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RESEARCH PAPER

Stakeholder theory: Exploring systems-theoretic and process-philosophic connections

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Abstract

Modern stakeholder theory is premised on the ‘integration thesis’, according to which business and ethics constitute an inseparable unity. For many management scholars, this thesis raised the difficult question of how far business can pursue ethical goals without losing its functional autonomy. We address this question by interpreting the integration thesis as the Luhmannian ‘unity of difference’ of business and ethics. This interpretation allows business and ethics to remain conceptually distinct, yet takes their very distinction to constitute a logical and dialectical unity as envisioned by the integration thesis. To justify this interpretation, we draw on the Luhmannian systems theory which accentuates the precariousness of the environment faced by business corporations, and on process philosophy which underscores the unique human capacity to navigate this precariousness by following social norms of ethical behaviour. We argue that a key prerequisite of successful stakeholder management is the activation of this human capacity.

KEYWORDS

integration thesis, process philosophy, stakeholder theory, systems theory

1 | INTRODUCTION

Stakeholder theory is an increasingly popular scholarly approach cutting across the literatures of strategic management, business ethics and corporate social responsibility (cf. Crane & Matten, 2019). Leading stakeholder theorists understand business as ‘a set of value-creating relationships among groups that have a legitimate interest in the activities and outcomes of the firm and upon whom the firm depends to achieve its objectives’ (Phillips et al., 2019, p. 3). On this basis, stakeholder theory explores ‘how customers, suppliers, employees, financiers (stockholders, bondholders, banks, etc.), communities, and management work cooperatively to create

value’ (ibid). Yet, despite the apparently commonsensical nature of these fundamental ideas, Freeman et al. (2020) acknowledge that they generate ‘tensions’ in the minds of at least some strategic management scholars, such as Jensen (2008) or Sundaram and Inkpen (2004).

To Freeman et al. (2020, p. 213), ‘many of these tensions are more apparent than real’ and essentially originate from the impossibility of accommodating stakeholder theory’s pragmatist philosophical standpoint within the predominantly positivistic outlook of the mainstream strategic management scholarship (cf. Goyal, 2022; Jensen & Sandström, 2013; Wicks & Freeman, 1998). Importantly, Freeman et al. (2020, p. 216) note that ‘most of the apparent tensions in stakeholder theory are the result of the

detour into a narrow form of economic theorizing that occurred in business strategy and policy and that continues into the present'. Among other things, this narrow economic theorising promotes the notion of 'separation fallacy' which is resolutely rejected by leading stakeholder theorists, who instead are urging scholars and practitioners to put business and ethics together in line with the 'integration thesis' (Freeman et al., 2010, p. 7). As one of the core ideas of stakeholder theory (Hörisch et al., 2020; Schaltegger et al., 2019), the integration thesis entails 'that it really doesn't make any sense to talk about business without talking about ethics and that it doesn't make much sense to talk about ethics without talking about business'. (Freeman, 2008, p. 163).

Freeman and other leading stakeholder theorists are certainly right; if stakeholder theory is indeed grounded in pragmatist philosophy, it must put business and ethics together in such a way as to arrive at a notion of 'moral inquiry that accommodates multiple desires and differing views of morally appropriate action' (Godfrey & Lewis, 2019, p. 14). But practically speaking, putting business and ethics together in accordance with the integration thesis may present an arduous task, and 'tensions' registered by leading stakeholder theorists (Freeman et al., 2020) illustrate some of the involved difficulties. Agreeing with these theorists that the major difficulty resides in the predominantly positivistic outlook of the mainstream strategic management scholarship (Freeman et al., 2020; Wicks & Freeman, 1998), or in the inertia of 'the managerial view of business with shareholders at the center' (Freeman et al., 2007, p. 23), we identify and explore yet another difficulty related to the perceived practical usefulness of 'business' and 'ethics' as distinct conceptual categories. Namely, by being distinct from each other, these categories allow scholars and practitioners to make sense of the business life which otherwise would present, in the words of the pragmatist philosopher William James (1911/1996, p. 50), merely a 'blooming, buzzing confusion' which is essentially 'unliveable' (MacKay et al., 2021, p. 1347; Chia, 2019). Clearly, the integration thesis envisioned by Freeman et al. (2010, p. 7) is not supposed to abolish the useful conceptual distinction between the categories of business and ethics; it is instead supposed to foreground their mutually constitutive relationship. 'As part of the stakeholder perspective on value creation, the integration thesis is closely linked to the cultivation and maintenance of effective relationships with all stakeholders because unethical behaviour may result in the withdrawal of stakeholder support, thereby threatening the viability of the business model' (Freudenreich et al., 2020, p. 7). Yet there remains a risk that imagining a mutually constitutive relationship between business and ethics may

come to be interpreted, with or without good reason, as a dilution of the distinct meaning of these categories.

In terms of the integration thesis and the underlying pragmatist questioning of fact-value dichotomy (e.g. Putnam, 2002), the distinction between business and ethics reflects the fundamental tension between private interest and public good, a tension which is at the very core of the discipline of business ethics (cf. Crane & Matten, 2019). This is a moral tension which generates a broad range of difficult questions, such as whether business can fully meet ethical goals without ceasing to be business, or how can ethics remain worthy of the name if ethical behaviour is driven by business incentives, or whether business ethics itself may not be, after all, an oxymoron (Duska, 2000). Acknowledging the validity of this tension, we wish to set it aside in the present paper and to focus attention instead on the potentially severe epistemic challenge involved in making sense of the paradoxical duality of business and ethics as conceptual categories which per se remain to be distinct.

Our strategy is to draw on two philosophical approaches that are likely to be well familiar to many readers of the present journal, Niklas Luhmann's social systems theory and process philosophy. We will argue that, considered together, these two approaches allow to conceptualise managing for stakeholders as a process of reproduction of the paradoxical unity of business and ethics through a creative engagement of the human nature of corporate managers and stakeholders. Although the application of process philosophy to stakeholder theory and its integration thesis is relatively uncontroversial, the same cannot be said about the Luhmannian systems theory which is known for its skeptical assessment of the role of morality in the modern society. In view of this skeptical assessment, the Luhmannian systems theory per se is not suited for the task of the interpretation of the integration thesis which is obviously a pragmatist rather than a systems-theoretic construct. Meanwhile, the Luhmannian systems theory does contain two ideas that can provide inspiration, albeit indirect, to stakeholder theorists seeking to explore the complex ramifications of the integration principle. One of these ideas is operational closure which yields a novel interpretation of the functional autonomy of capitalistic business as a societal institution (cf. Valentinov et al., 2019). For example, this closure can be seen to be linked to the complexity-reducing effects of the profit-seeking goals of capitalistic firms (ibid). And although these complexity-reducing effects may put capitalistic firms on a collision course with ethical contexts within which these firms unavoidably operate, the second major Luhmannian idea, that of paradox, clarifies how the functional autonomy of these firms helps them not only to avoid such collisions but

also to create value in ways that may be seen by many stakeholders as deeply moral.

