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Corporate Social Strategy: Competing Views from Two Theories of the Firm

Frances Bowen

ABSTRACT. This paper compares two theories of the firm used to interpret firms' corporate social strategies in order to derive new insights and questions in this research area. Researchers from many branches of strategic management agree that firms can strategically allocate resources in order to achieve both long-term social objectives and competitive advantage. However, despite some progress in investigating corporate social strategy, studies rely on fundamentally diverging theoretical approaches. This paper will identify, compare and begin to integrate two competing theories of the firm implicit in corporate social strategy scholarship: the resource-based and behavioural theories of the firm. I discuss the implications of these two theories for both researchers and practitioners on key debates within corporate social strategy, and conclude by suggesting several fruitful avenues for future research based on the emerging integration of these two theories of the firm within the strategy literature.

KEY WORDS: behavioural theory, corporate social strategy, goals, rationality, resource-based theory

Introduction

Firms must decide how to respond to the competitive threats and opportunities inherent in engaging with social issues. Husted and Allen (2000) describe this decision as "corporate social strategy", or "the firm's plan to allocate resources in order to achieve long-term social objectives and create a competitive advantage" (p. 25). Despite some progress in investigating corporate social strategy, current studies rely on at least two different theories of the firm. Some rely on behavioural theory with special reference to organisational slack (e.g. Adams and Hardwick, 1998; Bowen, 2002a) and managerial discretion and values (e.g. Buchholtz et al., 1999; McGuire et al., 2003). Others draw on resource-based theory, with particular reference to resource bundles, capabilities and competences (e.g. Litz, 1996; Russo and Fouts, 1997). While both of these approaches may be appropriate for investigating corporate social strategy, they rely on different assumptions about strategic management which hold significant implications for both theory and practice.

In this paper, I will compare the two theories of the firm used to interpret firms' corporate social strategies in order to derive new insights and questions in this research area. I argue that being more specific about which theory of the firm is used as a basis for describing corporate social strategy is more than of mere academic interest to strategy scholars. Reflecting on the two theories of the firm can help position key debates in corporate social strategy. For example, the behavioural and resource-based views provide different answers to such central questions as whether corporate social strategy is really 'corporate' (resource-based), or is an individual or group level phenomenon (behavioural); or whether corporate social strategy can be used to develop valuable firm capabilities (resource-based), or reflects the ability of relatively well endowed firms to engage in discretionary activities consonant with managers' values (behavioural). The two theories also provide different

Dr. Frances Bowen is an Associate Professor in the Strategy and Global Management Area of the Haskayne School of Business, University of Calgary. Her main research interests cross strategy and organisational theory, focusing on corporate environmental strategy. She has examined firms' enviromental decisions in a variety of complex decision-making contexts. Current and recent research projects have focused on the roles of subsidiary managers in encouraging environmental initiatives within multinational companies, and how firms might induce suppliers to participate in environmentally sound supply chain management. Her main theoretical interest is how the behavioural theory of the firm can be integrated with the resource-based view to better explain corporate environmental strategy.

suggestions about how firms find potential solutions to social problems; and to what extent firms can and should calculate the economic costs and benefits of their social strategies. I will shed light on these questions by focusing on the corporate social strategy implications of comparing and integrating the behavioural and resource-based theories of the firm.

Both theories are good candidates for explaining corporate social strategy, particularly in comparison with neoclassical economic explanations of firms' social performance. Neoclassical theory treats firms as a black-box, perfectly rational entrepreneur which arranges inputs so as to achieve internal efficiency and profit maximisation (Mahoney, 2005). Within this view, social issues are separated from the core business of the firm (see Freeman, 1994 for more on the so-called "separation thesis"), and are often treated as externalities outside the firm's remit. The lesson from neoclassical economics for corporate social strategy is that firms should not engage with social issues unless optimising the costs and benefits of such a strategy suggests a positive economic payoff. However, the neoclassical economic view is unable to explain several features of corporate social strategy that we can observe in practice such as successful firm strategies based on non-economic managerial values, more stakeholder engagement than a strict analysis of economic incentives would suggest, or social strategies leading to intangible capability development within the firm.

Behavioural and resource-based theories are both welcome advances within organisational economics as they can explain significant elements of corporate strategy which are ignored in the neoclassical view (Mahoney, 2005). Both theories have some elements in common with neoclassical economics: both assume that organisations face the problem of allocating resources under scarcity, and both assume some deliberate attempt by the organisation to mobilise resources to react to opportunities and threats within its environment (albeit imperfectly, in the case of behavioural theory). However, as is discussed in more detail below, both theories were developed as reactions to the strict assumptions of neoclassical economics, giving much more prominence to heterogeneous resources across firms, looking within firms for clues about decision making and firm performance, and making more realistic assumptions about managerial rationality. Thus behavioural and resource-based theories are better equipped to explain firm social behaviours at the strategic level, and social strategy differences across firms, than neoclassical economics.

Given this advantage over neoclassical theories of the firm, researchers have justifiably looked to either of the two theories for inspiration on how to understand corporate social strategy, but superficial similarities hide some inconsistent assumptions made by behavioural and resource-based theorists. In this paper, I will argue that divergent assumptions made about managerial rationality, organisational goals, solution search, resources and inertia have particularly strong implications for our understanding of corporate social strategy. I will go on to show how integrating aspects of these theories of the firm provides us with several untapped avenues for research in the corporate social strategy domain.

