

Working Paper

Hybrid organizations: The Next Chapter In Sustainable Business

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HYBRID ORGANIZATIONS: THE NEXT CHAPTER OF SUSTAINABLE BUSINESS

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ABSTRACT

In this article, we describe how hybrid organizations are developing business models that are competitive and create positive social and environmental change. We discuss the distinctive characteristics of the hybrid business model, both conceptually and in practice. We also discuss ways in which hybrids are driving towards the alteration of long-held business norms and conceptions of the role of the firm in society, and are advancing a new meaning of corporate sustainability. Finally, we discuss the challenges that hybrid organizations face in accomplishing their social change goals, and point to ways that traditional businesses can adopt a hybrid approach.

INTRODUCTION

The market is shifting on the periphery. A new form of organization has emerged that is demonstrating ways to compete not only on the quality of goods and services, but also on ability to effect positive social and environmental change. The business models these organizations employ blur the boundary between for-profit and non-profit worlds. They have been called Fourth Sector, L3C, Blended Value, For-Benefit, Values Driven, Mission Driven, Benefit Corporation, or by the term that we adopt, Hybrid Organizations.

Hybrid organizations can exist on either side of for-profit/non-profit divide; blurring this boundary by adopting social and environmental missions like non-profits, but generating income to accomplish their mission like for-profits. Hybrids are built on the assertion that neither traditional for-profit or non-profit models adequately address the social and environmental problems we currently face. Entrepreneurs of hybrids seek to build viable organizations and markets to address specific social and environmental issues. For example, *Ten Thousand Villages* is a *501(c)(3) non-profit* organization run by volunteers that use a for-profit retail model to sell fair-trade goods and provide a fair income to artisans from around the world. Alternatively, *Seventh Generation* is a *for-profit* company that has created a niche for itself over 20 years by striving to become the most trusted brand of environmentally responsible cleaning and bathroom products.

Hybrid organizations are underpinned by a new and growing demographic of individuals who place a higher value on healthy living, environmental and social justice, and ecological sustainability in the products and services they purchase, the companies in which they invest, the politicians and policies they support, the companies for which they work and, ultimately, the lifestyles they lead. This demographic is recognized with labels such as Cultural Creatives and

Lifestyles of Health and Sustainability (LOHAS). Not content to apply their values and beliefs only in the safety of their homes, these individuals have also taken them into their careers, where they have become socially and environmentally conscious entrepreneurs and managers developing new notions of the place of firms in society, and what it means to run a company.

These individuals have changed consumer markets. In 2001, the LOHAS demographic within the United States was estimated at 50 million people. By 2003, that figure had grown to 68 million Americans. Socially conscious consumers have driven a market for goods and services focused on health, green building, eco tourism, alternative energy and transport, and natural lifestyles. The value of the LOHAS market was estimated at \$209 billion in 2008, and by 2011 had grown to \$290 billion.

These individuals have also changed the investment world on individual and institutional levels through socially responsible investing (SRI). Investors subscribing to SRI favor human and consumer rights, environmental management, and social justice. SRI has undergone tremendous growth at a time when traditional markets have been in recession or stagnant; increasing from \$600 billion in 2003, to \$2.71 trillion in 2007, and topping \$3 trillion at the end of 2009. In 2009, approximately 12% of professionally managed dollars in the US was invested in SRI assets.

Further, the LOHAS demographic is changing the nature of the workplace. Increasing numbers of managers are seeking to change their company culture in ways that fit their personal beliefs, and develop new organizations that more closely represent their individual notions of calling and purpose. They are striving to express and develop themselves more completely at work by bringing their personal values and spiritual beliefs into the workplace. These individuals

derive a sense of self-actualization through their actions, which enable them to feel genuine and authentic, and help them resolve conflicted value systems in their lives.

From this platform, hybrid organizations are changing the notion of what a corporation is and does, since their goals are oriented towards both market and mission. They not only strive for profitability, but also strive to address some of humanity's most pressing issues by having this activity built into their business models. In blurring non-profit and for-profit models, hybrids challenge both practitioner and academic understandings of business. For the business practitioner, hybrids challenge traditional ideas of the role and purpose of the firm, as well as what it means to be a sustainable business. For the academic, hybrids challenge the standard classifications used to categorize public and private organizations, and ways of understanding their objectives and functions.

