

# Multifunctional organisation models

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## A systems – theoretical framework for new venture discovery and creation

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### Abstract

**Purpose** – Are entrepreneurial opportunities discovered or created? The debate around this question has crucial implications for successful organizational change management in the business world. The present conceptual paper transcends this debate by embedding the concept of the entrepreneurial opportunities within a Luhmannian systems – theoretical framework which accentuates the unique role of organization and change in the age of functional differentiation. The purpose of this paper is to show how the strategic navigation of the borders between function systems such as politics, science, education, religion, art, or, of course, economy leads to the discovery or creation new opportunities for both business and social entrepreneurship.

**Design/methodology/approach** – The paper combines Niklas Luhmann's theory of social differentiation with Kim and Mauborgne's Blue Ocean Strategy. The key argument is that the alternative regimes of social differentiation, such as segmentation, centralization, stratification, and functional differentiation, create distinct pools of entrepreneurial opportunities to be discovered, created, and exploited by adequate business models. (Business) Organizations, therefore, need to strategically adjust the amount of attention they devote to the different forms of social differentiation. The argument is buttressed with illustrative examples of business models related to the regime of functional differentiation.

**Findings** – A paradoxical finding is that the multifunctional business models which explicitly draw on the value creation potential of the most recent form of social differentiation, functional differentiation, remain little known even though they infuse business organizations with a unique capacity of new venture discovery and creation in the modern society.

**Originality/value** – Multifunctional business models have so far remained unexplored in entrepreneurship theory and practice. This paper develops a first strategic approach to the discovery or creation of both multifunctional business models and a broader framework of multifunctional organization models.

**Keywords** Discovery, Opportunity, Business models, Creation, Social differentiation, Social systems theory

**Paper type** Conceptual paper

### 1. Introduction

Today, organization and management scholars broadly agree that that the increasingly dynamic and turbulent business environment (Al Humaïdan and Sabatier, 2017) as well as the inexorable challenges of social and environmental sustainability call for the appropriate



business model innovation and the corresponding change management strategies (Chesbrough, 2010; Gambardella and McGahan, 2010; Spieth *et al.*, 2014; Zott and Amit, 2010; Millar *et al.*, 2012). Business model innovation has led to dramatic organizational change in a wide variety of business contexts, including digital transformations (Wargin and Dobiéy, 2001; Jackson and Harris, 2003), strategic management challenges (Chesbrough, 2006; Richardson, 2008; Zott and Amit, 2008), technology and innovation management (Pateli and Giaglis, 2005; Chesbrough, 2007; Gambardella and McGahan, 2010; Zott and Amit, 2010; Huang *et al.*, 2013; Basile and Faraci, 2015), or sustainability management (Millar *et al.*, 2012; Schaltegger *et al.*, 2016).

These developments in the business world invite a rethinking of the longstanding issue of the origin of business opportunities. The persisting prominence of business model innovation casts doubts on the validity of the once prevalent view that these opportunities are “out there” in the business environment waiting to be discovered by alert entrepreneurs (Kirzner, 1997; Shane, 2003; McGrath, 2010; Fiet *et al.*, 2013). In today’s world, it is increasingly clear that business opportunities are not only discovered but also increasingly constructed, and it is this precisely this construction that is supposed to be enabled by innovative business models. In essence, business model development and innovation are tantamount to the proactive and performative in-house design of business opportunities.

The mechanism of the creation of business opportunities still remains an undertheorized issue though. If the observation of the business environment is done by alert entrepreneurs, what kinds of agents are responsible for the performative creation of business opportunities? An important strand of the scholarly literature addressed this question by shifting the object of the alertness of individual entrepreneurs from the discovery to the creation of business opportunities (Alvarez and Barney, 2007; Ramoglou and Tsang, 2016; Korsgaard, 2013; Ramoglou and Zyglidopoulos, 2015; Short *et al.*, 2010). This line of reasoning is likewise characteristic of the notable contributions from structuration theory (Chiasson and Saunders, 2005; Sarason *et al.*, 2010), critical realism (Kitching and Rouse, 2017; Ramoglou and Tsang, 2016), and actor–network theory (Garud and Giuliani, 2013). In a seminal paper, Foss and Klein (2017) state “that all the important phenomena of interest to entrepreneurship scholars [...] can be explained with reference to the entrepreneur’s belief, actions, results, and adjustments.”

