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From nonprofit diversity to organizational multifunctionality: a systems-theoretical proposal

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Abstract: The remarkable feature of the nonprofit sector is its astonishing diversity. This feature gets short shrift in the traditional market or governmental failure theories of the nonprofit sector. Drawing on Niklas Luhmann’s concept of functional differentiation, we demonstrate that these theories are implicitly economy- and politics-biased. In seeking to overcome these biases, we show that nonprofits and NGOs are better understood as those varieties of organizations whose primary focus is on function systems other than the economy and politics. We summarize this argument in the concept of organizational multifunctionality which turns out to be likewise applicable to the for-profit sector.

Keywords: nonprofit organization; nongovernmental organization; Niklas Luhmann; functional differentiation; diversity.

1. Introduction

If there is a single characteristic that can be safely assumed to apply to the nonprofit sector, it is diversity. Both across and within nations, nonprofit organizations exhibit startling heterogeneity and include “religious congregations, universities, hospitals, museums, homeless shelters, civil rights groups, labor unions, political parties, and environmental organizations, among others. Nonprofits play a variety of social, economic, and political roles in the society. They provide services as well as educate, advocate, and engage people in civic and social life” (Boris and Steurle 2006, p. 66). The diversity of this sector has been so impressive that it led some scholars to question the meaningfulness of the sector as a definitional construct suitable for consistent theory building (Ferreira 2014, Sims 2001). O’Neill (2002, p. 8) identifies a stream of nonprofit scholarship, including Hall (1992), Hansmann (1980), Karl (1987), and Kramer (2000), that is “question[ing] whether the term sector is appropriately applied to the nonprofit world, because of the permeability of its borders the diversity of its organizations in size, purpose, and revenue sources”. Notwithstanding these legitimate concerns, the interdisciplinary field of the nonprofit sector studies has been booming for decades. It is most likely that diversity has been one reason behind this boom since it has encouraged lively experimentation with ideas, theories, and methods. Yet, the diversity itself has turned out to be an elusive concept. While many individual theories of the nonprofit sector provide brilliant insights into specific segments of its global landscape, its diversity as such remains puzzling. As a result, “we are still far from a ‘grand unified theory’ of the nonprofit sector” (O’Neill 2002, p. 52).
As a research challenge, the issue of nonprofit diversity has certainly not escaped the attention of scholars. It has been suggested that if diversity can be at all explained, then only by the theories of the institutional embeddedness of the nonprofit sector (Smith and Grønbjerg 2006). A landmark contribution in this direction is Anheier and Salamon’s (2006) “social origins” theory intended to emphasize “the embeddedness of the nonprofit sector in the cultural, religious, political, and economic realities of different countries. It thus views decisions about whether to rely on the market, the nonprofit sector, or the state for the provision of key services as not simply open to choice by individual consumers in an open market… Rather, it views these choices as heavily constrained by prior patterns of historical development and by the relative power of various social groupings that have significant stakes in the outcomes of these decisions” (ibid, p. 106). The social origins theory is complemented by further neoinstitutional and regime perspectives exploring “the ways in which the institutional environment shapes the nonprofit sector” (Smith and Grønbjerg 2006, p. 235). While contributing much toward explaining nonprofit heterogeneity between different institutional regimes, these perspectives tend to downplay heterogeneity within regimes, thus inviting charges of imprecision. Furthermore, the geographic variation within the global nonprofit sector must be distinguished from causal mechanisms responsible for the “reconstitutive downward causation” from the encompassing institutional structure onto the level of specific nonprofit organizations (Valentinov 2012). It is however precisely these mechanisms that are required for a theoretical explanation of diversity.

