

Hybrid Organizations as Agents of Positive Social Change:  
Bridging the For-profit & Non-profit Divide

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Bridging the For-Profit & Non-Profit Divide**

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## **Abstract**

This chapter explores the distinctive characteristics of hybrid organizations; a new organizational form that expands our existing categories of organizations by bridging the for-profit and non-profit domains. In particular, we utilize a positive lens to explore the role of hybrids in creating positive social and environmental change on two levels. At the firm level, hybrid organizations develop new products that promote environmental and social well-being, and new practices for producing and bringing them to market. At the institutional level, hybrid organizations diffuse acceptance for their products and practices throughout their markets, competitors, and industry. To explain how hybrid organizations accomplish these objectives, we present a Sustainability-Driven Business Model that explains their social change agency. The theoretical model has three basic elements: 1) Social change as organizational objective; 2) Mutually-beneficial relationships with suppliers and supplier communities, employees, and customers; and 3) Progressive interaction with markets, competitors, and industry institutions. The chapter discusses the implications for theory and practice, and concludes with suggestions for future research.

## **Introduction: Bridging Organizational Boundaries**

Addressing sustainability issues in a globalized world requires the emergence and diffusion of new organizational forms and new forms of governance (Elkington, 1998; Ehrenfeld, 2008). In this chapter, we note how the traditional distinctions between for-profit and non-profit sectors are blurring, and explore the emergence of a new form of organization in that intervening space; termed the hybrid organization. We explore this new organizational form and identify a Sustainability-Driven Business Model that hybrids use to create and diffuse positive social change within the social and environmental contexts they operate. Drivers of this model include concepts familiar to scholars of positive organizational scholarship, such as organizational virtuousness (Cameron, Bright, & Caza, 2004), positive meaning-making, positive relationships (Dutton & Glynn, 2008) and thriving at work (Spreitzer, Sutcliffe, Dutton, Sonenshein, & Grant, 2005). The social change agency of hybrid organizations is further enabled by positive leadership (Cameron & Lavine, 2006).

Our primary interest in this chapter is to explain this model, and to describe some of the positive social, environmental and economic outcomes it has enabled. We begin by introducing sustainability issues, hybrid organizations and the linkages between the two that lead to positive social change. We then develop a theoretical model to explain the behaviors and outcomes of hybrid organizations as agents that drive social change. We also provide a descriptive account of this model through a case study of one hybrid organization: Maggie's Organics. Finally, we conclude with contributions to theory and practice as well as recommendations for future research. Our aim is to lay the foundation for further research in this interesting and emergent area.

## **Hybrid Organizations and the Issues and Opportunities of Sustainability**

The environmental and social sustainability challenges that hybrid organizations seek to address, such as poverty, environmental destruction, and climate change have received a great deal of attention in recent years as trends measuring them become more alarming. For instance, the world economy has enjoyed tremendous success over the past century. Economic activity has increased by a factor of fourteen (Thomas, 2002), global per capita income tripled (World Business Council on Sustainable Development, 1997), and average life expectancy increased by almost two-thirds (World Resources Institute, 1994). However, proponents of sustainability call attention to the fact that this success has been accompanied by tremendous environmental abuses and that the benefits of this development are not shared equitably. For example, according to the United Nations, the richest 20% of the world's population consume 86% of all goods and services while the poorest 20% consume just 1.3%. Of the 4.4 billion people in the developing world, almost 60% lack access to safe sewers, 33% do not have access to clean water, 25% lack adequate housing and 30% have no modern health services (Crossette, 1998).

Hybrid organizations use the market system as the tool for rectifying these problems<sup>1</sup>. Built upon the assertion that traditional business models are no longer adequate to address the social and environmental problems of our day (Alexander, 2000; Draper, 2005), hybrid organizations call for mission-centered business models that employ market tactics to address social and environmental issues. In effect, they are practicing sustainable development as it was defined by the Brundtland Commission Report and are showing that economic development can proceed by meeting “the needs

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<sup>1</sup> It is important to note that this tactic is not without controversy. In fact, a schism within the environmental NGO world sees two positions on the role of the market in solving environmental and social problems (Schwartz and Shuva, 1992; Conner and Epstein, 2007; Hoffman, 2009). The *dark green* NGOs—such as Greenpeace USA and Friends of the Earth (FOE)—see the market as the problem and seek radical social change to solve environmental problems, often by confronting corporations and the market. The *bright green* NGOs—such as Conservation International and the EDF—see the market as the solution and work within the system, often in close alliance with corporations, to solve environmental problems.

of present generations without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987).