We openly admit, however, that Luhmann did not interpret the ideas of operational closure and paradox in these ways. We see a real possibility that many Luhmannian scholars will likewise disagree with these interpretations, despite their possible usefulness for stakeholder theory. Some Luhmannian scholars might add that a scholarly application of his legacy should not go beyond a purely scientific (i.e. guided by the code of true/untrue) research interest. Other scholars will rightly note that the integration thesis too closely resembles the traditional conceptual distinction between economy and society (Roth, 2022; Roth et al., 2020), which is precisely the sort of distinction that the Luhmannian theory is intent on deconstructing. As Roth et al. (2021) explain, from a systems-theoretic point of view, the distinctions between economy and society, or between business and ethics, should be considered to be false. Unlike true distinctions that split the entire 'unity of the difference' into both mutually exclusive and jointly exhaustive sides, false distinctions lack either or both qualities. Thus, false distinctions act as indicators of intellectual short circuits (Roth, 2023). In the present case, the issue at stake is that business and ethics are not only *not* mutually exclusive—as argued by the integration thesis—but also *not* jointly exhaustive as neither everything unethical is a business nor every non-business is ethical. Consequently, from a systems-theoretic point of view, the trade-off between business and ethics appears as arbitrary or artificial. We meet these critical concerns by explicitly designating the primary point of view adopted in the present paper as stakeholder-theoretic rather than systems-theoretic. We adopt the stakeholder-theoretic point of view because we know that stakeholder theorists, as we explain below, have long been interested in systems thinking (cf. Freeman et al., 2010, p. 39).

The paper is structured as follows. The next section will make the case that the integration thesis may be approached as a paradoxical unity of business and ethics, whilst arguing that this interpretation must be backed by enhanced systems-theoretic and process-philosophic ideas. The subsequent sections will discuss some of these ideas, explore their crucial contrasts and discuss how their cross-fertilisation may advance stakeholder theory.

2 | THE INTEGRATION THESIS AS A PARADOX

In the recent organisation theory literature, the field of paradox studies sensitises business theorists and

practitioners to the possibility of replacing 'either/or' thinking with more integrative both/and approaches' (Raisch et al., 2018, p. 1507; cf. Schad & Bansal, 2018; Roth et al., 2021). Paradox itself can be defined as 'persistent contradiction between interdependent elements' (Schad et al., 2016, p. 10). If business and ethics present distinct concepts which need to be put together and envisioned as a unity, they can be considered to constitute a paradoxical duality embodying 'a both/and relationship that is not mutually exclusive or antagonistic' (Putnam et al., 2016, p. 5). In the stakeholder theory context, one may suppose that the separation fallacy criticised by Freeman embodies the 'either/or' way of thinking about business and ethics, whereas the integration thesis adopts the 'both/and' view implicated by the paradoxical duality. This view would unify the concepts of business and ethics without denying their distinct meaning, and consequently without dissolving them in any form of a primordial soup. Furthermore, paradox theorists have long argued that paradoxes need to be embraced and lived with, rather than tamed and rationally resolved (cf. Pina e Cunha et al., 2021).

Despite this apparent affinity of paradoxical thinking to stakeholder theory, this theory's leading advocates do not seem to have paid much explicit attention to its potential paradoxical foundations, even though paradox theorists have long noted that conflicts between stakeholder interests have a paradoxical nature (Putnam et al., 2016; Roth et al., 2021; Schad et al., 2016; Smith & Lewis, 2011, p. 384). In the history of stakeholder theory, a notable example of the explicit use of paradox came from the work of the business ethicist Kenneth Goodpaster (1991) who argued that stakeholder theory recommended corporate managers to treat stakeholders 'on the model of the fiduciary relationship between managerial and the stockholder' (ibid, p. 66), thus pursuing 'a multi-fiduciary stakeholder orientation' (ibid, p. 63). Goodpaster rightly noted that this orientation 'blurs traditional [corporate] goals in terms of entrepreneurialism risk-taking, pushes decision-making towards paralysis because of the dilemmas posed by divided loyalties and, in the final analysis, represents nothing less than the conversion of the modern private corporation into a public institution' (ibid, p. 66). Criticising stakeholder theory for this seeming subversion of the very meaning of private corporation or even business more generally, Goodpaster formulated what he called the 'stakeholder paradox', according to which 'it seems essential, yet in some ways illegitimate, to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones' (ibid, p. 63).

Goodpaster's stakeholder paradox was criticised by Freeman (1994) for its implicit reinstatement of the

separation fallacy which implies that managers are facing the 'choice between business without ethics (the shareholder view) or ethics without business (the stakeholder view)' (Freeman et al., 2010, p. 204). According to the integration thesis endorsed by Freeman, business and ethics belong together and are mutually constitutive; but from the paradox-theoretic standpoint, there is still room to argue that Goodpaster's stakeholder paradox may not necessarily conflict with the integration thesis per se; instead, it only seeks to preserve the distinct meaning of the categories such as business and ethics, or shareholders and stakeholders, without denying their logical unity and dialectical relationship. If this conjecture is correct, it would open up a new way of thinking about the relationship of business and ethics, and would facilitate the understanding and positive reception of stakeholder theory by those scholars and practitioners who are otherwise disturbed by the prospect of the dilution of the meaning of these categories if business and ethics are fully submerged within an undifferentiated existential soup of the 'bloom-ing, buzzing confusion' (James, 1911/1996, p. 50).

