


Social Goals in the Theory of the Firm: A Systems Theory View

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Vladislav Valentinov^{1,2}, Steffen Roth^{3,4} ,
and Ingo Pies²

Abstract

Drawing on Luhmannian social systems theory, this article revisits the single- versus multiple-objective debate on the theory of the firm. Firms are conceptualized as complexity reducing systems structurally coupled with potentially risky environments, and profit maximization is considered as a complexity reduction strategy for making sense of these environments. Whereas single-objective approaches reflect cases when environmental risks do not materialize into corporate sustainability problems, multiple-objective approaches address these problems by increasing the corporation's environmental responsiveness beyond the profit maximization function. Our systems-theoretic framework therefore identifies the common ground between the two approaches and draws attention to the circumstances under which they can claim validity.

Keywords

Niklas Luhmann, social goals of the firm, systems theory, theory of the firm

¹Leibniz Institute of Agricultural Development in Transition Economics, Halle (Saale), Germany

²Martin-Luther-Universität of Halle-Wittenberg, Germany

³Excelia Group, La Rochelle Business School, France

⁴University of Turku, Finland

Corresponding Author:

Steffen Roth, Department of Strategy, La Rochelle Business School, 102 Rue de Coureilles, 17000 La Rochelle, France.

Email: roths@excelia-group.com

Introduction

Niklas Luhmann's theory of social systems is widely acknowledged to generate powerful implications for public administration scholarship. Luhmann saw modern society as functionally differentiated, that is, decomposed into function systems such as economy, politics, law, science, and others. These systems are highly interdependent, yet mutually incommensurable, with none of them occupying a privileged position of any sort. As each of these systems follows its own imperatives and observes reality from a unique point of view, regulatory failures become as likely as not (Dunsire, 1996, p. 299). In such a setting, a key challenge for administration and governance is ensuring a certain minimally required degree of coordination in the midst of the proliferation of disparate logics and rationalities (van Assche et al., 2014). This challenge is non-trivial for at least three reasons elaborated by Holmström (2005): functional differentiation aggravates the overall conflict between independence and interdependence, results in the transformation of dangers into risks, and is marked by a growing inadequacy of traditional law (Holmström, 2005).

At the same time, public administration scholars have identified a variety of plausible governance strategies that are consistent with the autonomy and self-referentiality of individual function systems (e.g., Dunsire, 1996). Some of these strategies include trust and multifunctional governance (Roth et al., 2019), semantics (Neisig, 2017), and management (Roth, 2019; Roth et al., 2020; Will et al., 2018). Another widely discussed strategy is reflexive law which "seeks to ensure a representation of a plurality of views and to stimulate system-internal reflection and responsiveness to societal needs through procedural forums providing for participation" (Buhmann, 2019, p. 6). The UN Global Compact is an example of a reflexive law instrument aimed at tackling overarching business challenges that go beyond the governance capacity of individual governments and corporations (Buhmann, 2019, p. 13). Holmström (2005, 2007) explains that the evolving governance problems of the functionally differentiated society induce organizations of all kinds to be increasingly concerned with their legitimacy and to develop public relations campaigns intended to favorably influence the public opinion. The list of governance strategies for navigating the regime of functional differentiation is potentially infinite, yet each of them presents a variation on the theme of attaining coordination of autonomous but interdependent social systems.

The purpose of the present article is to connect this Luhmannian theme to an ongoing debate among management and business ethics scholars, and a debate on the proper goals of the business firm (de los Reyes et al., 2017; Donaldson & Walsh, 2015; Heath, 2014; Jones & Felps, 2013a; Lee, 2018;

Mitchell et al., 2016; Pies et al., 2019; Roth et al., 2018; Valentinov et al., 2019; van der Linden & Freeman, 2017). Prominent in the debate are two standpoints known as the single-objective approach and the multiple-objective approach to the theory of the firm (Pies et al., 2019).

The single-objective approach stresses that the firm ought to pursue the goal of long-run profit-maximization. Jensen (2001, p. 10) justifies this approach by suggesting that “it is logically impossible to maximize in more than one dimension at the same time.” Similar concerns were raised by Friedman who objected to the idea of corporate social responsibility on the grounds that managers would lack a principled mechanism of decision-making for engaging in such practices. As a normative stance, the goal of long-run profit maximization registers in Friedman’s maxim that “the social responsibility of business is to increase its profits,” and can be derived from Smith’s (1776) seminal thesis that “consumption is the sole end and purpose of all production.” In contrast, the multiple-objective approach assumes a much greater variability in the legitimate goals of the firm. According to this approach, these goals may include advancing interests of stakeholders other than shareholders; pursuing general welfare rather than private interests; promote sustainability instead of generating negative side-effects; and assume political responsibilities (Pies et al., 2019, p. 2). The firms guided by this approach are supposed to take a multidimensional view of social welfare (Donaldson & Walsh, 2015; Mitchell et al., 2016; van der Linden & Freeman, 2017) and orient their activities toward the creation of “social value” (e.g., Hall et al., 2015), “collective value” (e.g., Donaldson & Walsh, 2015), “stakeholder happiness” (Jones & Felps, 2013b), or “thick valuation” (van der Linden & Freeman, 2017).

On a Luhmannian view, the debate on the goals of the firm attests to the complexity of the governance challenge of attaining the coordination of the autonomous logic of the economic system with the logics of other autonomous functional and social systems on which the former system critically depends. Thus, a Luhmannian view may inform the theory of the firm by presenting the social goals of the firm as a coordination device necessitated by the governance challenges of the regime of functional differentiation. In fact, the new insights enabled by a Luhmannian view may go even deeper. At the hands of Luhmann, systems theory emphasizes the precarious nature of the relationship of social systems, such as corporations, to their societal and natural environment. Accordingly, if the Luhmannian systems theory is accepted as a theoretical platform, there might be room to argue that the normative validity of the social goals of the firm, advocated by the multiple-objective approach, depends on the state of the precariousness of the relevant system–environment relations (cf. Schneider et al., 2017).

This argument is important because it offers a unique opportunity to integrate two discourses widely present in the (business) administration and the society literature, corporate responsibility and corporate sustainability (Bansal & Song, 2017). According to Bansal and Song (2017, p. 105), “responsibility research took a normative position, railing against the amorality of business; sustainability research took a systems perspective, sounding the alarm of business-driven failures in natural systems.” Bansal and Song (2017, p. 105) lament the confusion arising out of the mutual entanglement and blurring of these discourses, and urge for “sharpening the distinctiveness between responsibility and sustainability”. Yet, a Luhmannian view, as elaborated in the present article, will entail a radical integration of the responsibility and sustainability concerns. Based on this integration, the social and multiple goals of the firm can be defended not only from the normative point of view, but also from the point of view of corporate sustainability. Normativity and sustainability will thus turn out to be two functionally equivalent platforms for theorizing about the social purpose of business (cf. Donaldson & Walsh, 2015).

