Information Systems and the Social Theory of the Firm
INFORMATION SYSTEMS AND THE SOCIAL THEORY OF THE FIRM

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Abstract

Researchers in information systems have attempted to tease out the role of IS in producing inter-firm performance heterogeneities. In this paper, we evaluate the discussion with special emphasis on “rents”. We make a case that if a firm achieves performance differentials through efficiency (Ricardian) or innovation (Schumpeterian) rents, it is compatible with social welfare concerns, but when it seeks monopoly rents, it has an adverse effect on social welfare. From a theoretical standpoint, we feel that the incorporation by IS scholars of issues of social welfare into the theory of the firm will invest it with greater explanatory power. Such a “social theory of the firm” does not come at the expense of economic performance, but rather overlays it with issues of social welfare, so as to prevent theories of the firms from becoming divorced from broader concerns.

Keywords: Corporate Performance, Dynamic-Capabilities-Based View, Economic Welfare, Industrial Organizational View, Rent, Social Welfare.

1. INTRODUCTION

The search for IS-related determinants of intra-firm performance heterogeneities has been the cornerstone of a significant sub-field within IS research (see Ho-Chang, Chang and Prybutok, 2014 for a recent review). IS scholars have speculated upon the role played by matters as diverse as supply chain integration capabilities (Rai, Patnayakuni, & Seth, 2006), CIO reporting structures (Banker et al., 2011), integration of IT activities across businesses (Tanriverdi, 2005) and issues relating to IT governance (Lunardi et al., 2014) among others. Scholars have also speculated that social networks between the CIO and the top management teams (Karahanna & Preston 2013) or technical and managerial skills of CIO (Khallaf & Majdalawieh 2012) or superior knowledge management routines (Byounggu & Jae-Nam 2012) may play a role in performance. In this regard, we can see a clear overlap between the interests of IS scholars and strategy theorists (Hambrick & Quigley 2014). In order to get to the problem of intra-firm performance heterogeneities, theorists have often tried to develop theories of the firm with adequate descriptive and predictive insight (see Brahm and Tarzijan 2014 for a recent review). The search for a theory of the firm is the search for a base from which to seek answers to questions about performance such as: why do some organizations outperform others? In the context of strategic management, performance is measured in terms of economic performance. Economic

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performance however, is only one facet of performance among several others. In this paper, we focus on a different dimension, i.e. corporate social performance as a basis for defining the firm (Wood, 1991).

Existing literatures have been predominated by the economic theories of the firm and neglected the cooperation-based solution for improving the social welfare. The central purpose of this paper is to delineate links between the theory of the firm and corporate social performance. We attempted to reach our purpose differentiating between dynamic-capabilities-based and industrial organization view of competitive advantage and their interpretation of social welfare.

Advocates of the dynamic-capabilities-based view (DCV) have taken issue with the industrial organization view (IOV) on at least three different fronts. The first front is that of research. The IS argument on this front is captured in the assertion that the dynamic-capabilities-based view, with its focus on the competences and other resources controlled by the firm, provides a better explanation of sustainable competitive advantage than does the IOV, with its focus on industry structure (Zahra & George, 2002; Malhotra et al., 2005). The argument on a second front takes the form of a recommendation to top managers that competences and other resources, rather than industry structure, be used as the basis for strategy formulation and implementation (Makkonen et al., 2014).

A third front is that of social welfare. While proposing the resource-based view, a predecessor of the DCV, Jay Barney had contrasted the origins in economics of the IOV with its use in strategic management. He felt that the IOV had been developed by economists such as Bain (1956) not only in order to describe competition, but also as a tool to diagnose imperfections in competition, in order that they could be remedied, and the social welfare benefits of competition reaped by customers and society. However, it had morphed to a large extent into a cookbook for firms seeking to exploit market imperfections; hence it contrasted sharply with the social welfare perspective of traditional IO theory. Barney had argued that the resource-based view could, in contrast with IOV, be “perfectly consistent with traditional social welfare concerns of economists” (Barney 1991, p. 116).

