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A Review of ‘Theories of the Firm’ and their Contributions to Corporate Sustainability

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Abstract

Corporate Sustainability has arisen as an alternative to traditional, short-term, profit-oriented approaches to managing the firm by holistically balancing economic, environmental, and social issues in the present generation and future ones. Although a number of theories of the firm have been proposed within recent decades, their application to corporate sustainability has been limited. This paper presents an overview of the most widely used theories of the firm (such as the Stockholder Theory, the Aggregate Theory, the Contractual Theory, the Resource Based View, and the Stakeholder Theory), and analyses their contributions to sustainability through an interpretative perspective. The discussion highlights the point that each of the theories, on its own, is limited in addressing sustainability's four dimensions (i.e. the economic, environmental, social, and time dimensions). Nonetheless, each theory, or group of theories, has a particular perspective and principles that can contribute to one or more of the four dimensions. The authors of this paper propose a ‘Sustainability Oriented Theory of the Firm’, which is built upon elements of those theories as they relate to corporate sustainability. This *new theory* can be useful in providing the firm's leaders and all of its stakeholders a more complete vision of its obligations, opportunities, relations, and processes that the firm should address as it engages in helping to make societies become more equitable and sustainable in the short and long term.

Keywords: *corporate sustainability; theories of the firm; interpretation; stakeholder; stockholders; resource based view (RBV); corporate personality*

Highlights:

- Theories of the firm have been designed to clarify the existence and function of firms
- There is limited research on the theories of the firm's contributions to corporate sustainability
- The authors analysed ten theories of the firm's contributions to CS
- The ‘theories of the firm’ do not adequately encompass all of the relevant CS issues
- A new theory, the ‘Sustainability Oriented Theory of the Firm’ is proposed

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