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Nancy E. Landrum

Loyola University Chicago, nlandrum@luc.edu

Carolyn L. Gardner

Kutztown University of Pennsylvania

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An Integral Theory Perspective on the Firm

Nancy E. Landrum¹

Carolyn L. Gardner²

ABSTRACT

We propose that Ken Wilber's (2000) integral theory can serve as a new paradigm by which to view the organization and present a broader view of the roles and responsibilities of business. Through an integral theory of the firm, we see individual desires, capabilities and limitations, economic profit and humanitarian interest working in synergy to maximize firm performance. This holistic approach is innovative and is presented as a way to redefine the existence, boundaries, and organization of the firm and to show how organizations can become more ecologically sustainable, socially responsible, and economically competitive. An integral theory of the firm allows metatriangulation of various theoretical approaches, simultaneous consideration of multiple levels of analysis, simultaneous pursuit of market and non-market strategies, and challenges existing paradigms.

Key Words: Integral Theory, firm performance ,sustainability

JEL Classification: Q56, L25

1. INTRODUCTION

We present a model for a holistic integral theory of the firm as a way to redefine the existence, boundaries, and organization of the firm and to show how organizations can become more ecologically sustainable, socially responsible, and economically competitive. At this point, we find that neither traditional theories of the firm nor our current management theories successfully integrate other disciplines within or beyond business and economics in order to explain firm performance and meet the challenges of remaining financially competitive while still engaging in social and ecological sustainability. We suggest the next evolutionary step is an integral theory of the firm. In our vision of an integral theory of the firm, we see individual desires, capabilities and limitations, economic profit and humanitarian interest working in synergy to maximize firm performance. We propose that Ken Wilber's (2000) integral theory can serve as a new paradigm by which to view the organization and present a broader view of the roles and responsibilities of business.

An integral theory of the firm accomplishes several things. First, we show how an integral theory of the firm brings together multiple and often disparate theories into one unified theoretical approach. Second, we show how firms can engage multiple levels of analysis as scholars and practitioners alike are beginning to recognize the difficulty in seeking to explain firm performance at a singularly individual, firm, industry, or societal level (Hough, 2006; Misangyi, Elms, Greckhamer, & Lepine, 2006). Third, an integral theory of the firm answers the call for cohesion between market and non-market strategies (McWilliams & Siegel, 2001; Orlitzky, 2008; Orlitzky, Schmidt, & Rynes, 2003).

We have organized our discussion to first, briefly in evolutionary order, review the traditional theories of the firm. Each of the existing theoretical approaches currently used is legitimate and represents a progressive move in the right direction, each reflects growth and

development. However, none is complete; the current approach to understanding firms is disjointed. We point out the weaknesses of current theories of the firm and describe the need for global business organizations to move in the direction of a holistic model.

Next, we will briefly review Wilber's integral theory. Ken Wilber (2000) describes integral psychology as an "endeavor to honor and embrace every legitimate aspect of human consciousness" (p. 2). Wilber's works seek to integrate several theories of psychology and philosophy, both Eastern and Western, into one comprehensive theory. Due to the extensive nature of Wilber's work, we focus only on the macro view of integral theory, the model he describes as all quadrants, all levels (AQAL). Wilber's AQAL model is holistic as it encompasses each individual through the earth's global environment and creates potential synergy.

In the third section, we join together Wilber's four-quadrant AQAL template with traditional theories of the firm, theories from business and economics, and theories from outside disciplines. This presents a more holistic and well-rounded view of the firm and is the basis for an our innovative integral theory of the firm. Finally, we conclude by pointing to the advantages of Wilber's model and offering suggestions for future research.

2. THEORIES OF THE FIRM

To begin, we review several classifications of theories of the firm. Theories of the firm generally seek to explain why a firm emerges (existence), where its boundaries lie (boundaries), and why a firm is structured in a particular manner (organization). Theories of the firm aid in our understanding of the roles and responsibilities of business as well as firm performance.

2.1 Economic Theories

Dating back to industrial economics of the 1800s, neoclassical economic theories of the firm were among the first developed

¹ Nancy E. Landrum- Ph.D., University of Arkansas at Little Rock, Management Department, USA.