I begin by outlining the history and key features of first the behavioural and then the resource-based theory of the firm, contrasting them where useful with neoclassical theory. I then compare five key features of the two theories and draw implications of these differences for our understanding of corporate social strategy. I go on to suggest several fruitful avenues of future research on corporate social strategy based on the emerging integration of these two theories of the firm within the broader strategy literature. I conclude with implications for practice of a more nuanced understanding of these theories of the firm for corporate social strategy.

The behavioural theory of the firm

The behavioural theory of the firm is usually traced back to Cyert and March's highly influential, but modestly entitled, 1963 book *A Behavioural Theory of the Firm*. Its earlier intellectual origins can be seen in the work of other members of the Carnegie School of Industrial Administration, particularly that of Herb Simon (March and Simon, 1958; Simon, 1947, 1952). Behavioural theory was born out of a frustration with the inability of neoclassical theories of the firm to explain actual decision making behaviour within organisations, primarily because of neoclassical theory's assumption of perfectly rational economic actors. In response, behavioural theory's focus was to provide a more empirically grounded theory of organisational goals, expectations and choice.

Core features of Cyert and March's (1963) behavioural view were bounded rationality, satisficing decision-making routines and unresolved conflict about organisational goals (Bromiley, 2005; Cyert and March, 1992). Each of these tenets represented a serious challenge to previous neoclassical theories of the firm, but have since to greater or lesser extent become widely accepted assumptions in strategic management. Cyert and March (1963) saw firms as an adaptive political coalition, and derived a coherent theoretical framework based on the new assumptions. Firms were conceived as ''a coalition of individuals, some of them organised into sub-coalitions'', and ''a complex system in which different decisions are made at different places in the organisation'' (Cyert and March, 1963 pp. 31 and 118). Organisations are therefore characterised by the quasiresolution of conflict, uncertainty avoidance, problemistic search and organisational learning.

Cyert and March's (1963) theory was designed to explain core economic decisions such as output price and quantity, but over the years elements of behavioural theory have been used to analyse many other phenomena such as the evolution of organisational routines (Nelson and Winter, 1982), organisational learning (Greve, 2003c; Levinthal and March, 1981), political behaviour (Bourgeois and Singh, 1983), investment (Greve, 2003b), acquisitions (Rostami and Bowen, 2006) and innovation (Geiger and Cashen, 2002; Greve, 2003a; Nohria and Gulati, 1996). There has been a reinvigorated interest among strategic management scholars in the behavioural theory of the firm, with several influential books and articles being published in the last few years (e.g. Augier and March, 2002; Bromiley, 2005; Greve, 2003a, c).

The most cited features of Cyert and March's (1963) book are search, coalition and organisational slack (Engwall and Danell, 2002). Among corporate social strategy researchers slack has been by far the most influential concept, particularly the argument that organisational slack is a pre-requisite for being able to afford corporate social strategy (e.g. Adams and Hardwick, 1998; Buchholtz et al., 2001; Seifert et al., 2003).

However, treating organisational slack in isolation from other aspects of the behavioural theory of the firm is not only a partial application of behavioural theory from an academic perspective, but also has problematic overtones of the separation thesis mentioned above. Arguing all that's required to initiate social strategy is excess resources not required for the efficient running of the firm risks artificially separating social from economic aspects of strategic decisions. There have been many interesting examples cited in this journal of how organisational slack facilitates a corporate social strategy,[1] but available resources alone are insufficient to initiate a corporate social strategy. Such strategies rely on individual managers making decisions based on their own values and ability to mobilise resources to meet their own goals. Within behavioural theory, managers are not assumed to be rationally optimising separate social and economic goals. Instead they are assumed to pay sequential attention to issues either as problems arise or as their discretionary resources allow them to do so.

A few recent corporate social strategy studies have begun to move beyond treating slack in isolation from other key aspects of the behavioural theory of the firm. Some important interactions within the behavioural view, such as between managerial discretion (Buchholtz et al., 1999; Sharma, 2000), goals (Buchholtz et al., 1999) or governance structure (McGuire et al., 2003; Sama, 2002) and organisational slack have begun to be addressed in the corporate social strategy context. However, as will be discussed further below, a valuable next step within this literature would be to more fully integrate these behavioural approaches with the core business ethics concerns of the possibility of collective ethical goals (Moore, 1999; Pruzan, 2001) and the influence of managers' personal values in social strategies (Hemingway and Maclagan, 2004; Werbel and Carter, 2002).

Table I summarises the key elements of the behavioural theory of the firm. It also lists the corresponding assumptions within resource-based theory, and it is to this theory of the firm that we now turn.

The resource-based theory of the firm

Barney and Arikan (2001) describe the resource-based theory of the firm as ''a theory of persistent superior firm performance using a firm's resources as a unit of analysis'' (p. 134).[2] As with behavioural

