RUNNING TO STAND STILL: AN EXAMINATION OF FIRM ASPIRATION TRACK-RECORDS DURING CEO TENURE

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ABSTRACT

Differences between aspirational performance targets and subsequent actual performance to are a focal triggering mechanism for problemistic search. While much research focuses on behaviors resulting from such search, this study argues that the link between search and aspiration attainment discrepancies can be more involved. While aspiration attainment discrepancies in one period may trigger some searches, the cumulative pattern of aspiration attainment discrepancies may link to other firm behaviors. This study examines aspirations of large public firms during across a longer timeframe, the tenure of the firm CEO. I develop and test hypotheses to demonstrate how multi-period aspirations can explain managerial behavior in a way that links individual managers to firm aspirations. Finally, I discuss how these results contribute to the existing empirical research that examines the implications of adaptive aspiration processes over time.

Keywords: Aspirations, Behavioral Theory of the Firm, CEO Tenure, CEO Compensation

INTRODUCTION

The difference between aspirations and actual performance is at the core of empirical research in the behavioral theory of the firm. Researchers use aspiration models to discuss a variety of strategic behaviors including strategic alliances (Tyler and Caner, 2016), experiential learning (Baum and Dahlin, 2007), R&D expenditures (Chen and Miller, 2007), financial misrepresentation (Harris and Bromiley, 2007), mergers and acquisitions (Kuuslea, Keil, and Maula, 2017), and international expansion (Klueter and Monteiro, 2017).

Differences between aspirational performance targets and subsequent actual performance to are a focal triggering mechanism for problemistic search (Cyert and March, 1963). These differences, often called attainment discrepancies (Mezias, Chen, and Murphy, 2002), enable managers to direct attention by identifying a focal process or area as problematic and requiring attention. Missed aspirations typically are non-routine and salient, requiring more managerial attention than other issues (Hoffman and Ocasio, 2001). Thus, aspirations shape the way in which managers approach their organizations first by filtering out potential issues and them framing information as problems to be remedied.

March (1988) used aspiration models as a basis for deriving subsequent search models to estimate future investments in innovation or risk taking. The logic being that consistently exceeding aspirations provided some slack so that managers could afford to take risks. Bromiley (1991) found the complimentary reverse; that firms consistently failing to meet aspirations began to take risks, although in these cases the risks where motivated by desperation rather than comfort. While both aspiration processes are similar in causing managerial risk taking, the types of risk behavior that managers attempted differed.

One reason for such differences is that within the behavioral theory of the firm, aspiration processes direct attention in multiple dimensions. Greve (2008) links aspirations to different performance metrics, showing that as managers attained aspirations in firm profitability, they shift attention to a different target, such as firm size. Alternatively, Chen and Miller (2007) find managers focus on different aspiration levels (e.g. bankruptcy or social comparison) leads to changes in behaviors in a single construct, such as R&D expenditures. Washburn and Bromiley (2012) show that aspirations can switch between different social and self-relative target levels within a single performance metric. Bromiley and Harris (2014) find that separating social and self-referent aspirations into distinct constructs improves the predictability of aspiration models for certain behaviors, such as income-stream variability. The models illustrate the adaptive nature of aspirations in reconciling attainment discrepancies. The aspiration process itself adapts; by changing the type of target, or changing the target level.

An interesting feature of many aspiration models is that while single aspiration may trigger search, aspirations themselves are not singular. In most models, aspirations are partly a function of prior aspirations; the majority of models of aspirations include some form of recursion to include anchoring and adjustment of perceptions of performance. However, within most aspiration models, while aspirations adapt, performance and subsequent search behavior usually do not.

This study argues that the mechanistic link between problemistic search and aspiration attainment discrepancies can be more dynamic than traditionally modelled. Blettner, He, Hu, & Bettis (2015) note that there is a shortage or research exploring how attention to aspirations varies over long periods, and find evidence of aspiration processes changing over industry life cycles. Dow (1989) suggests that adaptive performance feedback processes yield the best possible net performance only when "one averages over many different games and payoff environments." Following in such logic, while aspiration attainment discrepancies in any one period may trigger some aspiration searches, the cumulative pattern of aspiration attainment discrepancies may be linked to other firm behaviors.

The Problem of Problemistic Search

Aspiration can place managers in a state of constant stress. In the extreme, managers in this model who miss aspirations run from one problem to another, constantly tinkering with or drastically modifying firm policies and operations. Wiseman and Bromiley (1996) describe a 'vicious cycle' of loss of slack resources leading to even riskier actions, that have further negative outcomes. Even managers who are regularly attaining aspirations are either storing up for big risks or refocusing on alternative aspirations that they have neglected. For high performers, Greve (2002) argues that aspirations must adapt to "a suitable" level with the goal of stimulating future change.

