical model; hence, I remained faithful to the original approach to calculate aspiration level as a weighted function of historical and social aspirations. However, to test my hypothesis six I used separate measures of performance relative to historical and social aspirations, as alternatively the presence of social aspiration standalone and inside the weighted aspiration measure would lead to collinearity problem.

Search. To test my hypotheses 7 and 8 I required a measure of organizational search as response to performance relative to aspirations. The literature mostly uses R&D expenditures as a measure of search (Posen et al., 2018), while other studies use marketing expenditures (Vissa et al., 2010) or investment in capital assets (Arrfelt, Wiseman, & Hult, 2013) as measures of search. For this study I combine the two approaches and calculate the average of the two standardized R&D to Sales ratio and standardized Capital expenditures to Sales ratio in the following year as a main measure of search. By lagging my predictors relative to the dependent variable by one year, I try to address potential concerns about the causality in my model.

Controls. I control for firm age, size, available slack, cash, debt, and ownership concentration as potential predictors of the dependent variables. Controlling for age is common practice in performance feedback studies that use panel data (Eggers & Suh, 2019; Blagoeva et al., 2020). I assume that with time, firms may accumulate more attention from investors and as investors become more educated about the firm they may submit more proposals than earlier; thus, I control for firm *age* operationalized as number of years since inception. As a firm grows it may become more salient, thus attracting more attention from shareholders as compared to a smaller-sized firm. Thus, I control for absolute firm *size* by using the amount of current year revenues. I also control for number of *employees* as an alternative measure of size which may be important for organizational search behavior. Firms with available financial slack resources and those with high levels of cash or debt might become targets of opportunistic financial activists; hence, I also control for *available slack*, operationalized as the ratio of current assets to current liabilities, and the company's *cash* and total *debt*. Lastly, I control for ownership concentration because shareholders might be hesitant to submit shareholder proposals to firms with high ownership concentrations. For ownership concentration I extracted data on up to 10,000 holdings for each firm-year data point from the CapitalIQ database and calculated ownership concentration as Herfindahl-Hirschman Index (HHI), which is the sum of squared percentage values of shares in total company shares outstanding of each shareholder. For model presentation purposes I descaled this index by dividing it by 1,000.

Models specifications

Given the conceptual model of this paper, I run three sets of empirical regression models with three different dependent variables. I used a linear regression model with firm- and year-level fixed effects for hypotheses 2 and 4, where *shareholder exit* as dependent variable is continuous and whose distribution histogram looked normal. A fixed effects model is a conservative and efficient way to control for unobserved factors. I also used robust standard errors clustered at the firm level to account for potential heteroskedasticity.

To test hypotheses 1, 3, 5, and 6, where the dependent variable, *shareholder voice*, is a count data, with skewed distribution, Poisson fixed effects regression with robust standard errors as suggested by Wooldridge (1999; 2002) was used. While the variance of shareholder voice is greater than the mean, Wooldridge (1999) argues that Poisson fixed effects regression is the most effective way of handling count data and producing consistent estimates. As additional analysis, I also tested hypotheses 1, 3, 5, and 6 using a negative binomial model with unconditional firm- and year-level fixed effects and robust standard errors, as suggested by Allison and Waterman (2002). Overall, both Poisson and negative binomial fixed effects regressions produce similar results.

Also, although the majority of firm-year data points in my data sample have zero proposals submitted, with the average number of proposals being 0.716, I decided to stay with the Poisson fixed effects regression rather than using a zero-inflated Poisson regression without fixed effects. While the latter approach would take into account excess zeros in my dependent variable, so far, zero inflated models for count data are only available for cross-sectional data so I would have to abandon fixed effects, which in my case are important because two different firms may historically have different relationships with their shareholders and will therefore have different numbers of proposals submitted each year. Accordingly, I believe it is important to capture potential firm and time effects by continuing with a fixed effects regression.

Lastly, I used System GMM approach (Arellano & Bond, 1991; Blundell & Bond, 1998) to develop the estimates for hypotheses 7, 8 and 9, which model *organizational search*. I preferred dynamic panel estimation approach over regular fixed effects regression because organizational search is an inertial process that depends on prior year search expenses (Blagoeva et al., 2020), however, including lagged variable of search into regular fixed effects regression would violate model assumptions as lagged variable will correlate with the unobserved fixed effects by design of the fixed effects model (Arellano & Bond, 1991). Hence, I used two-way System GMM regression with robust standard errors and orthogonal deviations to account for gaps in unbalanced panel structure (Arellano & Bover, 1995). I also treated all variables as potentially endogenous and hence used their lagged values as instruments.

FINDINGS

Shareholder voice and exit

In total, in this paper, I tested 9 hypotheses. Table 5 shows tests of hypotheses 1 and 3– that performance discrepancy increases shareholder voice—and hypotheses 5 and 6 about the negative direct and moderating effect of shareholder exit on voice using Poisson fixed effects regression. Additional robustness testing of hypotheses 1, 3, 5, and 6 using negative binomial regression with unconditional fixed effects is provided in Table 8. Table 6 shows tests of hypotheses 2 and 4—that performance discrepancy increases shareholder exit. Lastly, Table 7 displays model results of how shareholder voice impacts organizational search. Each results table starts with the baseline model (model 1) with parameters of interest and interaction terms being added to the subsequent models.

Table 5 (model 4) illustrates that I found significant support of hypotheses 1 and 3—that performance discrepancy, both below and above aspirations, increases shareholder voice. Because performance below aspirations takes negative values, the negative signs of the coefficient ($b = -0.394$, $p < 0.05$) suggests that as performance shortfall increases, shareholder voice also increases. Coefficient for performance above aspirations ($b = 0.227$, $p < 0.01$) is positive and significant, which suggests that shareholder voice increases along with the increase in positive performance discrepancy. As a robustness check, I also tested the same hypotheses using a negative binomial regression with unconditional fixed effects and robust standard errors (see Table 8) and found similar results to my main model.

However, I failed to find support for my hypothesis 5—that shareholder exit decreases shareholder voice, and found insufficient support for my hypothesis 6—that shareholder exit moderates the relationship between performance below social aspirations and shareholder voice ($b = 0.061$, p-value = 0.08). In the additional analysis however (Table 8, models 5 and 6), when I used unconditional negative binomial fixed effects regression with robust standard errors, the support for the hypothesis 6 was significant and the effect was in line with the prediction ($b = 0.062$, p-value = 0.045).

Table 5. Poisson fixed effects regression predicting shareholder voice

DV - Shareholder Voice	Hypotheses	(1)	(2)	(3)	(4)	(5)	(6)
Performance Below Aspirations (weighted)	H1		-0.411**		-0.394**		
			(0.165)		(0.170)		
Performance Above Aspirations (weighted)	H3		0.223***		0.227***		
			(0.050)		(0.056)		
Shareholder Exit	H5			-0.001	-0.002	-0.000	-0.000
				(0.005)	(0.005)	(0.006)	(0.006)
Shareholder Exit X Performance Below Social.Asp.	H6					0.061*	0.061*
						(0.035)	(0.036)
Shareholder Exit X Performance Above Social.Asp.							-0.005
							(0.026)
Performance Below Hist.Asp.						-0.623	-0.628
						(0.555)	(0.559)
Performance Above Hist.Asp.						-1.909**	-1.928**
						(0.754)	(0.766)
Performance Below Social.Asp.						-1.615**	-1.631**
						(0.657)	(0.669)
Performance Above Social.Asp.						0.184***	0.354
						(0.047)	(0.923)
Ownership concentration		-0.549*	-0.576**	-0.455*	-0.481*	-0.539*	-0.539*
		(0.282)	(0.288)	(0.259)	(0.269)	(0.292)	(0.292)
Revenue		-0.000	-0.000	-0.000	-0.001	-0.000	-0.000
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Debt		0.001*	0.001*	0.001*	0.001*	0.001*	0.001*
		(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.001)
Cash		-0.001	-0.001*	-0.001	-0.001	-0.001	-0.001
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Available Slack		-0.007	-0.006	-0.006	-0.005	-0.004	-0.004
		(0.011)	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)
Employees		0.004**	0.004**	0.004**	0.003**	0.003*	0.003*
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Age		-0.001	0.001	-0.004	-0.003	-0.004	-0.004
		(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Firm / Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
Observations		3,958	3,958	3,878	3,878	3,878	3,878
Number of IDs		381	381	379	379	379	379
Log likelihood		-3,119	-3,116	-3,075	-3,072	-3,061	-3,061
Wald chi2		49.93	92.27	46.81	88.64	243.2	260.8

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Overall, both Poisson and negative binomial fixed effects regression yield robust support to my hypotheses that shareholders intensify their influence on the firm when performance discrepancy increases, both below and above aspirations. Failure to find support for the impact of shareholder exit on shareholder voice warrants further investigation. Also, hypotheses 2 and 4—that shareholder exit increases when performance falls below aspiration (b = -25.607, $p < 0.01$), or performance increases above aspirations (b = 19.165, $p < 0.01$) —were strongly supported by my model, as can be seen from Table 6 (model 4).

