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경영학 석사학위논문

**How Are Other Elites Doing?:
Social Identity, Comparison, and Aspiration of
Corporate Elites in Firm Risk Taking**

2018년 2월

서울대학교 대학원

경영학과 경영학 전공

조 윤 하


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지도교수 박 선 현
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조 윤 하

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ABSTRACT

How Are Other Elites Doing?: Social Identity, Comparison, and Aspiration of Corporate Elites in Firm Risk Taking

Yun Ha Cho

College of Business Administration

The Graduate School

Seoul National University

Prior studies on organizational performance feedback resort to the industry peers for social aspiration referents, calling for a more theoretically refined approach. I consider how the CEOs' elite identities affect their firm-level risk taking in response to negative performance discrepancy. This, I argue, demonstrates how the social identity of CEOs forms the basis of their social referent choice in their risk taking strategies in addition to the conventional industry peers. To explore these theoretical perspectives, I consider the Korean context where prestigious high school cohorts serve as a source of corporate elite social identity. The supportive empirical findings suggest that the CEOs' elite identity intensifies the positive relationships between negative performance discrepancy and corporate acquisitions, a form of risk taking. This study contributes to the studies on performance feedback and organizational risk taking by proposing the CEO's elite-identity as a source of social comparison and a determinant of the CEO's social aspiration levels.

Keywords: social comparison, social identity, elite identity, corporate elites, risk taking

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INTRODUCTION

“True terror is to wake up one morning and discover that your high school class is running the country.”

— Kurt Vonnegut

Risk taking is a fundamental aspect of organizational decision making and strategic choice (Bromiley, 1991; Li & Tang, 2010; March & Shapira, 1992). Performance feedback theory provides an account of how organizations become motivated to take risks. Organizations engage in appraisal of their performance in determining their reaction (Cyert & March, 1963; Greve, 2003b). Dissatisfactory performance triggers risk taking as organizations initiate problematic search to improve their performance (Bromiley, 1991; Kahneman & Tversky, 1979; Lant, 1992). Setting the aspiration levels for relevant goals is an important step in this process. Organizations evaluate their performance in comparison to their aspiration levels, which are the minimum levels of satisfactory performance (Schneider, 1992). Organizations turn to “similar others” for referents upon forming the aspiration levels, engaging in social comparison for the chosen performance dimensions (Greve, 2003b).

A caveat in the literature is that these referents for social comparison have been mostly operationalized as “industry peers” and social aspiration level “industry average” (Audia & Greve, 2006; Audia, Locke, & Smith, 2000; Baum, Rowley, Shipilov, & Chuang, 2005; Bromiley, 1991; Greve, 1998, 2003a; Kim, Haleblian, & Finkelstein, 2011; Mezas, Chen, & Murphy, 2002). Industry peers are certainly meaningful referents. Yet industries are large categories, each consisting of highly heterogeneous members (Fama & French, 1997; Kahle & Walkling, 1996). Such uniform operationalization inhibits a more comprehensive understanding of organizational social comparison and its consequences (Moliterno, Beck, Beckman, & Meyer, 2014; Washburn & Bromiley, 2012).

Some scholars have refined the approach by accounting for similarities in size (Baum & Mezas, 1992), form (Barnett, 1990), and market profile (Chen, Su, & Tsai, 2007) in identifying referents. However, these approaches remain focused on relatively objective firm attributes. This is surprising given the flexibility involved in the organizational categorization process

(Porac, Thomas, & Baden-Fuller, 1989). Organizational actors' cognition and interest collectively affect the ways in which organizations categorize themselves and others (Porac et al., 1989; Porac, Thomas, Wilson, Paton, & Kanfer, 1995; Porac, Wade, & Pollock, 1999). Objective similarities in term of firm attributes, thus, are not the only consideration when organizations choose comparable firms.

This paper investigates the role of CEOs and their socio-psychological attribute of the elite social identity in relation to organizational social comparison and risk taking. The cognitive approach to organizational categorization contends the importance of the role played by managers and their categorization schemes (Porac et al., 1989; Porac et al., 1995; Porac et al., 1999). Managers' individual characteristics and interests result in distinct motivation and inclinations regarding firm-level actions, including the propensity to take risks (Bertrand & Schoar, 2003; Li & Tang, 2010). Furthermore, managers are embedded in the larger social structure, and studies show that their embeddedness in the elite networks and social strata influences organizational risk taking, strategic change, and acquisition (Kish-Gephart & Campbell, 2015; McDonald & Westphal, 2003; Shue, 2013). The behavioral theory of the firm also emphasizes the role of decision makers on firm behaviors (Cyert & March, 1963), but their role remains less explored in relation to the performance feedback process and especially how aspiration levels form.

Social identity reflects how actors categorize themselves and others into social categories (Tajfel, 1972b; Tajfel & Turner, 2004), and it has potential implications for both managers' embeddedness in the larger social context and their categorization schemes. I focus on the elite social identity of CEOs for two reasons. First, social class is a principal means by which people categorize themselves and others. Individuals of high social class, in particular, are more likely to develop their identity based on their social class because of the inherent self-enhancement motive in self-definition (Aries & Seider, 2007; Fouad & Brown, 2000). Kish-Gephart and Campbell (2015) also show the lasting impact of childhood social class on CEOs' risk-taking tendencies. Second, studies on elite identity reveal that elites internalize the pressure for superior performance, considering dissatisfactory performance as a threat to their identity

(Alvesson & Robertson, 2006; Gill, 2015). Therefore, elite social identity is likely to be a salient identity dimension for CEOs, and its effect on individuals is linked to their reaction to performance appraisal.

