

Stakeholder Theory: A Luhmannian Perspective

Administration & Society

1–24

© The Author(s) 2018

DOI: 10.1177/0095399718789076

journals.sagepub.com/home/aas



Vladislav Valentinov¹, Steffen Roth^{2,3} ,
and Matthias Georg Will⁴

Abstract

We explore the cross-fertilization potential between stakeholder theory and Niklas Luhmann's social systems theory. Social systems, such as corporations or nonprofits, are defined by complexity reduction and operational closure, which may render them insensitive to their environment and undermine their sustainability. This vision resonates with stakeholder theory's arguments on the importance of the corporate responsiveness to stakeholder interests. The suggested common ground between the theories yields novel insights into key concepts of stakeholder theory such as the contrast between the jointness of stakeholder interests and trade-off thinking, the normativity of the stakeholder idea, and the meaning of corporate social responsibility.

Keywords

stakeholder theory, social systems theory, Niklas Luhmann, normativity, organizational multifunctionality

Introduction

This paper reexamines and reconstructs the systems-theoretic underpinnings of stakeholder theory, a modern influential approach to strategic management and business ethics. “Stakeholder theory and nonprofits stakeholder theory is

¹Leibniz Institute of Agricultural Development in Transition Economies, Halle, Germany

²La Rochelle Business School, France

³Yerevan State University, Armenia

⁴Martin Luther University of Halle-Wittenberg, Germany

Corresponding Author:

Steffen Roth, La Rochelle Business School, 102 Rue de Coureilles, 17000 La Rochelle, France, and Yerevan State University, Alex Manoogian 1, 0025 Yerevan, Armenia.

Email: roths@esc-larochelle.fr

largely a normative organizational theory” (LeRoux, 2009, p. 160) drawing on the simple and fundamental “idea that a business has stakeholders—that is, there are groups and individuals who have a stake in the success or failure of a business” (Freeman, Harrosin, Wicks, Parmar, & de Colle, 2010, p. xv). Over the last decades, this idea has spawned an enormous amount of business scholarship that defies easy generalization. Nevertheless, it is one key contribution of stakeholder theory that the field presents an alternative to, and generalization of, “the mainstream view of shareholder capitalism” (Freeman et al., 2010, p. xv). In tracing the intellectual roots of stakeholder theory, its authors (Freeman et al., 2010, p. 38; Freeman, 1984, p. 36) point out an important role of systems thinking exemplified in the work of scholars such as Churchman and Ackoff. Yet, Freeman et al. (2010) raise the concern that even though this systems theory literature remains an important source of inspiration to stakeholder theory, “it is not . . . focused on solving strategic management problems which are narrower than total system design” (p. 40). This concern is certainly correct. Churchman and his associates pointed out “the tendency of conventional analytical patterns of thought to define and solve problems on their own basis rather than to include the problem environment” (Ulrich, 1988, p. 419). This tendency is unfortunate because of the fact that “in any specific problem, one finds the connectedness to all the other problems” (Churchman, 1982, p. 13). To make human and managerial decision making more comprehensive, Churchman urged for “sweeping-in,” that is, a continual learning process aimed at expanding the conceptual boundaries of the problems in need of solutions. However, he did not propose clear rules for determining the point at which the decision making becomes sufficiently comprehensive to secure business success. Acknowledging that “the true costs associated with any system always reflect the way in which the larger system behaves” (Churchman, 1979, p. 76), he left the definition of the larger system essentially indeterminate (Mason, 1988). In the business context, trying to understand the larger system will certainly include the identification of stakeholders, but it remains unclear what specific stakeholder constellations would constitute a system that is just large enough.

The present article calls readers’ attention to another strand of systems thinking that obviates the need for defining the larger system while fully preserving stakeholder theory’s focus on a turbulent business environment. This strand is associated with the work of Niklas Luhmann (1927-1998), an outstanding German sociologist and systems theorist of the 20th century. Luhmann contrasted the part–whole and system–environment paradigms in systems thinking and attributed his own work to the latter. The part–whole paradigm goes back to Aristotle and is concerned with the structure and

complexity of the whole relative to the part, thus fitting perfectly with Churchman's call to look for the relevant whole, or larger system. The system-environment paradigm, in contrast, replaces the search for the whole system by the analysis of system-environment relations, without requiring the environment to be representable in terms of the ordered overarching system. In fact, Luhmann's vision of social reality is in terms of multiple systems observing each other and constituting each other's environment. Absent any type of overarching order in the modern society, the intersystem interactions, or system-environment relations more generally, are necessarily precarious and fraught with sustainability problems.

The themes of the precariousness of system-environment relations and the attendant sustainability problems are evidently akin to Freeman's reference to the turbulence and complexity of business environment as the managerial justification of the stakeholder approach (e.g., Freeman, 1984, p. 27; Freeman et al., 2010, p. 3). True to Freeman (2017) "the stakeholder idea is perfectly general. Corporations are certainly not the center of the universe, and there are many possible pictures" (p. 2). Consequently, stakeholder theory may be applied to all kinds of social systems in general and organizational systems in particular.

Business is about how customers, suppliers, employees, financiers (stockholders, bondholders, banks, etc.), communities, and managers interact and create value . . . Another might put employees in the center and link them to customers and shareholders. Or, one might have no organization in the center to signify that this is an interconnected system of stakeholders. But, there is no larger metaphysical claim here. It depends on the purpose of the picture, or the problem that one is trying to solve. (Freeman et al., 2010, p. 3)

Freeman goes on to justify this radically pragmatic attitude to the observation of organizational systems and their stakeholder environments:

Oftentimes, management theorists overemphasize the role of definition in theories or frameworks. As a pragmatist philosopher, I believe that definitions often lack precision, and that this is a good feature of language for most purposes. For instance, much is written about the definition of "stakeholder." "Does it include NGOs or competitors? Yes or No? Once and for all, let's get it right," they say. My response is that it depends on what problem you are trying to solve. For certain problems, like governance at the board level, you may want a narrow definition, while for some societal problems, you may want a broader one. There is no one right definition, as the definition in use depends on the problem one is trying to solve, whether theoretical or practical. (Freeman, 2017, p. 5)