Yet, the central contention of the present paper is that the focus on the singular person of the entrepreneur, who is an individual actor, underestimates the complexity of what social scientists call the micro-macro controversy. Moreover, business model development and organizational change generally are known as a necessarily communicative and, therefore, trans-individual endeavor (Kim and Mauborgne, 2005b; Osterwalder and Pigneur, 2010). The further disadvantage of the individual actor focus is the sidelining of the organized forms of entrepreneurship or intrapreneurship, such as entrepreneurial ecosystems (Cumming *et al.*, 2017), despite the fact that these forms might well have been the key driving forces of entrepreneurial activity for decades (Coleman, 1973).

In short, a major gap in the current understanding of the organizational change management, both in theoretical and practical terms, arises out of the incompleteness of the narrow individual actor-focused and economic factor-centered perspectives on the nature of business opportunities (Thornton *et al.*, 2011). In theoretical terms, the present paper will fill this gap by embedding the concept of entrepreneurial opportunities within a Luhmannian constructivist systems – theoretical framework which accentuates the unique role of organizations in the modern functionally differentiated society. The core argument will be that it is organizations rather than persons that are the primary carriers of entrepreneurial agency. Organizations operating within the regime of the functional differentiation will be shown to have the potential to develop multifunctional identities featuring a superior capacity of new venture discovery, creation, and sustainment. In practical terms, the

adopted systems – theoretical framework will illustrate how organizations may use theories of social differentiation (Luhmann, 1977) to refine their strategies for the creation of business opportunities (Fiet and Patel, 2008). This framework can accordingly be used for building the managerial dynamic capabilities required for business model innovation as a part of organizational change management (Basile and Faraci, 2015).

The rest of the paper is organized as follows. Section 2 sketches out the Luhmannian systems – theoretical approach to social differentiation while placing special emphasis on the features and challenges of the functionally differentiated society. The subsequent section discusses the capacities of organizations to navigate the terrain of functional differentiation. These capacities are shown to be grounded in organizational multifunctionality which empowers organizations to construct novel business opportunities through business model innovation. Multifunctional organizations are shown to discover, create, exploit, and sustain multifunctional business and organization models. The concluding section gives an outlook on multifunctional strategic management tools for the business and organization model innovation.

## 2. The Luhmannian theory of social differentiation: a reconstruction

The systems – theoretical platform for Luhmann’s approach to the sociological concept of social differentiation is his general understanding of systems as differences between themselves and their outer environments. Autopoietic systems are those systems that create and maintain this difference, which amounts to the complexity differential between the system as a form of reduced complexity and “the environment (that) is always more complex than the system” (Luhmann, 2013b, p. 121). Autopoietic systems, including social systems, accordingly co-evolve with their environments. Luhmann took “complexity reduction” to be the main function of autopoietic systems in view of their limited ability to process large amounts of environmental signals. The function of complexity reduction means that social systems ignore most environmental signals and thus avoid informational overloads while enabling individuals to make sense of the of the surrounding world which is overwhelmingly complex.

### *Social differentiation: the cross-tabulation approach*

The varieties of social differentiation distinguished by Luhmann are segmentation, centralization, stratification, and functional differentiation. It seems fair to say that Luhmann has postulated rather than discovered or created this typology. According to Luhmann (2013a), only “(f)ew differentiation forms have so far developed in the history of society. It seems that in this field, too, a ‘law of limited possibilities’ applies, even though it has yet to be constructed in a logically conclusive manner (e.g. by cross-tabulation)” (p. 13). This law can be reconstructed by the cross-tabulation of two distinctions: dis-/similar and un-/equal (see Table I).

