Title

The behavioral theory of the (community-oriented) firm: The differing response of community-oriented firms to performance relative to aspirations

Journal

Strategic Management Journal, 41(6)

ISSN

0143-2095

Authors

Smulowitz, Stephen J
Rousseau, Horacio E
Bromiley, Philip

Publication Date

2020-06-01

DOI

10.1002/smj.3123

Peer reviewed

THE BEHAVIORAL THEORY OF THE (COMMUNITY ORIENTED) FIRM: THE DIFFERING RESPONSE OF COMMUNITY ORIENTED FIRMS TO PERFORMANCE RELATIVE TO ASPIRATIONS

Stephen J. Smulowitz, Ph.D.
Term Research Professor
IMD Global Board Center
IMD | Ch. de Bellerive 23
P.O. Box 915, CH-1001
Lausanne Switzerland
Tel: +41 21 618 03 89
Email: ssmulowi@gmail.com

Horacio E. Rousseau, Ph.D.
Assistant Professor of Management
College of Business
Florida State University
821 Academic Way
Tallahassee, FL 32306-1110
Phone: +1 (850) 644-7874
Email: hrousseau@business.fsu.edu

Philip Bromiley, Ph.D.
Dean's Professor of Strategic Management
The Paul Merage School of Business
University of California, Irvine
Irvine, CA 92697-3125
Phone: +1 (949) 824-6657
Email: bromiley@uci.edu

Running Head: The Behavioral Theory of the (Community Oriented) Firm

Keywords:

Behavioral Theory of the Firm; Risk; Small Business Loans; Community Orientation; Performance Feedback; Aspirations; Banks

ABSTRACT

Research Summary

Combining insights from the behavioral theory of the firm (BTOF) with sociological research on local embeddedness, we propose that community oriented firms respond differently to performance relative to aspirations than noncommunity oriented firms. Community oriented firms develop long-term relations with local constituents and emphasize community goals. This orientation should buffer them from the risk-inducing effects of falling below financial aspirations, and encourage them to pursue community goals more intensely when exceeding financial aspirations. Using U.S. bank data from 2005-2013, we find that community orientation – exemplified by community-banks – attenuates the influence of performance below aspirations on risk taking, but amplifies the influence of performance above aspirations on community investments such as small business loans. We discuss implications for a sociologically-informed view of performance feedback processes.

Managerial Summary

Relative to their size, locally-embedded community banks take less risk and make more small business loans than do larger banks. We find that they also respond differently to performance relative to aspirations than do noncommunity banks. Specifically, while community oriented banks increase risk taking when their performance is below aspirations, they do so *less intensely* than larger banks. This is because factors related to ownership and community embeddedness make such banks more risk-averse than large banks. Also, performance above aspirations provides freedom of action, and community banks use that freedom to increase small business lending. Such lending benefits the community and improves the business environment in which the community bank operates, important secondary goals to community-embedded firms.

INTRODUCTION

Scholars in the behavioral theory of the firm (BTOF) tradition explain multiple firm behaviors as responses to patterns of success or failure in their performance (March and Simon, 1958; Cyert and March 1963). Performance relative to aspirations (PRA) – both positive and negative – can affect organizational actions in various ways. Performance below aspirations triggers actions aimed at improving performance, such as increased risk taking (Bromiley, 1991; Lim and McCann, 2013), mergers and acquisitions (M&A) (Iyer and Miller, 2008), or new products launches (Eggers and Suh, 2019), while performance above aspirations reduces those actions. PRA also shapes firm action by altering the allocation of attention (March, 1989). Firms that perform above aspirations direct energies towards unexploited opportunities (Zahra, 2005) or sequentially attend to lower priority goals that decision makers might have previously overlooked (Greve, 2008; Greve and Gaba, 2017).

Although changing firm behavior as a response to PRA represents a general phenomenon (Bromiley, 2004; March, 1994), firms differ in how they interpret and react to this information. Firm responses to PRA vary with firm governance arrangements, resources, and organizational structures (Desai, 2015; Joseph, Klingebiel, and Wilson, 2016; Kuusela, Keil, and Maula, 2017). Indeed, previous research has shown that a firm's entrepreneurial (Hoskisson *et al.*, 2017; Naldi *et al.*, 2007), strategic (Audia, Locke, and Smith, 2000;

Vissa, Greve, and Chen, 2010) or temporal (Bromiley and Souder, 2012) orientation can influence its response to PRA.

We build on this work to consider another key dimension of firm orientation, namely community embeddedness. Relative to noncommunity oriented firms, community oriented firms are more locally owned and managed, are smaller in size, operate within a limited geographic area, and pursue both financial and community goals (Almandoz, 2012). These features influence how these firms experience and behave in response to PRA. For instance, embeddedness encourages local ownership and control by relatively undiversified owners and locally employed managers. This reduction in the separation of ownership and control should lead to smaller increases in risk taking when firms perform poorly relative to aspirations because locally-embedded owners and managers are more wary about potential firm failure. Also, embeddedness leads to greater emphasis on the secondary goal of community investment. Therefore, community oriented firms can take advantage of the leeway that they receive from exceeding aspirations by following their local preferences to increase attention to secondary community investment goals. In short, organizations with a community orientation should react differently to PRA than other firms. Accordingly, we consider a firm's community orientation as new moderator of BTOF predictions. Specifically, we consider whether a bank is a community bank or not (based on its size), and how this distinction influences its

responses to PRA regarding two types of bank behaviors, namely risk taking and community investment.

Due to their divergent orientations and behavior, observers often differentiate between community and noncommunity banks (FDIC, 2012; Marquis and Lounsbury, 2007), defining community banks as those with less than $1 billion in assets. Indeed, community banks differ markedly from noncommunity banks. For example, community banks generally take fewer risks than noncommunity banks (Almandoz, 2012) and allocate a much larger portion of their assets to small business loans (Berger and Udell, 2002). Although less profitable than other lending (Mills and McCarthy, 2014; Saari *et al.*, 2014), small business loans are vital for local firm survival and job creation (DeYoung, Hunter, and Udell, 2004; Freeman and Audia, 2011).

Their proclivity to take fewer risks and disproportionally engage in small business lending suggests that community banks will react differently than noncommunity banks to PRA. Relying on the sociological concept of local embeddedness (Almandoz, 2014; Marquis and Battilana, 2009), our theory distinguishes between two responses based on firm community embeddedness. First, we expect that community oriented firms express a differential attainment-induced response to risk taking. That is, community banks will increase their risk taking in response to performance below aspirations, but *to a lesser extent* than noncommunity banks. Second, we expect that community oriented firms will also express a sequential attention to secondary goals response. That is, positive PRA will provide freedom of

action, and community banks will use that freedom to increase community investment, in the form of small business lending.

We test our hypotheses using a 9-year panel dataset covering 11,364 U.S. banks for the years 2005-2013. Supporting our hypotheses, we find that the effect of negative PRA on risk taking is half as large in community banks as in noncommunity banks, and positive PRA substantially increases small business lending in community banks but has no appreciable influence in noncommunity banks.

Our study makes several contributions. First, we generate new theory that combines the BTOF with the sociological concept of local embeddedness to elucidate the mechanisms by which PRA triggers different responses by community and noncommunity banks regarding credit risk and small business lending. Our theory suggests that a community orientation, through its influence on the strategic and operational activities of firms, moderates BTOF predictions. Second, we add to the literature on local embeddedness by showing that community orientation can have significant implications for key measures of firm behavior, such as risk taking and community investment. Third, we contribute to research on adaptive behavior when dealing with multiple goals (e.g., Ethiraj and Levinthal, 2009) by finding evidence that community oriented firms attend *marginally* more to secondary (community) goals after meeting primary (financial) goals. Finally, we provide a constructive replication and extension of BTOF findings to a different industry (Bettis, Helfat, and Shaver, 2016), namely banking, taking

advantage of a large longitudinal sample of banks and developing robust measures of both organizational risk taking and community investment.

CONCEPTUAL FRAMEWORK

PRA predictions are built on the BTOF tenet that differences between aspiration levels and expected performance influence firm behavior (Cyert and March, 1963; March and Simon, 1958; Shinkle, 2012). With a few exceptions (e.g., Bromiley, 1991; Wiseman and Bromiley, 1996), empirical applications have replaced expected performance with actual performance, measuring PRA as performance minus aspirations. Many of these applications consider how PRA influences risk taking (e.g., Bromiley, Miller and Rau, 2001; Bromiley and Rau, 2010), generally predicting that when performance falls below aspiration levels, risk taking should increase, and when performance exceeds aspiration levels, risk taking should decrease (e.g., Lim and McCann, 2014; Palmer & Wiseman, 1999). BTOF studies also examine how PRA influences other types of firm behaviors, such as research and development (R&D) spending (Chen and Miller, 2007), capital expenditures (CAPX) (Audia and Greve, 2006; Bromiley and Souder, 2012), launching new products in different domains (Eggers and Suh, 2019), and M&A (Iyer and Miller, 2008).[1]

[1] We do not develop and present the conventional hypotheses regarding the main effects that negative PRA increases firm risk and positive PRA reduces firm risk. These hypotheses have formed the basis of many papers since Bromiley (1991) introduced them to the literature, and have been tested numerous times, with most analyses providing robust support (Shinkle, 2011). Instead, we take this existing research as a baseline. Given the volume of work that has demonstrated support, it would be surprising to find a different relation. As such, our research focuses on how firm community orientation moderates that relation. However, our analyses

Community orientation – Early studies examining the contention that organizations alter their behavior based on their PRA assumed that all organizations reacted similarly to PRA, for instance by increasing risk in response to negative PRA (Bromiley, 1991; March, 1994). However, firms differ markedly in ways that could affect how they interpret and respond to PRA (Desai, 2015; Eggers and Suh, 2019; Joseph *et al.*, 2016). Recent studies find firm orientation – "the organizational processes, methods and styles that firms use" (Lumpkin and Dess, 1996: 139) – can influence how organizations respond to PRA. For example, an entrepreneurial orientation moderates the influence of poor performance on firm risk taking (Hoskisson *et al.*, 2017; Naldi *et al.*, 2007). Studies have also examined how other dimensions of firm orientation, including strategic (Audia *et al.*, 2000; Gebauer, 2009; Vissa *et al.*, 2010) and temporal orientations (Bromiley and Souder, 2012; Wang and Bansal, 2012), moderate firm responses to PRA.

Research has begun to examine how a community orientation – an orientation towards affiliation, engagement, and local social relationships (Almandoz, 2012) – influences organizational responses to PRA. For example, O'Brien and David (2014) show that Japanese firms embracing a communitarian orientation "pay back" to their stakeholders by investing in additional R&D when the firm performs above aspirations. Building on these insights, we expect that a *local* communitarian orientation influences firm responses to PRA. Despite globalizing forces, most organizations remain

provide substantial support for the basic effect of PRA on organizational adaption.

embedded in local social systems (Greenwood *et al.*, 2010; Marquis and Battilana, 2009). Locally-embedded, community oriented firms have both different goals and methods than do other types of firms. They generally serve a smaller, bounded area and offer products and services that support that community (Almandoz, 2012). While profitability clearly remains a primary goal, managers in these firms also incorporate the needs of fellow community members into their decision criteria, and seek to provide something useful to the community, especially after satisfying the firm's profit goals (Fauchart and Gruber, 2011; Seifert, Morris, and Bartkus, 2004).