² Carolyn L. Gardner- Ph.D., Kutztown University, Kutztown, USA.

(Marshall, 1920; Coase, 1937; Williamson, 1971, 1975). Economic theories of the firm explain the purpose of the firm as the pursuit of profit and the maximization of shareholder wealth. Economic theories of the firm include agency theory, contract theory, property rights theory, and transaction cost theory. Modern day economists continue to echo this point of view as the preferred theory of the firm (Friedman, 1970; Henderson 2004). The problem with economic theories of the firm is they fail to account for the externalized costs of doing business, individual and organizational values, choices, and decision-making, the oversimplification of relationships, and the promotion of short-term thinking to maximize profits (Wartick & Wood, 1998).

2.2 Managerial & Behavioral Theories

Following the development of economic theories of the firm, managerial theories of the firm emerged. Managerial theories of the firm explain firm performance as a function of the manager’s (the key actor in the firm) desire to maximize his or her own utility (Baumol, 1959; Marris, 1964; Williamson, 1964). Managerial theories include principal-agent theory, incentive theory, and entrepreneurial theory.

Also in contrast to economic theories of the firm, behavioral theories of the firm emerged to explain firm performance in terms of limitations in human knowledge and how decisions are made (Cyert & March, 1963). Behavioral theorists suggest that objectives other than profit are pursued by managers, not for the manager’s own benefit, but as a result of decision making processes that include conflict, uncertainty, and bounded rationality. Behavioral theories include organizational theory and evolutionary economics. While both managerial and behavioral theories of the firm consider nonmarket aspects of firm performance, criticisms of these theories suggest that they do not address interorganizational and societal networks (Wartick & Wood, 1998).

2.3 Competence-based Theories

It has further been noted that economic, managerial, and behavioral theories of the firm fail to consider assets and learning processes at both the individual and organizational levels (Garrouste & Saussie, 2005). Thus, competence-based theories of the firm emerged to explain firm performance through the lens of capabilities, competencies, or other firm-specific attributes acquired over time through tangible or intangible assets at both the individual and collective levels (Barney, 1991; Grant, 1996; Prahalad & Hamel, 1990; Wernerfelt, 1984). These theories seek an integration of economic views with managerial and behavioral views. Competence-based theories include evolutionary theory, knowledge-based theories, and the resource-based view. The resource-based view of the firm, in particular, is the dominant paradigm in strategic management today, replacing previously dominant market based economic theories (Hussein, 2003; Newbert, 2007). One criticism of various competence-based theories is that they do not distinguish between different assets as a source of sustainable competitive advantage.

2.4 Stakeholder Theories

In contrast to theories which suggest that firms are managed for stakeholders’ interests, managers’ interests, by virtue of bounded knowledge, or to maximize its assets, stakeholder theories offer yet another perspective. Stakeholder theories of the firm attempt to integrate shareholder, market, and employee considerations alongside those of a wider audience in explaining a firm’s role and performance (Freeman, 1984). Stakeholder theories of the firm seek to combine competence-based views and market-based economic views and add socio-political elements. Corporate social responsibility and network theory are examples of stakeholder

approaches. While valuable and offering another level of understanding, the criticism is that it is not possible to balance the interests of all stakeholders against each other and the theory doesn’t offer any guidance on how to do this.

3. WILBER’S INTEGRAL THEORY

Wilber’s integral theory goes beyond systems theory, social responsibility, corporate citizenship, and spirituality in organizations. Rather, integral theory is a comprehensive world view incorporating science, religion, and ethics. Integral approaches recognize the validity of existing theories and approaches and seek to incorporate and unify them. Ken Wilber has been studying psychology and human consciousness for over thirty years. In his lifetime of study he has looked at these topics through several lenses, including Western and Eastern philosophies of thought. In 2000 he published a comprehensive integral theory built around a four-quadrant model of his work, calling it All Levels All Quadrants (AQAL). In this section we describe Wilber’s integral theory and AQAL model, explaining each of the four quadrants, including Wilber’s concept of a holon.

3.1 AQAL

In the AQAL model, Wilber describes integral psychology as an endeavor to “honor and embrace every legitimate aspect of human consciousness” (2000, pg. 2). The model represents both the interior and exterior of each individual and of the collective. The left side of the quadrant is the inner aspect of both the individual and the collective (consciousness and subjectivity). The right side of the model contains the outer aspects of the individual and collective (objectivity and material).