For example, what is the Environmental Defense Fund (EDF)? Clearly, a non-profit environmental organization dedicated to improving the natural world. But is that category so clear? Does EDF have more in common with Patagonia (a for-profit clothing company dedicated to environmental and social issues) or the Earth Liberation Front (a non-profit environmental group that regularly breaks the law to promote its cause)? Similarly, what is Stonyfield Farm? Clearly, a for-profit organic agriculture company that takes environmental sensitivity seriously. However, does Stonyfield Farm have more in common with Cargill (a for-profit agricultural company that produces food in large quantities for commodity markets) or the Rainforest Alliance (a non-profit dedicated to sustainable agriculture)? In pursuing their goals by blurring traditional business boundaries, Hybrids are creating a need to expand our practical and theoretical vocabularies, and our understanding of both for-profit and non-profit worlds.

In this article, we describe how hybrid organizations have developed commercially viable business models to create positive social and environmental change. First, we discuss the distinctive characteristics of hybrids and the hybrid business model, both conceptually and in practice. Second, we discuss how hybrids are altering long-held business norms and conceptions of the role of the corporation in society. Third and finally, we discuss the challenges that hybrid organizations face in accomplishing their social change goals, and ways that traditional businesses can adopt a hybrid approach.

THE HYBRID ORGANIZATION'S SUSTAINABILITY-DRIVEN MODEL

The hybrid business model has been termed “sustainability-driven” because, rather than focusing only on reducing the negative social and environmental impacts of business activity, they seek to create social and environmental improvements through their practices and products. This deviates from standard notions of sustainability. As a starting point, hybrids dismiss old notions of trade-offs between economic, environmental and social systems, and rather become positive deviants that demonstrate generative and mutually enriching connections between business, and the communities and natural environments supporting them.

By applying a positive lens to hybrid organizations, we can observe some fundamental differences with traditional organizations in three relational areas (shown in Table 1): Relationship of social/environmental issues to organizational objectives; Relationships with suppliers, employees, and customers; and Interaction with market, competitors and industry. Out of these distinguishing factors emerges a multi-level system that enables hybrids to achieve tangible positive social and environmental outcomes within and beyond the organization. The system is driven by three fundamental activities:

- 1) Driving positive social/environmental change as an organizational objective;
- 2) Creating mutually beneficial relationships with stakeholders; and
- 3) Interacting progressively with the market, competitors, and industry institutions.

The system is underpinned by processes of positive meaning-making and relationships, and is enabled by sustainability-based organizational values, long time horizons for slower growth, and positive leadership. Further below, we describe the hybrid system in detail.

Insert Table 1 about here

Social and Environmental Change as Organizational Objective

Like many other organizations, hybrids aim to supply high quality differentiated goods that are in demand. However, hybrid organizations also maintain a unique view of their role within the social and environmental systems in which they are embedded.

Socially and environmentally embedded mission. Hybrid organizations seek to use the market to rejuvenate social and environmental systems for mutual benefit of business, the environment and society. This approach is enacted through their operations and products, which facilitate specific social and environmental outcomes consistent with the organizational mission. For example, Sun Ovens manufactures solar cooking equipment to not only cook food, but also decrease the dependence of the developing world on wood and dung as cooking fuels, raising the living standards, and improving the health of the poor. Such a product, driven by social and environmental change objectives, indicates that Sun Ovens does not subscribe to the notion that the primary goal of the firm is solely to increase profits. Rather, it considers economic objectives

alongside sustainability objectives. There are two keys to balancing these objectives: longer time horizons mixed with autonomy, and engaged and positive leadership.