Local embeddedness makes community oriented firms more responsive to local stakeholders. Community stakeholders may mobilize local opinion in favor of, or against, firms (Henriques and Sadorsky, 1999), disproportionately influencing firms that rely on local employees, customers and funding (Bansal and Roth, 2000). Furthermore, local communities often monitor firm behavior (Desai, 2018) and may inflict substantial reputational and economic damage on organizations that deviate from local norms and expectations (Dorobantu, Henisz, and Nartey, 2017). At the same time, the personal status of owners and managers of community oriented firms often depends on the community's perceptions of those firms. Thus, community oriented firms, which rely on local legitimacy, attend more to community stakeholders than do noncommunity oriented firms (Berrone *et al.*, 2010).

Community banks exemplify the community oriented firm. Most community banks provide traditional banking services (as opposed to other,

more exotic banking services, such as investment banking or security trading) in their local communities (FDIC, 2012). Local residents often own and control community banks, and community banks depend on local citizens to deposit into and borrow from the bank (FDIC, 2012). Community banks generally vest lending discretion closer to the community, not being subject to the formal rules and procedures found in larger banks. In community banks, board sub-committees (usually including members of the local business community) often directly approve many lending decisions. Thus, community banks provide the traditional banking functions of lending and deposit taking, but only at a local community level.

These factors result in community banks having different goals than noncommunity banks. While primarily profit-seeking, community banks also attempt to meet the community's needs. Attention to community needs translates into a greater allocation of resources to services that, although less profitable than competing investments, may provide a more substantial benefit to the community. For example, community banks provide a disproportionate amount of small business lending (FDIC, 2012; DeYoung, Hunter, Udell, 2004), lending which larger banks have sharply reduced due to lower profitability (Simon, 2015). While these loans make up a small amount of total banking assets, small business loans significantly influence local economies dependent on small businesses for employment and services (DeYoung *et al.*, 2004). Community banks' disproportionate small business lending demonstrates their commitment to the community,

because, “small business lending costs are high relative to the revenue potential” (Saari et al., 2014, p. 4).

Community banks also operate differently than do noncommunity banks. While large banks depend almost exclusively on standardized credit scores and underwriting procedures to determine loan eligibility, community banks supplement these with local knowledge obtained through long-term relations. By focusing on a limited geographic area and customer base, community banks often have specialized knowledge of their local community and their customers (Almandoz, 2014). This is why Elyasiani and Goldberg (2004) and others describe community banks as engaging in “relationship” as opposed to “transactional” banking.

Community banks also depend on the local community’s ecosystem for on-going business in a way that noncommunity banks do not. A community bank’s success depends substantially on the economic success of the surrounding area. Local income translates into deposits, and local economic growth raises the demand for loans and other banking services. Whereas a large bank usually operates in many communities and can exit from a depressed community, a community bank generally operates in a single, limited, geographic region, and so depends heavily on the economic success of that region.

In sum, community banks are locally-embedded organizations, with prominent non-financial goals of community investment (in addition to the primary goal of profitability) and specific community knowledge that

influences their lending decisions. Given a strong community orientation, they should react to PRA differently than noncommunity banks. In the next sections, we build on these insights to disentangle the PRA-based mechanisms related to two critical bank behaviors, namely risk taking and local investment.

Community orientation and the influence of negative PRA on risk taking

In general, BTOF scholars contend that when firms' performance levels fall below their aspiration levels, firms take additional risk (Singh, 1986; Wiseman and Bromiley, 1996). Underperforming firms engage in risky activities with uncertain outcomes to turn around unacceptable performance or improve the firm's position relative to other firms (Singh, 1986; Bromiley, 1991). This dynamic seems particularly true in banking, where executives recognize that, to improve performance rapidly, underperforming banks often need to take on "additional risk by lowering credit standards."[2] Risk taking should result in greater variance in performance. While some firms will do much better and recover, some will do much worse and potentially fail (e.g., Gomez-Mejia, Haynes, Núñez-Nickel, Jacobson, & Moyano-Fuentes, 2007).

However, community banks evidence different risk preferences than noncommunity banks and those different risk preferences should result in

[2] Interview held with a senior VP of Credit Administration at a community bank. We describe in more detail the interviews conducted for this study in the Methods section.

different responses to negative PRA (Sarasvathy, Simon, and Lave, 1998). Contrasting community and noncommunity banks, several factors result in lower risk preference for community banks, particularly when faced with lower performance.

Community banks differ in their ownership and management structure. Noncommunity banks are generally publicly traded or owned by a large group of investors, while a small group of local individuals usually own community banks. In finance theory, diversified shareholders prefer that firms invest in all positive net present value projects, even if this increases unsystematic risk and the likelihood of failure. Indeed, much of the change in compensation for top management sparked by agency theory has been directed at increasing managerial risk-taking (e.g., Gomez-Mejia, Berrone, and Franco-Santos, 2010). For such banks, increasing risk is an obvious solution to negative PRA.

In contrast, the ownership and management structure of community banks encourages them to be less susceptible to the risk-inducing effects of negative PRA. Community banks often have a small number of investors for whom the bank constitutes a major investment. For such investors, concern about unsystematic risk is rational. The owners of community banks, akin to those of family firms, may want to avoid risks that increase the chances of failure or losing strategic control of the bank (Kavadis and Castañer, 2015; Gomez-Mejia et al., 2007). Community bank owners (and managers) are often part of that community themselves, such that a bank failure would

damage their local reputation and social connections (Freeman and Audia, 2011; Sutton and Callahan, 1987). While large bank investors only lose money if the bank does poorly, the community bank investor often loses both money and social status. Consequently, community bank owners should have lower risk preference than large bank owners, which should reduce their tendency to increase risk taking as a response to negative PRA.

Managers in community banks are cognizant of their owners' concerns, and often share them. Therefore, they limit their tendency to increase risk in response to negative PRA (Desai, 2015). A VP-level community bank executive confirmed this to one of the authors of this study, stating that in their bank, "there's not the sort of the risky mentality that you might find at a financial institution where somebody is not all-in from an ownership standpoint." Indeed, the factors that would influence community bank owners to rely less on risk taking in response to negative PRA should also apply to managers. While a professional manager in a large bank can readily move to other branches or other banks if the current branch performs poorly, managers in community banks often have substantial stakes in the bank and limited mobility given their local embeddedness. As such, lower geographic mobility should also lead community banks managers to be less prone to risk taking as a response to negative PRA.

In addition, the combination of negative PRA and higher risk creates greater problems for community banks than noncommunity banks. Low performance itself increases the chances of failure more in community

banks. Community banks have less access to capital markets than do larger noncommunity banks, giving them less potential slack and ability to adapt to possible negative outcomes (Bourgeois, 1981). Having a narrower range of products and operating in fewer geographic areas, community banks are less diversified than noncommunity banks. Consequently, proportionate amounts of credit risk (relative to bank size) will result in greater failure risk in community banks than in larger banks. In addition, the normal remedies to financial distress (such as firing employees) are less readily available to community banks. In community banks, owners, managers and employees all come from the same community, owners and managers often know all the staff personally, and may meet employees in non-business situations. In contrast, owners and managers in the largest banks seldom personally know the employees being “down-sized” and seldom meet such employees in non-bank situations. At the extreme, the largest banks (termed too-big-to-fail banks) may even expect a political bailout if the bank faces insolvency. Consequently, because financial distress causes more difficulties for a community bank than a noncommunity bank, situations (specifically negative PRA) that will induce risk taking in all banks should do so in community banks *to a lesser extent*, than they would in noncommunity banks.

Of course, lending implies risk. To make a profit, banks must make loans which might not be repaid. Accordingly, our arguments are not about absolute levels of risk preference but rather about differences in the

marginal response to the risk-inducing effects of negative PRA due to community embeddedness. For the reasons noted above, we expect that community banks will respond to the risk-inducing effects of negative PRA, but will do so *with less intensity*, than noncommunity banks. Stated formally:

Hypothesis 1 (H1): *The negative relation between negative performance relative to aspirations and risk taking will be weaker for community banks.*

Embeddedness, positive feedback and attention to secondary goals

As we note above, local embeddedness leads to placing greater importance on community goals. Positive PRA should give managers leeway to follow their local preferences. Indeed, managers of community banks *want* to provide small business loans, but cannot do so for various reasons. Positive PRA lifts some of these constraints, allowing managers of community banks to follow their local preferences and fund more local investments. Therefore, as community oriented firms meet and exceed their primary profit goals, we expect that they will shift their attention towards secondary community goals.

In general, the BTOF views aspiration levels as independent constraints of differing importance (Simon, 1964), with firms attending to goals sequentially. That is, "decision makers attend to one goal at a time and move on to the next goal when performance on the first is above the aspiration level" (Cyert and March, 1963, p. 117-119; Greve, 2008, p. 480). In this formulation, firms that exceed their primary goal (normally financial performance) then *switch* their attention fully to their secondary goal (such

as community investment). However, organizational reality is rarely this clean cut; firms do not entirely ignore a secondary goal before meeting their primary goal, and completely ignore their primary goal when they pass a threshold.[3] This is especially true in banking, where remaining profitable is critical because important stakeholders (e.g., shareholders and regulators) continuously monitor the financial condition of the bank. Instead, we relax the assumptions of sequential attention, and theorize that exceeding a primary financial goal allows firms to *marginally* increase their attention to secondary goals.

This increase in attention to non-financial goals should influence resource-allocation (i.e., investment) decisions among competing strategic options (Keum and Eggers, 2018). For example, previous research has shown that exceeding aspirations lets managers focus on the long-term, increasing the durability of firms' capital expenditures (Bromiley and Souder, 2012) and the number of socially-responsible activities they pursue (Wang and Bansal, 2012).

One key secondary goal in community banks is funding small businesses. Community banks are key drivers of entrepreneurship because community banks provide a disproportionate amount of small business lending. For example, in our sample of U.S. banks in 2012, community banks held only about six percent (6%) of banking industry assets, but provided 37% of small business loans. According to the Bureau of Labor Statistics

[3] We are grateful to an anonymous reviewer for raising this point.

(Simon, 2015), firms with fewer than 500 employees, the types of firms that receive small business loans, account for more than half of all private sector jobs in the U.S. Therefore, small business loans are crucial to local employment. However, despite their importance to local communities, small business loans are less profitable than other competing investments because they undergo the same approval processes and face the same regulatory burden as larger loans, resulting in much higher administrative costs relative to loan size. As such, large banks have drastically reduced their small business lending (Simon, 2015).

Community banks may have a goal of providing small business loans, despite its lower profitability, as a way to “give back” to their communities. However, for-profit community banks do not make investments in small business loans out of charity. Instead, small loans can drive the local ecosystem, where community banks derive all of their business (ICBA, 2017). Successful small businesses increase local employment and wealth, leading to increases in deposits and demand for loans. In contrast, large banks do not see a dominant share of the “local” business around their locations, and thus do not benefit from financial ecosystem externalities in the same way that community banks do. Therefore, the financial returns (including these externalities) to small business lending differ greatly by bank type, and community banks often provide this essential community investment function that large banks neglect.