### **Hybrid Organizations in Practice**

The phenomenon of hybrid organizations is emerging at a time when the role of the state as the principal agent of environmental governance is declining and “private alternatives” (e.g. market and voluntary mechanisms) are proliferating (Bernstein & Cashore, 2007; Cashore, 2002; Donahue, 2002; Lemos & Agrawal, 2006; Liverman, 2004). NGOs, corporations, trade unions, religious groups, and a host of other entities have emerged to develop sustainability solutions that have import for national competitiveness, global development and trade flows. Within this context, there is a concurrent evolution in the purpose, form and role of the for-profit and non-profit sectors.

Consider how corporations are now engaging in activities that would have once seemed implausible. For example, the Anglo-American Corporation is engaged in a comprehensive program that covers HIV/AIDS prevention and care for its employees and local communities in its African operations. Wal-Mart, the world’s largest retailer, announced in 2008 that it would require suppliers to make major appliances that use 25 percent less energy within three years. Emblematic of the redefinition of the social role of the corporation (Post, 2002), CEO Lee Scott proclaimed, “We live in a time when people are losing confidence in the ability of government to solve problems... [But, Wal-Mart] does not wait for someone else to solve problems” (Barbaro, 2008).

Non-profit organizations also play new, emergent and influential roles in the global marketplace. They act as policy advisers to governments, strategy advisers to corporations, thought leaders for public opinion, and catalysts for action by bankers, investors, suppliers, customers, and

even religious organizations. The Environmental Defense Fund (EDF), for example, participated in the 2007 leveraged buyout of the energy company TXU and hired Perella Weinberg Partners, a boutique investment bank, to advise it on using Wall Street tactics in negotiating mergers and acquisitions. The Bill and Melinda Gates Foundation, the world's largest foundation with assets of \$30 billion, now rivals most governments in its annual disbursements of over \$3 billion to address global health challenges.

With this evolution of the form and function of the for-profit and non-profit sectors, there is a blurring of boundaries between them such that a new vocabulary becomes necessary to recognize a hybrid form. These hybrid organizations defy traditional categorizations employed by organizational theorists; categorizations that are often applied a priori. Alternatively described as Fourth Sector, Blended Value, For-Benefit, Values Driven, Mission Driven, or B-Corporations (Alter, 2004; Boyd, Henning, Reyna, Wang, & Welch, 2009), hybrid organizations can lie on either side of the IRS for-profit/non-profit classification scheme. On one side, some are non-profit organizations that adopt the practices of a for-profit firm. For example, Ten Thousand Villages is a volunteer run 501(c)(3) non-profit organization that operates a for-profit retail operation to provide fair income to artisans from more than 30 countries by selling their fair-trade goods. On the other side, some are for-profit companies operating according to social and environmental sustainability agendas. For example, Stonyfield Farms is a for-profit agricultural company, but it also takes sustainability seriously in the development of its organic dairy products. Therefore, does Stonyfield Farms have more in common with Cargill (a for-profit agricultural company) or the Rainforest Alliance (a non-profit organization dedicated to sustainable agriculture)? As hybrids, these organizations are "both market-oriented and mission-centered" (Boyd et al., 2009: 1).

This is a growing market segment. Indicative of its increasing prevalence and importance, a recent Maryland law creates a new legal class of company, called “benefit corporations,” that grants hybrid organizations greater protection from shareholder lawsuits that demand that management put profits above social and environmental missions (Tozzi, 2010). To qualify as a benefit corporation, the company must define its nonfinancial goals in its charter and obtain approval of two-thirds of the shareholders. In this chapter, we will focus on hybrid organizations that occupy the for-profit classification by the IRS.