This cross-tabulation combines the two basic distinctions as found in the foundational works on social differentiation (Durkheim, 1933; Marx, 1867; Spencer, 1895, Tönnies, 1887). These and other seminal works contrast homogeneity with heterogeneity, mechanic with

	Equal	
+		-
Similar +	Segmentation (families, tribes, nations, etc.)	Centralization (civilizations, empires, etc.)
-	Functional differentiation (economy, science, art, etc.)	Stratification (castes, estates, classes, etc.)

Source: Roth (2016, p. 300)

**Table I.**  
Social differentiation

organic solidarity, natural state with alienation, or association with organization. Each of these contrasts is based on the distinction between similarity and dissimilarity. There seems to be a broad consensus that this distinction has been the distinguishing mark of archaic societies but came to be displaced by the distinction between equality and inequality in the sociological investigations of the subsequent stages of social evolution (Giddens, 1973, p. 230; Cattacin, 2001, p. 7).

A moment's reflection will, therefore, show Table I not only summarizes the variables of social research known so far but also presents a brief map of the evolution of human societies. For example, the table shows that the principle of segmentation rests on the distinction of similar and equal units. This is the way the archaic societies were organized. Segmentation is a powerful organizational principle because some segments, such as families, could be grouped together in larger segments, such as clans and tribes. Conversely, segmentation implies that some sub-segments, such as women, could be distinguished for analytical purposes within larger segments. The Neolithic Revolution then marked a new era in which some segments began to dominate other segments. Overtime, this domination has been crystallized in the patterns of centralization and stratification which could be superseded by functional differentiation through the course of the further history. Technically speaking, functional differentiation refers to the distinction of both dissimilar and equal function systems (bottom left quadrant), Luhmann took functional differentiation to be the signum of the modern society which he saw to be decomposed into the function systems, whose tentative list includes the political system, economy, science, art, religion, legal system, sport, health, education, and mass media system.

#### *The challenges of the functionally differentiated society*

With none of the function systems being more important than any other (Wetzel and Van Gorp, 2014, p. 121), the modern society has no apex that could assume responsibility for the solutions of urgent problems, such as the ecological degradation (Luhmann, 1989). Furthermore, each of the function systems fulfills the basic function of complexity reduction and thus disregards the bulk of the respective environmental complexity. As a result, function systems fail to “control interdependencies in their environment. The more we rely on systems for improbable performances, the more we shall produce new and surprising problems, which will stimulate the growth of new systems, which will again interrupt interdependencies, create new problems, and require new systems” (Luhmann, 1990, p. 182).

While Luhmann's (1989) own paradigmatic illustration of the steering failures of function systems foregrounds the ongoing “ecological degradation” of the modern society, a relevant illustration in the business context is exemplified by Kim and Mauborgne's (2005b) seminal concept of red ocean strategy. They argue that the corporate strategy that uses economic competition as the benchmark may eventuate in competitive deadlocks marked by “increasing price wars, and shrinking profit margins” (Kim and Mauborgne, 2005b, p. 107). It is evident that using competition as the benchmark presents a complexity reduction strategy that apparently fails to keep pace with “accelerated technological advances [which] have substantially improved industrial productivity and have allowed suppliers to produce an unprecedented array of products and services” (Kim and Mauborgne, 2005b). If the technological progress is assumed to constitute an aspect of the environmental complexity which is reduced by the economic function system, then discrepancies of this sort may appear to be inevitable. In fact, they present manifestations of what Luhmann referred to as the “complexity gap” between system and environment. Kim and Mauborgne's (2005a) idea of blue oceans makes clear, however, that in the business context, this complexity gap does not necessarily lead to competitive deadlocks, for complexity reduction strategies are generally contingent and variable. If a current complexity reduction strategy of a corporation does result in such a deadlock, an alternative strategy could involve

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“a shift of attention from supply to demand, from a focus on competing to a focus on leaving the competition behind” (Kim and Mauborgne, 2005a, b, p. 109).