Niklas Luhmann’s theory of social systems is gaining growing recognition in the Anglo-Saxon management literature (cf. Cooren & Seidl, 2020; Hernes & Bakken, 2003; Pies et al., 2014; Rasche & Seidl, 2017; Roth et al., 2018, 2020; Schneider et al., 2017). In the context of the theory of the firm, Luhmann’s idea of the precariousness of system–environment relations is echoed by the wide-ranging explorations of how increasing environmental complexity challenges traditional approaches to the goals of the firm (Bromley & Meyer, 2017; Campbell, 2007; Schneider et al., 2017). For example, Scherer and Palazzo (2007) have long argued that whereas the single-objective approach may be appropriate to the pre-globalized world, globalization presents a secular environmental change requiring that firms take on political responsibilities.

The present article contributes to this literature by anchoring the multiple-objective approach to the theory of the firm in the broader problem setting of governing the functionally differentiated society. Given the proliferation of disparate and incongruent yet interdependent functional logics in the regime of functional differentiation, the single-objective approach may overlook the sustainability risks of those corporations that downplay their critical dependence on the non-economic function systems. The multiple-objective approach, in contrast, accentuates the possibility of minimizing these risks by those corporations that choose to engage in responsible behaviors. It goes without saying, however, that the specific risks and opportunities engendered by each of the approaches depend on the broader spectrum of extant regulatory strategies, which may include reflexive law (Buhmann, 2019) and multifunctional structures (Roth et al., 2018) and semantics (Neisig, 2017), second-order contracting (la Cour & Andersen, 2016), context steering (Willke, 1995), and many others.

The rest of the article is structured as follows. The following section introduces selected elements of the Luhmannian systems-theoretic framework, paying special attention to the notions of precarious system–environment relations and system rationality. On this basis, the subsequent section reconstructs the single- and multiple-objective approaches to the theory of the firm, and develops a platform for their conceptual integration. Crucially, the platform is not intended to buttress any specific side in the involved debates, but rather to enable discourse participants to be more receptive to each other’s arguments. The argument ends with a discussion of how the proposed systems-theoretic understanding of the two approaches to the theory of the firm informs the relevant business ethics literature.

A Systems Theory Framework

Luhmann often characterized his own contribution to systems thinking as falling within the “system-environment paradigm” which presents an alternative to what he called the “part-whole paradigm.” Whereas the latter paradigm is concerned with the orderly and harmonious relations of the parts within the emergent whole, the former one starts from the idea of complexity differentials (Luhmann, 2013, p. 121) and stresses the precarious nature of the relationship of social systems to the overwhelmingly complex and turbulent environment. In the context of the functionally differentiated society, this precariousness is a source of the severe governance challenges posed by the discrepant logics and imperatives of social systems, including both function systems and organizations. From the point of view of individual systems, this challenge calls for the exercise of system rationality which, generally speaking, refers to the capacity of the system to reflect on the nature of its relationship to the outer environment. In the context of the debate on the goals of the firm, this reflection may induce the firm to seek legitimacy by pursuing social or multiple goals, to establish stakeholder dialogues and partnerships, to engage in deliberative discourse, advocacy, or the norm-making processes envisaged by reflexive law. These and numerous other governance strategies will, of course, be influenced by the broader regulatory regimes, social climates, and policy settings. To make full sense of these arrays of strategies, it is essential to recollect why Luhmann took the system–environment relations to be generally precarious.

The Nature of System–environment relations

Luhmann’s (2013, p. 121) point of departure in thinking about social systems is “that the environment is always more complex than the system” and that even the most complex systems, therefore, fall considerably short of what would be

required if these systems were to make full sense of their environment. Thus, social systems cannot but reduce the complexity of their social and natural environment to a format that can be mastered by them. In pointing out the need for complexity reduction, Luhmann was hardly original. Similar ideas were put forward in Herbert Simon's writings on bounded rationality, in Hayek's theory of spontaneous order, and even in Adam Smith's *History of Astronomy* (Thompson & Valentinov, 2017). The distinctive feature of Luhmann's reasoning is that in view of their inevitable need for complexity reduction, social systems come to lead, as it were, an own life, or in Luhmann's words, engage in autopoiesis which defies any steering attempts, whether from outside or from inside (Dunsire, 1996). Moreover, the very mode of complexity reduction that compensates for the system's limited sense-making capacities engenders what Luhmann (2013, p. 121) called "a complexity differential" or complexity gap between systems and their outer environment. This gap indicates that the internal complexity of social systems is inherently inferior to the complexity of their outer environments, an assumption that challenges Ashby's law of requisite variety. Linked to this assumption is another attribute of social systems borrowed by Luhmann from the work of neurophysiologists Maturana and Varela (1980), namely operational closure. Social systems, according to Luhmann, are operationally closed in the sense that they "produce not only their structures, but also the elements of which they consist in the network of these same elements" (Luhmann, 2013, p. 76 et seq.; see also Crozier, 2015, p. 158).

The ideas of complexity reduction and operational closure are quite important for understanding why Luhmann took the system–environment relations to be inherently precarious. Crucially, the attribute of operational closure does not cancel the fact that the systems remain cognitively open to or critically dependent on relationships with their environment. Yet, "(u)nlike theories of 'open' systems, which are premised on society's adaptation to its environment, closed systems are only open to what they construct for themselves, and adapt only in response to what they perceive, internally, to be problems" (Luhmann, 2004, p. 48).

In line with Bansal and Song's (2017) argument about the systemic nature of sustainability problems, commentators on Luhmann have shown these problems to arise out of the combination of the systemic attributes of openness and operational closure (e.g., Roth, 2019; Valentinov, 2014). As argued by Valentinov (2014, p. 14), "the growing systemic complexity entails the increasing risk that systems develop insensitivity to those environmental conditions on which they critically depend," for the reason that the complexity reduction might render systems unable to register a large chunk of the environmental events which are nevertheless relevant for their own sustainability, and even sheer survival (cf. Edwards et al., 2018).

The types of social systems in which Luhmann took central interest are organizations on one hand and function systems on the other, such as economy, science, law, or politics. The types of social systems of central concern to the business ethics scholarship typically are the function system of the economy and the organization of the business firm. Each of these types of systems is marked by a precarious relationship to the societal environment. By pointing out this precariousness, the Luhmannian systems theory offers fresh insights into why “business as an institution, and business professionals as a group—in spite of the central, indispensable economic function they carry out—are so thoroughly suspect in the public eye [, as well as why d]uring much of the 20th century, business and society have existed in a state of tension and conflict” (Frederick, 1995, p. 5ff.). Even though Luhmann himself held a reserved attitude toward business ethics and moral philosophy, he did note that his systems-theoretic ideas throw important sidelights on the origins of the modern ecological crisis as one example of the precariousness of system–environment relations (cf. Luhmann, 1989). Once this example of precariousness is granted, it is hardly a stretch to extend it to the case of functional differentiation as a whole. As Holmström (2005, p. 498) rightly argued,

[T]he monofunctional specialization has evolved to an extent where the self-centered [function] systems strain each other as well as society’s environment [in such a way as to produce] . . . pollution, destruction of the rain forests, stress and oppression of human rights.