Freeman's pragmatist stance strikes a chord with Luhmann's observer-relative systems theory. Both authors do not insist on particular systems of reference or environmental constellations but rather provide concepts that smoothly adapt to different observational standpoints or interests. One could even say that both authors develop theories that act as highly flexible and strategic observational conditional programs of the type "If you observe this system, then this is your (stakeholder) environment" (or vice versa). Thus, in all these cases, it stands to reason that "as long as the environment is stable, few strategic surprises occur" (Freeman, 2010, p. 35). With stability gone, however, the survival of a system become dependent on the correct identification of and dealing with different constellations of systems (stakeholders) in a then-different (organizational) environment. By justifying stakeholder theory in terms of the growing turbulence of this environment, the theory's authors seem indeed to concur with Luhmann's assessment of the critical relevance of the system-environment paradigm, including its superiority over the premodern part-whole paradigm exemplified in Churchman's total system design. If correct, this observation calls for initiating a conversation between stakeholder theory and the Luhmannian social systems theory. As we shall highlight in this article, this conversation can enrich stakeholder theory with an appreciation of the generic nature of the problem of environmental turbulence in modern society as well as a broader concept of environmental sustainability, which in stakeholder theory often still remains focused on the natural environment (see Sulkowski, Edwards, & Freeman, 2017); the Luhmannian systems-theoretic approach, for its part, can benefit by further emphasizing the possibility to observe the precariousness of system-environment relations in the business context in moral terms. It will be argued that the Luhmannian approach can not only accommodate this observation but also enrich it with complementary perspectives. Thus, we contribute to the field of stakeholder theory by highlighting how this theory can address critical tensions between firms and their environment.

Luhmann's Systems-Theoretic Thinking

Precariousness of System-Environment Relations

True to Luhmann, a system positively is the difference between this system and its environment. In repeatedly drawing (on) this difference, an autopoietic system creates and maintains a complexity differential between itself as a space of reduced complexity on the one hand and "the environment (that) is always more complex than the system" (Luhmann, 2013a, p. 121) on the other hand. Thus, systems and environments co-evolve, and this is why the theme of

the precariousness of system-environment relations rises to critical prominence in Luhmann's work in view of his central argument about "complexity reduction" as the main function of autopoietic systems in general and social systems in particular. This function means that social systems, as much as all autopoietic systems, are neither capable of nor required to process an enormous number of environmental signals. Social systems reduce complexity by suppressing most of these signals and thus avoid overburdening by environmental complexity and retain ability to orient themselves in the exceedingly complex environment. By reducing environmental complexity, systems themselves build up their own complexity because "(e)very system must maintain itself against the overwhelming complexity of its environment" (Luhmann, 1995, p. 182). This assertion however cannot be perfect, as the complexity reduction function essentially boils down to the selective disregard for the environment whose role is in carrying, or "tolerating," social systems.

The remarkable and paradoxical attribute of social systems as seen by Luhmann is their operational closure. "What distinguishes autopoietic systems from machines and the closed systems of classical equilibrium thermodynamics is the recursivity of their operations" (Luhmann, 1995, p. xxi). Machines or technologies can also be interpreted as systems; however, these allopoietic systems are not self-designed and -maintained and thus precisely *not* their own product, whereas any autopoietic maintains its border to its environment by connecting internal operations with other internal operations. All of its elements and structures are thus produced solely within the system itself.

While operational closure seems antithetical to the concept of metabolism advanced by Ludwig von Bertalanffy's open systems theory, Luhmann (2012) stressed that

(t)he insight offered by the theory of open systems that independence and dependence can increase with and through one another remains intact. The wording merely changes: we now say that all openness is based on the closure of the system. In somewhat more detail, this means that only operationally closed systems can develop a high level of inner complexity, which can then serve to specify the respects in which the system reacts to conditions of its environment, while in all other respects, thanks to its autopoiesis, it can remain indifferent. (p. 34)

Recent commentators on Luhmann noted that the combination of metabolic openness and operational closure presents a relevant explanation of why the relations of social systems with their environment are bound to be precarious. In this line, Valentinov (2014a) explains this precariousness in terms of the

interaction of two principles summarizing the Luhmannian theory of system-environment relations: The complexity reduction principle “posits that systems increase their complexity by becoming increasingly insensitive to the complexity of the environment,” whereas the critical dependence principle “postulates that the increasing complexity of systems is associated with their growing dependence on environmental complexity” (p. 18). Considered together, these two principles conjure up the conceptual model of the “complexity-sustainability trade-off” that “emerges because the growing systemic complexity entails the increasing risk that systems develop insensitivity to those environmental conditions on which they critically depend” (Valentinov, 2014a, p. 14).

Understanding the System-Environment Linkage

An implication of Valentinov’s (2014a) critical dependence principle is that social systems are well advised to observe their own systems-environment relationships. Systems can do so by distinguishing between the observation of their environment and the observation of other systems in their environment. To better understand its critical dependence relationships, the concerned system needs to gain awareness of the environment populated with other systems. As soon as the systems in the environment are observed to be self-referential systems themselves, the only way the system can make sense of the environment is by means of communication.

To gain a comprehensive overview of how social systems observe each other, it is useful to recall that Luhmann’s theory of society (Luhmann, 2012, 2013a, 2013b) is built on a three-dimensional social theory (Luhmann, 1995) comprising a communication-theoretical, evolution-theoretical, and differentiation-theoretical pillars. Each of these pillars corresponds to one of Luhmann’s notorious *meaning dimensions* (Roth, 2009, p. 233ff).

From the communication-theoretical perspective, the major building blocks of society are communication, interaction, and organization. Society is thereby defined as the nexus of all communications, which are, in turn, defined as the basic operations of society. Interactions and organizations represent specific forms of communication emerging from the communication of absence/presence (in the case of interactions) and the communication of decision (in the case of organizations). Added to this is moral communication as an independent third form of communication (Roth, 2014, 2017).

The differentiation-theoretical approach establishes the distinction between four forms of social differentiation (Roth, 2015, p. 113ff): *segmentation*, that is, the emergence of segments such as families, tribes, or nations; *centralization*, that is, the emergence of centers, such as urban areas, and

peripheries which may be rural; *stratification*, which is the generative principle behind castes, estates, or classes; and *functional differentiation*, which is the reason why we can distinguish between function systems, such as politics, economy, religion, art, science, or education.

The evolution-theoretical lens allows the observation of the historically contingent combinations of the above forms. For example, interaction may be found to be a form of segmentation; moral communication may imply forms of stratification; and decision communication may be triggered by and reinforce functional differentiation (Roth, 2017). Another instructive example would be the observation that specific segments feature preferences for particular function systems (Roth et al., 2017; Will, Roth, & Valentinov, 2017): for example, for-profit firms tend to have a strong economy focus, whereas a government is normally defined by a certain bias to political issues, and hospitals are, or used to be, mainly focused on health.

Thus, by drawing on a comprehensive, specific, and dynamic observational framework, a Luhmannian perspective makes clear that social systems face a potentially overwhelming environmental complexity.