To be sure, in order to be fully workable, Kim and Mauborgne’s (2005a, b) idea of blue oceans must stand the test of cultural fit, i.e., the test of coherence with routines, habits, and competences of those organizations that would wish to experiment with this strategy. It is noteworthy that the regime of functional differentiation possesses at least two characteristics that may make the problems of cultural fit particularly severe. As discussed by Luhmann (2012), these characteristics include the coexistence of several types of social differentiation and the possibility of the discrepancies between social structure and social semantics. The first characteristic means that the functionally differentiated society contains traces or islands of the earlier forms of differentiation, such as segmentation and stratification. The second characteristic means that each form of differentiation employs semantic categories that may turn out to be incongruent with the categories pertaining to other forms. As a result, while the social structure of the modern society rests on functional differentiation, this structure will be likely discrepant with the semantic categories rooted in the earlier forms of differentiation. Pies *et al.* (2009) note that these discrepancies are generally ambivalent: they may stimulate the social learning processes but may also hinder them. Either way, dealing with these discrepancies calls for the development of innovative strategies (Pies *et al.*, 2009).

The possibility of the discrepancies between social structure and semantics in the modern society arises out of the fact that the logics of segmentation, centralization, and stratification retain validity insofar as they do not explicitly interfere with the key institutions of functional differentiation. The semantics of segmentation and centralization still account for much of the geographical and spatial organization of society; the logic of stratification may find application within certain families and organizations, etc. In a similar fashion, the bulk of the present-day social research operates with variables reflecting the earlier forms of differentiation (Roth *et al.*, 2017). Moreover, it is remarkable that a prominent concept in the marketing science is market segmentation, the organizing principle of archaic societies. The semantic categories of functional differentiation are still getting short shrift, and this is where the problems of cultural fit are particularly evident. Addressing some of these problems requires a rethinking of the role of organizations in the functionally differentiated society along the lines suggested in the following section.

### 3. The form of organizations

True to Luhmann (2003, 2005), in the modern society, organizations are another major type of social systems beside the function systems. Luhmann held that organizations consist of decisions and nothing but decisions, which he took to be specific forms of communication that communicate their own contingency. The complexity-reducing function of organizations boils down to the continuing production of decisions out of decisions. Just as with other types of social systems, the complexity-reducing function may expose organizations to a precarious regime of system–environment relations. This is particularly true for organizations because decision communication implies the communication of alternatives. Hence, the more decisions there are, the more alternatives emerge, and accordingly greater is the need for further decisions. Thus, organizations may indeed be “conveniently conceptualized as social systems, whose complexity-reducing function leads them to disregard their critical environmental dependencies and thus undermine their own sustainability” (Thompson and Valentinov, 2017, p. 18), especially in view of the cultural fit problems aggravated by the regime of functional differentiation.

Organizations, however, are not helplessly at the mercy of the vagaries of functional differentiation. Given that the environment of organizations is constituted by the functionally differentiated society, any organization is “guided by information obtained on

the very few wavelengths where [it] is sensitive [...] [Function] systems constitute such sensitive areas” (Thyssen, 2009, p. 47). Moreover, as shown by Roth *et al.* (2017), all organizations in the functionally differentiated society are potentially multifunctional, which means that they can be associated with any number of function systems at varying degrees of intensity. The attribute of multifunctionality equips organizations with the tools they need to navigate the precarious terrain of functional differentiation. To ensure their sustainability, organizations can adjust their multifunctionality profiles to their actual dependencies on their encompassing environment. A hospital, e.g., may exhibit environmental dependencies on the function systems of health care, economy, law, and occasionally even politics. Moreover, the intensity of the dependencies to particular may be observed to be subject to change. For example, in recent years, many scholars have observed an increasing proliferation of business management principles in formally political-, health-, science-, or education-oriented organizations (Brunton and Matheny, 2009; Jemielniak and Greenwood, 2015; Alvesson and Spicer, 2016). In the proposed systems – theoretical perspective, these organizational changes emerge as the adjustments of the organizational multifunctionality profiles to the shifting nexus of environmental dependencies of the concerned organizations.

