

# Chapter 15

## Micro–Foundations of Corporate Sustainability

**Remy Balarezo**

*Universidad de Piura (UDEP), Peru*

**Paul Corcuera**

*Universidad de Piura (UDEP), Peru*

### ABSTRACT

*This chapter introduces readers to the micro-foundation framework in corporate sustainability. Traditionally, strategic management and corporate sustainability research have explained why firms become more sustainable from a macro-level perspective. In recent years, new research has focused on the micro-level mechanism at the individual or group level. This research stream is known as the micro-foundations movement and tries to highlight individual characteristics, knowledge, background, etc. when firms decide to become more sustainable. Through the literature review, the authors tried to identify the studies published in top journals about the micro-foundation framework. Therefore, the aim of this chapter is to give a primary introduction and an overview of the micro-foundations framework in corporate sustainability and identify what mechanisms have been found at the micro-level that explain why firms become more sustainable.*

### INTRODUCTION

The economic system has relied on capitalism since the second half of the last century (Barney & Rangan, 2019). Market competition has stimulated innovation (Adler, 2016), and the capitalist system has brought many benefits and outputs. For example, since the 90s, more than one billion people left abject poverty (Barney & Rangan, 2019). In addition, the average individual material well-being has improved markedly; “for the first time in history, there is the potential to achieve material comfort for all” (Adler, 2016, p. 124). Nevertheless, these benefits have brought important costs. The market competition characteristics do not give incentives for firms to incorporate their impact on the social and natural environment (Adler, 2016). Therefore, the results have not always produced expected outcomes

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(Barney & Rangan, 2019). Some negative outcomes include climate change, income inequality, and job destruction (Howard-Grenville et al., 2014; Tsui et al., 2018; Zink, 2019).

The capitalism system is multifaceted. On the one hand, awards efficiency, which normally destroys jobs (Davis, 2016; Zink, 2019); and on the other, the reinvestment incentives create new jobs and industries by creating wealth and promising to capture the profits to investors (Zink, 2019). In the latter, the system destroys jobs while in the former, it creates new ones to replace the ones that were destroyed. In this context, the capitalism system is stable only under growth (Zink, 2019). Economies require increased resource consumption, which produces waste while also creating new jobs that efficiently eliminate or cannibalize others. Nowadays, it seems that the economies are not fulfilling both conditions since new technology eliminate more jobs than they create, and produces environmental problems (Zink, 2019). Therefore, the capitalist system has created two current crises: technological job destruction and global ecological destruction (Zink, 2019).

This chapter focuses on environmental degradation and social problems using the micro-foundations framework to explain how firms can tackle these issues. It is oriented toward firms because they explain the economic system and society. Thus, understanding the firms will help to recognize the great strengths and limitations of market capitalism (Barney & Rangan, 2019). Environmental and social issues are gaining momentum in the business and management community. From an academic point of view, different authors have used firms to tackle grand challenges (George et al., 2016), and define alternative objective functions (Lankoski & Smith, 2018), reinvent themselves (Mayer, 2016), redefine its business model (Laasch, 2018) and discover its purpose (Hollensbe et al., 2014).

The practitioner world has not stayed behind, and the importance of the social and natural environment is also gaining momentum. For example, the study carried out by BCG-MIT Sloan Review showed that 90% of firm executives considered sustainability very important; 50% of companies changed their business models to more sustainable ones, and 60% developed a clear sustainability strategy (Kiron et al., 2017). These issues are also important for investment firms. Another study by BCG-MIT Sloan Review showed that 75% of investment firms considered sustainability performance when making an investment decision and 50% of them would not invest in a company with a record of poor sustainability performance (Unruh et al., 2016).

Every time there are hurricanes, wildfires, and storms around the world (cf. the coastal El Niño effect in northern Peru in 2017) the consequences are devastating, such as life and economic losses. Also, social nonconformity and inequality are raising (cf. Chile and Ecuador social protest in 2019 and the yellow vests in France 2018/2019). Therefore, firms can watch how the degradation of the natural and social environment continue to grow, or they can become part of the solution. Organizations, especially the executives and the workers, can be important players in tackling these grand challenges (George et al., 2016).

This chapter attempts to explain, from a theoretical point of view, how members inside the organization can drive firms to tackle the environmental and social problems and therefore be more sustainable. The authors made a literature review through the business source complete with the keywords micro-foundations of sustainability, social micro-foundations, environmental micro-foundations and strategy micro-foundations. The search was focused to top management journals and in specific academic journals, like Business Strategy and Environment, or Organization and Environment from 2010 until 2019. The objective was to identify micro-foundations of corporate sustainability studies in the last years and show the reader the importance of the micro mechanisms that explain why firms can become more sustainable. The chapter is divided as follows. There is an introduction to the micro-foundation lens to explain why

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