In this context, stakeholder theory operates with concepts such as individuals and human beings. As Freeman et al. (2010) nicely put it, “stakeholders have names and faces and children. They are not mere placeholders for social roles” (p. 29). Yet, Luhmann referred to these and similar concepts, somewhat pejoratively, as “old European.” The systems-theoretical perspective proposed here shows the validity of stakeholder theory to go far beyond what Luhmann would consider to be the “old European” origins. It might be the case that the moral communication presents in some stakeholder theorizing draws some of the inspiration from the “old European” images of individual human beings and shared hierarchies of values. The Luhmannian reconstruction of stakeholder theory in the rest of the present article will be critically aware of these images but will nevertheless envision a role for the normative focus of stakeholder theory in the modern functionally differentiated society.

Limits to Moral Communication in a Functionally Differentiated Society

Luhmann’s analysis of the precariousness of system-environment relations led him to detect the considerable risk of moral communication to be dysfunctional in modern society. He understood moral communication as expressing person-related respect or contempt (Luhmann, 1992). It is because of this person-centeredness that moral communication tends to be out of sync with many social problems that are induced by systems rather than individuals. In

these cases, the person-centered moral communication tends to cause conflicts rather than to solve problems. For this reason, Luhmann proposed to locate the main task for ethical theory in “warning against morality” rather than in justifying the visions of the right and the good.

Yet, contrary to a widespread belief, the Luhmannian diagnosis of the precariousness of system-environment relations does not allow one to read his systems-theoretic approach as technocratic apologia for the existing institutional structure. Rather, his version of precariousness is primarily characteristic of functional differentiation. Constituting an environment for each other, the function systems such as economy, religion, politics, science, and others necessarily fail to establish a commonly shared morality that may legitimate regimes of coordinated and concerted governance (not least because the term *governance* alludes to a political and therefore necessarily only partial perspective on the full picture of functional differentiation). Similar to all types of operationally closed systems, the function systems are unable to

control interdependencies in their environment. The more we rely on systems for improbable performances, the more we shall produce new and surprising problems, which will stimulate the growth of new systems, which will again interrupt interdependencies, create new problems, and require new systems. (Luhmann, 1990, p. 182)

Given that the differentiation of the function systems is the main attribute of the modern society (Roth, 2015, 2017), it is small wonder that Luhmann held this society to be ungovernable and unpredictable (Van Assche, Beunen, & Duineveld, 2014; Van Assche & Verschraegen, 2008).

The lack of governability manifests itself, among other things, in the ongoing “ecological degradation” of the modern society. As a theorist of precarious system-environment relations, Luhmann (1989) argued that “the system of society is not necessarily directed toward adaptation and can even place itself in jeopardy” (p. 13). Worse yet, “from the evolutionary point of view one can say that socio-cultural evolution is based on the premise that society does not have to react to its environment and that it would not have taken us where it has if it proceeded differently” (Luhmann, 1989, p. 16). Coupled with the coordination problems among the function systems, the limited sensitivity of the operationally closed societal system toward the environment makes the trend of ecological degradation virtually irresistible. While this trend refers to the encompassing societal system, similar problems are potentially characteristic of the individual function systems.

It seems a plausible argument that the multifarious manifestations of the precariousness of system-environment relations translate into social

problems many of which are observed to have moral connotations. This is the case with the problems of ecological degradation, or in more familiar language, ecological sustainability (e.g., P. B. Thompson, 2010), as it is for social sustainability. In spite of Luhmann's unwillingness to associate his systems-theoretic approach with social critique, some of his remarks are highly suggestive of the tendency of the regime of functional differentiation to engender not only ecological but also social sustainability problems:

If we see stratification we will tend to see . . . injustice, exploitation and suppression . . . If, on the other hand, we see functional differentiation, our description will point to the autonomy of the function systems, to their high degree of indifference . . . Then we will see a society without top and without centre; a society that evolves but cannot control itself. And then, the calamity is no longer exploitation and suppression but neglect. (Luhmann, 1997, p. 74ff)

If neglect is the relevant moral problem, then the moral imperative of the functionally differentiated society may be seen in social responsiveness, that is, sensitivity of social systems, such as the function systems, to their environment, both societal and natural.

Operational Closure in the Business Context

Luhmann devoted an entire book to explaining the meaning of operational closure and autonomy of the economic system in the functionally differentiated society (see Luhmann, 1982 for a pertinent English-language article). His systems-theoretic approach led him to see the economy as

a rigorously closed, circular, self-referentially constituted system because it effects payments that presuppose the capacity for making payments . . . Thus money is a unique economic medium. It cannot be introduced as input from nor transmitted as output into the environment. Its exclusive task is to mediate system-internal operations. (Luhmann, 1989, p. 52)

As an operationally closed and "self-referentially constituted system," the economy is bound to develop insensitivity to its multifarious metabolic dependencies on its societal and natural environment. In the strategic management context, the attributes of operational closure and self-referentiality arguably translate into "the mainstream view of shareholder capitalism" (Freeman et al., 2010, p. xv). It is this view that prioritized the interests of shareholders and thus legitimated the relative unimportance, from the business management point of view, of all the other "groups and individuals who

have a stake in the success or failure of a business” (Freeman et al., 2010, p. xv). By urging business managers to be sensitive to the interests and needs of stakeholders, the stakeholder approach seeks to counteract the sustainability risks involved in the firm’s operational closure of the economic systems as a whole in general and individual corporations in particular.

An essential ingredient of the moral significance of these sustainability risks is that the operationally closed systems can impose harm on their environment without even registering it. This ingredient is squarely acknowledged by stakeholder theory in the form of “the problem of the ethics of capitalism. As capitalism became the dominant means of organizing value creation and trade, it became clear that restricting attention to its ‘economic’ effects yields a damaging partial view” (Freeman et al., 2010, p. 4). Here, stakeholder theorists are drawing business ethics implications of K. W. Kapp’s (1975) argument about “the built-in tendency of the system of business to disregard those negative effects on the environment that are external to the decision-making unit” (p. xiii). Luhmann’s analysis of operational closure fully affirms this tendency. He argued that

the key to the ecological problems, as far as the economy is concerned, resides in the language of prices. This language filters in advance everything that occurs in the economy when prices change or do not change. The economy cannot react to disturbances that are not expressed in this language. (Luhmann, 1989, p. 62)

The tendency of the operationally closed corporate systems to impose harm on corporate stakeholders presents just another version of the same argument.

