

## 1 Introduction

This Element is about how organizations learn from performance feedback. The research it synthesizes and seeks to expand addresses issues of managerial and theoretical relevance that revolve around the origins of heterogeneity in organizational responses (and nonresponses) to performance that falls below an aspiration level. In other words, it deals with the question of when organizations respond to failure by making changes and when they don't. Although the original formulation of the theory specifies ways in which both individual decision-makers and organizations resolve the potential problem of goal conflict (Cyert and March, 1963), much of the empirical research on responsiveness to performance feedback is about single goals (for a recent review, see Posen, Keil, Kim, and Meissner, 2018). The relative inattention to multiple goals over the past twenty years is not a reflection of the original theory but rather an outcome of a very productive research stream that focused on a single goal – usually the return on assets (ROA). It is only recently that research has started to tackle the issue of how organizations respond to performance on multiple goals (Audia and Brion, 2007; Greve, 2008; Gaba and Joseph, 2013; Blagoeva et al., 2020). A key objective of this Element is to lay the foundation for a new wave of research on this important topic.

Before we explain why it is timely and advantageous to develop a multiple goals perspective on organizational learning from performance feedback, it is helpful to position this Element within the broader study of organizations. The theory of performance feedback is a key component of Cyert and March's (1963) "A Behavioral Theory of the Firm" – a groundbreaking book that was published at an early and formative stage of organizational theory, appearing as the third volume of the Carnegie School (Simon, 1947; March and Simon, 1958). The Carnegie School books (and articles) were influential because they constituted a break with two earlier forms of organizational theory (Hinings and Meyer, 2018). One earlier form originated in sociology and political science and sought to explain the rise of organizations in society and their broad characteristics (e.g., Blau, 1955; Weber, 1978). The other was composed of various texts seeking to extract principles of effective management (e.g., Barnard, 1938). The Carnegie School developed organizational theory that built on a strong micro foundation to take into account the bounded rationality of humans and its effect on structures and processes (Gavetti et al., 2012). Within the Carnegie School, Cyert and March (1963) were distinctive in their attention to organizational decision-making and their charge that economics had an incomplete theory of the firm because it ignored important processes that initiate and direct decision-making.

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Currently, the theory of performance feedback is a branch of organizational learning, which is broadly defined as a “routine-based, history-dependent, and target-oriented” (Levitt and March, 1988: 319) activity that modifies organizational behaviors. A common thread in this extensive body of work lies in the importance it attributes to different forms of experience as antecedents of changes in cognitions and behaviors. Organizational learning is an essential research topic in the study of organizations because “learning capabilities are a basis for (the) strategic advantage” of firms (Levinthal and March, 1993: 23) and also because it is “inherently an interdisciplinary topic” (Argote and Miron-Spektor, 2011: 1123) that draws on and contributes to developments in organizational behavior and theory, sociology, economics, social psychology, and strategic management.

Within the study of organizational learning, the theory of performance feedback focuses on the target-oriented nature of the learning definition by holding that the performance on such targets – organizational goals – is a key influence on change. Research guided by this theory examines two ubiquitous and highly recurring organizational processes: How organizations assess whether performance is satisfactory and how these assessments impact decisions that result in organizational change. Although the theory was formulated more than fifty years ago (Cyert and March, 1963), organizational research on performance feedback continues to be highly influential as evidenced by a growing body of empirical work that supports and expands its key propositions.

Empirical work started by verifying some assumptions of the theory (Lant, 1992) and using it to examine changes in organizational risk taking (Singh, 1986; Bromiley, 1991) and change (Manns and March, 1978; Lant, Milliken, and Batra, 1992). The starting point of current research was a sequence of papers and a book that defined performance feedback as a driver of organizational change and examined some of its behavioral foundations (Greve, 1998, 2003a, 2003b, 2003c; Audia, Locke, and Smith, 2000). This simplified history omits important elements such as pioneering work on organizational change that was not followed up later (Manns and March, 1978), connections between the behavioral theory of the firm and other Carnegie School treatments (e.g., March and Simon, 1958), and a research tradition on firm risk taking (Fiegenbaum and Thomas, 1988; Fiegenbaum, 1990; Ruefli, 1990; Wiseman and Bromiley, 1991) using both the behavioral theory of the firm and theory on individual risk behaviors (Kahneman and Tversky, 1979). In the following sections, we do not dwell on history, but rather take stock of this theory in its current state and formulate theoretical developments meant to guide future research on what we see as important remaining topics.