Table 6. Linear fixed effects regression predicting shareholder exit

DV - Shareholder Exit	Hypotheses	(1)	(2)	(3)	(4)
Performance Below Aspirations (weighted)	H2		-20.686***		-25.607***
			(3.364)		(3.223)
Performance Above Aspirations (weighted)	H4			10.745	19.165***
				(6.794)	(6.569)
Ownership concentration		-3.942***	-4.210***	-3.894***	-4.188***
		(1.289)	(1.303)	(1.289)	(1.308)
Revenue		-0.046***	-0.041***	-0.046***	-0.040***
		(0.016)	(0.015)	(0.016)	(0.015)
Debt		0.017**	0.015**	0.017**	0.016**
		(0.008)	(0.008)	(0.008)	(0.008)
Cash		0.027***	0.028***	0.027***	0.028***
		(0.007)	(0.007)	(0.007)	(0.007)
Available Slack		-0.048	-0.001	-0.047	0.012
		(0.070)	(0.071)	(0.069)	(0.069)
Employees		-0.01	-0.012	-0.009	-0.01
		(0.009)	(0.009)	(0.009)	(0.009)
Age		-0.976***	-0.970***	-0.970***	-0.959***
		(0.056)	(0.056)	(0.056)	(0.056)
Constant		94.784***	93.983***	94.184***	92.723***
		(3.924)	(3.892)	(3.921)	(3.889)
Firm / Year Fixed Effects		Yes	Yes	Yes	Yes
Observations		4,224	4,224	4,224	4,224
Number of IDs		419	419	419	419
R-squared		0.148	0.162	0.15	0.169
Log-likelihood		-14,510	-14,476	-14,503	-14,455
F-Statistic		52.44	52.69	46.57	50.9

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Search

Since organizational search highly correlates with its past levels, I followed System GMM estimation to test hypotheses where search was the dependent variable. The assumptions of the System GMM estimation were met in all models. As evident from Table 7, Hansen test was not significant which means that the choice and specification of instruments was valid. Also, autocorrelation test was non-significant. System GMM approach allowed me to find support for my hypothesis 7 that shareholder voice exhibits a direct positive impact on organizational search ($b = 0.017$, $p < 0.05$), as evident from the full model (5) in Table 7. However, I failed to find support for hypotheses 8 and 9—that shareholder voice positively moderates the effect of performance discrepancy on organizational search.

Moreover, my analysis yielded the opposite result for hypothesis 8 with positive and significant coefficient for shareholder voice interaction with performance below aspiration ($b = 0.470$, $p < 0.05$). Since the performance below aspiration is negative while shareholder voice is zero or positive, the positive sign of the interaction coefficient suggests that there might be a negative interaction effect contrary to what I theorized about. As can be seen in Figure 4, mean levels of shareholder voice are associated with increase in organizational search as response to performance shortfall, however, as shareholder voice exceeds one standard deviations above the mean, the relationship between performance shortfall and organizational search flips and organizational search declines along the decline in relative performance.

Table 7. System GMM regression predicting organizational search

DV - Search	Hypotheses	(1)	(2)	(3)	(4)	(5)
Lagged Search (t-1)		0.469***	0.470***	0.461***	0.470***	0.462***
		(0.020)	(0.020)	(0.018)	(0.020)	(0.018)
Shareholder Voice	H7		0.014	0.023**	0.008	0.017**
			(0.009)	(0.011)	(0.006)	(0.008)
Shareholder Voice X Performance Below Aspirations (weighted)	H8			0.497** (0.226)		0.470** (0.216)
Shareholder Voice X Performance Above Aspirations (weighted)	H9				0.084 (0.058)	0.062 (0.049)
Performance Below Aspirations (weighted)		-0.536	-0.500	-1.701**	-0.475	-1.616**
		(0.369)	(0.354)	(0.767)	(0.339)	(0.728)
Performance Above Aspirations (weighted)		-0.483	-0.479	-0.414	-0.814	-0.667
		(0.363)	(0.354)	(0.319)	(0.578)	(0.506)
Ownership concentration		0.039	0.045	0.044	0.042	0.042
		(0.034)	(0.037)	(0.035)	(0.036)	(0.034)
Revenue		0.000	-0.000	-0.000	-0.000	-0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Debt		0.000	-0.000	-0.000	0.000	-0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Cash		-0.000	0.000	0.000	0.000	0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Available Slack		0.001	0.001	0.000	0.001	0.000
		(0.003)	(0.002)	(0.002)	(0.003)	(0.002)
Employees		-0.000*	-0.000**	-0.000**	-0.000**	-0.000**
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Age		-0.001	-0.000	-0.000	-0.000	-0.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Constant		0.014	-0.007	-0.046	0.013	-0.029
		(0.045)	(0.041)	(0.055)	(0.035)	(0.047)
Firm / Year Fixed Effects		Yes	Yes	Yes	Yes	Yes
Observations		4,211	4,211	4,211	4,211	4,211
Number of IDs		419	419	419	419	419
Hansen J test		378	399	398	408	398
Arellano-Bond AR(2) test		-0.579	-0.574	-0.659	-0.692	-0.731
Wald Chi^2 test		1460***	1442***	2438***	1959***	2361***

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 8. Negative binomial fixed effects regression predicting shareholder voice

DV - Shareholder Voice	Hypotheses	(1)	(2)	(3)	(4)	(5)	(6)
Performance Below Aspirations (weighted)	H1		-0.405**		-0.379*		
			(0.200)		(0.200)		
Performance Above Aspirations (weighted)	H3		0.168**		0.170*		
			(0.085)		(0.088)		
Shareholder Exit	H5			-0.001	-0.001	0.001	0.001
				(0.004)	(0.004)	(0.004)	(0.005)
Shareholder Exit X Performance Below Social.Asp.	H6					0.061**	0.062**
						(0.031)	(0.031)
Shareholder Exit X Performance Above Social.Asp.							-0.000
							(0.022)
Performance Below Hist.Asp.						-0.367	-0.368
						(0.529)	(0.529)
Performance Above Hist.Asp.						-1.931***	-1.933***
						(0.672)	(0.678)
Performance Below Social.Asp.						-1.670**	-1.671**
						(0.674)	(0.678)
Performance Above Social.Asp.						0.149	0.164
						(0.091)	(0.779)
Ownership concentration		-0.574***	-0.593***	-0.490***	-0.509***	-0.551***	-0.551***
		(0.177)	(0.180)	(0.170)	(0.173)	(0.181)	(0.181)
Revenue		-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Debt		0.001**	0.001**	0.001**	0.001**	0.001**	0.001**
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Cash		-0.000	-0.000	-0.000	-0.000	-0.000	-0.000
		(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Available Slack		-0.005	-0.004	-0.004	-0.003	-0.002	-0.002
		(0.011)	(0.011)	(0.010)	(0.010)	(0.010)	(0.010)
Employees		0.004***	0.004***	0.004***	0.003***	0.003***	0.003***
		(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Age		-0.004	-0.004	-0.006	-0.006	-0.008	-0.008
		(0.011)	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Constant		0.482	0.453	0.682	0.673	0.854	0.853
		(1.234)	(1.233)	(1.212)	(1.208)	(1.214)	(1.215)
Firm / Year Fixed Effects		Yes	Yes	Yes	Yes	Yes	Yes
Observations		4,293	4,293	4,224	4,224	4,224	4,224
Log likelihood		-3,678	-3,676	-3,634	-3,632	-3,625	-3,625
Pseudo_R2		0.245	0.245	0.247	0.247	0.249	0.249
Alpha		0.192	0.190	0.185	0.183	0.180	0.180

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figures 2 and 3 below demonstrate interaction effects based on full models from Tables 5 and 6 respectively.

Figure 4. Moderation effect of shareholder exit on relationship between performance below social aspirations and shareholder voice

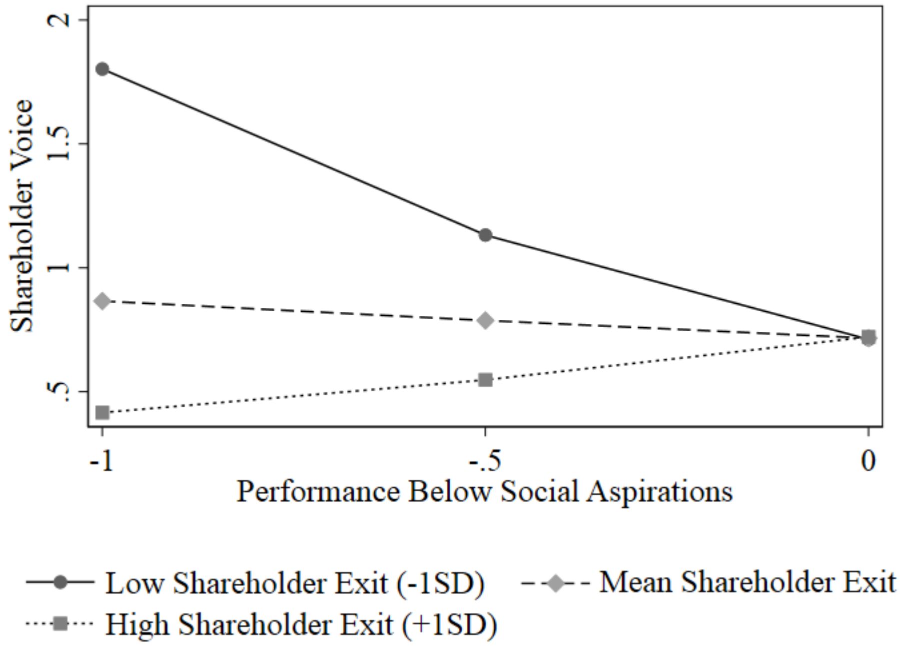
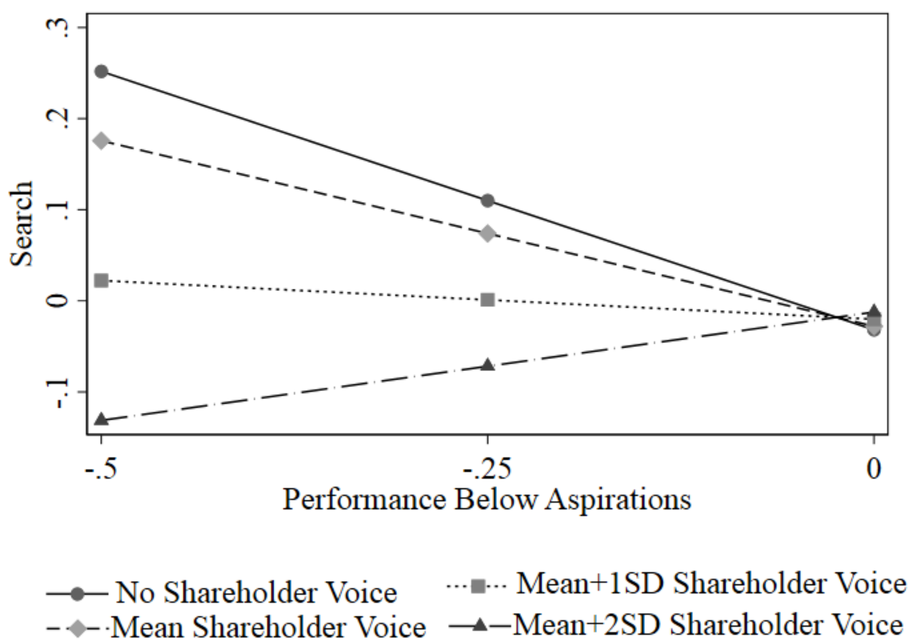


Figure 5. Moderation effect of shareholder voice on relationship between performance below aspirations and search



DISCUSSION

This study addresses the gap in the performance feedback literature by showing that shareholders, as an example of external coalition members, systematically respond to organizational performance discrepancies by either raising their voice or exiting the firm and that shareholder voice influences organizational search. By adopting the coalitions perspective on the firm and relaxing the assumptions about the formal organizational boundaries, I demonstrate that organizational decision making and responses to performance feedback are reinforced from the outside of the firm through the engagement of external coalition members. While Audia and Greve (2021) offer a new theoretical model of performance feedback, extended across individual, organizational, and macro levels, this paper demonstrates how the coalitions perspective on the firm can integrate internal and external factors of the performance feedback mechanism. This study could be further extended by clustering specific voices of shareholders into groups and analyzing how different types of voice evolve and work in the performance feedback mechanism. Also, while this study focuses on shareholders, there is potential to research how exit and voice of other stakeholders, such as general managers or external stakeholders, factor into performance feedback.

