

■ Guest Editorial

From Added Values to Augmented Realities. Introducing the Special Issue of Management and Functional Differentiation

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In this reintroduction to the concept of functional differentiation, we present historical evidence that the perceived proliferation of moral communication in management and organization research and practice is at odds with the principles of management and organization. We show that there is neither direct need nor direct way to derive decision premises from values as decisions and values cancel each other if they are not moderated by functional differentiation. We conclude that the future of management and organization be in *decision-making without values* and introduce a broad scope of tools and domains for value-free management by functional differentiation. Copyright © 2017 John Wiley & Sons, Ltd.

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NON-FUNCTIONAL VALUES: INTRODUCTION TO A PLACEBO EFFECT

If decision-making is a key aspect of management, then all management is necessarily confronted with the circumstance that we can decide 'only those questions that are in principle undecidable' (von Foerster, 1992: 14). The management implication of Heinz von Foerster's largely ignored wisdom is that decision-making is only possible and needed when alternatives

are in principle equivalently. Decision-making hence implies the absence of moral values, the presence of which would imply preferences that necessarily predetermine the value of the alternatives and thus prevented decision-making right from the start. A perceived need for decision is hence a good indicator for the absence of values, while values clearly are poison for decision-makers. And yet, management research and practice are currently on values, which are packed in small doses of humanism, business ethics, or corporate social responsibility (CSR), and sold as crystal method for managing almost any management problem we encounter in these days of information overload and decision

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stress. The more used we get to values, the more we need to increase the dose, which is why we are observing increasingly radical, hierarchical, or exclusive talk on values. This is because the proliferation of value talk facilitates the observation of value conflicts, to which we normally react by discriminating values by their originality or height as well as by disregarding those whose value trees or pyramids are too different from our preferred value structure. It is understood that any form of discrimination too is understood as value statement and therefore creates further need for a poison that destroys the very basis of management research and practice, which is the presence of undecidable questions.

The situation would be dramatic were it not for the fact that most so-called values on the market are placebos, with the proliferation of communication on values corroborating this claim: Values literally go without saying (Roth, 2014) and read between the lines (Luhmann and Fuchs, 1988): 'They can be taken for granted and this taken-for-grantedness can also be taken for granted. They are silent persuaders; but they decide nothing' (Luhmann, 1996). It is therefore safe to assume that all the explicit lyrics about values are reliable indicators for the circumstance that the invoked values cannot be presumed and hence are not present anymore. That is that if there is a value addiction in management, then this addiction is not to value substances (in which case management would be overdosed already), but rather to value talk, with the function of this somewhat fictional addiction being the concealment rather than the management of the above decision paradox. In fact, so worrying this paradox still is that management research and practice regularly resort to cherished memories of a time when the world was organized by laws of God or nature and therefore did not need to be organized. Thus, the prevalence of cults of naturalness, charisma, and hierarchy in management, which all evoke their own dark sides too by now.

The indirect power and effects of these cults notwithstanding, there is neither a direct need nor a direct way to escape to values to derive decision premises: values and decision-making

simply cancel each other, and to understand their indirect relationship, we do not necessarily need to talk about values, but rather about an interface medium that allows for the co-existence of both values and decision-making by introducing a matter that can be neither reduced to values nor decided once and for all. This wondrous matter is functional differentiation.

In this introduction as well as this entire special issue of *Systems Research and Behavioural Science*, it is our ambition to show how functional differentiation emerged as a structural feature of modern society; to illustrate how the concept was and is used to re-contextualize, relativize, and bypass values, thus allowing for the observation of in principle undecidable questions as well as the corresponding need for decision and self-/management techniques; and to explore how a systematic account of functional differentiation facilitates the development of critical updates for established management tools and research agendas in management subfields such as change management, public management, crisis management, entrepreneurship, strategy, and human resource management.

FUNCTION TRUMPS VALUE: FROM DUALISM TO DILEMMA

Modern management can be traced back to a time when cathedral-like architectures of values typical of hierarchical forms of social differentiation determined most aspects of social life. In this environment of unquestionable value dualisms, individual choice was limited to compliance with or deviance from the positive side of the moral code:

'In texts on the passions, for instance, it is said that one can either love (which is good) or hate (which is bad). In the court advice literature, one is either a perfect courtier (which is good) or a corrupt courtier (which is bad). In texts on amour-propre, one either loves God (which is very good) or loves oneself (which is very bad). First, in each duality the pair of terms maps onto the moral code good/bad. Second, the dualities constitute the two poles of a scale

that extends from corruption to perfection. Third, because their moral linkage is so tight, such formulations leave only one real option: to stop being corrupt and to begin ascending the scale towards perfection. Control your passions, be a perfect courtier, and love God.' (Ward, 2005: 283)

Within this iron cage of God-given morality, behavioural and communicative margins were comparably limited, and whoever wished to extend these margins needed a key to open the cage, with this key being functional differentiation.