To start, we propose a modified core model of performance feedback that builds on Cyert and March's (1963) and Greve's (2003c) previous representations in two important ways. First, it integrates the view that performance is assessed in relation not only to an aspiration level but also to a survival point (March and Shapira, 1992; Audia and Greve, 2006). Second, it relaxes the assumption that decision-makers' sole motivation is to address problems flagged by low performance (problem-solving orientation) by adding that they may be also motivated to maintain a positive image (self-enhancement orientation; Audia and Brion, 2007; Jordan and Audia, 2012). These modifications help provide behavioral accounts for the long-standing puzzle of organizations that do not change in response to low performance as much as neutral observers would expect. Drawing on a growing body of empirical work, the modified core model specifies conditions that prompt shifts of attention across reference points (i.e., aspiration levels and the survival point) and switches between problem-solving and self-enhancement modes.

Next, we draw on the theoretical advances incorporated in the modified core model of performance feedback to revisit and expand the neglected component of the theory that deals with the influence of multiple goals. The timing for giving greater attention to multiple goals is favorable for two reasons – one internal to the theory of performance feedback and the other stemming from developments in organization theory. First, theoretical advances made over the past fifteen years have expanded the theoretical foundation of the theory in ways that enable a better understanding of how decision-makers respond to multiple goals. We are thinking especially about the now well-developed idea of shifts of attention across reference points and across goals as well as the resurging interest in the influence of the hierarchy on responses to multiple goals (March and Shapira, 1992; Greve, 2008; Gaba and Joseph, 2013; Kacperczyk, Beckman, and Moliterno, 2015). These developments internal to the theory imply important differences in the way responses to performance on multiple goals occur at different levels of the organization.

Second, several influential strands of organization theory converge in noting that organizations now more than ever are pressured by external influences to pursue goals that are hard to achieve simultaneously. Goals are added to satisfy the demands of environments characterized by “multiple logics,” “conflicting logics,” “institutional complexity,” or “the blurring between sectoral boundaries” (Thornton, 2002; Battilana and Dorado, 2010; Greenwood et al., 2011). As Bromley and Meyer (2015: 141) note, “firms pursue corporate responsibility, nonprofits adopt risk management practices, and government agencies implement performance measurement.” Clearly, organizations today are facing a new set of challenges surrounding the pursuit of goals. Renewed attention to

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multiple goals in research on performance feedback helps lay a theoretical foundation for a deeper understanding of the individual- and meso-level mechanisms that account for organizational action in response to these complex environments. We advance a view in which conditions such as the relative salience of different motives among managers, the degree of centralization and formalization of the organizational structure, the amount of power possessed by managers, and environmental features such as the degree of institutional complexity and formalization influence responsiveness to performance on multiple goals.

In keeping with the strong microfoundation that characterizes theories associated to the Carnegie School (Gavetti et al. 2012), we formalize these considerations in an extended model of performance feedback that rests on a foundation of individual-level behaviors but is responsive to mechanisms at the organizational and environmental level of analysis. By developing the model in this order, we take advantage of component theories at each level of analysis that did not exist when the behavioral theory of the firm was formulated (Cyert and March, 1963). Our objective is to lay foundations for more empirical research on the interconnections of decision-makers, organizations, and the environment that influence organizational responses to performance.

We view the extended theory of performance feedback we outline as an attempt to strengthen the components of the theory regarding agency and the influence of the context. The greater emphasis on multiple goals amplifies the theoretical and empirical challenge of determining how organizations and their managers respond to heterogeneous feedback that can be plausibly interpreted in different ways. Agency results from shifts in attention across performance goals, variations in assessments of success and failure, and consequent behaviors. The context also plays a greater role, whether it is the internal context of the organization or the external context of the environment, because it creates conditions that influence the activation of motives that guide responsiveness to goals and because it proposes goals as solutions to managers oriented toward fulfilling varying motives.

We begin with a discussion of main concepts and theoretical mechanisms, both those used in most or all current treatments and those that have been specified but still not been used much. This treatment is not meant to be a complete overview, because it is targeted toward putting in place the theoretical components that are most needed for advancing research on performance and aspiration effects on organizational change.

Because research on performance and aspirations is so active currently, there are also other treatments with goals complementary to this Element. Some examine empirical research on goals and aspirations (Shinkle, 2012;

Kotiloglu, Chen, and Lechler, 2019) and search (Posen et al., 2018), whereas others propose theoretical cross-fertilization with institutional theory (Greve and Teh, 2018) and group-level research (Greve and Gaba, 2020). Because our goal is to identify the main areas that need theoretical development and empirical investigation, we selectively draw from this work as we develop our argument.