Longer time horizons for slower and more autonomous business development. The missions that hybrids adopt often drive them to operate on longer time horizons than traditional for-profit business models. As such, they often equate slower, stable and even limited growth with sustainable development. For instance, Guayakí CEO Chris Mann acknowledges that his company, which supplies the market with organic Yerba maté (a type of herbal tea), could expand faster if he were willing to compromise the mission and source maté from suppliers that are low cost, but grow it in ways that neither promote reforestation or prosperity among their communities. Decisions to pay above minimum rates, source sustainably grown produce and other types of activities can require slower growth than more economically expeditious practices.

Their long-term view often leads hybrid organizations to seek more autonomy than traditional businesses as a way to ensure they can remain true to their mission. One way they do this is by avoiding standard venture capital, which generally comes with expectations of more control. Surveys show that 60% of hybrids seek patient capital (or long-term capital) and 12% seek below market-rate equity or debt finance rather than market rate equity. In an extreme example, early investors in Ben & Jerry's Ice Cream signed waivers to acknowledge that they expected to receive no financial gain. Rather, the return was social and environmental capital. Such choices can limit growth; though the leaders and investors they attract attribute as much or more value to the sustainability mission than to the rate of economic growth.

Positive and engaged leadership. Leadership is an important aspect of any business; though, it is critical to the development and operation of a hybrid's mission. Seventy-five percent

of hybrid leaders are participative or transformational in their leadership style. Leaders of hybrids embody the strong social and environmental values that drive their organization's mission, and enact those values through everyday activities and approaches to management. Their style exemplifies positive leadership through their ethics, participative management, and a focus on driving an organization to exceptional achievement.

Creating Mutually Beneficial Relationships with Stakeholders

While hybrid organizations often prefer financial and managerial autonomy, they paradoxically seek to be connected to and embedded within the social and environmental systems in which they operate. Hybrids create close relationships with communities by employing local people, involving them in decision-making, training them in specific sustainable techniques (such as low impact agriculture and reforestation), and paying above-market wages that enable a better quality of life. These relationships are based on trust, positive regard, compassion, and vitality, which have been shown as foundational to organizational resilience, learning, and innovation. Close relationships help hybrids to renew the prosperity of local social and environmental systems while these systems in turn provide them with the high quality supplies they need to meet market expectations and remain economically viable.

The case of Guayakí illustrates this point. The company ensures mutual benefit for itself and the local communities of its suppliers by paying farmers a living wage, and investing time and resources training them in sustainable farming techniques rather than seeking low-cost suppliers that pay minimum wages and have no regard for the sustainability of their farming practices. By doing so, Guayakí ensures economic prosperity for its suppliers and a stable supply of Yerba maté long into the future through more secure agricultural practices and supplier relations.

Similar mutually beneficial relationships are also forged between hybrids and their employees and customers. For employees, the work processes of hybrids exemplify compassionate organizing that instill a sense of family, have real empathetic concern and create credible trusting relationships through practices such as participative management, generous health benefits, diversity representation, task autonomy, child care, and supporting employees who perform community service. For consumers, the products serve an emotional, psychological and spiritual purpose in addition to a functional purpose; establishing a trusting relationship for consumers to fulfill their desire to live environmentally and socially responsible lives. The products Seventh Generation offers have become staple cleaning and bathroom products for LOHAS customers seeking to live an authentic lifestyle. In the process, Seventh Generation has become a significant provider to an increasingly lucrative market demographic.

Resolving the sustainability issues we face demands all our innovative and industrial force. Much of the power that hybrids have to address sustainability issues lies in their drive to engage with the issues directly, as Guayakí has done. Rather than only taking a regulatory compliance or philanthropic approach to environmental and social issues, hybrids engage with them directly and configure business models to address them. The direct action approach of hybrids is built into and continually reinforces their organizational mission. For some hybrids, there is a moral or ethical imperative, but for all it just makes good business sense to operate in this way.

Interacting Progressively with Markets, Competitors and Industry Institutions

A final characteristic of hybrids that is helping them become a growing force in the market is that they seek to diffuse acceptance of their business model throughout the institutions and markets in which they operate. Similar to other for-profit companies, hybrid organizations

seek leadership roles within their industry. However, while other companies aim to influence industry institutions (such as regulators and interest groups) to reduce standards and regulations to protect their competitive advantage, hybrid organizations aim to highlight their products and business models so that other companies might emulate them for the benefit of society. Where other companies seek to create barriers to entry to their markets, hybrids actively invite entrants. In fact, emulation by other companies signals the success of their social and environmental change missions. In this respect, hybrid organizations act as institutional entrepreneurs; changing the rules of the game for all organizations.

