



Analysis

Ecological economics: A Luhmannian analysis of integrated reporting

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ABSTRACT

This paper integrates the ideas of the German sociologist Niklas Luhmann (1927–1998) with the highly topical issue of sustainability reporting. Luhmann sought a detailed description of the world as a set of complex systems which he applied to ecology. We discuss the gestation and requirements of the International Integrated Reporting Council (IIRC) conceptual framework of 2013, suggesting that as finalised it has little relevance to either sustainability or ecology.

Consistent with Luhmann's approach which praises for more consciousness, our research provides no instant blueprint or solution, but a coherent way of understanding and analysing the complex set of systems and sub-systems involved in the multi-capital, multi-measurement-unit, multi-stakeholder and multi-motivated current content of the sustainability issue. The paper suggests that the current field of operations may be too narrow. It provides a mental mechanism for creative forward thinking, establishing a broader framework and providing guidance and direction for this enlargement.

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Democritus...is the last of the Greek philosophers to be free from a certain fault which vitiated all later ancient and medieval thought. All the philosophers we have been considering so far were engaged in a disinterested attempt to understand the world...What is amiss, even in the best philosophy after Democritus, is an undue emphasis on man as compared with the universe; Russell (1979: 89/90).

1. Introduction

At the origin of the sustainability concept, there is the Brundtland Commission whose proposed definition creates some tensions that are described in the next sections. Although the issues that we seek to explore and expose are complex, the essence of our research question can be very simply stated, as follows. **How can we provide a full understanding of the current disappointment of sustainability reporting, in such a way as to identify new avenues for future actions?**

The current treatment of sustainable development as a set of extra-financial information has mainly been examined for testing the relevancy or perceived relevancy (Gates & Germain, 2010; Lockwood & Prombutr, 2010; Clarkon et al., 2011; Horváthová, 2012; James, 2014; Rassier & Earnhart, 2015) of disclosed items of information, and the impact on the cost of capital of such disclosures (Girerd-Potin et al., 2014). Rarely are sustainability disclosures subject to qualitative research (Albertini, 2014). Most of these studies are implicitly set in the

framework of agency relations or contractual theory and aim at providing useful insights for preparers, regulators, and shareholders/investors (Aglietta & Rigot, 2012). A few authors are still exploring the way a reporting for sustainable development may emerge (Bebbington & Larrinaga, 2014). Indeed, while Financial Reporting desired to disclose information about the sustainability of the business, it became difficult to simultaneously support sustainable development. Subsequently, first line observers recently expressed their concern in the current development of sustainable development communication (Flower, 2015; Thomson, 2015). Such concern suggests the need for an approach likely to enlarge the frame and to address the whole validity of not only the content of extra-financial information but also of the currently designed possible containers/vehicles.

Such tensions can be explored through the frame of complexity of systems, a topic widely studied in the functional theory of Niklas Luhmann (1927–1998). The German sociologist dedicated his whole dense and prolific work to a detailed description of our world as a set of complex systems evolving in an environment to be considered separately, i.e. differentiated. Luhmann left an important contribution to the ecological issue in an interpretation that in our opinion contributes both to better understanding the current potential failure (Haas, 2014; Flower, 2015; Rooney and Dumay, 2016) of environment targeted reporting products and to the identification of an effective solution able to serve the initial wishes for a better trade-off in meeting the needs of current citizens without compromising the needs of future generations.

Luhmann's work doesn't mention sustainability but he refers all along in his work to ecological concerns. Sustainability indeed refers

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both to the ecological component of the environment in a deep concern to its other component: the human beings. Luhmann's attention was in particular drawn to the ecological movements whose inexorable failure can be explained by the simple and clear reason that it just doesn't "fit in" with a society which can only become more aware of the undertaken risks. This work is not the first to mobilize Luhmann's theories to scrutinize sustainability. [Valentinov \(2012\)](#) earlier examined the specific relationship with sustainability-complexity, suggesting a necessary trade-off. Our research question is different: it seeks to integrate the ideas of Luhmann (1927–1998) with the highly topical issue of sustainability reporting, to provide a full understanding of the current failure of the latter, in such a way as to identify new avenues for future actions. We summarise and analyse relevant aspects of Luhmann's extensive writings, not all of which are available in English. We then present demand and supply in ecological and sustainability communication and discuss the gestation and requirements of the International Integrated Reporting Council (IIRC) conceptual framework of 2013. But we show how early intentions of a focus on *sustainable development* have been abandoned, in favour of a blatant emphasis on *business sustainability*. The focus is on benefitting mankind in general, and the business entity in particular.

Having established the two major elements in our scenario, we integrate them by considering how Luhmann may suggest ways to make progress. Under our stated criteria, the IIRC framework does not provide a satisfactory solution to sustainable (or in Luhmann's word environmental) development. We develop and extend Luhmann's own application of his sociological theories to environmental issues in the context of today's sustainability considerations, arguments and emerging practices.