Freeman's (1994) critique of Goodpaster's (1991) stakeholder paradox may have reflected the frustration arising out of the attempt to subject this paradox to a rational resolution. But within the field of paradox studies, stakeholder paradox in Goodpaster's understanding, or any other paradox pertaining to stakeholder management, could likewise be seen as a starting point of a learning spiral which could produce novel ideas about how the contradictory elements of the paradox could jointly evolve through mutual enrichment (Raisch et al., 2018). To many readers, the evolutionary representation of a paradox unfolding over time through a specific type of process may call to mind the Luhmannian systems theory, especially in its bearing on the functioning of formal organisations. In recent years, the Luhmannian legacy has enjoyed a fairly wide reception in the Anglo-Saxon organisation studies (cf. Ahrne et al., 2016; Cooren & Seidl, 2020; Seidl & Becker, 2006; Seidl & Mormann, 2014), possibly because of its close association with paradoxical thinking (Roth et al., 2021). For example, Luhmann's (2006, p. 44) definition of the system as 'the difference between the system and environment' may be rightly considered to be paradoxical in that it promotes a 'both/and' view of the system-environment relationship. An implication of this paradoxical view is that social systems are supposed to be operationally closed but nevertheless dependent on environmental preconditions whose practical securing remains precarious. No less paradoxical is Luhmann's (and Spencer Brown's [1969]) concept of observation which involves the double act of distinction and indication (cf. Luhmann, 1995, p. 172; Roth et al., 2021; Seidl & Becker, 2006, p. 13). Through

this double act, every observation is affected by its own blind spot whilst producing the distinction between the marked and unmarked space (cf. Luhmann, 1995; Roth et al., 2021; Seidl & Becker, 2006). Formal organisations for Luhmann are operationally closed systems that engage in the continual generation and processing of distinctions (Seidl & Becker, 2006, p. 9). Drawing on this Luhmannian vision, Seidl and Becker (ibid) define organisations as 'processes that come into being by permanently constructing and reconstructing themselves by means of using distinctions, which mark what is part of their realm and what not'.

Thus, if stakeholder theory may draw inspiration from the scholarly fields of paradox studies and the Luhmannian systems theory, it may come up with a novel way of conceptualising the integration thesis, namely as the 'unity of difference' (Luhmann, 2013, p. 63), more exactly, the unity of difference of business and ethics. If the integration thesis is understood in this way, it would suggest that corporations present operationally closed systems which are critically dependent on a certain state of human and societal environment, which is itself distinguished through the maintenance of ethical standards. Readers familiar with Luhmann's work will recollect that Luhmann considered human beings to constitute a part of the environment of social systems, including formal organisations such as corporations. He averred that locating human beings in the environment of social systems 'does not mean that the human being is estimated as less important than traditionally. Anyone who thinks so ... has not understood the paradigm change in systems theory. Systems theory begins with the unity of the difference between system and environment. The environment is constitutive feature of this difference, thus it is no less important for the system than the system itself' (Luhmann, 1995, p. 212). Applying the same reasoning to the integration thesis understood as the unity of difference between business and ethics, we may argue that ethics is a constitutive feature of this difference and accordingly no less important for this difference than business itself. Following Seidl and Becker's (2006) Luhmannian understanding of organisations, corporations may be supposed to present 'processes that come into being by permanently constructing and reconstructing themselves' by means of reproducing the unity of the difference between business and ethics. But on closer scrutiny, a critical issue with this distinction becomes apparent as we are clearly confronted with what Roth et al. (2021) refer to as a false distinction. Unlike true distinctions that split the entire 'unity of the difference' into both mutually exclusive and jointly exhaustive sides, false distinctions lack either or both qualities. Thus, false distinctions act as indicators of intellectual short circuits. In

the present case, the issue at stake is that business and ethics are not only *not* mutually exclusive—as argued by the integration thesis—but also *not* jointly exhaustive as neither everything unethical is a business nor every non-business is ethical. Against this backdrop, the trade-off between business and ethics appears as rather arbitrary or artificial, a feature it has in common with similar cases of issues that result from the insistence on false distinctions. One prominent example of a persistent false distinction is that between economy and society (Roth, 2022; Roth et al., 2020), a variant of which the business versus ethics distinction might be.

If stakeholder theory can take on board the proposed paradoxical interpretation of the integration thesis as a precarious unity of difference, it can render this thesis more acceptable to those strategic management scholars who place value on the clarity of conceptual distinctions between business and ethics only *if* it is based on solid systems-theoretical foundations as outlined in the subsequent chapter. The result of a solid systems-theoretical interpretation of the integration thesis is then clearly not positivistic and does not fall within ‘the narrow scientific worldview that pervades’ (Freeman et al., 2020, p. 217) the field of strategic management. But it may set aside the concerns that stakeholder theory seeks to abolish the traditional understanding of corporations as fundamentally private institutions (Goodpaster, 1991; Jensen, 2008). Even independently of the context of stakeholder theory, these concerns continue to be voiced within the ongoing debate about the legitimate scope of corporate goals which exhibit various degrees of consideration of general welfare, or sustainability, or political responsibilities; each of which goes beyond the neoclassical corporate goal of profit maximisation (de los Reyes et al., 2017; Donaldson & Preston, 1995; Mitchell et al., 2016; Pies et al., 2021; Van Der Linden & Freeman, 2017). Furthermore, stakeholder theory is still struggling with the thorny issue of how corporate managers are supposed to deal with possible conflicts between legitimate stakeholder interests (Crilly, 2019; Freeman et al., 2020; Godfrey & Lewis, 2019). One crucial lesson to be drawn from the field of paradox studies is that managers are more likely to find win-win solutions if they practice paradoxical thinking (Hargrave & Van de Ven, 2017; Jay et al., 2017; Tsoukas & Pina e Cunha, 2017) which is suggested by the proposed paradoxical interpretation of the integration thesis.

At the same time, the proposed interpretation of the integration thesis warrants a reexamination of the Luhmannian understanding of system–environment relations. Luhmann believed these relations to be precarious and was skeptical about the capacity of social systems to be sensitive to the full range of their environmental

dependencies. ‘Viewed from a long term perspective, evolution [of operationally closed systems] is concerned about reaching “ecological balances”. But this merely means that systems pursuing a trend toward exposure to ecological self-endangerment are eliminated’ (Luhmann, 1989, p. 14). Clearly, such a skepticism is barely acceptable for stakeholder theory which is concerned with what corporations can practically and deliberately do to improve their chances of survival by taking better care of their stakeholders. Stakeholder theory may agree with Seidl and Becker’s (2006), p. 16) understanding of organisations of processes entailing the continual reproduction of ‘momentary events without any duration’, but it needs a more nuanced conceptualisation of how corporate managers may actively refer to the resources and opportunities offered by the outer environment to render their organisations as viable as possible. The present paper will contend that such a conceptualisation can be approached through a synthesis of the Luhmannian systems theory and process-philosophic understanding of organisational life (Chia & Holt, 2009; Nayak et al., 2020), which are the object of the respective following sections.

