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How can ‘Theories of the Firm’ help make societies more sustainable?

Rodrigo Lozano

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Sustainability Research Institute (SRI), School of Earth and Environment,
The University of Leeds, Leeds, LS2 9JT, United Kingdom

Tel: +44 (0)113 3436461
Fax: +44 (0)113 3436716

Email: SRI-papers@see.leeds.ac.uk
Web-site: http://www.see.leeds.ac.uk/sri

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How can 'Theories of the Firm' help make societies more sustainable?

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Email: r.lozano@leeds.ac.uk

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Abstract

There is increasing recognition among corporate leaders that their organisations have the capacity to make societies more sustainable. Corporate sustainability offers a holistic framework for companies to make their products, services, internal activities, structure and management -and how these engage and empower external stakeholders - more sustainability orientated. This paper argues that the most widely used theories of the firm, for example stockholder, aggregate, contractual and stakeholder theories, offer limited coverage of the company's system, its relations to stakeholders, and sustainability's four dimensions, i.e. the economic, environmental, social, and time dimensions. This paper sets out the need for a 'Holistic Theory of the Firm' that synthesis the contributions of the theories of the firm to sustainability.

Key words: Corporate sustainability, theories of the firm, stakeholders, evolution, resource-based view, social contract, holistic theory of the firm

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About the Authors

Rodrigo Lozano has been working towards Sustainability in NGOs, universities, and corporations for the last ten years. His projects have ranged from indoor-air quality and energy efficiency, to sustainability assessment and reporting, and to organisational change management. He has published several papers on these topics and developed a range of tools to assess sustainability performance in companies and in universities.

1 Introduction

Sustainability has become an important alternative to neoliberal economics, the dominant socio-economic paradigm, which tends to focus, almost solely, upon short-term profitability with little or no focus upon the long-term or upon the erosion of ecological, social, and cultural capitals that it causes (IUCN, UNEP, & WWF, 1980; Reid, 1995; WCED, 1987). In this context, corporations and their leaders[i] are increasingly recognising the relations and inter-dependences of economic, environmental and social aspects (C.E.C., 2001; Elkington, 2002), but also of the short-, long- and longer-term effects that Lozano (2008b) termed the 'Two Tiered sustainability Equilibria' (TTSE). In TTSE, the first tier is focused on the economic, environmental and social aspects[ii], and the second tier is focused on the time aspects, i.e. the short-, long- and longer-term perspectives.

To address such inter-dependences, different terms and concepts have been developed. Examples include Corporate Responsibility, Corporate Social Responsibility (CSR), Corporate Citizenship, Business Ethics, Stakeholder Relations Management, Corporate Environmental Management, Business and Society (Hopkins, 2002; Langer & Schön, 2003). However, these terms and concepts have been limited in capturing the full spectrum of sustainability and its implications of and for corporations (Oskarsson & von Malmborg, 2005).

In order to try to better address the full sustainability spectrum, some authors have proposed Corporate Sustainability (CS). For Dyllick & Hockerts (2002, p. 131) CS is: "…*meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities, etc.), without compromising its ability to meet the needs of future stakeholders as well*". According to Siebenhuner and Arnold (2007) in order for a company to become more sustainability orientated, they should make changes that include the introduction of resource-efficient technologies, sustainability reporting schemes, and sustainable products. Linnenluecke, et al. (2009) emphasised that in order to make real progress a company's CS should encompass a holistic[iii] perspective. In addition to these, companies need to provide more sustainable services and products, and product/service combinations. It can be argued that CS is the journey of companies as they continuously adjust and improve their internal activities, structure, and management, and how these engage and empower external stakeholders (including the environment), to better contribute to the sustainability.

In spite of terminology discussions, it is commonly agreed that currently no organisation or society is functioning in a sustainable way (see Cairns, 2004; Magretta, 2000; Robert et al., 2002). Andersson *et al.* (2005) indicate that corporations' progress towards sustainability still remains under-researched, and may be poorly understood. In many cases the leaders do not fully understand the role of their companies, or how they could and should pursue and contribute to sustainability (DeSimone & Popoff, 2000), or how to make it an integral part of the company's culture.

This paper explores the contribution that the most widely used *'Theories Of The Firm'* (TOTF) (grouped under the legal perspective, the corporations' obligations and management perspective, and the nature of the firm). Its aim is to provide a theoretical grounding on helping company leaders better understand and make their companies have a more effective transition towards CS.