However, small business loans' lower profitability restricts the ability of community bank managers to provide such loans. Community banks are not charities; shareholders of such banks expect profitable returns on their investments, and banking regulators also expect profits to maintain the safety and soundness of the bank. Also, compared to noncommunity banks, community banks have fewer resources to invest in small loans.

Positive PRA can partially loosen these constraints, providing community banks with more leeway to invest in secondary community goals, such as small loans. Positive PRA relieves pressure from shareholders and regulators seeking greater profit (Frank, Gilovich, and Regan, 1993; Kacperczyk, 2009). Positive PRA also lifts resource constraints (Kuusela *et al.*, 2017), as profits generate cash the community banks can use to make small business loans. Banks can then increase their portfolio of small business loans rapidly because, unlike long-term investments such as CAPX or R&D, such loans come due regularly, allowing banks to expand (or contract) their loan portfolio easily, based on their financial performance. However, this disposition to invest in less profitable loans that support community goals would only exist for firms that embrace a community orientation (Almandoz, 2014).

An alternative mechanism may encourage community bank investment in small business loans; community banks have less access to some types of high-return investments than larger banks. With a limited geographic reach and limited product portfolios, small business loans may

simply be one of the few available avenues for community banks to use their assets, particularly when those assets grow due to high profits. Banks can only issue loans to borrowers who want the loans and meet the loan criteria – such borrowers may be limited in a community bank's geographic region. In contrast, large banks can easily move funds from low growth areas to areas with high growth (and high demand for loans and bank services) both domestically and internationally or invest the funds in alternative activities like trading.

In sum, positive PRA provides resources and lets community banks satisfy their profit goals. This allows community banks greater leeway to attend to their secondary community goals, such as funding local businesses. Given community banks' proclivity towards small business lending, positive PRA should further increase their investment in small business lending. Stated formally:

Hypothesis 2 (H2): *The positive relation between positive performance relative to aspirations and small business lending will be stronger for community banks.*

METHODS

Sample – Previous strategy research has examined a wide variety of outcomes using banking data, including risk taking (McNamara and Bromiley, 1997), market entry (Knott and Posen, 2005), M&A success (Marquis and Lounsbury, 2007; Zollo and Singh, 2004), geographic diversification (Marquis and Huang, 2010), deviation from established policies (Ramanujam, 2003; Sutcliffe and McNamara, 2001), top management turnover (Semadeni *et al.*,

2008) and the performance implications of banks' role as intermediaries (Saparito, Chen, and Sapienza, 2004; Sasson, 2008). For example, McNamara and Bromiley (1997), using actual lending decisions, found that profitability pressures influence risk taking by causing banks to give customers overly favorable risk ratings.

Banks must disclose their balance sheet, income and other financial information in "Call Reports" made publicly available by regulators (Avraham, Selvaggi, and Vickery, 2012). SNL Financial collects this data which we use for our empirical analysis. As such, our sample consists of data on substantially all federally insured commercial banking institutions, both publically traded and private, for our time period. Our analysis uses an unbalanced panel dataset of 73,401 observations for 11,364 firms for the years 2005-2013. We chose this period because it is what was available from SNL Financial at the time of our study. Because we lag all control and independent variables one year, those variables cover the period from 2005 to 2012, while our dependent variables cover the period from 2006 to 2013.

To better understand our context, we also interviewed 13 members of the banking industry including 4 CEOs of community banks, the CFO and 4 VP-level executives from two different community banks, and 3 high ranking executives, and 1 former high ranking executive, from several large international banks. The interviews averaged an hour in length. Most of these interviews were held in person and recorded. Also, one of the authors attended a bank's annual shareholders meeting. These interviews allowed us

to test the face validity of our measures and better ground our hypotheses in corporate reality.

Dependent variables – We measure risk taking using *credit risk*. Credit risk "refers to the risk that a borrower defaults on any type of debt by failing to make required payments" (Bessis, 2015, pg. 199). We chose credit risk as our dependent variable because "credit risk is the primary driver of risk for most banks, although other risks obviously exist" (Jiménez, Lopez, and Saurina, 2013, pg. 188). As banks make loans, they incur the risk that those loans will not be repaid, i.e., credit risk (McNamara and Bromiley, 1999). Credit risk is a good measure of bank risk taking because, "the most substantial asset classification on the bank's balance sheet consists of loans" (Allen and Saunders, 2015, pg. 162), and credit risk measures the risk of default on those loans (Bessis, 2015).

We use three indicators to measure our construct of credit risk: (i) allowance for loan losses/total assets, (ii) provision for loan losses/total assets, and (iii) net loan charge-offs/total assets (Kolari *et al.*, 2002). An allowance is a negative entry under assets reducing the value of assets to compensate for the expected defaults or other problems in loan repayment,[4] while provision for loan losses is the income statement entry associated with changes in the allowance. Net loan charge-offs are the actual loan losses recognized in a given period. Textbook treatments of credit risk consider these the three main credit risk measures (e.g., Bessis, 2015). Following

[4] https://www.federalreserve.gov/supervisionreg/topics/alll.htm.

Martin, Gomez-Mejia, & Wiseman (2013), we factor analyzed these three measures of credit risk. Our factor analysis produced a single factor explaining 81.7% of the variance with an Eigenvalue of 2.45. This analysis supports grouping these three variables in a composite score for credit risk. Therefore, we calculated a single *credit risk* score as the standardized factor score for this common factor. A higher score on this variable corresponds to greater risk taking.

We use *small business loans*, our second dependent variable, as our measure of community investment. We calculated this variable as the log of the total dollar amount of small business loans that the bank has outstanding. Small business loans include commercial and industrial loans "with principal less than or equal to $1 million, which are typically extended to small firms" and not secured by farm or nonresidential properties (Federal Reserve Board of Governors, 2017, pg. 8). Federal regulations require that banks disclose the number and amount of small business loans in their Call Reports (FDIC, 2016). We take the log of small loans to reduce skewness and kurtosis.

In the Online Appendix, we provide a more detailed description of our reasons for choosing these two dependent variables.

Independent variables – PRA is normally calculated as firm performance minus aspirations. Researchers construct aspirations using either the performance of comparable organizations (*social aspirations*) or the organization's past performance (*historical aspirations*). We test our

hypotheses using both types of aspirations, with broadly consistent results. We estimate separate models with performance relative to social aspirations and performance relative to historical aspirations. Bromiley and Harris (2014) found models including separate values for the two aspirations empirically preferable to weighted aspirations models, which combine social and historical aspiration through user-defined weighting. We deviate from Bromiley and Harris (2014) in that we estimate separate models for historical and social aspirations to avoid having two measures of a similar construct in a given estimation model. However, our results are consistent when including both social and historical aspirations in the same model.

We measure social aspirations by the industry median return on assets (ROA) (Mezias, Chen, and Murphy, 2002; Miller and Bromiley, 1990) and measure PRA as the difference between the firm's performance and the industry median ROA in the prior year (time t-1). For robustness, we also used the mean industry ROA, with similar results. Social aspirations reflect the fact that banks closely monitor the performance of other banks, especially because the performance of other banks significantly influences the banks' own competitiveness (Kane, 1996; Kim and Miner, 2007; Knott and Posen, 2005). Moreover, the FDIC regularly collects and discloses industry-level financial performance in the banking industry, and produces a quarterly report that, "provides a comprehensive summary of the most current financial results for the banking industry."[5] Industry ROA appears on

[5] https://www.fdic.gov/bank/analytical/quarterly/.

the first page of these reports, indicating it represents a suitable and easily observable benchmark for setting aspiration levels.

We measure historical aspirations as the prior year's performance (i.e., ROA) and measure PRA as the difference between the current year's performance and the previous year's performance. Because we lag these variables, historical PRA equals the difference between firm performance in t-1 and t-2.

Because our theory posits that exceeding and falling below aspiration levels have different effects, we calculate separate variables for negative and positive PRA. We measure *negative PRA* as zero if PRA is positive, and equal to PRA if it is negative. Similarly, we measure *positive PRA* as zero if the PRA is negative, and equal to the PRA if it is positive. Accordingly, our measures indicate not only if the firm exceeds or falls below aspirational level, but also by how much. These measures follow previous research (e.g., Desai, 2015; Lim and McCann, 2013). To address potential outliers, we follow Bromiley and Harris (2014) and winsorize these independent variables at the two percent (2%) level. Our results are also robust to not winsorizing, and to winsorizing at the 1% and 5% levels.

Following previous financial literature, we measure *community bank* as a binary variable, equal to zero (0) if the bank's total assets exceed $1 billion, and equal to one (1) if the bank's total assets do not exceed that amount (e.g. DeYoung, Hunter, & Udell, 2004; Hays, De Lurigo, & Gilbert, 2009). For robustness, we replicated the analysis using a $1.2 billion cutoff

and a $0.8 billion cutoff. We obtained similar results (available on request) at all three cutoff levels.

Controls – We include numerous variables to control for factors which may influence the overall level of risk taking and small business investment. Larger firms may engage in more risk taking and community investment because they have greater scale (Stanwick and Stanwick, 1998). As such, we control for *firm size*, which we measure as the log of total employees. Firms with higher profits and assets could engage in more risk taking and community investment. Accordingly, we control for multiple measures of firm financial condition. More specifically, we control for *profitability* (net interest income/total assets), *capitalization* (total equity/total assets), *liquidity* (total securities/total assets), and *liabilities* (certificates of deposit/total deposits). We also constructed a product *concentration* measure by taking the sum of squared ratios of consumer loans, real estate loans, agriculture loans, and total securities to total assets. These controls are, “fairly standard measures of bank condition that regulators, investors, and other interested parties monitor over time in performance evaluations” (Kolari et al., 2002, pg. 367).

To control for banks engaging in trading and investment banking activities, fundamentally different businesses than retail and commercial banking, we controlled for the log of bank revenue in investment banking, underwriting and advising activities (*I-bank fees*), and for revenue the bank earned in trading for its own account (*trading revenue*). We scaled *trading*

revenue by 1,000,000 for ease of interpretability. We did not take the natural log of trading revenue due to the large number of negative values.

Loan demand could influence small business lending. Consequently, we include the total number of approved loans guaranteed by the U.S. Small Business Administration (SBA) in the state in which the focal bank is headquartered. The SBA does not directly grant loans, but provides a government-backed partial guarantee that enables third-parties (banks and credit unions) to issue small business credit. The SBA will reimburse lenders from 50 to 85% of the loan amount if the borrower defaults. While this reduces the down-side risk of SBA loans, such loans still require full up-front funding from the lender. Our *SBA loans* measure includes approved loans from both the SBA 504 and the SBA 7(a) programs, which directly target to small business and entrepreneurs. A higher value of this variable represents a greater demand for small business loans. We obtained data on SBA loans from the agency's website.[6] We scaled SBA loans by 1,000 for ease of interpretability. Both large and small banks can participate in the SBA loan program.