This third front has been very quiet in comparison with the first two. IS researchers have also been concerned with issues of social welfare (Marchand & Barrington, 2013), and with customers and society as stakeholders in corporations, we believe that it is time to raise the volume, both in the context of the IOV-DCV debate, and in the wider context of the theory of the firm. Our purpose in this paper is to initiate discussion of these social welfare implications, and thus to contribute to the balancing of the debate more evenly across the three crucial fronts identified above.
The structure of the paper, which is also foreshadowed in Figure 1, is as follows. Each of the next three sections contrasts the IOV and the DCV on a different front. The first contrasts research based on the IOV with that based on the DCV. It thus lays the foundation for the second and major section, in which we view the debate from the social welfare perspective; it is in this section that we review the operationalization of corporate social performance. The third of these sections reviews that part of the debate comprising recommendations to practicing managers. We draw together
strands from each of these three sections in a final section, in which we conclude our case for the consideration of corporate social performance, as well as corporate economic performance, in the theory of the firm debate.

2. DETERMINANTS OF RENT: PERSPECTIVES FROM ACADEMIC RESEARCH

2.1 Industry Structure

Taking a cue from the relationship between strategic management and industrial organization (Porter, 1977; Legros & Newman, 2014), many IS theorists have postulated specific causal links between rent and the impact of market power as represented by a variety of structural variables on firm performance (Tavakolian, 1989). It may be contended that while the foundations of research on the relationship between structure and performance were laid in the field of Industrial Organization (IO) economics, much of the subsequent refinement in the debate came from the field of strategy. For instance, while the postulated relationship between industry structure and firm profitability was inspired largely by Bain’s (1956) study of the relationship between profitability and industry concentration, it was research that went beyond the confines of neo-classical economics into management strategy which introduced market share as a more explanatory determinant of rents (Ravenscraft, 1983).

Further refinement of the barriers to entry concept revealed that concepts finer-grained than industries and entry barriers were required. Firms tend to cluster in strategic groups, bordered by mobility barriers restricting the movement of firms joining the group from elsewhere in the industry, and hence sustain rents (Caves & Porter, 1977). For instance, an empirical study of the brewing industry by Hatten and Schendel (1977) revealed significant heterogeneity, whereby strategic groups emerged based on regional focus and plant utilization. Research in strategic groups has been used by marketing theorists to develop and refine theories of niche marketing based on firm strengths as well as mobility barriers (Mas-Ruiz et al., 2014). IS theorists weighed in, often providing valuable integrative frameworks to connect strategic performance with information technology (see Drnevich & Croson, 2013 for a recent review).

The theory that profitability and market share are causally linked provides the basis for further disaggregation of the unit of analysis in structural research from the strategic group to the firm. Many theorists argue that variances in firm performance are meaningless if the unit of analysis is the diversified firm, since many strategies tended to get aggregated; they contend that the proper unit of analysis is the Strategic Business Unit (SBU) (Kownatzki et al., 2013). Drawing from this finding, there may be generic strategies, such as cost leadership and product differentiation, that SBUs are able employ in order to earn rents in a variety of environments. Such strategies may be used uniquely or in combination. Despite numerous differences, structural theorists in the IS tradition assert that the rents enjoyed by a firm are a function of the way a firm fits into the industry structure and its ability to exploit specificities in the industry environment (Mason, McKenney, & Copeland, 1997).
2.2 Dynamic Capabilities

In contrast to the IOV, which explains sustained competitive advantage and rent in terms of the firm’s position within its industry environment, the DCV looks within the firm for sources of advantage and rent. Consider the resource constituted by a web of relationships between suppliers and producers in a business ecosystem. Such relationships usually include social components. The social complexity of the web makes it firm-specific, and hence difficult for competitors to imitate. Even if imitation is possible, it is unlikely that it will be rapid, since socially complex resources take time to grow (Schilke, 2014). Another barrier to imitability is uncertainty as to the link between the resource and competitive advantage. IS theorists have focused on absorptive capacity configurations in supply chains, issues of information technology substitutability and information management capabilities, as potential sources of dynamic capabilities within firms (Malhotra et al., 2005; Mithas et al., 2011; Wade & Hulland, 2004).

2.3 Rent and Resources

We are ready to clarify the rent now due to its explicit nature and engagement in social welfare in the context of DCV (Buchanan 1980; Coff 2010; Denneels 2012). Amit and Schoemaker (1993) distinguish between three types of rent. Ricardian rents (sometimes referred to as scarcity rents) arise from resources that are in limited supply. In contrast, monopoly rents arise from a deliberate restriction of production, rather than from a limitation in the supply of resources necessary for production (Peteraf, 1993). Finally, Pareto rents (or quasi-rents) refer to the amount by which returns to a resource exceed the returns available were the resource to be put to its ‘second-best’ use.