It is true that the stakeholder approach to business management does not cancel the fact of operational closure of corporations and the economic system as a whole. Yet, it does point out the possibility for these systems to develop sensitivity to their environment, which is constituted by stakeholders. Freeman et al. (2010) insightfully note that “a stakeholder approach to business is about creating as much value as possible for stakeholders, without resorting to trade-offs” (p. 28). In the systems-theoretic parlance, the trade-offs between the interests of shareholders and other stakeholders evidently reflect the fact of operational closure, which, however, does not at all contradict another relevant fact of the metabolic dependencies of corporations on their environment. Their operational closure notwithstanding, the sustainability of corporations depends on their sensitivity to their metabolic dependencies. It is these dependencies that underpin the jointness of stakeholder interests and the possibility of creating value for all of them. If a corporation is seen as a social system metabolically dependent on the environment

constituted by its stakeholders, then the jointness of stakeholder interests reflects the fundamental and highly intuitive fact of system-environment interdependence. At a philosophical level, catering to the interests of stakeholders is tantamount to establishing an adequate metabolic provisioning of the corporation as a social system.

The idea of operational closure is useful for stakeholder theory in that it refers to a valid ontological setting in which the economy emerges as an autonomous function system devoid of moral content and disembedded from the societal environment in the Polanyian sense. In this sense, the idea of operational closure explains the ontological context in which the “separation fallacy” (Freeman et al., 2010, p. 6) could have emerged without being acknowledged as a “fallacy.” In a similar vein, this idea lends credence to Friedman’s (1962) argument that the purpose of business is to “use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game” (p. 133). Yet, according to Freeman et al. (2010), “as capitalism became the dominant means of organizing value creation and trade, it became clear that restricting attention to its ‘economic’ effects yields a damaging partial view” (p. 4).

The idea of functional differentiation provides one useful opportunity to overcome the traditional understanding of corporations as “economic” organizations because, as much as all organizations, even economic organizations like corporations are constituted not by “economic operations” but rather by decision communications (Nassehi, 2005; Roth, 2016; Seidl & Becker, 2006). To be sure, the economy is one critical horizon of corporate decision making but it is by far not the only one. Even the most orthodox business management literature is rife with observations of noneconomic issues relevant to corporations, for example, issues of micropolitics. Following through on the idea of functional differentiation requires acknowledging that organizations in general, and corporations in particular, are potentially multifunctional, that is, able to refer to more than one function system (see Roth, 2016; Will et al., 2017). Multifunctionality is important in view of the strong biases that particular organizations, such as corporations, research laboratories, schools, or churches, may exhibit to particular functions, such as the economy, science, education, or religion.

Organization Theory Implications of Metabolism

Luhmann did not deny the validity of the Bertalanffyian open systems theory, and he seemed interested in exploring how the theories of metabolic openness and operational closure could fit together. As a conceptual bridge between these two critical aspects of systems formation and maintenance

and, thus, as a mark for the co-evolution of system and environment, Luhmann (2013a) drew on Humberto Maturana's concept of structural coupling:

For Maturana, who coined the concept (I briefly told this story in the general part of my previous lecture), "structural coupling" meant that the structural development of a system depends on structural couplings insofar as it cannot produce structures other than environmentally compatible ones, regardless of the fact that the environment does not intervene in a deterministic way. This concept is "orthogonal," in Maturana's sense, to the autopoiesis of the system. It is relatively easy to find examples for it in biology. Birds, for instance, develop only if there is air. If there were no air, birds would have a hard time developing wings. They would have no idea of wings! Evolution would never even come up with the idea of producing such complicated apparatus if it is not possible to fly with them. This is the case, even though the cell chemistry and autopoiesis of the reproduction of life are not adversely affected by flying and are, in fact, compatible with it. They cannot do the flying themselves, however, and they cannot continuously reproduce on the side the conditions of flying—that is, air. Autopoiesis is one thing, structural coupling is another. The evolutionary trend is that autopoietic systems either do not exist at all which is to say that they do not develop a sequence of operations that possesses connectivity, or else they exist in this form of compatibility with the environment. (p. 197)

Such a co-evolutive conception of operationally closed metabolic openness seems essential to understanding how the precariousness of system-environment relations comes about. Moreover, as mentioned above, this conception generates a systems-theoretic justification for stakeholder theory's claim of the jointness of stakeholder interests. If a firm is seen as a social system metabolically dependent on the environment constituted by its stakeholders, then the jointness of stakeholder interests reflect the fundamental and highly intuitive fact of system-environment interdependence. At a philosophical level, catering to the interests of stakeholders is tantamount to establishing an adequate metabolic provisioning of the firm as a social system.

If brought to bear on stakeholder theory, the idea of metabolism inverts the logic of the famous K. W. Kapp's theory of the social costs of business enterprise. Where Kapp saw the imposition of social costs on the third parties, the stakeholder approach sees the potential to create value for stakeholders. To Kapp, social costs result from the disruptions of the metabolic connections between corporations and their societal and natural environment. The modern stakeholder theorists take system-environment connections as the basis of the jointness of stakeholder interests. Furthermore, following through on the idea of metabolism requires acknowledging the fact of systems being constituted by their metabolic flows. Simple as it is, this fact is

radical enough to prevent thinking of the stakeholder orientation and CSR policies as “add-ons” that change little in the way business is normally done. Even early work on stakeholder theory established the linkage between CSR, stakeholder orientation, and the purpose of business (Wood, 1991). As an expression of the fundamental fact of system-environment interdependence, the idea of metabolism offers the systems-theoretic justification for the claim that the stakeholder engagement goes to the very heart of corporate value creation and thus takes center stage in Freeman et al.’s (2010, p. 281) principles of stakeholder capitalism.

A large part of the present-day scholarship on stakeholder theory is driven by the interest in establishing its instrumental justification, especially in empirical terms. The issue of instrumental justification may likewise be usefully illuminated by the idea of metabolism, and more precisely by the contrast between the implications of operational closure and metabolic openness for the sustainability of social systems. As the model of the “complexity-sustainability trade-off” (Valentinov, 2014a) suggests, these implications could be tragic. While it can be established theoretically that the sustainability of operationally closed systems is predicated on the proper functioning of metabolic channels, the quality of this functioning is an empirical question. Just as systems theorists were pointing out the sustainability risks arising out of the disruptions of metabolism (Valentinov, 2014a; cf. also Kapp, 1975), so did stakeholder theorists note the implications of stakeholder management mistakes for the corporate survival. Post, Preston, and Sachs (2002) state explicitly that the “failure to establish and maintain productive relationships with all of the firm’s stakeholders is a failure to effectively manage the organization’s capacity to generate future wealth” (p. 36). The implications of the latter failure are well described by Davis’s (1967) “iron law of responsibility,” a business ethics implication of the Luhmannian “complexity-sustainability trade-off.”