Whereas the idea of organizational multifunctionality illuminates the general role of organizations in the functionally differentiated society, it still does not capture the full complexity of business model innovation. The crucial fact here is that business models enable both the observation and creation of business opportunities through the drawing of distinctions corresponding to specific forms of social differentiation. These forms are not necessarily limited to functional differentiation. As noted above, the regime of functional differentiation not only permits the coexistence of several forms of social differentiation but even exhibits discrepancies between these forms and the semantic categories utilized for their (self-) description. A unique feature of business models is that they can guide the observation and construction of business opportunities along the lines of all the known types of social differentiation, including functional, stratificatory, and even segmentary. By doing so, business models reinstall the borders that characterize historically distinct forms of society and accordingly create new business opportunities originating from the possibility of these borders being transgressed.

This may sound paradoxical, especially in view of the conventional wisdom that, in the context of business model innovation, barriers to need to be explored mainly to overcome them (Chesbrough, 2010). Yet, in seminal publications, Kim and Mauborgne (2005a, b) argued that the creation of new market spaces calls not only for the transgression, but also for the strategic installation of social borders, not least because these borders may also act as barriers to business model imitation (Teece, 2010, p. 181 f; Snihur and Tarzijan, 2018). A thorough understanding of the forms and functions of barriers in the discovery, creation, and defence of business opportunities is therefore of interest not only because “opportunities as social entities must have boundary conditions that span the exogenous structural conditions of the social world as well as the endogenous characteristics of the entrepreneurs attempting to develop them. For theoretical progress, these wider structural and agential conditions that define when an opportunity exists, and when it does not, still need to be identified” (Martin and Wilson, 2016, p. 271). A sample of cases presented in the next section, therefore, show the social borders to play strategic roles going far beyond their traditional view as barriers to business model innovation.

#### 4. Multifunctional business models

Roth, Melkonyan, Kaivo-Oja, Manke and Dana (2018, p. 586) have argued that “(m)arket research in general and new venture discovery in particular implies the identification of key variables that influence the outcome of entrepreneurial ventures. The main variables

processed in this context are identified by segmentation, centralization, and stratification, while the variables of functional differentiation remaining largely, if not fully, ignored.” The authors go on to give numerous examples of how the strategic navigation of borders between segments, centers, and peripheries, or strata of society leads to the discovery or creation of new business models, and how first movers across these borders may be observed to have considerable competitive advantages such as the “the blue ocean of a more or less durable monopoly” (Roth, Melkonyan, Kaivo-Oja, Manke and Dana, 2018; Roth, Valentinov, Agustinaitis, Mkrtychyan and Kaivo-oja, 2018). In a similar fashion, the systematic navigation of the borders of functional differentiation allows for the discovery and creation of the new inter-functional horizon of opportunities that may be exploited by the multifunctional business models. These models involve the strategic observation and navigation of the borders between ten function systems of society. Roth, Melkonyan, Kaivo-Oja, Manke and Dana, 2018; Roth, Valentinov, Agustinaitis, Mkrtychyan and Kaivo-oja, 2018, p. 588ff) give three examples of “interfunctional” business models – the selling of indulgences and its contemporary variant, carbon offsetting (Brouwer *et al.*, 2008, p. 310; Gössling *et al.*, 2007; Mair, 2011); new public management, and patent trolling (Chaudhry and Walsh, 1995; Durand and Vergne, 2013; Pénin, 2012) – to which this article adds further two illustrative examples.