The analysis of the theories is done against two systems. The first system encompasses the company and its relations to stakeholders, including its legal establishment (the relationship with government), its purpose (the interaction of the company with its suppliers and/or competitors), and its obligations to its stakeholders (including stockholders, internal, and external stakeholders). The second system is on sustainability's four dimensions - the economic, environmental, social, and time dimensions - as explained with the TTSE.

2 '*Theories Of The Firm*' (TOTF)

According to Bryman (2004) a theory, in its most common meaning, is '…*an explanation of observed regularities*". These may be grand theories, which operate at a more abstract and general level; or middle range theories, which fall between grand theories and empirical findings, and operate in a more limited domain (Bryman, 2004). Due to the socially constructed nature of firms, their theoretical explanation falls within the realm of the latter, where the TOTF have been developed to try to understand and explain corporations, their roles in society, and their relationships with other corporations and other parts of society (for example the government, the company's employees, civil society, and, even, the natural environment). In general, by appraising and establishing norms and values the TOFT take a normative approach (Hasnas, 1998).

Although a number of TOTF have been proposed, the most commonly widely used TOTF can be grouped into: (1) the legal perspective, which deals with the establishment of the firm in a legal context and its relation to government; (2) the nature of the firm, which aims to explain why the firm exists and how it relates to its suppliers and competitors; and (3) the firm's obligations to its stakeholders, which would include the shareholders, employees, and other social and non-social stakeholders.

2.1 Legal perspective on the corporate personality or entity

Within the legal perspective, particularly under Common Law[iv], the theories focus on a company's personality[v], *i.e.* they are aimed at answering the questions: What is the corporate entity? Is it real or imaginary? Is it natural or artificial? Is it created by the state or is it created *de facto*? (Allen, 2001; Avi-Yonah, 2005; Machen, 1911; Millon, 1990; Radin, 1932). In short, these theories look at how a company is established legally, and how this influences the company's relations with government. Three major theories are usually discussed: (1) the artificial entity, (2) the aggregate entity, and (3) the real entity.

2.1.1 The artificial entity theory

The artificial entity theory has its roots in the first half of the nineteenth century with Savigny, a German thinker, who proposed that the corporation is a fictitious being (Machen, 1911). The artificial entity theory prevailed during much of the Nineteenth

Century (Millon, 1990), with the Dutch East India and the British East India Companies put forward as typical examples (Avi-Yonah, 2005).

Under the artificial entity theory a corporation is given the right to exist by a sovereign power, originally by royal charter, *i.e.* they were incorporated artificially and usually by the state (Berle, 1947; Machen, 1911; Millon, 1990; Radin, 1932). Under this perspective corporations are not considered to be 'citizens' but as extensions of the state (Avi-Yonah, 2005; Coelho, et al., 2003). The artificial entity theory is therefore limited in the case of multinational companies, especially where the country of incorporation is economically weaker than the corporation (Avi-Yonah, 2005). In modern times, the artificial entity theory may be most applicable to companies that are state-owned, usually limited to a single country.

Discussions on sustainability commenced long after the artificial entity theory was developed; therefore it would be specious to consider that it should address the four dimensions of sustainability. In the artificial entity theory the company is an extension of the state, therefore there is little or no consideration on the relationships with stakeholders other than the government, and not is there a clear elucidation on the company's purpose. The lack of flexibility that the leaders have to take decisions limits their ability to have considerable impacts on the company's economic performance and, by extension, on how the company can or should contribute to sustainability.

2.1.2 The aggregate entity theory

The aggregate entity theory, currently the dominant one in legal academic circles (Avi-Yonah, 2005), has its roots in Germany with the *Zweckvermögen*[vi], where the company is not a property of a person or group of persons, but instead the company's purpose is given by the disposition of the company's property by its managers (Machen, 1911). The corporation can be created *de facto* by the association of people that agree to undertake an enterprise; thus the company is considered to be simply the sum of their human, and sometimes non-human, components (Avi-Yonah, 2005; Berle, 1947; Jensen & Meckling, 1976 ; Millon, 1990; Radin, 1932).