We also control for whether the bank is *de novo,* i.e., in existence for fewer than five years and founded by individuals with no corporate parent. De novo banks face greater regulation in their first five years (Almandoz, 2012). Also, de novo banks provide a higher percentage of small business loans than more established banks (e.g., Goldberg & White, 1998). We take

[6] https://www.sba.gov/about-sba/sba-performance/open-government/foia/frequently-requested-records/sba-7a-504-loan-data-reports.

this data from SNL Financial's comprehensive list of de novo banks. Finally, we include year dummy variables to control for the influence of specific years and other time-dependent variation, and to mitigate the issue of contemporaneous correlation in panel data.

Estimation methods – We use a fixed effects estimation model because our theorizing deals with within-bank changes over time. We lag all independent and control variables one year, and we account for robust clustered standard errors at the bank level. By using a fixed effects estimation model (which accounts for stable firm characteristics), including year dummies, and lagging all independent and control variables, we strengthen our ability to make causal inferences from our data.

RESULTS

Table 1 reports selected summary statistics comparing community and noncommunity banks. Table 2 reports the summary statistics and correlations for our dependent and independent variables. Tables 3 and 4 present the results of our estimates using credit risk as the dependent variable. Tables 5 and 6 present our results using small business loans as the dependent variable. We show our results in a hierarchical fashion. The maximum variance inflation factors (VIFs) for the independent variables in all our models is less than three (3), and the mean VIF was 1.6 indicating that multicollinearity is not a concern.

- Insert Tables 1-4 and Figs. 1a & 1b about here -

Table 1 demonstrates that community and noncommunity banks differ markedly. Although by definition community banks are much smaller (mean assets $233 million versus $24.3 billion for noncommunity banks), they take less credit risk than noncommunity banks (mean credit risk of -0.01 versus 0.43 for noncommunity banks). This means that community banks average slightly below the industry mean credit risk, while noncommunity banks average almost one half a standard deviation above the industry mean. Community banks also engage in much less “nonstandard” banking, with trading revenue averaging 0.3% of net income for community banks versus 25% for noncommunity banks, and investment bank fees averaging 4.7% of net income for community versus 48% for noncommunity banks.

Examining correlations in Table 2, positive and negative social PRA and negative historical PRA associate negatively with credit risk. The association of positive historical PRA with credit risk is close to zero. Since lower performance corresponds to more negative PRA, this suggests that as performance goes further below aspirations, banks overall increase credit risk. No such association appears for positive PRA. However, these bivariate analyses lack controls, such that we now turn to the full model estimates.

Table 3 reports results showing the effect of social PRA and community banks on credit risk, while Table 4 reports results showing the effect of historical PRA and community banks on credit risk. Given the similarity of results using the two different measures of PRA, we discuss the results of

Tables 3 and 4 together. To avoid omitted variable bias, we interpret the fully saturated models (Models 5 and 10).

Tables 3 and 4 confirm our assumption that negative PRA increases risk taking for noncommunity banks for both social and historical aspirations (b = - 92.6, $p < 0.001$; b = - 161.9, $p < 0.001$, respectively). Because we include a dummy for community banks and interact this with social and historical aspirations, the main effects on social and historical aspirations are the effects for noncommunity banks.

H1 predicts that the negative relation between negative PRA and risk taking will be weaker for community banks. Consistent with H1, in Model 5 of Table 3 the coefficient of the interaction term between negative social PRA and community bank is positive with an extremely low p value (b = 48.95, $p < 0.001$). Similarly, in Model 10 of Table 4 the coefficient of the interaction between negative historical PRA and community bank is positive with an extremely low p value (b = 87.18, $p < 0.001$). These p values indicate that we can be confident the observed parameters differ from zero.

Figure 1a graphs the effect of the interaction of negative social PRA and being a community bank on predicted credit risk, while Figure 1b graphs the interaction effect using negative historical PRA. The graphs are very similar, and show credit risk increases as negative PRA becomes more negative, but that this effect is much greater for noncommunity banks than for community banks (i.e., the line is much steeper). Further, the predicted values for noncommunity banks appear above those for community banks,

aligning with prior research finding community banks take less credit risk than noncommunity banks.

The difference between community and noncommunity banks has both statistical and practical significance. Because we derive our measure of credit risk from a factor analysis with no inherent economic scale, we provide effect sizes in terms of standard deviations. A two standard deviation reduction in negative social PRA raises predicted credit risk by over one standard deviation (1.21 SD) for noncommunity banks, but only by about one-half a standard deviation (0.57 SD) for community banks. Similarly, a two standard deviation reduction in negative historical PRA raises predicted credit risk by more than one standard deviation (1.34 SD) for noncommunity banks, but by a little over one-half a standard deviation (0.62 SD) for community banks. Thus, the effect of negative PRA, using either social or historical measures, on credit risk in noncommunity banks is more than twice as large as it is in community banks.

Regarding the control variables, firm size, State SBA loans, fees, profitability, liabilities, and diversification associate with higher credit risk while liquidity, small business loans, and being a de novo bank associate with lower credit risk. While the influence of being a community bank varies with performance level, a community bank with performance equal to the social or historical aspirations level engages in less credit risk than a noncommunity bank ($b = - 0.356$, $p < 0.001$ for social and $b = - 0.168$, $p < 0.001$ for historical).

We did not offer hypotheses regarding the effect of positive PRA on credit risk. However, we note that our results are generally consistent with the BTOF prediction that firms with positive PRA decrease their risk taking. For community banks, the overall effects of positive social PRA and positive historical PRA are negative and statistically significant. In noncommunity banks, positive social PRA has a negative and statistically significant influence on credit risk, but positive historical PRA has a positive and statistically significant influence.

- Insert Tables 5 & 6 and Figs 2a and 2b about here-

Moving to small business loans (Tables 5 and 6, models 15 and 20), regarding our assumption of the main effect, for noncommunity banks, we find a small and statistically non-significant influence of positive social PRA on small business loans (b = 1.027, $p = 0.851$), and a negative significant influence of positive historical PRA on small business loans (b = - 28.467, $p < 0.001$).

H2 predicts that the positive relation between positive PRA and small business lending will be stronger for community banks. Consistent with H2, in Model 15 of Table 5 the coefficient of the interaction term between positive social PRA and community bank is positive with an extremely low p value (b = 22.14, $p < 0.001$), and in Model 20 of Table 6 the coefficient of the interaction term between positive historical PRA and community bank is positive with an extremely low p value (b = 24.11, $p < 0.001$). Again, these p

values indicate that we can be highly confident that the true parameter differs from zero.

Figure 2a graphs the interaction effect of positive social PRA and community bank on small business loans. The graph shows that small business loans increase as positive social PRA increases in community banks, but not in noncommunity banks. Figure 2b graphs the effect of the interaction of positive historical PRA and community bank on small business loans. The graph shows that small business loans decrease as positive historical PRA increases in noncommunity banks, but not in noncommunity banks. For community banks, small business loans remain steady as positive historical PRA increases.

Again, this difference is substantively important. For noncommunity banks, positive social PRA does not affect small business lending. However, a two-standard deviation increase in positive PRA increases small business lending in community banks by approximately 30.6%. Considering that community banks in our sample have an average portfolio value of small business loans of approximately $13 million, this leads to an increase of approximately $3,913,000 in small business loans. With respect to positive historical PRA, for community banks, positive historical PRA does not affect small business lending. However, a two-standard deviation increase in positive PRA decreases small business lending in noncommunity banks by approximately 20.4%.

Regarding the control variables, firm size, State SBA loans, liabilities, diversification, and de novo bank associate with higher small business lending while profitability, capitalization, liquidity, and credit risk associate with lower small business lending. While the influence of being a community bank varies with performance level, a community bank with performance equal social aspirations engages in more small business loans than a noncommunity bank (b = 0.264, $p < 0.001$).

While we did not offer hypotheses regarding the effect of negative PRA on small business lending, we note that, in community banks the coefficient of negative social and historical PRA is positive and significant, indicating a negative influence on small business lending (i.e., more negative PRA means a decrease in small business lending). For noncommunity banks, negative social and historical PRA also reduce small business lending, but to a higher degree than for community banks. This evidence suggests that banks do not increase small business loans to solve a low PRA problem.

Overall, these results confirm the prediction that being a community bank influences how firms respond to PRA. As a final consideration, we also note that our results support the main tenets of BTOF research on PRA, namely that negative PRA motivates differing resource allocation and that positive PRA decreases risk (Bromiley, 1991; Greve, 2003). Indeed, our models show that, on average, negative PRA leads to lower levels of small business lending and that positive PRA leads to a decrease in risk-taking. Although we took these effects as a baseline – to focus on the moderating

effect of being a community bank – we find robust validation of this general mechanism in our banking sample.

Robustness checks and alternative specifications

We defined being community bank using a cutoff in assets, which results in some firms switching between community and noncommunity. As an alternative test, we estimated separate models only using banks always classified as either community and banks always classified as noncommunity (please refer to Online Appendix). This split-sample design allowed us to focus only on the time series variation of interest (i.e., PRA) precluding the possibility of variations in being a community bank. Our results were consistent with the analyses we present here. The only potentially interesting difference was that the effect of positive historical PRA increasing risk taking in noncommunity banks was not paralleled by our original analyses, which included all banks. The difference between historical and social PRA in noncommunity banks merits future research consideration. We include a more complete description of these results in the Online Appendix.

We also performed numerous additional analyses to test the robustness of our results. We include the descriptions of these additional analyses in the Online Appendix.

DISCUSSION

In this paper, we combine the BTOF theory of how organizations respond to performance feedback with sociological concept of community embeddedness to show how community orientation influences firm

responses to performance relative to aspirations (PRA). We predict and show that community banks, smaller firms that exhibit a local community orientation and pursue both financial and community goals (Almandoz, 2014), respond differently than noncommunity banks do to PRA. More specifically, we differentiate between two responses based on the features of locally embedded firms. First, we find that community oriented firms express a different PRA-induced response to risk taking. While both community and noncommunity banks increase their risk taking in response to negative PRA (as the BTOF would predict), community banks do so to a lesser extent than noncommunity banks do. Second, we find a sequential attention to secondary goals response. That is, positive PRA lets community banks pursue a secondary goal of community support. Specifically, community banks increase small business loans with increasing positive social PRA while noncommunity banks do not, and community banks hold constant small business loans with increasing historical PRA, while noncommunity decrease such loans.

Our study makes several contributions. First, we extend the BTOF by showing that a community orientation moderates its predictions. This contributes to the growing literature exploring the link between aspirations and firm orientation (e.g., Audia *et al.*, 2000; Bromiley and Souder, 2012; Gebauer, 2009; Simsek, Heavey, and Veiga, 2010). By adding community orientation to the BTOF tradition, we respond to calls for a socially-embedded view on the process of adaptation to PRA (Gavetti, Levinthal, and

Ocasio, 2007; O'Brien and David, 2014). This view seeks to deepen understanding of how a firm's orientation shapes decision making, affecting interpretation and response to PRA. Also, it allows us to strengthen theory-building by exploring the boundary conditions where BTOF predictions may need further refinement.