3 | STAKEHOLDER THEORY AND THE LUHMANNIAN SYSTEMS THEORY

In the seminal article exploring the origins of the apparent tensions in stakeholder theory, Freeman et al. (2020, p. 217) suggested that stakeholder theory is distinguished by a ‘broad/holistic perspective on business... Every business is a system, embedded within a set of larger systems. Because the corporation is a system, understanding and effectively leading it necessitates adopting a systems perspective’ which in turn ‘demands a stakeholder perspective’. It is noteworthy that today’s systems scholars indeed show interest in stakeholder theory (Gregory et al., 2020; Paucar-Caceres et al., 2022; Valentinov et al., 2019). Yet, from a business ethics perspective, Roulet and Bothello (2021) critically note that the extant stakeholder theory scholarship has tended ‘to focus either on dyadic level firm-stakeholder ties, or on stakeholder networks within which the focal organization is embedded’, whilst paying less attention to the notion of ‘stakeholder systems’ that could promote the coordination needed for addressing grand challenges. Yet, in analysing the history of the development of stakeholder theory, Freeman et al. (2010, p. 39) identify this theory’s systems-theoretic lineage going back to the work of Russell Ackoff and C. West Churchman who argued that strategies of individual corporations are embedded within broader system-wide problem contexts. In the assessment

of Freeman et al. (2010, *ibid*), the work of these and similar-minded scholars succeeds in drawing attention to the existence of the 'systems view point' but remains insufficiently 'focused on solving strategic management problems which are narrower than total system design'.

Valentinov et al. (2019, p. 828) argue that a systems-theoretic interpretation of stakeholder theory could avoid the focus on the 'total system design' if it draws on the Luhmannian systems theory which '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'. On a Luhmannian view elaborated by the authors, corporations are distinguished by 'complexity reduction and operational closure, which may render them insensitive to their environment and undermine their sustainability' (*ibid*, p. 826). Linking complexity reduction and operational closure with managerial orientation towards maximisation of profit and shareholder wealth, the authors argue that managing for stakeholders presents one option for improving this sensitivity. The authors interpret the stakeholder-theoretic assumption of the jointness of stakeholder interests in terms of the metabolic system-environment interdependence which runs high risks of disruption because of the complexity-reducing and operationally closed character of corporations as social systems. In a subsequent publication, Valentinov and Hajdu (2021) extend this Luhmannian interpretation of stakeholder theory by taking account of corporate engagement in economic and non-economic function systems, which translates into instrumental and normative justifications of stakeholder theory.

Luhmannian renditions of stakeholder theory by Valentinov and coauthors go back to Valentinov's (2014) earlier work on 'the complexity-sustainability trade-off', a conceptual model of the Luhmannian idea of precariousness of system-environment relations. The complexity-sustainability trade-off dramatises the contrast between the operational closure of social systems and their metabolic dependence on matter, information, and energy from their outer environment. The dramatisation is achieved through the juxtaposition of two apparently contradictory principles titled by Valentinov as the principles of complexity reduction and critical dependence. According to the former principle, 'systems increase their complexity by becoming increasingly insensitive to the complexity of the environment' (*ibid*, p. 18); the latter principle holds that 'the increasing complexity of systems is associated with their growing dependence on environmental complexity' (*ibid*). By putting these principles together, the complexity-sustainability trade-off accentuates the likelihood of sustainability problems that may be experienced by those social systems that in view of their

complexity-reducing function 'develop insensitivity to those environmental conditions on which they critically depend' (*ibid*, p. 14). The importance of this critical dependence is particularly well elaborated by evolutionary governance theory.

Yet, if the model of the complexity-sustainability trade-off is used as the cornerstone of the Luhmannian rethinking of stakeholder theory, then stakeholder theory must take a pessimistic stance and limit itself to diagnosing the failures of those corporations that failed to take account of the interests of their stakeholders. This may be an important task of stakeholder theory, but it is unlikely to be the whole story that many stakeholder theorists wish to communicate. What seems to be the missing part of the story is that corporate managers may take efforts to become better attuned to stakeholder interests, in order to create joint value by forging 'win-win-win-win-win' relationships (Freeman et al., 2018, p. 3) or by practicing multi-stakeholder governance (Tortia & Borzaga, 2020). There is room to argue that the possibility of these active efforts is better reflected within the process-philosophic rather than systems-theoretic approaches to management. For example, in a process-philosophic account of corporate dynamic capabilities, Nayak et al. (2020, p. 288) argue that social systems 'respond to their environment not through passive adaptation but through actively selecting aspects of it that provide opportunities for its survival and growth'. Relegating humans to the environment of social systems, Luhmann described the relationship between human organisms and psyches on the one hand and social systems on the other hand in terms of 'interpenetration', which refers to a situation of strong structural interdependence of systems whose operations 'do not overlap in any way' (Seidl & Becker, 2006, p. 22). In contrast, drawing on a process-philosophic outlook, Nayak et al. (2020) characterise these relationships in terms of environmental 'affordances' discerned by 'empirical sensitivities' shaped by the prevalent habitus in such a way that corporations are enabled to utilise non-cognitive mechanisms of adaption to societal environment, such as 'optimal grip' and 'exaptation'. These mechanisms encompass crucial channels through which corporations develop sensitivity to the interests of their stakeholders; but understanding how these channels work requires additional background on process philosophy provided in the following section.