The Nature of Rationality

If system–environment relations are essentially precarious, is there any reason to hope that social systems may sustain themselves for non-trivial lengths of time? Luhmann was not entirely pessimistic about that, and linked the respective hopes with the idea of system rationality which can be taken to mean “exposing a distinction . . . between system and environment, to reality and testing it against reality” (Luhmann, 2012, p. 108). In other words, rationality allows social systems to take environmental conditions into account while remaining operationally closed. Luhmann (2012, p. 106) explained that the operation of any social system

requires a distinction to be drawn between self-reference and other-reference, which can then be ‘objectivized’ to a distinction between system and environment. The system can always connect its own operations only to its operations, but it can obtain directive information either from itself or its environment.

System rationality rests on “self-correction” and “self-accusation mechanisms” which allow for a “careful generalization” of the representation of the environment constructed by the system (Luhmann, 2018, p. 382f.). Self-correction requires second-order observation which can detect the blind spots of the first-order observation, even though it has such spots of its own.

Another important building block for understanding the nature of system rationality is the distinction between the modes of systemic self-reference such as basal self-referentiality, reflexivity and reflection (Luhmann, 1995). Attaining system rationality calls for the highest mode, reflection. Holmström (2007, p. 256) explains that

reflexivity implies a mono-contextual, narcissistic perspective from within, from where the [system] takes its own worldview for given, takes what it sees to be the one reality, the only truth—and consequently conflicts blindly with different worldviews. In *reflection*, the perspective rises to a higher level which facilitates a poly-contextual worldview.

Neisig (2017) suggests that the capacity of second-order observation and reflection allows social systems to reach higher levels of internal complexity. The higher levels of complexity are generally attainable by systems relying on power rather than coercion (Neisig, 2017); power, however, implies the capacity to practice second-order observation and reflection, and thus, the capacity to assume responsibility (Neisig, 2017).

These capacities become vital in the regime of functional differentiation which is populated by operationally closed and mutually incommensurate function systems. Holmström (2007, p. 257) notes that this regime not only continually generates unintended side-effects, such as ecological and humanitarian crises, but also encompasses observational perspectives which facilitate what Luhmann (2018, p. 382) called self-correction and self-accusation. Prominent among these is “the public perspective [which] questions the contingency of otherwise taken-for-granted social filters” (Holmström, 2007, p. 257). The public perspective is condensed into the public opinion which Bowen (1953, p. 105) took to be a major driver of business ethics. No less relevant to business are the observational perspectives of fear, morals, and protest (Holmström, 2007, p. 257). These perspectives explain why turbulent shifts in the dynamics of functional differentiation may undermine confidence and create the atmosphere of distrust (Neisig, 2017). However, function systems may regain confidence by practicing reflection as an advanced mode of self-reference, to adjust their “inner representations of the environment” (Neisig, 2017, p. 167).

Luhmann's notion of rationality pertains to the level of social systems rather than to the level of individual action. Drawing on Luhmann's theory of system rationality, Fuchs (2001) derived interesting implications for an action-theoretic view of rationality. On this view, human actions can be taken to be rational when they involve "deliberate choices from a set of options" in such a way as to "achieve a given goal in the most effective and efficient way" (Fuchs, 2001, p. 112). The action-theoretic understanding of rationality is sufficiently broad and seems to do justice to the understanding of human rationality by economists. The crucial innovation of the Luhmannian theory, however, is seeing rationality to be predicated on a certain favorable regime of system–environment relations. As Fuchs (p. 114) explains, "action rationality requires rational social orders, since only rational orders can create a predictable and accountable legal-political environment in which markets can prosper . . . Rationality thrives within protected and pacified environments." In other words, from an action-theoretic point of view applicable to both corporations and individual decision-makers, rationality presents an essential complexity reduction strategy resting on the assumption that the major institutional dimensions of the environment are sufficiently stable, safe, transparent, and predictable.

Interestingly, Fuchs (2001, p. 113) averred that action "rationality decreases when actions . . . produce unintended effects." The understanding of rationality in this statement diverges from an economic point of view according to which it is rational for a corporation to take into account the side-effects that it can generate, at least in the long term, just as it is rational for the government to adopt regulatory measures directed at the internalization of these side-effects. In contrast, the Fuchsian action-theoretic rendering of the Luhmannian systems theory suggests that if corporate activities generate unintended negative side-effects on external or internal stakeholders, they cannot be taken to be rational. To an observer of these side-effects, the lack of rationality is evidenced by the very observation of these side-effects. This conclusion puts into perspective some of the arguments proposed by the critics of the social and multiple goals of the firm who tend to assume that the multiplicity of firm's goals undermines the rationality of managerial decision making (Heath, 2014; Jensen, 2001; Sundaram & Inkpen, 2004). For example, in a recent study, Song et al. (2020, p. 27) found that the "existence of ambiguous goals and having multiple priorities can make managers risk-averse and result in the lack of focus in searching and selecting new ideas." The systems-theoretic reasoning would not dispute this point but would indicate that the multiplicity of goals and the generation of negative side-effects are two functionally equivalent observations of undermined rationality.

Implications

Luhmann's theory of system–environment relations explains not only why these relations are inherently precarious but also why this precariousness does not result in the immediate disintegration of social systems. According to Luhmann, social systems can remain sustainable and navigate the exceedingly complex environment by developing and adjusting the inner representations of the latter. Developing these representations brings confidence allowing systems to unfold their internal complexity, while adjusting them is a matter of system rationality. In Luhmann's work, the notion of rationality does the subtle work of reconciling the constructivist outlook with a view of systems being genuine sensitive to their environment which paradoxically presents their own construction. He explained that

when under pressure to select, the system prefers to synchronize itself with itself, but can do so in forms that are more or less sensitive to the environment . . . What counts as environment is only what can be shaped by the organization. (Luhmann, 2018, p. 129)

In the context of the theory of the firm, the lack of systemic sensitivity to the environment is the reason for the tendency of real-world firms to generate side-effects negatively affecting the societal and natural environment (Roth et al., 2020, p. 57). These side-effects generate business legitimacy problems which provide a crucial justification for the social goals of the firm.

Revisiting the Theory of the Firm

At the heart of the debate between single- and multiple-objective approaches to the theory of the firm is the implicit vision of the precarious relationship of the firm to its outer societal and natural environment. Luhmann's work makes clear that this precariousness is not at all unique to the firm or to the economic system; rather, it is an implication of the ideas of operational closure and complexity reduction. The precariousness of system–environment relations takes particularly dramatic forms in the regime of functional differentiation. Yet, while systems theorists and public administration scholars have done considerable work on the governance and regulation implications of functional differentiation, many of these implications go beyond the scope of the debates on the theory of the firm, which are focused on a specific function system, viz., the economy, and a specific type of organization, viz., the firm. But some implications are quite salient. Most importantly, it is clear that the function systems of law and politics do not have sufficient capacity to react to the full extent of the precariousness and turbulence of business–society

relations. This means that the legitimacy of specific firms cannot be considered to be automatically present. Instead, firms must take deliberate efforts to secure their legitimacy or “license to operate.” Holmström (2007) explains that “when decisions are no longer seen as based in necessity and natural norms, organizations are continually pressurized . . . to legitimize decisions and their underlying rationales. Relations are no longer mediated by passive confidence, but by active trust which partly relies on random ‘trust checks’ by the mass media.” By seeking legitimacy, firms may develop greater sensitivity to their societal and natural environment. From a systems-theoretic point of view, this sensitivity is expressed in the social goals of the firm.