Table 1: Emphasis Within Each of The Four Quadrants, Summarized

	Interior	Exterior
Individual	First person I, me, mine Beauty – self and self-expression, in the eye of the beholder, art, self-Intentional Self & consciousness	Third person It, he, him, she, her, they, them, its Truth – objective, can be investigated by science, nature Behavioral Brain & organism
Collective	Second person We, you, yours The Good – the way we treat each other, basic morality Cultural Culture & worldview, shared values, shared feelings	Its Social Social system & environment, viewed from a systems perspective

In Table 1, we show a basic four-quadrant model and include Wilber’s language of each quadrant. The language of each quadrant represents how individuals describe their state of consciousness for the respective quadrant. The “I” language (first person) of the upper left quadrant is the individual’s “subjective aspect of consciousness, or individual awareness” (pg. 62). The “we” language (second person) of



the bottom left, inside of the collective quadrant is the language of shared meaning and how “you and I will get along together” (pg. 63). The “it” language (third person) of the top right quadrant is the language of social systems, the objective and material accounts of objective phenomena. The bottom right quadrant is also an objective “it(s)” quadrant and is treated as one domain with the upper right quadrant.

3.2 Development Within AQAL

Within each quadrant exists a mapping and interrelationship of all of the following elements of integral theory: lines, levels, states and types. Beginning with the explanation of levels, each quadrant has its own set of unique levels or stages related to the focus of the particular quadrant. Each line could be viewed as an “intelligence” and Wilber believes there are several intelligences in the quadrants, such as cognitive, ethical, aesthetic, spiritual and logical-mathematical. The levels along each line refer to an individual’s (or unit’s) development on a particular line. Levels also refer to stages, or milestones in one’s life, either permanent or developmental. In the individual quadrants, examples of levels include, according to Wilber, Maslow’s hierarchy of needs, Piaget’s stages of development or Ericson’s stages of development. Levels of societal development (collective quadrants) can be viewed in the progress from industrial to informational economies. Wilber sees levels as the individual development on each line.

Wilber’s lines of development refer to skills, strengths and weaknesses we each possess. Some lines can be well-developed and in a higher stage/level while other lines can be poorly developed and in a lower stage/level. An example is that an individual can be at one level on a line in his or her cognitive development while simultaneously being at a different level in his or her moral development line. Therefore, each line in an individual quadrant maintains its own level of achievements and accomplishments. Each level can be permanent or developed further as time progresses. Therefore, to be “integrally informed” does not mean one has mastered each line, but rather that you are aware of each line. Each individual’s levels of development are elements of one’s own consciousness and exist within us all; they exist within each of the four quadrants (Integral Naked, 2003-2004).

3.3 Holons

The four quadrants jointly represent a holon. Holons are complete entities made up of smaller holons; and, each holon is also incorporated into larger holons. Every individual and every organization is a whole component of a larger component (i.e., individual, organization, industry, the planet). If we view the organization in terms of holons, we will see a holon comprised of individual holons while at the same time being a holon within a larger holonic system. The organizations consist of subordinate holons, such as divisions departments, units and individuals, and the organization is itself a subordinate holon within its industry, in society and in the world.

By viewing the organization as a four quadrant holon, we can fully appreciate all aspects of organizational phenomenon. Since the interior individual quadrant is primary, any organizational change begins with a focus on this quadrant. Further firm development will move out from individual development, to encompass all aspects of the organization.

4. INTEGRAL THEORY OF THE FIRM

It can be shown how each of our theories of the firm fits into

Wilber’s four quadrants. Economic theories of the firm rest in the interior collective quadrant and are at a firm or industry level of analysis. Both managerial and behavioral theories of the firm rest in the individual quadrants (and are assumed to lead to economic performance in the interior collective quadrant) and are at an individual or firm level of analysis. Competence-based theories of the firm rest within the interior collective quadrant (but recognize that competences can arise from the individual quadrants) and are at a firm level of analysis. Stakeholder theories of the firm seek to bridge the collective quadrants and are at a firm or industry level of analysis.