The strategy of the present paper is to explain the diversity of the nonprofit sector as an immediate consequence of the functional differentiation of society. Functional differentiation refers to the distinction of incommensurable function systems, i.e. binary coded communicative systems such as economy, law, politics, and science (Beck et al. 2003; Beck and Lau 2005; Brier 2007; Laermans 2007; Roth 2015; Roth and Schütz 2015). The concept of functional differentiation is not new to the field of the nonprofit studies. For example, it has been argued that nonprofit organizations address some of the unfortunate consequences of the functional differentiation of society, such as the poor coordination among function systems as well as the possibility of specific societal problems being neglected by all the function systems (cf. also Ferreira 2014). This idea illustrates why many nonprofit organizations focus their activities on societal risks, especially those of social inequality and exclusion, as well as on environmental issues. Furthermore, many nonprofit organizations belong to several function systems and thus improve the coordination between them (Ferreira 2014). In addition to intermediating the relations among the function systems, nonprofit organizations hold the potential to counteract the Habermasian (1985) problem of the systemic colonialization of the lifeworld. By bringing the heterogeneous texture of functional differentiation to bear on nonprofit organizations, these arguments make important headway toward explaining the phenomenon of nonprofit diversity (cf. Ferreira 2014).

This paper agrees with the above studies but advances an argument that is more basic and probably more radical. The key contention is that the diversity of functional differentiation directly translates into the diversity of the nonprofit sector. To see this point, let us recall that the very terms “nonprofit organization” and “nongovernmental organization” reflect particular ways of observing the organizational variety of the modern society. These ways are not neutral or objective. They reflect the standpoints of the observing systems, evidently the economic system and the political system. It stands to reason that from the economic system’s perspective, organizations associated with other function systems will appear to be “non-economic”, or “nonprofit”. Similarly, the political system will register organizations associated with other function systems as “non-political”, or “non-governmental”. Against the
backdrop of the rich diversity of nonprofit activities, the terms “nonprofit” and “nongovernmental” indicate the blind spots of observing the corresponding diverse texture of functional differentiation. Note that this argument explains not only the variation among individual nonprofits but also touches upon the causal mechanisms of their emergence by relating these mechanisms to the rise of functional differentiation itself. The paper starts by reflecting on the way the nonprofit sector has been conventionally described in terms of the semantic categories of the economic and political system. The reflections are then reconsidered in the broader context of functional differentiation by advancing the novel concept of “multifunctional organization” which will be shown to apply to both the nonprofit and for-profit corporate sectors.

2. The nature of nonprofits: from definitions to theories

The Luhmannian concept of functional differentiation characterizes not only the social structure of the modern society but also the semantic categories utilized in this society’s self-descriptions. In terms of semantics, each of the function systems, such as the economy, politics, law, and religion, is associated with a set of dominant theories, such as those of economics, political science, legal studies, and theology (Luhmann 1977; 1990; Luhmann and Barrett 2013). Luhmann argued that these theories remain “loyal” to their respective function systems and seek to legitimate their continued operations. In a wide array of these theories available today, two types of theories have been particularly effective in shaping the field of the modern nonprofit studies. These are the theories of economics and political science. Put differently, the field of the modern nonprofit studies is dominated by the semantics of the economic and political system.

This fact appears to be ambivalent. On the one hand, this kind of semantics has been invaluable for the purposes of defining and mapping the nonprofit sector. As O’Neill (2002, p. 3) notes, “in practical terms nonprofits are defined by the U.S. government’s Internal Revenue Code (IRC) and accompanying regulations from the IRS, and by the fifty states governments in their corporation and tax laws” (cf. also Hansmann 1980). It is clear that these definitions are framed by the economic and political semantics. The same is true for the widely used “structural-operational definition” elaborated within the Johns Hopkins Comparative Nonprofit Sector Project (Anheier and Salamon 2006). O’Neill’s (2002) ninefold typology of nonprofit “subsectors”, including religion, education, health care, social or human services, grantmaking, arts and culture, advocacy, international assistance, and mutual benefit activity, likewise rests on this semantics. This typology follows “the main government and private classification systems” while taking account of the economic indicators such as the “number and types of organizations; revenue, expenditures, and assets; number and characteristics of paid staff and volunteers; number of clients and customers; and other such information” (ibid, p. xix). On reflection, any attempt to define or map nonprofits must imply their “group[ing] based on their objectives, structure, and behavior” (ibid, p. 8) each of which can be conveniently expressed by the semantics of the economic and political systems.