Given such growing importance, hybrid organizations offer an interesting empirical domain for study; one that we believe will produce an ongoing stream of research. However, at this point, research on hybrid organizations is notably lacking, and has primarily focused on the topics of Corporate Social Responsibility (CSR) or social entrepreneurship (Alter, 2004; Haugh, 2005; Smallbone et al., 2001). In the next section, we go beyond a CSR perspective and use a positive lens to elaborate a Sustainability-Driven Business Model by which hybrid organizations couple economic profitability with social and environmental sustainability.

### **The Sustainability-Driven Business Model**

Recent research on hybrid organizations is offering insight into the specific aspects of the business models they employ (e.g. Boyd et al., 2009; Neville, 2008). By applying a positive lens to the hybrid organization form, we expand on this preliminary work to identify a Sustainability-Driven Business Model that elucidates how they are able to create positive social outcomes at multiple levels. Depicted in figure 1, the model has three basic elements: 1) Social change as organizational objective; 2) Mutually-beneficial relationships with suppliers and communities, employees, and customers; and 3)



Progressive interaction with markets, competitors, and industry institutions. In the sections below, we describe each element of the business model in detail, and identify ways in which they are informed by (and may inform) concepts within the positive organizational scholarship literature.

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Insert Figure 1 about here

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### **Social Change as Organizational Objective**

By applying a positive lens to hybrid organizations, it becomes evident that hybrid organizations construct and enact sustainability in a distinctly different way than businesses following a purely economic rationale; in that they see sustainability as imperative to the viability of the business. This positive meaning (Dutton & Glynn, 2008) attributed to sustainability is institutionalized through three core firm-level qualities (described below) that drive and facilitate hybrids' social change agency.

**Socially and environmentally embedded mission.** Hybrid organizations “have values-based missions baked in” (Boyd et al., 2009: 1). Like other for-profit organizations, hybrid organizations aim to supply high quality, differentiated goods to satisfy a specific market demand in order to remain economically viable. However, hybrid organizations maintain a unique view of their role within the social and environmental systems in which they are embedded, and seek to use the market system to rejuvenate those systems for mutual benefit of the business, the environment and society. Their products promote some form of socially or environmentally positive outcome consistent with the organizational mission. For example, Sun Ovens produces solar cooking equipment, not just to cook food, but also to “radically decrease the developing world’s dependence on fuel wood and dung as the primary cooking fuels while benefiting the environment, raising the standard of living and improving the health of the poor worldwide.” Similarly, Guayakí sells organic, fair trade Yerba maté and is also devoted to creating “economic models that drive reforestation while employing a living wage” for

farmers and indigenous communities (Boyd et al., 2009), rather than industry averages which often only provide for poor quality of life. Such products, driven by socially and environmentally embedded missions, exemplify how hybrid organizations challenge the traditional notion that the primary goal of the corporation is to increase its profits (e.g. Friedman, 1970). Rather, hybrids consider economic profitability as a means to achieve its sustainability goals.

**Longer-time horizons for patient and autonomous growth.** The social change objectives that hybrid organizations adopt – potentially taking several generations to realize - often drive them to operate on a longer time horizon than traditional for-profit businesses. As such, hybrids often equate slow, stable growth with sustainable growth. For instance, Clif Bar has an aspiration to “grow slower, grow better and stick around longer”, and Guayakí CEO Chris Mann acknowledges that his company could expand faster if it were willing to compromise its mission and source maté in ways that neither promote prosperity among suppliers nor protection of the Atlantic rainforest (Boyd et al., 2009).

Concurrent with longer time horizons, hybrid organizations often seek to operate with a higher degree of autonomy than traditional businesses. To ensure that they remain true to their mission, hybrid organizations avoid traditional venture capitalists who often want more control and a greater focus on profit as the over-riding objective. To many, “joining forces with venture capitalists, would mean selling out the very essence of [being sustainable]: small, alternative and individualistic” (Mills, 2009). Instead, hybrids seek sources of “patient capital” and “below market-rate” equity or debt from friends or sustainability motivated investors (Boyd et al., 2009). For example, early investors in Ben & Jerry’s Ice Cream signed waivers that they expected to receive no financial gain; rather, the expected return was social and environmental capital. Such choices can limit growth, though the investors they

attract attribute as much or more value to the sustainability mission than to the rate of financial return.