Niklas Luhmann's (1977, 1982, 2013) landmark contributions to the theory of functional differentiation are widely recognized as is the concept's critical significance for self-/descriptions of modern society (Bergthaller and Schinko, 2011; Brier, 2006; Jönhill, 2012; Kjaer, 2010; Leydesdorff, 2002; Luhmann, 1977; Luhmann, 1990; Luhmann, 1997; Schoeneborn, 2011; Seidl, 2005; Tsivacou, 1996; Vanderstraeten, 2005; Wetzell and Van Gorp, 2014; Wolfgang Rennison, 2007), and a more comprehensive presentation of the concept is given elsewhere in this issue (Roth et al., 2017b). Suffice it to mention that functional differentiation refers to the distinction of probably 10 function systems—politics, economy, art, science, religion, legal system, sport, health, education, and mass media (Roth and Schütz, 2015)—and to stress that these function systems are perfectly incommensurable and therefore in principle unrankable, too. In fact, there is no logical reason to assume that the economy is essentially more important than education, art more important than sport, or science more important than religion. Yet, this is not to say that we exclude the possibility that the individual function systems may be observed to be differently important to different social systems. Rather, we find that the absence of a predefined ranking is a necessary prerequisite for the observation of changes in their actual importance and thus for the analysis of fashions and trends in functional differentiation such as a secularization, politicization, or economization of society (Roth et al., 2017a). Still, as soon as they are observed as such,

preferences for individual function systems appear as what they are—perfectly contingent.

As soon as functional differentiation is at play, any empirical or moral value is relativized. The principle works because the original value is not changed, transformed, or contested, but only put into a different context. Whatever is observed in light of functional differentiation 'remains the same but appears as different depending upon the functional subsystem (politics, economy, science, mass media, education, religion, art, and so on) that describes it' (Luhmann, 1995: 48). In fact, today, we find it relatively easy to keep on observing a porcelain urinal as a porcelain urinal while also observing it as commodity or a ready-made piece of art. Similarly, one and the same value may both remain unchanged and nonetheless appear as valuable in light of one function system and worthless in light of another: for its participant, an early modern anatomy lesson may be both bad for the soul and good for the educational career. Even worse: Completely different conclusions may now be drawn from one and the same value. For instance, physical integrity may now be used as an argument to both defend and reject the prohibition of dissections either extending the claim for physical integrity beyond the grave or arguing that religious extensions of physical integrity might well bar the way to scientific and medical progress necessary for the extension of a life of physical integrity. In the context of a growing number of similar observations,

'(M)ere identification with the morally correct side of a dualism is increasingly viewed as suspicious or naïve. There is, in other words, growing pressure to uncouple from morality the discourses of the various functional subsystems. Second, self-reference is introduced as the operational mode for employing binary schemata. Third, there is a general shift from idealization (one must be a perfect courtier; one must love God) to paradox (a good courtier must be bad now and then; even one's love for God is based on amour-propre).' (Ward, 2005: 284).

As it is now possible to understand and accept that morally good persons engage in behaviour

that is bad in one regard on the condition that their pursued goal is good in another regard, we observe the emergence of in principle undecidable questions. The question whether to refer to political power, economic wealth, or a scientific mission to justify conditional deviances from the moral code indeed is a perfect example of an in principle undecidable question. Moreover, the option of conditional deviance from commonly accepted values drew the attention away from these values to the conditions for deviance, which necessarily became independent of the challenged values. Consequently, science can soon offer programs for ethical decision-making that do without explicit reference to concrete values or inter-value conflicts, with one famous example being the categorical imperative: 'Kant does not tell you what you ought to do (...) He does not give you a set of maxims but rather a maxim-checking app' (Ward, 2017) designed for the use of individual persons to determine whether their intentions are ethical. At the same time, it is becoming increasingly evident that scientific observations of moral communication are neither more ethical than religious observations nor moral communications themselves. Rather, we find that values and moral communication are no longer dominant or even constitutive forms of communication as they are increasingly being contextualized as objects or topics of a new form of communication which is increasingly observed to be typical of modern society: decision. Ironically, it is despite—or precisely because of—the early recognized circumstance that attempts to condition and to make available to decision values cancels these values, which Sean Ward (2003) illustrates using the example of *sincerity*, that this former anti-/value sincerity may be retranslated to a *conditio sine qua non* for the proper conditioning of individual decision-making processes.