This raises the question of which type of rent the DCV refers to. The answer varies according to which account of the DCV one reads. Having distinguished between the three types of rent early in their article, Amit and Schoemaker (1993) refer thereafter to ‘organizational rent.’ We infer from their use of this umbrella term that they do not consider that the resources they discuss are linked to any particular one of the three types of rent. Peteraf (1993), on the other hand, makes explicit reference to both Ricardian and monopoly rents, but not to Pareto rents. Barney (1991; p. 116), having developed the dynamic-capabilities-based framework described above, asserts that profits arising from resource advantages can be thought of as “efficiency rents” rather than “monopoly” rents, but is not explicit as to whether “efficiency rents” are Pareto rents, Ricardian rents, or both. They certainly must have Ricardian elements, since sustained competitive scarcity is necessary (though not sufficient) for a resource to bestow sustained competitive advantage. Others (e.g. Castenias & Helfat, 1991) have used “efficiency rents” to denote particular forms of Ricardian rent.

Perhaps these varied accounts of rent within the DCV literature stem from connections between the different types of rent. Consider what Amit and Schoemaker (1993) refer to as a ‘capability,’ and Kogut and Zander (1992) more explicitly as a ‘combinative
capability’: the ability to deploy resources in combination. To borrow an example from Prahalad and Hamel (1990), one of Canon’s capabilities (in fact, one of their core competencies) is the ability to combine optical and microelectronic technologies in products such as laser printers. Due to this capability, they can earn higher returns on their optical technology than could another firm, since they are able to combine it with their microelectronic technology. The difference between these returns and those that could be earned by another firm can be described as Pareto rents on the resource of optical technology. However, the same returns can also be viewed as Ricardian rents, since they are earned by the scarce capability to combine optical and other technologies in products that meet consumer needs. Castenias and Helfat’s (1991) account of managers as resources, and the rents to such managerial resources, includes a similar point about the overlap between Pareto and Ricardian rents.

Rumelt (1984) introduced the term “isolating mechanisms” to describe “phenomena that limit the ex post equilibration of rents” (1984, 567). Such phenomena are at the heart of the DCV (Knudsen, Levinthal, & Winter, 2014). They are equally central to the IOV, in that the concept of isolating mechanism is sufficiently flexible to also apply to the barriers surrounding an industry, a strategic group, or the unique market position of a single firm or SBU. Hence this concept provides a useful bridge between the IOV and the DCV, and the explanation each provides for sustained competitive advantage and rent.

To summarize the discussion on rents, we may therefore say that firms do seek separation from their competitors in the pursuit of rents. However, if they do so by achieving Ricardian or even Pareto rents, it has positive social consequences. However, a single-minded pursuit of monopoly rents will prove self-serving for the firm, and will have long-term negative consequences for it. IS theorists have also deployed the theory of economic rents, for evaluating bids in online auctions (Bandyopadhyay & Bandyopadhyay, 2009) and assessing collaborative IT practices (Prasad, Green, & Heales, 2013) among others.

3. IMPLICATIONS FOR SOCIAL WELFARE

We now turn to the implications of the IOV and DCV for social welfare. These implications have long been a concern of IS theorists (Marchand & Barrington, 2013; Babin & Nicholson, 2009). Effective competition, that is, competition that promotes social welfare, is the central concept of IO economics (Banker et al., 2011). The debate over the importance of effective competition began in the late 1890s when concerns surfaced over the effects realized to society by mergers involving dominant firms. The monopolistic environment created from these mergers was viewed as undermining efficiencies gained from competition, slowing innovation, and effecting societal change by transferring wealth from ordinary citizens to the wealthiest in society (Scherer & Ross, 1990).

The discussion flourished in the 1920s. Early economists such as Alfred Marshall (1920) began to focus on three main factors: efficiency, innovation, and fairness in
distribution. Efficiency refers to the optimal allocation and employment of resources, with obvious benefit to social welfare. The second factor, innovation, focuses on the rate of introduction of new products and processes. Social benefits from innovation are that business realizes greater efficiencies and gains from new products, and consumers procure more advanced and better products at fair prices.