I propose that elite CEOs refer to other CEOs whom they consider as similar elites for social comparison. To test the hypotheses, I conduct a statistical analysis on firms' acquisition activities followed by supplementary interviews. I construct a panel of dyads from the sample of Korean listed firms. The dyadic approach is aligned with the conceptualization of competitive tension between rivals (e.g., Chen et al., 2007). Elite identity is operationalized as the alumni status from prestigious high schools. Specifically, I examine whether a focal firm is more likely to engage in acquisition in response to the alter firm's acquisition, given that the focal firm performs worse than the alter firm. I further examine whether this effect becomes stronger when the alter firm is the focal firm's social comparison target, i.e., when the CEOs of both firms graduated from the same prestigious high school.

The goals of this study are threefold. First, I argue that that social identity guides CEOs in their choice of referents for setting social aspiration levels. Referring to others who share the same elite social identity enables them to select a handful of others that are "most relevant to their identity" (Greve, 2003b, p. 29). Second, I further argue that the content of CEOs' elite identity reinforces their reaction to negative performance discrepancy. Elite CEOs internalize the pressure for superior performance (Alvesson & Robertson, 2006; Gill, 2015), and dissatisfactory performance poses threat to their elite identity. Third, the present study shows that elite CEOs rely on other elite CEOs for setting not only their social aspiration levels, but also for their choice of risk-taking strategies in response to negative performance feedback

THEORY AND HYPOTHESES

Negative Performance Feedback and Acquisition as Organizational Risk Taking

The behavioral theory of the firm states that firms engage in search and adaptive behavior in response to performance feedback (Cyert & March, 1963). Firms set aspiration – the minimum

level of satisfactory performance (Schneider, 1992) – as a function of historical and social comparison, and react differently to the performance above and below aspiration levels (Cyert & March, 1963; Greve, 1998; Lant, 1992). While performance above aspiration levels tends to reinforce organizational inertia, performance below aspiration motivates firms to engage in problemistic search (Cyert & March, 1963; Greve, 2003b). As a result, firms are more likely to take risks and pursue changes when performing below their aspiration levels (Bromiley, 1991; Greve, 1998, 2003b; Lant, 1992).

Prior studies investigated acquisition activities as a form of firm risk taking. Kim et al. (2011) found that negative performance feedback prompts firms to engage in acquisitions, especially in the absence of opportunities for organic growth. Whereas acquisition itself is an “inherently risky” option (Kim et al., 2011, p. 28), firms take a step further by paying more handsome premium for their targets. Donaldson (1998) explains that organizational changes are triggered by the sense of crisis accompanying low performance, leading to reassessment of organizational portfolio structure. Iyer and Miller (2008) draw from Donaldson (1998) to argue that such problemistic search implies potential changes in organizational portfolio through acquisitions. They hypothesize that negative performance discrepancy should lead to more acquisitions.

However, findings by Iyer and Miller (2008) may require consideration of certain boundary conditions in the studies of firm risk taking (Audia & Greve, 2006; Baum & Dahlin, 2007; March & Shapira, 1987; March & Shapira, 1992; K. D. Miller & Chen, 2004). Greve (1996) argues that motivation from performance feedback alone does not determine change or the direction of change. Opportunities and capabilities to change collectively influence organizational actions, which are partially determined by other organizations’ actions (Chen et al., 2007; Greve, 1996). Shipilov, Li, and Greve (2011) also show that while firms experiencing negative performance feedback are more likely to forge ties with “strangers” (Baum et al., 2005), the definition of “strangers” could differ depending on their network positions and subsequent opportunities. Therefore, it is necessary to consider the conditions under which negative performance feedback triggers organizational risk taking and what determines their choice of risk-taking strategies.

Especially, Greve (1995, 1996, 1998) shows that actors refer to others both to evaluate their performance and to identify potential strategic options. Strategic decisions involve uncertainty, and organizations facing uncertainty evaluate not only their abilities but also opinions and actions in comparison to those of similar others (Festinger, 1954). For instance, firms are more likely enter a specific market when proximate others, their referents for social comparison, do so (Greve, 1996). In one of the interviews¹ I conducted for the study, a former CEO noted:

“When we meet and talk about our business, I think about improving my capabilities (as a CEO) by taking in better ways of doing things ... especially when I am not doing as well as others, I have to imitate (them). I need a role-model. When I see someone doing better, I ask myself “why is he doing better? How is he doing that?””

Even though the abovementioned studies focus on market positioning decisions such as market abandonment and entry decisions, the reference group effect should be generalizable to acquisitions. Acquisition could be considered as a market positioning strategy and involves a high level of uncertainty (Kim et al., 2011). Therefore, when better performing organizations headed by CEOs of comparable identity use acquisition as a risk-taking strategy, firms could resort to adopting the same risk-taking strategy.

Social Identity as the Basis of Social Comparison

Prior studies have problematized the uniform operationalization of social comparison referents as industry peers and social aspiration as industry average (Baum & Mezias, 1992; Moliterno et al., 2014; Washburn & Bromiley, 2012). Two approaches emerged to complement this. The first approach refines the understanding of reference group choice by accounting for similarities in size (Baum & Mezias, 1992), form (Barnett, 1990), and market profile (Chen et al., 2007). The other approach uses performance bars other than the “average”, arguing that not all firms in the industry target the average performance (Lant, 1992; Moliterno et al., 2014;

¹ I conducted interviews with four former and current CEOs who graduated from two prestigious high schools. Full details are given in the methodology section. Quotes are provided throughout the paper.