Also, by introducing the notion of exit, this paper shows why organizational responses to performance feedback could be mixed, as highlighted by Posen et al. (2018). I show that problemistic search is more than a mechanical response to performance below aspirations, it involves group dynamics within the dominant coalitions, and that ability to exit the organization, availability of comparable options, and preferences of voice over exit are influential on whether or not the organization will search for solutions to the problems. While Audia and Brion (2007) introduced the idea of self enhancement as an explanation for why firms might not respond to performance discrepancy with search, this paper complements the existing performance feedback theory by borrowing from Hirschman (1970) and introducing the notions of exit and voice as alternative coalition-level responses to performance discrepancy. However, further research is needed to investigate how voice and exit relate to self-enhancement in organizations. Moreover, the fact that this research failed to find support for hypothesis 5 that shareholder exit directly impairs shareholder voice is at odds with the assumptions of Hirschman's (1970) theory of exit, voice and loyalty and warrants further study.

Furthermore, a systematic reaction of shareholders to performance relative to aspirations and the effect of shareholder voice on problemistic search demonstrate how shareholders, who by some theorists (Fama & Jensen, 1983) can be considered exogenous to the firm, actually contribute to the organization's behavior, thus rejuvenating the debate about boundaries of the organization from the coalitions perspective (Cyert & March, 1963; Levinthal, Maritan, & Lee, 2017). Cyert and March's (1963) idea of a firm as a set of coalitions sees the firm as potentially limitless; this contrasts with Coase's (1937) view of the firm as an object confined within its boundaries. The notion of organizational boundaries restricted the set of actors—individual or collective—who might take part in organizational decision making, thus constituting what an organization actually is. This paper demonstrates that by taking into account the behavior of external coalition members, management research can explain more variance in organizational decision making, in contrast to the research that constrains the firm within its formal limits or within the reach of managerial control. The formal boundaries of the firm, however, are still important because the sets of behavioral choices that internal and external coalition members have might differ.

Moreover, I theorized about the alignment of shareholder voice and managerial orientation towards problem solving as a pre-condition of positive moderation effect of shareholder voice on relationship between performance discrepancy and organizational search. But my data suggests there is an element of conflict in there. At the same time, the assumption about persistent conflict between the firm and its shareholders would be as weak as the assumption that there is never a conflict between the two. Hence, the last open question from this research is how do firms pivot from conflict to consensus between the managers and shareholders and what are the implications of such pivoting for the performance feedback theory.

Lastly, significant differences in attention allocation by shareholders who raise voice vis-à-vis shareholders who tend to exit in response to performance discrepancies warrants further inquiry which the limitations of the data used in this study do not allow me to investigate. The best fit for regression models that evaluate shareholder voice as an outcome was achieved with high attention to social aspirations (90 per cent weight) while the best fit for models that estimate shareholder exit was achieved when 50 per cent of attention was allocated to historical aspirations. Also, models of shareholder exit put more attention to the recent historical performance as opposed to models of shareholder voice. Such difference in attention allocation can be explained either by the heterogeneity of shareholders hence – their diverse interests, attention and reactions, or because attention of shareholders changes over time and so the propensity to exit or raise voice changes over time.

This study could not confirm Hirschman's proposition that shareholder exit reduces shareholder voice on the collective level, however, further research on shifts in shareholder attention and factors that define propensity to exit could yield new useful findings. For reference, I also calculated fixed effects regression predicting shareholder exit using weightings obtained for the model predicting shareholder voice, and received significant results which are in line with the hypothesis predicting shareholder exit during performance surplus, but not significant results for hypothesis predicting shareholder exit during performance shortfall, although the sign of the coefficient was in line with my theorizing.

Limitations

One major limitation of this study is that I look only at shareholders' voice and exit but do not account for the behavior of other key stakeholders. I do not know whether voice of other stakeholders in the organization would change and in what direction if shareholder voice changes, thus omitting potential interactions with the voices of managers, employees, partners, and so forth. Accordingly, this area is a potential future avenue of research.

Secondly, because of the nature of my data, my findings are relevant and generalizable mainly to publicly traded US firms; further studies on non-US or not publicly-traded firms is required to strengthen the external validity of my findings. The same limitation comes with the size of the firms because I focus on the top 1500 publicly traded US firms while smaller firms may have different types of relationships between shareholders and managers.

Thirdly, while shareholder proposals are easy to submit, because of their low effectiveness (Karpoff et al., 1996), some shareholders may avoid submitting them, thus causing a potential measurement error when operationalizing shareholder voice through shareholder proposals. Also, structure of the ownership, presence of influential or controlling shareholders, and shareholder activism could be important factors omitted in this study and need further consideration in the future research. For instance, while some proposals can come from individual shareholders, other proposals might come from the coordinated action of several shareholders or from more powerful shareholders, hence, the impact of the latter proposals might be stronger.

Fourthly, measurement of problemistic search and performance basis have long been debated (Posen et al., 2018), and while ROA as a performance measure is relevant given the focus of this study on shareholder voice, R&D rate as a measure of problemistic search is a limitation and might miss other organizational responses to performance shortfalls.

Lastly, while I did not hypothesize regarding potential theoretical foundations explaining why firms that have shareholder proposals differ from those that have not, such differences could exist and could motivate further use of the Zero-inflated Poisson regression instead of the regular fixed effects Poisson regression that I use.

CONCLUSION

By focusing on coalitions perspective on the firm, this paper contributes to the behavioral theory of the firm and the performance feedback theory by showing that coalition members who exist beyond the formal boundaries of the firm nonetheless systematically respond to the performance feedback of the focal firm and that their responses are factored into the organizational search. This paper confirms the basic assumption of behavioral theory of the firm that political processes within coalitions, including shareholder voice, contribute to organizational decision making. It also finds some evidence that for external coalition members social aspirations represent a different set of options as compared to historical aspirations, hence, social aspirations motivate switching as an alternative to voice. For practitioners this paper highlights the importance of nurturing the voice of key stakeholders in the organization in order to respond to a broad scope of organizational issues.

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APPENDIX

Appendix 1. Examples of selected shareholder proposals

Proposal content	Company	Year
"Proxy Access"	Exxon Mobil Corporation	2016
"Require a Majority Vote for the Election of Directors"	Bank of California	2016
"Express Support for Animal Welfare Improvements in the Company's Supply Chain"	Kellogg	2016
"Report on Political Contributions"	H&R Block	2014
"Support for Animal Welfare Improvements in the Company's Pork Supply Chain "	Kraft Heinz Company	2014
"Express Support to Work Toward Ending Use of Gestation Crate Pork"	Cracker Barrel	2013
"Declassify the Board of Directors"	SunEdison	2012
"Elect director …"	Barnes and Noble	2010
"Adopt Ethical Criteria for Military Contracts"	Boeing	2007
"Report on Policies related to Public Opposition to Mining Operations"	Newmont Mining	2007
"Improve Security at Nuclear Facilities"	Progress Energy	2006
"Separate Chairman and CEO Positions"	Mattel	2006
"Require Audit Committee Review and Report on Controls over Loans, Foreclosure and Securitizations"	Wells Fargo	2006

Appendix 2. A snapshot of Bloomberg's Relative Valuation function for Boeing

CHAPTER 4: THE SILENCE OF THE SLACKED: THE NEGATIVE SIDE EFFECT OF SLACK ON PROBLEMISTIC SEARCH (ESSAY 3)

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ABSTRACT

Academic abstract: Organizational slack is usually associated with various positive effects on the organization. By focusing on slack's cushioning property, which shields the firm from external adversities, this paper discusses how slack can also mute important external stimuli for problemistic search and increase adverse self-enhancement effects when an organization performs below aspirations. We use panel data on publicly traded firms to test how shareholder voice increases problemistic search and how slack negatively moderates this relationship. We also show that problemistic search suffers more in self-enhancing firms as firm's slack increases. This paper contributes to the behavioral theory of the firm by unfolding the negative side of slack in organizational responses to adversity and by demonstrating how differentiation between internal and external coalition perspectives unfolds new sides of the well-known concept of organizational slack.

Managerial abstract: While organizational slack is usually associated with various positive effects on the firm, in this paper we draw the attention of decisionmakers to the negative side of the slack. We focus on the cushioning property of slack to demonstrate that with high slack firms not only attain more protection from the environment, but also become self-centric and deaf to positive external stimuli. We show that firms with high slack resources are less likely than firms with low slack, to hear shareholder voice during performance shortfalls. Also, by shielding the firm from adversities, slack also increases adverse effects of organizational self-enhancement.

