Internal Audit-Control Research Seminar

"Social Comparison and Changes in Firms' SG&A Ratios"

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Abstract:

Using a large sample of U.S. listed firms over the period 2000 up to 2012, and relying on the interplay between different theories (behavioral theory of the firm, life cycle theory and institutional theory), this paper explores the impact of social comparison on changes in firms' SG&A ratios. Social comparison then relates to comparing own performance against the performance of a meaningful reference group of other organizations (i.e., a social benchmark). Optimal levels of relative SG&A are hard to assess and we therefore argue that social comparison is likely to be an important input in managers' SG&A decision processes (incremental to economic factors documented to determine SG&A). Consistent with expectations, we find that social comparison significantly affects changes in firms' SG&A ratios. In addition, for the sub-sample of firms with an SG&A ratio above the social benchmark, the weight assigned to social comparison is found to depend on the firm's life cycle stage. Our results also indicate that social comparison has a significantly stronger effect in benchmark groups characterized by high(er) similarity in terms of SG&A ratios (i.e., groups with higher perceived conformity pressure).

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