Second, we add to the literature showing that community orientation leads to strategic and operational choices that have important implications for key firm behaviors, such as risk taking and community investment. Prior BTOF research shows that Japanese firms (assumed to be more communitarian than U.S. firms) tend to increase R&D investments with positive PRA as a way to "pay forward" to their stakeholders by enabling future opportunities (O'Brien and David, 2014). O'Brien and David (2014) also showed variation in ownership changed the influence of PRA on R&D. Our study builds on this research to examine how differences in (local) community orientation in U.S. banks influence both risk taking and community investment. Community oriented firms develop organizational characteristics which increase risk aversion, translating into a lower risk taking as a solution to poor performance. Also, parallel to O'Brien and David's (2014) "pay forward" concept, community banks use the leeway from positive PRA to "pay forward" to community stakeholders by supporting local businesses, even at the cost of lower short-term returns.

Third, our study adds to the growing research on adaption to PRA when addressing multiple goals (e.g., Ethiraj and Levinthal, 2009; Gaba and

Bhattacharya, 2012). This research focuses on how firms manage multiple goals that lead to conflicting courses of action (e.g., Audia & Brion, 2007; Dye, Eggers, & Shapira, 2014) or are managed differently depending on the processing unit (e.g., Gaba and Joseph, 2013; Joseph and Gaba, 2015). Other studies in this stream focus on how performance interacts with different goals, including externally imposed rankings (Rowley, Shipilov, and Greve, 2017), innovation objectives (Gaba and Bhattacharya, 2012), and social goals (Stevens *et al.*, 2015).

Our study complements these efforts by examining how positive PRA enables locally-embedded firms to attend to the goal of "giving back" to their communities by shifting their resource allocation and, in our case, by increasing their emphasis on local lending. Both our quantitative results and qualitative insights suggest that community oriented firms attend to multiple goals sequentially, first emphasizing the higher-priority goal of performance and then increasing attention to secondary community objectives. However, we relax sequential goal theory's strong assumption of goal switching. In our context, such a view would suggest that banks either "ignore" (secondary) local lending goals until they satisfy (primary) profit goals (which is untrue because community banks issue small loans all the time), or start ignoring profit goals the moment they pass a certain threshold (which is highly unlikely given their high scrutiny). Instead, we advance a more general (and nuanced) mechanism, namely that exceeding expectations on a primary goal allows firms to *marginally* increase their attention to a secondary goal. In a

mirror image of how agency theorists argue free cash flow (which has a strong association with high performance) frees self-interested managers to indulge in self-enriching behaviors (Brush, Bromiley, and Hendrickx, 2000), high performance allows community-oriented firms indulge in less self-interested, community objectives.

While we limited our analysis to the banking sector, our mechanism of how firms attend to financial and community goals potentially could apply to many organizations. The vast majority of organizations still operate at a local level and within geographical boundaries (Marquis and Battilana, 2009), suggesting that a substantial number of these firms may develop complex goal structures and that local norms of reciprocity play a significant role in their resource allocation decisions. Moreover, novel organizational forms such as “benefit corporations” and social enterprises expressly pursue multiple goals besides profits (Murray, 2012; Stevens *et al.*, 2015). This increases the set of firms with more complex goal structures that incorporate profitability with other non-financial goals, such as supporting the community.

Fourth, we provide an empirical contribution by extending and replicating BTOF findings using aggregate data from the banking industry. The bulk of BTOF literature examines manufacturing firms (e.g., Lim and McCann, 2013). Much of the previous banking research from the BTOF (McNamara and Bromiley, 1997, 1999; McNamara, Moon, and Bromiley, 2002; Sutcliffe and McNamara, 2001) focuses on individual loan decisions

rather than aggregate bank activities. Other behavioral work using bank data looks at vicarious learning (Kim and Miner, 2007), market expansion (Barreto, 2009), and determination of aspirations (Mezias *et al.*, 2002). Our sample permits us to replicate and extend BTOF predictions to aggregate firm outcomes in an industry where risk taking differs fundamentally from that in manufacturing firms. Thus, we increase the BTOF's generalizability by validating its main tenets in an alternative sample (Bettis *et al.*, 2016), namely banking (see also Wiseman and Catanach, 1997). Also, our measure of credit risk allows us to more directly gauge risk taking, thereby responding to recent calls to develop more robust risk taking measures (Bromiley, Rau, and Zhang, 2017; Holmes *et al.*, 2011).

Our study, like all studies, has limitations. We focused on credit risk and small business lending as proxies for risk taking and community investment, respectively. While we believe that credit risk is the most relevant measure of risk as a response to poor performance, since relaxing lending standards lies within bank control, some banks may choose to increase other risks, such as M&A or expansion. Similarly, community goals could go beyond small business lending, which banks may still justify on economic terms, to more altruistic investments in the community, such as local philanthropy. Accordingly, future research could examine how a community orientation shapes philanthropy and how this effect interacts with PRA. Second, there are some challenges in comparing community and noncommunity banks. As we note above, they differ sharply not only in size

and geographic scope, but also in their business models. Therefore, comparisons between these types of organizations should be done cautiously.

REFERENCES

Allen L, Saunders A. 2015. Risk Management in Banking. In *The Oxford Handbook of Banking*, Berger AN, Molyneux P, Wilson JOS (eds). Oxford University Press: London, UK: 161–183.

Almandoz J. 2012. Arriving at the Starting Line: The Impact of Community and Financial Logics on New Banking Ventures. *Academy of Management Journal* **55**(6): 1381–1406.

Almandoz J. 2014. Founding Teams as Carriers of Competing Logics: When Institutional Forces Predict Banks' Risk Exposure. *Administrative Science Quarterly* **59**(3): 442–473.

Audia PG, Brion S. 2007. Reluctant to Change: Self-enhancing Responses to Diverging Performance Measures. *Organizational Behavior and Human Decision Processes* **102**(2): 255–269.

Audia PG, Greve HR. 2006. Less Likely to Fail: Low Performance, Firm Size, and Factory Expansion in the Shipbuilding Industry. *Management Science* **52**(1): 83–94.

Audia PG, Locke E, Smith K. 2000. The Paradox of Success: An Archival and a Laboratory Study of Strategic Persistence Following Radical Environmental Change. *Academy of Management Journal* **5**(5): 837–853.

Avraham D, Selvaggi P, Vickery J. 2012. A Structural View of U.S. Bank Holding Companies. *Economic Policy Review* **18**(2): 65–81.

Bansal P, Roth K. 2000. Why Companies Go Green: A Model of Ecological Responsiveness. *Academy of Management Journal* **43**(4): 717–736.

Barreto I. 2009. Dynamic Capabilities: A Review of Past Research and an Agenda for the Future. *Journal of Management* **36**(1): 256–280.

Berger AN, Udell GF. 2002. Small Business Credit Availability and Relationship Lending: The Importance of Bank Organizational Structure. *The Economic Journal* **112**(477): F32–F53.

Berrone P, Cruz C, Gomez-Mejia LR, Larraza-Kintana M. 2010. Socioemotional Wealth and Corporate Responses to Institutional Pressures: Do Family-Controlled Firms Pollute Less? *Administrative Science Quarterly* **55**(1): 82–113.

Bessis J. 2015. *Risk Management in Banking*, 4th ed. John Wiley & Sons: Hoboken, NJ.

Bettis RA, Helfat CE, Shaver JM. 2016. The Necessity, Logic, and Forms of Replication. In *Strategic Management Journal*, 37: 2193–2203.

Bourgeois LJ. 1981. On the Measurement of Organizational Slack. *Academy of Management review* **6**(1): 29–39.

Bromiley P. 1991. Testing a Causal Model of Corporate Risk Taking and Performance. *Academy of Management Journal* **34**(1): 37–59.

Bromiley P. 2004. *The Behavioral Foundations of Strategic Management*. Blackwell: Malden, MA.

Bromiley P, Harris JD. 2014. A Comparison of Alternative Measures of Organizational Aspirations. *Strategic Management Journal* **35**(3): 338–357.

Bromiley P, Rau D, Zhang Y. 2017. Is R&D Risky? *Strategic Management Journal* **38**(4): 876–891.

Bromiley P, Souder D. 2012. Explaining Temporal Orientation: Evidence from the Durability of Firms' Capital Investments. *Strategic Management Journal* **33**(5): 550–569.

Brush TH, Bromiley P, Hendrickx M. 2000. The Free Cash Flow Hypothesis for Sales Growth and Firm Performance. *Strategic Management Journal* **21**(4): 455–472.

Chen W, Miller KD. 2007. Situational and Institutional Determinants of Firms' R&d Search Intensity. *Strategic Management Journal* **28**(4): 369–381.
Cyert R, March JG. 1963. *A Behavioral Theory of the Firm*. Englewood Cliffs: New Jersey.
Desai VM. 2015. The Behavioral Theory of the (Governed) Firm: Corporate Board Influences on Organizations' Responses to Performance Shortfalls. *Academy of Management Journal* **59**(3): 860–879.
Desai VM. 2018. Collaborative Stakeholder Engagement: An Integration between Theories of Organizational Legitimacy and Learning. *Academy of Management Journal* **61**(1): 1–53.
DeYoung R, Hunter WC, Udell GF. 2004. The Past, Present, and Probable Future for Community Banks. *Journal of Financial Services Research* **25**(2/3): 85–133.
Dorobantu S, Henisz WJ, Nartey L. 2017. Not All Sparks Light a Fire: Stakeholder and Shareholder Reactions to Critical Events in Contested Markets. *Administrative Science Quarterly* **62**(3): 561–597.
Dye KC, Eggers JP, Shapira Z. 2014. Trade-offs in a Tempest: Stakeholder Influence on Hurricane Evacuation Decisions. *Organization Science* **25**(4): 1009–1025.
Eggers JP, Suh J-H. 2019. Experience and Behavior: How Negative Feedback in New Versus Experienced Domains Affects Firm Action and Subsequent Performance. *Academy of Management Journal* **62**(2): 309–334.
Elyasiani E, Goldberg LG. 2004. Relationship Lending: A Survey of the Literature. *Journal of Economics and Business* **56**(4): 315–330.
Ethiraj SK, Levinthal D. 2009. Hoping for A to Z While Rewarding Only A: Complex Organizations and Multiple Goals. *Organization Science* **20**(1): 4–21.
Fauchart E, Gruber M. 2011. Darwinians, communitarians, and missionaries: the role of founder identity in entrepreneurship. *Academy of Management Journal* **54**(5): 935–957.
FDIC. 2012. Federal Deposit Insurance Corporation Community Banking Study (December): 1–102.
FDIC. 2016. Instructions for Preparation of Consolidated Reports of Condition and Income.
Federal Reserve Board of Governors. 2017. *Report to the Congress on the Availability of Credit to Small Businesses*. *Small Business Lending: Credit Availability and Market Conditions*. Washington D.C.
Frank R, Gilovich T, Regan D. 1993. Does Studying Economics Inhibit Cooperation? *The Journal of Economic Perspectives* **7**(2): 159–171.
Freeman J, Audia PG. 2011. Community Context and Founding Processes of Banking Organizations. In *Research in the Sociology of Organizations: Communities and Organizations*, Marquis C, Lounsbury M, Greenwood R (eds). Emerald Group Publishing: Bradford, UK, 33: 253–282.
Gaba V, Bhattacharya S. 2012. Aspirations, Innovation, and Corporate Venture Capital: A Behavioral Perspective. *Strategic Entrepreneurship Journal*. Wiley Online Library **6**(2): 178–199.
Gaba V, Joseph J. 2013. Corporate Structure and Performance Feedback: Aspirations and Adaptation in M-Form Firms. *Organization Science* **24**(4): 1102–1119.
Gavetti G, Levinthal DA, Ocasio W. 2007. Neo-Carnegie: The Carnegie school's past, present, and reconstructing for the future. *Organization Science* **18**(3): 523–536.
Gebauer H. 2009. An Attention-based View on Service Orientation in the Business Strategy of Manufacturing Companies. *Journal of Managerial Psychology* **24**(1):