TABLE I

A comparison of behavioural and resource-based theories of the firm

Dimension	Behavioural theory	Resource-based theory
Firm definition	Adaptive political coalition (Cyert and March, 1963) Information-processing system (March and Simon, 1958; Simon 1982)	Bundle of resources (Penrose, 1959, 1995; Wernerfelt, 1984)
Organisational goals	Multiple, conflicting, endogenous (Cyert and March, 1963; Simon, 1947)	Singular, uncontested, exogenous (Wernerfelt, 1984; Conner 1991; Barney, 1991; Peteraf, 1993)
Performance criterion	Aspiration level (Cyert and March, 1963; March and Simon, 1958)	Sustainable competitive advantage (Barney, 1991; Peteraf, 1993)
Level of analysis	Organisation, sub-unit, individual (Bourgeois, 1981; March and Simon, 1958)	Firm (Conner, 1991; Teece, 1982; Penrose, 1959, 1995)
Managerial rationality	Bounded rationality (Cyert and March, 1963; March and Simon, 1958; Simon, 1947, 1982)	Perfect rationality (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984) Bounded rationality (Amit and Schoemaker, 1993; Barney and Arikan, 2001; Dierickx and Cool, 1989; Wernerfelt, 1995)
Dominant logic	Satisficing (Cyert and March, 1963; March and Simon, 1958; Simon, 1947)	Efficiency (Foss et al., 1995; Penrose, 1959, 1995) Ricardian rent seeking (Amit and Schoemaker, 1993; Peteraf, 1993; Rumelt, 1984)
Firm resource endowments	Heterogeneous; scarcity problem; slack resources important to maintain coalition (Cyert and March, 1963)	Heterogeneous; scarcity problem; unique resources important for gaining competitive advantage (Barney, 1991; Penrose, 1959, 1995)
Scope of resource availability	Limited, contested, available only to dominant coalitions within units and sub-units (Cyert and March, 1963)	Universal, uncontested, available to firm as a whole (Penrose, 1959, 1995; Peteraf, 1993; Teece, 1982)

theory, the development of the resource-based theory of the firm was driven by frustration with neoclassical economic explanations of firm performance (particularly neoclassical arguments based on market power see for example, Porter, 1980). However, rather than changing assumptions about managerial rationality and goals (as with behavioural theory), it attacked the neoclassical assumptions of firm homogeneity and resource mobility (Barney, 1991). Assuming resource heterogeneity and resource immobility, resource-based theory examines why some firms manage to achieve competitive advantages in an industry while others fail to do so.

The resource-based theory of the firm highlights links between resources, sustained competitive advantage and superior economic performance. Firms are defined as a bundle of productive resources (Penrose, 1959, 1995; Wernerfelt, 1984), which if they are valuable and rare may be a source of competitive advantage (Barney, 1991). Further, if the resources are inimitable and non-substitutable, then such advantages may be sustainable in the longer run (Barney, 1991). Resource position barriers (Wernerfelt, 1984), or isolating mechanisms (Rumelt, 1984) which protect against the erosion of a firm's distinctive resource position include social complexity and causal ambiguity (Barney, 1991; Dierickx and Cool, 1989; Lippman and Rumelt, 1982). Thus the resource-based view focuses on analysing the characteristics of resources held within the firm, and identifying the actual or potential location of competitive advantage which in turn should yield superior economic performance.

As Table I suggests, one of the primary differences between behavioural and resource-based theories is the assumption made about managerial rationality. In common with neoclassical theories of the firm, early articulations of resource-based theory contained either explicit (Barney, 1991; Peteraf, 1993) or implicit (Wernerfelt, 1984) assumptions of perfect rationality. This contrasts with one of the behavioural view's core identifying features: its assumption of bounded rationality (Cyert and March, 1963; March and Simon, 1958). However, this difference between the two theories of the firm is not as clear as the stereotypes suggest. While the "high church" resource-based theorists based their analyses on strong economic assumptions of perfect rationality, "low church" proponents assume weaker and bounded assumptions about rationality (Levinthal, 1995). Furthermore, there seems to have been some shift towards accepting bounded rationality over time. Despite earlier using a strong perfect rationality assumption (Wernerfelt, 1984), Wernerfelt (1995 p. 135) later argued that perfect rationality and foresight are not essential to the resource-based view, but are mere simplifying assumptions. Similarly, in a recent restatement of the resource-based view, Barney and Arikan (2001) state that bounded rationality is one of the perspective's core assumptions (p. 141). Thus despite resource-based theory's original adoption of neoclassical assumptions of perfect rationality, there seems to be a role for bounded rationality within resource-based theory, albeit an ill-defined or even accidental role.

Corporate social strategy researchers working within the resource-based tradition have tended to focus on competences and capabilities which could be developed through engaging in corporate social strategies (see Verbeke et al., 2006 for a review in the environmental context). Such capabilities include improved stakeholder consideration, ethical awareness and issues management (Litz, 1996), integrity capacity (Petrick and Quinn, 2000, 2001), shared vision (Aragon-Correa and Sharma, 2003; Hart, 1995; Sharma and Vredenburg, 1998) and radical transactiveness (Hart and Sharma, 2004). Each of these capabilities can be developed through initiating and implementing appropriate corporate social strategies, and may form a source of sustainable competitive advantage for the firm in its broader activities. As will be outlined below, corporate social strategies, which are not intended to lead to competitive advantage, but rather to competitive parity or even collaborative social strategies have been relatively neglected within this view.