KEYWORDS

slack, problemistic search, shareholder voice, self-enhancement, performance feedback

INTRODUCTION

Organizational slack is a foundational concept in the behavioral theory of the firm which according to Cyert and March “permit the business firm to make decisions with inconsistent goals” (Cyert & March, 1963). Positive properties of organizational slack drew significant attention from scholars who suggested that slack increases organizational learning (Agrote, Lee & Park, 2020), reduces conflict (Levinthal & Rerup, 2020), intensifies search (Greve 2003a; Baum, Rowley, Shipilov, & Chuang 2005; Chen, 2008; Posen, Keil, Kim & Meisner, 2018) and enhances organizational change (Kuusela, Keil & Maula, 2017). Organizational slack also acts as a ‘cushion’ (Cyert & March, 1963) by stabilizing the firm and absorbing variability of the firm’s environment (Bradley, Shepherd & Wiklund, 2011). However, such a cushioning effect might also inhibit external stimuli for organizational search and change since slack would allow the firm to ignore negative external feedback rather than attend to it. Also, a cushion from external coalitions might galvanize murky internal practices, such as self-enhancement. Hence, an important research question is how the cushioning property of slack factors into organizational search, and in particular, does slack have a negative side effect when firm performance falls below aspirations.

Scholars of the behavioral theory of the firm distinguish between problemistic search (Posen et al., 2018) which is triggered by firm performance below aspirations, and slack search (Levinthal & March, 1981; Greve, 2003b) which occurs when an organization performs above its aspirations. Existing empirical evidence suggests that organizational slack increases organizational search for all performance bandwidth (Chen & Miller, 2007; Greve 2010), or when the firm performs below aspirations only (Tyler & Caner, 2016). Kuusela, Keil and Maula (2017) also show that the search behavior of firms with low slack differs from that of firms with high slack such that slack decreases the propensity of divestment and increases the propensity of acquisitions in firms performing below aspirations. In addition, the behavioral theory of the firm (Cyert & March, 1963) suggests that slack has a cushioning effect but provides little insight into how such an effect impacts organizational search. Thus, both the theory and existing evidence suggest that the role of slack in search and learning processes is rather complex.

This paper draws attention to the controversial role which slack plays in problemistic search, when on the one hand it supports innovation and search, but, on the other hand, it shields the firm from adversities and the need to respond to negative feedback and be accountable to external stakeholders. Hence, it is crucial to examine whether there are factors that motivate problemistic search that are actually inhibited by organizational slack and negative factors that are motivated by slack.

Building on existing performance feedback (Audia & Greve, 2021) and self-enhancement (Levinthal & Rerup, 2020) literature as well as Hirschman's (1970) idea of voice as the articulation of critical opinions by organizational affiliates, we explain the negative side-effects of slack through distinguishing between internal and external coalition members and argue that along with shielding a firm from external adversities, slack also shields internal coalition members from the communication and accountability to external coalition members. We exploit the idea discussed in the previous chapter of this dissertation that external coalition members, such as shareholders, motivate firms to increase problemistic search and further pose that slack will reduce such external stimuli. However, in contrast with the previous dissertation chapter, we are particularly concerned with organizational search during performance shortfall known as problemistic search (Posen et al., 2018), for two reasons. Firstly, problemistic search is critical for organizational survival (Posen et al., 2018) as it demonstrates organizational ability to adapt to the changing environment. Secondly, adverse effects of self-enhancement are particularly sensible during performance shortfall as symbolic acts of self-enhancement substitute actual organizational adaptiveness to the negative feedback (Audia & Brion, 2007; Jordan & Audia, 2012).

Empirically, we examine situations where firms engage in problemistic search in response to performance declines and further test how slack moderates the positive effect of shareholder voice and negative effect of self-enhancement on problemistic search. We predict that firms cushioned from the environment by high slack will have stronger adverse effects from self-enhancement on problemistic search and weaker positive effects from shareholder voice on problemistic search.

We test our respective set of hypotheses using 11 years of panel data on publicly traded US firms assembled from shareholder proposals, accounting restatements, ownership and financial databases. Our main thesis is that organizational slack reinforces the position of internal coalition members and mutes the voices of external or peripheral coalition members in organizational search processes. Slack not only stabilizes the firm (Cyert & March, 1963) but it also partially blocks organizational change by limiting external and peripheral stimuli for organizational search, hence potentially narrowing the search itself. The major contribution of this paper is that it unfolds the negative side of slack in organizational search. This paper also shows that an embrace of external coalition perspective on the behavior of the firm allows us to rethink and understand better how old organizational theory concepts, such as slack, work, and unfold new unusual sides of these concepts.

SHAREHOLDER VOICE AND THE MUTING SIDE EFFECT OF SLACK

The previous chapter of this dissertation discussed that the behavioral theory of the firm should adopt a relaxed perspective on organisational boundaries and acknowledge the fact that external coalition members are systematically involved in organizational decision making. It also discussed that in general, shareholder involvement in organizational behavior has been overlooked by management research (Foss, Klein, Lien, Zellweger & Zenger, 2020) or deemed passive (Mithani & O'Brien, 2020; Jensen & Meckling, 1976). Yet, the behavioral theory of the firm (Cyert and March, 1963) mention stockholders as members of the goal setting coalition while Audia and Greve (2021) advocate that organizational goals can be imposed externally. Cyert and March (1963, p.88) also mention that "search behavior can be initiated by an exogenous event" and as shown in the previous chapter shareholder voice indeed triggers organizational search. Furthermore, situations when firms perform below aspiration are considered a problem that requires solution and so organizational search during performance shortfall is called 'problemistic search' as it should be aimed at adapting the organization in order to solve the problem (Cyert and March, 1963; Posen et al., 2018).

While the third chapter of the dissertation tested the impact of shareholder voice on organizational search overall, and not just problemistic search, we believe that the same positive effect of voice will be valid for problemistic search, as a sub-set of the overall organizational search. However, differentiation of external and internal coalitions perspectives from the previous chapter suggests that internal coalition members might use the means that support organizational stability as political a instrument to shield themselves from the attention and influence of external stakeholders. Cyert and March (1963) propose that slack is such an instrument, however, they also make an explicit assumption that slack has no political function and that managers do not purposefully pursue an increase of organizational slack. This paper suggests and offers empirical evidence that this assumption needs to be revisited.

In contrast with the behavioral theory of the firm which saw slack as a factor of stability and innovation (Cyert & March, 1963; Levinthal & March, 1981), Hirschman thought of slack as a barrier from the critical voice of different stakeholders (Hirschman, 1970). While external stakeholders, such as shareholders may give feedback to the firm whose performance deteriorates, the firm may listen to such external signals or ignore them (Hirschman, 1970, 1974). Hirschman further suggests that organizations with high slack are more likely to ignore external feedback. The cushioning effect of slack (Cyert & March, 1963; Burgeois, 1981) allows a gap between actual and potential organizational response to adversity.

However, it is not clear whether an organization's own negative performance feedback should be considered to be such an adversity. This would not be a problem if organizations were oriented exclusively towards problem solving, but as Audia and Greve (2021) suggest, organizational response to negative performance feedback is not necessarily straightforward and is refined through preferences of the managers, who are an internal part of the organizational goal setting coalition. Managers with high self-enhancement can ignore negative feedback on certain goals by reorienting attention to more favorable outcomes on other goals (Jordan & Audia, 2012). Power can be a good predictor of high self-enhancement (Audia & Greve, 2021) and high slack gives an organization some power to ignore the environment, including stimuli from external members of the coalitions. High slack may also reinforce managers' belief that they are on the right track and make them attend to external stimuli reluctantly.

Jordan and Audia (2012) further suggest that self-enhancement is a behavioral choice of internal decision makers in contrast to the informed external observer. Hence, while we argued earlier that shareholders stimulate problemistic search, slack allows internal decision makers to resist such external stimuli and respond to performance below aspirations with less search than they could potentially engage in. While slack can boost improvisation and learning, this paper suggests that as slack filters external stimuli, and therefore slack driven learning might be gravitating toward the preferences of internal coalition members. This suggests that the positive effect of shareholder voice on problemistic search, which we theorized earlier, will be muted in firms with high slack.

H1: Slack negatively moderates the relationship between shareholder voice and problemistic search in that slack reduces the positive effect of shareholder voice on problemistic search.

SLACK AND ADVERSE EFFECTS OF SELF-ENHANCEMENT

While slack could inhibit external stimuli for problemistic search and organizational change, we further discuss how such cushioning property of slack could intensify adverse internal processes that hinder problemistic search, such as self-enhancement. We theorized earlier that slack not only protects the firm from the external adversities, but it also shields internal coalition members from the voice of external coalition members. The behavioral theory of the firm (Cyert & March, 1963) sees a firm as a political organization (March, 1962) where coalitions of groups and individuals cluster around goals. The membership in these coalitions however is not limited to those individuals or groups that fit within the formal boundaries of the organization. Internal members of the coalition however have more control over an organization as opposed to external members (Jensen & Meckling, 1976; Eisenhardt, 1989). Hence, when eternal voice is muted, it is prudent to assume that the weight of internal coalition members in organizational decision-making further increases.

Internal coalition members, such as managers, are often reluctant to engage in risky problemistic search and are often oriented towards self-enhancement (Jordan & Audia, 2012; Levinthal & Rerup, 2021). When firms self-enhance such that they draw a positive image of themselves regardless of their actual performance, such firms will be less likely to engage in problemistic search when their performance deteriorates. We further extend this idea by suggesting that by cushioning the firm from external influence, slack would reinforce the negative effect of self-enhancement on problemistic search as external influence on high slack firms will be weaker.

Audia, Rosseau and Brion (2021) portray investors as audiences who exercise pressure on the senior managers of a firm. The authors further show that powerful managers care less about external evaluations as their power allows them to ignore shareholder pressures. High slack manifests an organization's high past performance (Cyert & March, 1963) and past performance manifests future managerial power (Daily & Johnson, 1997) therefore we can assume that organizational slack is an indicator of managerial power. In both cases, whether managerial power is high or organizational slack is high, we can see that such organizations rely less on external evaluations and pressures (Audia, Rosseau, & Brion, 2021). Empowered by high slack, self-enhancing managers will care less about the need to respond to negative performance feedback and will take less risk in an attempt to change the firm. By bringing into the spotlight the perspectives on internal and external coalition members we can see how organizational slack, which is situated within and controlled by the focal organization, weakens the influence of external coalition members and increases the power of internal ones. As managers of high slack firms are prone to self-enhancement (Jordan & Audia, 2021) we can expect stronger negative effects of self-enhancement on problemistic search, as external controls on such firms will be less effective. Hence, our second set of hypothesis:

H2: Slack positively moderates the relationship between self-enhancement and problemistic search in that slack increases the negative effect of self-enhancement on problemistic search.