## 2 The Core Model of Performance Feedback: Goals, Aspiration Levels, Search, and Change

In the behavioral theory of the firm, organizational action is driven by goals, which are defined as important outcomes and are usually assigned to the entire organization or a subunit of the organization (Cyert and March, 1963). The organization regularly gathers information on the performance on each goal and evaluates it. Organizational members classify performance as satisfactory or unsatisfactory using an acceptable-level decision rule. Performance over a certain level is acceptable and indicates that no change is needed, but performance below means that the organization has a problem that it addresses by intensifying the search for new solutions and the introduction of change. This acceptable level, which is a minimally acceptable performance, is referred to as the aspiration level.<sup>1</sup>

The process of classifying performance into satisfactory and unsatisfactory is quite important because it reveals that it is not performance per se that influences behavior but rather how performance is assessed. In the original formulation of the theory, the aspiration level is the key standard against which performance is assessed and it is derived from two distinct sources of information: own past performance, which can be used to form a historical aspiration level, and peers' performance, which can be used to form a social aspiration level. Own past performance is arguably the closest approximation to a natural standard for classifying future performance into satisfactory and unsatisfactory. Information about how well an individual, an organizational function, or an entire organization did in the past is easily available and tends to be highly salient. It also yields evaluations that are easily understood: Increases in performance over time are generally regarded positively because they are viewed as a sign that improvements were made. Conversely, declines in performance over time are generally viewed as evidence of deficiencies that need attention. The ease with which we resort to comparisons of current and past performance may be a reason why we don't need any justification when we hear reports of companies' financial results in the form of percentage variations in relation to

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<sup>1</sup> This is different from the colloquial meaning of "aspiration" as a goal to strive for.

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past performance. Using past performance as a natural standard for the assessment of performance seems to be a taken-for-granted practice.

Performance may be classified into satisfactory or unsatisfactory also by using the performance of peers as a standard of evaluation. Festinger's (1954: p. 117) example of a person who assesses whether he is a slow or a fast runner by comparing his performance to the performance of people in the same age group is a case in point. Similarly, it is easy to envision how managers find it meaningful to determine whether their organizations achieve satisfactory or unsatisfactory performance by simply comparing their organizational performance to the performance of peer organizations. What sets peers' performance apart from own past performance as an information source is that in some situations information about peers is not easily available. When this constraint is absent, however, a social aspiration, just like a historical aspiration, enables boundedly rational managers to assess performance in an efficient yet credible fashion.

The core model of performance feedback has become such an integral part of organizational theory that it is easy to overlook its appeal. First, the acceptable-level decision rule means that organizations are oriented less toward opportunities than toward problem-solving. This is different from rational choice and a broad family of theories that see organizations as opportunity-seeking. It also means that the intensity of problem-solving may be less a smooth function of the performance level than a discontinuous result of falling below the acceptable level. The formation of an aspiration level means that problems are defined by other conditions than the current state of the organization because it is based either on previous performance (historical) or on the performance of other organizations (social). It also means that the aspiration level adapts over time, though again in ways that reflect other features than the organizational opportunities. Also, orienting search toward solving specific problems means that interdependencies between performance measures and the responsible units of the organization can easily be overlooked. Search for solutions can be done in the proximity of the problem, but it can also be done elsewhere in the organization (Cyert and March, 1963: 121–122). As a final step, search is concluded when a solution is found that has an expected outcome better than the aspiration level. Failure to find such solutions or disappointing performance after implementing them can start search again and expand the scope of the search. In combination, the decision-making steps in this model suggest a much less rational and optimizing view of organizations than is commonly assumed.

In Table 1, the first panel summarizes the main concepts introduced by Cyert and March (1963) and used in research on performance feedback. The table also looks forward to the developments that follow. In the next section, we integrate

**Table 1** The evolution of performance feedback models**Core Model** (Cyert and March, 1963)

Goals are what the organization seeks to accomplish

Performance is the level of accomplishment on a goal

Aspiration level is the performance level that separates satisfying and non-satisfying outcomes

A problem-solving orientation motivates decision-makers to seek to solve the problem of performance below the aspiration level through so-called problemistic search

Change happens when an alternative that seems to solve the problem has been found

**Modified Core Model (1992–2020)**

Kinked-curve relation means lesser responsiveness to performance below aspiration level (Greve, 1998)

Survival point is the performance level below which disastrous outcomes occur (March and Shapira, 1992; Audia and Greve, 2006)

A self-enhancement orientation motivates decision-makers to assess performance in favorable ways (Audia and Brion, 2007)

Shift of attention from the aspiration level to the survival point and self-enhancing responses to low performance account for the kinked-curve relation

**Extended Model (2020)**

A problem-solving response means that decision-makers direct attention to goals that show low performance and initiate search and change

A self-enhancing response means that decision-makers direct attention to goals that show high performance and do not initiate search and change

High individual involvement, high ambiguity, and high individual power increase self-enhancing and reduce problem-solving responses to performance on multiple goals

High organizational centralization, high formalization, and low subunit power increase problem-solving and reduce self-enhancing responses to performance on multiple goals

High institutional complexity, low environmental formalization, and high organizational power increase self-enhancing and reduce problem-solving responses to performance on multiple goals

findings from research conducted since Greve's (2003c) book to propose a modified core model of performance feedback. The theoretical advances that result in this modified core model stem from studies that sought to account for what is known in this body of work as the kinked-curve performance-change