SELF-/MANAGEMENT AND FUNCTIONAL DIFFERENTIATION: CONTRIBUTIONS TO A SPECIAL ISSUE

In the first article in this special issue, *From Fontainebleau to Facebook: the early modern discourse of*

personal sincerity and its echoes in the contemporary discourse of organizational transparency, Sean Ward (2017) argues that the late-modern fascination for transparency is a side-effect of the above shift from automatic social conformity to auto-conformity. His argument starts from the observation that sincerity, a prefigure of transparency, was problematized rather than idealized in early modern (theories of) conversation. The purpose of upper-class interaction was to create an agreeable conversational climate, which sincerity was often observed to render impossible. Even early modern trainings in functional differentiation therefore suggested that the interlocutors use the new semantics for demonstrations of their adaptive versatility being, for instance, religious with the religious and academic with the academics, rather than for displaying their own preferences for specific function systems. Sean continues to show that it is only after functional differentiation has more profoundly re-contextualized and relativized value-based forms of communication and thus triggered the corresponding shift to auto-conformity that sincerity is increasingly considered to be necessary for the proper functioning of our (post-) moral maxim-checking apps as well as for providing functional check and critical updates for other users' apps. Particularly, friendship is now discovered as a context in which sincerity allows for the mutual exploration and unlocking of formerly unavailable courses of action and communication. In this sense, we may read Sean's text as an invitation to consider the today maybe counter-intuitive idea that, of all things, friendship must be observed as a preferred birthplace of decision communication and hence organization, a thought that is not at all incongruent with James Coleman's (1973) emphasis on the central role of trust/s in the evolution of the concept of organization. Speaking of organizations, Sean argues that stakeholders provide to them a somewhat similar friendly turn: Stakeholders potentially increase an organization's internal and external sensitivity, thus also facilitating new forms of context management including management or governance by disclosure, while strategic stakeholder interaction along the lines of functional differentiation remains an option if

these lines are not blurred by a the spreading networkization and transparentization of society.

Anders la Cour and Holger Højlund (2017), both from Copenhagen Business School, too, explore how organizations interact with stakeholders drawing on a specific combination of context management and functional differentiation. In their article, *Polyphonic supervision: meta-governance in Denmark*, Anders and Holger show that Danish governmental organizations, first, do refer to a considerable number of function systems in their attempt to design their stakeholder relationships; second, that these multifunctional attempts to influence their stakeholder relationships are increasingly shifted from unilateral control ambitions to context management that accounts for the interactive nature of the governance process as well as the stakeholders' self-organization capacities; and, third, how the scope of this context management has been broadened to now address not only the relations between governmental organizations and their stakeholder, but also the relationships among the stakeholders themselves.

In also referring to Danish governmental organizations, the former national employment service and its decentralized substitutes, Margit Neisig (2017) from Roskilde University reconstructs how semantics of functional differentiation could have been employed to more successfully manage change and resistance. Her article, *Transition in complex polycentric contexts: trusting and multifunctional semantics*, presents one of the relatively few examples of scholarship attempting to generate scientific knowledge from project failure. Again, trust, here in the form of its absence, plays a central role in the multifunctional management of whom Sean Ward (2017) refers to as an organization's most intimate friends and stakeholders: its employees.

Jesper Tække (2017) from Aarhus University, too, is interested in dys-/functional relationships between organizations and stakeholders. Yet, the focus of his article, *Crisis Communication and Social Media. A Systems- and Medium-Theoretical Perspective*, is on crisis communication as an academic field currently being revolutionized by the proliferation of digital media. In this context, Jesper seeks to clarify sociological key concepts

such as conflict, risk, trust, public opinion, and mass media. He demonstrates that organizations increasingly seek to manage these factors as they become more observant of and responsive to public opinions demanding them to be more consistent with their communicated values. Jesper concludes that organizations must engage in strategic impression management to make their decision appear as being consistent with these stakeholder values.

The last article, *Multiplying the division of labour: functional differentiation of the next key variables in management research*, is written by a multifunctional team consisting of Steffen Roth from Rennes School of Business, Augusto Sales from KPMG Rio de Janeiro, and Jari Kaivo-oja from University of Turku (2017b). The authors from academia and business demonstrate how functional differentiation can be applied to further develop established or design new management tools. Their contribution presents a new tool for business model innovation facilitating the discovery or the reverse engineering of a new type of business models: interfunctional business models (see also Roth et al., in press); basic routines for a critical update for classical strategic management tools such as SWOT or PEST(LE); a sketch of new challenges and opportunities for the management of (intercultural) M&A processes; and blue prints for a functionally differentiated approach to human resource management useful for the design of new tools for candidate assessment, team diversity management, job profile communication, management training, and career development. One unique aspect particularly of the proposed HRM tools is that they work regardless of sometimes sensitive standard variables of organization research and management practice such age, race, gender, and, last not least, values.