DATA AND METHODS

Sample

Our theoretical focus requires data on external and internal members of the goal setting coalition as well as firm level information in order to distinguish data on external shareholder voice, internal self-enhancement, organizational search and slack, as well as other relevant parameters. Publicly traded firms can be a sufficient source of the required data. Hence, to test our hypotheses we assembled panel data on firms included in the S&P1500 index over the period of 2006-2016. We combined data from different sources including Institutional Shareholder Service (ISS), Audit Analytics, and Bloomberg and Capital IQ. In short, we combined the original dataset used for Chapter 3 of this dissertation with Audit Analytics data on profit restatements which we used to measure self-enhancement. Our original sample included circa 18,000 firm-year observations. First, we kept in our sample only those firms that had their fiscal year ending on December 31st, in line with the calendar year. As we dropped firms whose fiscal year ended in months other than December, our sample size fell to circa 12,000 firm-year observations. Finally, since we are studying the effects of slack during performance shortfall, we kept in our sample only those cases where firm performance was below aspiration, hence, our final sample includes around 3,600 firm-year observations (see Tables 9 and 10).

Table 9. Summary statistics

Variable	Obs	SD	Min	Mean	Max
Problemistic search	3,685	0.095	-0.036	0.000	2.901
Performance-Aspirations <0	3,685	0.087	-1.832	-0.047	0.000
Self-Enhancement	3,295	0.398	0.000	0.197	1.000
Shareholder voice	3,685	1.289	0.000	0.498	14.000
Slack Absorbed	3,409	0.182	-0.176	0.220	2.198
Slack Available	3,616	3.212	0.000	2.013	110.562
Slack Potential	3,577	783	-6,812	26	44,475
Revenues, $mn	3,685	19.401	-1.267	7.948	255.112
Employees	3,643	36503	14	17607	390000
Debt, $mn	3,616	46.189	0.000	7.693	877.843
Firm age	3,597	48.800	2.000	67.574	232.000
Ownership concentration, HHI	3,555	0.400	0.000	0.415	10.000

Table 10. Correlation matrix

	Pr.Search	Perf.-Asp.	Self-Enh.	Sh.Voice	Slack Abs.	Slack Avail.
Problemistic search	1.000					
Performance-Aspirations <0	-0.259*	1.000				
Self-Enhancement	-0.014	-0.038*	1.000			
Shareholder voice	-0.005	-0.009	-0.021	1.000		
Slack Absorbed	0.214*	-0.053*	0.017	-0.064*	1.000	
Slack Available	0.125*	-0.069*	0.001	-0.023	-0.030	1.000
Slack Potential	-0.004	0.011	-0.001	-0.007	0.016	-0.008
Revenues, $mn	-0.030	0.009	-0.029	0.530*	-0.103*	-0.041*
Employees	-0.037*	0.023	-0.018	0.440*	0.003	-0.069*
Debt, $mn	-0.022	0.050*	-0.003	0.321*	0.051*	-0.038*
Firm age	-0.122*	0.136*	0.005	0.072*	0.105*	-0.119*
Ownership concentration	0.015	-0.062*	0.031	-0.083*	-0.004	0.057*

	Slack Poten.	Rev. $mn	Employ.	Debt, $mn	Firm age	Ownership.
Slack Potential	1.000					
Revenues, $mn	-0.009	1.000				
Employees	-0.008	0.695*	1.000			
Debt, $mn	-0.001	0.452*	0.476*	1.000		
Firm age	-0.009	0.161*	0.162*	0.118*	1.000	
Ownership concentration	-0.008	-0.092*	-0.124*	-0.059*	-0.132*	1.000

* if p-value <0.05

In contrast with Chapter 3 of this dissertation, we do not need to perform the same sample attrition due to zero-inflation of the dependent variable. In Chapter 3, one of the key dependent variables, shareholder voice, was zero-inflated, hence we had to drop cases where all the parameters of interest equated to zero as the way to address this empirical issue, and at the same time we had to keep the same data sample for all the regression models. In this study our parameter or interest, problemistic search, is a continuous variable, while shareholder voice is now a predictor for which the data distribution requirements are not restricted.

Variables

Problemistic search is our dependent variable. We measured problemistic search as standardized R&D to sales ratio of the year following performance feedback (t+1). While R&D search is the most common way to measure problemistic search (Posen et al., 2018), some studies criticize the use of R&D as a measure of problemistic search since reported R&D poorly measures organizational risk taking (Bromiley, Rau & Zhang, 2017). Others (Audia & Greve, 2006; Arrfelt, Weisman and Hult, 2013) use capital investments to measure search. In the previous chapter we combined these two measures for the purpose of evaluating organizational search for the whole spectrum of performance, both below and above aspirations. However, in this study we are concerned with situations where firms face the problem of performance below aspirations and in this particular case R&D expenditures would be more associated with the amount of risk which the firm takes in response to performance adversity as compared to the capital investments, hence using R&D to sales ratio is more appropriate for studying problemistic search.

Shareholder voice is measured as the number of shareholder proposals submitted for the forthcoming annual general shareholder meeting. The submission of shareholder proposals is a streamlined way for shareholders to publicly voice their disagreement with a firm's management (Denes et al 2017), hence, shareholder proposals is a mechanism through which shareholders as organization members can raise their voice. Shareholder proposals are accumulated throughout the year and considered annually during the general shareholder meetings. Hence the change in amount of shareholder proposals represent a convenient cumulative measure of how much shareholder voice changed during the last year. Moreover, shareholder proposals are heterogeneous and while the majority of proposals are concerned with the corporate governance mechanisms, many proposals include suggestions about other aspects of organizational matters, such as operations and strategy. Hence, while the consideration of separate standalone shareholder proposals often means seeing the woods for the trees, the design of shareholder proposals submission mechanism allows us to treat this phenomenon as a collective proxy measure of collective shareholder voice. This approach mimics the patenting research (Tyler & Caner 2016) approach in measuring innovation when only count data is available. While we used total shareholder proposals to measure shareholder voice, we did not account for voting on shareholder proposals because the voting power of the proponent of the proposal would bias the proxy measure. Audia, Rosseau and Brion (2021) measure accountability pressures based on shareholder resolutions which is a similar empirical approach. However, we are interested in total shareholder critical voice, hence we focus on all shareholder proposals, not only those that were supported by the majority vote.

Self-enhancement is coded as a dummy variable equating to 1 if the firm was self-enhancing during the calendar year and zero otherwise. Self-enhancement occurs when firms portray themselves in front of audiences in a positive manner trying to create a better image of themselves (Jordan & Audia 2021, Levinthal & Rerup 2021). One example of self-enhancement is overstating financial results, such as earnings, in annual financial statements. It is not uncommon for firms to restate their financial results in the future and firms do so for multiple reasons the most important of which is SEC investigations (Karpoff, Koester, Lee & Martin 2017). Hence, we assume that negative restatement of corporate earnings is an indicator of self-enhancement as such restatement shows that the firm originally portrayed a positive image of itself while having to adjust this and reduce backdated earnings in the future. We accessed Audit Analytics extensive database on financial restatements of the US publicly traded firms and collected data on negative earnings restatements as a proxy of corporate self-enhancement. Audit Analytics provides the most comprehensive record of corporate financial restatement events (Karpoff, Koester, Lee & Martin 2017) indicating whether restatement was negative or not. Hence, if a firm's reported earnings for the year 2006 were restated downwards in any of the subsequent years, we would assign "1" to the self-enhancement dummy variable for the year 2006 and "0" otherwise.

To estimate our hypotheses about side effects of *Slack* we used separate measures for for absorbed, available, and potential slack (Chen, 2008; Bourgeois, 1981). Absorbed slack was measured as general administrative and marketing expenses to sales ratio, available slack - as current assets to current liabilities ratio, and potential slack – as market capitalization to earnings ratio. Since we are studying the moderating effect of slack on shareholder voice, we should acknowledge that shareholders are the source of equity resources for the firm, hence, some measures of slack, particularly, potential slack which measures firm's potential to attract new financial resources (Bourgeois, 1981), may not adequately represent the 'cushioning' effect of slack which is of primary interest to us. Hence, in our regression model we separately interacted three measures of slack with shareholder voice and self-enhancement.

As a *performance* measure we used return on assets (ROA). Despite the common critique that such a measure is too broad, in the case of shareholders the use of ROA is justified by the role profitability plays in stock valuations. Also, as evident from Chapter 3 of this dissertation, shareholders follow annual financial performance of the focal firms and demonstrate systematic reactions to discrepancies in ROA relative to aspiration levels.

Since this paper focuses on shareholder voice and slack, we calculated aspirations that are specific to the shareholders of the firms. Hence, we focused exclusively on social aspirations and calculated *social aspiration* as average return on assets ratios in time *t* for the list of defined peer firms for each focal firm. As with chapter 3 of this dissertation, we used Bloomberg terminal to pull out lists of peer firms from Bloomberg's relative valuation function. As noted, Bloomberg terminal is currently the world's largest financial data provider with 32.5 percent market share (Stafford 2019) and this justifies the choice of this source. We also tried to collect lists of peer firms from analyst reports of large investment banks, such as Credit Suisse and JPMorgan that are available through Mergenta database, however, we found Bloomberg's coverage of publicly traded firms to be more comprehensive compared to investment banks' research coverage, as mid and small tier firms are rarely covered by the equity research analysts, or in many cases, the coverage is brief and does not disclose detailed relative valuation with the list of peer firms, which is our primary interest.

Ultimately, the difference between our firm performance measure (ROA) in the current year and its social aspiration was taken to measure performance relative to aspiration level. Since this paper investigates the effects of slack on shareholder voice and self-enhancement below aspirations, we included in the analysis all firm-year observations where firm performance was below aspiration.