Washburn & Bromiley, 2012; Wiseman & Bromiley, 1996). They argue for lower or higher performance bars depending on the actors' previous performance relative to others.

The suggested approaches, however, continue to use relatively objective criteria in identifying referent organizations within industry. Extant studies on organizational decision making contend the important role of managers in determining organizational behaviors, showing that their individual characteristics, interests, and embeddedness in the larger social context influence organizational risk taking and other strategic choices (Bertrand & Schoar, 2003; Kish-Gephart & Campbell, 2015; Li & Tang, 2010; McDonald & Westphal, 2003; Shue, 2013). Managers' cognitive schemes and organizational interests are also shown to affect organizational categorizations (Porac et al., 1989; Porac et al., 1995; Porac et al., 1999).

Greve (2003b), in his extension of performance feedback theory, also notes the emphasis on the role of decision makers in Cyert and March (1963). However, less explored is how social factors influence decision makers' perception of other firms in the performance feedback process. One exception is Gimeno, Folta, Cooper, and Woo (1997); the authors show that firms are more likely to exit their industries regardless of the objective performance when their performance is dissatisfactory relative to the entrepreneurs' personal aspiration. Albeit confined to the sample of entrepreneurial firms, their study demonstrates the need for integrating the decision makers' motivation to explicating the performance feedback process.

Social comparison literature posits that individuals define similar others in terms of attributes that are salient to them, attributes that allow them to identify only a handful of referents (Festinger, 1954; Greve, 2003b; D. T. Miller, Turnbull, & Mcfarland, 1988). Examining relevant streams of literature in individual-level psychology, Greve (2003b) concludes that individuals "compare themselves with others who are most relevant to their identity (Greve, 2003b, p. 29)".

I argue that social identity serves as a means by which individuals narrow down the referents. Tajfel (1972a) introduces the link between social categorization and social identity. Social categorization enables "systematizing and ordering the social environment" with an emphasis on the roles ascribed to each category as "a guide for action"; as one engages in social

categorization, one also defines one's "own place in society" (Tajfel, 1972a, p. 293). The categorization of the self leads to social identity, personal identity based on the membership to social groups of "emotional and value significance" (Tajfel, 1972a, p. 292). Therefore, social identity provides "a system of orientation for self reference (Tajfel & Turner, 2004, p. 283)".

Social identity has been linked to social comparison since its conception (Turner, 1975), but the following focus has been on the intergroup comparison. Tajfel (1972a) argues that as much as individuals need to evaluate themselves, they also need to maintain a positive view of themselves. This is why individuals choose the most prestigious membership as the basis of their identity (Ashforth & Mael, 1989). This implies an inherently competitive view towards other groups, because affirming one's superiority assumes assigning lesser value to others groups.

Social identity also has potential implications on within-group comparison and competition. Studies on competition have shown that similarities are a meaningful antecedent of competition, especially if organizations target the same audience, compete for the same resources, and utilize similar resources derived from those positions (for review, see Ingram & Yue, 2008). Interviews also reveal that high school alumni network is an important business resource. Two CEOs commented that:

"I go to all gatherings because... you never know whom you will need when doing business. Especially in industries where sales is an important part of my role, those gatherings have been my principal resource"

"Whenever I need to do business with someone, I check their profile. If he is from the same high school (I am from), that is a great opportunity. I immediately let him know that we are from the same school. Then I start calling that person "Kim *Seonbae*²" rather than "Mr. Kim". It makes a whole lot of difference."

Therefore, the within-group competitive view should be applicable to individuals who share the

² In Korean, *Seonbae* is an address used to older pupils.

same group membership and thus an important pool of business resource.

It is also worth noting that, in order to argue for the potential salience of the referents sharing social identity, concerned individuals should be aware of each other's membership. Specifically, elite CEOs should be aware of other elite CEOs in their respective industries. This assumption was confirmed by an interview with a CEO:

“Even when we started working, we always hanged out together. We saw each other almost every day. Of course we would know if we were in the same industry ... we do have general alumni gatherings but also gatherings for specific industry groups. In fact, I would know those people (other alumni in the same industry) even if they were 40 years older than me.”

This prolonged and frequent pattern of interactions confirms that CEOs of the same elite social identity are available as referents for social comparison.

Elite Identity and Motivation to Respond to Negative Performance Feedback

Given the self-serving motivation in the choice of membership for social identity (Ashforth & Mael, 1989; Festinger, 1954), this paper focuses on the elite identity of CEOs as a potential moderator for the relationship between negative performance feedback and organizational response. Social class is a principal example of how people categorize the self and others. According to social psychology literature, individuals develop differential status identity by internalizing the prototypes ascribed to the social class of their belonging (Fouad & Brown, 2000). Socialization experiences in the formative years reinforces this process of identity formation (Thompson & Subich, 2007, 2011), especially for individuals of high social class (Aries & Seider, 2007). Concerning CEOs, Kish-Gephart and Campbell (2015) show that social class experiences become imprinted on CEOs, influencing their risk-taking tendencies later in life. It was apparent from the interviews that graduates from prestigious high schools had formed their identity as elites. One interviewee noted:

“We were all the very top students from where we were from ... We

were the top notch in the country. We grew up thinking we were different from the rest.”