The aggregate entity theory posits that the corporation is an extension of its shareholders (Lee, 2005), as opposite to the artificial entity theory where the corporation is an extension of the government. The shareholders are protected by the principle of limited liability, *i.e.* they provide the capital for the company with the expectation of financial returns, but they are not liable for illegal acts committed by the company or their employees (Avi-Yonah, 2005; Berle, 1947; Coelho, et al., 2003; Jensen & Meckling, 1976; Millon, 1990; Phillips, 1996; Radin, 1932). In this perspective, corporations are considered to be profit-generating 'islands' for the exclusive benefit of the shareholders.

In the aggregate entity theory the main purpose and duty of the managers is to maximise the return on investment (ROI) for the shareholders. The limited liability principle protects both the company and the shareholders from unethical or even criminal accusations and indictments. The strong economic base of this theory tends to neglect the impacts, usually negative, on the environmental, social and time dimensions of sustainability. Although the leaders and managers have considerable power and influence to make changes, these changes are bound by shareholders' interests.

2.1.3 The real entity theory

In contrast to the previous two theories, the real entity theory proposes that "*When a company is formed by the union of natural persons, a new real person, a real corporate "organism," is brought into being… The corporate organism is an animal: it possesses organs like a human being. It is endowed with a will and with senses*." (Machen, 1911, p. 256). The corporation is not considered to be an aggregation or made up by the state; instead it is *persona representata (Machen, 1911)*, *i.e.* it acts through agents, and it has 'a will and senses'. This position questions the previous two theories, by having as its basic principle that corporations are actual 'beings' controlled by their managers.

Under this perspective a corporation can be accused of certain crimes, *e.g.* that of omission and in some cases of commission, but not others, *e.g.* murder and other acts of violence (Avi-Yonah, 2005; Lee, 2005; Phillips, 1996). Whereas, in the aggregate entity theory, only employees can be punished, in the real entity theory corporations can be punished for illegal acts.

This theory considers corporations to be entities integrated within the fabric of society, where the company and its employees (including management) have legal rights and responsibilities. The company is an entity comprised and represented by its different elements, and not an extension of the government or the shareholders. However, the theory does not specify what the purpose of the company is.

Under this perspective, the leaders have the responsibility to assure that the company and its employees comply with the law, which provides them with the opportunity to engage and empower the different stakeholders to better contribute to sustainability, since all are 'oarsmen in the same boat'.

2.1.4 Discussions on the legal perspective theories

Discussions on the firm's personality have been around since the beginning of the twentieth century and legal perspective theories provide an explanation of the observed regularities, as Bryman (2004) indicates, of corporate incorporation and relations to the government. However, this focus results in limited, or even no, coverage of the environmental and time dimensions of sustainability. The theories are also limited in explaining and helping corporate leaders better contribute to sustainability.

Among the three theories, the real entity theory is the one that offers some type of guidance to leaders on sustainability, due to its explanation that the company is a whole system with 'a will and senses' comprised by individuals, and that every part of the system has rights and responsibilities in complying with the law.

2.2 Nature of the firm perspective

Nature of the firm theories are aimed at explaining why the firm exists and how it relates to its suppliers and competitors. According to Boatright (1996) the discussion on the nature of the firm has a long and tangled history, from which two main theories have been developed: (1) the contractual theory of the firm, which includes also the agency theory; and (2) the evolutionary theory of the firm.

2.2.1 The contractual theory and the agency theory

In his seminal article, Coase (1937) stated that a firm exists when it manages to reduce transaction costs that take place in the market by contracting with other parties[vii], thus becoming profitable. The contract is seen as an agreement to obey directions in exchange for remuneration. The firm is a nexus of relationships and contracts among various corporate constituencies that substitute firms for markets if the transactions costs of using the latter become large (Boatright, 1996; Coase, 1937; Demsetz, 1988).

The contractual theory is based, basically, on the aggregate entity theory (Phillips, 1996). As with that theory, the shareholders' interests are imperative. They are considered to be residual risk bearers, *i.e.* capital providers in return for residual assets claim (Coase, 1937). Shareholders pay to have their interests as the objective of the firm, whereas other parties, *e.g.* bondholders and employees, prefer contractual agreements (Boatright, 1996).