For instance, Maggie's Organics has been consistently profitable since 2004, and with this success as a platform, Maggie's founder Bená Burda dedicated her career to acting as a positive deviant within the apparel industry. Burda has not been satisfied to instill sustainable practices only at Maggie's Organics, but is also active in altering the apparel industry's sourcing and production practices. Maggie's is the first apparel company worldwide to achieve the Fair Labor Practices and Community Benefits Certification standard - a global, third-party standard certifying that workers are treated fairly with safe and healthy working conditions. Going further, Burda and Maggie's Organics have worked to spread such practices by playing a central role in developing the US Organic Cotton Apparel Industry and the Organic Trade Association's American Organic Fiber Processing Standards. Indicative of Maggie's Organics' goal to promote broad social and environmental change, Burda reflects, that "if the entire apparel industry were to adopt Maggie's organic practices, I would be satisfied with our success and might consider my job done."

This is not an isolated example. Seventh Generation has enjoyed the financial benefits of becoming a force in the green cleaning product market, which is a niche that is going

mainstream. In 2008, Clorox began emulating Seventh Generation by adding a series of natural, biodegradable household cleaners called Green Works to its \$4.8 billion suite of household products. Seventh Generation was the first-mover in the US, saw the market potential, educated and cultivated its consumers, developed the products and reaped the benefits. Now the market has materialized, and others consumer goods firms are aiming to move into the space. This is a victory for Seventh Generation's efforts at driving social change.

CHALLENGING THE NORMS OF BUSINESS

In both form and function, hybrid organizations have created a business model that challenges both traditional economic assumptions about the nature of the firm as well as existing notions of what it means to be sustainable. They are acting as a force for change within long standing business institutions and they are returning to the foundations of sustainable development; dismissing the notion that reducing the negative impacts of business equates to sustainable practice, and instead seeking to increase positive impacts. In what follows, we discuss four traditional business and economic norms that hybrids challenge, and the ways in which they are altering the meaning of corporate sustainability.

Challenging the Presumed Need for Perpetual Economic Growth

Hybrid organizations eschew the taken-for-granted assumption that the market requires increasing and unlimited economic growth. Instead, they favor the creation of a stable business and market that will sustain positive change and economic viability far into the future. This is not to say hybrids are not interested in growing, since a degree of growth is required to build a business that is viable, stable and influential. However, hybrids prefer not to seek economic growth just for the sake of it. Rather, the economic growth undertaken by hybrids is tempered

with the need to continue creating positive social and environmental change and maintaining their autonomy. Clif Bar, a manufacturer of organic energy bars that has become a successful privately owned organic food company, has exemplified this belief with the mantra published on its website, to “grow slower, grow better and stick around longer.”

Internalizing Social and Natural Contexts

Businesses often frame natural and social contexts as domains from which they operate autonomously and separately. In fact, most companies externalize as many social and environmental considerations as possible, forcing them upon society as a way to maximize their self-interested benefit. The fallacy of this assumption leads Hart, in his book *Capitalism at the Crossroads*, to argue that:

“As long a multinational corporations persist in being outsiders – alien to both the cultures and the ecosystems within which they do business – it will be difficult for them to realize their full commercial, let alone social, potential.”

Many businesses seek to keep community and natural environmental concerns at arm’s length under the assumption that such relationships will bring costs that should remain externalized. However, hybrids invest in deep personal relationships with supplier communities, and develop an intimate understanding of their environmental and social contexts in order to do what is required for the relationship to be mutually beneficial. Hybrids understand the labor and community issues surrounding their facilities, the environmental issues both locally and globally, and the connection these issues have for their business models.