### *Cooperatives*

Cooperatives present a business model whose relation to the regime of functional differentiation is likely counterintuitive. Cooperatives are blends of the business firm and social group constituted by the membership base. If the social group identity is truly important, then cooperatives can hardly be considered to do justice to the ideal type of the modern formal organization as well as to the global competitive regime. Yet, all over the globe and particularly in the western world, cooperatives are far from being on the wane. New cooperative models and new fields of cooperative activity keep emerging. One of the recent models is multi-stakeholder cooperatives operating, e.g., in agriculture (Gonzalez, 2017) and the provision of social services (Münkner, 2004). These cooperatives are not only marked by substantial membership heterogeneity but also turn this heterogeneity into a competitive advantage (Gonzalez, 2017). This is perplexing to the conventional economic theorizing emphasizing high governance costs associated with member heterogeneity (Iliopoulos and Valentinov, 2017). The salience of multi-stakeholder cooperatives, and cooperatives in the modern society more generally, makes considerably more sense if these are understood as multifunctional business models. The strength of multi-stakeholder cooperatives would then reside in their ability to bring together the representatives of diverse function systems. The multifunctional character of cooperatives generally would likewise explain their ability to internalize externalities externalized by the economic function system operating on its own ground (Gray, 2016).

Among the seven principles of cooperation approved by the ICA in 1995, the multifunctional character is most clearly implicated in the seventh principle envisioning the cooperatives’ “concern for community.” The relation of this principle to multifunctionality is potentially twofold. First, to the extent that cooperative members see themselves as members of the local community, they can entrust their cooperative with the delivery of a broad set of services potentially pertaining to several function systems. These services could include legal advice, education, medical aid, childcare and social work, political representation. Second, if the local community rather than cooperative members is taken as the point of departure, it is possible to hypothesize that within the specific administrative or territorial boundaries, some function systems may be developed better than others. Especially in peripheral rural areas, the state of the development of function systems such as health care or education may fall behind the expectations of the local population which

may fill some of the gaps on the cooperative basis (Valentinov, 2009; Iliopoulos and Valentinov, 2018). Given that cooperatives always remain businesses operating within the economic system, they hold the potential to promote local community development (Vieta and Lionais, 2015; Zeuli and Radel, 2005) through a sort of multifunctional synthesis.

A particularly interesting example of the multifunctional nature of the cooperative business model is provided by the social cooperatives currently enjoying much popularity in Italy (Picciotti *et al.*, 2014). The aim of these cooperatives is in supporting vulnerable and disadvantaged people with a view to facilitate their integration into the labor market. The support offered to these individuals spans several function systems, such as economy, health care, and education. If seen through a multifunctional lens, social cooperatives likewise reveal their strong links to the political system which actively embraces the contracting-out regime, and the legal system which went a long way toward developing a novel niche for these organizations. The regime of functional differentiation is known for offering no guarantees for the individual inclusion. As Luhmann (1997, p. 74 f) noted, “the calamity [in the functionally differentiated society, in contrast to earlier societies] is no longer exploitation and suppression but neglect.” Social cooperatives are evidently tasked with overcoming precisely this problem, while remaining business organizations operating in the economic system. They take advantage of their multifunctional orientation in order to address the exclusion problems of the functionally differentiated society.

#### *Body worlds*

In 1977, the German Anatomist Gunther von Hagens invented a new preservation process dubbed Plastination during his work at the University of Heidelberg. Plastination allowed for human bodies and body parts to be preserved by the replacing of body fluids and fats by liquid plastics, which are then hardened with heat or gas (von Hagens, 1979). Starting in Japan in 1995, von Hagens organized a series of exhibitions of plastinated bodies, organs, and other body parts under the brand name Body Worlds. The exhibitions have been visited by over 44m spectators in more than 100 cities, which made Body Worlds the world’s most successful traveling exhibition. In 1982, von Hagens launched a Body Donations Program which ensures a sufficient supply of bodies, which now comprises over 16,000 donors worldwide as he is using only donated body for his work. Unsurprisingly, von Hagens’ work has always been discussed controversially, whereby von Hagen’s activity has been observed alternatively through the lenses of art, health, economy, science, and mass media. Some critics have also raised religious concerns related to the exhibition of dead human bodies, whereas health organizations have criticized the use of body donors for arts instead of transplantations.