Understanding the Single-Objective Approach

In the context of the theory of the firm, profit maximization can be supposed to present the premier complexity reduction strategy underpinning the decision-making by corporate managers. This supposition is justified by Luhmann’s (1994, p. 91) view of markets as the internal environment of the economic function system. Given the logical association of markets with the idea of profit maximization, profit maximization may be seen as a complexity reduction strategy which is particularly well suited to this environment. According to the advocates of the single-objective approach to the theory of the firm, if long-run profit maximization is indeed to operate this way, it must be the sole objective of the firm (McWilliams & Siegel, 2001; Siegel, 2009). Considered as a form of action rationality in the sense of Fuchs (2001), profit maximization provides guidance for decision-makers. Any other corporate goal, such as the goals endorsed by stakeholder theory, must fall short of delivering the guidance function. In Jensen’s (2001, p. 9) clear and emphatic words, “without the clarity of mission provided by a single-valued objective function, companies embracing stakeholder theory will experience managerial confusion, conflict, inefficiency, and perhaps even competitive failure” (cf. Heath, 2014; Marcoux, 2000; Sundaram & Inkpen, 2004). The function of providing guidance is critically important in view of the fact the decision-makers can be easily overwhelmed by the amount of information they need to process to make informed decisions. In view of the complexity gap emphasized by Luhmann, processing this information requires complexity reduction, which, in the decision-making context, translates into the idea of economic rationality.

The argument that profit maximization presents a suitable complexity reduction strategy for navigating the economic function system can be specified further. Profit maximization is coherent with the operation of product and capital markets. With regard to product markets, economic rationality

embodied in the postulate of profit maximization is believed to serve consumer interests. In its general form, this idea goes back to Adam Smith's invisible hand metaphor. With regard to capital markets, profit maximization as a corporate goal is attractive to stockholders and thus secures the major source of corporate finance. Taken together, both arguments lead to the view that managers are obligated to prioritize profit maximization in the interest of stockholders for ultimately social reasons of overall market performance (Friedman, 1970). Moreover, managers' job markets can also play a role, for "moral managers," as described by Boatright (1999), may have a harder time finding future employment than "hard-headed, business-savvy decision-makers" (Boatright, 1999, p. 585). The crucial point is that the rejection of prioritizing social goals does not indicate the denial of the social and ecological problems that may be caused by the economic system. According to the single-objective point of view, such problems may well exist but should be addressed by public regulation and institutional reforms which shape what Friedman (1970) called "the rules of the game."

It seems that Friedman's (1970) argument is reposed on the implicit assumption that "the rules of the game" (Friedman, 1970) can cover every possible eventuality that may be caused by the economic function system in the societal environment. The Luhmannian vision of the precariousness of system-environment relations however does not support this assumption, for the environmental complexity is supposed to go far beyond the limits of what any function system, including the political system, can register. Considered apart from its systems-theoretic framing, the latter argument likely strikes a chord with a number of prominent arguments in the contemporary business ethics literature. Jones and Felps (2013) are explicitly skeptical about the problem-solving potential of any attempts to reform "the rules of the game." As they put it, "sufficient reform of the institutions surrounding the [shareholder wealth maximization] mandate would be a truly daunting task for both political (corporate political power) and conceptual ("theory of the second best") reasons" (Jones & Felps, 2013a, p. 227). Perhaps at an even more basic level, Freeman et al. (2010, p. xv) challenged "the mainstream view of shareholder capitalism," and by implication, the single-objective approach, as being inadequate to the highly turbulent business environment (cf. Freeman, 1984, p. 27; Freeman et al., 2010, p. 3; Ramus et al., 2018).

From the systems-theoretic vantage point, the optimistic vision of "the rules of game" in the single-objective approach translates into the assumption of the "predictable and accountable legal-political environment in which markets can prosper" (Fuchs, 2001, p. 114). To remind, from this vantage point, action "rationality thrives within protected and pacified environments" (Fuchs, 2001), whereas it "appears shakier as uncertainty and turbulence

disturb the familiar routines” (Fuchs, 2001, p. 137). Thus, on one hand, the systems theory framework lends credence to the concerns that the turbulence of the business environment may exceed the absorptive capacity of institutional reforms as problem-solving strategies (cf. Garst et al., 2019; Smith, 2019). On the other hand, the framework is in-line with the normative defense of the single-objective approach to the theory of the firm, once this defense is clearly couched in terms of the coherence of profit maximization with the operation of the economic function system. While affirming this coherence, the systems theory framework does assume that “the rules of the game” cannot be extended to cover every aspect of the turbulence and complexity of the societal environment.

At the same time it is useful to keep in mind the distinction between the action-theoretic view of rationality advanced by Fuchs (2001) and the systemic view proposed by Luhmann (e.g., 2018), even though Fuchs clearly based his action-theoretic view on Luhmann’s work. On the action-theoretic view, the limited capacity of “the rules of the game” to do justice to the full extent of the precariousness of system–environment relations seems to suggest that the moral burden carried by managers must be correspondingly increased, with this increase taking the institutional form of the social goals of the firm theorized by the multiple-objective approach. In contrast, taking Luhmann’s systemic view of rationality as a point of departure, the limits of “the rules of the game” can be seen to give rise to novel forms of governance in the functionally differentiated society. One of these forms is reflexive law which gives primacy to the self-regulation efforts of corporations in view of the limited regulatory capacity of both the public sector and the traditional law (Buhmann, 2019). Other prominent examples include the deliberate pursuit of organizational legitimacy (Holmström, 2007) and the development of multifunctional semantics (Neisig, 2017) and business (Roth et al., 2018) or governance models (Roth et al., 2019). While the list of such forms of governance can be continued, they share a common feature of activating reflection as superior mode of self-reference in order to facilitate organizational learning and adaptation to their societal environment (cf. Neisig, 2017). Clearly, the two views of rationality, action-theoretic and systemic, are interrelated, such that the adjustments of managerial behavior unfold their full meaning only against the backdrop of the activated reflection of corporations as social systems seeking to secure their legitimacy. Until now, however, the debate between the single- and multiple-objective approaches to the firm has tended to be framed by the action-theoretic view of rationality which gives emphasis to the moral impacts and implications of managerial behavior. A crucial contribution of systems theory is to call attention to systemic realities that make these impacts and implications possible and meaningful.