Valuing Nature beyond its Resource Value

Nature is often represented by business in ways that confer little value beyond that measured by economic resource value. This is most evident in the term “natural resources,” which the Oxford Dictionary defines as “*materials or substances such as minerals, forests, water, and fertile land that occur in nature and can be used for economic gain.*” Rather than adhering to this traditional (and incomplete) understanding, hybrid organizations consider that nature provides system-wide value that benefits society, and consider its integrity as a worthwhile pursuit. Hybrids seek to honor their relationship with the natural environment, and even to create biologically inspired business models that actively use an understanding of natural dynamics to enhance their business.

For instance, in their book *Hybrid Organizations*, Boyd et al. described how PAX Scientific, a hybrid using biomimicry to design air and fluid-handling equipment understands nature to be the “supreme designer.” PAX Scientific studies nature’s vortices (e.g. whirlpools and hurricanes) and uses their design to develop products like water mixers, propellers, fans and turbines, which they patent and license. PAX Scientific’s products are more energy efficient than those of its competitors, because they are based on natural designs that enable energy-efficient passive suction rather than forceful pushing of air or water, and its water mixers also significantly reduce the need for water treatment chemicals. Just as nature nurtures creativity, PAX Scientific shows that nature also provides designs to harness creativity.

Setting Aside the Notion of Profit as the Dominant Objective of the Firm

One unquestioned assumption above all others permeates the norms of business; the notion that the primary objective of business is to increase profit for shareholders. Almost a

century ago, the Michigan Supreme Court (in *Dodge vs. Ford Motor Company* (1919)) established that firms' social responsibility ends at increasing profits for shareholders. Four decades ago, Friedman underscored this argument, and added that it was governments' responsibility to solve societal problems. Even though society's norms have since changed, and there is a notable trend in growing shareholder activism for environmental and social measures, the pursuit of profit still dominates all other business pursuits. The domination begins with management education and continues into practice.

Leaders of hybrids seek to challenge the supremacy of this norm by establishing businesses that not only generate profit, but also go beyond profits interests to create societal value. In fact, their success in this pursuit is noted by the emergence of new tax legislation seeking to codify an expanded and renewed purpose of the firm. For instance, Maryland, Vermont, New Jersey, Virginia, Illinois, Louisiana, Maine, Michigan, North Carolina, Utah and Wyoming recently created a new legal class of company for hybrids, it calls low-profit limited liability company (L3C) or benefit corporations. This tax classification grants organizations greater protection from shareholder lawsuits that demand the prioritization of profits over social and environmental missions. To qualify, companies must define nonfinancial goals in their charter and obtain approval of two-thirds of the shareholders.

Similarly, the organization *B Corporation* has emerged as a certification body for companies that meet meticulous social and environmental performance standards. By certifying companies to become "B Corporations," B Corporation helps customers, investors, employees, and policymakers discern more sustainable companies from those that only have good marketing. In its 2011 annual report, B Corporation stated a 75% increase in the number of certified B Corporations in the last two years, and a 63% increase in the total number of

organizations using its rating system. At the time of writing, B Corporation had certified 422 B Corporations jointly worth \$1.94 billion in revenue, and 3,114 organizations were using its rating system.

The overarching message is that entrepreneurs can use (and are using) the free enterprise system to create natural and social abundance in addition to economic viability. Hybrids are at the vanguard of identifying ways to organize in effective self-supporting ways that address social and environmental issues without becoming mired in their seeming intractability. In doing so, they challenge the assumptions by which businesses and economies currently operate, are altering business norms, and, as we discuss next, are providing clues about the changing meaning of corporate sustainability.

REJUVENATING THE NORMS OF BUSINESS SUSTAINABILITY

In his book *Sustainability by Design*, Ehrenfeld argued that current corporate sustainability and corporate social responsibility efforts are doing no more than inching firms toward reducing their negative impacts, and focusing on becoming “less unsustainable,” while overlooking the need to restore and rejuvenate, or move towards becoming “more sustainable.” The distinction between the two notions is one of addressing deficit gaps rather than abundance gaps, respectively. For example, the current mainstream focus on reducing environmental impacts (such as carbon emissions) and implementing end-of-pipe initiatives (such as waste minimization and pollution control) are attempts to close deficit gaps, since they only slow the rate of damage, and do not leverage the potential for environmental innovation. This only leads further down the existing unsustainable path, albeit at a slightly slower pace. For sustainability issues to be truly addressed, businesses must shift to identifying and addressing abundance gaps. By this, we mean organizing in ways that create mutual abundance and prosperity among

business, social and environmental systems, as opposed to merely reducing the amount of damage done. The latter is inadequate when compared to the former, when both are possible.