The contractual theory has been critiqued under the arguments that: contracts are incompletely specified, with the risks of being vague, general, or omitting non-shareholders (Boatright, 1996); the market, the firm, and the government (or other regulatory powers) treat differently the contract transactions (Coase, 1937); hidden or unrepresented social costs, *i.e.* low or ineffective addressing of corporations' impacts on environmental and social aspects, are neglected (Boatright, 1996); contracts are only bilateral (Hölzl, 2005); technological and organisational aspects of production are neglected (Hölzl, 2005); the firm is treated as a 'black box' that is supposed to meet marginal conditions with respect to inputs and outputs, while maximising profits, *i.e.* present value (Jensen & Meckling, 1976); contracts negotiated between management and labour unions may result in unforeseen negative developments for one of the parties (Boatright, 1996); and that large corporations may use their power to get beneficial contracts.

A specific case of the contractual theory is the agency theory, which focuses on the agency relationship between the principal, or principals, who engage and transfer authority, and the agent, who performs a service on behalf of the principal. These types of relationships are typical in publicly traded corporations (Jensen & Meckling, 1976).

Additionally to the critiques to the contractual theory, the agency theory has been critiqued because: the agent does not always act in the best interest of the principal (Jensen & Meckling, 1976); there may be differences in needs between the principal and the agent, *i.e.* problems between ownership and governance (Jensen & Meckling, 1976); the agent may have limited ability to react under unfamiliar situations or in unstable environments (Yu, 1999); the agent might look for short-term benefits, neglecting the possibility of better, more lucrative future contracts; and the agent might over-look possible synergies between the clients, due to lack of technical or organisational knowledge.

According to Boatright (1996) and Machlup (1967) the contractual theory and the agency theory are considered to be marginalistic theories, where corporations are profit maximising units. The purpose of these two theories is to maximise profits for the shareholders by reducing transaction costs, whether it is directly (in the contractual theory) or through an agent (in the agency theory). The theory considers the company as a 'black box'. Such focus on the relations on economic issues among the constituencies can lead to little, or even no, consideration of the environmental, social and time dimensions of sustainability. For example, labour issues, biodiversity, or even the survival of the company are not considered by how these theories explain the firm. It may also lead to misunderstanding of the contracts, or to uneven power influences among the parties.

The contractual and agency theories have the potential to offer corporate leaders guidance oh how to engage with the company's constituencies. However these relations are framed by cost reduction and profit maximization.

2.2.2 The evolutionary theory

As with the contractual and agency theories, the evolutionary theory considers the firm to be motivated by profit; but, in the evolutionary theory, the company's actions are not assumed to be profit maximizing. Instead, the evolutionary theory posits that more profitable corporations drive less profitable ones out of business (Nelson & Winter, 1982). This is based on the Social Darwinian theory, where organisations enter into competitive warfare with other organisations, and where only the strongest and most efficient survive (Miesing, 1985).

According to Hölzl (2005) the evolutionary theory can help to better understand industrial dynamics, such as routines and behaviours, and also the cognitive nature of the firm, *i.e.* knowledge processing, storing, and producing. However, intra-firm conflicts, *e.g.* capital – labour conflicts, are not considered.

The 'survival of the fittest' base of the evolutionary theory does not assure that the biggest, or the ones that survive, is not the most ruthless, corrupt, or unethical (Lozano, 2008a; Miesing, 1985), nor does it guarantee the long-term existence of the corporation.

The evolutionary theory does not contemplate the impacts on the environment, or even on the welfare of societies. However, by addressing the time dimension, the theory could provide company leaders with a longer term perspective of the company's contributions to sustainability; but only if these are based on the recognition of rights and responsibilities of the parties involved (as considered under the real entity theory), and not under the 'survival of the fittest' precept. The company also offers potential in explaining the possibility that more sustainability orientated companies could drive less sustainability orientated companies out of the 'market' in the longer term, as well as industrial dynamics and the firm's cognition.

2.2.3 Discussions on the corporate nature theories

The theories in this group aim to explain the existence of the firm and its relation to some of its constituencies, mainly the suppliers and competitors. The theories are grounded on economic precepts, whether that be the reduction of costs or driving competition out of the market. None of the theories discussed in this group considers the relations or effect to the environment or the social dimensions. The evolutionary theory addresses the time dimension in a way that the firm is strategically operated to defeat its competitor in the longer term.

Nonetheless, these theories have the potential to offer company leaders different perspectives on how to engage with their company's constituencies. For example the contractual theory provides them with an understanding on how to relate to suppliers, whilst the evolutionary they can help to understand that more sustainability orientated companies can, if they sustainability's principles, drive less sustainability orientated companies out of the market.