By inserting each of the above theoretical viewpoints into Wilber’s four-quadrant model, we are able to demonstrate that each theory is primarily rooted in one of the quadrants as its base in explaining firm performance, but these popular theories, as stated above, are not complete or holistic. As we can see, each theoretical orientation leaves gaps in our understanding, which has resulted in the development of additional theories of the firm to fill those gaps.

Theories of the firm seek to address many questions about firms: firm existence, structure, boundaries, roles, and responsibilities. This presents a theoretical challenge. The theoretical challenge comes from the multifaceted phenomenon that can hardly be grasped by a unique theory, leading to the multiplication of theoretical approaches that can be considered as complements or substitutes, depending on the questions they seek to answer (Garrouste, & Saussier, 2005: 179).

Not only do multiple theories of the firm exist to explain varying phenomenon, none of the existing theories of the firm address issues of development (Levinthal, 2005). There is a need for “more holistic practices that integrate the four fundamental arenas that define the essence of human existence: the body (physical), mind (logical/rational thought), heart (emotions, feelings), and spirit (all influencing the aspirations of organizational members)” (Kupers, 2007). There is also a call for more dialogue between “pure” and “applied” fields of knowledge in the development of theories of the firm (Foss, 1999). Finally, a unified theory of the firm should be able to address internal and external organizational forces as well as the role of individual and collective forces (Garrouste & Saussier, 2005).

Fortunately, scholars and practitioners alike are beginning to recognize the incompleteness of a focus on any one quadrant independent of the others, as has been done historically, and the difficulty in attempting to explain firm performance at a singularly individual, firm, industry, or societal level, from a singular theoretical viewpoint, or from the perspective of a single quadrant of being. Recent work has brought integral theory from the field of psychology, philosophy, and consciousness studies into the realm of business (Cacioppe & Edwards, 2005; Kofman, 2002; Kupers, 2007; Landrum & Gardner, 2005; Paulson, 2002; Waddock, 2006). Using the vast knowledge inherent in Wilber’s theoretical approach, we can use integral theory as a new framework through which to view various theories and develop a more comprehensive integral theory of the firm. Our discussion of how to apply an integral framework is not intended to be exhaustive, but rather illustrative.

5. THE FOUR-QUADRANT AQAL TEMPLATE FOR AN INTEGRAL THEORY OF THE FIRM

5.1 Interior individual quadrant

To be complete, an integral approach suggests we become knowledgeable in theories which integrate ethics, spirituality, and philosophy. The focus of theories within the interior individual

quadrant is on internal human development and understanding how individuals reach their fullest potential in mind, body, and spirit, in personal growth, and in individual care and concern for the environment and for humanity. This requires an understanding of how individual employees', managers', and others' spiritual, philosophical, and individual development contributes to firm performance. It has already been suggested that individuals can use personal awareness and development to enhance their work and their organization (Hanna & Glassman, 2004; Net Impact, 2009; Roberts, Dutton, Spreitzer, Heaphy, & Quinn, 2005; SustainAbility, 2008; Willard, 2005, 2007, 2009). Furthermore, it has been suggested that managers are a potential source of value creation for the firm (Holcomb, Holmes, & Connelly, 2009). Understanding and appreciating these theories and their contribution within this quadrant becomes the basis for building an integral theory of the firm incorporating all four quadrants. The quadrant's focus on self-development (emotional, social, spiritual, ethical, and moral) of all individuals at all levels assumes, as Wilber does, that the interior individual is the foundation upon which all else is built.

5.2 Exterior individual quadrant

Next, we can seek to understand how individuals' internal development is reflected in behavior and interactions (exterior individual) and how this can contribute to firm performance. Theories applicable to the exterior individual quadrant include psychology, organizational behavior, human resource development, leadership, and related theories of human behavior. The primary focus of theories within this quadrant is on understanding observable individual human behavior (which is assumed to be a reflection of the interior individual quadrant) and its impact on firm performance. Both the interior and exterior quadrants integrate knowledge and theories at an individual level of analysis. Each offers a different perspective on the contribution of individual behavior toward firm

performance. Understanding the combined influence of both individual quadrants and their contribution to firm performance is an essential and necessary foundation in developing an integral theory of the firm.