The crucial role of this semantics in the definitions and mappings of the nonprofit sector seems to have naturally translated into the dominance of the economic and political science approaches within the scholarly field of the nonprofit sector studies. It is at this point that the diversity of the nonprofit sector became a stumbling block. Being loyal to the function systems of the economy and politics, these approaches could not do full justice to the
engagement of nonprofits in other function systems. Instead, they emphasized the role of nonprofits in addressing breakdowns in the economic and political systems, i.e., market and government failures. Market failures that came to be believed to be addressed by nonprofits include the paradigmatic cases of information asymmetries and public goods (Badelt 2007; Salom 2001; Steinberg 2006; Hansmann 1987). The relevant types of governmental failure include the so-called majoritarian and categorical constraints aggravated by the problems of bureaucratization and the lack of experimentation and flexibility (Douglas 2001; Young 2001b; Salamon and Toepler 2015). Nonprofits emerged to be remedies for the inability of the economic and political systems to process the full spectrum of societal needs in view of the respective systemic breakdowns.

The central problem of the market and government failure approaches is the implicit exaggeration of the importance to the nonprofit sector of the codes, programs, and logics of economic and political function systems relative to the importance of other function systems. Thus it is small wonder that the dominant economic approaches regard nonprofits as merely third-best solutions in a world with high transaction costs and information asymmetries, with the first-best world being that of pervasive efficient markets and the second-best that of markets with minor market failures corrected by for-profit firms (Coase 1937). It is this systemic failure bias that lies at the heart of multifarious criticisms that have been leveled against the failure approaches, which, as Lohmann (1992) noted, tell about what the nonprofit sector is not rather than about what it is. These criticisms however must be kept conceptually distinct from the role of the economic and political semantics in documenting the sector’s diversity. This semantics appears to be much more helpful in defining and mapping the nonprofit than in theorizing about it. The latter task calls for a full-fledged account of functional differentiation that is not limited to the semantics of the function systems of the economy and politics.

3. Modernity and organizations

The concepts of functional differentiation and formal organization are considered to be constitutive of modern societies. Interestingly, theories of functional differentiation and formal organization are often observed to be mutually supportive and interdependent (Ahrne et al. 2016; Bergthaller and Schinko 2011; Leydesdorff 2002; Luhmann 1977; Luhmann 1990; Luhmann 1997; Roth 2015; Roth and Schütz 2015; Schoeneborn 2011; Seidl 2005; Vanderstraeten 2005; Wetzel and Van Gorp 2014). Yet, paradoxically, there has been little intersection between the streams of research on functional differentiation and formal organization (Roth and Kaivo-oja 2015; Wetzel and Van Gorp 2014). In fact, a large part of research in organization studies is flirting with categories associated with the earlier forms of differentiation such as gender, age, race, nationality, culture, class, or hierarchy, remaining unimpressed by the notions of functional differentiation and function systems. Drawing on Niklas Luhmann’s systems-theoretical insights, the following subsections elucidate the meanings of functional differentiation and formal organization in order to prepare the ground for their theoretical integration in the concept of organizational multifunctionality.

3.1. The concept of functional differentiation

In his article Differentiation of Society, Luhmann (1977) crossed two foundational distinctions of sociology, dis-/similar and un-/equal,¹ in order to develop a framework for what would later become his differentiation theory (Luhmann and Barrett 2013). Much like in the case of

¹ In the original German, Luhmann uses the terms “unterschiedlich” and “gleich” (unterschiedlich-gleich) instead of dis-similar and un-equal.
a scenario analysis, the crossing of these distinctions creates four alternative worlds of social differentiation, with only three of them having been systematically explored so far (see Table 1):

<table>
<thead>
<tr>
<th>Similar</th>
<th>Equal</th>
<th>Centralization</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>Segmentation (Families, tribes, nations, etc.)</td>
<td>(Civilizations, empires, etc.)</td>
</tr>
<tr>
<td>-</td>
<td>Functional Differentiation (Economy, Science, Art, etc.)</td>
<td>Stratification (Castes, estates, classes, etc.)</td>
</tr>
</tbody>
</table>