2.3 Obligations to stakeholders and management approaches perspective

This group of theories aims to explain company's obligations to groups influence or are influenced by it, the stakeholders (1984). These theories also attempt to explain the focus that leaders and managers should take, i.e. how and to what purpose the company is run. They consider that non-competitive markets allow managers to determine corporate objectives and that some managerial behaviour benefits managers to the detriment of shareholder interests (Boatright, 1996; Machlup, 1967). The theories in this group include: (1) the stockholder theory, (2) the stakeholder theory, (3) the social contract theory, and (4) the resource-based view.

2.3.1 The stockholder theory

The stockholder, or shareholder, theory postulates that firms have a fiduciary duty only to its stockholders or owners. The stockholder theory is principally based on the aggregate theory, where the firm's main purpose is to maximise returns to its stockholders by maximizing the market value of the firm[viii] (Argadoña, 1998; Boatright, 1996; Freeman, 1984; Friedman, 1970; Hasnas, 1998). Stockholders provide capital, gaining property-owning claims over the company, and generally having significant power and influence, with the expectancy of a ROI (Hill & Jones, 2001; McIntosh, Leipziger, Jones, & Coleman, 1998; Thomas, Evans, & Peattie, 2004). This transaction provides them with *prima facie* rights and limited liability (Freeman, Wicks, & Parmar, 2004; Ray, 2005), which makes the stockholders better suited to bear businesses' risks (Boatright, 1996).

Langtry (1994) distinguishes three different stockholder theories: Minimalist pure stockholder theories, where firms should be run to maximise stockholders' interest, subject only to, minimal, legal constraints; Non-minimalist pure stockholder theories, similar to minimalist theories except that they ask for more far-reaching legal constraints on the firm; and Tinged stockholder theories, where firms should be run to maximise the interests of stockholders, subject not only to legal constraints but also to moral or social obligations. Tinged stockholder theories tend to be more aligned with the real entity theory.

According to Hasnas (1998) the stockholder theory is an "…*outmoded relic of corporate law that even the law itself has evolved beyond*…", where stockholder meetings have become events where executives treat the stockholders to lunch and speeches instead of carrying out meaningful transactions (Freeman, 1984). Under this theory, capital cannot be spent towards the public interest without the consent of the stockholders (Freeman, et al., 2004; Hasnas, 1998). Managers may undertake short-term policies that are favourable to stockholders but detrimental to other stakeholder groups (Charreaux & Desbrières, 2001) such as employees, consumers, community members, suppliers, ignore their social, cultural, and economic needs (Brook, 2001), and neglect the impact on the environment (Boatright, 1996; Hasnas, 1998). Additionally, the corporation is considered to be largely insular, *i.e.* a separate entity from society or the environment; labour is considered as expendable, where it is possible to substitute an experienced worker with one without experience with the same results in production; and symbiotic relations between the company and the community, where it operates, are not addressed.

The stockholder theory, as with the aggregate and contractual theories, is quite prevalent with academics and practitioners. The theory has the same critiques as those for the aggregate theory. However the stockholder theory focuses on how the company generates profit for the stockholders, rather than how the company is established legally. The stockholder theory's focus on economic issues, such as the expectancy for a large and quick ROI and a focus on the short-term, tends to neglect the effects on the other sustainability's dimensions.

Company leaders, especially in large publicly traded corporations, are pressed by the demands of those who have invested money in the corporation even at the expense of the environment or societies. This position is not tenable and can lead to negative impacts to the environment and society and lead to discontent, protests, or even to the removal of the company's license-to-operate by society or the government (White, 2004).

2.3.2 The stakeholder theory

The stakeholder theory posits that corporations have duties to its stakeholders. Stakeholders can be internal, such as stockholders, and employees, including management; or external, such as customers, suppliers, stockholders, banks, environmentalists, governments, and other groups (Argadoña, 1998; Biscaccianti, 2003; Freeman, 1984; Freeman, et al., 2004; Hill & Jones, 2001; Perrini & Tencati, 2006). Stakeholders can also be divided into primary and secondary groupings, where primary ones have a more direct influence or are influenced by the company than secondary ones (Lindfelt, 2002; McIntosh, et al., 1998). Table 1 identifies some of the different stakeholders.

Under this theory, the corporation's fundamental obligation is to ensure its survival and thrive by benefiting and balancing the needs of multiple stakeholders, instead of purely maximising its financial success (Hasnas, 1998; Kaku, 2003).