The third factor, equity in distribution, is the most central to our discussion. The fairness debate concerns itself with the equitable distribution of wealth, income and opportunity within the boundaries of society’s standards of fairness. More recently the equity in distribution debate expanded discussions of competition to include the value of the competitive process to society. This includes the issues of freedom of choice, security from extreme risk, and cultural diversity. Freedom of choice is enhanced by the extensive access to markets for consumers and business allowed by competition. Competition is extended to the job market. Risk of unemployment and of forced employment in an offensive environment is mitigated by the provision of several job choices that is inherent to the competitive process. Cultural diversity is also enhanced by competition because the varied interests and desire for a diverse selection of goods and services can be met.

To better understand the conduct of firms, Bain (1956) looked at the importance of market entry on the competitive process. From his findings, he also hoped to assist in the formation of public policy toward monopoly and competition. Modern IO economists continue their debates on competition and monopoly. On the one side are the new Chicago School theorists who minimize the effect of monopoly power on the competitive market (Stigler, 1968). This school gained strength and popularity with empirical and theoretical work by Chicago researchers claiming monopoly markets reflect greater efficiencies, and go so far as to state that they are a natural occurrence in the business cycle (Demsetz, 1973). The other side of the debate, derived from the original Chicago theorists, led by Henry Simons (1948), was strongly opposed to monopolies, viewing them as having powerful effects on the competitive process and grave consequences to society. This side of the debate is well summarized by Shepherd (1990, p. 39) as follows: ‘The competitive process itself is eliminated under monopoly, and that is a substantial loss of social value.’

Mainstream IO economists view imperfections in the competitive structure of industries to be detrimental to social welfare. When any firm has control over the market such that it can set prices and control production levels, the firm will move to enhance their position by restricting output and raising prices. Social welfare under this condition is compromised and the doctrines of fairness and efficiency are violated. Mainstream IO theory holds that effective competition is the superior market structure in terms of social welfare (Waterson, 2014).

3.1 The DCV

The DCV focuses on differences between the resource endowments of firms. Further, it posits a link between these differences and firm performance. Hence, it asserts that rents arise from resource heterogeneity across firms (Blyler & Coff, 2003). Peteraf
(1993) first develops this argument in terms of Ricardian rents. She then makes the following telling remark. ‘The condition of heterogeneity is equally consistent with models of market power and monopoly as it is with the Ricardian story’ (Peteraf, 1993, p. 182).

The point of this remark is that if a firm is in a position in which resource heterogeneity is favorable and durable, it is able to generate monopoly rents. It is able to restrict output in order to command a higher price and thus maximize profits in just the same way as the firm protected by the entry or mobility barriers of the IOV. In order to see why this is so, it is necessary only to recall the attributes a resource must have if it is to be a source of rent: value, scarcity, imperfect imitability, and absence of substitutes. Since other firms do not have access to the sustained competitive scarce resource in question, they are unable to offer a similar product. Hence, the firm is able to parlay its monopoly on the resource into market power, that is, into the power to set prices rather than to have to produce at the price set by a competitive market.

Such monopolistic implications run through not only the scholarly DCV literature discussed above, but also the literature aimed at practicing managers (discussed later, but briefly anticipated here). For example, Quinn’s (1992, p. 37) dynamic-capabilities-based advice to the firm is to ‘concentrate… on those activities where it can be best-in-world… and where it must have strategic control to maintain dominance ’ (Quinn 1992, p. 37, emphasis added). The firm is encouraged to monopolize a particular part of the value chain: an activity, or the capability necessary for that activity.

IS theorists have used dynamic capabilities to analyze digital strategies (Grover & Kohli 2013), business-level strategies (Drnevich & Croson, 2013) and supply chain integration (Rai et al., 2006) among others. To date, no advocate of the DCV has provided any reason why firms are less likely to seek monopoly rents from a monopoly on a resource than they are to seek monopoly rents from product market imperfections. Hence, there is no reason to regard the DCV as less of a threat to social welfare than the IO view.

Moreover, there are at least two reasons why, of the two views of strategy, the DCV may pose the greater threat to social welfare. The first is due to the link between observability and imitation. Godfrey and Hill (1995, p. 523) point out that:

_The power of the [DCV] theory to explain performance persistence over time is based on the assumption that certain resources are by their nature unobservable, and hence give rise to high barriers to imitation... if there are no unobservable resources, the DCV loses much of its explanatory power._

Just as unobservability drives imperfect imitability, so does imperfect imitability drive monopoly power to the firm possessing the resource. Unobservability is likely also to present difficulties of regulation for legislators, for regulatory bodies, and for courts. The more difficult resources are to observe, the more difficult it is to frame legislation curbing the exploitation of monopolies of such resources, and the more difficult it is to enforce such legislation.
The second reason why the DCV may present a greater threat to social welfare than does the IO view is particular to resources that can be used in multiple industries (Schilke, 2014). A firm with a monopoly on such a resource may be able to parlay it into domination of multiple industries. Hence, the need to consider the social welfare implications of diversification is at least as pressing in the case of the DCV as it is in the case of the IOV.