Understanding the Multiple-Objective Approach

What happens if the complexity and turbulence of the societal environment defy the codification capacity of the economic function system? In this case, the rationality postulated by the single-objective approach to the theory of the firm is of little help to managers who need guidance and orientation to make sense of their highly involved circumstances. Whereas the multiple-objective approach to the theory of the firm is often advocated on normative grounds (cf. Donaldson & Preston, 1995; Hahn et al., 2010; Jones & Felps, 2013a; Mitchell et al., 2016; Scherer & Palazzo, 2011; Smith, 2019), it is no less useful in providing guidance to managers, even though this guidance function is questioned by the proponents of the single-objective approach. Yet, the fact that normativity can provide guidance is hardly deniable. According to Mitchell et al. (2016), if social welfare is multidimensional and pluralistic, it cannot be attained by managers guided by any single-valued corporate objective. Nor do these authors deem it necessary to assume that managers require single-valued guidance (Mitchell et al., 2016). People are generally able to practice “holistic decision-making” to deal with trade-offs between different and multiple goals, and it would not be reasonable to deny this ability to managers (Mitchell et al., 2016). Thus, Mitchell et al. (2016) believe that decision-making guided by multiple objectives can still be rational. van der Linden and Freeman (2017) likewise argue that any decision-making, also in the profit maximizing context, “involves the simultaneous consideration of different kinds of value.” They refer to this consideration as “thick evaluation” which is implicitly contained in profit maximization just as in any other type of decision making. At this fundamental level of analysis, the authors show that there is simply no way to avoid dealing with multiple values, and that the needed guidance is provided by normativity.

Whereas normativity has tended to be a somewhat contentious element of stakeholder theory, it is normative stakeholder theory that provides a crucial source of support for the multiple-objective approach to the theory of the firm (Freeman et al., 2010, p. 213 et seq.; Mitchell et al., 2016). Jones and Felps (2013, p. 351) see the core idea of the normative stakeholder theory in the statement that “corporate managers should consider the interests of constituent groups who contribute to the firm’s existence in their decision making processes.” The authors enrich the wide array of the existing normative arguments with the neo-utilitarian proposal that corporate managers should be guided by the goal of enhancing stakeholder happiness (Jones & Felps, 2013a). Regardless of the individual merits of each of these normative arguments, the Luhmannian systems-theoretic framework can be taken to imply a certain metaethical standpoint on their functional significance for the social systems in question. van der Linden and Freeman (2017) see, for example,

this significance in the provision of narratives of how to engage with stakeholders. Refusing to see normative rationales as the foundations for decisions, the authors interpret them instead as instruments for making sense of moral reasons. The systems-theoretic standpoint is different. Given that the rationality and the complexity reduction function of the economic function system are not sufficient to secure its sustainability in the exceedingly complex and turbulent societal environment, this task is assumed by normativity (cf. Valentinov and Hajdu, 2019; Valentinov et al., 2019). Different normative arguments can thus be taken to reflect different constituents of the metabolic dependence of this system on its societal environment, given that the full range of this dependence goes beyond the limits of rationality and complexity reduction.

If this systems-theoretic interpretation of normativity is correct, then it follows that the managerial sense-making about the environmental dependencies may often require not only profit maximization but also moral judgments, or “holistic decision-making” (Mitchell et al., 2016), or “thick evaluation” (van der Linden & Freeman, 2017). Exotic as they are, these and similar concepts have been foreshadowed by the early work of Frank Knight (1921) on entrepreneurial judgment and of Chester Barnard (1938) on the non-logical mental processes involved in the managerial efforts to reconcile the irreconcilable dimensions of corporate activities. An important modern argument falling along these lines is Hill and Jones’ (1992) stakeholder-agency view of corporations, which are imagined as quasi-markets within which different stakeholders engage in a wide diverse array of win–win interactions to realize their unique representations of welfare. Corporations present suitable venues for such interactions precisely because they can avoid the narrow codification limits imposed by forms of economic rationality or by single-valued corporate objective functions. Moreover, on a systems-theoretic view, any given corporate goal, including a social one, presents a complexity reduction strategy which, if taken to the limit, may put corporate sustainability at risk.

It is noteworthy that this argument is not only about business ethics. It sheds novel light on the foundational issue of the nature of the firm going back to Coase (1937). As Hendry (2004, p. 30 et seq.) put it,

once the purpose and priorities of the company are determined, allocating economic resources between rival projects needs little in the way of management. Market structures can do that pretty well. But determining purpose and priorities is essentially a matter of values

and thus admits of no substitution by the market mechanism. Thus, seen in a systems-theoretic light, the debate between the single-objective and multiple-objective approaches suggests that the very *raison d’être* of the firm as a distinct

Table 1. Ten Potentially Conflicting Assessments of the Im-/Morality or Ir-/Rationality of a Decision.

	Politics	Economy	Science	Religion	Art	Legal	Sport	Health	Education	Media
Good/ rational	1	1	1	0	0	0	0	0	0	0
Bad/ irrational	0	0	1	1	0	0	1	1	1	1

governance structure can be related to the exercise of the non-logical processes, moral judgments, holistic decision-making, and thick evaluation, each of which would have been more difficult outside the firm than within it.

Furthermore, the multiple-objective approach to the theory of the firm can be usefully informed by the systems-theoretic insight that, in contrast to the stratified medieval society, the modern society is characterized by the primacy of functional differentiation. This implies the absence of predefined hierarchies of rational reasons or moral values. In a functionally differentiated society, it is therefore critical to first check the function system reference of a rational or moral decision before it comes to the assessment of the rationality or the morality of that decision. Take the example of the implementation of the managerialization of the public health sector (see, e.g., Reay & Hinings, 2009). Supported by a look at Table 1, it is easy to see that the proliferation of business principles in public health care organizations may be observed from a diverse set of potentially conflicting and yet equally legitimate perspectives.

Table 1 is made of one column for each of the 10 function systems and two rows referring to judgments pertaining to the morality or rationality of an issue. As in the case of the political column, a “1” in the “good/rational” cell and a “0” in the “bad/irrational” cell mean that a given event is considered good or rational from a political point of view. By contrast, a “1” in both cells of each column would indicate ambivalence and a “0” in each of the cells indifference. The purpose of Table 1 is hence to demonstrate that different observers, or even one and the same observer, may observe that an issue like managerialized public health care organizations is, simultaneously, politically endorsed (politically good or rational) and cost efficient (economically good or rational) on one hand and at odds with the Hippocratic Oath (medically bad or irrational) and unchristian (religiously bad or irrational) on the other hand. From a scientific perspective, the issue might also appear as both good/rational and bad/irrational at the same time, whereas it constitutes a matter of indifference from a legal or artistic perspective. The idea of functional differentiation, therefore, constitutes a double-challenge for the

discourse on single-/double-objective approaches to the theory of the firm. On one hand, Table 1 makes it clear that too narrow a focus on only economic (and probably also legal) issues is likely to cause a broad range of sustainability issues both for the corporation and its social and natural environment. On the other hand, it is equally clear that proponents of the multiple-objective approach can no longer conveniently resort to ultimate rationalities, universal values, or default (i.e., often political) stakeholder or subculture interests for it is impossible to claim that, for example, political rationalities are per se more important than economic rationalities, or educational values more important than religious values, forever and everywhere.