**Positive leadership.** Although leadership is an important aspect of any business, it is particularly relevant to the development and operation of a hybrid's values-based mission and objectives. Much like a non-profit organization, there are strong links between the objectives and mission of the organization and the deeply held personal values of its employees. Employees often feel a sense of calling or purpose through their work in a hybrid organization. For that reason, leaders of hybrid organizations must generally embody the culture and the strong social values that drive their organization's mission; they must authentically and completely enact the values of the organization through their everyday activities and approach to management.

Survey results show that 75% of hybrid organization leaders are participative or transformational in their leadership style (Boyd et al., 2009). Their style exemplifies positive leadership through a strong emphasis on ethics, participative management, positive culture, and exceptional and transformational achievement (Cameron & Lavine, 2006; Flynn, 2008). For example, Honest Tea founder and CEO Seth Goldman, quit his job at Calvert Group to brew tea in his home, dreaming of a future when "his tea would not only succeed but would also establish honest, mutually beneficial relationships with suppliers and customers while being true to the environment" (Hoffman et al., 2010). With this start, Goldman grew his company with a strong emphasis on social responsibility, bringing a high degree of personal commitment and values to the business. In much the same way, many hybrid leaders link their business mission tightly with their personal mission or vocation.

### **Mutually-Beneficial Relationships**

While most businesses seek to externalize the costs of community health and environmental protection (Lazlo & Cooperrider, 2008), hybrid organizations actively seek to internalize the enrichment of natural environmental systems and develop close relationships with external constituents. In fact, they treat these relationships, which are marked by mutuality, positive regard, trust and vitality (Dutton & Heaphy, 2003) as assets to be developed for mutual prosperity (Rousseau & Ling, 2007). Positive relationships are foundational to organizational resilience (Dutton, Worline, Frost, & Lilius, 2006; Gittell, Cameron, Lim, & Rivas, 2006), learning, and innovation (Carmeli & Spreitzer, 2009). The creation of mutually-beneficial relationships enables hybrid organizations to create positive social change among suppliers and supplier communities, employees and customers. We describe these relationships in detail below.

**Mutually-beneficial relationships with suppliers and communities.** Rather than sourcing from suppliers on the basis of price alone and maintaining a strictly economic and transactional relationship, hybrid organizations invest in deep personal relationships with suppliers, and develop an intimate understanding of what is required for the relationship to be mutually beneficial. These relationships both drive renewal within the social and environmental systems, and assure that high quality supplies are available to meet specific market expectations. With practices such as fair trade sourcing, paying living wages, and investing in supplier education, hybrid organizations demonstrate a commitment to their suppliers and supplier communities beyond those of mainstream competitors. For instance, rather than seeking the lowest price suppliers that pay minimum wages and have no regard for the sustainability of their farming practices, Guayakí pays its farmers above market living wages and devotes significant resources into training them in the sustainable farming techniques necessary to meet the organization's mission. The strong relationship that results is central to the company's

business model, while such strong and lasting relationships also show that hybrids' approach is one of organizational virtuousness, demonstrating that moral goodness for positive human impact and social betterment supports financial prosperity (Cameron et al., 2004).

**Mutually beneficial relationships with employees.** Hybrid organizations select employees who possess the sustainability values of the organization, ensuring that the organization's sustainability identity (Hamilton & Gioia, 2009) is maintained. Once hired, hybrid organizations socialize employees into the social change objective and establish close relationships based on mutual respect, compassion, and cooperation. For example, employees at Green Mountain Coffee Roasters are taken to the communities that supply its coffee to enable them to gain a more holistic view of key raw ingredients, the people who cultivate it, and the natural environment in which it is grown. Further to this, executives have been known to extend personal kindnesses, such as interest-free loans to employees suffering hardship (Neville, 2008), and share company decision-making rights through its employee stock option plan (GMCR, 2009). Research has shown that when information is shared, trust and respect are cultivated, and decision-making is inclusive, both employees and the organization thrive (Spreitzer et al., 2005). Employees experience greater workplace satisfaction and the company enjoys low staff turnover and high levels of employee loyalty. Further, GMCR's approach displays aspects of compassionate organizing through the increased empathetic concern in addition to the creation of credible trusting relationships (Dutton et al., 2006).