Rather than being a retroactive addition to business, hybrids' pursuit of sustainability is built into their business models, and is both a reason why they were initially created and continues as their *raison d'être*. In effect, hybrid organizations are realigning the meaning of sustainability with sustainable development as it was initially defined by the *Brundtland Commission Report*: "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In doing so, hybrids present a business model that is fundamentally different from both traditional business models and dominant ideas of corporate sustainability.

It is interesting to note that hybrids may not have flourished in the context of the 1980s when the Brundtland Commission Report was published. However, now that their success is supported by a rise in environmental and social consciousness within societal and political spheres they are able to embody new ways of organizing, competing, and influencing for positive change. Hybrid organizations are emerging at a time when non-government organizations, corporations, trade unions, religious groups, and a host of other entities are developing sustainability solutions that are significant to global development and trade flows. The role of these alternative organizational forms in the governance of environmental commons is increasing, while the state's role is declining in these matters.

CHALLENGES TO THE HYBRID BUSINESS MODEL

Given the presence of SRI financing, emerging tax laws, a certification system, and a growing market in LOHAS consumers, the timing has never been better to start and build a

hybrid organization. However, having said this, in addition to shining light on hybrids' sustainability-driven model, our research also reveals several key challenges (and within them potential opportunities) faced by entrepreneurs of hybrid organizations. We describe these challenges below.

Mainstreaming the Sustainability Mission is a Double-Edged Sword

Hybrid organizations have created niches for themselves, and in the process have enjoyed increasing competitive benefits while also helping those niches become mainstream. This is a victory for hybrids' efforts at driving social change; though at the same time highlights a tension that for-profit hybrid organizations must navigate, since it raises the question of whether it is possible that hybrids are undermining their own competitive viability through the diffusion. As for-profit companies, they seek to capitalize on their market segment. As social entrepreneurs, they seek to entice others into joining their market segment, but in so doing, may be making life more difficult for themselves.

For example, Seventh Generation publishes the ingredients of its products in order to exemplify the value of total transparency. However, that practice runs counter to the notion of protecting intellectual property, and creates opportunities for imitation. Seventh Generation is counting on the belief that it competes not just on product, but also on brand reputation and loyalty. Clorox created a competing line of green cleaners; however, the company is still synonymous with the most toxic substance used in the average home – bleach.

Competing Head-to-Head with Dominant Players

Hybrid organizations have often created a larger and more prominent presence in the market and industry than their size would suggest – they punch above their weight. Many

hybrids were first-movers in their fields and have become niche market leaders. Their prominence and market leadership has led to head-to-head competition with dominant mainstream players. In response, firms in traditional product markets are developing green versions of their products to compete with hybrids. The response of Clorox to Seventh Generation is one example of this, as is that of Kimberly Clark, which introduced bathroom tissue with recycled content. Many smaller companies (hybrid and non-hybrid) are also emerging to take advantage of the growing LOHAS demographic.

Another aspect of hybrids' market prominence concerns their leadership with industry institutions. The activity we noted earlier by Maggie's Organics is a good example of this, as the company has taken lead roles to institute sustainable practices within industry and trade associations. Hybrid organizations are well-placed to become institutional entrepreneurs through their active involvement within industry institutions, just as they embed themselves within the social and natural environments in which they operate.

The Dilemma of Being Acquired

In addition to dominant traditional firms competing with hybrids by developing green versions of their products, the intensifying competition has also made hybrids acquisition targets. While many hybrids resist being acquired to maintain their autonomy (e.g. At the time of writing: Maggie's Organics, Eden Foods, PAX Scientific, Clif Bar), others have been acquired by larger conglomerates (e.g. Ben & Jerry's was acquired by Unilever in 2000; Stonyfield Farm was acquired by the Danone Group in 2003; Burt's Bees was acquired by Clorox in 2008). Acquisition offers emerge regularly for hybrid organizations, which may indicate real opportunities for entrepreneurs looking to build a business to either operate or eventually sell.