AUGMENTED REALITIES: OUTLOOK TO A MANAGEMENT ABOVE AND BEYOND VALUES

The above contributions are united by a very manageable set of premises (see eg Luhmann, 2003): Organizations are systems of decision

and nothing but decisions. Decisions are forms of communication and are easy to recognize as communications that communicate their own contingency. The observation of decisions therefore implies the observation of alternatives. Decision systems are self-sustaining because the more decisions made, the more alternatives appear, and the more there is need for decision. *Da capo ad infinitum*. Moreover, once made, a decision cannot be cancelled but by another decision as any deconstruction of a decision must itself be understood as decision. Yet, made decisions can also guide further decisions. The chaining of contingent decisions thus moderates the inevitable insecurity implied in the making of contingent decisions, and the moderation of this moderation is management.

As the observation of values implies the observation of preferences, and thus the absence of equivalent alternatives, the observation of values on the one side and management and organization on the other side are mutually exclusive. This is to say that management and organization cannot be exposed to values (and vice versa) unless both sides are protected by a medium that can be neither reduced to ultimate values nor ultimately decided upon. As we have shown, this vital medium is functional differentiation. Without this medium, both values and management and organization suffer the same fate as the form presented in Figure 1.

Let the housefly be our form of reference. The observation of specific forms implies the observation of both necessary and impossible media. In our case, the observation of a living fly necessarily implies the often-ignored observation of air. Amber, however, is obviously not an adequate medium for the observation of a living insect. By analogy, we find that alternatives are a necessary medium for the observation of organizations and that the observation of organizations in the medium of values is completely impossible without either a miraculous intermediary such as functional differentiation or a considerable transformation of the original form. Whatever we continue to observe as value-based or -mediated management and organization now is indeed as different from management and organization as is the observation of a living fly in contrast to its preserved mortal remains. If we focus on organizations and management in the medium of values, then all we get is fossilized footprints of bygone (systems of) decisions. Likewise, all decision-based attempts to decide on values and value-conflicts only produce distant echoes of values that do not earn that name.

The alternative to the addition of ever more pseudo-values is a farewell to the idea that functional differentiation is only about the division of organization and labour into walled-off departments and monotonous sub-routines. In fact, the contributions to this special issue suggest that

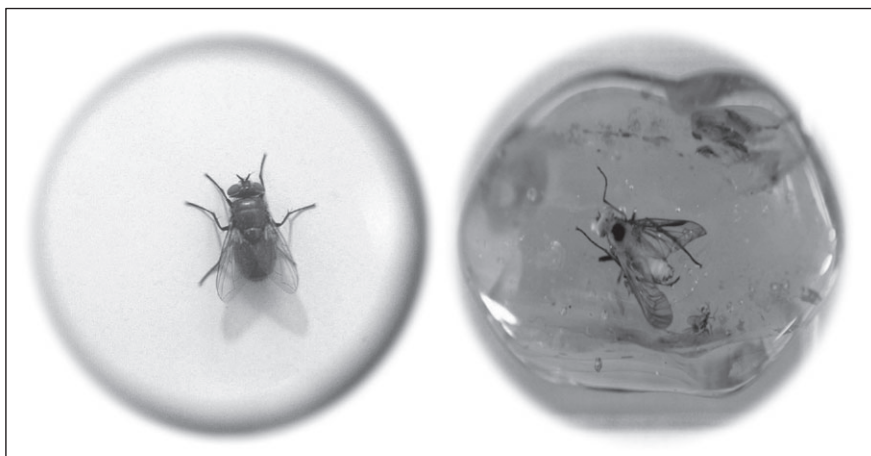


Figure 1 *Ceci n'est pas une mouche*. Organization observed in the medium of alternatives (left) and in the medium of values (right) (own figure)

functional differentiation is better understood as new layer of mediated realities which is necessarily independent of traditional value architectures and which corresponds to a multiplication rather than a division of horizons for decision-making; and we find that this augmented reality of functional differentiation must be systematically explored without immediate returns to the presumably safe harbours of value communication. Yet, we do not cultivate an anti-value stance if we claim that the future of research and practice in our fields be in *organizations without values, management without values, and leadership without values*. Rather, we assume that both value communication and decision communication are jeopardized by the short circuits resulting from fashionable efforts to bypass the necessary intermediary between them. We are therefore positive that both defenders of values and promoters of decisions will download and install the present collection of critical updates on functional differentiation.

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