3.2 Rents and Welfare

Buchanan (1980), introducing a volume of economic analysis of rent, offers an example of rent in terms of resource deployment:

*Consider a situation in which some person, a potential entrepreneur, discovers a use for a resource or a combination of resources that had not been previously discovered.... The entrepreneur organizes production and commences sale of the new commodity or service. By definition, he is a pure monopolist during the initial period. He may be able to secure a return over and above what he might earn in any alternative employment. He receives “economic rent” on his entrepreneurial capacity* (Buchanan, 1980, p. 6).

Although Buchanan’s definition of rent is essentially the definition of Pareto rent given above, here, as before, there are links between types of rent. The entrepreneur’s capability to combine resources is scarce, and hence returns to this capability can be considered Ricardian rents. It initially earns the entrepreneur monopoly rents. Hence, the rent obtained by in the above example has Pareto, Ricardian, and monopoly components. Buchanan goes on to clearly delineate the link between rent and welfare:

*And, indeed, it is the prospect of such rent that motivates the activity in the first place. It is important to emphasize, however, that the rent reflects the creation of added value in the economy, rather than the diversion of value that already exists... Unless other overt barriers to entry exist, other producers will enter the market... The initial monopoly position, and hence the economic rent, of the innovator is eroded to the benefit of consumers generally... Freedom of entry is critically important in the generation of allocative efficiency in a developing, changing economy* (Buchanan, 1980, p. 6-7).

The erosion of monopoly is slowed by the isolating mechanisms (Rumelt, 1984) identified above as a concept spanning the IOV and the DCV.

Buchanan (1980) argues in terms of allocative efficiency. To read the other side of his social welfare coin, he is concerned with the problem of allocative inefficiency. This problem is that when firms can set prices by restricting output, they divert resources to activities less valued by consumers, and thus undermine social welfare (Scherer & Ross, 1990). He is also concerned with ‘rent seeking,’ the process by which firms incur expenses, and hence divert resources, to attain and maintain market power. However, allocative inefficiency and rent seeking are far from the only threats to social welfare when firms can command rents.
A further threat is X-inefficiency. This is Leibenstein’s (1966) term for inefficiencies, other than those of misallocation, tolerated by firms and markets. There is a clear link to X-inefficiency from the market monopoly power central to the IOV; a firm enjoying a strong market position has a less powerful incentive to use its resources efficiently than does one exposed to the forces of competition. There is also a link to X-inefficiency from the resource monopoly power central to the DCV; a firm with a monopoly over one resource may extract its rents in the form of inefficient use of other resources.

A third form of (in)efficiency, besides allocative and X, is dynamic efficiency. As the second of the above quotations from Buchanan (1980) illustrates, the temporary monopoly rents enjoyed by entrepreneurs do not represent a loss to society if they afford them a ‘reasonable’ return on their innovative, and hence presumably risky, investments—and if they encourage them, and other entrepreneurs, to pursue further innovation that may satisfy consumer demand. Although, from a static perspective, such monopoly rents represent a welfare loss, from a longer-term perspective they may represent a gain (Duhamel, Reboud, & Santi, 2014; Schumpeter, 1942).

Two problems are apparent in the above discussion of rents and welfare. The first is that although the three types of rent are conceptually distinct, it is difficult in any particular case or class of cases to tease apart the Pareto, Ricardian, and monopoly components of rent. Further, it can be argued that even monopoly rent, if not “excessive” in terms of quantity or duration, may serve a societal purpose in that it provides an incentive to innovation. This leads to the second, empirical, problem: that of operationalizing the impact of firms and their competitive interactions on society.

4. OPERATIONALIZING SOCIAL ISSUES

Several scholars have explicitly attempted to model social issues in IS research (Karahanna & Preston, 2013; Babin & Nicholson, 2009; Kuo & Dick, 2010; Nanath & Pillai, 2016). An underlying problem with this research is that it is difficult to determine standards for corporate social performance. Individual values, ideologies, and emotions affect the interpretation of this topic (Ullmann, 1985).