**Mutually-beneficial relationships with customers.** Hybrids develop a line of products that represent far more than simply the utility they provide. To their customers, these products are a projection of the values that they mutually share and an opportunity to express themselves through the companies' positive sustainable identity (Hamilton & Gioia, 2009). The class of customers that are

drawn to this connection has been named “Cultural Creatives” or LOHAS—Lifestyles of Health and Sustainability. These customers seek design, health and ecological sustainability in the products they purchase. Rather than valuing achievement, style, and economic progress, cultural creatives value authenticity, nature, and community. They are “careful consumers” who reject “fake, imitation, poorly made, throwaway, cliché style or high fashion.” They read labels and want to know “where a product came from, how it was made, who made it, and what will happen to it when they are done with it” (Ray & Anderson, 2007).

As a result, a deep trusting relationship develops between the hybrid organization and its customers, who in turn grow these markets and help hybrids meet their social change objectives. It is a mutually reinforcing, virtuous cycle. Conversely, if the hybrid breaks that relationship, the outcome has more significant consequences than for other companies. For example, in 2006 Seventh Generation customers described feeling “betrayed” when the company changed the ingredients of its baby wipes because its suppliers were unable to meet demand and they switched suppliers. To respond to what amounted to a deep crisis of trust and restore its relationship with customers, the company allowed the existing stock of reformulated product to clear the shelf space, and then waited for its regular supplier to provide product based on the original formula. Giving up this valuable shelf-space, even for a short period of time, is something that a traditional for-profit company would never do (Goldstein & Russo, 2006), but for the hybrid organization, a demonstrated commitment to its values is paramount.

### **Progressive Interaction with Markets, Competitors and Industry Institutions**

Hybrid organizations do not simply develop this successful business model for their own use. Unlike traditional for-profit business models that use competition and political activity for individual gain and market protection, hybrid organizations use them to promote the diffusion of sustainable products and practices. These efforts are driven in three primary directions: markets, competitors and institutions.

**Building markets for more sustainable products.** Hybrid organizations produce products for a sustainable market segment they seek to grow, not simply for their own benefit, but also for other firms who are in associated markets. Rather than make their core competency opaque and their value-adding capabilities inimitable (Barney, 1991), hybrids value transparency and use an open source model that others can follow. Seventh Generation, for example, publishes the ingredients for all of its products on the web rather than protecting such formulations as confidential. Its customers demand this transparency, and its market is growing. In 2006, the LOHAS demand “for goods and services focused on health, the environment, social justice, personal development and sustainable living” represented an estimated \$209 billion U.S. industry (LOHAS, 2010). In 2001, it was estimated that this class represented 50 million people and by 2003 that figure had grown to 68 million Americans, or about 33% of the adult population (Cortese, 2003).

**Rousing competition.** The growing success and profitability of hybrid organizations and the markets they help to build has made them targets for competition with dominant incumbent firms that develop sustainable product offerings of their own. For example, following the market success of Seventh Generation, Clorox developed a line of green cleaners, and Kimberly Clark developed a line of recycled content bathroom tissue (Wong, 2008). Further, many have become attractive acquisition

targets and been absorbed by larger conglomerates.<sup>2</sup> For many hybrids, this prospect is anathema, as it threatens the desire for autonomy in maintaining sustainable operational and investment practices. However, some have speculated that acquisition can help hybrids reach larger markets and may even create an opportunity for change within the portfolios and practices of the acquiring parent companies.

**Changing industry institutions.** Similar to other for-profit organizations, hybrid organizations seek a leadership role within their industry. However, while other companies seek to influence institutions to reduce regulation and external costs to protect their competitive advantage, hybrid organizations seek to influence institutions to draw other companies into emulating them. Put another way, where other companies seek to create barriers to entry to their markets, hybrids actively encourage entry. In fact, emulation by other companies signals the success of their mission. Towards that end, hybrids act as catalysts for positive social change by working with industry groups and government agencies to create industry standards for more sustainable products and practices. In this respect, hybrid organizations act as institutional entrepreneurs (Fligstein, 1997; Lawrence, 1999); changing the rules of the game for all organizations.