5.3 Interior collective quadrant

Our knowledge of how personal development and individual behaviors contribute to firm performance can help lead to a better understanding of how collective individual behaviors ultimately aid the organization in reaching its fullest potential within its competitive environment (interior collective quadrant). Within the interior collective quadrant, the foci are on firm and industry levels of analyses; the firm being a collective of individuals and the industry being a collective of firms. Theories applicable to this quadrant include strategic management, economics, operations management, corporate ethics, and stakeholder management as well as theories in related areas such as sociology, social psychology, and cultural studies which seek to explain the collective behavior of individuals, firms, and industries. The primary focus of theories within this quadrant is collective behavior and its contribution to economic (inter- and intra-firm) performance with little concern for the business world beyond industry boundaries, society and social systems, or the environment, and with limited acknowledgment of the two individual quadrants. For example, the majority of the field of strategy addresses the interior collective quadrant because it only focuses on competing within an industry, viewing the world only in terms of its industry, competitors, and stakeholders. The study of production operations management is in this quadrant and, although industries have created global supply chains, the focus continues to be inward on industry needs and competitiveness.

Table 2: Integral Theory of the Firm

	Interior Individual	Exterior Individual	Interior Collective	Exterior Collective
Focus	Internal development (non-market)	Individual behavior (non-market)	Economic performance (market)	Humanitarian (non-market)
Level of Analysis	Individual	Individual	Firm and/or industry	Societal and/or systems
Theories	<ul style="list-style-type: none"> •Spirituality •Individual ethics •Philosophy •Psychology •Personal development • Managerial & behavior theories of the firm 	<ul style="list-style-type: none"> •Organizational behavior •Human resource development •Leadership •Psychology •Managerial & behavior theories of the firm 	<ul style="list-style-type: none"> •Strategic management •Operations management •Corporate ethics •Stakeholder management •Sociology •Social psychology •Management •Economics •Cultural studies •Economic and Competence theories of the firm 	<ul style="list-style-type: none"> •Sustainability •Environmental strategy •Corporate social responsibility •Eco-phenomenology •Diversity •Globalization •Humanity •Natural environment •Stakeholder theories of the firm
Contribution to firm performance	<ul style="list-style-type: none"> •Higher potential in mind, body, spirit •Personal growth •Care and concern for environment and humanity 	<ul style="list-style-type: none"> •Individuals reflect their potential, growth, care, and concern in their behavior and interactions 	<ul style="list-style-type: none"> •Employees help the organization reach its greatest economic potential •Other organizations within the industry must maintain parity to survive 	<ul style="list-style-type: none"> •Collectively, organizations lead the way for worldwide change •Change occurs at a systemic level •Societal expectations are heightened •Outside industries and organizations begin an integral transformation



5.4 Exterior collective quadrant

Within the exterior collective, the focus is on a societal and systems level of analysis. The primary focus of theories within this quadrant is on humanitarian issues and whole systems change. Some theories, such as (social, environmental, and economic) sustainability, environmental strategy, and corporate social responsibility, as well as ecological phenomenology (or eco-phenomenology), seek to bridge the two collective quadrants, perhaps establishing foundations for changes in worldviews of the entire business world. Yet the theories focus exclusively on behavior of the corporation and fail to incorporate the individual quadrants. In this quadrant, we seek a better understanding of firm performance in our interconnected and global existence (exterior collective), particularly as firms are being faced with new demands for improved humanitarian (social and environmental) performance. Globalization, connectedness, and mobility require individuals, firms, and industries to interact with "others" outside the internal collective quadrant. In order to do this successfully, companies and the individuals that comprise them will understand and appreciate diversity throughout all humanity and the natural environment as well as the many complexities associated with globalization. Unfortunately, many multinational corporations have been criticized for unethical practices within the global supply chain; examples are endless and include Nike, Coca-Cola, Dole Fresh Fruit, Mars/M&M, and numerous others. Such unethical business practices are result of companies' continued focus on the interior collective during global expansion without consideration for the exterior collective or either of the individual quadrants. It is at this point (the collective quadrants) that we begin to see the interplay of economic and social performance of firms and how a balance between both can help competitively position a company. This also begins to unite both nonmarket (from both individual quadrants) and market (exterior collective quadrant) approaches in firm strategies.