Table 1: Social Differentiation (Roth 2015; Roth and Schütz 2015)

Luhmann (1977) referred to these alternative worlds to tell a short but persuasive history of society. Earliest societies were made up of similar and equal segments (top left quadrant). Segmentation hence was the key principle used both to distinguish social systems and to group smaller systems into larger systems, such as clans consisting of several families or nations made up of several tribes. Segmentation may also be used to zoom in on specific segments, such as women and men who formed respective segments of a tribe. Segmentation hence implies the observation of both similarities and equality; clans, for instance, are segments of similar tribes, with one tribe being always equal to another tribe until further, non-segmental forms of differentiation begin to apply. Segmentation is a very basic form of social differentiation still existing today, e.g. in the observations of nation states or practices of market segmentation. Later on, the Neolithic revolution witnessed the rise of another form of social differentiation which emerged when the processes of centralization allowed for the unequal distributions of resources, attention, or influence between analytically similar systems (top right quadrant). Similar segments were now distinguished into centers and peripheries. Thus, settlements turned into cities or villages, and tribes into civilizations or barbarisms. In the next step, the center-periphery distinction must ultimately have led to the realization that unequal systems may also be essentially dissimilar. This logical connection is at the heart of stratification, i.e., the distinction of dissimilar and unequal subsystems such as castes, estates, or classes (bottom right quadrant). The series of political and industrial revolutions brought the growing consensus that it is functional differentiation rather than stratification that is the dominant form of social differentiation today. Technically speaking, functional differentiation refers to the distinction of both dissimilar and equal function systems (bottom left quadrant), namely the political system, economy, science, art, religion, legal system, sport, health, education, and mass media system (Roth and Schütz 2015). Functional differentiation however does not prevent contemporary societies from disrespecting the intersystemic boundaries (#corruption) or tolerating intersystemic “power” imbalances (#capitalism); yet, it remains true that observations of deviations from functional differentiation are possible and may be criticized only against the background of functional differentiation.

Crucially, functional differentiation is not about a division of work or society, but rather about a multiplication of horizons of meaning and communication. In fact, functional differentiation involves the observation of symbolically generalized communication media such as money, power, truth, or belief, with the corresponding codes (non-/payment, opposition/government, un-/true, immanent/transcendent, etc.) working as duplication rules. The same phenomenon may be thus present different events at the same time: a painting may be considered as an artwork as much as an investment, a form of opposition, or an act of blasphemy. In earlier societies, elements of constitutive subsystems were confined to these subsystems (a nobleman could not simultaneously be a commoner), while relations between different functions, if
existent, were organized hierarchically. In contrast, in the age of functional differentiation, “society 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, p. 48). One social event can now be politicized, aestheticized, or mediatized; hence, functional differentiation does not divide or decompose societies. Rather, it turns stratified universes into functional multiverses of different and incommensurable perspectives.

3.2. Organizations in the functionally differentiated society

Luhmann took organizations to consist of decisions which, in his view, present a specific form of communication. The paradox involved herein is that the communication of decisions necessarily implies the communication of alternatives. Yet, more decisions entail more alternatives, and the more alternatives there are, the less justified any decision must be. This is why decision communication unavoidably creates the need for further decision communication. It is this eigenlogic of decision communication that, according to Luhmann (2003; 2005), eventually triggers the emergence of organizations as operationally closed systems of decisions. Once made, decisions can only be replaced by other decisions, while past decisions may also serve as premises for future decisions. This partly absorbs the insecurity which is inherent to any decision making process. Luhmann (2003; 2005) identified four types of such decision premises: personnel, channels, programs, and organizational culture. Personnel premises refer to membership decisions pertaining to recruitment or career progression. Communication channels are premises related to organizational information flows. As decision premises, programs decide whether decisions are made properly. Finally, culture indicates the nexus of undecidable decision premises such as organizational routines or foundational decisions.