Management scholars began to search, along with their accounting colleagues for potentially interesting causal linkages between a firm’s commitment to non-economic models of corporate social responsibility and their performance. The results of this research have been mixed, but a consensus is emerging that an explicit focus on social responsibility does indeed have long-term economic benefits for firms (see Anderson, Hyun, & Warsame, 2014, for a recent review of the research in this area).

It is evident that CSR studies have been narrow in scope and focus within the management and accounting disciplines. The “Principles of Corporate Social Responsibility” model developed by Wood (1991) offers promise for interesting discussion and research within strategic management. Managerial discretion is one such segment of the model. The domain of managerial discretion within the CSR
discussion has been relative to activities such as corporate philanthropy and public-private partnerships (Carroll, 1979) and is given little consequence in the literature.

Expanding the domain of managerial discretion may be an important step in the augmentation of CSR research, and linkage to strategic management research is a promising means of expansion. Hambrick and Finkelstein’s (1987) account of managerial discretion, which is prominent within the strategic leadership literature, is one potential link. The DCV is another. Building on the underlying premise of the principle of managerial discretion (Wood, 1991, p. 699) suggested that “(a) managers exist in an organizational and societal environment that is full of choices; (b) managers’ actions are not totally prescribed by corporate procedures, formal job definitions, resource availabilities, or technologies; and (c) managers are moral actors on the job as well as in other domains of their lives,” its influence on the resource development and allocation decision process is apparent. To ignore this is to dilute the importance of managers as resources within the firm. Therefore, it is as important for DCV theorists to consider the role of corporate social responsibility in a firm’s long-term viability and success.

The theoretical implication of the above discussion is that when firms seek to achieve performance advantages without taking into account social efficiencies, they inadvertently incorporate into their routines the seeds of their long-term decline. They do so by reducing their focus on the win-win aspects of improving social product and social efficiency along with firm performance. Such firms will then be vulnerable to being superseded by their competitors who have incorporated social concerns into their strategy.

5. IMPLICATIONS FOR PRACTICE

IS theorists have often been preoccupied with the theory of the firm (Salge, Kohli, & Barrett, 2015; Davison, Martinsons, & Ou, 2012; Zand, Solaimani, & Beers, 2015). The current scholarly IS debates on the theory of the firm, while appearing at face value to be confined to the rarefied field of academia, have significant impacts for practice. To track the debate to its origins in the field of strategy, the debates on the impact between market share and profitability were used by seasoned management consultancy firms such as the Boston Consulting Group to develop powerful tools, which were used, by firms as guiding principles of strategy (Byrne, 1996). Similarly, researchers using the PIMS database made explicit practical suggestions regarding investment and divestment to firms (Collis & Montgomery, 1995). The enormous success of Michael Porter’s 1980 book *Competitive Strategy* was primarily based on an understanding that the firm should concentrate more on exploiting advantages. These advantages were afforded by the market environment, and had extracted rents primarily through successful competitive behavior. Firm strategies were basically understood at the level of the SBU, and Porter implicitly argued for a separation of SBU activities.
Conversely, Prahalad and Hamel’s (1990) article on core competence may be considered the first practitioner-oriented salvo fired from the perspective of what has now become the DCV. They explicitly critiqued the industry-oriented mindset under the caption “the tyranny of the SBU” (Prahalad & Hamel, 1990, p. 86). Dynamic-capabilities-based theorists continue to contend that only through an explicit inward concentration could firm develop the bases for long-term sustained performance (Helfat & Winter, 2011).

This theoretical divide strongly influenced the prescriptive orientations of both theoretical positions. Practitioners adopting structural perspectives were encouraged to concentrate on placing their businesses in unique market positions through an analysis of the five forces relating to industrial competition, re-evaluating product portfolios based on market share and anticipated market growth, and relying on the experience curve to reduce costs. This focus on industry structure was successfully adapted by many corporations such as Berkshire Hathaway, as well as venture capitalists such as Andreessen Horowitz and Sequoia Capital.

On the other hand, citing the failures of many US organizations relying on the structural approach (such as Chrysler and GTE in the 80s, as reported by Prahalad and Hamel (1990)), dynamic-capabilities-based theorists encouraged practitioners to explicitly avoid focusing on the SBU as a unit of analysis. These dynamic capabilities theorists rather insisted to focus on corporation-wide competencies, which were inimitable, physically unique, path dependent, causally ambiguous, value creating, durable and non-substitutable (Ambrosini & Bowman, 2010). These could include patented products and a patent pipeline (e.g. Google), brand loyalty (e.g. Apple), causally ambiguous processes (e.g. those at Alibaba) and long term revenue earning enterprises (e.g. Amazon EReaders), to focus on the technology sector. The influence of various theoretical positions on specific business-level actions is a very heartening pointer to the fact that theoretical discussions in strategic management have a significant and reciprocal impact on firm behavior, a sure indicator of the health and relevance of the discipline.