Another reason to focus on elite identity is that in order for negative performance attainment to serve as a motivation for risk taking, it needs to be perceived as a problem (Cyert & March, 1963). The inconsistencies in empirical evidence on the effect of negative performance discrepancy might be attributable to how firms vary in their sensitivity to the performance feedback. Elite identity, on the other hand, could amplify the CEOs’ motivation to react to negative performance feedback. Identity control theory (Burke, 1991) suggests that individuals have the drive to maintain their identity. Studies on elite identity in organization demonstrate its strong association with superior performance, generating status anxiety and pressure to maintain high-level performance (Alvesson & Robertson, 2006; Gill, 2015). High status individuals are also prone to more negative emotional response when facing identity non-verification (Stets, 2004). A CEO whom I interviewed presented an example of his friend who suffered from such pressure:

“When we don’t achieve the level (of performance expected), we become very agitated. I have this friend who is a professor at a second-tier university. He really tries hard to make up for this, doing this, doing that ... he always thinks it is not enough. He once told me that “if I were a professor at a top-notch university, I wouldn’t go this far to keep up the appearance of being successful.”... It’s embarrassing for him because all the others are so successful.”

When superior performance is tied to their elite identity, CEOs are likely to perceive their poor performance as a threat to their identity. Therefore, it is hypothesized that:

Hypothesis 1 *Negative firm performance discrepancy will lead to more acquisition decisions as a risk-taking strategy to overcome the discrepancy.*

Hypothesis 2 *The relationship between negative performance discrepancy and acquisition decisions as a risk-taking strategy will become more pronounced for the CEOs with elite identity.*

CONTEXT AND METHODOLOGY

Prestigious high schools as a source of social identity

I exploit the Korean context where high schools are clearly stratified according to the academic merits. Korean educational system is characterized by its meritocratic and competitive nature (Ku, 2011). According to Ku (2011), students took exams for high school admissions before the implementation of high school equalization policy in 1974. A representative measure of high school prestige was how many of the graduates were accepted to the most prestigious university in Korea: Seoul National University. On average, graduates from the top 18 schools accounted for a meager 4% of all high school graduates, but up to 70% of Seoul National University freshmen each year.

An abundance of evidence from other contexts also demonstrates that high school membership can be a significant element of the elite identity. In the UK and France, secondary educational institutions of prestige are a class marker and provide their graduates with important interpersonal resources throughout the graduates' lives (Kadushin, 1995; Rae, 2011). For instance the Eton and the Rugby connections in the U.K., representative of the old boy networks, are notorious for granting an exclusive access to high-status positions in the society (Rae, 2011). In 2016, 74% of judges in the high and appeals court and 71% of top military officers were alumni from private high schools (Weale, 2016). In Korea as well, recent statistics show that approximately 50% of CEOs of the 500 largest firms graduated from the top 18 most prestigious high schools (Jang, 2015). This exemplifies the prestige associated with graduating from those high schools.

Moreover, the prestige conferred to those high schools is socially justified in that it is based on the academic merit. Education is almost always a critical factor in social stratification (Davis, 1942) because of its legitimacy aligned with the meritocratic values. The perception of merit-based education, therefore, is a legitimate source of prestige recognized by other constituents of the society. This would have further legitimized the internalization of prestige and facilitated

constructing self-identity based on membership to those institutions.

While top-ranking universities also boast prestige, high schools are proposed to be a more important source of identity. First, high school cohorts are smaller in size than university cohorts, thus better satisfying the criteria of distinctiveness (Greve, 2003b; D. T. Miller et al., 1988). Furthermore, prestigious high school cohorts tend to share regional identity (Siegel, 2007), especially in case of non-Seoul based schools. Lastly, graduating from one of those schools together often meant having attended the same middle school (Choi, 2001). These overlaps again increase the likelihood of individuals adopting the prestigious high school membership as a source of their elite social identity.

Data and Sample

I use archival data and supplementary interviews to test the hypotheses. For the main quantitative analysis I draw my sample from the Korean firms listed at Korean Listed Companies Association (KLCA). I use three data sources. CEO background information is collected from the annual survey administered by KLCA. Firm-level performance data was collected from KIS-VALUE, a Korean equivalent of COMPUSTAT. Lastly, data on acquisition activities was collected from the SDC Platinum database. The original data had observations for which multiple managers were coded as CEO of a given firm for a given year. I designated one CEO to each firm-year observation by identifying CEOs whose names were on the official annual report filed to the government authority. In rare case where more than one person had their names on the report, I consulted mentions in the news media.

Out of 865 firms with CEO background data, 512 firms with CEOs who have significant ownership – one of the five largest shareholders – are included in the final sample. This is to account for the potential variance in CEOs' decision-making power. An unbalanced panel of dyads was constructed from all possible dyads among firms of the same industry in a given year. Thus the unit of analysis is dyad-year, where each dyad is a unique pair of the focal firm-CEO and the alter firm-CEO in the same industry. The number of observations is 25,581 at this stage. Lastly, I only considered the dyads where CEOs can be regarded as “cohorts”. CEOs are defined

as cohorts if they attended high schools within two years of overlapping windows. With this restriction, the final sample includes 8,945 dyad-years. Observations include firms from 44 industries observed from 1990 to 2011.

