Compare, or else contrast:
A behavioral approach to corporate environmental behavior

With the recent push for sustainable development in the world, firms are no longer measured solely by their financial performance as the only indicator of its value creation (Aguilera, Florackis, & Kim, 2016). Instead, stakeholders and an increasing group of shareholders have incorporated corporate social and environmental performances as complementary indicators in a triple bottom line view of the firm (Aguilera, Desender, Bednar, & Lee, 2015; Bhattacharyya & Cummings, 2015). With the increasing trend of environmental programs and initiatives, the question regarding how companies determine the corporate environmental behaviors to engage in arises.

Behavioral theory of the firm provides a perspective towards understanding the process of how social forces influence organizational action and decision-making (Cyert & March, 1963). In this paper, we focus on aspiration attainment discrepancy between the firm's current environmental performance and that of its peers (Lant, 1992), and how this affects its risk-taking preferences. We highlight that a firm will have a loss frame when performing poorer than its peers on its environmental performance, and is likely to exhibit risk-seeking behaviors in an attempt to improve its environmental performance. We propose that one of such behaviors is the increase in corporate environmental spending, even if it is uncertain for the firm that the spending will enable the firm to match its environmental performance with its peers subsequently.

Hypothesis 1: Greater environmental damage relative to peers will result in greater environmental spending by the focal firm in the following year.

Within the behavioral theory of the firm, there are theoretical limitations regarding firms with superior performance as compared to its aspiration levels. Washburn and Bromiley (2012) highlighted this theory makes implausible predictions for such firms. For example, firms that historically perform substantially better than its competitors, but with an aspiration level of peers' performance, will lower its performance to achieve its aspiration levels. The authors highlighted that this is implausible in reality, as high performing firms are unlikely to aspire performing poorer just because other firms in their industry do not do as well. Accordingly, we turn to social comparison theory to understand the potential firm behaviors for superior performing firms.

Social Comparison Theory

At the individual level of analysis, Festinger (1954) proposed that members of a group would take action to reduce the discrepancy in the group (Morse & Gergen, 1970). In the case of superior individuals on a certain comparison dimension, they have no other possible comparison group to turn to for effective self-evaluation (Festinger, 1954). In order to have a comparison group, such individuals will be likely to change others in the group to bring them closer to oneself. These individuals will exhibit cooperative behavior to facilitate the improvement of others' performance, until the discrepancy between itself and its peers is reduced and comparability is achieved.

Abstracting this theory to the organizational level of analysis, we propose that firms that have superior environmental performance relative to its peers will similarly engage in cooperative behaviors with regards to corporate environmental action. These behaviors are an attempt to reduce the discrepancy between its environmental performance and that of its peers by raising the peers' performance upwards (Festinger, 1954). This will then make the firm's peers more effective as a comparison for the superior firm's own environmental performance. When comparability within the industry is achieved, the superior firms will have a suitable group for comparison group and competitive behaviors will then take over again (Festinger, 1954).

Hypothesis 2: Positive environmental performance relative to peers will result in greater cooperative behaviors by the superior firm in the following year.

Moderating Effects of Extent of Comparison

Social comparison serves a self-evaluative purpose, and a firm that engages in greater comparison will be likely to have a greater awareness of its own standing among its peers (Strickhouser & Zell, 2015). Such comparison is a potential mechanism in obtaining information of its current and expected behavior in its environment. As a result, this enables the firm to determine the extent of action required to conform to the expected performance standards (Oliver, 1991). Accordingly, we propose that the extent of comparison will strengthen the relationship between environmental damage relative to peers and the focal firm's environmental spending in the following year.

Hypothesis 3: Extent of comparison positively moderates the positive relationship between environmental damage relative to peers and the focal firm's environmental spending in the following year.

On the other hand, we propose that the extent of comparison will positively moderate the relationship between positive environmental performance relative to peers and the superior firm's cooperative behaviors in the following year. In addition to being a self-evaluative mechanism, comparison may also serve as a tool for self-enhancement (Suls, Martin, & Wheeler, 2002). When a firm engages in comparison and is aware of its superior positioning, this motivates the firm to engage in self-enhancement by reassuring itself of its current environmental performance (Taylor & Lobel, 1989). Accordingly, the firm will be more likely to engage in cooperative behaviors, as it is reassured of its competitiveness and superior standing among its peers.

Hypothesis 4: Extent of comparison positively moderates the positive relationship between positive environmental performance relative to peers and the superior firm's cooperative behaviors in the following year.

Preliminary Results

Our sample consists Standard & Poor's 500 companies from SIC codes below 50 between years 2009-2015. Preliminary results show support for Hypotheses 1, 2, and 3. However, Hypothesis 4 is not supported; instead, the extent of comparison weakens the firm's engagement in cooperative behaviors. This weakening effect may be due to the self-enhancement effect that downward comparison brings. Superior firms may perceive personal benefits in maintaining its superior position, and be less motivated to be cooperative and assist its peers to improve their environmental performance.

In summary, this paper proposes that firms engage in cognitive processes in determining their environmental strategy and action. In response to calls to consider the role of organizational self-interests and active agency in organizational responses to institutional pressures, we highlight that firms may rely on social cognitive mechanisms in determining their environmental behaviors, and consequently their environmental performance.

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