Competing theories of the firm and corporate social strategy

Significant differences between the two theories of the firm have important implications for our understanding of corporate social strategy (see Table II). Divergent assumptions made about managerial rationality, organisational goals, solution search, resources and inertia have particularly strong

TABLE II

Implications of the competing theories of the firm for corporate social strategy

Dimension	Behavioural theory	Resource-based theory
Managerial rationality	Corporate social strategy is evaluated by a broad consideration of whether it allows firms to meet performance aspirations. Managerial values, availability of slack resources and attitudes to risk are important	Corporate social strategy is evaluated by an economic cost–benefit decision ("high church"), but these calculations are not necessarily flawless ("low church")
Organisational goals	Firms do not have corporate strategy goals, individuals do. Corporate social strategy goals depend on individuals' priorities and values	Firms can have a single corporate social strategy goal. Corporate social strategy goals depend on the opportunities and threats in the firm's environment
Strategy search	Corporate social strategy is derived by responding to particular social problems, or through slack search. Firms can simultaneously support many (conflicting) social strategies	Corporate social strategy is derived through the firm's attempts to mobilse existing resources to gain competitive advantage. Firms will support a single overarching social strategy
Resource characteristics	Corporate social strategy is most effectively based on generic resources. Managers will seek social strategy options which can best use discretionary organisational slack	Corporate social strategy is most effectively built on unique resources. Managers will seek social strategy options which can enrich the firm's competitively valuable resource base
Inertia	Corporate social strategy can be inhibited by inertia. Factors inhibiting corporate social strategy include departmental politics, cognitive myopia, embedded routines and path dependency	Corporate social strategy can be inhibited by inertia. Factors inhibiting corporate social strategy include capabilities gaps, inadequate strategic vision and core rigidities

implications for research and practice. In this section, I will address each of these dimensions in turn.

Managerial rationality

"High-church" resource-based theorists adopt the neoclassical economics assumption that managers have perfect rationality. In contrast, "Low-church" and behavioural theorists assume that managers possess only bounded rationality. The implications of the different managerial rationality assumptions for corporate social strategy are wide ranging. If managers are assumed to be perfectly rational, then we can interpret social strategy implementation as the outcome of evaluating potential social strategies using conventional economic criteria. Corporate social strategies selected will be those with a positive economic pay-off (Porter and van der Linde, 1995), regardless of their intrinsic social benefits. Some "win-win" corporate social strategies promise both economic and social benefits, such as energy efficiency measures to reduce pollution, the sponsorship of cultural events important to the firm's target market, or corporate philanthropy aimed at enhancing a firm's reputation. However, separating economic from social issues in this way is problematic (Freeman, 1994), and cannot explain why firms engage in social strategies, which might not have a positive economic pay-off.

In contrast, if we assume that managers are boundedly rational, then observed social strategies are a consequence of a broader consideration of the perceived affordability and desirability of a given social strategy. A boundedly rational approach to corporate social strategy recognises the importance of managerial values, availability of slack resources and attitudes to risk in decision-making (Lankoski, 2000; Sharma, 2000). Integrating managerial values into social strategy in this way renders the heated debate on the economic pay-offs to corporate social change efforts redundant, since such an economic pay-off would not be necessary to motivate corporate social strategies (Freeman, 1994).

The neoclassical theory of the firm was ill equipped to explain corporate social strategy because of its separation of social and economic goals, and its inability to explain proactive social strategic behaviour. Going beyond regulatory requirements without an obvious economic payoff seems irrational within this perfect rationality view. In the same way, "high church" resource-based theory is ill equipped to deal with firms' responses to social issues because of its excessive reliance on optimising economic pay-offs. The most fruitful explanations for social strategy are likely to be within behavioural theory or "low church" resource-based theory because of the more realistic assumption of bounded rationality.

Organisational goals

Within resource-based theory a firm's single and uncontested performance criterion is the generation of sustainable competitive advantage, which should lead to superior performance (Barney, 1991; Peteraf, 1993). This contrasts sharply with Cyert and March's (1963) view that individuals have goals, but organisations do not. Indeed, a core feature of the behavioural view is that organisations are made up of coalitions of individuals with multiple and conflicting goals, and that firm performance is measured against the dominant coalition's aspiration levels, rather than an absolute competitive advantage criterion (Cyert and March, 1963; Simon, 1947).

From a resource-based perspective, the priority afforded to corporate social strategy depends on the opportunities and threats in the firm's environment, and the extent to which implementing the strategy might lead to the development of competitively valuable capabilities. When firms mobilise internal resources to engage in social strategies, this is to capture an appropriate opportunity (e.g. potential product differentiation on environmental characteristics), or counter a significant threat (e.g. damage to competitively valuable reputation because of social or environmental performance). Such actions require a coherent strategic social vision which would then be implemented throughout the firm (Hart, 1995; Roome, 1992). However, if organisational goals are inconsistent, contested, and cannot be resolved by trade-offs (Cyert and March, 1963), then the priority afforded to corporate social strategy reflects managerial cognition and values (Buchholtz et al., 1999; Sharma, 2000).

Assuming multiple and conflicting goals within organisations could cut both ways in its impact on corporate social strategy. On the positive side, social goals might fit more naturally as one of several goals within an organisation, and result in increased social engagement through social or environmental "pet projects". As Hemingway and Maclagan (2004) argue, "evidence that individual managers do champion social responsibility, as opposed to simply acting as agents of corporate policy, may inspire or remind employees that they can 'make a difference' in an organisation without a formally adopted corporate social responsibility (CSR) culture" (p. 41). On the negative side, unless at least some managers in the dominant coalition promote proactive social goals, social objectives may be competed out in the political bargaining within the organisation (Hemingway and Maclagan, 2004). Further, managerial discretion to follow their own social goals may allow managers to use the firm's resources for activities other than shareholder value creation, which has its own set of ethical concerns (Hemingway and Maclagan, 2004; Werbel and Carter, 2002).