4 | STAKEHOLDER THEORY AND PROCESS PHILOSOPHY

According to Nayak and Chia (2011, p. 282), process philosophy 'invites us to think about individuals,

organizations, and social entities in terms of ceaseless change, emergence and self-transformation'. In addition to process proper, process philosophy gives prominence to Alfred North Whitehead's idea of internal relations which basically means that 'everything that is arises out of multiple other things and has no existence apart from their relations to them. This is best understood if we think of the world as made up of happenings, occurrences, or events. Each event arises out of other events and is nothing apart from their participation in its constitution' (Cobb, 2007, p. 568). Process philosophy is usually contrasted with substance ontology which prioritises 'substance over activity, discrete individuality over interactive relatedness, descriptive fixity over productive energy, and classificatory stability over fluidity and evanescence' (Rescher, 1996, p. 31 et seq.).

An epistemological implication of substance ontology is entitative thinking which deemphasises the processes of becoming, emergence, and relational constitution of what are perceived as individual and collective entities. In the context of stakeholder theory, and especially of the Luhmannian interpretation of the latter, it makes sense, however, to contrast process philosophy not only with substance ontology but also with the Luhmannian vision of system-environment precariousness which underscores the multifarious sustainability problems of corporations as social systems. On the Luhmannian view, as elaborated by Valentinov and Pérez-Valls (2021), these sustainability problems arise out of the fact that the managerial orientation towards profit and shareholder wealth maximisation, whilst reflecting the complexity reducing of corporations as social systems, fails to take account of the full range of their critical dependencies on societal and natural environment.

But even more generally, the paramount importance of process philosophy for stakeholder theory follows from a critical reflection on the conceptual background from which stakeholder theory emerged. According to Freeman et al. (2010, p. xv), this theory 'represents an abrupt departure from the usual understanding of business as a vehicle to maximize returns to the owners of capital', and thus is usefully contrasted with Friedman's (1970) controversial maxim that 'the social responsibility of business is to increase its profits' with a view to advance the maximisation of shareholder wealth. There is a little doubt that this 'mainstream view of shareholder capitalism', to which stakeholder theory presents an alternative, is itself conceptually embedded in the mainstream economic assumptions of 'homo economicus' as self-interested and rational actor (Sachs & Rühle, 2011, p. 123). Cobb (2007) suggests that the idea of 'Homo economicus' as an actor which is not only self-interested but also autonomous and essentially decoupled from its social

and natural environment, is an implication of substance ontology which misses the very meaning of being human. The Homo economicus model envisions '[a]n individual human being, typically conceived as male and understood in this way, relat[ing] to others only through contracts, which have no effect on what he is in himself. The task of the economy is to satisfy his desires, but these are understood only in terms of possession and consumption of goods and the accumulation of wealth There is no place for questions of fairness or honesty or responsibility. Only external relations are considered' (ibid, p. 573–4). Although the Luhmannian systems theory may certainly be not charged with upholding a substance ontology, it does promote complexity-reducing strategies, of which the 'Homo Economicus' model is a prominent example.

In contemporary stakeholder literature, one can observe early efforts to utilise a process-philosophical approach, as exemplified by the work of Valentinov and Chia (2022). Buchholz and Rosenthal (2005) argue, for example, that in the stakeholder theory context, the 'Homo Economicus' model would translate into a conception of 'atomic individualism', which would assume that stakeholders are 'isolatable, individual entities' (ibid, p. 138) having 'separate wills and desires that are colliding' (ibid, p. 141). The authors explain that atomic individualism goes against the grain of stakeholder theorising, which rather adopts 'not only a relational view of the corporation but also an understanding of the situational nature of ethical decision-making' (ibid, p. 145). Wicks et al. (1994, p. 483) propose to understand corporations as 'webs of relations among stakeholders' which are interested in communication and collective action rather than conflict and competition. Burton and Dunn (1996) suggest that these webs of stakeholder relations must be based on mutual care which may be supposed to include the moral wayfinding component noted by Valentinov and Pérez-Valls (2021). Process-philosophic thinking has likewise been characteristic of the Hayekian approaches to stakeholder theory that stress the contribution of stakeholder relationships to the ongoing generation of entrepreneurial opportunities (Alvarez et al., 2020; Valentinov, 2022a; Venkataraman, 2019). Several scholars, such as Bevan et al. (2019) and Sachs and Rühle (2011), advance processual visions of stakeholder interaction as occurring in evolving and emergent networks where both value creation and resource provisioning appear to be inherently relational rather than objectively fixed and given.

On the other hand, the process-philosophic elements in the current stakeholder theory should not be exaggerated. Even if Buchholz and Rosenthal (2005) are right to suggest that stakeholder theory rejects the atomistic model of Homo economicus, the theory's implications for

strategic management seem to remain captured by this model, at least in part. The reason is that the mainstream understanding of strategy gives primacy to intentional deliberate action aimed at controlling the environment, along the lines of the cognitivist approach to organisational learning criticised by Nayak et al. (2020). This type of action is keyed to the assumption that human beings present atomistic, isolated, and self-interested actors maintaining only mechanical or external relations to each other. Although evidently prevalent, this understanding of strategy has not been unchallenged. In a seminal book, Chia and Holt (2009) highlight what they call 'the silent efficacy of indirect action', implying that effective strategy is often undesigned and does not rest on deliberate planning. They argue that 'systematic, sustainable, longer-term accomplishments are often a consequence of attending to small, seemingly insignificant details through local, everyday coping actions' (ibid, p. 1). Crucially, these actions can only be undertaken by humans organically embedded in and culturally conditioned by webs of social relations, indeed constituted by these webs, and following the internalised dispositions shaped by their social milieus.

It appears, however, that Freeman's genuine efforts to draw business practitioners' attention to the idea of managing for stakeholders were aimed at changing the nature of their deliberate planning activities, instead of acknowledging 'the silent efficacy of indirect action'. In his 1984 textbook, he encouraged managers to 'understand from a rational perspective, who are the stakeholders in the organization and what are the perceived stakes [as well as to] understand the organizational processes used to either implicitly or explicitly manage the organization's relationships with its stakeholders, and whether these processes "fit" with the rational "stakeholder map" of the organisation' (Freeman, 1984, p. 53). In the same textbook, he presented managing for stakeholders as an approach to strategic management, such that 'planning for stakeholder concerns is ... not enough. Programs and policies which can be implemented and controlled, must be the results of these plans. Also, the managers in a firm must do their jobs in a "strategic fashion", "that is, under the umbrella of the direction of the firm' (Freeman, 1984, p. 44).