A closer look at von Hagen’s business model reveals that this multifunctional entrepreneur built on a scientific method to create business that strategically navigates not only the borders of science and economy, but also those of art, health, the mass media, and probably even education. Von Hagens’ exhibitions make basic information on health and science available to larger audiences, with one of officially stated purposes of the exercise being the ambition to inspire people to a healthier and more conscious lifestyle; we might hence be even speaking of an educational aspect, not least because von Hagens is also offering educational online materials. At the same time, his scientifically transformed exhibits have been understood and discussed as works of art, too, whereas the exhibitions, including catalogues, books, and online materials, clearly present the mass media dimension of the business model.

Still, von Hagen’s Body Worlds clearly is a for-profit project, which primarily generates revenues by ticket sales, to which add revenues from copyrights on all exhibits, which implies that unauthorized photos or videos are prohibited during the exhibitions. Moreover, von Hagens protected his Plastination techniques by obtaining a patent on several of the



procedures he developed. The patent allows him to contain competition, the more so as none of the competitors has a developed body donations program, which renders their acquisitions of dead bodies even more complicated and controversial. Thus, in being the first mover across a considerable number of borders between the function systems of society, Body Worlds remains a competitive multifunctional blue ocean business model for more than two decades now.

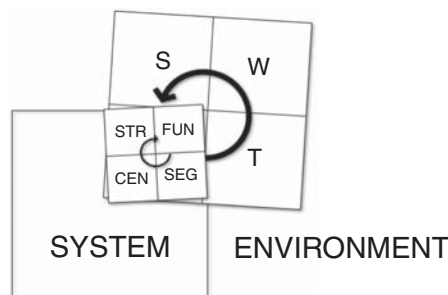
**5. Outlook: business model innovation as special cases of organizational change**

The systems – theoretical framework developed in the present paper shows that business opportunities are both detected and created by those organizations that skillfully harness the value creation potential offered by the alternative regimes of social differentiation, such as segmentation, centralization, stratification, and functional differentiation. Each of these regimes engenders social boundaries whose systematic navigation holds the potential to create value and to give rise to a host of innovative business models. We moreover found that the multifunctional business models, i.e., business models that explicitly draw on the creative potential of functional differentiation as the distinctive feature of the modern society, remain largely uncharted in the traditional spectrum of new venture discovery.

The exploration of this uncharted spectrum and the subsequent management of multifunctional business models may be equally complex as, and therefore may draw inspiration from, the management of multi-business models (Casadesus-Masanell and Tarzijan, 2012; Snihur and Tarzijan, 2018) or multi-dimensional models of organizational culture (Dauber *et al.*, 2012), the latter of which also place a high value on the critical difference between internal and external organizational environment. A key challenge in the development of our model is, therefore, the need to take a multifunctional perspective on both the external and the internal business environment as suggested by the changing position of the “FUN” dimension shown in Figure 1.

The basic message of Figure 1 is that opportunities can be discovered, created, and sustained by the strategic observation of borders drawn by the four basic forms of social differentiation: segmentation, centralization, stratification, and functional differentiation. The rotating arrows furthermore indicate that social differentiation pertains not only to the observation of a system’s external environment, but also to a system’s internal environment and thus to systemic self-observation.

From this proposition, we can draw two implications: first, organizations are well-advised to monitor and strategically adapt to the full spectrum of social change occurring in their organizational environment. For example, Roth, Clark, Trofimov, Mkrtychyan, Heidingsfelder, Appignanesi, Pérez-Valls, Berkel and Kaivo-oja (2017) and Roth, Valentinov, Agustinaitis, Mkrtychyan and Kaivo-oja (2018) showed that the value societies place on the different function systems has been subject to profound changes throughout the last centuries.