Recently, an increasing number of authors have addressed environmental issues through the stakeholder theory, such as environmental management (Céspedes-Lorente, et al., 2004; Onkila, 2009), environmental regulation (Céspedes-Lorente, et al., 2004), and protection of the natural environment (King, 2007). Céspedes-Lorente, et al. (2004) proposed four streams of research within stakeholder theory that touch on the natural environment: (1) the role of external stakeholders in assessing environmental performance and corporate environmental risks; (2) the importance of pressure on environmental reporting practices and communication; (3) the influence of stakeholders on environmental strategy of firms; and (4) the development of environmental cooperation between the firm and stakeholders.

Table 1 Examples of primary, secondary, social, and non-social stakeholders

	Primary Stakeholders	***Secondary Stakeholders***
Social	• Shareholders (stockholders) and investors • Employees and managers • Customers • Unions • Suppliers and other business partners • Local communities	• Government and regulators • Civic institutions • Social pressure groups • The media and academia • Trade bodies • Competitors • General public
Non-social	• The natural environment • Future generations • Non-human species	• Environmental pressure groups • Animal-welfare organisations

Source: Adapted from (Céspedes-Lorente, de Burgos-Jiménez, & Álvarez-Gil, 2004; Eesley & Lenox, 2006; Hill & Jones, 2001; King, 2007; Lindfelt, 2002; McIntosh, et al., 1998; Onkila, 2009; Steurer, 2006)

In spite of the latest discourses on stakeholder theory, it suffers from the following difficulties: recognising and differentiating stakeholders (*e.g.* primary and secondary) (Langtry, 1994), meeting their expectations (Argadoña, 1998; Dyllick & Hockerts, 2002), and forecasting their reactions towards the firm's actions (Langtry, 1994).

The bases of the stakeholder theory provide it with a large potential to contribute to sustainability by encompassing different stakeholders. The theory, therefore, can address the economic, environmental and social dimensions. However, the theory is not explicit in helping to understand these relations through the time dimension. Additionally, the theory is limited in its explanation on how to engage with the company's internal resources and stakeholders.

The stakeholder theory provides company leaders with a more holistic perspective on how to understand the firm's relations with other parts of the social and environmental systems. However, this presents a challenge to leaders who are used to considering that their company's only duty is to generate profit.

2.3.3 The social contract theory

The social contract theory is primarily framed by Rousseau's (1762) 'Social contract' and on Coase's (1937) contractual theory. It comprises a family of closely related theories. In its widest sense, the social contract theory states that firms have an ethical obligation to enhance society's welfare by satisfying consumer and employees' interests while keeping within the general canons of justice. Society grants firms rights to exist with the expectation of a return for certain benefits, giving them legal recognition, authorising them to use land and natural resources, and hire members of the society, whilst managers have obligations to abide social and justice contracts (Hasnas, 1998). This is recognised also by Friedman (1970), a staunch proponent of the stockholder theory.

Another version of the social contract theory indicates that there are ‘extant social contracts’, *i.e.* informal agreements that embody behavioural norms deriving from shared goals, beliefs, and attitudes of groups or communities; however, the ‘social contract’ is not legally recognised, and it is not transparent to the corporation’s founders, owners or managers (Hasnas, 1998).

Two questions could also be posed to the social contract theory: how should or could the social contract be enforced? And what is its scope or extent?

The social contract theory extends the contractual theory to civil society, where the company is given a ‘license-to-operate’ (White, 2004). This theory’s focus is on the social dimension of sustainability, where the interests of consumers and employees are considered. However, the theory does not explicitly address the economic, environmental, or the time dimensions. It could be said that the social contract theory is a narrower version of the stakeholder theory, where the focus is only on the social stakeholders.

The social contract theory could provide the leaders an explanation on how to extend the principles of the contractual theory from suppliers to the relations with social stakeholders, where social and justice contracts are abided.

2.3.4 The Resource-Based View (RBV) theory

The Resource-Based View (RBV) theory is based on the assumption that a firm is more that an administrative unit, but instead a collection of productive resources, innate to the firm (Conner & Prahalad, 1996; Penrose, 1959). These resources can be tangible, *e.g.* plant equipment, land and natural resources, waste products, and finished goods; human, *e.g.* unskilled and skilled labour, clerical, administrative, financial, legal, technical, and managerial staff (Penrose, 1959); and intangible, *e.g.* capabilities and cognitions (Sanchez & Heene, 1997).