Against this backdrop, it is only logical that tensions in stakeholder theory, discussed by Freeman et al. (2020), emerged precisely in the strategic management context which traditionally accentuates the deliberate and discretionary nature of managerial decision-making. Thus, there is room to suggest that stakeholder theory is affected by 'the strategic management paradox', according to which any effort at deliberate management for stakeholders indirectly reaffirms a rational masculinist worldview underpinning the behavioural model of Homo

economicus. An implication of the paradox is that management for stakeholders will be most efficacious if it takes the form of 'local everyday coping actions' rather than the form of a grand strategy. This paradox does not seem to be acknowledged in the literature.

Acknowledging the paradox would imply that managing for stakeholders in Freeman's sense and conventional strategic management are recognised to rest on radically different ways of thinking and learning. Put simply, the former type of management may be supposed to rest on oblique, indirect, and spontaneous actions driven by internalised dispositions conditioned by the relevant social practices. The latter type calls for deliberate rational planning. Accordingly, a major risk for the viability of the former type of management is that it may be framed in a way corresponding to the latter type. If it happens, managing for stakeholders may become overly firm-centric and thus fail to respect the intrinsic worth and the full range of the legitimate interests of stakeholders (Bevan et al., 2019; Sachs & Rühle, 2011). Moreover, it seems plausible that the notorious trade-offs among stakeholders' interests are registered primarily within the firm-centric views of stakeholder interaction and appear resolvable as soon as corporate managers abandon their conventional strategic management mindsets. Thus, it may be wise to take the difference between the two types of management as seriously as possible. The awareness of this difference may be crucial for establishing stakeholder capitalism as a viable alternative to the conventional view of shareholder capitalism. But if so, then Freeman et al.'s (2010, p. xv) optimistic assessment that there is little direct conflict between 'the shareholder view' and 'the stakeholder view' may turn out to be too generous.

5 | CONTRASTING SYSTEMS THINKING AND PROCESS THINKING

In its essence, the strategic management paradox identified in the previous section is not unique to stakeholder theory. A similar paradox can be discerned in the evolution of the twentieth century scholarship on the general systems theory (Valentinov & Pérez-Valls, 2021). Systems thinking has not only provided crucial inspirations at the formative stages of stakeholder theory (Freeman et al., 2010, p. 38) but also retains relevance at its present stage (Freeman et al., 2020, p. 217; Roulet & Bothello, 2021). It is noteworthy that the rise to prominence of the general systems theory in the first half of the twentieth century has been motivated by the perception of the overly reductionist nature of the mechanistic

scientific worldview that originated from the Newtonian physics and the Cartesian dualistic philosophy (Capra & Luisi, 2014). The problem of reductionism arose out of the inability of this worldview to come to terms with phenomena of 'organized complexity'. Concepts like those of organization, wholeness, directiveness, teleology, and differentiation are alien to classical physics. However, they pop up everywhere in the biological, behavioral and social sciences, and are, in fact, indispensable for dealing with living organisms or social groups' (von Bertalanffy, 1968, p. 34). Von Bertalanffy's own approach to grasping organised complexity foregrounded the idea of open systems which 'avoid the increase of entropy, and ... develop towards state of increased order and organization' (von Bertalanffy, 1968, p. 41) by maintaining a metabolic relationship with the outer environment.

Yet, some of the modern developments in systems thinking have added considerable complexity to the conceptualisation of systemic openness. Looking for the definition of the phenomenon of life, neurophysiologists Maturana and Varela (1980) took distance from the Bertalanffyian open systems model and emphasised operational closure and autopoiesis. The latter concepts imply a constructivist view of reality in which systems are assumed to enjoy a substantial autonomy from environment. Drawing on their work, Niklas Luhmann produced a grand sociological narrative that linked the concepts of operational closure and autopoiesis with complexity reduction. This reconceptualisation was tantamount to an epistemological turn in systems theory: 'Usually, systems are described through a plurality of terms. For example: systems are relations between elements; or: a system is the relation of structure and process, a unit that directs itself structurally in and through its own processes. Here you have unit, boundary, process, structure, element, relation - a whole bunch of terms - and, if you ask what the unity of all these terms is, you end up with the word "and". A system, then, is an "andness."' (Luhmann, 2013, p. 52). In contrast to those previous philosophies of 'andness', Luhmann insisted that 'a system is the difference between system and environment' (Luhmann, 1993, 2013). In Luhmann's terms, the situation is hence not that there is an environment, and then there are systems emerging and vanishing within that environment. Rather, his consequent interpretation of the concept of autopoiesis suggests that it is the systems that create their environment by drawing and maintaining a distinction or border between themselves and their environment. As a consequence, there is no such thing as 'the environment' in the sense of a singular entity with which all systems are confronted. Rather, we find that if each system creates and interacts with its own environment, then all there is on the side of the environment is a multiverse of

environments as a plural (Roth & Valentinov, 2020). For example, the environmental concept of the economy is the market, whereas in the case of many a religion, environment refers to (the profane aspects of) a Deity's creation. Only in the case of science and, to be more precise, in the case of *natural* science, 'the' environment appears as nature. From a social-scientific perspective, by contrast, we may find that there is no such thing as one monolithic environment, as each of the above and many other systems sustain by drawing their border to their environment, which necessarily is unique for each system: in the environment the economy, there is everything that is not the economy, including science, whereas in the environment of science there is, by implication, no science, but the economy among many other systems.

From a processual perspective, autopoietic systems are therefore the very processes of self-referential operations by which these systems draw and maintain their distinction to their respective environment. Even if environments are created by systems, however, this idea does not imply that systems are more complex than their environment. Rather, the opposite is true. This is particularly obvious as soon as a system's environment is observed to contain other self-referential systems, as there are by far more operations being processed outside than inside of the system. Thus, a system cannot match each and every operation in its environment with a dedicated internal operation and therefore must selectively reduce the environmental complexity to a level that can be handled by the system. The potential problem with the systemic function of complexity reduction is that it may work so well that the system fails to appreciate the overwhelming complexity of its environment. As a result, the system may become insensitive not only to its own sustainability challenges but also those of its closer 'eco-system'.

