
PERFORMANCE FEEDBACK THEORY

Performance Feedback Theory (PFT) is the major offset of the Behavioral Theory of the Firm (Cyert and March, 1963) and one of the core theories that constitute the emerging field of behavioral strategy. The core proposition is that the firm evaluates its performance relative to its goals-aspirations. Negative discrepancies between performance and the aspiration lead to the search for alternative strategies, while positive discrepancies strengthen the role of the current strategy.

Keywords: performance feedback; historical aspirations; social aspirations; attainment discrepancy; problemistic search; slack search; institutionalized search

THE THEORY

Using Simon's (1955) bounded rationality, Cyert and March (1963) propose that the firm does not strive for maximal but only for satisfactory performance. The question of whether performance is deemed satisfactory depends on the attainment of goals-aspirations. The authors formulate three aspiration sources:

- firm previous performance, constituting historical aspiration level,
- performance of the firm's peer group, constituting social aspiration level,
- and firm previous aspiration.

When performance meets and exceeds aspiration and attainment discrepancy is positive, the situation is considered satisfactory, and the firm is not motivated per se to search for alternative strategies. On the other hand, when the firm achieve lower than strived for performance, attainment discrepancy is negative, and the firm starts to look for alternatives in the process called problemistic search. The process starts in the proximity of performance problem (local search) and attempts to find a problem solution – alternative behavior. In case this search is not successful, it widens (distant search) and the firm considers downgrading its future aspiration.

Besides problem-induced problemistic search, two other types of search (for alternatives) exist in PFT (Greve, 2003). First, institutionalized search stems from the firm's long-term strategy and is embodied in research and development activities. Second, the slack search may start when the firm possess a sufficiently high value of slack (not fully utilized resources, such as excess cash or available credit lines).

EXTENSIONS AND BOUNDARIES

By definition, performance feedback represents backward-looking experience-based organizational learning process. However, the firm behavior is also motivated by forward-looking processes that are based on cognitive maps of action-outcome linkages (Gavetti and Levinthal, 2000). Further research (e.g., Chen, 2008) shows that firms behavior is indeed explained by both experience and expectations.

As the theory assumes that unsatisfactory performance leads to problemistic search, one would suppose that these firms are prone to changes. However, as threat rigidity theory (Staw et al., 1981) contradicts, the firm that is under threat is rather rigid. The conflicting propositions can be reconciled using attention-based view (Ocasio, 1997) and assuming that firms pay

attention to multiple reference points including performance aspirations (PFT) and survival (threat rigidity theory) and switch attention between these points – i.e., when survival is threatened, the firm starts to behave more conservatively.

EMPIRICAL APPLICATIONS

Most of the empirical research on the theory is of longitudinal quantitative nature. Due to the time lags between performance (often operationalized as ROA) and changing behavior, the research rules out cross-sectional studies. PFT has been used to explain a wide range of strategic behaviors including R&D (e.g., Chen, 2008); acquisitions and divestments (e.g., Kuusela, Keil and Maula, 2017); product/innovation launches (Joseph and Gaba, 2015); pricing (Greve, 2008b); entry to new markets (Ref and Shapira, 2017); alliances (Tyler and Caner, 2016); or asset growth (Greve, 2008a).

The plurality of empirical methods and conceptual models (see below) represents one of the main limitations in the generalizability of findings. There are several aspiration models in the literature (Washburn and Bromiley, 2012) embodying very different assumptions about the firm's attentional structure. Besides that, a multitude of moderators exists in the literature including board characteristics (Desai, 2016); firm size (Greve, 2008a); firm age (Desai, 2008); or national culture (O'Brien and David, 2014). All these factors and number of others leads to frequent contradictions in the literature's findings that makes it an interesting area of further research.

FURTHER READING

Cyert and March (1963) – original formulation of the theory.

Greve (2003) – introductory book on PFT.

Shinkle (2012) – review of the literature on aspirations, including other streams than only PFT.

Posen et al. (2018) – review of the literature on problemistic search.

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