Conceptualizing organizations as operationally closed entities has far-reaching implications for organization theory. Building on this conceptualization, Thyssen (2009) suggests an interesting theoretical connection between organizations and the regime of functional differentiation. “An organization is in no direct contact with the environment… It is guided by information obtained on the very few wavelengths where the organization is sensitive… [Function] systems constitute such sensitive areas” (ibid, p. 47). Assuming that enormous knowledge about social issues is stored and processed on the level of the function systems which Luhmann showed to be mutually incommensurable and incapable of concerted action, this special role of organizations may consist in overcoming this incommensurability. This, of course, is possible solely within local problem-solving contexts specified by the organizational goals and its means. Organizations mobilize, bundle, and act upon the civilizational knowledge codified within the incommensurable function systems. This argument is particularly germane to the Veblenian and Deweyian conception of human activity as the intelligent problem-solving drawing on the community stock of knowledge (Valentinov 2013).

At the same time, similar to other types of social systems in Luhmann’s theory, organizations fulfill the function of complexity reduction. As Thyssen (ibid) and Thompson and Valentinov (2017) explain, this function is necessary but ambivalent: organizations “can 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). Or, in the words of Loasby (1999, p.
66), “the opportunity cost of capabilities in one kind of activity is incapabilities in many other kinds”. As a consequence, organizations cannot be assumed to be sufficiently sensitive to all those function systems on which they critically depend, even though organizational success and sustainability in the regime of functional differentiation hinge on precisely this sensitivity.

4. Toward a theory of multifunctional organization

Some of the recent developments in organization theory come quite close to appreciating the significance of functional differentiation. Lieckweg and Wehrsig (2001), Simsa (2001), and Wehrsig and Tacke (1992) drew attention to the organizational capability to source decision criteria from more than one function system while still relying on one dominant function system in cases of contradictions or decision pressure. Later on, Andersen (2003) challenged the assumption that one function system must be identified as dominant. He urged for thinking of organizations as “connected to several function systems without a predefined” dominant systemic codification (ibid, 167). The decision premises of such organizations, i.e., organizational personnel, communication channels, decision-making programs, and organizational culture, are thus assumed to be open to several different function systems at the same time. Andersen (ibid) takes this openness to be a major trend of the twenty first century. While organizations in the last century have been (self-) confined to only one (main) function, the twenty first century is marked by the organizational reorientation to ever more function systems, up to the treatment of all function systems as equally important (Andersen 2000; Andersen 2003a; Andersen and Born 2007).

The concept of multifunctional organization advocated here rests on a weaker assumption (Roth 2014). Multifunctional organizations may feature biases to one or several function systems, but these biases are seen as changeable (Roth and Kaivo-oja 2015; Roth and Schütz 2015; Roth et al. 2017). Multifunctional organizations are thus assumed to be able to use the code of one or more function systems in order to bring their decision programs in congruence with the organizations’ mission, function, and culture. For example, a bank may use the economic code, payment/non-payment, to decide whether or not to engage in charity, arts patronage, or sports sponsoring, which are commonly considered as a good decision if they bring a positive return on investment. The same bank, however, could be imagined as governed by (micro-) politics or canon law, in which cases the above decisions would follow the logic of function systems other than the economy.

In short, the concept of organizational multifunctionality calls into question the prevailing practice of defining organizations according to the codes and programs of the economic and political systems only. The conceptual thrust of multifunctionality is in eliminating any a priori bias in favor of any specific function system. By helping to appreciate the full spectrum of functional differentiation, the concept of multifunctionality brings us closer to a positive understanding of nonprofits and NGOs. It is no accident that this understanding rests on the systems-theoretical definition of organizations as communicative systems (Luhmann 2003; Nassehi 2005; Schoeneborn 2011; Seidl and Becker 2006), even though the functional differentiation approach is entirely consistent with alternative definitions of organizations, e.g. as institutions or fields. The essential implication is that the concept of multifunctionality subsumes the traditional distinction between nonprofit and for-profit organizations. The following subsections show the concept of multifunctionality to cut across the nonprofit sector and for-profit corporate contexts.
4.1 Reconceptualizing the nonprofit sector