A core concern in this area is whether corporate social strategy is really 'corporate', or whether it is an individual or group level phenomenon (Hemingway and Maclagan, 2004). This connects with questions of whether organisations can have values, virtues and visions (Pruzan, 2001), and whether they can be considered moral agents (Moore, 1999). The tension between the actions of organisations as a collective compared with individual agency is shared with the broader domain of strategic management. As outlined above, the resource-based view tends to see the organisation as a singular entity, whereas the behavioural view posits that it is individual managers who make social strategy decisions. Observing case studies of corporate social strategy in action could reveal to what extent individuals and/or organisations are the appropriate level of analysis for addressing corporate social initiatives in a particular context.

Once the primary level of analysis in a given situation is deduced, the two theories of the firm provide significant guidance on other organisational factors which should be considered. For example, if social strategy is driven primarily by individual managers who hold ethical values and exercise discretion, then we should look to other interlocking elements of the behavioural theory of the firm to provide explanations for their decisions. These might include designing an incentive system to curb or direct managerial discretion (Hemingway and Maclagan, 2004; McGuire et al., 2003), or providing slack resources in the form of time or looser budgets to encourage social initiatives (Bowen, 2002b; Peterson, 2004).

Social strategy search process

Within the resource-based theory of the firm, innovation and strategic change are driven by a desire to increase efficiency (Penrose, 1959), or take advantage of opportunities to capture Ricardian rents (Peteraf, 1993; Rumelt, 1984). For example, Vodafone made the competitive strategic decision to provide mobile telecommunications coverage for the entire geographical area of England and Wales. They then faced the challenge of how to negotiate the construction of mobile telecommunications masts and base stations in environmentally sensitive areas, such as national parks. Driven by a desire to gain permission to construct the network as efficiently as possible, they developed a stakeholder engagement process which involved a wide variety of stakeholders concerned with national parks from regional planners to mountain rescue teams, farmers and local residents. Following this corporate social strategy enabled them to both get the permission they needed to fulfil their strategic objectives, and to develop a capability in stakeholder engagement. Vodafone later used the stakeholder engagement capability derived from their corporate social strategy to help them develop 3G networks in urban areas. The resource-based theory of the firm suggests that corporate social strategy was derived through the firm's attempts to mobilise their existing resources and expertise to gain competitive advantage.

In contrast, within the behavioural theory of the firm, innovation and change are either a response to achieving performance below the firm's aspiration levels, or a consequence of slack search (Cyert and March, 1963; Greve 2003a, b). Problemistic search occurs when a firm experiences disappointing performance and it initiates a search for solutions. Corporate social strategies may then arise as part of the solution. Slack search occurs when firms with more uncommitted resources, whether they are in the form of cash, excess inventory or spare managerial time use those resources for philanthropy (e.g. Campbell et al., 1999; Seifert et al., 2003), environmental improvement (e.g. Bowen, 2002a) or corporate volunteering (Peterson, 2004; St Clair and Tschirhart, 2002). Both the problemistic search and slack search mechanisms require the consideration of managerial discretion, since managerial values and awareness determine which issues attract scarce managerial attention.

Further, because the search process in behavioural theory can occur at many different organisational locations simultaneously, the search for corporate social strategy solutions can give rise to multiple social strategies which may even conflict in their objectives. For example, Wulfson (2001) highlighted some of the complexities that can occur when corporations give donations to many different charities. U.S.West in Colorado, for example, continued to make donations to the Boy Scouts of America (BSA) despite the BSA's refusal to admit gays as members or as troop leaders, which contradicted U.S.West's own inclusive corporate values on pluralism and diversity (Wulfson, 2001).

From a behavioural theory perspective, this type of complexity within a corporate charitable giving strategy is understandable as managers in multiple organisational locations initiate charitable giving to organisations which come to their attention and connect with their own personal values. Due to behavioural theory's acceptance of multiple and conflicting managerial goals (see above), this perspective is well equipped to recognise search for multiple, even conflicting, solutions to the question of which organisations will receive corporate charitable donations. However, a resource-based perspective does not capture tensions within a single, articulated corporate charitable giving strategy as readily. Within the resource-based view, top managers assume that any local initiatives induced by the strategy should fit within the overall corporate objectives. Attention is paid more to broad strategic similarities (e.g. total charitable donation amounts; developing standard routines for dealing with requests for donations), rather than to points of tension and conflict between managers' charitable preferences.

In summary, according to resource-based theory firms tend to articulate a single overarching social strategy, while behavioural theory suggests that firms can simultaneously support various (possibly conflicting) social strategy solutions.

Characteristics of resources

A core idea within behavioural theory is the importance of organisational slack (Bromiley, 2005; Cyert and March, 1963; Engwall and Danell, 2002). Slack resources can take many "generic" forms: financial capital; managerial time; sheer size and scope of the firm; or technological capability. Studies on innovation (Geiger and Cashen, 2002) and environmental management (Bowen, 2002b) have supported the behavioural view that the resources which are most useful for innovation and change are the ones which can be put to the most potential different uses. Discretionary resources such as unspent budgetary allocations, available managerial time and attention or short term profit performance above aspiration levels are more "generic" than deeply absorbed resources. They are necessary (but not sufficient) for social strategy implementation at least in the short run. Thus the behavioural view tends to focus on the role of generic resources in facilitating social strategy.