Either of two outcomes might eventuate and create a dilemma for hybrid entrepreneurs considering a sale. Either the loss of autonomy may subvert the mission, with the possibility of moving away from a hybrid model, or the acquisition may introduce the parent company to new innovative ways of doing business. *WorldofGood.com* provides a lesson in this respect.

WorldofGood.com is a multi-seller online marketplace for socially and environmentally responsible shopping. eBay acquired only its commercial business, and now the non-profit arm is struggling to survive.

Serving Multiple Masters and Managing Mission Drift

Hybrid organizations present a bridge between two ends of what has previously been seen as an incommensurable dichotomy (i.e., profits vs. social and environmental mission). This means that success for a hybrid organization requires serving two or even three masters; maintaining economic viability in addition to significant social and environmental missions. By developing a negotiated order between them, hybrids have created an important breakthrough in what has traditionally been seen as a win-lose relationship to show the relationship can be harmonious.

However, there may be instances where the relationship between social, environmental and economic goals is not reconciled, and mission drift occurs. Once an organization publicly states a mission that includes social and/or environmental goals, consumers will rebel if they feel the company is not living up to that mission. This was the case for Green Mountain Coffee Roasters (GMCR). GMCR is a for-profit coffee company that competes based on its ethical and environmental principles in addition to its quality coffee. It was rated by Forbes magazine as the leading ethical company in the US, while growing to \$180M in sales revenue. GMCR was recently confronted with consumer complaints over its use of non-recyclable, non-biodegradable,

single-use “K-cups” that are seen by the market as contradictory to the company’s environmental mission. This type of oversight or calculated decision, which departs from its mission and market expectations, presents significant risks to a company’s reputation and legitimacy.

The challenge for non-profit hybrids in this area is pairing charitable and traditional financing to support its operations. Where grants and charitable funding are used to support those parts of the organization that operate in a more for-profit fashion, hybrids have been perceived as having been set up in ways to enable individuals to profit from the goodwill of others. Conversely, where traditional equity or debt financing has been accessed, hybrids have had difficulty generating returns for investors in addition to serving their mission.

The Challenge of Scaling Up

Although hybrids’ social and environmental impact can outpace their economic size, a final practical challenge remains surrounding whether their sustainability-driven model is scalable. The model appears viable for the variety of small and medium-sized enterprises studied to date, and some hybrids have attained a significant size, such as Seventh Generation and GMCR, but whether the model can be scaled up to become a more sustainable way to produce all types of goods and services and still retain its integrity is as yet unknown. If large scales are not possible, the question turns to one of replicating the model to grow the population of small-scale hybrid producers to increase their influence over dominant, vertically-integrated, multi-national enterprises. Although hybrids are being acquired by these large companies, the degree to which hybrid practices are taken onboard by their new parent companies, and how these new subsidiaries will grow, is also yet to be determined.

TRANSITIONING FROM TRADITIONAL TO HYBRID ORGANIZATION

Throughout this article we have focused on hybrids that originated with a hybrid mission; however, a growing number of traditional incumbent organizations are seeking to adopt some or many aspects of a hybrid business model. Much of the information we have provided can also be applied to traditional organizations wanting to attain some of or all the attributes of hybrids. One thing is clear from what we have covered thus far - the mere development of a green product line, such as that by Clorox, will not provide a company full entry into the hybrid market. Consumers purchase sustainable goods and services, and employees work for companies that develop them, both for the instrumental value of these outputs as well as the psychological and emotional benefits they provide. The choice between a Clorox or Seventh Generation green cleaner is based on far more than the product itself. The consumer is making a statement about their lifestyle and values, and organizations from which they purchase are competing on product quality and reputation.