Putting the Two Approaches Together

The Luhmannian systems-theoretic framework provides a platform for identifying both commonalities and differences between the single-objective and multiple-objective approaches to the theory of the firm. Both approaches converge in recognizing the need for complexity reduction which must help managers to make sense of the highly complex world. This complexity reduction may take the form of long-run profit maximization. The single-objective approach assumes that long-run profit maximization will not generate business–society tensions that are so severe as to be irresolvable by public regulation and other institutional instruments. This assumption reflects the belief in what Fuchs (2001, p. 114) has called “protected and pacified environment.” The multiple-objective approach rejects this assumption. Drawing attention to the overwhelming complexity and turbulence of the societal and natural environment, this approach believes long-run profit maximization to be a precarious form of complexity reduction that puts at risk the sustainability of both corporations and the modern society as a whole. Accordingly, this approach urges for making the profit maximization-based complexity reduction less restrictive by incorporating more social ingredients into the corporate goals. Rudimentary as it is, this simple comparison nevertheless shows that the two approaches merely assume different types of environment and thus presuppose different regimes of the precariousness of system–environment relations. Whereas the single-objective approach assumes the environment to be “protected and pacified” (Fuchs, 2001, p. 114), its contender makes a less optimistic assumption.

Which one of these assumptions is correct? The value and originality of the Luhmannian systems-theoretic framework is in rendering this very question superfluous. To Luhmann, the environment is infinitely complex and therefore the perfect horizon for the observation of an indefinite number of heterogeneous systems. As much as the observation of environments within systems,

the observation of systems in the environment is the result of “system differentiation as the reduplication of the difference between system and environment within systems” (Luhmann, 1977, p. 31). The only difference is that in the former case one observes a self-referential and in the latter case a hetero-referential application of the system–environment distinction. As a result, one finds that after only one reduplication of the system–environment distinction, one can now observe not only systems and environments, but also systems–internal environments and systems in the environment of systems.

In looking at systems in the environment of a corporate system, there is now nothing in the Luhmannian conceptual setting that prevents some of these systems from being considered “protected and pacified” (Fuchs, 2001, p. 114) and the other ones from being highly risky and precarious. To the contrary, it seems a logical implication of this setting that both types of systems must be assumed to coexist. It is no less plausible to join Luhmann (1999) in conjecturing that this coexistence will not necessarily be harmonious for the social systems concerned. He discerned that in the modern Western society, many corporate goals are geared to the environmental segment which encompasses the secure regime of property rights and the generalized problem-solving media, such as money (Luhmann, 1999, p. 202). The corporate environment however includes many other systems which are discrepant with these corporate goals in such a way as to cause sustainability problems, for corporations themselves as well as for the society as a whole. Luhmann referred to these corporate goals, therefore, as being “overspecified” relative to a specific system or set of systems, respectively, in their environment. And yet, the possibility of this overspecification does not mean that corporations or any other types of social systems are doomed. In principle, social systems may restrain their activities to those systems in the environment to which they are sufficiently responsive. More generally speaking, they may adjust the range of their activities to different modalities of their responsiveness to different fragments of environment in such a way as not to put their sustainability on the line. The systems-theoretic idea of system–environment relations is very inclusive and can conceptually accommodate these variations (Valentinov et al., 2019; Will et al., 2018).

Whereas the systems-theoretic framework is highly abstract, the business ethics context requires differentiating between the two basic cases of inadequate systemic responsiveness to the turbulent and complex environment. One case is stressed by much of the modern business ethics literature, and especially by stakeholder theory, which assume a certain environmental segment to be closely and intimately known to corporate managers and other decision-makers. This is the segment of informal relationships whose complexity goes beyond the codification limits of formal institutions (van Assche et al., 2014).

This case is exemplified by holistic decision-making and thick evaluation involved, for example, in stakeholder relationships. These are some of the contexts in which work-to-rule amounts to industrial sabotage (cf. Thompson & Valentinov, 2017), and in which intrinsic motivation can be crowded out by formal governance instruments resting on extrinsic incentives. These contexts are marked by the prominence of trust, loyalty, and human relationships. The other case is when the environment is unknown. Corporate activities are assumed to unintentionally and inadvertently produce unintended negative effects, such as environmental pollution. The problem in this case is that the formal institutional framework of corporate activity does not do justice to the complexity of social and ecological interdependences in the modern society. It is evidently this problem that motivated John Maurice Clark (1916/2009, p. 70) to characterize *laissez-faire* as “economics of irresponsibility.” Again, the idea of system–environment relations, in view of the potentially infinite complexity and heterogeneity of the environment, is sufficiently inclusive to accommodate these two cases. In the first case, the systems-theoretic framework agrees that management should not be denied the general capacity for thick evaluation and moral holistic decision-making which may infuse corporate goals with social ingredients. In the second case, the framework concurs with authors as diverse as Boatright (1999), Pies et al. (2014), Heath (2014), and de los Reyes et al. (2017) who stress the need for institutional reforms aimed at making corporations more responsive to their societal and natural environment.

On reflection, the ability of the systems-theoretic framework to accommodate the arguments of both the single-objective and the multiple-objective approaches is no different from the ability of the conceptual apparatus of the modern new institutional economics to accommodate the distinct justifications for the use of market and hierarchical governance. Consider the way in which Oliver Williamson, one of the modern founders of transaction cost theory, compared the seemingly opposite views of Friedrich von Hayek (1945) and Chester Barnard (1938) on “adaptation as the central economic problem” (Williamson, 1996, p. 101). von Hayek’s (p. 524) well-known standpoint is that “the economic problem of society is one of rapid adaptation in the particular circumstances of time and place,” with the price system being “an extraordinarily efficient” (Williamson, 1996, p. 101) adaptation device. Barnard, in contrast, was concerned with adaptation within an organization (Williamson, 1996). Characteristically, this adaptation calls for “that kind of adaptation among men that is conscious, deliberate, purposeful” (Barnard, 1938, p. 4).

Despite the fact that the arguments of Hayek and Barnard run in opposite directions, Williamson argued that

both Hayek and Barnard are correct, because they are referring to adaptations of different kinds, both of which are needed in a high-performance system. The adaptations to which Hayek refers are those for which prices serve as sufficient statistics . . . This is the neoclassical ideal in which consumers and producers respond independently to parametric price changes so as to maximize their utility and profits, respectively. That would entirely suffice if all disturbances were of that kind. Some disturbances, however, require coordinated responses, lest the individual parts operate at cross-purposes or otherwise suboptimize. (Williamson, 1996, p. 102)

It seems that a similar reasoning can shed light on the relationship between the single-objective and multiple-objective approaches. Just as market and hierarchical governance are justified in reference to the two types of economic adaptation, the two approaches are justified in terms of two types of systems in the environment that must be dealt with by corporations. From the systems-theoretic vantage point, there is no more contradiction between the two approaches than there is between the concepts of market and hierarchy in the new institutional economics.