It is true that some managers desire to be a source for change; however, this assumption may not be universal and is not required in aspiration models. Barr (1998) finds that managers view strategic change as both costly and difficult, arguing that managers would avoid any change unless specifically triggered to do so. Audia and Greve (2006) find that managers of small firms are not likely to take risks, even when missing aspirations, as they are concerned with overall firm survival.

Outside stakeholders, particularly investors, often value predictably and stability. If stakeholders already perceive the environment as highly unstable, the ability to maintain a status quo may be considered desirable. Rhee (2009) describes a 'liability of intermediate reputation' where managers avoid product recalls when performance is near aspirations, and are only willing to engage in change when attainment discrepancies are large. Wiseman and Gomez-Mejia (1998) argue that managers and boards of directors, motivated by loss-aversion and wealth preservation more than future performance, will take actions to preserve status quo even if they limit future strategic options.

There are key differences with this alternative characterization of aspiration processes. The first is that aspirations are observed as a pattern, collection, or 'track record' in a way where behaviors are determined not by a single attainment discrepancy, but through a repeated sequence, or aggregate collection of attempts at target attainment. The second difference is that the goal of aspiration patterns is to create positive impressions of 'performance' in such a way that enables firm behaviors to continue uninterrupted. Two questions arise from this view, first, given that aspiration processes are incredibly effective at directing attention to cause change, what would motivate managers to view aspiration processes as mechanisms to limit change? Second, if managers are motivated to limit change, how could they use aspiration processes to do so?

HYPOTHESES

The link between CEO compensation and firm performance is widely studied, and there is general empirical evidence that firms (and boards of directors) pay CEOs more for positive firm performance than for negative performance (e.g. Matsunaga and Park, 2001). The link is so strong in fact, that Harris and Bromiley (2007) find CEOs of firms who miss aspirations are more likely to misrepresent accounting information in the future to make performance appear appropriate. The key ideas are that CEO aspirations and firm aspirations are linked, and that CEOs view firm aspiration attainment and their own individual rewards as intertwined. CEOs view firm aspiration attainment as a way first to extend their career, and firms reward career extension more than any particular aspiration attainment.

H1: Tenure as CEO mediates the relationship between CEO compensation and firm aspiration track-record.

A CEO who can reduce firm risk over time makes predicting firm performance easier, reducing variation in future targets. Washburn and Bromiley (2014) found that CEOs utilize different forms and frequency of communication to influence stock market analysts to move their targets, finding that firm aspirations are (to some extent) externally set. The majority of the time CEO

influence on external analysts has the effect of lowering analyst targets to a more attainable level. That is, analysts reward CEOs for helping improve target accuracy by lowering targets, to making targets more attainable.

The net effect of the above arguments is that stability and predictably are desirable traits to CEOs and related stakeholders, who influence aspirations in later periods to make them more attainable. Easier targets imply greater target attainment, creating a self-re-enforcing process of generating positive impressions of firm performance.

H2a: Making a firm more predictable improves the firm's aspiration track record.

The above arguments emphasizes risk in the track record of performance, and using prior risk to determine future aspirations. However, as much as CEOs want stakeholders to perceive them as reliable and capable, they may want to avoid perceptions of themselves or their firms as rigid, inflexible, or boring. Regardless of actual amount of change CEOs enact, appearing unable to change may concern stakeholders. Gavetti (2012) proposes that to meet distant, or long-term goals, managers use processes that stakeholders are already familiar with, such as aspirations, to persuade stakeholders to reframe perceptions of the competitive environment. This logic attempts to shift aspiration processes away from reacting to prior performance instead emphasize forward-looking goals.

If a firm is too predictable, a CEO may lose the ability to influence future targets. Washburn and Bromiley (2014) found that the more analysts agree with each other, the less sensitive they are to CEO influence. Consequently, as much as CEOs would like to reduce risk in their performance track record, they may also want to increase uncertainty in their future targets.

H2b: Making a firm less predictable improves the firm's aspiration track record.

Note that while H2a and H2b to appear to compete, they deal with two different constructs for predictability. Miller and Bromiley (1990) find that variance in prior performance and stock market variability are distinct empirical risk factors that create differing results. In the above examples, H2A emphasizes historical internal risk associated with specific firm performance, while H2B emphasizes future external assessments of firm value. Thus, while there exists some tension or overlap between the two, they operate in different dimensions. CEOs may have aspirations to reduce predictability in one dimension while increasing predictability in another.

DATA AND METHODS

Sample

The unit of analysis for this study is the career of each individual CEO, with an emphasis on changes in firm characteristics and executive compensation during the CEO's career.