Becoming a hybrid organization is a large project involving a full transition of the organization and its central defining characteristics. It requires a transformation akin to that of the late Ray Anderson; CEO of the carpet manufacturing company, Interface, Inc. Anderson had an epiphany after reading Paul Hawken's *The Ecology of Commerce*, which changed how he thought about the legacy he and his company would leave through its products, and its manufacturing processes. Anderson became increasingly aware of the environmental destructiveness of the carpet making process and materials it required, and not only changed them both to manufacture recyclable carpet with greener processes, but went further to introduce a service business model to the carpet industry. Within the new model, Interface would lease

rather than sell carpet to consumers; therefore, retaining responsibility for refurbishing and recycling worn carpet.

The sustainability-driven model developed by hybrids indicates several key moves that traditional organizations will need to make in becoming a hybrid in part or in whole. The first move surrounds rethinking the organization's mission, and having it include a particular set of social and environmental issues about which the organization's leadership are passionate. Including the issue within the organizational mission identifies it as something that is of core concern to the organization, and provides leaders and employees with opportunities to express their values more completely at work, thus creating a more engaged workforce.

With this as a foundational start, the organization's operations, operational policies, processes and products must be rethought. For instance, the close relationships that hybrids form with suppliers and employees suggest that policies used to choose suppliers and assess their performance will need to be re-evaluated to focus on mutual social and environmental benefits rather than on straight transactional benefit. Policies to evaluate and cultivate employees will also need to be redeveloped to see them not as simply workers, but as a deep source of ideas about initiatives that address the economic, environmental and social priorities of the organization. Further, policies on how to engage in the market need to be redefined.

Organizations can both receive assistance from other hybrid organizations (for example, through B Corporation) to develop a viable and legitimate strategy. But they must also seek the adoption of their practices in other organizations. Almost as though they were evangelists, hybrids seek to change industry standards through direct interventions (such as lobbying and trade associations). Further, becoming active at the industry level can multiply the organization's efforts and raise industry standards, as Burda (of Maggie's Organics) has done with the US apparel industry in its

alteration of sourcing and production standards. In the end, the transition to becoming a hybrid organization forces any organization to think beyond immediate, instrumental, self-interest and consider a broader context of benefits that include customers, employees, suppliers and buyers, as well as the social and natural environments of which they are a part.

CONCLUSION

The sustainability issues we face today are persistent, complex, and have even been termed wicked. Hybrid organizations are both a result of, and are protagonists for evolution in the purpose, form and role of both for-profit and non-profit sectors. In his book *Stirring it Up*, about the growth of Stonyfield Farm, Gary Hirshberg stated, “nature and business are born allies – potentially the richest partnership in the history of capitalism.” Based on what we have discussed, it should be clear that hybrid organizations, with all their opportunities, challenges and uniqueness, are a growing force within both the for-profit and non-profit landscapes. Hybrid organizations are experimenting with ways to combine businesses’ industrial and innovation strengths to become a potent means to effect change. The hybrids featured in this article are among those leading the way in becoming more sustainable rather than less unsustainable, and through their sustainability-driven model, are powering environmental and social renewal while building organizations that is economically viable and purposeful.

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Table 1 - Key Distinguishing Factors Between Traditional and Hybrid Organizations

	Relationship of Social/Environmental Issues to Organizational Objectives	Relationships with Suppliers, Employees, and Customers	Interaction with Market, Competitors and Industry Institutions
Traditional organizations	Social/environmental issues are addressed only if the organization has the organizational slack and a strong business case.	Relationships with suppliers, employees, customers, and suppliers primarily functional and transactional in nature, Cost factors are primary.	Industry activity is premised on creating markets for traditional goods and services, appropriating and protecting competitive benefits, and altering industry standards for the self-serving benefit.
Hybrid organizations	The business model is configured to address explicit social/environmental issues; organizational slack and the business case are secondary.	Relationships with suppliers, employees and customers are based on mutual benefit and sustainability outcomes. Costs are considered but only after social and environmental outcomes are met.	Industry activity is premised on creating markets for hybrid goods and services, competing successfully with traditional companies, and altering industry standards to serve both the company and the condition of the social and environmental contexts in which they operate.