Business Ethics Implications

Niklas Luhmann (e.g., 2012) is known for his highly reserved attitude to morality and to what he called “moral communication” which is concerned with the moral approval and disapproval of specific individuals. Luhmann thought that the moral assessment of individual virtues or the lack thereof makes little sense if the underlying problems are structural rather than individual (cf. Valentinov et al., 2019). For this reason, moral communication is more likely to provoke conflicts than to solve problems. Yet, at least some Luhmann’s followers discern the potential of the Luhmannian theory to illuminate the persisting business–society tensions. In this vein, Valentinov (2019) suggested that the system-theoretic meaning of morality can be associated with the sustainability of social systems, such as corporations, whereas Holmström (2005, p. 498) argued that “the conflict between the independence and interdependence” of individual function systems “manifests itself as attacks on organizational legitimacy.” The suggested systems-theoretic approach to social goals of the firm accords with these interpretations and indeed assumes social goals to contribute to both sustainability and legitimacy of corporations embedded in a highly turbulent environment. Moreover, the suggested approach not only dislodges the opposition between the single- and multiple-objective approaches to the theory of the firm, but, as shown below, even potentially informs the ongoing business ethics debates about the situation of managers who may be required to make difficult decisions.

Revisiting Organizational Decision-Making

Luhmann considered formal organizations to be social systems consisting of decisions as a special type of communication (Marent et al., 2015; Will et al., 2018). As Fuchs (2001, p. 130) explains, decision

is a . . . means for observing organizational causality, and for allocating praise and blame. Organizations use this observational and attributional device to carry out their business. They cannot do their work unless they can observe where decisions are being made.

Thus, organizational happenings are attributed to decisions which accordingly present a premier object of managerial responsibility. Crucially, this responsibility becomes particularly salient in the turbulent business environment. In the words of Fuchs (2001, p. 136), “as risk and uncertainty overload rules and capacities for [action] rationality, discretionary judgment and ‘personal knowledge’ appear.” The growing role of discretionary managerial decision making however does not prevent organizations from behaving “in a more disorderly way when dealing with high uncertainty and controversy. They probably behave more rationally and bureaucratically when working on well-defined and routine tasks within a stable or stabilized environment” (Fuchs, 2001). For example, in terms of Carroll’s (1991) seminal CSR pyramid, it may be supposed that the philanthropic and ethical corporate responsibilities are more discretionary than the legal and economic ones (cf. Schwartz & Carroll, 2003). In the systems-theoretic framework, this means that the former two responsibilities are specifically geared to navigating the business environment that is marked by high turbulence, risk, and uncertainty (cf. Freeman et al., 2010, p. 3). Evidently, there are no blueprints, routines, or rational rules for making discretionary decisions about ethical and philanthropic activities, for the decisions would not be discretionary otherwise.

Systems theory makes no predictions regarding how managers will practically deal with their responsibility, especially for those decisions that are highly discretionary. In practice, managers may not be aware of many sustainability risks to which their companies are exposed. Even if they are aware, they may hang on to the precarious profit maximizing strategies, for reasons ranging from short-termism (Souder & Bromiley, 2012) to “bad management theories” (Ghoshal, 2005) and group think (Burt, 2004). As human individuals, managers present, in Luhmannian terms “consciousness systems” that are no less operationally closed to their outer environment than corporations. If managerial behavior remains unresponsive to the requirements of the carrying capacity of their environments, systems theory predicts that the corporate sustainability risks will likely increase (cf. Wood et al., 2018).

At the same time, whereas systems theory does preclude any sort of automatic sensitivity of managers to the sustainability problems of their corporations, it does not exclude the possibility that some managers may be alert to some of these problems which will be possibly experienced by them as moral dilemmas. Faced with these dilemmas, managers are often called upon to follow what Boatright (1999, p. 584) called the “Moral Manager Model,” that is, to “actively include moral considerations in business decision making,” thereby taking individual responsibility for meeting the ethical and philanthropic corporate responsibilities identified by Carroll (1991). Yet, if the underlying problems are systemic rather than individual, the moral burden imposed by the “Moral Manager Model” on individual managers may be exorbitant. The “Moral Market Model,” suggested by Boatright (1999, p. 587) as an alternative, “does not dismiss individual responsibility as unimportant but stresses the importance of role responsibility in economic organizations,” thereby endorsing a system of formal institutions “that minimizes individual discretion and favors rules” (Boatright, 1999). The crucial advantage of the “Moral Market Model” is that it would not require individual managers, as well as individual corporations, to incur sacrifices that would undermine their competitive standing in the respective markets (Heath, 2014; Pies et al., 2014). This is a highly significant point in view of the systems-theoretic understanding of free will as the

variable amounts of elbow room and discretion granted by various social structures. Discretion is a variable, from operators on an assembly line to charismatic genius. The assembly line tries to curb free will; the genius exemplifies its most awesome mystique. (Fuchs, 2001, p. 116)

Evidently, the pressures of market competition might suppress, if not fully eliminate (Bowen, 1953, p. 110ff.), the “amounts of elbow room and discretion” (Fuchs, 2001, p. 116) available to individual managers. Whereas the setting of individual moral dilemmas, and perhaps of Carroll’s CSR pyramid, assumes these amounts to be substantial or even unlimited, the setting of competition assumes the opposite (Kitzmueller & Shimshack, 2012; Lyon & Maxwell, 2008; Schreck et al., 2013).

The Role of Second-Order Observation

Fortunately, the systems-theoretic framework does seem to offer guidance, if only quite abstract, to those managers who are sandwiched between the conflicting settings of Boatright’s (1999) two models, provided that the managers are willing and able to act responsibly. This guidance rests on Luhmann’s

conceptual distinction between first-order and second-order observations, the latter of which undergirds reflection as a superior mode of self-reference in contrast to reflexivity. Put briefly, each observation has a blind spot which it cannot detect and overcome, but which can be detected by a different (second-order) observation which does however have its own blind spot (albeit a different one). As Fuchs (2001, p. 27) usefully explains, “first-level modes of observing and experience turn into second-level themes or topics. But this second-level cannot do without its own ‘hows,’ that which *it* takes for granted when it observes what it observes. These ‘hows’ remain invisible and taken for granted at this level as well; they are its own common sense.” Moreover, the systems-theoretic framework may be able to “predict when levels of observation will be switched, when the ‘what’ turns into the ‘how,’ or when observation-as-correspondence turns into observation-as-construct. This happens when something ‘goes wrong’ at the first-level such as competition, conflict, and disagreement” (Fuchs, 2001, p. 29).

This prediction makes apparently perfect sense in the context of morally perplexed managers. The perception of a moral dilemma (whether by the concerned managers or other observers) is a first-order observation which assumes, in the words of Fuchs (2001, p. 27), specific “hows” or common sense. These assumptions are apparently tantamount to taking for granted a specific institutional structure which could be discovered to be changeable by a second-order observation. Put simply, the task of the second-order observation is to explore the potential for institutional reform, for example, through rule-finding discourses and rule-setting negotiation processes (Pies et al., 2014), in order to minimize the moral stress experienced by managers at the level of the first-order observation (cf. de los Reyes et al., 2017; Heath, 2014). These reforms may involve, for example, putting a price tag on CO₂ emissions, thereby reconciling economic interests with ecological problem solving.