Whereas both functional differentiation and organization present two key concepts of modernity (Bergthaller and Schinko 2011; Leydesdorff 2002; Luhmann 1977; Luhmann 1990; Luhmann 1997; Roth and Schütz 2015; Schoeneborn 2011; Seidl 2005; Vanderstraeten 2005; Wetzel and Van Gorp 2014), the field of nonprofit studies appears to emphasize the latter concept considerably more than the former. A possible reason for this state of affairs is the intuitive, but unwarranted, association of this concept with possible excesses of organizational departmentalization (Durant 1998; Leiter 2008; Moon 2013; Raju et al. 2011; Springer 1977; Young et al. 1981; Roth, Sales, and Kaivo-oja 2017). It is true that the definitions of specific organizations as “nonprofit” or “nongovernmental” do imply functional differentiation by referring to profit and government as the respective categories of the economic and political systems. In that sense, the distinction of the corresponding function systems is constitutive of the very object of the field of nonprofit studies. Still, the terms “nonprofit” or “nongovernmental” are negative and thus fail to do full justice to the richness of functional differentiation.

If nonprofits organizations are reconceptualized as multifunctional ones, they must be acknowledged to be freely able to adjust their organizational programs in response to their shifting dependencies on specific function systems. Crucially, this adjustment will not mean compromising the nonprofit or non-governmental identity, for the very notion of nonprofit identity is rooted in the lack of appreciation of functional differentiation. A case in point is a recent study of Maier et al. (2016) who have identified almost 600 publications dealing with the economic rationalization of nonprofits. Cooperatives (Roth 2014), institutions of higher education (Alvesson and Spicer 2016; Jemielniak and Greenwood 2015), or charities, religious institutions, health service organizations, and government agencies (Bromely and Meyer 2014; Knudsen 2012) seem to exhibit a similar trend for some time. All these cases boil down to an observation of organizational code shifts (Andersen 2003; Crozier 2010; 2012), mainly toward the economic system. Some of these shifts are supposed to present an undesirable “economization” or “commercialization” of allegedly non-economic spheres of social life.

It stands to reason that the diagnosis of “economization” hinges on certain assumptions about the “natural” or “original” identity of specific nonprofits. These assumptions must have evolved in the course of the ongoing attempts to define and map the nonprofit sector by taking recourse to the semantics of the economic and political system. It does not seem far-fetched to suppose that these assumptions have become entrenched in cultural beliefs that suffuse and undergird what O’Neill (2002) called the nonprofit subsectors, such as religion, education, health care, and arts and culture. While these cultural beliefs are real, the concept of organizational multifunctionality suggests all nonprofit identities, to the extent there is such a thing, are contingent. Nonprofits are engaged in the open-ended process of navigating alternate systemic codes with a view to adjusting their organizational programs to whatever function system turns out to be most relevant for the purposes of mission delivery and organizational survival. It is arguably for this reason that Maier et al. (2016, p. 79) call on the field of nonprofit studies to “widen the horizon of analysis to include effects according to multiple dimensions (e.g., organizational performance, fulfillment of societal functions, power/knowledge/subjectivities, and legitimacy)”. Along similar lines, Bromely and Meyer
(2014) make the case for the increased sensitivity to cultural and social factors involved in the evolution of the self-understandings of nonprofit and nongovernmental organizations.

The implication for nonprofit managers is the need for potential openness toward all the available function systems. Moreover, managers must be prepared to translate the concerns of their organizations into these systems’ logics and semantics which may well be mutually incommensurable. For example, in order to offer an effective medical treatment to their patients, hospitals cannot remain confined to the health care system alone. In order to operate sustainably, hospitals need an appropriate legal framework provided by the legal system, they must mobilize financial resources circulating within the economic system, and they may need political support forthcoming from the political system. In short, hospitals need a sort of inter-functional versatility which thus turns out to be a core management competence. Many other nonprofits find themselves in similar situations.