To gain more contextual knowledge about the elite identity based risk taking, I conducted supplementary interviews. Four former or current CEOs who graduated from one of the six most prestigious high schools were interviewed. One of them was a CEO with significant ownership. Two were same-year cohorts who graduated from Kyunggi high school prior to the high school equalization policy. Two others were graduates from Kyungbock high school. They were interviewed over three semi-structured interviews, each one to two hours long. A summary of interviewees' profile is presented in Table 1.

CEO	Retired	High school entrance	High school	Industry	Owner CEO
A	No	1975	Kyungbok	Construction, Film-making, Environmental conservation	Yes
B	No	1974	Kyungbok	Telecommunication, Rental service	No
C	Yes	1971	Kyunggi	Energy	No
D	Yes	1971	Kyunggi	Construction	No

Table 1 Profile of the Interviewees

Variables

The dependent variable of acquisition as a risk-taking strategy is operationalized as *Response to the Alter's Acquisition*. I standardize the number of acquisitions by the focal firm given that the alter firm engaged in any acquisition in the last three years. I follow prior studies that split the positive and negative performance discrepancy and consider them simultaneously in the same model (e.g., Baum et al., 2005; Greve, 2003a). The independent variable, *Negative Dyadic Performance Discrepancy*, was calculated when the focal firm's annual revenue was lower than the alter firm's annual revenue. I substitute the alter firm's annual revenue from that of the focal firm and take the absolute value of the discrepancy. *Positive Dyadic Performance Discrepancy* was calculated if the focal firm revenue exceeded that of the alter firm.

Elite identity is also operationalized on the dyad level, because the heightened comparison

will take place if both the focal and the alter firm CEOs are elites. *Elite Dyad* is a binary variable, coded as “1” if both the focal and the alter firm CEOs graduated from one of the six most prestigious high schools (Choi, 2001), and as “0” otherwise. In order to test for the social identity aspect of the process, *Same High School* is coded as “1” if both CEOs graduated from the same high school and as “0” otherwise.

Control variables first include other types of performance discrepancies. *Industry Performance Discrepancy* is calculated as the difference between the focal firm’s annual revenue and the industry annual average. *Historical Performance Discrepancy* is calculated as the difference between the focal firm’s annual revenue and the average of its own annual revenues from the past three years. Second, firm attributes such as *market capital*, *asset*, *revenue*, and *EBIT* are controlled for both the focal and the alter firms in dyads. They respectively control for firm size, firm resources, and firm performances.

Analysis

I use panel regression analysis to test the hypotheses. As noted above, I use the sub-sample of CEOs that have significant ownership of their firm. One of interviewees noted that “if you are not the owner of the company, it would be very difficult to make that kind of decisions.” This sub-sample may suffer from selection bias. Indeed, the t-tests revealed that firms led by owner CEOs had smaller asset and revenue. To alleviate this concern, I use Coarsened Exact Matching within the sample with owner CEOs in estimation. Dyads are matched in terms of their focal and alter firms’ characteristics including market capital, asset, revenue, and EBIT. The matching typically results in 1,057 strata, 277 of which are matched. Matched 1,504 observations are used for the panel regression models.

RESULTS

Table 2 reports descriptive statistics and bivariate correlations of all variables used in the analysis. Three types of performance discrepancies are used in the models: dyadic, industry-

based social, and historical. They show high correlation to one another; if the performance discrepancy is positive or negative in one type, it is likely to be the same for two other types. The focal and alter firms' revenue, asset, market capital, and EBIT are examined. For a given firm, those four attributes are found to show high correlation to one another. Focal firm attributes are correlated with the dependent variable, positive dyadic performance discrepancy, and the rest two types of performance discrepancies relative to industry-based and historical aspiration levels. Alter firm attributes do not show correlation to the dependent variable. They are correlated with negative dyadic performance discrepancy and the performance discrepancies relative to industry-based social aspiration. In general, they show weaker correlation to performance discrepancy variables.

Negative Performance Discrepancy and Imitative Risk Taking

Table 3 provides a dyad-level analysis on the effect of performance discrepancies on organizational risk taking. Throughout all models, the control variables *Focal Firm Asset* and *Alter Firm Revenue* show significant effects in relation to the dependent variable, positive and negative respectively. Historical and industry-based performance discrepancies appear to have no significant effect. Model 1 includes only control variables concerning the focal and alter firm characteristics. Model 2 includes performance discrepancy relative to industry-based social aspiration and historical aspiration. *Focal Firm Market Capital* is dropped due to multicollinearity. H1, the baseline hypothesis, states that negative performance discrepancy is positively related to organizational risk taking. Model 3 tests H1 by including negative and positive dyadic performance discrepancies in the model. While the effects of both variables are significant, the results do not provide support for H1. The statistically negative coefficient of *Negative Dyadic Performance Discrepancy* indicates that focal organizations are reluctant to engage in acquisition as their performance decreases below that of alter firms. Positive dyadic performance feedback is also shown to be negatively related to organizational risk taking, in accordance with the theoretical predictions.