The central point of this argument however, is to challenge these debates to move into another realm of applicability. As a provider of search convenience for global consumers, can Google afford to ignore the energy consumption of its data centers? Can Apple remain oblivious to issues of employee welfare at the manufacturing sites run by its contractors? Can Alibaba focus on shareholder returns to the exclusion of the way it deploys and consumes natural resources in its Ecommerce models? Can Amazon remain unconcerned about the welfare of its author base while negotiating pricing contracts? Our theoretical arguments suggest not, and indeed make the case that these non-economic and quasi-economic concerns need to be modeled back into the theory of the firm. Not only should the aspiration of the management research be to influence practice, it is equally relevant that it should explicitly acknowledge and account for the fact that managerial practice has a profound social impact. Unless there is an explicit attempt made at incorporating issues of social welfare into these
theories of the firm, they will risk consigning an important aspect of firm behavior to the margins. Such marginalization can have fundamental long-term repercussions on social efficiency, especially if these theories become the basis for guiding managerial action.

6. Discussion, Conclusion and Limitation

In this paper, we have attempted to address ways in which an IS-based social theory of the firm may emerge, at the level of research, practice and social welfare considerations. It is summarized in the final row of Figure 1, and suggests that if a social theory of the firm has to develop traction, it must necessarily do so with a view to influencing all three fronts.

We indicated in our introduction that we join the discussion on the theory of the firm to highlight the need to bear in mind issues of social welfare in this discussion. In the body of our paper, we focused on the debate between two of the most prominent theories of the firm: the IOV and the DCV. We now broaden our scope to acknowledge that these are not the only two candidates. One or more further candidates may emerge from the integration of the two contenders we have thus far contrasted.

One way of examining these debates between the DCV and its rivals is to ask to what tests a discipline should subject a theory of the firm. Such a theory should facilitate exploration of at least two questions: Why do firms (as well as markets) exist? and why do markets (as well as firms) exist? (Conner, 1991). IS theorists working with transaction cost economics (Yigitbasioglu, 2014) made prominent a third question: why do firms set their boundaries where they do? From the specific perspective of strategic management, perhaps the most crucial question is: What is the basis of sustained performance differences between firms?

We propose a further question, namely: What is the effect of the rent-seeking behavior of firms on social welfare, especially from an IS standpoint (Marchand & Barrington, 2013)? This question is an essential one for a number of reasons. From the stakeholder perspective, it frees the theory of the firm from an arbitrary organic linkage with residual claimants, at the expense of all other stakeholders; from this perspective, performance is multi-faceted.

Our answer to the final question, based on our discussion of the rent-generating behavior of the firm is that when firms seek to develop monopoly rents, i.e. to grow at the expense of their competition by producing structural impediments, social welfare is compromised. In this regard, we find that the choice of approach (DCV or IOV) is relatively unimportant. Firms that seek to grow by positioning themselves in relation to market structure can be just as ruthless in their pursuit of monopoly rents as firms that seek to develop dynamic capabilities. Likewise, firms can contribute to social welfare following an IO strategy (by reducing inefficiencies in their supply chain,
for example), or by following a DC approach (by leveraging their core competences to innovate in multiple product markets). The important lesson here is that firms that produce social capital are likely to be more successful in the long run, a fact that theories of the firm ignore at their own peril.

In this conceptual paper, we object to conceptually analyze and examine the links between the theory of the firm and corporate social performance - an unexplored dimension to explore why some organizations outperform others. The debate in the theory of the firm in light with the dynamic-capabilities-based view and the industrial organization view takes on three different fronts – research, recommendation, and social welfare - and is explored linking with corporate social performance. Hence, this paper contributes to the balancing of the debate more evenly across the three crucial fronts identified. Detailing a contrasting argument on different fronts in relation with the IOV and the DCV, the paper concludes to include both corporate social performance and corporate economic performance in the theory of the firm debate. The paper although conceptually comprehensive lacks its empirical orientation and hence needs further to be tested.
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