Writing about the modern ecological predicament, Luhmann (1989) pessimistically remarked that “viewed from a long-term perspective, evolution is concerned about reaching ‘ecological balances.’ But this merely means that systems pursuing a trend toward exposure to ecological self-endangerment are eliminated” (p. 14). This remark seems to hold for corporations as well. If the Luhmannian systems-theoretic perspective were to deliver an instrumental justification for stakeholder theory, this justification would be fairly simple: Corporations that systematically ignore the interests of their stakeholders will not last long. Furthermore, this justification addresses the important question of the limits of corporate responsibility to stakeholders. Corporations bear responsibility for those stakeholders who are responsible for their metabolic provisioning. Simple and intuitive as it is, this systems-theoretic argument

avoids the difficulties that Churchman's "total system design" experiences in determining the sufficient comprehensiveness of moral decisions.

Organizational Multifunctionality, Operational Closure, and Metabolism

In a recent article published in this journal, Will et al. (2017) argue that the Luhmannian theory of functional differentiation offers several valuable insights into the role of formal organizations in the modern society. One insight is that "all organizations are, in principle, multifunctional" which means that they "may feature biases to one or several function systems, but these biases are seen as changeable" (Will et al., 2017, p. 10). Organizations thus exhibit unique, contingent, and evolving multifunctional profiles allowing them to navigate the function systems relevant to them. Another insight is that the relevance of function systems to specific organizations depends, among other things, on the function system affiliations of their key stakeholders (Will et al., 2017). If some stakeholders turn out to be crucial, this may nudge organizations to develop stronger profiles in those function systems to which these stakeholders belong. Here, a systems-theoretic reconstruction of stakeholder theory informs Will et al.'s (2017) multifunctionality argument in two ways highlighting the relationship between multifunctionality and the role of stakeholders.

First, the regime of functional differentiation is not infrequently characterized in terms of rigidity and blindness of function systems preventing them from offering timely and effective responses to the pressing societal problems. Luhmann (2012) himself described the modern society as erratic, unpredictable, and ungovernable. He saw the modern ecological crisis to proceed unabated in view of the inability of individual function systems to coordinate their operations (Luhmann, 1989; Valentinov, 2014b). It is clear that if the stakeholder orientation is any sense real, it means sensitivity and responsiveness of organizations to their environmental happenings. Thus, there is a possibility that the rigidity and blindness of function systems is compensated, in a way, by the sensitivity and responsiveness of those organizations that adopt active stakeholder management policies. If this argument is accepted, then it does not seem off the mark to compare the relationships between firms and markets and those between organizations and function systems. Just as the economic theory of the firm traces the existence of firms to the inability of markets to coordinate specific transactions, specifically those critically entailing trust, knowledge, learning, and judgment (Borzaga, Depedri, & Tortia, 2011; S. Thompson & Valentinov, 2017), so the role of organizations can be explained in terms of tasks that the function systems are poorly suited

to solve. In line with Will et al. (2017) multifunctionality argument, it is these tasks that constitute the profiles of individual organizations in the function systems concerned. If, say, a government fails in the delivery of crucial tasks, corporations may assume political roles (Banerjee, 2008; Dunsire, 1996; Valentinov, 2015) and thus pay attention to those stakeholders whose needs the government fails to address.

The second point emerging from the argument presented by Will et al. (2017) is that different function systems engender different functional identities of individual actors. Actors such as owners and managers occupy pride of place in the economic system. Other function systems include actors such as politicians, public officials, school teachers, students, university professors, doctors, patients, artists, scientists, journalists, mass media, and nongovernmental organizations (NGOs). The list of possible functional types of individual actors in the functionally differentiated society may be continued at length. Any subset of this list of actors may belong to the key stakeholders of a business corporation. The list gains particular significance in light of the seminal argument of Hansmann (1996) that most firms in the Western hemisphere tend to be owned by stakeholders having a contractual relationship with them, that is, by investors, suppliers, workers, or customers. Hansmann's argument is not hard to generalize in the context of stakeholder theory. It does not seem far-fetched to argue that for most (if not all) organizations, it is possible to identify stakeholders who are mainly responsible to controlling them. Furthermore, if these controlling stakeholders are observed by, and translated into the semantics of the economic system, they will not necessarily turn out to be owners or managers. They may be members, employees, customers, or users, to name a just a few alternatives.

The systems-theoretic arguments on multifunctionality and stakeholder control suggest two dimensions of variation of organizations in the functionally differentiated society: the degree of the relation to function systems other than the economy and the degree of control by stakeholders other than owners and managers. The for-profit business firm is clearly characterized by the dominant affiliation with the economic system and by the primary control by owners (in case of the "classic capitalist firm") or managers (in case of the corporation resting on the separation of ownership and control). A progressive increase in the relation of the organization to the noneconomic function systems will be reflected in the increasing chance that this organization comes to be classified as nonprofit (cf. Will et al., 2017). On the contrary, a progressive increase in the control of the organization by stakeholders other than owners or managers, provided that the organization is described by the semantics of the economic system, will indicate the increasing chance that this organization comes to be classified as a cooperative or social enterprise.

There is a long-standing debate in the field of nonprofit studies over the issue whether cooperatives and social enterprises can be meaningfully attributed to the nonprofit sector or should rather be considered as part of the more encompassing concepts of the third sector and social economy popular in Western Europe. The debate does not need to be resolved here. But it may be conjectured that nonprofit organizations themselves vary widely in terms of stakeholder control patterns that include the cases of stronger or weaker manager control. Stronger manager control is likely associated with nonprofit commercialization, professionalization, and bureaucratization, while weaker manager control may be suggestive of the participatory governance and the civil society orientation of the concerned nonprofits (cf. Mitchell, 2016).

A Luhmannian perspective would affirm that the classification of organizations as nonprofit, cooperative, or social enterprise does not alter the fact that all of them exhibit operational closure and fulfill the complexity-reducing function. The specific manifestations of operational closure and complexity reduction may, however, differ depending on the type of stakeholders (or several types in the case of multi-stakeholder governance) that happen to control a specific organization. Moreover, if operational closure is an enabling condition for the emergence of the “separation fallacy” (Freeman et al., 2010, p. 6), then different types of stakeholder control could be assumed to engender respective “separation fallacies.” This would mean that the dominant stakeholders wish to steer clear of moral arguments that could make their activities appear in a questionable light. While this is evidently true of many corporate managers, similar behaviors may be characteristic of organizations whose ideological orientation is so strong as to oppose any sort of moral counter-argumentation. As Luhmann’s (1992) critique of moral communication made clear, this counter-argumentation may cause conflicts, which could accordingly be prevented or postponed by organizational policies affirming the “separation fallacy.” At the same time, different types of stakeholders may exhibit different types of affinity and sensitivity to the outer environment of organizations as social systems. If stakeholders such as owners and managers may be assumed to be not particularly sensitive to the state of psychic systems and the natural environment, this may be less true of other stakeholders such as employees, members, or users. An implication of this difference is that organizations controlled by the latter stakeholders may be better able to harness their intrinsic motivation and elicit their cooperation even beyond the requirements of formal contracts.