Thus, the Luhmannian contributions brought the general systems theory into a paradoxical state. Having been brought to life by the need to master the growing complexity of social systems embroiled in the rich textures of environmental interdependencies, the general systems theory at the hands of Luhmann affirms complexity reduction as an inevitable systemic condition. Taken to the limit, complexity reduction may promote the very reductionist thinking whose inadequacy provided the very justification for the general systems theory project (Jackson, 2019), and whose practical effects in the corporate realm dictated the need for stakeholder capitalism (Valentinov & Pérez-Valls, 2021). By subscribing to the Luhmannian idea of complexity reduction, the general systems theory may no longer provide the right platform for the project of overcoming reductionist mechanistic thinking, a project which is very far from losing its relevance today.

At the same time, there is room to argue that crucial alternative inspirations for this project may be forthcoming from the field of process thinking (cf. Zhang & Fan, 2022). In a seminal synthesis of process thinking and feminist economics, Julie Nelson (2006) argues that the modern Western economies can be figuratively described in terms of mechanistic and organic metaphors. The mechanistic metaphor endorsed by the mainstream neo-classical economics envisages the economy as a machine, which ‘operates in an automatic fashion, following inexorable and amoral “laws”’. While the machine organizes provisioning for our bodies, it is itself soulless and inhuman ... Since machines are incapable of morality, thinking about economies as machines puts commerce firmly outside the ethical realm’ (ibid, p. 1ff). According to the alternative organic metaphor, favoured by Nelson, the economy can be seen as ‘a beating heart’, which is ‘simultaneously a symbol of bodily provisioning and a symbol of care, respect, and moral and spiritual life’ (ibid, p. 59).

What is remarkable about this argument from a systems-theoretic point of view is that it appeals to the inability of the reductionist mechanistic thinking to do justice to the organic context. In the same fashion as Ludwig von Bertalanffy (1968, p. 12) took the mechanistic approach of classical physics to task for neglecting ‘just what is essential in the phenomena of life’, Nelson argues that the real-world economic system has dramatic ethical dimensions that are sorely neglected by the conceptualisation of this system as a machine. Yet another striking and significant parallel is in the association of the reductionist mechanistic thinking with classical physics. In line with the historical analysis of Mirowski, (2002), Nelson (2006, p. 19) observes that the founding fathers of neoclassical economists ‘explicitly borrowed their calculus-based models directly from earlier developments in mechanical physics’. Thus, regardless of whether the organic context is considered in the literal or metaphorical sense, mechanical physics often seems to fall short of its ‘organised complexity’. As Nelson notes, one crucial manifestation of this failure is the lack of understanding of those human and moral dimensions of the economy that constitute the subject-matter of business ethics.

The list of systems-theoretic parallels in Nelson’s (2006) argument can be continued. The failure to transcend or overcome the reductionist and mechanistic thinking may downgrade the whole scientific endeavor to an inferior level of soundness and validity. In the case of systems theory, the organic complexity used to be explained in terms of vitalism, which is a supernatural approach postulating the existence of mysterious vital forces which keep living organisms from disintegrating. The related idea of teleology likewise ‘appeared to be outside the scope of science and to be the playground of

mysterious, supernatural or anthropomorphic agencies’ before it was shown to be a manifestation of feedback-controlled behaviour in the seminal paper by Rosenblueth et al. (1943). In the same way, accepting the machine of the economy at face value closes the door on the investigation of real opportunities to make the operation of the economy more moral. Nelson (2006, p. 31) summarises this unfortunate way of thinking by stating that ‘if you are interested in profit, you simply cannot also be interested in moral values. If you are a boss, the possibility of emotionally healthy, respectful relationships with your employees is made impossible by the intrinsic dynamics of capitalism. If you are interested in money, you must be greedy and selfish and not concerned about the weak and needy’.

Importantly, Nelson (2006, p. 54) adds that ‘because the economy is not a machine, both the probusiness and antimarket advocates have grasped only parts of the picture. By respecting the good things each side values, while dropping the idea that these good things are automatically either provided or destroyed by economic life, we can more adequately understand the relation of economics and ethics’. In other words, abandoning the machine metaphor requires acknowledging that there is no automatism about the provision by the economy of any positive outcomes, whether they are related to material self-provisioning or moral dimensions. Providing positive outcomes requires genuine efforts, or work, which is one definitional characteristic of what von Bertalanffy (1968) understood under ‘steady state’ as the paradigmatic condition of open systems metabolically linked to their environment. Generalising the Bertalanffyian insights to the context of human civilisation, institutional economist Karl William Kapp wrote that ‘The necessity of satisfying his physiological needs binds man to his natural environment, which contains the elements for their gratification. In this connection man has to overcome various hindrances which stand in the way of procuring the means for the satisfaction of his needs ... Only “work” can overcome these resistances and obstacles’ (Kapp, 1961, p. 166). It seems that in the stakeholder theory context, the functional equivalent of ‘work’ is deliberate corporate policy of maintaining moral relationships with stakeholders in view of the absence of automatic mechanisms that would guarantee these outcomes.

6 | CONTRIBUTIONS TO STAKEHOLDER THEORY

The most straightforward contribution of the proposed argument to the current state of the art of stakeholder theory is in advancing its extant Luhmannian

interpretations (Valentinov et al., 2019; Valentinov & Hajdu, 2021) by marrying them with process-philosophic insights. Although agreeing with these authors' argument that stakeholder engagement presents a way to improve the sensitivity of corporations to the complexity of their encompassing societal and natural environment, we draw attention to the fact that, in line with Luhmann's approach, corporations must fulfill their complexity-reducing function. Moreover, as suggested by 'the strategic management paradox' discussed in the previous sections, stakeholder management may itself operate as a form of complexity reduction. As noted above, in his 1984 textbook, Freeman (1984, p. 53) recommended managers to use a 'rational perspective' to build stakeholder maps which have obvious complexity-reducing effects; today's stakeholder scholars are debating the dimensions of stakeholder salience which likewise presents a classificatory and hence complexity-reducing approach (cf. Wood et al., 2021).