The co-operation among individuals within the firm affects the knowledge they apply to the business and gives it a source of advantage in competition (Beal, 2001; Conner & Prahalad, 1996). Managers need to add valuable knowledge to employee’s activities, so that this can be carried within the firm (Conner & Prahalad, 1996).

The RBV helps to explain that one firm can produce or service equal or better than another, and the focus is put on reducing production costs (Demsetz, 1988). According to the RBV some resources can only be developed over long periods of time, and some cannot be bought or sold (Barney, Wright, & Ketchen, 2001), while certain resources cannot be imitated or substituted by competition (Dyllick & Hockerts, 2002).

The RBV differs from the other theories discussed in that it does not consider the firm as a ‘black box’. The RBV recognises that the company is an entity with inter-related internal resources that gives it its competitive advantage. The RBV focuses on internal social stakeholders. It is aimed at managing and developing such resources over time. The theory addresses some parts of the economic dimension, of the social (mainly internal stakeholders), and the time dimensions (by developing resources over time); however, it does not consider the environmental dimension, or how to deal with external stakeholders.

The RBV offers a unique perspective to corporate leaders by providing an explanation of how internal resources can lead to proactive changes in the company, especially if these were to consider environmental issues, as well as the rights and responsibilities of the firm internally and externally.

2.3.5 Discussions on corporate obligations theories

The corporate obligations theories aim to explain company's obligations to its stakeholders. The theories also help to explain how and to what purpose the company is run. The theories range from a narrow scope, such as the stockholder theory, to a broader scope, in the case of the social contract (externally focused) and the RBV (internally focused), to the broadest scope by the stakeholder theory (which encompasses the economic, environmental, and social dimensions). In general the theories tend not to consider the effect on the time dimension, with a limited exception by the RBV that deals with the time dimension through the development of the company's internal resources. The theories in this group do not consider the legal establishment of the company.

Recognising, dealing, and empowering the different stakeholders (internal and external) can be a challenge for corporate leaders, especially if they are used to dealing only with stockholders. The theories provide company leaders with an explanation of the company as whole system that relates and has impacts to society and to the environment. This has the potential to help company leaders better embed sustainability into the company's activities and culture, and better contribute to making societies more sustainable.

3 Theories of the firm's potential contributions to corporate sustainability

Each group of theories, and the theories individually, provides a limited '…*explanation of observed regularities*' (Bryman, 2004), even for middle range theories, in regards to the four dimensions of sustainability and in respect to the stakeholders, including legal establishment, purpose, and obligations. However, some of the theories' principles cover some parts of the two dimensions upon which they have been analysed. Table 2 shows this analysis (note that the social dimension is divided into internal and external stakeholders)

This analysis shows that the TOTF discussed have a strong focus on the economic dimension, with the exception of the legal perspective theories. Such contributions include cost reduction, to increases in profitability, maximising stockholders returns, and ensuring the company's survival and thrive.

After the economic dimension, the theories also make a considerable contribution to the social dimension. The external stakeholders are addressed through the legal perspective theories (as rights and responsibilities of the company towards the state), the evolutionary theory (focusing on competitors), and the social contract theory (focusing on the 'licence to operate' that society gives to companies). The aggregate entity and the stockholder theories consider shareholders as internal stakeholders.

The RBV discusses the development of internal resources (human, tangible, and intangible) to gain competitive advantage. The stakeholder theory seeks to discuss how to balance and benefit both internal and external stakeholders.

Table 2 Theories of the firm potential contributions to help understand and incorporate corporate sustainability

Theory of the firm		***Corporate sustainability dimensions***				
		Economic	***Environment***	***Social (stakeholders)***		***Time***
				Internal	***External***	
Legal perspective	*Artificial entity*				Extension of the state	
	Aggregate entity			Shareholders as owners	Extension of the shareholders	
	Real entity				Rights and responsibilities	
Nature of the	*Contractual*	Cost reduction			Relations with business parties	
	Evolutionary	Focus on profitability			Out evolving competitors	Evolutionary path as 'survival of the fittest'
Obligations to stakeholders	*Stockholder*	Maximise returns to stockholders		Stockholders as owners with limited liability		
	Stakeholder	Ensure company's survival and thrive	Environmental protection, management, communication, and cooperation	Benefit and balance the needs of internal and external stakeholders		
	Social contract				Society grants firms rights to exist with the expectation of a return for certain benefits	
	RBV	Reduce production costs		Develop human, tangible, and intangible resources		Internal company resource development over time

The time dimension is only considered by two theories: the evolutionary theory and the RBV. The former is based on the 'survival of the fittest', where the most profitable corporation outlives the others; while the latter is based on developing internal resources over time.

