



## SIG 01: BUSINESS FOR SOCIETY (B4S)

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### T01\_04 – Sustainability and the Black Box of the Firm (2nd meeting)

Paper submission deadline: **11 January 2024 – 2 pm Belgian time**

#### Convenors:

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#### Purpose:

The purpose of the second meeting of this panel discussion is to encourage scholarship that aims at opening the black box of the firm by making its internal mechanisms explicit, thus probing how enterprises can be locked in on a sustainability path by appealing to forces from within the firm rather than to external factors. This purpose is served by methodologies akin to non-probability, theoretical sampling with small and data-intensive samples. As Henry Mintzberg put it: “We learn how birds fly by studying them one at a time, not by scanning flocks of them on radar screens.” We expect, thus, to build over time a community of scholars able to move beyond prescriptions of ethical behavior, identifying instead the mechanisms that are most likely to make for-profit enterprises pursue sustainability goals.

#### Description:

Strategic management and economics are jammed with thin accounts of the firm, where the inner workings of enterprises are left unexplained. This has been carried over to stakeholder scholarship, where sustainable enterprise behavior is a matter of ethical willpower rather than organizational mechanisms. This forum welcomes scholarship that relies on a mechanism-based approach in search of endogenous determinants of pro-sustainability enterprise behavior, ranging from the routines enabled by capabilities hinging on tacit knowledge to more explicit and codified structures that manifest in institutional arrangements or modes of governance, thus contributing to opening the black box of the firm.

The Nobel laureate Herbert A. Simon once said that if a Martian was given the task of describing the market economy seen on Earth, her account "...would speak of 'large green areas interconnected by red lines.' It would not likely speak of 'a network of red lines connecting green spots'" (Simon, 1991, p. 27). The metaphor of lines connecting spots, instead of large areas, testifies to a thin understanding of what firms are, yet it has been espoused by many schools of thought in strategic management and economics.

A thin understanding, or black-box account, of the firm leaves its inner workings unexplained like, for instance, the for-profit firm that exists because inside transactions are more cost-effective than outside or market transactions — which is a tautology that Ronald Coase (1988, p. 19) defended by saying that "[i]t is the criticism people make of a proposition which is clearly right" — as well as the firm as a nexus of contracts that simulates the market by other means (Jensen & Meckling, 1976).

The black-box account of the firm has carried over into the so-called stakeholder theory, where its exponents have recently acknowledged that: "Until the [stakeholder] theory can define the boundaries of the firm, there is no 'inside' that distinguishes the firm from the market" (Phillips et al., 2019, p. 3).

The future of a sustainable economy may hinge, however, on probing whether the inner workings of the firm can be locked in on a sustainability path from within (Agafonow & Perez, 2023), instead of simply inviting managers to be ethical or regulating enterprises from outside, through public policy. Thus, this forum welcomes contributions that shed light on the inner workings of the firm while relating them to goals over and above profits.

A non-exhaustive list of early strides includes the displacement of enterprise goals by the influence of external stakeholders on internal stakeholders other than the senior management (Mintzberg, 1983); the realization that because contractual relationships are not neutral they "...preponderantly favor the corporation in relation to its constituencies" (Williamson & Bercovitz, 1996, p. 340); the augmentation of the nexus of contracts view to account for the appropriation of rent by stakeholders other than equity holders (Coff, 1999); and a conception of the firm whose "...existence emerges from the lower level parts that can be identified to be [...] individuals or groups that can also be denoted stakeholders" (Pajunen, 2010, p. 30).

## References

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## Keywords

Sustainability  
Theory of the firm  
Transaction cost economics  
Resource-based view  
Routines  
Mechanisms  
Stakeholder approaches

## UN Sustainable Development Goals (SDG):

Goal 8: Decent work and economic growth.  
Goal 10: Reducing inequalities.  
Goal 11: Sustainable cities and communities.  
Goal 12: Responsible consumption and production.  
Goal 16: Peace, justice and strong institutions.

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