In sum, the Sustainability-Driven Business Model explains how hybrid organizations drive change at the firm and industry levels; promoting sustainable products and practices that will eventually become established as industry norms that all must follow. The following case study illustrates how one firm embodies the elements of this model.

### **Case Study: Maggie's Organics (Clean Clothes, Inc.)**

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<sup>2</sup> For example, Ben & Jerry's was acquired by Unilever in 2000; Stonyfield Farms was acquired by the Danone Group in 2003; and Burt's Bees was acquired by Clorox in 2008.



Maggie's Organics, founded in 1992 in Ann Arbor, Michigan, is the oldest organic apparel company and one of the oldest hybrid organizations in the United States. Its track record exemplifies the three elements of the Sustainability-Driven Business Model leading to positive social change.

**Social change as organizational objective.** Maggie's Organics is driven by a passionate founder and leader, Bená Burda who began her career in the organics industry in 1978. Like many leaders, Burda embodies the values that her company espouses. She humbly states, "At this point I feel that I actually *am* both a fair trade person and socially responsible. But I did not start out to be either of those, nor a philanthropist. I don't like the labels, but instead feel that at Maggie's we have simply created a logical, sustainable, and rewarding business model."

The company has an expressed mission to "...restore, sustain, and enhance the resources, including human, from which they [the apparel] are made," In particular, the company was founded with a goal of saving land from the devastation of conventional cotton production and developing new agricultural practices that exclude the use of toxic chemical pesticides. To remain true to its mission, Maggie's is a privately held company preferring to maintain its autonomy without the influence of traditional investors. Burda initially financed Maggie's along with a business partner, but she remains the majority-owner today with two friends holding minority (10%) ownership.

**Mutually-beneficial relationships.** Burda's dedication is central to the organization's culture and has resulted in lasting friendships with employees. Further, to carry out its mission, Maggie's Organics has created supplier partnerships that are based on interpersonal connections, and recognizes that their prosperity is tightly linked with its own. For example, Maggie's has created new types of suppliers in the formation of 100% worker-owned sewing cooperatives in both Nueva Vida, Nicaragua (known as the Fair Trade Zone Sewing) and in North Carolina (Opportunity Threads). Burda is

committed to supporting these co-operatives and pays them a higher living wage for their sewing services. She has vowed she will not discontinue business with the cooperatives, and works with them to continually improve their operations in an effort to avoid quality issues and missed deadlines.

At home, Maggie's Organics prides itself on a culture of respect and equality; there is a relatively small difference between the salaries of the highest and lowest-paid employees. The company's culture attracts employees that share its values of environmentally progressive thinking. In fact, the company (while small in number with only 14 employees) screens potential employees for knowledge of organics and organic cotton.

**Progressive interaction with markets, competitors and industry institutions.** Maggie's Organics has been consistently profitable since 2004, and with this success as a platform, Burda has dedicated her career to acting as a "positive deviant" within the apparel industry (Spreitzer & Sonenshein, 2004). Burda has not been satisfied only to instill sustainable practices at Maggie's, but she is also creating institutional change by altering the apparel industry's sourcing and production practices. Specifically, Burda and Maggie's Organics have played a central role in developing the U.S. Organic Cotton Apparel Industry and the Organic Trade Association's (OTA) American Organic Fiber Processing Standards. Maggie's is also the first apparel company worldwide to achieve the Fair Labor Practices and Community Benefits Certification standard, a global, third-party certified standard that certifies that all workers in the production process are treated fairly with safe and healthy working conditions.

Indicative of the ultimate goal of the company as promoting broad social and environmental change, Burda reflects "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."

## Implications and Future Research

The contributions of this chapter lie in the areas of theoretical development and practical consideration. We will cover each in turn and offer suggestions for future research.

### Implications for Theory

Hybrid organizations provide scholars with insights into how organizations can act as institutional entrepreneurs, and add to our understanding of the literatures on both positive social change and sustainability.