Table 2 Descriptive Statistics and Correlation Table

Variable	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Response to the Alter's Acquisition	0.047	0.964	1														
2 Positive Dyadic Performance Discrepancy	0.777	2.916	0.128**	1													
3 Negative Dyadic Performance Discrepancy	0.938	3.367	0	-0.07**	1												
4 Elite Dyad	0.526	0.499	0.02	0.01	0.04	1											
5 Same High School	0.092	0.288	-0.03	-0.07*	-0.07*	-0.02	1										
6 Focal Firm Revenue	1.009	3.021	0.13**	0.98**	-0.05†	0.03	-0.07**	1									
7 Focal Firm Asset	0.973	2.601	0.17**	0.92**	-0.01	0.05†	-0.07*	0.94**	1								
8 Focal Firm EBIT	0.078	0.292	0.12**	0.86**	-0.01	0.01	-0.06*	0.87**	0.81**	1							
9 Focal Firm Market Capital	0.738	2.683	0.15**	0.87**	-0.02	0.03	-0.08**	0.88**	0.86**	0.94**	1						
10 Industry Social Performance Discrepancy	-0.249	2.962	0.12**	0.91**	-0.12**	0.02	-0.02	0.92**	0.86**	0.82**	0.83**	1					
11 Historical Performance Discrepancy	0.202	0.919	0.08*	0.84**	-0.07*	-0.02	-0.06†	0.85**	0.73**	0.82**	0.77**	0.78**	1				
12 Alter Firm Revenue	1.177	3.477	0.02	-0.05*	0.99**	0.06*	-0.07**	0	0.04	0.03	0.02	-0.08**	-0.03	1			
13 Alter Firm Asset	1.229	3.096	0.03	-0.05*	0.88**	0.09**	-0.07*	0	0.05†	0.03	0.03	-0.07*	-0.04	0.9**	1		
14 Alter Firm EBIT	0.077	0.332	0.03	-0.03	0.68**	0.05*	-0.05†	0.01	0.04	0.03	0.03	-0.02	0	0.69**	0.77**	1	
15 Alter Firm Market Capital	0.727	2.525	0.07*	-0.04	0.73**	0.08**	-0.07*	0.01	0.05†	0.04	0.04	-0.06*	-0.02	0.75**	0.85**	0.83**	1

Note. Number of observations (N) = 1,504; † $p < 0.1$; * $p < 0.05$; ** $p < 0.01$.

Table 3 Fixed-Effects Panel Regression Models of Response to the Alter's Acquisition

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5	(6) Model 6
Same High School				-0.203** (0.0582)		-0.0422 (0.0689)
Elite Dyad					0.0143 (0.0617)	0.0250 (0.0763)
Same High School X Elite Dyad						-0.314* (0.133)
Negative Performance Discrepancy			-0.0364** (0.00594)	-0.0383** (0.00603)	-0.0326** (0.00947)	-0.0350** (0.00967)
Same High School X Negative Performance Discrepancy				0.00265 (0.0419)		-0.198 (0.123)
Elite Dyad X Negative Performance Discrepancy					-0.00656 (0.0139)	-0.00632 (0.0145)
Same High School X Elite Dyad X Negative PD						0.260* (0.129)
Positive Performance Discrepancy			-0.0979* (0.0417)	-0.0961* (0.0417)	-0.0985* (0.0393)	-0.0879* (0.0371)
Same High School X Positive Performance Discrepancy				0.717 (0.884)		-0.181** (0.0694)
Elite Dyad X Positive Performance Discrepancy					0.00548 (0.0210)	0.00400 (0.0224)
Same High School X Elite Dyad X Positive PD						2.097 (1.685)
Industry Performance Discrepancy		0.0568 (0.107)	0.0639 (0.116)	0.0628 (0.116)	0.0647 (0.115)	0.0625 (0.115)
Historical Performance Discrepancy		0.0589 (0.0758)	0.0793 (0.0652)	0.0765 (0.0613)	0.0792 (0.0666)	0.0751 (0.0625)
Focal Firm Revenue	-0.0550* (0.0257)	-0.127 (0.120)	-0.0486 (0.0989)	-0.0487 (0.0993)	-0.0521 (0.0990)	-0.0585 (0.101)
Focal Firm Market Capital	0.0539† (0.0307)		0.0725* (0.0348)	0.0760* (0.0339)	0.0707* (0.0354)	0.0740* (0.0348)
Focal Firm Asset	0.111** (0.0404)	0.0896* (0.0382)	0.0907** (0.0306)	0.0882** (0.0315)	0.0916** (0.0355)	0.0888* (0.0367)
Focal Firm EBIT	-0.489 (0.305)	-0.558† (0.325)	-0.558† (0.339)	-0.575† (0.332)	-0.539 (0.339)	-0.557† (0.332)
Alter Firm Revenue	0.0475* (0.0224)	0.0714** (0.0172)	0.0570** (0.0168)	0.0547** (0.0162)	0.0584** (0.0182)	0.0573** (0.0175)
Alter Firm Market Capital	0.00867 (0.0264)	0.0125 (0.0140)	0.0202 (0.0153)	0.0232 (0.0162)	0.0199 (0.0151)	0.0229 (0.0167)
Alter Firm Asset	-0.0885 (0.111)	-0.121 (0.235)	-0.123 (0.233)			-0.122 (0.225)
Alter Firm EBIT	-0.0238 (0.0166)	-0.0326** (0.00890)				
Constant	-0.112 (0.108)	-0.158† (0.0900)	-0.177* (0.0866)	-0.171* (0.0711)	-0.184† (0.104)	-0.193* (0.0861)
R-squared (Overall)	0.1105	0.1128	0.1186	0.1225	0.1189	0.1294
Observations	928	736	736	736	736	736
Year & Industry Fixed Effect	YES	YES	YES	YES	YES	YES

Note. PD abbreviation for Performance Discrepancy; Robust standard errors in parentheses; † $p < 0.1$; * $p < 0.05$; ** $p < 0.01$.