The upshot is that whereas the manifestations of operational closure and complexity reduction may vary across the types of stakeholder control, it remains true that the sustainability of the organization of any type depends on the respective balance between its complexity reduction and critical

dependence (Valentinov, 2014a). It is noteworthy that in business ethics terms, the principles of complexity reduction and critical dependence translate into distinct conceptualizations of organizational legitimacy. In line with his theoretical approach to complexity reduction, Luhmann devoted his 1983 German-language book *Legitimation Through Procedure* to establishing the point that the legitimacy of social systems means the public acceptance of their outcomes regardless of any disagreements and disappointments that may be caused by these outcomes to any involved or third parties. It is no accident that this definition of legitimacy bears affinity to the definition of power in the critical institutional economics literature (cf. Cowling & Sugden, 1998; Sacchetti & Sugden, 2003), which takes power to be able to neutralize the resistance or lack of willingness of the concerned individuals. It is clear that Freeman et al.'s (2010) understanding of legitimacy is radically different, for the stakeholder approach pleads for the sensitivity to the needs of stakeholders rather than for the neutralization of their resistance by means of power. Whereas operational closure and complexity reduction enable the high complexity of tasks that can be addressed by organizations, the systems-theoretic thrust of stakeholder theory is that the tasks of high complexity call for management strategies eliciting the voluntary cooperation of stakeholders (cf. S. Thompson & Valentinov, 2017).

On the Normativity of Stakeholder Theory

The fundamental importance of functional differentiation to modern society notwithstanding, stakeholder theory would not be where it is now without its explicit normative focus whose existence seems to be beyond reasonable doubt. Freeman, Harrison, and Wicks (2007) put it as follows:

A hallmark of our approach has been to try to integrate a concern for ethics and values into the very nature of the value proposition of a business. In articulating its purpose, a firm has to figure out who it will serve and how it makes each stakeholder better off. (p. 100)

The obvious implication for business ethics is the need to overcome the “separation fallacy” (Freeman, 2010, p. 6) and on this basis, to revisit “the problem of the ethics of capitalism” (Freeman, 2010, p. 4). Stakeholder theory fulfills these ambitions by combining instrumental and normative aspects. Donaldson and Preston (1995) take the normative aspect of stakeholder theory to be most fundamental; Jones and Wicks's (1999) “convergent stakeholder theory” assumes the mutual reinforcement of the instrumental and normative aspects. The contribution of the systems-theoretic perspective

outlined here is in suggesting an explanation of how these convergence and reinforcement are possible, even despite Luhmann's own reservations about normativity and morality in the modern society.

As mentioned above, the Luhmannian theme of the precariousness of system-environment relations, and more specifically, the complexity-sustainability trade-off (Valentinov, 2014a), draw attention to the sustainability risks of those corporations that do not take the interests of their stakeholders seriously enough. At the same time, there is no way that operational closure and complexity reduction can be generally abolished. This is not what stakeholder theory can be supposed to assume, for no social systems can exist otherwise. If corporations as social systems are to be sensitive to stakeholder interests (Brady, 1993, 1997), they have to develop sensitivity channels that would be consistent with the systemic attributes of operational closure and complexity reduction. A moment's reflection will reveal that normativity presents precisely this sort of channel. Normativity offers a way of the intra-systemic representation of the system's metabolic dependencies that are not directly translatable into the language of operational closure and complexity reduction. Alternatively put, normativity connects the systemic sustainability and the attempt at steering the systemic operations through normative advice or injunction. It bears repeating that Luhmann himself would have likely taken issue with this argument which, however, keeps pace with the recent attempts to identify the normative implications of the Luhmannian thinking contrary to Luhmann's own intentions (Valentinov, 2017).

The connection between normativity and systemic sustainability is exemplified by those studies that emphasize the convergence and mutual reinforcement of the normative and instrumental aspects of stakeholder theory. In their seminal conception of "Kantian capitalism," Evan and Freeman (1993) emphasize fiduciary duties of corporate managers toward stakeholders. The authors make clear that the disregard of these duties on the part of managers will likely cause stakeholders to withdraw their support, with adverse implications for the sustainability of the corporation, and especially for the prospects of the incumbent management. Philips's (2003) fairness-based approach to stakeholder theory envisions a cooperative scheme resting on the balance of stakeholder benefits and obligations. This approach likewise shows the fair treatment of stakeholders to be a precondition for the preservation of the cooperation. The benefits derived by stakeholders, not only in Philips's (2003) argument but also more generally (Agafonow, 2015), obviously take other form than the shareholder wealth maximization dictated by solely economically oriented principles of corporate complexity reduction. Accordingly, to the extent that managers are able to take deliberate efforts to offer these benefits, they operate on an alternative basis that might correspond well with

existent normative and moral structures in the organizational environment. And yet, this resonance with environmental expectations cannot rule out the firm's operational closure and, thus, its selective complexity reduction strategies. If they fail to account for the operational closure of social systems, then even the morally best-founded, sustainability-oriented managerial endeavors will not be sustainable, neither with regard to the system at stake nor with regard to the holders of this stake.

The suggested systems-theoretical interpretation of normativity is not intended to gloss over the fact that to Luhmann, the adequate addressees of normative, moral communication are individual persons rather than systems, and that Heinz von Foerster's (1992) fundamental decision paradox postulates the mutually exclusive nature of moral communication and decision communication (Roth, 2016, 2017). This discrepancy is real but solvable if stakeholder theory is infused with an understanding of how functional differentiation can enhance strategic management (Roth, 2016, 2017). If stakeholder interests are observed against the background of functional differentiation, then the objects of moral appeals might transform into the win-win scenarios of corporations overcoming their bias toward the economic function system and developing genuine multifunctionality, that is, sensitivity to further function systems such as politics, science, and even religion. Furthermore, the Luhmannian perspective makes clear that the realm of stratification often appears as a comfort zone marked by value hierarchies giving rise both to the expectations of value consensus and to the moral expectations toward stakeholders. If stakeholder theorists embrace the idea of functional differentiation, they could go beyond the limits of a more or less edifying value communication that tends to cancel rather than to facilitate decision communication (Roth, 2017). Instead, they would see the key challenge for future stakeholder management in the design of a multifunctionality (Roth, 2016; Will et al., 2017) that is capable of addressing the challenge to strategically manage specific and often conflicting interests of multiple stakeholders (Steenhuisen & van Eeten, 2013; Van Assche et al., 2014).