The resource-based theory of the firm, in contrast, focuses on resources which are firm-specific, non-tradeable, subject to market failure, deeply embedded and path dependent (Amit and Schoemaker, 1993; Barney, 1986, 1991), and their contribution to competitive advantage. These resources can be termed "unique" in the sense that they are specialised to particular firms, and are not easily imitated by other organisations. Corporate social strategy research within the resource-based tradition has tended to focus on the particular tacit, socially complex, and rare resources that a firm has at its disposal (e.g. Hart, 1995; Buysse and Verbeke, 2003). This arises from resource-based theorists' focus on developing corporate social strategies which could form the basis of sustainable competitive advantage. Such strategies do indeed rely on investment in complex, specific and tacit resources. However, some recent contributions within this tradition have examined a fuller range of resources available to the firm to implement corporate social strategies, which may not necessarily be aimed at gaining competitive advantage (Bowen and Sharma, 2005). As discussed further below, this opens up the neglected research question within the resource-based perspective of when firms might undertake corporate social strategy to maintain competitive parity rather than to gain competitive advantage.

The main implication for corporate social strategy of the relative focus on unique or generic resources within the two theories of the firm is that firms' resource endowments must somehow "fit" with the resources required to undertake the desired strategy. Since corporate social strategy relies on firms allocating resources in order to meet both social and economic objectives, the types of social strategy achievable may well be limited by the types of resources available to the firm. Husted (2003) presents this as a choice firms face on appropriate forms of governance for their social strategies: whether to contribute, collaborate or internalise. If firms do not possess the specific resources required, and if they are not planning to use social strategy as a vehicle for developing their own competitively valuable capabilities, they may decide to outsource elements of their corporate social strategy implementation. For example, Kapelus (2002) argued that mining companies operating in South Africa are comparatively rich in financial resources, but are less well endowed with the specific capabilities required to co-operate with the local government in social and economic reconstruction. Their corporate social strategy has therefore been to contribute to and collaborate with trusts which act as development catalysts or implementers. Examples include BHP Billiton's "Billiton Development Trust", and the Anglo American and DeBeers Chairman's Fund (Kapelus, 2002). However, if firms see an opportunity to enrich their competitively valuable resource base through social strategy, then they will keep such activity in house, invest in their own unique asset base and develop their own expertise (as in the Vodafone example above).

Corporate social strategy researchers in the behavioural tradition have tended to focus on generic resources, whereas resource-based theorists have usually focused on investing in unique resources as a way to capture competitive advantage. However, there is a fruitful area of overlap between the theories when examining corporate social strategies aimed at maintaining a license to operate or competitive parity, rather than competitive advantage. This opportunity will be discussed below.

Sources of inertia

Despite corporate social strategy studies' focus on the positive, or change-inducing aspects of social strategy, both resource-based and behavioural theories recognise that a firms may suffer from inertia preventing them from implementing social strategy. From the resource-based perspective, sources of inertia in organisations include capabilities gaps, inadequate strategic vision and lock-in of invisible assets (Itami, 1987; Rumelt, 1995). Leonard-Barton (1992) termed the dysfunctional downside of core capabilities "core rigidities", and showed how they could actively create problems for innovative projects. A more behavioural view identifies alternative sources of inertia such as departmental politics, cognitive myopia, embedded routines, information costs and path dependency (Hannan and Freeman, 1977; Levinthal and March, 1993; Rumelt, 1995). For example, Levitt and March (1988) identified a "competency trap" where increasing skill at current procedures makes experimentation within alternatives progressively less attractive.

An implication of these various understandings of inertia for the corporate social strategy context is the perceived value of routines. Firms may develop established ways of doing things in the corporate social strategy context, such as dealing repeatedly with specific stakeholders with whom they have established relationships, donating to the same philanthropic causes year after year, or relying on the same set of managers to routinely monitor recognised social issues (e.g. by forming an environmental management department). Corporate social routines are seen alternatively as useful economising behaviours, which might lead to learning and further intangible expertise in implementing the strategy (resource-based theory), or as a source of complacency or lack of responsiveness to emerging social issues (behavioural theory). Both theories of the firm recognise routines as a potential source of inertia (core rigidities and competency traps), but make different predictions about when routines might be a problem.

Implications for future corporate social strategy research

Corporate social strategy researchers have been surprisingly casual in their application of both of these theories, preferring eclectic contingency models to a complete test of either of these theories. Here I will argue that being specific about the theory of the firm origins of corporate social strategy models promises several fruitful avenues of research. Future corporate social strategy research should be channelled in each of the following three directions: taking a complete rather than partial view of either of the separate theories; identifying conditions under which resource-based or behavioural theory is more powerful in explaining corporate social strategy behaviours; and applying aspects of the emerging integration of the two theories within the wider strategy literature to the corporate social strategy context.

Taking a more complete view of either of the theories

There are many research opportunities for investigating corporate social strategy, which take a more complete perspective based on either of the theories of the firm discussed here. These opportunities have so far been largely missed because of corporate social strategy researchers' focus on only one or a few of the many inter-related aspects of either of the two views. For example, investigations of slack and philanthropy have often been undertaken in isolation from considering managerial discretion, values or the bargaining process within the firm. Future corporate strategy research using organisational slack as a construct should include explicit considerations of other key elements of behavioural theory such as managerial interpretations or the search process.