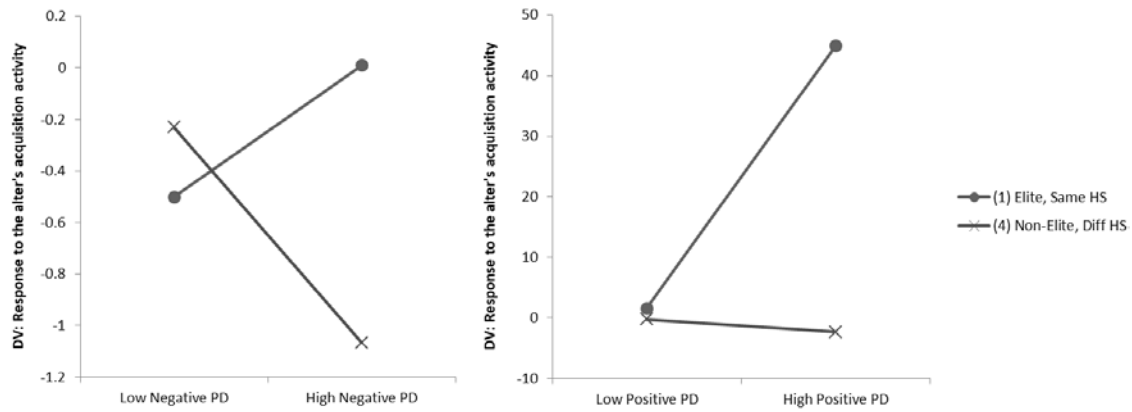


Figure 1 Three-Way Interaction Graphs with Negative (a) and Positive (b) Performance Discrepancy

Elite Identity and Negative Performance Feedback

Model 4-6 test for interaction effects. Model 4 shows the results for the two-way interaction between dyadic performance discrepancy variables and having graduated from the same high school. Model 5 shows the results for the two-way interaction between the dyadic performance discrepancy variables and whether both the focal and the alter CEOs have the elite identity. For both negative and positive performance discrepancy, the main effects hold. Two-way interaction effects are not significant.

Finally, Model 6 shows the results for the three-way interaction among *Negative Dyadic Performance Discrepancy*, *Same High School*, and *Elite Dyad*. H2 states that the negative relationship between negative performance discrepancy and risk taking is more pronounced for the dyads of elite CEOs. It is anticipated from H2 that the three-way interaction will be positive and significant. Indeed, the coefficient for the three-way interaction term is positive (0.260) and significant ($p < 0.05$). Figure 1 shows the three-way interaction effects. Model 6 provides support for the role played by the elite identity in reinforcing social comparison and hence in the focal firm's organizational risk taking under negative performance feedback. When performing worse than alter firms of elite alumni CEOs that recently went through an acquisition, the focal firm is more likely to take risks by also engaging in acquisition. In case of positive performance discrepancy, the three-way interaction results in a larger positive coefficient (2.097) but the effect is not significant.

DISCUSSION AND CONCLUSION

The central goal of this paper is to show that negative performance discrepancy relative to industry-level average alone provides only a weak ground to predict organizational risk taking. It is hypothesized that whereas negative performance discrepancy is positively related to organizational risk taking, the relationship is more pronounced for firms led by CEOs with elite identity. Among the industry sub-group of firms headed by elite CEOs, the results confirm the reference group and effect for performance comparison and risky strategic choice.

However, the first hypothesis was not supported; in fact, the results pointed to the opposite direction of relationship. The worse the relative performance, the less likely it was for firms to engage in acquisition. While the results contradict the hypothesis, this pattern is similar to organizational reactions under threat rigidity. Firms experiencing the threat to survival shift their attention from the aspiration to the survival level, resulting in organizational inertia (Baum & Dahlin, 2007; March & Shapira, 1992; K. D. Miller & Chen, 2004). The results could also be understood in the light of more recent development in literature that problematizes the uniform operationalization of organizational social aspiration as “industry average” (Audia & Greve, 2006; Baum et al., 2005; Moliterno et al., 2014; Washburn & Bromiley, 2012).

Therefore, this paper is expected to make following contributions to the literature. First, organizations and the managers might have a smaller and more focused group of referents than industry peers. Despite the large body of individual-level foundations of performance feedback theory including literature on social comparison and risk-taking (Greve, 2003b), the role of decision makers in organizations in performance feedback has not been fully investigated. Two studies are of exception. Kish-Gephart and Campbell (2015) show that organizational risk taking is dependent on CEOs’ social class experiences imprinted on them from their formative years. Gimeno et al. (1997) show that organizational performance relative to personal aspirations of CEOs predicts the entrepreneurial firms’ exit from the industries. These studies exemplify the significant role played by organizational decision makers. In this paper, it is argued that CEOs’

social identity plays a role in identifying referents of greater salience. This is enabled by the alumni networks that grant frequent interactions among alumni members, and especially alumni members in the same industry.

However, the comparison did not seem to extend to all alumni members. Interviewed CEOs unanimously expressed their focus on “similar and better performing others”. They said:

“Those industry gatherings are not open for everyone, but only for the first tier firms. Maybe the 2nd tier firms too. But below that, we don’t include them in our gatherings.”

“I only pay attention to those who do better than me. I don’t feel the need to compare myself to those doing worse than me.”