The capacity of the social goals of the firm to reconcile different functional interests is a significant point that underscores the relation of these goals to Buhmann’s (2019) idea of reflexive law. Moreover, this capacity is itself enabled by the Luhmannian notion of system rationality which explains how social systems constructing their outer environment out of their own operations can nevertheless develop a meaningful sensitivity to it. Being a manifestation of system rationality, social goals enable the translation of environmental signals into the language understood by the system. This point is well explained by Holmström (2007, p. 259) who shows that business legitimacy problems engender “failing support from stakeholders: e.g., consumer boycotts, recruiting and motivation problems, and failing investments.” These translations, of course, cannot be perfect; their adequacy and

quality depend on the nature and quality of implementation of specific social goals. However, there is a sense in which the social goals render the environmental problems partly visible to corporate managers. On the contrary, the firm itself, even if it is guided by specific social goals, remains operationally closed and thus inherently opaque to environmental observers. Social goals do not interfere with the governance advantages of opacity (van Assche et al., 2014) but may indeed intensify moral dilemmas faced by managers.

The distinction between the first-order and second-order observation thus turns out to be a useful practical supplement to the systems-theoretic argument that the case for organizational rationality is an empirical issue. One type of empirical test for determining that rationality works is that the concerned managers do not experience themselves as being trapped in moral dilemmas that are as hopeless as they are tragic. If such dilemmas happen, they must be seen as an invitation to managers, as well as to other interested observers, to explore the possibilities of a second-order observation which does not take the institutional foundations of the first-order observation for granted. A likely empirical manifestation of the dysfunctional nature of the first-order observation, and of the failure to switch to the second-order observation, is the proliferation of what Luhmann called “moral communication,” that is, moral appeals at managers urging them to pay more attention to the interests of their stakeholders (cf. Yekini et al., 2019). From the systems-theoretic point of view, the occurrence of moral communication is an indicator that the underlying institutional structures need to be reformed.

The essential limitation of this argument is, of course, that managers may be unwilling or unable to switch observational perspectives. To take this possibility into account, a systems-theoretic approach to business ethics would locate a crucial area of managerial responsibility into exploring alternative observational perspectives, especially those suggested by the extant streams of moral communication. There is room to argue that the social license to operate that might be conferred on particular corporations is reposed on a variety of perspectives through which the operation of these corporations may be observed (cf. Knudsen, 2017; Kok et al., 2019). It is only through deliberate and explicit exploration of these perspectives, and their possible switchings, that managers can secure that license. In the process of doing so, they may gauge the relative validity of the seemingly contradictory single- and multiple-objectives approaches in terms of the moral stress they experience when putting the approaches into practice. They can be advised to give preference to the approach that reduces the stress, and the attendant moral communication, to a minimum. Seen from vantage point of systems theory, the seeming contradiction can often be solved by switching from a static to a dynamic perspective. By making the corporation (and its managers) sensitive

to problems of sustainability, multiple-objective approaches can help to bring about institutional reforms that restore the functionality of single-objective approaches.

Concluding Remarks

Many governance challenges of the functionally differentiated society arise from the fact that the societal steering capacity of the political and legal function systems is inherently limited. No form of public policy and no legal regulation can do justice to the precariousness and turbulence of the societal and natural environment, and to the complexity of sustainability problems experienced by all types of social systems. In the context of business–society relations, these governance challenges gave rise to the growing problems of corporate legitimacy, as well as to a host of corporate coping strategies, such as participation in reflexive regulation (Buhmann, 2019), corporate social responsibility and multifunctionality (Roth et al., 2018), and public relations policies (Holmström, 2005). The growing relevance of these strategies has posed new questions about the nature of the objectives that can be or ought to be pursued by corporations, and thus provided new impetus to the debate between the single- and multiple-objective approaches to the nature of the firm. So far, the only consensus apparently emerging from this debate is that no consensus is yet in sight, in spite of a large number of excellent contributions.

Drawing on the Luhmannian social systems theory, this article has proposed an overarching conceptual framework that identifies the common ground shared by these approaches while showing both of them to be legitimate and relevant in the right circumstances. The core idea is that the corporation is a complexity-reducing, operationally closed system structurally coupled with a potentially risky environment. Because of this structural coupling, the corporation can suffer from dissonances or disruptions if its specific mode of complexity reduction prevents it from registering the requisite range of its critical dependencies on its environment, societal, and natural alike. The notions of complexity reduction and operational closure sound idiosyncratic but offer a fresh interpretation of some of the pivotal business ethics ideas. In systems-theoretic terms, complexity reduction captures the essence of profit maximization as an instrument helping managers to make sense of the exceedingly complex world, whereas operational closure indicates the limited sensitivity of “the language of prices” to the multifarious moral and ecological concerns that may be raised by corporate stakeholders. Thus, the Luhmannian theme of the precariousness of system–environment relations translates into the pervasiveness of business–society tensions which constitute the essential point of departure for business ethics.

The dramatism of these tensions can be attenuated if corporations are equipped with enhanced channels securing their sensitivity to the societal and natural environment. These channels may be called the social goals of the corporation, which thereby becomes responsible insofar as it is responsive. At the same time, from the business ethics point of view, the core limitation of this systems-theoretic argument is that it is not directly transposable onto the plane of managerial action. If stuck in moral dilemmas, managers may judge the single- and multiple-objective approaches in terms of the moral stress they experience as a result of following their prescriptions. Furthermore, it is possible for managers to switch observational perspectives to figure out the ways in which the relations between their corporations and their outer environments can be rendered less precarious. By no means, however, does the Luhmannian systems theory predicted that the corporate sustainability problems would be automatically translated into managerial dilemmas, or that managers would be willing and able to switch perspectives as suggested above. Yet, what the systems theory can do is to suggest locating a key area of managerial responsibility into exploring multiple and alternative observational perspectives in such a way as to minimize corporate sustainability risks.

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ORCID iD

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

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Author Biographies

Vladislav Valentinov is adjunct full professor of Economics at the Martin-Luther-University Halle-Wittenberg, Germany, and Senior Researcher at the Leibniz Institute of Agricultural Development in Transition Economies in Halle, Germany. He has served on the Editorial Boards of several journals, such as the *Journal of Economic Issues*, *Voluntas*, and *Kybernetes*. His research has been published in journals such as *Cambridge Journal of Economics*; *Ecological Economics*; *Journal of Institutional Economics*; *Administration and Society*; *Nonprofit and Voluntary Sector Quarterly*; *Journal of Business Ethics*; and *Journal of Agricultural and Environmental Ethics*.

Steffen Roth is full professor of Management at the La Rochelle Business School, France, and Adjunct Professor of Economic Sociology at the University of Turku, Finland. 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 the field editor for social systems theory of *Systems Research and Behavioral Science*. The journals his research has been published in include *Journal of Business Ethics*; *Journal of Cleaner Production*; *Administration and Society*; *Technological Forecasting and Social Change*; *Journal of Organizational Change Management*; *European Management Journal*; *Sustainability Accounting, Management and Policy Journal*; and *Futures*.

Ingo Pies is full professor for Economic Ethics at the Martin-Luther-University Halle-Wittenberg, Germany. His research has been published in journals such as *Business Ethics Quarterly*; *Review of Managerial Science*; *Journal of Accounting and Organizational Change*; *Voluntas*; *Systems Research and Behavioral Science*; *Systemic Practice and Action Research*; *Economic Systems*; and *Business & Society*.