Meanwhile, the complexity-sustainability trade-off implies that the practical mechanisms of stakeholder management must go beyond complexity reduction because the business environment is inherently dynamic and turbulent, thus rendering all stakeholder maps and related classificatory efforts continually obsolete (cf. Valentinov, 2022b). Thus, we still need an explanation how the fulfillment of this function is ultimately consistent with genuine improvements of corporate sensitivity to their outer environment with a view of making corporations responsive to their critical but not fully known metabolic dependencies. We suggest that this conundrum is usefully illuminated by process thinking, which, on the one hand, acknowledges the importance of complexity reduction. According to Chia and Holt (2009, p. 45), 'the available amount of management time and attention is never sufficient to acknowledge, absorb and plan for all environmental contingencies'. On the other hand, process thinking differs from systems theory by focussing attention on the way human beings, which may or may not participate in social systems, engage with the world they inhabit. Drawing on Heidegger and related philosophers, Chia and Holt (2009, p. 133) distinguish between 'building' and 'dwelling' as the basic alternative modes of such engagement. In the corporate management context, the 'building' mode may be well in line with the main thrust of the traditional managerial practice within the shareholder wealth maximisation paradigm. In contrast, in the 'dwelling' mode, 'it is local adaptations and ingenuity in everyday practical coping that are of particular interest: the world is deemed to emerge with all its attendant properties alongside the emergence of the perceiver; the two are so mutually constituting that the identity and individuality of the person

is inextricable from the identifiable strategy associated with his or her actions' (Chia & Holt, 2009, p. 133–4).

From a systems-theoretic point of view, the chief aspect of the dwelling mode is human sensitivity to the encompassing environment. This sensitivity arises out of the human immersion and socialisation into local social milieux composed of social practices which are in turn shaping individuals predispositions, particularly at the precognitive level. Although social systems remain bounded to their complexity-reducing function and thus do not register much of what is happening in the environment, humans operating in the dwelling modus develop the sensitivity needed to protect the relevant systems, such as corporations, from excessive sustainability risks. Humans operating in this modus can be said, in this sense, to compensate for some of the precarious side effects of the corporate complexity reduction function. The specific mechanisms of overcoming the complexity reduction function have been analysed in detail by Nayak et al. (2020) who utilise for this purpose a range of novel notions, such as optimal grip, exaptation, interstitial spaces and serendipity arrangements. Nayak et al.'s (2020), p. 280) core idea is that 'a firm's dynamic capabilities rest upon a tacitly shared substrate of sensitivities and predispositions that precede cognitive representation'. Clearly, these sensitivities and predispositions enable the firm to survive despite the precarious relationship between its systemic complexity-reducing function and its critical dependence on the encompassing societal and economic environment.

From a process-theoretic point of view, the dynamic interplay between the human dwelling mode and systemic realities, represented by the precarious system–environment relations, provides a tentative explanation for the differential capacity of various human local coping actions to produce long-term strategic success. The precarious character of system–environment relations may well explain why deliberate rational planning which falls within the ambit of the systemic complexity-reducing function often fails to achieve the desired results. Although Chia and Holt (2009) rightly note that indirect and oblique action may be more successful, it is obvious that not all instances of such action are successful to the same degree. The conjecture suggested by systems theory is that the occurrence of large-scale strategic success reflects the large-scale dynamics of social systems which are rendered viable by human indirect and oblique action. Without large-scale systems, human action would remain small-scale even if it is locally successful. A case in point is Nayak et al.'s (2020) analysis of how idiosyncratically refined human sensitivities and predispositions underpin dynamic capabilities of firms whose size and economic power may be potentially tremendous. The

case can perhaps be generalised. If spontaneous self-organisation resting on indirect and oblique action progressively grows in scale, it may signify an evolutionary unfolding of social systems assisted by enhanced human sensitivities and predispositions characteristic of the dwelling mode.

In a recent seminal paper, Kujala et al. (2022, p. 36) call on future stakeholder theory research to deepen 'the relational view of stakeholder engagement'. According to the authors, this deepening is needed because much of stakeholder theory remains entity-focussed rather than relationship-focussed, whilst the latter focus is particularly important for understanding stakeholder cooperation and collaboration (ibid). The Luhmannian and process-philosophic elements of stakeholder theory, elaborated in the present paper, illuminate crucial dimensions of relationality mentioned by Kujala et al. (2022). As Seidl and Becker (2006, p. 16) explain, the Luhmannian view 'deontologises' social systems, including corporations and their stakeholders, which are supposed to comprise forever vanishing 'momentary events without any duration' (ibid). The process-philosophic view highlights the relational understanding not only of corporations and stakeholders but also of the very human nature possessing the unique capacity to activate the dwelling mode for helping corporations navigate the precarious business environment. Managing for stakeholders helps to ensure that the events constituting the corporate functioning are continually reproduced through the engagement of the dwelling mode of human life on the part of corporate managers and other stakeholders.

7 | CONCLUDING REMARKS

The present paper is premised on the idea that stakeholder theory, eminent as it is, could have had an even greater impact on the community of strategic management scholars if it had more explicitly embraced paradoxical thinking. Giving primacy to both/and over either/or approaches, this sort of thinking has a myriad of applications within capitalism as 'a cooperative system of innovation, value creation, and exchange' (Freeman et al., 2007, p. 6). One specific application explored in the present paper is the possibility of the paradoxical understanding of stakeholder theory's integration thesis as the Luhmannian 'unity of difference' of business and ethics. The paradoxical interpretation of the integration thesis may be appealing for those scholars who lay emphasis on the fact that, for all their interpenetration in practical life, the categories of business and ethics must remain conceptually distinct. This interpretation may be likewise appealing to those

stakeholder theorists who take to heart the Luhmannian insight that the distinction between business and ethics, just as any system–environment distinction, nevertheless constitutes a logical and dialectical unity and thus seems to capture the thrust of the integration principle.

Although being potentially promising, the paradoxical interpretation of the integration thesis itself requires theory-building steps which have been undertaken by drawing inspiration from the Luhmannian systems-theoretic approach usefully conceptualises paradox as the unity of system–environment difference being reproduced overtime but assumes system–environment relations to be precarious and thus offers little basis for hope that corporations, just as any other types of social systems, are capable of radically improving their sensitivity to the environment on which they critically depend. If this hope is to have any basis at all, it may be anchored in process philosophy which explores human capacity to harness 'a tacitly shared substrate of sensitivities and predispositions that ... are typically transmitted and shared unconsciously through social practices rather than through formal instruction' (Nayak et al., 2020, p. 280). We argue that it is these human sensitivities that enable corporations to sustain and reproduce their system–environment difference in the midst of turbulence and precariousness, and that managing for stakeholders can be supposed to be successful precisely insofar as it succeeds to activate these sensitivities.

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