**Positive social change.** In this chapter, we have described ways in which new forms of for-profit and non-profit organizations act as agents for social change. Hybrid organizations present positive organizational scholars with a new domain in which to study their phenomena of interest. Hybrids present a novel and exciting attempt to break the “mythical fixed pie” (Bazerman & Hoffman, 1999), challenging traditional notions of the win-lose relationship between economic and environmental or social goals (Hoffman, 2000). As such, firms can have a positive role to play in social change, rather than the negative role they have had in the past and are generally assumed to have in future. The positivity of the model we have identified here is enabled by hybrids looking past the need for compliance or reducing negative social impacts, and identifying opportunities to restore community prosperity and environmental integrity. As hybrids bridge for-profit and non-profit domains to accomplish these goals they offer an interesting empirical site for linking theories of social movements, management and positive social change.

**Institutional entrepreneurship.** In creating positive change, hybrid organizations are sustainable businesses (Lazlo & Cooperrider, 2008) but go further. They not only create value for their owners, society and the environment, but also reach beyond their specific supply chains with the aim of changing the institutionalized rules of the markets in which they operate. As such, they act as institutional entrepreneurs (DiMaggio, 1988), “exploiting cultural discontinuities...across multiple societal sectors... [and] discovering ways to innovate through structural overlap, thus blurring their primary roles and activities by moving from one societal sector to another” (Thornton & Ocasio 2008: 129). Understanding the role of institutional entrepreneurs in shaping the discourse, norms and the structures that guide organizational action is of key importance in analyzing the success of hybrid organizations. In fact, this is the ultimate goal and success metric by which many hybrid organizations measure themselves. This is a significant deviation from traditional business practice and demonstrates a new form of social movement beyond a strict focus on NGOs. By choosing positive institutional change as their primary objective, hybrid organizations demonstrate how many positive concepts, such as positive deviance (Spreitzer & Sonenshein, 2004), organizational virtuousness (Cameron et al., 2004), positive leadership (Cameron & Lavine, 2006). Positive meaning and positive relationships (Dutton & Sonenshein, 2008) not only apply to individuals and dyads but also to the firm, inter-organizational and industry levels of analysis.

**Sustainability.** The sustainability literature is emerging as a field of its own with a rich body of research work and key findings and assumptions. At its core, the challenge of sustainability represents far more than an incremental advancement of corporate greening initiatives or environmental management. It is a fundamental shift in society and a concurrent shift in the management and strategic frameworks by which business is conducted. These shifts challenge prevailing dominant

conceptions of the role of business within society. According to Ehrenfeld (forthcoming),

*“... the criticality of creating sustainability lie[s] in the alternate pathway. This choice poses a huge challenge. The offerings and operations of these firms must not only produce a different kind of customer satisfaction, they must also employ a positive strategy to change the culture inside and outside of the firm. Deliberately changing culture inside a firm is not new although experience teaches that such change is difficult (Schein 1984). Deliberately changing the outside culture in which the firm is embedded is a new challenge and departs from traditional models that define roles for business within a political economy. Taking on culture change is about as far as one can get from Milton Friedman’s (1970) famous assertion that, ‘The social responsibility of business is to increase its profits.’”*

Hybrid organizations are an answer to Ehrenfeld’s call; striving not simply to reduce their impact on the environment and their communities, but rather to develop positive and generative social and environmental change. This represents a phenomenological shift (Hoffman & Haigh, Forthcoming) from a focus on organizations being less unsustainable, to becoming more sustainable (Ehrenfeld, 2008), and a theoretical shift from addressing “deficit gaps” to instead addressing “abundance gaps” (Cameron, 2007). Within this fundamental shift of focus lie innovative solutions and cues to future market shifts towards addressing sustainability problems.

### **Implications for Practice**

The model we have identified also has implications for practitioners. First, the model itself offers a template for the development of a hybrid strategy. Beyond that, we discuss below how hybrid organizations challenge conventional business assumptions, bridge two ends of a dichotomy, and risk extinction by bringing sustainability into the mainstream.