Similarly, corporate social strategy researchers using a resource-based approach should move beyond their focus on unique resources as a basis for competitive advantage. An opportunity has been missed to consider the use of non-specific resources to maintain competitive parity, or even generate collaboration on social issues. While some proactive social strategies can be seen to develop valuable capabilities and competitive advantage, other social strategies are simply aimed at maintaining a license to operate or not obviously falling behind industry norms. By opening up discussion to the whole range of social strategies based on the whole range of resources, rather than merely those strategies built on unique resources to gain competitive advantage, resource-based theory could be used to provide novel perspectives on the diffusion and institutionalisation of social strategies.

Explaining which theory is more useful, and when

Studies might be undertaken to diagnose which of the theories is most useful in which contexts. This analysis suggests at least four ways in which researchers could diagnose which of the theories is a better descriptor of firm behaviour. First, the two theories of the firm provide alternative potential explanations for inertia, which is so far under-explored within corporate social strategy research. While some case studies in business ethics have focused on the reasons why corporations do not respond to social demands rather than the reasons why they do (see Cohan, 2002 for an example), there remains scope for more research in this area. Corporate social strategy may have a ''dark side'' where increasing expertise in and routines for social strategy may squeeze out more creative or proactive future strategies. Investigating resource-based theory's ''core rigidities'' (Leonard-Barton, 1992) and behavioural theory's ''competency trap'' (Levitt and March 1988) in the corporate social strategy context might help explain corporate inertia on social issues. Indeed, examining corporate social strategy cases to identify the reasons for firms' inertia on social issues and checking them against the two theories might provide valuable clues as to which of the sets of explanations are more powerful in a particular context.

Second, firms' approaches to stakeholder engagement might yield clues as to the most valuable descriptive theory. Within the resource-based view, stakeholder engagement is a potentially valuable capability, which might be deliberately (or accidentally) developed to gain competitive advantage. Behavioural theory, however, is more consistent with an attention-based stakeholder model where stakeholders gain managerial attention when managers are faced with a problem or are sympathetic to the stakeholders' values. Empirical observations on firms' interactions with their stakeholders might help identify whether this is a capability-based or an attention-based activity, and hence whether we should give precedence to resource-based or behavioural theory.

Third, an opening question of this paper asked whether corporate social strategy can be used to develop valuable firm capabilities, or reflects the ability of relatively well endowed firms to engage in discretionary activities consonant with managers' values. The comparison of the two theories of the firm in this paper suggests a novel way to attempt to answer these questions. If corporate social strategy is built with discretionary, generic resources (i.e. organisational slack), then in a recession we could expect a contraction in the amount of resources available within the firm, and a decrease in the implementation of corporate social strategy. In contrast, if corporate social strategy is built on unique resources, and can even enhance the development of competitively valuable resources such as stakeholder engagement or integrity capacity, then corporate social strategy may well be unaffected by a widespread economic downturn. Generating corporate social strategy-based strategic assets could even enhance the competitiveness of firms in difficult times. Testing for the effects of an economic recession on corporate social strategy could help us understand which of the two theories of the firm holds more power in explaining corporate social strategy. It could also give us insight into whether firms use ''spare'' resources to follow social pet projects, or whether corporate social strategy decisions are more deeply embedded within the value creation framework of the firm.

Fourth, we might study how firms identify, interpret and respond to social problems. How do social issues gain managerial attention, and what lenses are used by decision-makers to interpret and evaluate them? Even within the ''low church'' resource-based view, this is seen as an essentially economic process. Social opportunities and threats are identified in the environment, the firm evaluates potential social strategy options based the top management team's interpretation of the cost benefit criteria, and investments in resources are made to operationalise the firm's social response. The behavioural view, on the other hand, sees this as a political process. Individual managers initiate and champion corporate social strategies, which are based on their own values and discretionary resources available to them. Corporate social strategy priorities are evaluated based on negotiation within the resource allocation process. An important avenue for future research within corporate social strategy would be detailed case study work to understand the conditions under which economic or political, values-based factors dominate the decision-making process.

Extensions of this line of research might move beyond considering whether resource-based or behavioural theories provide more useful descriptions of corporate social strategy to when each might be more useful. For example, corporate social strategy in highly politicised organisations, firms producing standardised commodities or loosely coupled professional firms might be better explained using behavioural theory; whereas the resource-based view might be more relevant when the firm's dominant logic is more economically based or where a firm's competitive advantage is based on a differentiated brand. Furthermore, each theory might be better suited to explaining different types of corporate social strategy. It is worthwhile testing whether behavioural theory is more relevant for ad hoc, discretionary, managerial values-based social initiatives (e.g. local community involvement initiatives), and resource-based theory more useful for explaining larger scale social strategies aligned with the firm's competitive positioning (e.g. corporate sponsorship of sports events by breweries).

Evaluating the emerging integration of the theories

Corporate social strategy researchers also have a full role to play in the emerging integration of resource-based and behavioural theories within strategic management. I have highlighted some areas of convergence between the theories, such as assumptions about bounded rationality in the recent resource-based view and the importance of inertia. As I argued above, the most promising explanations for social strategy are likely to be within behavioural theory or the ''low church'' resource-based view because of the more realistic assumption of bounded rationality.