Controls. Ownership concentration should be controlled for when studying shareholder proposals, since firms with concentrated ownership might have weaker responses to such proposals. Hence, as a measure of ownership concentration, we calculated a Herfindahl-Hirschman Index based on stock ownership data pulled from Capital IQ for the top 10,000 shareholders of each firm. We also used total revenues and number of employees as measures to control for the firm size from the financial and human resources perspectives. Number of years since founding was used as a measure of firm age. Lastly, since the relationship between performance shortfall and problemistic search is embedded in the behavioral theory, we controlled for the difference between current performance of the firm and its aspirations following the approach envisaged by Greve (2003b).

Model specifications

To test our hypotheses, we ran a series of System GMM regression models (Arellano & Bond, 1991; Blundell & Bond, 1998) in STATA. System GMM model allows us to use lagged values of the dependent variable as predictors. Similar to chapter 3, I used two-way System GMM regression with robust standard errors to account for heteroskedasticity concerns, and orthogonal deviations to account for gaps in unbalanced panel structure (Arellano & Bover, 1995). Also, I considered all variables as potentially endogenous and allowed the use of their lagged values with up to 2 lags as instruments. The correctness of the choice of instruments and the effectiveness of dealing with autocorrelation was further confirmed by Hansen's J test and Arellano-Bond autocorrelation test which were 313.4 and -1.235 respectively.

FINDINGS

As seen from the Table 11 (model 4, full model), we found robust evidence for hypothesis 1, slack's negative moderation of shareholder voice, using both measures of slack – absorbed slack and available slack. Our 2nd hypothesis, that slack enhances the negative effect of self-enhancement on problemistic search, was supported for the measure of absorbed slack, but support for the measure of available slack was borderline (p-value of 0.1). Also, as we anticipated, potential slack had no cushioning effect on the firm.

Direct effect of absorbed and available slack on problemistic search was positive and significant, in line with the prior literature (Greve, 2003a; Chen & Miller, 2008). Hence, this work does not challenge the earlier knowledge about organizational slack, but rather complements it by showing the complex nature of this important organizational parameter. Also, direct effect of shareholder voice on problemistic search was positive and significant, in line with empirical findings from chapter 3. Interestingly though, we can see from Table 11 that the sign of the coefficient of self-enhancement turns to positive when we add interaction effects for different types of slack.

We also plotted interaction effects of two types of slack with shareholder voice and self-enhancement respectively. Figure 6 demonstrates moderating effects of the absorbed and available slack on the relationship between shareholder voice and problemistic search. While the effects of both types of slack are in line, we can see that available slack has stronger moderating effect than absorbed slack. Figure 7 shows the moderating effect of absorbed and available slack on the relationship between self-enhancement and problemistic search, and we can see similar pattern with the effects of available slack being more prominent.

Table 11. System GMM regression of *search* when performance is *below* aspiration

DV = Problemistic search (t+1)	Model 1 Coef.	Model 1 SD	Model 2 Coef.	Model 2 SD	Model 3 Coef.	Model 3 SD	Model 4 (full) Coef.	Model 4 (full) SD
Problemistic Search Lagged	0.794***	(0.058)	0.785***	(0.063)	0.787***	(0.059)	0.780***	(0.064)
Slack Absorbed	0.204*	(0.108)	0.236*	(0.122)	0.229*	(0.117)	0.255**	(0.125)
Slack Available	0.002*	(0.001)	0.003*	(0.002)	0.004**	(0.002)	0.005**	(0.002)
Slack Potential	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
Shareholder voice	-0.002	(0.003)			0.013**	(0.006)	0.012**	(0.006)
Share. voice X Slack-Absorbed					-0.052*	(0.027)	-0.048**	(0.023)
Share. voice X Slack-Available					-0.001**	(0.000)	-0.001**	(0.000)
Share. voice X Slack-Potential					0.000	(0.000)	0.000	(0.000)
Self-Enhancement	-0.011	(0.008)	0.039*	(0.021)	-0.011	(0.008)	0.039**	(0.020)
Self-Enhance. X Slack-Absorbed			-0.154*	(0.081)			-0.147**	(0.074)
Self-Enhance. X Slack-Available			-0.005	(0.004)			-0.006*	(0.004)
Self-Enhance. X Slack-Potential			0.000	(0.000)			0.000	(0.000)
Performance-Aspiration<0	-0.246	(0.184)	-0.252	(0.186)	-0.237	(0.187)	-0.246	(0.194)
Revenues, $mn	0.000	(0.000)	0.000*	(0.000)	0.000	(0.000)	0.000	(0.000)
Employees	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
Debt, $mn	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
Firm age	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
Ownership concentration, HHI	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
Constant	-0.055*	(0.032)	-0.063*	(0.035)	-0.066*	(0.034)	-0.074**	(0.036)
Observations	1,828		1,828		1,828		1,828	
Number of ID	447		447		447		447	
Hansen J Test	313.4		312.2		313.4		313.4	
Arellano-Bond AR(2) test	-1.200		-1.233		-1.207		-1.235	
Wald Chi2 test	2,428***		2,650***		2,083***		2,482***	

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Figure 6. Relationship between shareholder voice and search under low, medium and high absorbed slack (left) and available slack (right)

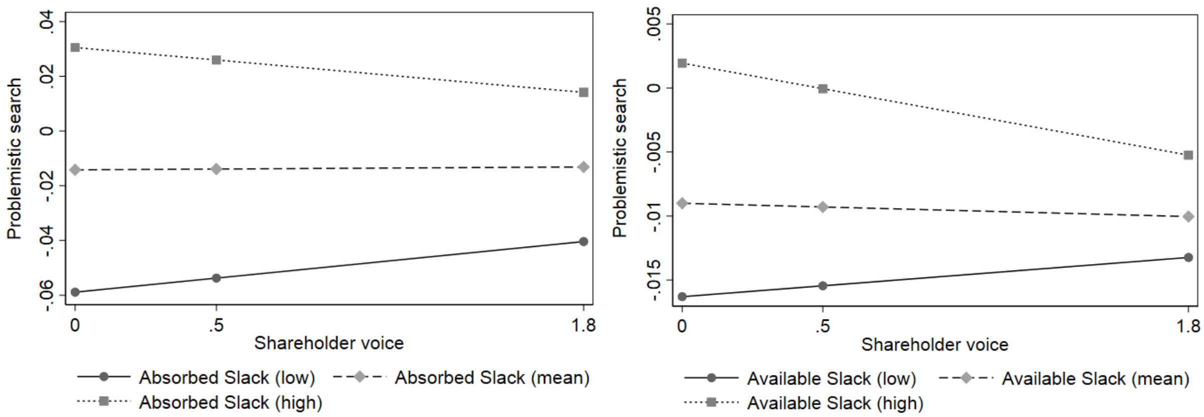
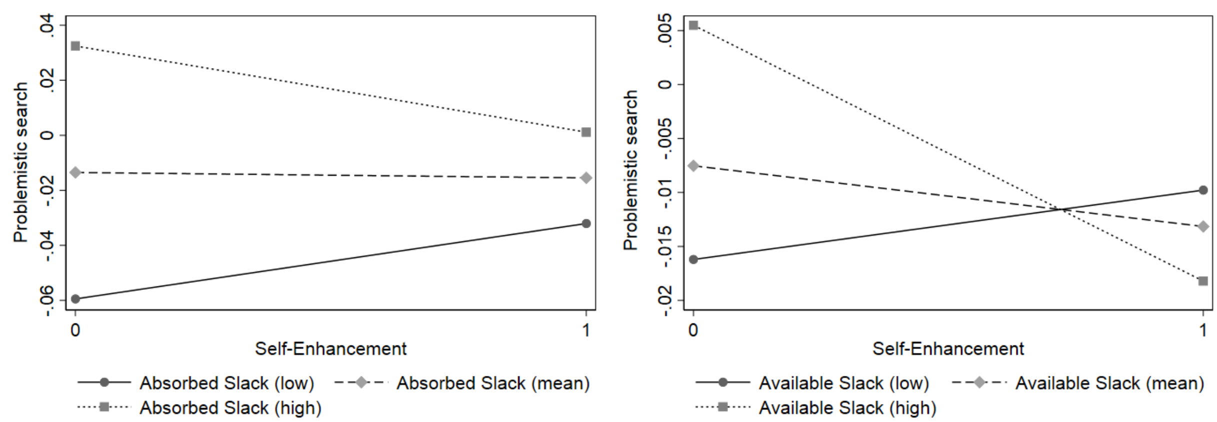


Figure 7, Relationship between self-enhancement and search under low, medium and high absorbed slack (left) and available slack (right)



Additional analysis

Due to the potential risk of model misspecification we also estimated sets of respective models using the generalized estimation equations (GEE) method (see Table 12). GEE represents a class or robust estimators (Lim & Audia 2020) and allows us to account for covariance misspecification and for unobserved differences between the firms. Also, GEE estimation is appropriate when there are variables included in the model which are relatively stable over time (Kolev & McNamara 2020), such as shareholder proposals in our case. Since GEE estimation requires that a distribution family, link function and correlation structure were specified, in our GEE models we indicated Gaussian distribution, identity link function, and an exchangeable correlation structure. Overall, the results of our GEE models are in line with our main model.