There is a considerable risk that the economy and governmental bias, which is implied in the negative definition of organizations as “nonprofit” or “nongovernmental”, is inadvertently reinforced by well-intentioned scholars and practitioners who keep using these terms or even carry out “classification struggles” (Barman 2013). Yet, if nonprofits and NGOs are thought of as multifunctional organizations, they must be assumed to have independent (multi-) functional profiles that cannot be fully registered in terms of the semantics of market and governmental failure. The nonprofit scholarly community must be urged to challenge the hidden and untested assumption that the political system and the economy are essentially more important for the nonprofit sector than, for example, art, education, or religion. If it is accepted that the economy and the politics present two out of ten principally incommensurable function systems, then references to “nonprofit” and “nongovernmental” organizations will appear to be no more legitimate than references to “nondenominational” or “nonartistic” organizations (Roth and Kaivo-oja 2016). Accordingly, in Figure 1 shown below, the left-hand profile is neither less legitimate than the right-hand profile nor can be helpfully characterized using the nonprofit or nongovernment lens.

![Figure 1: Not less an organization: contrasting a religion-oriented organization (left) with a for-profit organization (own Figure).](image)
Profiles such as those in Figure 1 reflect the frequencies with which the organizational decisions refer to each one of the ten function systems (Roth 2014; Roth, Sales, and Kaivo-oja 2017; Roth et al. in press). Far from being relevant to the nonprofit sector only, such profiles potentially cut across a broad spectrum of management challenges in any type of organization. In the present context, Figure 1 is supposed to suggest the presumptuousness of qualifying the left-hand organization by its failure to look or decide like the right-hand one. Organizations that are used to be known as nonprofit or nongovernmental are simply featuring various, but by no means deviant, constellations of preferences for specific function systems. If the prevailing economic or political bias can be overcome, then nonprofits and NGOs can indeed be characterized in terms of what they do rather than what they do not do. The hope is soon to see scholarly studies that contrast economy-driven organizations with those devoted to art, religion, or science. It may, however, be safely conjectured that the higher-resolution empirical research will show that most, if not all, organizations refer to more than one function system, and that the number of organizations that are mainly driven by profit or power will not be large enough to justify the use of labels such as “nonprofit” or “nongovernmental”.

4.2 The corporate context: stakeholders and corporate social responsibility

The relevance of organizational multifunctionality is by no means limited to the nonprofit context which makes multifunctionality appear as nonprofit diversity. Freeman’s ground-breaking contributions to the literatures on strategic management and business ethics revolve around the fundamental “idea that a business has stakeholders – that is, there are groups and individuals who have a stake in the success or failure of a business” (Freeman et al. 2010, p. xv). Freeman (1984, p. 27; cf. Freeman et al. 2010, p. 3) has justified the stakeholder approach by the turbulence and complexity of business environment. It is indeed quite sensible that “as long as the environment is stable, few strategic surprises occur” (Freeman et al. 2010, p. 35). With stability gone, business survival and success become dependent on the correct identification of and dealing with stakeholders situated in the business environment.

It does not seem far-fetched to see the rise of the stakeholder approach as a manifestation of the growing importance of organizational multifunctionality (Roth 2017; Ward 2017). In advancing the approach, Freeman sought to take distance from “the mainstream view of shareholder capitalism” (Freeman et al. 2010, p. xv), i.e., to point out the critical importance of actors other than shareholders, without laying down exact and general rules for their identification. The concept of multifunctionality concurs with the stakeholder approach in acknowledging the growing importance of stakeholders and suggests that many of them embody the connections of the corporation to the function systems on which the corporation critically depends. These connections enable the corporation to draw on the knowledge resources that are stored, codified, and processed by these function systems. Access to these resources is a valuable asset that advances corporate goals. Thus it becomes clear why the stakeholder approach is philosophically rooted in the win-win paradigm which implies “creating as much value as possible for stakeholders, without resorting to trade-offs” (Freeman et al. 2010, p. 28).