A comprehension of the puzzle or dead-end which Luhmann was visionary enough to foresee requires an exposition of his global theory that we provide in the next section. In the third section, we expose facts that suggest a derailing of the intended process, using the IIRC as our main example in an overall extensive environmental communication. [Section 4](#) applies the Luhmannian framework to the previously described items in order to, like [Andersen \(2005\)](#), shed light on new possible research or action paths by suggesting prescriptive implications derived from Luhmann's descriptive theory. [Section 5](#) provides a concluding, and forward-looking, overview and discussion.

2. Luhmann's Complex Systems and the Ecological Puzzle

Despite its powerful contribution, Luhmann's work is little mobilized in financial reporting research. An exception is [Khan and Gray \(2012\)](#) who examine autopoiesis as a potential narrative on accounting and sustainability, whereas the framework of the current work is enlarged to the whole Luhmannian systems theory. [Valentinov \(2014\)](#) also recognises the breadth of Luhmannian theory, and examines the possible correspondence between two sets of theories, while the present article mobilizes Luhmann with the aim to shed light and provide a better understanding of existing facts relative to the current development in sustainability accounting.

Luhmann offers a descriptive work about society as it is and observations about ways to conduct it to its desirable destination. His work expresses no melancholy about a world that has never been. To [Luhmann \(1997\)](#), thinking about society in terms of complex systems allows the avoidance of the inexorable trap that would address the accuracy of a society centred on norms and values, to prefer a deep examination of the way the systems are articulated, which is not free of perturbations. His fatalistic approach has appeared destabilizing, or worse, cold and inhuman, however it accurately depicts the trend of our society, especially in the way the relation of society with its environment may jeopardize the system. Indeed, it forces acceptance of the uselessness of an individual action if not organized into an ordered institution, or even better,

a structured coupling¹ of institutions and/or systems. By so doing, it is possible to resort to planning² in a twofold possibility, as we will discuss in our last part.

Our exposition of Luhmann's theory starts with an overview, before focusing on the social system and its autopoiesis. Finally, the understanding of the ecological issue by Luhmann is recalled.

2.1. An Overview of Luhmann's Complex Systems Theory

With the abandonment of thinking in identity or unity terms to prefer a new thinking based on differentiation, Luhmann's sociology is often analysed as a disruption in sociological tradition ([Schmutz, 1999](#)). The concept of differentiation evokes both a description of the system relative to its organization, i.e. under the definition of clear boundaries between what a system is and what it is not, but it is also an operating mode since differentiation occurs with the necessity to reduce the growing environmental complexity. Indeed, the supreme aim of systems lies in the reduction of uncertainty, but as we will see hereafter, such reduction occurs at the cost of a growing internal systemic complexity, and can become fateful to the system. The Luhmannian stance here substantially diverges from the long agreed idea that "*open systems increase the anti-entropic implications of complexity (Valentinov, 2012)*" and implies that systems are axiomatically less complex than their environment ([Philippopoulos-Mihalopoulos, 2007](#)).

Building on wide-ranging ideas, and in particular on cybernetics knowledge and the concept of autopoiesis, Luhmann identifies three different systems: the living system, the psychic system and the social system, whose respective aims are life, consciousness and communication. The systems are destined to solve societal problems, and ensure their reproduction through a self-referential autopoietic process based on internal operations. The concept, borrowed from [Maturana and Varela \(1980\)](#), is key to understanding Luhmann's work, and leads the paradigm shift to be described as the emergence of a theory of autopoiesis ([Teubner, 1989](#)). The system's evolution is the result of a series of operations also known as events: death suspension events take place in the living system, thinking events occur in the psychic system, and communicational events are located in the social system. Crucially, the main systems are not independent. Specifically, the psychic and social systems cooperate within the medium of meaning and with the use of language ([Van Assche and Verschraegen, 2008](#)). Luhmann analyses the systems as operationally closed on themselves but open to their environment. The closeness of operations is relative to the autopoiesis, which is a recursive, self-referential process through which life can only evolve into life, meaning produces further meaning and communication evolves towards subsequent communication. The openness interpretation of Luhmann is a breakthrough if compared to former sociologists; it supposes that systems are sensitive to their environment. Notably, the environment of a system is its non-system, i.e. anything else but itself. But Luhmann's analysis also distances itself from previous works by considering human beings not as part or constituents of the society but "*in their entirety, body and soul*" ([Luhmann, 2012](#), p. 9) as part of its environment. He denies the anthropologic differentiation between man and animals and subsequently authorizes the thinking of society as functionally differentiated rather than that of a living system. Such a novel angle offers a tremendous contribution in the analysis of the tensions lying in the one unique individual, like the paradox of consumer behaviour versus displayed intentions, coined schizophrenia by [Devinney et al. \(2010\)](#). According to Luhmann, individuals are part of the environment but spread across systems in their actions, as they become multiple objects of communication. Indeed, the customer mitigates between the better quality at lower price of products, the shareholder expects an optimal return

¹ A synchronized coevolution in the absence of overlap ([Teubner, 1989](#)).

² Planning is a form of steering aiming to coordinate processes of spatial organizations.

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