

Literature review on performance feedback theory and corporate social responsibility behavior

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Abstract: Performance feedback theory has become an important part of the behavioral theory of the firm, which provides a theoretical explanation for why, when and so involved in a strategic activity. Based on the logic of performance feedback-behavior result, previous studies have extensively investigated the relationship between performance feedback and market strategic behavior, but the exploration of non-market strategic behavior is insufficient, especially for the study of corporate social responsibility (CSR) behavior. Considering that enterprises operate in market and non-market environments and respond differently to them, and CSR is an important dimension of non-market strategic behavior and has received more and more attention from a wide range of stakeholders, scholars began to turn their attention to the performance of CSR behavior to expand the performance feedback theory and get rich results. Based on this, this paper will sort out the relevant research on the relationship between performance feedback and CSR behavior, sort out the existing research conclusions and propose future prospects to provide guidance for future research.

Key words: Performance feedback; Negative performance feedback; Positive performance feedback; Corporate social responsibility

1. Research Background

The performance feedback theory posits that decision makers evaluate performance by comparing it to an aspiration level. If the performance feedback is lower or higher than the aspired level, it will trigger a series of behaviors such as performance evaluation and search behaviors by decision makers, and finally produce various strategic behavior results. Traditional performance feedback studies mostly focus on market-related strategic behaviors, such as new product launch. Considering that enterprises operate in both market and non-market environments, scholars begin to pay attention to non-market strategic behaviors, especially corporate social responsibility behaviors, and have obtained certain research results. Based on this, this study aims to sort out the research on the relationship between performance feedback and CSR, and then organize the existing research results and propose future prospects.

2. Research methods and data sources

In order to comprehensively review the literature related to performance feedback and CSR behavior, this paper adopts the method of content analysis to sort out the research content and writing logic based on the literature. The research literature was obtained from the core database of Web of Science published between 1963 and 2023. According to the key constructs of performance feedback, with “performance feedback”, “behavioral theory of the firm” and “corporate social responsibility” inscription retrieved, and selected “business” and “management” as the research fields, a total of 224 literatures were obtained.

3 Performance feedback and CSR

3.1 Negative performance feedback and CSR

According to the traditional performance feedback theory, when there is a performance-aspiration gap, enterprises show a behavioral tendency to reduce the positive CSR level and increase the negative CSR level. It is generally believed that CSR is the result of long-term strategic orientation, which often fails to produce satisfactory financial performance immediately. In order to compensate for the problem of insufficient performance and protect the position and compensation of managers, reducing the input of CSR can alleviate the financial problems. For example, research points out that CSR cannot directly improve corporate performance, and even brings heavy financial burden to companies in the short term. Due to its long-term reward nature, reducing the level of CSR will help managers of underperforming companies protect their own interests, and at the same time, the level of corporate social irresponsibility (CSI) will increase as the

performance-aspiration gap increases. Other scholars have investigated the relationship between the negative performance feedback and specific illegal or unethical behaviors, and found that as the gap between performance and aspiration level increases, enterprises engage in more CSI behaviors. Ren, Zhong and Wan, for example, explored the influence of negative performance feedback on corporate bribery, and pointed out that under the delisting pressure, poorly performing companies focus on finding short-term solutions to immediate problems, and gain unequal competitive advantages by increasing the abnormal risk-taking behavior like bribery. Poor performance forces firms to find alternative resources or cut costs in ways that may not be legal, and according to the prospect theory, when faced with a given loss, managers exhibit a greater risk propensity. For example, the research finds that the greater the degree of deviation from aspirations, the more likely it is to violate regulations related to environmental, health, and safety.

3.2 Positive performance feedback and CSR

In the case of positive performance feedback, based on the theory of redundant resources, it is generally believed that enterprises with better financial status will undertake more CSR or reduce CSI behavior. Enterprises with good financial status are rich in internal resources and have more slack resources to invest in non-market, so as to participate in CSR and reduce CSI behaviors to appease stakeholders. Gao et al. believe that the inconsistent results of previous studies are partial relationships rather than overall relationships. They believe that a U-shaped relationship better captures how a company's performance feedback influences its engagement in misconduct. When performance is lower than the aspired level, there is an inverted U-shaped relationship between performance feedback and corporate misconduct, because poor performance increases the risk taking tendency of enterprises to restore performance to a satisfactory level. When performance feedback is further reduced, enterprises will shift their attention to corporate survival out of threat rigidity. When performance feedback is positive, there is a U-shaped relationship between performance feedback and corporate misconduct, because highly performing enterprises will avoid risk to protect the status quo and thus reduce misconduct due to loss aversion. When performance further increases, managers may redirect their focus towards opportunities and engage in risky behaviors, including illegal misconduct, driven by their propensity for risk-taking. Evidence from listed manufacturers in China largely supports their predictions.

4 Research Review

In the literature exploring the impact of performance feedback on CSR, most of the existing research focuses on illegal, unethical and other negative CSR behaviors, such as bribery and violations of environmental, health, and safety regulations. A small number of studies have explored positive CSR behaviors, but most of them measured the overall level of CSR through multiple dimensions of indicator data, such as using RKS to measure the CSR level, but the research on philanthropic donation behavior lacks sufficient discussion. The research points out that the CSR score may not accurately reflect the situation of enterprises participating in CSR activities. Compared with aggregate variables covering all CSR activities, scholars are increasingly aware of the need to pay attention to specific elements of CSR activities. By categorizing CSR into internal and external dimensions, research indicates that narcissistic CEOs are positively associated with externally focused CSR activities and negatively associated with internally focused CSR activities, suggesting a management phenomenon in which firms allocate resources to different CSR behaviors. Unlike other CSR activities, philanthropic donations have nothing to do with internal stakeholders. It belongs to the undertaking of external social responsibility and is a direct investment in non-market environment. Considering that the decomposition of CSR input can better clarify the resources allocated to such social responsibility and the corresponding social performance, it is necessary to conduct direct research and measurement of corporate philanthropic donation. This not only makes up for the lack of measurement of positive CSR in the behavioral theory of the firm, but also helps to directly explore the situation of non-market investment and resource allocation when enterprises have poor performance.

In addition, the existing researches mainly explore the situational factors that affect the relationship between performance feedback and CSR from the external environment, such as industry competition and legal development, while the internal characteristics of firms, especially the characteristics of strategic leaders and decision makers, are still insufficient. In fact, existing studies have shown that the characteristics of the board, such as size, age and tenure, will have a significant impact on the relationship between poor performance and corporate participation in positive and negative CSR, suggesting the role of decision-making team characteristics on corporate response to

performance feedback.

5. Research Conclusions

By combing the relevant literature on the relationship between performance feedback and CSR behavior, this study summarizes the research conclusions of existing studies and points out the existing research defects, namely, the lack of research on positive CSR behavior and insufficient exploration of the internal characteristics of enterprises. Future studies should explore more about the relationship between performance feedback and corporate philanthropic donations, and explore the influence of strategic leaders such as the top management team, CEO and board of directors on this process, so as to expand the research on performance feedback.

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