Concluding Remarks

Niklas Luhmann's theory of social systems is complex enough to admit of multiple and conflicting interpretations. It is true that Luhmann's concept of operational closure, on one hand, and his severe reservations about morality and ethics, on the other, are in apparent accord with the "separation fallacy" adamantly and convincingly criticized by the founders of stakeholder theory. On the face of it, Luhmann's standpoint is not too far away from what Friedman (1970) had to say on corporate social responsibility (CSR). The

present article has argued, however, that the theory of social systems has the potential to go considerably further. The theory accentuates the precariousness of system-environment relations as well as the overwhelming environmental complexity which is unmatched by the processing capacity of any social system and, thus, often experienced as wicked problem or double bind by those who are expected to manage these precarious relationships (Head & Alford, 2015; Mitchell, 2016). These ideas resonate with stakeholder theory's interest in the turbulence of the business environment or the need of nonprofits to balance multi-stakeholder interests, the latter of which is a particularly big challenge as nonprofit leaders often "feel that all stakeholder interests have intrinsic worth" (LeRoux, 2009, p. 180). Furthermore, the scenarios of systemic sustainability deficits derivable from the Luhmannian systems-theoretic framework illuminate the importance, instrumental and normative alike, of the sensitivity of social systems to their environment.

The suggested common ground between the Luhmannian framework and stakeholder theory yields novel insights into some of the theory's key concepts and arguments. If corporation is accepted as the reference social system, then the conceptualization of metabolic system-environment interdependence gives rise to a systems-theoretic justification for the jointness of stakeholder interests, with the trade-off thinking being reflective of the inevitable systemic attributes of operational closure and complexity reduction. This conceptualization makes clear that the sustainability of the corporation, or any other social system, depends on its sensitivity to the respective environment. Furthermore, to the extent that this environment encompasses multiple function systems, the sensitivity of corporations to their environment necessitates the design and management of organizational multifunctionality. In fact, multifunctional organizations have much to gain from social partnerships that strategically cross both economic sectors and the borders to the other function systems of society. In fact, the strategic navigation of particularly the latter inter-functional borders could prove valuable in the context of the recently intensified observation of a blurring of the boundaries between business, government, and nonprofit institutions (Bromley & Meyer, 2017).

In moral terms, the sensitivity to the environment is tantamount to taking account of the consequences of corporate action (cf. Freeman et al., 2010, p. 60), an advice inspired by the Deweyian pragmatist approach to ethics (Jacobs, 2004). Normativity thus emerges as a historically contingent and always precarious bridge between the requirements of systemic sustainability and the functional capacities of complexity reduction and operational closure. Finally, it is worth noting that so far stakeholder theory has been validated along descriptive, instrumental, and normative dimensions. This article opens up a new systems-theoretic dimension that shows stakeholder theory to

be firmly rooted in the reality of the modern functionally differentiated society.

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

ORCID iD

Steffen Roth  <https://orcid.org/0000-0002-8502-601X>

References

- Agafonow, A. (2015). Value creation, value capture, and value devolution: Where do social enterprises stand? *Administration & Society*, 47, 1038-1060. doi:10.1177/0095399714555756
- Banerjee, S. B. (2008). Corporate social responsibility: The good, the bad and the ugly. *Critical Sociology*, 34, 51-79.
- Borzaga, C., Depedri, S., & Tortia, E. (2011). Organisational variety in market economies and the role of co-operative and social enterprises: A plea for economic pluralism. *Journal of Co-Operative Studies*, 44, 19-30.
- Brady, F. N. (1993). Another perspective on private lives, public consequences: Public lives, private consequences. *Journal of Management Inquiry*, 2, 58-60.
- Brady, F. N. (1997). Finding a history for management. *Journal of Management Inquiry*, 6, 160-167.
- Bromley, P., & Meyer, J. W. (2017). "They are all organizations": The cultural roots of blurring between the nonprofit, business, and government sectors. *Administration & Society*, 49, 939-966.
- Churchman, C. W. (1979). *The systems approach*. New York, NY: Dell.
- Churchman, C. W. (1982). *Thought and wisdom*. Seaside, CA: Intersystems.
- Cowling, K., & Sugden, R. (1998). The essence of the modern corporation: Markets, strategic decision-making and the theory of the firm. *Manchester School*, 66, 59-86.
- Davis, K. (1967). Understanding the social responsibility puzzle: What does the businessman owe to society? *Business Horizons*, 10, 45-50.
- Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of Management Review*, 20, 65-91.
- Dunsire, A. (1996). Tipping the balance: Autopoiesis and governance. *Administration & Society*, 28, 299-334.

- Evan, W. M., & Freeman, R. E. (1993). A stakeholder theory of the modern corporation: Kantian capitalism. In T. L. Beauchamp & N. E. Bowie (Eds.), *Ethical theory and business* (pp. 97-106). Englewood Cliffs, NJ: Prentice Hall.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston, MA: Pitman.
- Freeman, R. E. (2010). *Strategic management: A stakeholder approach*. Cambridge, UK: Cambridge University Press.
- Freeman, R. E., Harrison, J. S., & Wicks, A. C. (2007). *Managing for stakeholders: Survival, reputation, and success*. New Haven, CT: Yale University Press.
- Freeman, R. E., Harrosin, J. S., Wicks, A. C., Parmar, B., & de Colle, S. (2010). *Stakeholder theory: The state of the art*. Cambridge, UK: Cambridge University Press.
- Friedman, M. (1962). *Capitalism and freedom*. Chicago, IL: The University of Chicago Press.
- Friedman, M. (1970, September, 13). The social responsibility of business is to increase its profits. *The New York Times*, p. 33.
- Freeman, R. E. (2017). Five challenges to stakeholder theory: A report on research in progress. In D. M. Wasieleski & J. Weber (Eds.) *Stakeholder Management* (pp. 1-20). Bingley: Emerald Publishing Limited.
- Hansmann, H. (1996). *The ownership of enterprise*. Cambridge, UK: Harvard University Press.
- Head, B. W., & Alford, J. (2015). Wicked problems: Implications for public policy and management. *Administration & Society*, 47, 711-739. doi:10.1177/0095399713481601
- Jacobs, D. C. (2004). A pragmatist approach to integrity in business ethics. *Journal of Management Inquiry*, 13, 215-223.
- Jones, T. M., & Wicks, A. C. (1999). Convergent stakeholder theory. *Academy of Management Review*, 24, 206-221.
- Kapp, K. W. (1975). *The social costs of private enterprise*. New York, NY: Schocken Books.
- LeRoux, K. (2009). Managing stakeholder demands: Balancing responsiveness to clients and funding agents in nonprofit social service organizations. *Administration & Society*, 41, 158-184.
- Luhmann, N. (1982). The economy as a social system. In N. Luhmann (Ed.), *The differentiation of society* (pp. 190-225). New York, NY: Columbia University Press.
- Luhmann, N. (1989). *Ecological communication*. Chicago, IL: The University of Chicago Press.
- Luhmann, N. (1990). *Essays on self-reference*. New York, NY: Columbia University Press.
- Luhmann, N. (1992). The code of the moral. *Cardozo Law Review*, 14, 995-1009.
- Luhmann, N. (1995). *Social systems*. Stanford, CA: Stanford University Press.
- Luhmann, N. (1997). Globalization or world society: How to conceive of modern society? *International Review of Sociology*, 7, 67-79.
- Luhmann, N. (2012). *Theory of society: Volume 1*. Palo Alto, CA: Stanford University Press.
- Luhmann, N. (2013a). *Introduction to systems theory*. Cambridge, UK: Polity Press.