Within the exterior collective quadrant, it is possible for individual and collective groups of firms that are integrally-informed to better understand how to initiate collective action in terms of systemic, societal, and worldwide change while still remaining competitive within their industries (interior collective quadrant) and nurturing and developing individual employees (both individual quadrants). This creates further cohesion between market and nonmarket strategies and multiple levels of analyses. It is through this four-quadrant integral view that individuals reach their potential in order to help the organization reach its potential in order to help humanity reach its potential. This discussion is summarized in Table 2.

5.5 Advantages of an Integral Theory of the Firm

"The integral approach...provides a base for multi- and metaparadigm orientation...The integral model...encourages greater awareness of theoretical and methodological alternatives and, thereby, facilitates discourse and/or inquiry across paradigms and fosters greater understanding and metatriangulation within pluralist and even paradoxical...contexts" (Kupers, 2007: 203). This broader view of firm performance brings together separate perspectives into one unified theoretical approach; an integral theory of the firm which seeks to incorporate a deeper understanding of the contribution and interplay of all four quadrants in explaining firm performance. An integral theory of the firm accomplishes several things. First, it allows metatriangulation of various theoretical approaches (within and outside business) in understanding firm performance. Second, an integral theory of the firm allows us to simultaneously consider multiple levels of analysis in understanding firm performance. Third, it allows simultaneous pursuit of market and non-market, or economic and social, strategies. Fourth, and possibly most important, is that an integral theory of the firm

challenges our existing paradigms and assumptions regarding firm existence, boundaries, and organization and the corresponding roles and responsibilities of business.

6. DIRECTIONS FOR FUTURE RESEARCH

We have introduced integral theory as an innovative new framework for viewing the firm. As such, this creates a new agenda for future business management research, particularly for research seeking to explain firm performance. One suggestion is for future research streams to seek specificity in metatriangulation. That is, both primary and meta-analytic studies of theories in strategic management, organizational behavior, human resource management, organizational theory, economics, political science, sociology, moral philosophy, and other disciplines across the four quadrants should seek to identify possible combinations (across all quadrants, differing levels of analyses, incorporating market and nonmarket, etc.) which best explain firm performance. It is possible that the best combinations vary based upon differing factors, thus becoming a contingent approach.

We also see the exploration of lines, levels, and states to business management as an area for further research. While this paper has introduced readers to this aspect of Wilber's integral theory, there is much more work to be done here to apply the depth of integral theory to business.

Another area for development is to create a model further explaining how integral theory can be applied to organizational management. Strategic management, in particular, would benefit from further exploration of a synergistic and holistic four-quadrant integral model to help guide organizations toward the achievement of sustainable competitive advantage.

Finally, practical examples and case research documenting the application or implementation of integral theory within business management would be welcome. This documentation would aid in our understanding of how an integral application is intertwined with firm performance.

7. CONCLUSION

Wilber's (2000) integral theory provides a new lens through which to view the firm. Through the incorporation of multiple views, perspectives, and theories in business, psychology, sociology, philosophy, and spirituality, we can capture the best practices available. Thus, an integral theory of the firm is the logical next step within the field of management in order to understand management in our new global economy. We have shown how our existing knowledge can be integrated within Wilber's four-quadrant AQAL of integral theory. This broader interpretation of firm existence, boundaries, and organization leads to the development of an integral understanding of the firm (Table 2).

Managers, in order to assure their organizations are competitive in the new global marketplace, are wise to adopt a multi-perspective management vision (Anderson, 1995; Kegan, 1994; Sinnott, 1994). This provides a broader, more comprehensive management practice, thereby providing a competitive advantage. There is, however, a cost. Extra effort must be made by managers in order to acquire adequate all-quadrant knowledge and be competent in all four management perspectives (Paulson, 2002).

As corporations are increasingly faced with new social and environmental demands, an integral theory of the firm can help balance economic and social imperatives and allow simultaneous

pursuit of internal development, human behavior, economics, and humanitarian issues and understanding of firm performance in the new global economy. An integral theory of the firm is innovative and allows metatriangulation of various theoretical approaches, simultaneous consideration of multiple levels of analysis, simultaneous pursuit of market and non-market strategies, and challenges existing paradigms.

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