79–98.
Goldberg LG, White LJ. 1998. De Novo Banks and Lending to Small Businesses: An Empirical Analysis. *Journal of Banking & Finance* **22**(6–8): 851–867.
Gomez-Mejia L, Berrone P, Franco-Santos M. 2010. *Strategic Compensation and Performance*. ME Sharpe: New York.
Gomez-Mejia LR, Haynes KT, Núñez-Nickel M, Jacobson KJL, Moyano-Fuentes J. 2007. Socioemotional Wealth and Business Risks in Family-Controlled Firms: Evidence from Spanish Olive Oil Mills. *Administrative Science Quarterly*. Johnson Graduate School **52**(1): 106–137.
Greenwood R, Díaz AM, Li SX, Lorente JC. 2010. The Multiplicity of Institutional Logics and the Heterogeneity of Organizational Responses. *Organization Science* **21**(2): 521–539.
Greve HR. 2003. *Organizational Learning from Performance Feedback A Behavioral Perspective on Innovation and Change*. Cambridge University Press: New York.
Greve HR. 2008. A Behavioral Theory of Firm Growth: Sequential Attention to Size and Performance Goals. *Academy of Management Journal* **51**(3): 476–494.
Greve HR, Gaba V. 2017. Performance Feedback in Organizations and Groups: Common Themes. In *The Oxford Handbook of Group and Organizational Learning*, Argote L, Levine JM (eds). Oxford University Press: 1–45.
Hays F, De Lurigo SA, Gilbert AH. 2009. Efficiency Ratios and Community Bank Performance. *Journal of Finance and Accountancy* **1**(1): 1–15.
Henriques I, Sadorsky P. 1999. The Relationship between Environmental Commitment and Managerial Perceptions of Stakeholder Importance. *Academy of Management Journal* **42**(1): 87–99.
Holmes RM *et al.* 2011. Management Theory Applications of Prospect Theory: Accomplishments, Challenges, and Opportunities. *Journal of Management* **37**(4): 1069–1107.
Hoskisson RE, Chirico F, Zyung J (Daniel), Gambeta E. 2017. Managerial Risk Taking: A Multitheoretical Review and Future Research Agenda. *Journal of Management* **43**(1): 137–169.
Iyer DN, Miller KD. 2008. Performance Feedback, Slack, and the Timing of Acquisitions. *Academy of Management Journal* **51**(4): 808–822.
Jiménez G, Lopez JA, Saurina J. 2013. How Does Competition Affect Bank Risk-taking? *Journal of Financial stability* **9**(2): 185–195.
Joseph J, Gaba V. 2015. The Fog of Feedback: Ambiguity and Firm Responses to Multiple Aspiration Levels. *Strategic Management Journal* **36**(13): 1960–1978.
Joseph J, Klingebiel R, Wilson AJ. 2016. Organizational Structure and Performance Feedback: Centralization, Aspirations, and Termination Decisions. *Organization Science* **27**(5): 1065–1083.
Kacperczyk AJ. 2009. With Greater Power Comes Greater Responsibility? Takeover Protection and Corporate Attention to Stakeholders. *Strategic Management Journal* **30**(3): 261–285.
Kane EJ. 1996. Fair Trade Glossary. *Journal of Money, Credit and Banking* **28**(2): 141–161.
Kavadis N, Castañer X. 2015. Who Drives Corporate Restructuring? Co-Existing Owners in French Firms. *Corporate Governance: An International Review* **23**(5): 417–433.
Keum DD, Eggers JP. 2018. Setting the Bar: The Evaluative and Allocative Roles of Organizational Aspirations. *Organization Science* **29**(6): 1170–1186.
Kim J-Y, Miner AS. 2007. Near-failures of others: Evidence from the U. S. commercial

banking industry. *Academy of Management Journal* **50**(2): 687–714.
Knott AM, Posen HE. 2005. Is failure good? *Strategic Management Journal* **26**(7): 617–641.
Kolari J, Glennon D, Shin H, Caputo M. 2002. Predicting Large US Commercial Bank Failures. *Journal of Evonomics and Business* **54**(April): 361–387.
Kuusela P, Keil T, Maula M. 2017. Driven by Aspirations, But in What Direction? Performance Shortfalls, Slack Resources, and Resource-consuming vs. Resource-freeing Organizational Change. *Strategic Management Journal* **38**(5): 1101–1120.
Lim ENK, McCann BT. 2013. Performance Feedback and Firm Risk Taking: The Moderating Effects of CEO and Outside Director Stock Options. *Organization Science* **25**(1): 262–282.
Lumpkin GT, Dess GG. 1996. Clarifying the Entrepreneurial Orientation Construct and Linking it to Performance. *Academy of Management Review* **21**(3): 605–607.
March JG. 1989. *Decisions and Organizations*. Basil Blackwell: New York.
March JG. 1994. *A Primer on Decision Making: How Decisions Happen*. The Free Press: New York.
March JG, Simon H. 1958. *Organizations*. Wiley: New York.
Marquis C, Battilana J. 2009. Acting Globally but Thinking Locally? The Enduring Influence of Local Communities on Organizations. *Research in Organizational Behavior* **29**: 283–302.
Marquis C, Huang Z. 2010. Acquisitions as Exaptations: The Legacy of Founding Institutions in the U.S. Commercial Banking Industry. *Academy of Management Journal* **53**(6): 1441–1473.
Marquis C, Lounsbury M. 2007. Vive La Résistance: Competing Logics and the Consolidation of U.S. Community Banking. *Academy of Management Journal* **50**(4): 799–820.
Martin GP, Gomez-Mejia LR, Wiseman RM. 2013. Executive Stock Options as Mixed Gambles: Revisiting the Behavioral Agency Model. *Academy of Management Journal*. Academy of Management **56**(2): 451–472.
McNamara G, Bromiley P. 1997. Decision Making in an Organizational Setting : Cognitive and Organizational Influences on Risk Assessment in Commercial Lending. *Academy of Management Journal* **40**(5): 1063–1088.
McNamara G, Bromiley P. 1999. Risk and Return in Organizational Decision Making. *Academy of Management Journal* **42**(3): 330–339.
McNamara G, Moon H, Bromiley P. 2002. Banking on Commitment: Intended and Unintended Consequences of an Organization's Attempt to Attenuate Escalation of Commitment. *Academy of Management Journal* **45**(2): 443–452.
Mezias SJ, Chen Y-R, Murphy PR. 2002. Aspiration-Level Adaptation in an American Financial Services Organization: A Field Study. *Management Science* **48**(10): 1285–1300.
Miller KD, Bromiley P. 1990. Strategic Risk and Corporate Performance: an Analysis of Alternative Risk Measures. *Academy of Management Journal* **33**(4): 756–779.
Mills KG, McCarthy B. 2014. The State of Small Business Lending: Credit Access during the Recovery and How Technology May Change the Game. *Harvard Business School Working Paper* : 1–31.
Murray JH. 2012. Choose Your Own Master: Social Enterprise, Certifications, and Benefit Corporation Statutes. *American University Business Law Review* **2**(1): 1–53.

Naldi L, Nordqvist M, Sjöberg K, Wiklund J. 2007. Entrepreneurial Orientation, Risk Taking, and Performance in Family Firms. *Family Business Review* **20**(1): 33–47.
O'Brien JP, David P. 2014. Reciprocity and R&D search: Applying the behavioral theory of the firm to a communitarian context. *Strategic Management Journal* **51**(35): 550–565.
Palmer TB, Wiseman RM. 1999. Decoupling Risk Taking from Income Stream Uncertainty: A Holistic Model of Risk. *Strategic Management Journal* **20**(11): 1037–1062.
Ramanujam R. 2003. The Effects of Discontinuous Change on Latent Errors in Organizations: The Moderating Role of Risk. *Academy of Management Journal* **46**(5): 608–617.
Rowley TJ, Shipilov A V., Greve HR. 2017. Board Reform Versus Profits: The Impact of Ratings on the Adoption of Governance Practices. *Strategic Management Journal* **38**(4): 815–833.
Saari K, Hoffman B, Hamill G, Jakubowski A. 2014. *Partnering with Main Street: Opportunities for Growth in Small Business Lending*.
Saparito PA, Chen CC, Sapienza HJ. 2004. The Role of Relational Trust in Bank-Small Firm Relationships. *Academy of Management Journal* **47**(3): 400–410.
Sarasvathy DK, Simon HA, Lave L. 1998. Perceiving and Managing Business Risks: Differences Between Entrepreneurs and Bankers. *Journal of Economic Behavior & Organization* **33**(2): 207–225.
Sasson A. 2008. Exploring Mediators: Effects of the Composition of Organizational Affiliation on Organization Survival and Mediator Performance. *Organization Science* **19**(6): 891–906.
Seifert B, Morris SA, Bartkus BR. 2004. Having, Giving, and Getting: Slack Resources, Corporate Philanthropy, and Firm Financial Performance. *Business & Society* **43**(2): 135–161.
Semadeni M, Cannella AA, Fraser DR, Lee DS. 2008. Fight or Flight: Managing Stigma in Executive Careers. *Strategic Management Journal* **29**(5): 557–567.
Shinkle GA. 2012. Organizational Aspirations, Reference Points, and Goals: Building on the Past and Aiming for the Future. *Journal of Management* **38**(1): 415–455.
Simon HA. 1964. On the Concept of Organizational Goal. *Administrative Science Quarterly* **9**(1): 1–22.
Simon R. 2015, November 26. Big Banks Cut Back on Loans to Small Business. *The Wall Street Journal*.
Simsek Z, Heavey C, Veiga J (Jack) F. 2010. The Impact of CEO Core Self-evaluation on the Firm's Entrepreneurial Orientation. *Strategic Management Journal* **31**(1): 110–119.
Singh J V. 1986. Performance, Slack, and Risk Taking in Organizational Decision Making. *Academy of Management Journal* **29**(3): 562–585.
Stanwick PA, Stanwick SD. 1998. The Relationship Between Corporate Social Performance, and Organizational Size, Financial Performance, and Environmental Performance: An Empirical Examination. *Journal of Business Economics* **17**(2): 195–204.
Stevens R, Moray N, Bruneel J, Clarysse B. 2015. Attention Allocation to Multiple Goals: The Case of For-profit Social Enterprises. *Strategic Management Journal*. Wiley Online Library **36**(7): 1006–1016.
Sutcliffe KM, McNamara G. 2001. Controlling Decision-Making Practice in Organizations. *Organization Science* **12**(4): 484.
Sutton RI, Callahan AL. 1987. The Stigma of Bankruptcy: Spoiled Organizational

Image and Its Management. *Academy of Management Journal* **30**(3): 405–436.
The Independent Community Bankers of America. 2017. Community Banks Build Communities. Available at: http://www.icba.org/about/community-banking [9 November 2017].
Vissa B, Greve HR, Chen W-R. 2010. Business Group Affiliation and Firm Search Behavior in India: Responsiveness and Focus of Attention. *Organization Science* **21**(3): 696–712.
Wang T, Bansal P. 2012. Social responsibility in new ventures: profiting from a long-term orientation. *Strategic Management Journal* **1153**(33): 1135–1153.
Wiseman RM, Bromiley P. 1996. Toward a Model of Risk in Declining Organizations: An Empirical Examination of Risk, Performance and Decline. *Organization Science* **7**(5): 524–543.
Wiseman RM, Catanach C. 1997. A Longitudinal Disaggregation of Operational Risk Under Changing Regulations: Evidence from the Savings and Loan Industry. *Academy of Management Journal* **40**(4): 799–830.
Zahra SA. 2005. A Theory of International New Ventures: A Decade of Research. *Journal of International Business Studies* **36**(1): 20–28.
Zollo M, Singh H. 2004. Deliberate Learning in Corporate Acquisitions: Post-acquisition Strategies and Integration Capability in U.S. Bank Mergers. *Strategic Management Journal* **25**(13): 1233–1256.