Corporate strategy researchers might also contribute to the emerging streams of research on the behavioural antecedents of investments in resources and capabilities (e.g. Alessandri and Maritan, 2004; Moliterno and Wiersema, 2005; Verbeke et al., 2006). Questions within this stream include which behavioural characteristics are required in order to develop competitively valuable capabilities on social issues. Finally, broadening the resource-based perspective on corporate social strategy to include all resources, not just unique resources, echoes recent calls to include broader organisational characteristics along with resources to understand the basis of competitive advantage (Bromiley, 2005). Given that both theories of the firm have been used separately as a basis for describing corporate social strategy, researchers in this field are well positioned to begin to integrate compatible elements from each view.

Conclusion

I have argued in this paper that the resource-based and behavioural theories of the firm rest on different assumptions, and that choices about which theory of the firm to use to analyse corporate social strategy have important implications for our understanding of the nature, drivers and consequences of corporate social strategy. Furthermore, being more specific about the similarities and differences between the two theories provided us with fresh perspectives and new research avenues within corporate social strategy.

A limitation of this discussion is that it focuses exclusively on factors internal to the firm. While both the behavioural and resource-based perspectives aim to explain firms' decision making within a given business environment, they do not address how external pressures for action on social issues develop. This criticism is commonly leveled at resource-based theory in particular as it focuses on gaining Ricardian rents from possessing unique resources, rather than firm positioning within the environment to gain industry-level rents. Indeed, resource-based theory is usually contrasted with industrial organisation economic perspectives, rather than behavioural theory. A truly comprehensive view of corporate social strategy would include both external and internal factors, incorporating how institutional pressures affect firms, how firms position themselves in relation to those pressures and how they mobilise their internal resources to implement their social strategy. Both theories of the firm addressed in this paper focus on the last of these issues. While keeping a narrow focus on internal decision making concerning the mobilisation of resources to achieve social strategy objectives has allowed us to compare these two theories in detail, more work is required on considering the full suite of theories of social strategy. In particular, further work is required which puts social strategy decisions within a contingent institutional context (e.g. Aragon-Correa and Sharma, 2003; Brush and Artz, 1999).

At least two significant implications for the practice of corporate social strategy can be drawn from the juxtaposition of the two theories of the firm. First, this paper serves as a reminder that designing a corporate social strategy is not the same as implementing it. The more managers acknowledge the behavioural aspects of social strategies, the more they will need to understand the requirement for direction from the top on social issues to be supported by appropriate resource allocation mechanisms and organisational structures (James, 2000; King, 1999). Conversely, in less proactive organisational climates, individual managers at lower hierarchical levels may be inspired by the behavioural view to initiate and support their own social strategies (Hemingway and Maclagan, 2004). Corporate social strategy may be more complex, contradictory, political and contested than simple top-down explanations of corporate strategy might suggest.

A more specific implication is to recognise that different corporate social strategies require the mobilisation of different types of resources. The analysis supports Husted's (2003) observations on governance choices in implementing corporate social strategy. It also extends Husted (2003) by arguing that when corporate social strategy can be built on unique, competitively valuable resources and internalised, firms can gain competitive advantage through following corporate social strategies. This helps to elaborate on some of the emerging contingencies identified in the resource-based social strategy literature (Aragon-Correa and Sharma, 2003). Potentially competitively valuable resources developed through social engagement include stakeholder engagement, shared vision, integrity capacity and radical transactiveness. An implication from this paper is that these resources must be matched carefully with opportunities in the environment. When such resource alignment is achieved, firms can engage in strategies, which are both profitable and socially beneficial.

In comparing the two competing theories of the firm, this paper should help formalise the study of corporate social strategy. Strategic management has many alternative views of the firm, but researchers have not yet managed to systematically apply these diverse perspectives to corporate social strategy. This paper has made a step in that direction by comparing two theories of the firm: the behavioural and the resource-based perspectives. Both of these theoretical frameworks have much to offer corporate social strategy. In many ways, the behavioural theory of the firm fits most closely with widespread conceptions of how social concerns are dealt with in business: organisations are made up of individuals with their own values and goals, where corporate social strategies evolve through a political process of championing and using discretionary resources in different parts of the firm. However, a significant weakness of behavioural theory is that it does not provide much practical, normative advice. The resource-based view, on the other hand, forms a stronger basis for normative prescription, but falls short in explaining the behavioural complexity of social strategies. Which of these two competing theories is most useful in explaining corporate social strategy in particular contexts thus remains an open empirical question. By highlighting areas where differences between the two theories of the firm are important for corporate social strategy, and potential areas of integration, this paper has provided a foundation upon which both behavioural and resource-based approaches to corporate social strategy can be built.

Notes

[1] For example, DuPont's highly developed environmental R & D department (absorbed slack) facilitated that firm's transition away from using CFCs (Mullin, 2002); the availability of surplus food was a key determinant of food distributors' and producers' decisions to make corporate donations (Campbell et al., 1999); and the availability of release time encourages participation in employee volunteer programmes (Peterson, 2004),

[2] Complicating a discussion of the resource-based theory of the firm is that there is not a single, coherent resource-based theory of the firm. Rather, there are several versions of the theory, with different foci, and resting on divergent assumptions. Levinthal (1995) terms these the "High Church" and "Low Church" perspectives, each with different treatments of key concepts such as rationality, equilibrium and the existence of economic rents (Bromiley and Fleming 2002; Levinthal, 1995; Rugman and Verbeke, 2002). Where the main arguments of the resource-based theory of the firm differ by perspective, this will be outlined in the text.

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Frances Bowen
Haskayne School of Business,
University of Calgary,
Calgary, AB, Canada, T2N 1N4,
E-mail: frances.bowen@haskayne.ucalgary.ca