The environment is seldom considered by the TOTF, with the exception of the stakeholder theory, where an increasing number of authors have used it to address environmental issues (such as environmental protection, management, communication, and cooperation).

From the comparison of the different theories, the stakeholder theory seems to be the most complete in addressing the CS dimensions. However, it tends to be limited when dealing with the company's evolution, its legal relationship with the state, and with the development of its internal resources.

The above discussion can be useful in providing to company leaders a better explanation of the relations and processes that their firm will face when engaging with sustainability. Corporate leaders generally understand that their company operates as a whole in a system with employees, customers, and suppliers, among others, whilst affecting shareholders, government, society, and the environment. The theories of the firm discussed fail to encompass all these different elements and how they would contribute to sustainability. To help improve the explanation on what could be considered regularities, this article proposes need for an overarching 'Holistic Theory of the Firm', which synthesizes the contributions to sustainability from the theories examined. Such a 'Holistic Theory of the Firm' would adhere to the following principles, where the corporation:

- Is a whole entity that is profit-oriented;
- Is established legally, being controlled by the managers and represented by all its employees;
- Has a culture that shapes its existence and duties, which are in constant evolution and change;
- Evolves through inter-related resources (tangible, intangible, and human) and through knowledge creation and application;
- Influences and is influenced by stakeholders, which include internal and external, as well as social and the environment;
- Has obligations and responsibilities to such stakeholders, who may provide the corporation with a 'license to operate'; and
- The corporation can be held liable and punished for certain crimes to society and the environment.

4 Conclusions

Corporate leaders are increasingly recognizing that their organisations have the capacity to make societies more sustainable. Corporate sustainability offers a holistic framework for companies to make their products, services, internal activities, structure, and management, and how these engage and empower external stakeholders more sustainability orientated.

The most widely used *'Theories Of The Firm'* (TOTF) have a limited coverage of the company's relations to its stakeholders, including its legal establishment (the relation with government), its purpose (the transaction of the company with its suppliers and/or competitors), and its obligations to its stakeholders (including the stockholders, internal, and external stakeholders). The TOTF are also limited when addressing sustainability's four dimensions (including the economic, environmental, social and time dimension).

This paper proposes that a 'Holistic Theory of the Firm' that synthesizes the contributions of the TOTF to the stakeholders and to sustainability, is a necessary next step in the debate on embedding corporate sustainability into the ethos of the company. Such a theory would, it is suggested, be better able to explain the phenomenon of CS, and would serve to help company leaders better embed sustainability into their organisation's activities and culture, and engage with other stakeholders to move towards more sustainable societies.

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[i] Corporate leadership is recognised to play a key, if not the most important, role in changes towards CS (Coelho, McClure, & Spry, 2003; DeSimone & Popoff, 2000; Siebenhüner & Arnold, 2007)

[ii] Stakeholder participation in this context is to be considered part of the social aspects

[iii] Lovelock (2007) posited that holism analyses a phenomenon from outside and asks questions while the phenomenon is occurring. This is opposed to reductionism which analyses the phenomenon through dissection into its ultimate component parts, followed by regeneration through the reassembly of the parts.

[iv] According to Allen (2001), the discussion upon the corporation's personality is more established in the U.S.A. than in other countries, though the roots of this discussion came from France and Germany.

[v] Personality in this context is "…*not a human being nor anything given in nature, but a group of rights and capacities, or at any rate a group of legal relations, and this group owes its existence entirely to the recognition of it by the legal and institutional organization of the community"* (Radin, 1932, p. 645)

[vi] *Zweckvermögen* is translated as special-purpose fund, or trade tax exempt

[vii] Some of the parties upon which the firm can enter contracts include employees, suppliers, customers, and creditors, amongst others (Jensen & Meckling, 1976)

[viii] According to Boatright (1996) and Machlup (1967) the stockholder theory can also be considered to be a marginalistic theory.