TABLES AND FIGURES

Table 1. Selected Descriptive Statistics – Community and Noncommunity Banks

	Community Banks				Noncommunity Banks			
	Mean	S.D.	Min	Max	Mean	S.D.	Min	Max
Total assets (000)	232,917	225,642	1,391	999,448	24,300,000	145,000,000	1,000,000	2,420,000,000
Credit risk	-0.01	1.32	-12.35	53.89	0.43	1.93	-2.27	33.13
Small loans	12,866	20,192	0	272,773	146,586	787,960	0	25,500,000
ROA	0.01	0.02	-1.39	2.22	0.01	0.02	-0.30	0.27
Trading revenue (000)	4.88	226	-7675	16,306	41,630.53	717,598	-26,200,000	19,800,000
I bank fees (000)	69.25	500.18	-66.00	31,805	79,614	840,800	-2	18,700,000
Net income (000)	1,427	5,508	-351,000	439,941	166,559	1,260,000	-27,700,000	24,600,000

Table 2. Descriptive Statistics and Correlations.

	Variables	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9
1	Credit risk	0.04	1.42	-12.35	53.89									
2	Credit risk (t-1)	-0.01	1.25	-12.35	53.89	0.55								
3	Ln(Small loans)	5.49	4.87	0.00	17.05	-0.05	-0.02							
4	Ln(Small loans) (t-1)	5.35	4.87	0.00	17.05	-0.05	-0.01	0.95						
5	De novo bank	0.05	0.22	0.00	1.00	0.04	0.02	0.04	0.00					
6	Ln(Firm size)	4.02	1.36	0.00	12.92	0.13	0.13	0.05	0.06	-0.15				
7	State SBA loans (000)	2.11	2.26	0.00	14.53	0.00	-0.07	-0.05	-0.05	0.12	0.08			
8	Trading revenue (000,000)	0.00	0.25	-26.16	23.35	-0.01	0.00	0.00	0.00	0.00	0.10	0.00		
9	I bank fees	1.65	2.69	0.00	16.70	0.04	0.04	0.01	0.02	-0.12	-0.65	-0.01	0.09	
10	Profitability	0.04	0.01	-0.07	0.42	0.12	0.19	-0.01	0.00	0.15	-0.04	0.02	0.03	-0.09
11	Capitalization	0.11	0.06	-0.08	0.99	-0.02	-0.04	-0.02	-0.07	0.28	-0.18	0.07	0.00	0.12
12	Liquidity	0.21	0.15	0.00	0.99	-0.21	-0.19	0.03	0.03	-0.12	0.08	-0.02	-0.01	0.04
13	Liabilities	0.45	0.16	0.00	1.00	0.19	0.13	-0.03	-0.03	0.05	-0.22	0.09	-0.04	0.20
14	Concentration	0.33	0.12	0.00	1.38	0.17	0.11	-0.03	-0.04	0.05	-0.11	0.06	0.00	-0.00

													4	2
15	Negative social PRA	0.00	0.01	-0.02	0.00	-0.32	-0.51	0.05	0.07	-0.34	0.07	-0.52	0.02	0.08
16	Positive social PRA	0.00	0.00	0.00	0.01	-0.13	-0.18	0.05	0.06	-0.16	0.00	-0.05	0.00	0.00
17	Negative historical PRA	0.00	0.00	-0.01	0.00	-0.39	-0.47	0.02	0.01	0.03	-0.03	0.02	0.01	-0.00
18	Positive historical PRA	0.00	0.00	0.00	0.01	0.00	0.05	0.04	0.04	0.22	-0.04	0.00	0.00	-0.05
19	Community bank	0.88	0.32	0.00	1.00	-0.12	-0.11	0.07	0.06	0.08	-0.66	0.07	-0.05	-0.48

	Variables	Mean	S.D.	Min	Max	10	11	12	13	14	15	16	17	18
1				-0.0		-0.0								
1	Capitalization	0.11	0.06	8	0.99	4								
1						-0.1								
2	Liquidity	0.21	0.15	0.00	0.99	7	0.04							
1						-0.0	-0.0	-0.1						
3	Liabilities	0.45	0.16	0.00	1.00	3	2	8						
1							-0.1	-0.1	0.24					
4	Concentration	0.33	0.12	0.00	1.38	0.11	3	6						
1	Negative social	0.00	0.01	-0.02	0.00	0.23	-0.16	0.16	-0.13	0.05				
5	PRA													
1	Positive social	0.00	0.00	0.00	0.01	0.33	0.05	0.08	-0.10	-0.06	0.41			
6	PRA													
1	Negative	0.00	0.00	-0.01	0.00	0.04	0.04	0.11	-0.12	-0.07	0.49	0.21		
7	historical PRA													
1	Positive	0.00	0.00	0.00	0.01	0.03	0.05	-0.10	0.00	0.03	-0.10	0.05	0.26	
8	historical PRA													
1	Community bank	0.88	0.32	0.00	1.00	0.00	0.00	0.00	0.11	-	-	0.00	0.00	0.00

										0.0	0.0			
9		8	2	0	0	8	5	3	5	3	2	0	4	0

All correlations greater than 0.01 are significant at a 95% confidence level. We lag all independent and control variables one year

Table 3. Effect of Performance Relative to Social Aspirations on Credit Risk.

	Model 1			Model 2			Model 3			Model 4			Model 5		
Variables	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value
Ln(Firm size)	0.298	0.042	0.000	0.342	0.042	0.000	0.337	0.042	0.000	0.327	0.042	0.000	0.327	0.042	0.000
State SBA loans	0.012	0.008	0.143	0.021	0.008	0.005	0.022	0.008	0.005	0.023	0.008	0.004	0.022	0.008	0.004
Trading revenue	-0.033	0.011	0.004	-0.003	0.013	0.829	0.005	0.015	0.722	0.015	0.017	0.368	0.017	0.017	0.315
I bank fees	0.031	0.008	0.000	0.025	0.007	0.000	0.025	0.007	0.000	0.026	0.007	0.000	0.026	0.007	0.000
Profitability	-3.213	2.243	0.152	-11.893	1.894	0.000	-11.709	1.892	0.000	-11.031	1.903	0.000	-11.037	1.902	0.000
Capitalization	-0.206	0.272	0.448	-0.247	0.253	0.330	0.250	0.253	0.323	-0.128	0.252	0.611	-0.142	0.252	0.575
Liquidity	-0.828	0.108	0.000	-0.689	0.106	0.000	0.693	0.106	0.000	-0.697	0.106	0.000	-0.697	0.106	0.000
Liabilities	1.922	0.175	0.000	1.520	0.148	0.000	1.509	0.148	0.000	1.509	0.148	0.000	1.506	0.148	0.000
Concentration	-0.881	0.156	0.000	-1.401	0.154	0.000	-1.412	0.154	0.000	-1.406	0.153	0.000	-1.410	0.153	0.000
Ln(Small loans)	-0.028	0.003	0.000	-0.017	0.003	0.000	0.017	0.003	0.000	-0.017	0.003	0.000	-0.017	0.003	0.000
De novo bank	-0.089	0.053	0.090	-0.215	0.049	0.000	0.211	0.049	0.000	-0.206	0.049	0.000	-0.205	0.049	0.000
Positive social PRA				-58.694	2.776	0.000	-107.297	8.303	0.000	-57.495	2.777	0.000	-78.850	8.985	0.000
Negative social PRA				-51.110	2.261	0.000	-50.685	2.257	0.000	-97.489	7.003	0.000	-92.646	7.578	0.000
Community bank				-0.375	0.053	0.000	0.582	0.066	0.000	-0.254	0.048	0.000	-0.356	0.063	0.000
Pos social PRA X CB							-55.155	8.264	0.000				-24.097	8.725	0.006
Neg social PRA X CB										-54.417	7.321	0.000	-48.952	7.919	0.000
Firm fixed	Includ			Includ			Includ			Includ			Includ		

effects	ed Includ	ed Includ	ed Includ	ed Includ	ed Includ
Year dummies	ed	ed	ed	ed	ed
Adjusted R^2	0.165	0.217	0.219	0.222	0.222
F	230.1 49	262.2 95	252.2 05	256.1 72	245.4 94
N	7340 1	7340 1	73401	7340 1	7340 1

We include, but do not report, firm fixed effects and year dummies. We lag all independent and control variables one year. We include robust standard errors.

Table 4. Effect of Performance Relative to Historical Aspirations on Credit Risk.