**Figure 1.**  
Observing a system’s  
external or internal  
environment  
combining SWOT and  
theories of social  
differentiation

Their data also suggest that the economy might be of lesser importance than popular definitions of society as being economy-dominated or capitalist tend to make us believe. Too strong a focus on only one or few function systems in general and on economic issues in particular might, therefore, lead organizations to ignore critical social megatrends and support an unsustainable over-adjustment to a probably too narrow set of environmental factors. Second, it is equally important to understand that organizational change may occur with regard to the full spectrum of social differentiation in general and of functional differentiation in particular. This implies that the established concepts of business model innovation and the corresponding change management literature have so far captured only a small and biased proportion of an obviously broader phenomenon of change and organization. If we take a broader and unbiased perspective, however, then we find that organizations or organizational identities positively can be defined by the often and sometimes profoundly changing importance that organizations place on the individual function systems. The conversion of cooperatives and (other) nonprofit organizations into for-profit structures would be a prominent example of this otherwise under-researched form of organizational change (Brunton and Matheny, 2009; Alvesson and Spicer, 2016; Iliopoulos and Valentinov, 2017; Padilla-Angulo and Ben Slimane, 2018; Valentinov *et al.*, 2018; Will *et al.*, 2018).

Our multi-dimensional organization model thus drives home the systems – theoretical insight that the systemic observation interlocks the discovery of factual opportunities “out there” and the system’s own creative performance. Yet another meaning of the arrows is that the social differentiation lens captures not only opportunities, but also strengths, weaknesses, and threats, the latter of which refer to the potential side effects of entrepreneurial activities, however well-intended they might be. This means that multifunctional business models present more than the strategic management tools for the discovery and creation of business opportunities. These models are no less well-positioned to incorporate the corporate sustainability initiatives which today tend to be subsumed by the residual concepts such social entrepreneurship.

In this sense, our approach may also be understood as a reminder that even the straightest business firms need to match their business model innovations (#viability) not only with technological innovations (#feasibility), but also with social innovations (#desirability). If these three dimensions are systemically addressed, then organizations may create better synergies and ultimately business results. Yet, in many real-life contexts, business- and technology-related aspects of innovation dominate the product development, branding, and general strategies. By contrast, a multifunctional approach to business model innovation challenges the narrow business and technological innovation gaze, which it complements by a both broader and more detailed focus on the social dimension of innovation. Thus, organizations that wish to discover, create, and further develop multifunctional business models will at some point realize that they are not just businesses, but rather multifunctional organizations that can devote changing amounts of attention to both economic and non-economic functions systems; they will increase their “cultural figurative intelligence” (Yolles, 2017) and cultivate multifunctional “perceptions of cyclical shifts in organisational cultures” (Fink and Dauber, 2016, p. 66), and thus turn into multifunctional organizations that can navigate the full spectrum of social differentiation and take the full scope of opportunities, including business opportunities, opening up in the age of functional differentiation.

Last but not least, the proposed systems – theoretical perspective on multifunctional organizations and business models throws sidelights on the debate on business purpose ongoing in the business ethics literature. At its core, the debate revolves around the question of whether corporations should remain solely economic actors or assume additional political responsibilities. A number of today’s business ethicists take issue with Milton Friedman’s (1970) controversial conviction that “the social responsibility of business is to increase its profits.”

For example, Pies *et al.* (2014, p. 226) argue that corporations “take a political role if they participate in rule-setting processes and rule-finding discourses,” whereas Scherer and Palazzo (2011) see the political role of corporations in their engagement in global governance as the steering capacity of the national state is being undermined by globalization. The notion of organizational multifunctionality takes the debate to a new and probably more radical level. Not only does the political role of the corporation appear to be just one contingent manifestation of multifunctionality; far beyond that, corporations are systematically seen and advised to cross the boundaries of function systems in order to forge novel business opportunities and win-win potentials. The emerging conclusion is that if these potentials are to be sustainably created and exploited, corporations should take not only a political role, but a wide range of further roles corresponding to their engagement in functions beyond economy and politics.

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