The concept of corporate social responsibility is amenable to a similar interpretation. For decades, business scholars were aware that “businessmen cannot make decisions that are solely economic decisions, because they are interrelated with the whole social system. This situation requires that businessmen’s thinking be broadened beyond the company gate to the
whole social system. Systems thinking is required” (Davis 1975, p. 20). The ongoing challenge is related to specifying the exact nature of systems thinking that is helpful for detecting and appreciating the non-economic consequences of economic decisions. The concept of organizational multifunctionality is a promising candidate for such a specification. Interestingly, Carroll’s (1991) influential classification of corporate social responsibility distinguishes between its economic, legal, ethical, and philanthropic varieties, the first two of which correspond to the function systems of the economy and law. Again, it does not seem far-fetched to suppose that the ethical and philanthropic varieties of corporate social responsibility envision the interaction of the corporations with the other function systems whose identities remain contingent. If the concept of organizational multifunctionality overcomes the excessive focus on the economic and political systems in the nonprofit context, it strikes a chord with Carroll’s (ibid) attempt to overcome a similar focus on the economic and legal systems through a conceptualization of the corporate social responsibility.

5. Conclusions

The key argument of this paper is that the overwhelming organizational diversity of the global nonprofit sector can be given a theoretical explanation in terms of the Luhmannian concept of functional differentiation. Building on this concept, the proposed systems-theoretical framework lays bare the bias of the present theoretical understanding of the nonprofit sector in favor of the economic and political systems. The multifunctional approach to organization does away with this bias and interprets nonprofits and NGOs as those varieties of organizations whose primary focus is on the function systems other than the economy and politics. This conclusion remains consistent with the observation that some nonprofits facilitate the operations of the economic system and some nongovernmental organizations do the same with the political system or even try to translate between the respective two worlds. Furthermore, the applicability of the multifunctional approach is by no means limited to the nonprofit sector. Transposed onto the for-profit corporate context, this approach sheds light on the salient phenomena of corporate social responsibility and the stakeholder approach to strategic management.

If O’Neill (2002, p. 52) is right that the emergence of a “grand unified theory” of the nonprofit sector is hindered, among other things, by the sector’s remarkable diversity, then the multifunctional approach to organization could be a first step toward that goal. By raising awareness of the contingency of the semantic categories employed in the sector’s descriptions, this approach is well-positioned to avoid a potentially reductionist straightjacketing of complex social phenomena into stylized models of market or governmental failure. If the concept of failure is at all relevant to this approach, it pertains only to the failure to appreciate those social factors that do not translate well into money or power, i.e. into the codes of the economy or the political system.

The management implications of the approach are no less far-reaching. Nonprofit managers need to attend to the specific functional identities of their organizations in order to secure the realization of nonprofit missions. They need special competencies for steering the multifunctional organizations and especially for communicating with stakeholders associated with the different function systems (Roth 2017; Ward 2017); the rise of the nonprofit accountability agenda (Will and Pies 2016) is indicative of the need for such reassessment. Eventually, research in the multifunctional organization(s) of functionally differentiated
societies (Roth, Sales, and Kaivo-oja 2017) seems to delineate a largely uncharted territory cutting across the entire gamut of management disciplines and forms of organizations.

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Notes

a Luhmann strictly distinguishes between sameness and comparability, and stresses the increasing importance of the latter concept in the course of social evolution (see Luhmann and Barrett 2012, p. 356). For a more detailed account of the importance of this distinction to social theory in general and social systems theory in particular see Roth (2015, p. 113). Equality is binary coded and is accordingly non-comparative. On the contrary, similarity implies scalability which facilitates comparison. Equality and similarity therefore are dissimilar concepts that are nonetheless equally important for theories of social differentiation.

b See Roth and Schütz (2015, p. 24) for an account of codes, media, and programs of all function systems.

c Common wisdom has it that the economy and the political system are most important today (#capitalism). Yet, the question remains whether this truth is a mere truism which is hardly testable (Roth 2015). We may indeed wonder what makes us so sure that the economy is more important than the mass media system in the information society, especially in view of the recent big data analyses suggesting that the economy has been of only mediocre importance throughout the last centuries (Roth et al. 2017).

References


Roth S (2017) From added values to augmented realities. Introducing the special issue of management and functional differentiation, Systems Research and Behavioral Science, Vol 34.