This clear upward comparison (Festinger, 1954) is supported by the results. The interaction effect is only significant for the negative performance discrepancy, and not for the positive performance discrepancy.

Second, organizations and their CEOs might rely on their referents not only for aspiration level formation but also for potential risk-taking strategies. The results show that CEOs with elite identity turn to other CEOs they consider to be comparable elites for what might be a suitable risk-taking strategy. When organizations choose to engage in risky strategies, they have to decide “what risky strategies” they would like to pursue. Under the high-level uncertainty, individuals and organizations face the need to evaluate not only their performance but also their opinion in comparison to social referents (Festinger, 1954). Greve (1996) argued that it was the case for firms facing market positioning decisions. Studies on strategic choices show how ongoing social interactions among managers affect their decision making (e.g., McDonald & Westphal, 2003). As with Shue (2013), this paper demonstrates that it is also the case for acquisition decisions. On top of this, the results further demonstrate that organizations are only affected by the strategic choices of better-performing referent organizations but not by those of worse-performing referents.

Third, negative performance feedback might not motivate all actors to the same degree. The performance feedback model assumes that organizations interpret negative performance

discrepancy as a “failure”, a “problem” (Cyert & March, 1963). This perception of failure motivate organizations to engage in problemistic search (Cyert & March, 1963; Greve, 2003b). Negative performance feedback might be a stronger or weaker source of motivation depending on how actors interpret it as being problematic. It is theorized in this paper that elite identity and the internalized pressure for superior performance could enhance the effect of negative performance feedback as a motivation for organizational action. When performance is tied to personal identity of CEOs, performing worse than peers could pose a significant threat to their identity. This opens up the possibilities of investigating other contingencies that influence the interpretation of performance feedback and, therefore, moderate the relationship between performance feedback and organizational behavior.

The limitations of this study also provide opportunities for future research. The first limitation is that the theoretical mechanisms are not explicitly tested. Albeit the support from supplementary interviews, I was unable to directly observe if prestigious educational institutions serve as a basis for social identity or if the resultant elite identity can be characterized by the internalized pressure for superior performance. Future research on the cognitive processes of performance feedback using qualitative methods could verify these steps and enhance our understanding of this process.

Second, there is a potential selection bias. By deciding to only consider firms headed by CEOs with significant ownership, the sample of firms used for analysis becomes smaller in terms of market capital, asset, and revenue. Within the given sample, I tried to match away the potential influences of firm-level differences other than the treatment of the CEO elite identity. However, this does not correct for the initial bias in the sample confined to the CEOs with significant ownership. Future research could address this by a taking a different approach to account for the variation in the level of managerial discretion.

In addition, future research could address two other relevant aspects of the social identity and social comparison theories. The first concerns the intergroup aspect. As much as similarities among the within-group members could lead to the comparative and competitive drive, other conditions might render out-group members more salient targets of the focal CEOs’ competitive

attention and more salient referents for social comparison. This might be the case for groups with a long history of rivalry. Relatedly, within-group members could also show the collaborative spirit concerning one another. While similarities lay ground for competition, it also promotes friendship and collaboration (Ingram & Roberts, 2000; Ingram & Yue, 2008). For instance, observing the alliance behaviors of CEOs with the comparable social identity could be fruitful.

Despite its limitations, this paper provides a fresh perspective by examining the CEOs' socio-cognitive basis of setting social aspiration. Furthermore, the referents that they use for evaluating their performance are shown to also affect their choice of risk-taking strategies. Lastly, the content of their identity serves as a condition that reinforces the effect of negative performance feedback as a trigger for organizational risk taking.

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요약 (국문초록)

How Are Other Elites Doing?: Social Identity, Comparison, and Aspiration of Corporate Elites in Firm Risk Taking

서울대학교 대학원

경영학과 경영학 전공

조윤하

조직 성과피드백에 관한 기존 연구들은 대체로 사회적 열망수준의 기준이 되는 타 행위자를 산업내의 다른 기업으로 조작화해 왔다. 이에 본 논문은 이론적으로 더 정제된 접근이 필요하다는 입장을 취하고, 그러한 접근의 일환으로 어떻게 최고경영자들의 엘리트 정체성이 열망 수준에 미달하는 성과가 그들 기업 수준에서의 위험 감수 행위에 영향을 미치는지를 탐색한다. 저자는 이를 통해 최고경영자들의 사회적 정체성이 사회적 비교 준거집단의 선정에 있어 하나의 기준으로 작용하는 것을 보이고자 한다. 정체성에 근거를 두고 선정된 준거집단은 기존의 산업 내 타 기업들에 더해 기업 위험 감수 행위 결정의 기준이 된다. 이러한 이론적 관점을 탐색하기 위해 저자는 명문고가 기업 엘리트들의 사회적 정체성의 기반이 되는 한국을 배경으로 연구를 진행한다. 실증 결과에 따르면 최고경영자들의 엘리트 정체성은 열망 수준에 미달하는 성과와 위험 감수 행위인 기업인수 사이의 양의 상관관계를 심화시킨다. 본 연구는 최고경영자들의 엘리트 정체성이 그들의 사회적 비교와 사회적 열망 수준 결정에 영향을 미침을 보임으로써 성과피드백과 조직 위험 감수 행위에 대한 연구에 기여한다.

주요어 : 사회적 비교, 사회적 정체성, 엘리트 정체성, 기업 엘리트, 위험 감수 행위

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