- Luhmann, N. (2013b). *Theory of society: Volume 2*. Palo Alto, CA: Stanford University Press.
- Mason, R. O. (1988). Exploration of opportunity costs and consideration exploration of opportunity costs and consideration for future generations: Two lasting contributions to systems thinking. *Systemic Practice and Action Research*, 1, 367-375.
- Mitchell, G. E. (2016). Modalities of managerialism: The “double bind” of normative and instrumental nonprofit management imperatives. *Administration & Society*. Advance online publication. doi:10.1177/0095399716664832
- Nassehi, A. (2005). Organizations as decision machines: Niklas Luhmann’s theory of organized social systems. *The Sociological Review*, 53, 178-191.
- Philips, R. (2003). *Stakeholder theory and organizational ethics*. San Francisco, CA: Berrett-Koehler.
- Post, J. E., Preston, L. E., & Sachs, S. (2002). *Redefining the corporation: Stakeholder management and organizational wealth*. Stanford, CA: Stanford University Press.
- Roth, S. (2009). New for whom? Initial images from the social dimension of innovation. *International Journal of Innovation and Sustainable Development*, 4, 231-252.
- Roth, S. (2014). The things that go without saying: On performative differences between business value communication and communication on business values. *International Journal of Business Performance Management*, 15, 175-191.
- Roth, S. (2015). Free economy! On 3628800 alternatives of and to capitalism. *Journal of Interdisciplinary Economics*, 27, 107-128.
- Roth, S. (2016). Growth and function: A viral research program for next organisations. *International Journal of Technology Management*, 72, 269-309.
- Roth, S. (2017). From added values to augmented realities: Introducing the special issue of management and functional differentiation. *Systems Research and Behavioral Science*, 34, 131-138.
- Roth, S., Clark, C., Trofimov, N., Mkrtichyan, A., Heidingsfelder, M., Appignanesi, L., . . . Kaivo-oja, J. (2017). Futures of a distributed memory. A global brain wave measurement (1800–2000). *Technological Forecasting and Social Change*, 118, 307-323.
- Sacchetti, S., & Sugden, R. (2003). The governance of networks and economic power: The nature and impact of subcontracting relationships. *Journal of Economic Surveys*, 17, 669-692.
- Seidl, D., & Becker, K. H. (2006). Organizations as distinction generating and processing systems: Niklas Luhmann’s contribution to organization studies. *Organization*, 13, 9-35.
- Steenhuisen, B., & van Eeten, M. (2013). Patterns of coping with inconsistent demands in public service delivery. *Administration & Society*, 45, 1130-1157.
- Sulkowski, A. J., Edwards, M., & Freeman, R. E. (2017). Shake your stakeholder: Firms leading engagement to cocreate sustainable value. *Organization & Environment*. Advance online publication. doi:10.1177/1086026617722129
- Thompson, P. B. (2010). *The agrarian vision: Sustainability and environmental ethics*. Lexington, UK: The University Press of Kentucky.
- Thompson, S., & Valentinov, V. (2017). The neglect of society in the theory of the firm: A systems-theory perspective. *Cambridge Journal of Economics*, 41, 1061-1085. doi:10.1093/cje/bew072

- Ulrich, W. (1988). C. West Churchman—75 years. *Systemic Practice and Action Research*, 1, 341-350.
- Valentinov, V. (2014a). The complexity—sustainability trade-off in Niklas Luhmann's social systems theory. *Systems Research and Behavioral Science*, 31, 14-22.
- Valentinov, V. (2014b). K. William Kapp's theory of social costs: A Luhmannian interpretation. *Ecological Economics*, 97, 28-33.
- Valentinov, V. (2015). Value devolution in social enterprises: Institutional economics and systems theory perspectives. *Administration & Society*, 47, 1126-1133.
- Valentinov, V. (2017). The ethics of functional differentiation: Reclaiming morality in Niklas Luhmann's social systems theory. *Journal of Business Ethics*. Advance online publication. doi:10.1007/s10551-017-3521-7
- Van Assche, K., Beunen, R., & Duineveld, M. (2014). Formal/informal dialectics and the self-transformation of spatial planning systems: An exploration. *Administration & Society*, 46, 654-683.
- Van Assche, K., & Verschraegen, G. (2008). The limits of planning: Niklas Luhmann's systems theory and the analysis of planning and planning ambitions. *Planning Theory*, 7, 263-283.
- von Foerster, H. (1992). Ethics and second-order cybernetics. *Cybernetics & Human Knowing*, 1, 9-19.
- Will, M. G., Roth, S., & Valentinov, V. (2017). From nonprofit diversity to organizational multifunctionality: A systems—theoretical proposal. *Administration & Society*. Advance online publication. doi:10.1177/0095399717728093
- Wood, D. J. (1991). Corporate social performance revisited. *Academy of Management Review*, 16, 691-718.

Author Biographies

Vladislav Valentinov is a research associate at the Leibniz Institute of Agricultural Development in Transition Economies in Halle, Germany. He is a member of the Editorial Board of several journals, such as the *Journal of Economic Issues*, *Voluntas*, and *Kybernetes*. He was awarded an associate professorship of the Martin Luther University of Halle-Wittenberg, Germany, in 2017.

Steffen Roth is a full professor of strategic management at the La Rochelle Business School, France, and an honorary full professor of sociology at the Yerevan State University, Armenia. He holds a habilitation in economic and environmental sociology awarded by the Italian Ministry of Education, University, and Research; a PhD in sociology from the University of Geneva; and a PhD in management from the Chemnitz University of Technology. He is an associate editor of *Kybernetes* and Editorial Board member of the *European Journal of International Management*.

Matthias Georg Will is a research associate at the Chair of economic ethics, Martin Luther University of Halle-Wittenberg, Germany. He defended his PhD at the same university in 2015 and was an international visiting scholar at the Robins School of Business, University of Richmond, USA. He is also CEO of the startup IDbreeder.