Table 12. GEE model of *search* when performance is *below* aspiration

	Model 5		Model 6		Model 7	
DV = Problemistic search	Coef.	SD	Coef.	SD	Coef.	SD
Performance-Aspirations <0	-0.053***	(0.011)	-0.047***	(0.011)	-0.048***	(0.011)
Slack Absorbed	0.474***	(0.014)	0.476***	(0.014)	0.498***	(0.014)
Slack Available	0.002***	(0.001)	0.001***	(0.000)	0.003***	(0.001)
Slack Potential	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
Shareholder voice			0.009***	(0.002)	0.011***	(0.002)
Voice X Slack-Absorbed			-0.055***	(0.006)	-0.056***	(0.006)
Voice X Slack-Available			-0.0004	(0.000)	-0.001***	(0.000)
Voice X Slack-Potential			0.000	(0.000)	0.000*	(0.000)
Self-Enhancement	0.021***	(0.004)	-0.008***	(0.002)	0.024***	(0.004)
Self-Enhance. X Slack-Absorbed	-0.115***	(0.015)			-0.118***	(0.014)
Self-Enhance. X Slack-Available	-0.002***	(0.001)			-0.003***	(0.001)
Self-Enhance. X Slack-Potential	0.000	(0.000)			0.000	(0.000)
Revenues, $mn	0.0005***	(0.000)	0.0004***	(0.000)	0.0004***	(0.000)
Employees	0.000	(0.000)	0.000	(0.000)	0.000	(0.000)
Debt, $mn	0.000	(0.000)	0.0001*	(0.000)	0.001	(0.000)
Firm age	-0.0005***	(0.000)	-0.0005***	(0.000)	-0.0005***	(0.000)
Ownership concentration, HHI	-0.005	(0.006)	-0.005	(0.006)	-0.007	(0.006)
Constant	-0.093***	(0.008)	-0.089***	(0.008)	-0.098***	(0.008)
Observations	2,804		2,804		2,804	
Number of ID	601		601		601	

Significance levels: *** p<0.01, ** p<0.05, * p<0.1

Also, since the majority of performance feedback studies use SIC codes to determine peer firms in order to calculate organization’s social aspiration, we also estimated our main model using this approach. We used 4-digit SIC codes for this purpose. However, we could not find support to our hypotheses when peer firms were taken using standardized industry classification rather than the lists of firms which shareholders use to calculate fair value of the focal firm, as was discussed earlier in this dissertation.

Secondly, we estimated our main model using more commonly used debt to equity ratio as a measure of potential slack (Bourgeois, 1981) rather than market capitalisation to earnings ratio which we used in the original model and we found similar results which supported our hypotheses. Lastly, we calculated HR slack as employees to sales ratio and interacted it with the measures of shareholder voice and self-enhancement, however, we could not find any significant results for this measure of slack using our System GMM model.

DISCUSSION

We began this research by asking whether there are negative side effects of organizational slack, in contrast to the dominant view that slack provides stability and supports the innovativeness of organizations. By employing a perspective of the behavioral theory of the firm we predicted that slack would mute positive external stimuli and amplify negative internal factors that hinder problemistic search. In particular, we tested the muting effect of slack on shareholder voice and the amplifying effect of slack on self-enhancement in their impact on problemistic search. We also acknowledged the fact that there are different types of slack in organizations and tested our predictions separately for absorbed, available and potential slack.

This paper has two major sets of contributions to the behavioral theory of the firm (Cyert & March 1963; Gavetti, Greve, Levinthal & Ocasio 2012) and performance feedback studies (Greve 2003b, Audia & Greve 2021). First, it takes a critical view on the role of slack in organizations and shows that slack amplifies the character of the firm, whether positive or negative. Despite the common view that slack fosters innovation in organizations, this effect seems to fade in firms with self-enhancing management. Another finding about the dark side of slack in organizations is that it allows firms to ignore external stimuli for organizational change. This effect can be a source of stability (Cyert & March, 1963) but also a source of rigidity (Leonard-Barton, 1992) for the firm. Also, while the direct effect of slack on problemistic search according to our model is positive and statistically significant, our findings suggest that slack hinders externally motivated problemistic search and likely supports internally motivated problemistic search. The tension between internally and externally motivated search is beyond the scope of this paper and requires further investigation.

Secondly, this paper challenges Cyert and March's (1963) assumption that slack is not political, and that it is not in the interest of the managers to pursue an increase in slack. In the behavioral theory of the firm Cyert and March (1963) present slack as a surplus of certain resources which is shared between the dominant coalition members in order to 'quasi-resolve' the conflict amongst them and fulfill their claims. As this paper shows, however, internal coalition members might be more interested in accumulating slack resources to become more independent from external stakeholders, rather than to share these resources with them.

There are three questions that follow from this: A) It would be interesting to see whether slack is also used for internal corporate politics. Scholars have studied the nuances of performance feedback in multi-business corporations (Gaba & Joseph, 2013; Hu et al., 2017) and consideration of political side of organizational slack could further complement such research; B) Since slack is not politically neutral, this means that the semi-resolution of conflicts within the coalitions is not automatic and that the presence of high levels of slack does not guarantee that the coalition members will satisfy their claims. This has implications particularly for situations where firms perform above aspirations and eventually accumulate slack. In those cases we might still see increased bargaining within the coalitions if politics are at play and resources are not distributed fairly; C) The use of slack in internal vs. external coalitions politics warrants further reconciliation of the behavioral theory of the firm (Cyert and March, 1963; Gavetti et al., 2012), with resource dependence theory (Pfeffer & Salancik, 1978) and agency theory (Jensen & Meckling, 1976; Eisenhardt, 1989), Both of which study the power relationships between external and internal stakeholders.

A third set of contributions of this paper is that it extends the discussion of external coalition members and their role in performance feedback. Original behavioral theory of the firm sees the firm as a set of coalitions clustered around goals. The role of formal boundaries of the firm in the behavioral theory of the firm is not clear, however it does not limit coalition membership, hence offering a ‘limitless’ view on the organization. By embracing the coalitions perspective rather than the formal boundary perspective on the firm we were able to unfold the role of external coalition members as well as identify the complex role of organizational slack in the performance feedback mechanism. We argue that external coalition members are not passive and systematically react to organizational performance feedback and we show that external coalition members, such as shareholders, stimulate problemistic search by an organization. This positive impact of external coalition members however is reduced by organizational slack.

One might argue however that shareholders do not necessarily know what is better for the firm, however, what matters for organizational progress is that the organizational ability to adapt and recover from the performance shortfalls and healthy communication within the dominant coalitions are important for this capability. Indeed, our empirical analysis shows robust support for the fact that shareholder voice as a collective measure, stimulates problemistic search when its performance falls short of aspirations. Secondly, our theorizing about the negative side effect of slack gained robust support with both, muting shareholder voice, and enhancing the effects of self-enhancement. Hence, one can not refute the importance of the external coalition members, such as shareholders, for organizational adaptation.

While this paper empirically tests the outlined theoretical concepts on shareholders as an example of external coalition members, further research is needed to study how other stakeholders, such as suppliers, consumers, regulatory institutions, communities and activists are tied to firms and participate in organizational responses to performance feedback.

Limitations

Measurement error is the major limitation of this paper, particularly in the measurement of shareholder voice, problemistic search and self-enhancement. In line with the principles of the behavioral theory of the firm (Cyert and March 1963) we rely on the assumption that shareholders as members of the coalition of residual claimants will raise their voice to promote change in the organization when it performs below aspirations. We assume that this principle holds true for the overall population of shareholders and some research (Karpoff et al 1996) indeed suggests that shareholders are more likely to submit proposals when a firm's performance deteriorates.

However, with proposals shareholders can also target their individual goals which are not necessarily aligned with those of the firm. Also, shareholder proposals are a cumulative measure whereas individual proposals vary in terms of support and impact on the organization. All this makes the use of shareholder proposals as a measure of shareholder voice a limitation of this paper. At the same time, shareholder proposals are a costless method to raise voice that is equally available to all shareholders of the firm, which prioritizes shareholder proposals over other methods of raising voice which may not be accessible by all shareholders. Also, organizational search occurs in multiple domains (Posen et al., 2018, Agrote et al., 2020) hence measuring organizational search by looking only at R&D is another limitation of this paper. Also, to measure self-enhancement we rely on identified financial restatements which may not fully cover the instances of corporate self-enhancement as corporations may not necessarily restate their financial statements even if they had used optimistic judgement in assessing and presenting their financial results. Hence, our measure of self-enhancement is rather conservative and an alternative measure might show more variance in self-enhancement across the data.

A second limitation lies in the fact that we empirically test our hypotheses only on US publicly traded corporations which makes our empirical findings less generalizable. Also, US publicly traded firms are protected from the pressures of minority shareholders (Bebchuk & Fried 2006), hence, we might have a weaker response to shareholder voice than other types of organizations or firms from other jurisdictions. This limitation makes our findings conservative.

Thirdly, while for the purpose of this paper we look only at one performance goal, ROA, recent research emphasizes that organizations pursue multiple goals simultaneously (Gaba & Greve 2019, Levinthal & Rerup 2020), hence using only one performance goal is another limitation.

Lastly, we built our hypotheses about negative side effects of slack based on the ‘cushioning’ property of slack, from which we derived the ideas about the muting of positive external signals, such as shareholder voice, and reinforcement of negative internal processes, such as self-enhancement. We however did not consider other perspectives on organizational slack, for instance, Leonard-Barton's (1991) core capabilities and core rigidities perspective, which might yield more nuanced views on the downsides of organizational slack.

CONCLUSION

By taking an external coalitions perspective we were able to unfold the unusual dark side of organizational slack. Our study shows that organizational slack, which is foundational to the behavioral theory of the firm, has negative side effects such as muting shareholder voice and reinforcing self-enhancement. We hope that this research fosters a more nuanced use of organizational slack by organizational researchers and motivates more researchers to use a coalition's perspective on the firm.

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CHAPTER 5: GENERAL CONCLUSION

In this dissertation I investigated the involvement of external coalition members in organizational decision making using the behavioral theory of the firm (Cyert & March, 1963) as the main theoretical lens. Embracing the idea that external stakeholders are not merely elements of the environment which a firm should take into consideration, but are agentic with respect to the dynamics of organizational goal attainment and systematic in their conversations with the firm and its internal coalitions helps us better understand how firms make decisions. I also studied organizational aspirations by reviewing the literature which uses the behavioral theory of the firm in order to better understand the nature of organizational aspirations, which is important as I include stakeholders with external perspective on the firm, hence external evaluations of firm performance. As result, this dissertation includes three separate essays: 1) review of the aspirations literature, 2) empirical study of shareholder voice and its role in performance feedback mechanism, and 3) empirical study of the dark side of cushioning property of organizational slack. Amongst the findings in these essays, some ideas warrant further attention.

Review of aspirations literature found that organizational aspirations are reconciliations of aspirations of the coalition members about an organization. This aspect of aspirations has been sparsely studied by the behavioral theory (Gavetti et al., 2012) so far while aspirations were mostly measured mechanistically (Posen et al., 2018). At the same time, the two empirical essays show that proper care of the aspirations is important for both theoretical and empirical studies of the behavioral theory. It should be as important to study organizational aspirations as much as the outcomes of performance-aspiration comparisons, and this claim becomes even more important as the interest in multiple goals research increases (Gaba & Greve, 2019; Rerup & Levinthal, 2021).