	Model 6			Model 7			Model 8			Model 9			Model 10		
Variables	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value
Ln(Firm size)	0.298	0.042	0.000	0.202	0.040	0.000	0.205	0.040	0.000	0.198	0.040	0.000	0.192	0.040	0.000
State SBA loans	0.012	0.008	0.143	0.013	0.008	0.082	0.013	0.008	0.093	0.014	0.008	0.070	0.015	0.008	0.057
Trading revenue	-0.033	0.011	0.004	-0.003	0.013	0.785	-0.001	0.013	0.918	0.022	0.014	0.109	0.021	0.014	0.120
I bank fees	0.031	0.008	0.000	0.027	0.007	0.000	0.027	0.007	0.000	0.026	0.007	0.000	0.026	0.007	0.000
Profitability	-3.213	2.243	0.152	-2.700	1.996	0.176	-2.714	1.993	0.173	-2.593	1.993	0.193	-2.559	1.997	0.200
Capitalization	0.206	0.272	0.448	0.117	0.263	0.655	0.137	0.263	0.601	0.087	0.262	0.740	0.051	0.263	0.847
Liquidity	-0.828	0.108	0.000	-0.721	0.106	0.000	-0.716	0.106	0.000	-0.707	0.105	0.000	-0.713	0.105	0.000
Liabilities	1.922	0.175	0.000	1.676	0.164	0.000	1.673	0.165	0.000	1.664	0.164	0.000	1.669	0.164	0.000
Concentration	-0.881	0.156	0.000	-0.920	0.148	0.000	-0.916	0.148	0.000	-0.938	0.148	0.000	-0.946	0.148	0.000
Ln(Small loans)	-0.028	0.003	0.000	-0.025	0.003	0.000	-0.025	0.003	0.000	0.024	0.003	0.000	0.024	0.003	0.000
De novo bank	-0.089	0.053	0.090	-0.014	0.049	0.774	-0.015	0.049	0.764	-0.028	0.049	0.578	-0.028	0.049	0.572
Positive historical PRA				-1.870	2.108	0.375	-16.604	5.909	0.005	-2.841	2.105	0.177	-21.110	5.837	0.000
Negative historical PRA				-88.368	3.025	0.000	-88.268	3.022	0.000	-154.619	8.155	0.000	-161.904	8.552	0.000
Community bank				-0.393	0.053	0.000	-0.417	0.054	0.000	-0.224	0.049	0.000	-0.168	0.049	0.001
Pos historical PRA X CB							-16.794	6.266	0.007				-27.420	6.114	0.000
Neg historical PRA X CB										-78.714	8.593	0.000	-87.177	9.071	0.000

Firm fixed effects	Included	Included	Included	Included	Included
Year dummies	Included	Included	Included	Included	Included
Adjusted R^2	0.165	0.214	0.214	0.219	0.220
F	230.1 49	245.8 43	235.5 97	241.2 36	232.3 17
N	7340 1	7340 1	7340 1	73401	73401

We include, but do not report, firm fixed effects and year dummies. We lag all independent and control variables one year. We include robust standard errors.

Table 5. Effect of Performance Relative to Social Aspirations on Small Business Loans.

Variables	Model 11 Beta	SEs	p-value	Model 12 Beta	SEs	p-value	Model 13 Beta	SEs	p-value	Model 14 Beta	SEs	p-value	Model 15 Beta	SEs	p-value
Ln(Firm size)	0.530	0.056	0.000	0.562	0.058	0.000	0.560	0.058	0.000	0.561	0.058	0.000	0.561	0.058	0.000
State SBA loans	0.032	0.009	0.001	0.031	0.009	0.001	0.031	0.009	0.001	0.031	0.009	0.001	0.031	0.009	0.001
Trading revenue	-0.013	0.010	0.169	-0.019	0.010	0.057	-0.016	0.010	0.096	-0.018	0.010	0.069	-0.017	0.010	0.079
I bank fees	0.009	0.007	0.205	0.011	0.007	0.132	0.011	0.007	0.127	0.011	0.007	0.131	0.011	0.007	0.129
Profitability	-6.326	1.585	0.000	-10.794	1.823	0.000	-10.823	1.826	0.000	-10.818	1.828	0.000	-10.799	1.826	0.000
Capitalization	-1.444	0.257	0.000	-1.419	0.262	0.000	-1.421	0.261	0.000	-1.415	0.262	0.000	-1.427	0.262	0.000
Liquidity	-1.152	0.182	0.000	-1.162	0.183	0.000	-1.163	0.183	0.000	-1.162	0.183	0.000	-1.163	0.183	0.000
Liabilities	0.391	0.136	0.004	0.438	0.135	0.001	0.434	0.135	0.001	0.437	0.135	0.001	0.434	0.135	0.001
Concentration	1.074	0.172	0.000	0.996	0.173	0.000	0.999	0.172	0.000	0.996	0.173	0.000	0.999	0.172	0.000
Credit risk	-0.069	0.007	0.000	-0.035	0.009	0.000	-0.036	0.009	0.000	-0.035	0.009	0.000	-0.035	0.009	0.000
De novo bank	0.137	0.038	0.000	0.171	0.038	0.000	0.172	0.038	0.000	0.171	0.038	0.000	0.172	0.038	0.000
Positive social PRA				20.644	3.647	0.000	2.529	5.209	0.627	20.674	3.650	0.000	1.027	5.475	0.851
Negative social PRA				6.227	1.994	0.002	6.273	1.996	0.002	4.156	2.535	0.101	8.560	2.524	0.001
Community bank				0.353	0.032	0.000	0.276	0.040	0.000	0.358	0.032	0.000	0.264	0.042	0.000
Pos social PRA X CB							20.483	5.975	0.001				22.144	6.393	0.001
Neg social PRA X CB										2.386	2.488	0.338	-2.629	2.630	0.317
Firm fixed effects	Included			Included			Included			Included			Included		

Year dummies	Included	Included	Included	Included	Included
Adjusted R^2	0.054	0.056	0.056	0.056	0.056
	58.78	54.17	51.88	51.84	49.71
F	5	7	4	9	9
N	73401	73401	73401	73401	73401

We include, but do not report, firm fixed effects and year dummies. We lag all independent and control variables one year. We include robust standard errors.

Table 6. Effect of Performance Relative to Historical Aspirations on Small Business Loans.

	Model 16			Model 17			Model 18			Model 19			Model 20		
Variables	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value	Beta	SEs	p-value
Ln(Firm size)	0.530	0.056	0.000	0.571	0.058	0.000	0.575	0.058	0.000	0.571	0.058	0.000	0.577	0.058	0.000
State SBA loans	0.032	0.009	0.001	0.031	0.009	0.001	0.030	0.009	0.001	0.031	0.009	0.001	0.030	0.009	0.001
Trading revenue	-0.013	0.010	0.169	-0.015	0.010	0.129	-0.013	0.010	0.199	-0.015	0.010	0.131	-0.015	0.010	0.138
I bank fees	0.009	0.007	0.205	0.011	0.007	0.140	0.011	0.007	0.145	0.011	0.007	0.140	0.011	0.007	0.143
Profitability	-6.326	1.585	0.000	-6.564	1.615	0.000	-6.579	1.615	0.000	-6.564	1.615	0.000	-6.579	1.614	0.000
Capitalization	-1.444	0.257	0.000	-1.475	0.259	0.000	-1.448	0.260	0.000	-1.476	0.259	0.000	-1.441	0.261	0.000
Liquidity	-1.152	0.182	0.000	-1.126	0.182	0.000	-1.120	0.182	0.000	-1.125	0.182	0.000	-1.120	0.182	0.000
Liabilities	0.391	0.136	0.004	0.395	0.136	0.004	0.389	0.135	0.004	0.395	0.136	0.004	0.389	0.135	0.004
Concentration	1.074	0.172	0.000	1.051	0.172	0.000	1.047	0.172	0.000	1.052	0.172	0.000	1.045	0.172	0.000
Credit risk	-0.069	0.007	0.000	-0.062	0.008	0.000	-0.061	0.008	0.000	-0.062	0.008	0.000	-0.060	0.008	0.000
De novo bank	0.137	0.038	0.000	0.158	0.039	0.000	0.158	0.039	0.000	0.158	0.039	0.000	0.159	0.039	0.000
Positive historical PRA				-7.365	2.388	0.002	-25.480	3.539	0.000	-7.372	2.392	0.002	-28.466	3.948	0.000
Negative historical PRA				6.428	2.330	0.006	6.718	2.329	0.004	5.907	2.959	0.046	12.560	3.314	0.000
Community bank				0.352	0.032	0.000	0.323	0.031	0.000	0.354	0.033	0.000	0.304	0.033	0.000
Pos historical PRA X CB							20.618	3.885	0.000				24.107	4.629	0.000
Neg historical PRA X CB										0.616	2.948	0.834	-6.846	3.526	0.052
Firm fixed effects	Included			Included			Included			Included			Included		

Year dummies	Included	Included	Included	Included	Included
Adjusted R^2	0.054	0.055	0.055	0.055	0.055
	58.78	52.42	50.34	50.14	48.24
F	5	6	4	7	3
N	73401	73401	73401	73401	73401

We include, but do not report, firm fixed effects and year dummies. We lag all independent and control variables one year. We include robust standard errors.

Figure 1a. Effect of Negative Social PRA and Community Banks on Credit Risk.

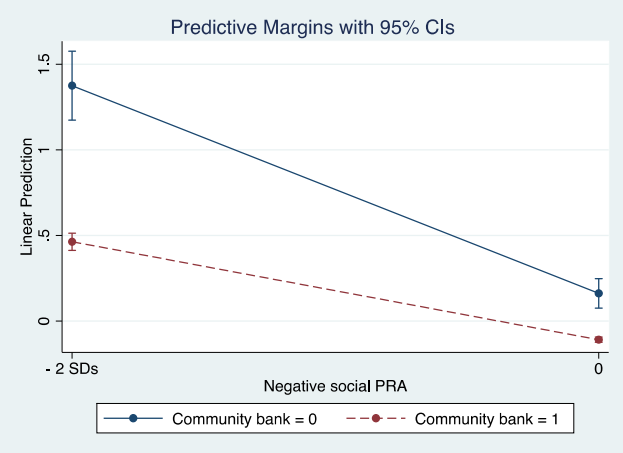

Figure 1b. Effect of Negative Historical PRA and Community Banks on Credit Risk.

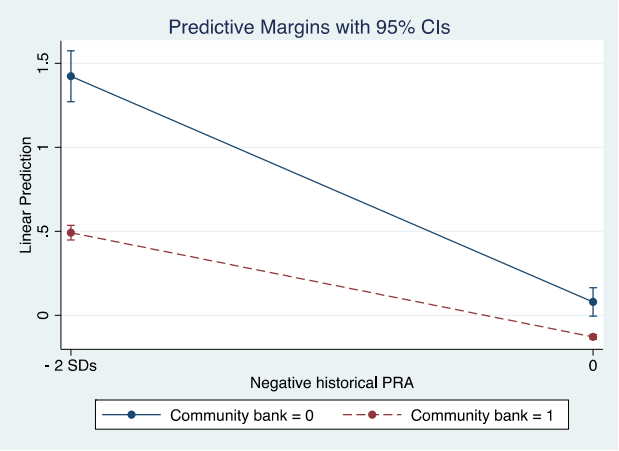

Figure 2a. Effect of Positive Social PRA and Community Banks on Small Business Loans.

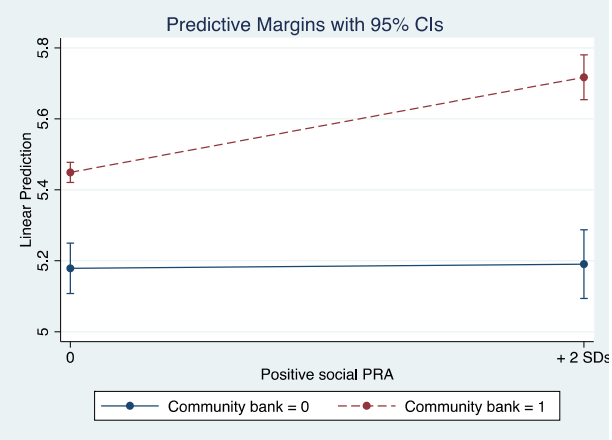

Figure 2b. Effect of Positive Historical PRA and Community Banks on Small Business Loans.