Data come from Compustat's Execucomp and Annual Fundametals, and CRSP monthly stock data. Relative to the financial data from the Annual Fundamentals and CRSP stock price data, the Execucomp data is fairly-recent, dating back to 1992 and up to 2016. Starting with this database, I then pulled the corresponding accounting and stock data for every available match in

Execucomp, including firm performance data up to 5 years prior to the beginning of a CEO's career. Thus, I examine only CEO tenures when the firm existed at least 5 years prior to the arrival of the focal CEO, and had available data in all three datasets. The final sample consists of 4849 CEO careers across 2538 firms.

Measures

Aspiration Track Record is a count of the number of times a firm has achieves positive aspirations during each CEO's tenure.

Change in Compensation is CEO total compensation in their last year of tenure less CEO total compensation in their first year of tenure. Total compensation includes salary, bonus, stock options, and all other rewards as identified in the Execuomp database.

Change in Firm Risk is firm risk at the end of a CEO's tenure less firm risk just prior to the CEO's beginning his or her position. Gooding, Goel, & Wiseman (1996) identify five-year variance in returns over 5-years as risk, which they define as uncertainty in managerial decisions.

Change in Firm Volatility is stock price volatility at the end of a CEO's tenure less volatility just prior to the beginning of a CEO's tenure. Stock price volatility annually for each firm is the standard deviation of monthly stock closing prices over a 5-year period*CEO Tenure* is the number of years a CEO holds the position as CEO in a firm.

Firm Size is the number of employees in the firm.

Estimation

To test of mediation, I employ the Sobel-Goodman mediation tests using the 'sgmediation' command in Stata (IDRE, 2017). This estimation procedure uses OLS regression to generate estimates. However, Aspiration Track Record and Tenure are over-disperse count variables, so I also employ random effects negative binomial regressions. In addition to noting changes in coefficient significance these models allow for the inclusion of other explanatory and control variables, and likelihood ratio testing to ensure model improvement through the addition of the mediator. I use random effects negative binomial models because fixed effects models exclude 13 firms that never achieved aspirations in the sample (having Track Records equal to zero) and firms that have only one CEO during the sample (as there is no firm level variation), severely limiting and potentially distorting the sample size.

RESULTS

Table 1 reports negative binomial regression estimates of the effects of explanatory variables on Aspiration Track Record. While Table 3 is structured to emphasis the mediation process for Hypothesis 1, it includes coefficient estimates for Change in Risk and Change in Volatility. Consistent with Hypothesis 2a, Change in Risk has a significant negative effect on Aspiration Track Record in all reported models. Consistent with Hypothesis 2b, Change in Volatility has a significant positive effect of Aspiration Track Record in all models.

DISCUSSION

This study suggests a view that aspiration attainment processes, when aggregated, may serve as a stabilizing mechanism in which CEOs can generate impressions of good performance while

minimizing changes within the firm. This view of aspiration processes differs notably from the concept that the purpose of aspiration adaptation is to stimulate change (Greve, 2002).

Overall, this study argues that looking at aspiration processes over a long term reveals that such processes lead to behaviors that promote stability, which is quite different from the traditional view that attainment discrepancies trigger search and subsequent change.

TABLE 1

Negative Binomial Mediation Analysis of CEO Career Influences on Aspiration Track Record

VARIABLES	(1) Aspiration Track Record	(2) CEO Tenure	(3) Aspiration Track Record	(4) Aspiration Track Record
Δ Compensation	0.075***	0.0688***		0.005
	(0.008)	(0.006)		(0.008)
Tenure as CEO			0.567***	0.566***
			(0.008)	(0.008)
Δ Risk	-0.324***	-0.246***	-0.167***	-0.166**
	(0.058)	(0.046)	(0.049)	(0.049)
Δ Volatility	0.070***	0.038***	0.020**	0.019**
	(0.124)	(0.010)	(0.009)	(0.09)
Firm Size (Employees)	0.023***	0.009	0.018**	0.018**
	(0.07)	(0.006)	(0.007)	(0.007)
Constant	0.788***	1.222***	16.737	16.322
	(0.054)	(0.045)	(0.045)	(81.171)
Model $\chi 2$	178.15***	190.62***	4985.47***	4985.93***
Likelihood Ratio (1) vs (4)				4125.29***
Likelihood Ratio (3) vs (4)				0.35

N = 4849 observations in 2538 groups. Standard errors in parentheses. *** p<0.001, ** p<0.01, * p<0.05, † p<0.1 Estimation uses negative binomial regression with normalized variables. Note Model 2 employs Tenure as the dependent variable.

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