A second interesting finding was that organizational aspirations seem to act as dualities rather than a single reference point as originally introduced in the theory (Simon, 1956; Cyert & March, 1963). While Cyert and March saw internal and external comparisons as instrumental for organizational aspirations, they overlooked the fact that both stability and progress aspirations matter for organizations. As Rivkin and Siggelkow (2003) and Farjoun (2010) suggest, firms simultaneously adhere to stability and change, in contrast to the earlier tradition of the behavioral theory of the firm. As my review proposes, adoption of aspirational duality could expand the behavioral theory of the firm to situations when firms perform above aspirations, as right now the theory poorly explains how firms make decisions in that performance area.

Thirdly, the symbolic side of organizational aspirations and the politics of multiple goals, discussed in chapter 2, and the politics of organizational slack, which was discussed in chapter 4, indicate that Cyert and March's (1963) assumptions about nearly automatic semi-resolution of conflicts and secondary role of politics in organizational learning and decision making is quite strong and modern behavioral theory of the firm should pivot towards the integration of political factors (Rerup & Zbaracki, 2021), including the resource dependence view.

Fourthly, chapter 3 empirically showed that shareholders who are outside the formal organizational boundaries increase their voice and exit whenever firm performance deviates from the aspired level. And while shareholder exit requires further studying, I found robust empirical evidence in both chapter 3 and chapter 4, that shareholder voice has a positive direct effect on the intensity of organizational search. To sum up, shareholder voice acts as a mechanism that motivates organizations to search in response to performance feedback. Further investigation of the content of shareholder voice, voices of other coalition members, both internal and external, and their interactions look promising and would allow researchers to connect organizational level behavioral studies with the coalition level processes, and potentially individual level (Powell, Lovallo & Fox, 2011).

Study of external coalition members as organizational decision makers opens further discussion about the limitations of the concept of organizational boundaries (Coase, 1937; Jensen & Meckling, 1976; Williamson, 1981). As we can see from the findings in chapters 3 and 4, firm boundaries indeed separate internal coalitions from external stakeholders and the differences between them motivate internal coalitions to use slack for protection. However, we can also see that firms are not limited by the formal boundaries, that the criteria of membership in organizations are fuzzy and attempts to draw clear organizational boundaries produce incomplete theoretical models of the firm.

Furthermore, the embrace of the external coalitions perspective allowed me to look at the firms differently and reconsider some fundamental organizational concepts, in particular, organizational slack. It appears that the behavioral theory of the firm has been overlooking the political side of slack and organizational politics in general. Hence, as mentioned earlier, further studies of organizational politics in performance feedback and behavioral theory are warranted. Moreover, a broad understanding of organizational coalitions (Mithanyi & O'Brien, 2020) should motivate reassessment of the traditional organizational theory as well as the application of the theory in studying the actual organizations. As shown in this dissertation, firms may look different if manager centric perspective on the firm (Higgins & Greenwood, 2002) is substituted with perspectives of other coalition members.

This work was not without challenges. Firstly, the nature of the data on shareholder voice and exit allowed me to evaluate the phenomena of interest on the level of shareholders as a collective, but without the fine-grained perspective which would differentiate between individual shareholder behavior. Overall, quantitative studies of coalition level processes require data which is often not publicly available. At the same time, case studies of prototypical firms with detailed qualitative and numerical data could be a more practical approach in researching the mezzo level of firm behavior.

One such phenomenon which requires fine grained and qualitative approach is my finding in Essay 2 (Chapter 3) that despite a positive direct effect of shareholder voice on search, there is also a negative interaction effect between voice and the performance discrepancy – search link. One could theorize that such a negative interaction could be due to the conflicting nature of shareholder voice and that the negative interaction occurs when conflict between internal and external coalitions is elevated. So despite an intention to nudge the firm towards performance recovery, shareholder voice could also create conflict and interfere in the internal process of organizational search in response to performance discrepancy.

Neither was I able to fully support my theorizing about shareholder exit. My findings were contrasting to Hirschman's (1970) theory of exit and voice which suggests that exit reduces voice. However, it seems that on the population level there is a selection process of those exiting and those raising their voice in response to performance discrepancies. So increase in exit does not automatically lead to the decrease of voice, as the two processes go in parallel at the group level. It must be interesting to study how such selection between exit and voice happens, how those who raise voice ultimately switch into exit and what implications this has for organizational learning from performance feedback.

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[3] Nevmerzhytskyi, S., "Give me an aspiration and I shall move the world - Review of Behavioral Research on Aspirations", Behavioral theory of the firm, Review paper

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- Earlier version of this paper was presented at AOM Annual Meeting (2021) PDW on Aspirations

[5] Nevmerzhytskyi, S., "Risk as propensity of negative event and its implications for performance feedback"

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- Copenhagen Business School, Advances in Behavioral Strategy Seminar, December 2021 (virtual) - Paper presentation: Nevmerzhytskyi, S., Rowe, W.G., "The silence of the slacked: Negative side effect of slack on problemistic search"
- SMS, September 2021 (virtual) - Paper presentation: Nevmerzhytskyi, S., Rowe, W.G., "The silence of the slacked: Negative side effect of slack on problemistic search"

- AOM, August 2021 (virtual) - PDW paper presentation: Nevmerzhytskyi, S., “The rise of the machines and the behavior of the firm: How introduction of machine learning impacts the performance feedback mechanism”
- AOM, August 2020 (virtual) – Strategy division dissertation consortium
- ASAC, June 2020 (virtual) - Paper presentation: Nevmerzhytskyi, S., “Exit, voice and problemistic search – The role of shareholders in performance feedback”
- ASAC, June 2020 (virtual) - Case presentation: Rowe, W.G., Nevmerzhytskyi, S., “To fly or to comply: Ryanair entry into Ukraine”
- AOM, Boston, August 2019 – Doctoral consortium and PDW paper presentation: Nevmerzhytskyi, S., “The role of external ties and CEO power in organizational responses to performance relative to aspirations”
- ASAC, St. Catharine’s, May 2019 - Paper proposal presentation: Nevmerzhytskyi, S., “Organization’s future aspirations as an element of the performance feedback puzzle”
- SMS Special conference, Las Vegas, March 2019 – Paper presentation: Nevmerzhytskyi, S., “Performance, aspirations and shareholder pressure: Bringing shareholders into behavioral theory of the firm”

PUBLISHED CASES AND CASE MATES

- W. Glenn Rowe, Sergii Nevmerzhytskyi, “To fly or to comply: Ryanair entry into Ukraine”, (Strategy, International management, Nonmarket strategy), Ivey Publishing 2020, product # 9B20M199
- Olivier Furrer, “Corporate level strategy: theory and applications” 2016, Routledge, Case mate prepared by Sergii Nevmerzhytskyi for Ivey Publishing

ACADEMIC SERVICE

- Academic VP PhD Association of Ivey Business School (January-May 2018)
- Reviewer for 3rd Toronto FinTech Conference (July 2020)
- Reviewer for Academy of Management Annual Conferences (2018-2022)
- Ad-hoc reviewer, Canadian Journal of Administrative Sciences (2018-2022)

AWARDS AND SCHOLARSHIPS

- John F. Rankin Doctoral Scholarship 2019
- Ivey Plan for Excellence 2016-2020

ACADEMIC WORK EXPERIENCE

January-April 2022 – **Lecturer**, **Strategy** - King’s College at Western University

September-December 2019, 2020 & 2021 – **Lecturer**, **International Enterprise** - King’s College at Western University

- Teaching evaluations: 6.1-6.3/7.0

August 2018 and February 2020 - **Visiting lecturer**, MBA and HBA **Strategy** - Ivey Business School

- 80 students per class (taught Lululemon and Tesla cases)

2017-2020 – **Teaching assistant** (Part-time) to Prof. Glenn Rowe, MBA and HBA **Strategy -** Ivey Business School, *March-April 2020* - **Research assistant** (Part-time) to Prof. Glenn Rowe - Ivey Business School

VOLUNTEERING

February 2022 till present - Volunteer for London Ukrainian Centre humanitarian initiatives

May 2022 till present – Coaching children's soccer team for London's NorWest Optimist Soccer

Fall 2013-2015 - Mentoring and evaluating student groups at CFA Institute Research Challenge (Ukraine)

NON-ACADEMIC WORK EXPERIENCE

August 2014 – August 2016 - **Business analyst to the BoD** - Ukrainian Agrarian Investments
Local Ukrainian agrarian holding with 580 000 acres of land under operations
• Strategic analysis • Business improvement • Budgeting • Valuation of company's investment projects

April 2013 – March 2014 - **Senior investment analyst** - Activ Solar LLC
Ukrainian solar power developer and EPC contractor
• Valuation of solar power investment projects • Strategic analysis • Business improvement

January 2011 – February 2013 - **Senior equity research analyst** - Troika Dialog Ukraine
Ukrainian office of top East European Investment Bank (in 2012 acquired by Russian Sberbank)
• Research coverage of Ukrainian Electricity, Oil & Gas and Chemical sectors

July 2010 – December 2010 - **Head of research** - NRG Capital LLC
Start-up investment boutique in Ukraine
• Management of investment research unit • Business valuation and support to IB projects

February 2007 – June 2010 - **Research analyst - Head of research** - Investment Group Sokrat
Investment boutique in Ukraine
(Research analyst in 2007, Senior research analyst in 2008-2009, Head of research in 2010)

November 2005 – February 2007 – **Staff at analytical unit** – Ukrainian Financial Markets Authority
• Analysis of insurance and other non-banking financial markets • Cooperation with foreign FMAs

CAREER BREAKS

January 2021 – August 2021 – Paternity leave

LANGUAGES

Native Ukrainian, fluent English and Russian, Basic Italian

OTHER

- Adore classical and electronic music, history, art, cooking, running, travelling, and hiking
- Happy father of two wonderful kids, one born during the PhD studies
- Citizen of Ukraine