**Challenging conventional business assumptions.** Hybrid organizations are driven by a goal to alter the taken-for-granted assumptions of business management that lead to unsustainable behavior and outcomes. While much of management literature promotes the externalization of social and

environmental costs as wise strategy, hybrid organizations actively internalize them for the very same reasons. This is just one of the dominant business assumptions that hybrids challenge (Capra, 1982; Daly & Cobb, 1994; Daly, 1991; Gladwin, Kennelly & Krause, 1995). Hybrid organizations also call for a reconsideration of business principles to see:

- The firm as socially and physically connected to the ecosystem and other societies.
- The profit-motive as reconfigured to just one of many prime objectives of the firm.
- Economic growth as redefined to include concerns for information intensiveness, community consciousness and the experiential quality of economic activity, rather than merely its material-energy intensiveness.
- Nature as having social, cultural and spiritual value beyond immediate interests in economic value.
- Supplier, customer and employee relationships as having dimensions far beyond being primarily transaction in nature.

By challenging these taken-for-granted beliefs of business management, and succeeding as business ventures, the Sustainability-Driven Business Model that hybrids develop offers clues to the future direction of business practice more generally.

**Bridging two ends of a dichotomy.** Hybrid organizations present a bridge between two ends of a dichotomy previously seen as incommensurable (economic profit, and social and environmental mission). This means that success for a hybrid organization requires serving two or even three masters, in that they need to manage the three e's of the triple bottom line (Elkington, 1998): economic, environment and (social) equity. It is difficult to do this well; however, by developing a negotiated order between them, hybrids represent an important breakthrough in what has traditionally been seen as a win-lose relationship (Hoffman, 2000). They show that the relationship can be win-win-win with a reassessment of the definition of win in each category. By charting a course in this direction, hybrid organizations offer a means to explore whether a breakthrough in positive social change is possible (Hampden-Turner, 1994).

**Risking extinction by mainstreaming the sustainability mission.** Hybrid organizations have created niches for themselves, and in the process have enjoyed increasing competitive benefits. But those niches are becoming mainstream, and while many hybrids were the first-movers in their field and will retain leadership positions, they will continue to be challenged by dominant players. This represents a strange tension for hybrids. On the one hand, this is a victory for the company's efforts at driving social change. On the other hand, it raises the question of whether hybrids are undermining their own competitive viability through their diffusion of practices. 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. In the end, is the ultimate goal of a hybrid also its extinction?

### **Directions for Future Research**

The metaphorical bridge that hybrid organizations create between economic, social and environmental priorities offers a rich array of possibilities for future research spanning sustainability and positive organizational scholarship.

First, it will be important to understand the ways in which hybrid organizations impact industry-wide standards. How do they act as institutional entrepreneurs (DiMaggio & Powell, 1983) and what insights can they provide into these dynamics? For example, existing literature attends to issues of size, power and network connections as critical attributes for allowing organizations to exercise control over their environments. However, hybrid organizations rarely possess such attributes. As small businesses attempting to change the norms of larger entities (competitors, communities, institutions), hybrid organizations often deal with organizations and systems of disproportionate power. And yet, they are often able to promote significant shifts. This raises the question of what the power differential means

for traditional studies of institutional change; and whether other forms of power (i.e. the power of legitimacy driven by a moral purpose) are at play.

In a related domain, there is a vast area of research to be conducted into the dynamics around the acquisition of hybrids by larger incumbent forms. Acting as a metaphorical “Trojan horse,” questions emerge around how hybrid organizations can promote social change from within a dominant incumbent. First, is it universally true that acquisition threatens the autonomy and ability of hybrids to maintain sustainable operational and investment practices? Second, under what conditions can acquired hybrid organizations change the portfolios and practices of the acquiring parent companies?

Finally, this chapter has sought to be an example of the benefits of problem-based research (Biggart & Lutzenhiser, 2007; Davis & Marquis, 2005) which draws on theoretical principles for providing deeper and richer explanations of critical problems in our world. Rather than seeing the only merit of academic scholarship in theory development (Hambrick, 2007), this paper builds on the presupposition that social science research has a valid and critical role in providing scholarly analysis of contemporary social issues. Few contemporary issues warrant social and cultural analysis by problem-focused researchers more than sustainability, and such analysis can aid in providing greater “rigor and relevance” in the assessment of our research questions (Tushman & O’Reilly, 2007).

### **Conclusion**

Questions around the role of the market and the firm in addressing societal issues are particularly salient today given the growing distrust of the for-profit sector, and their contribution to environmental and social problems (Braudel, 1982; Lemos & Agrawal, 2006; Perrow, 1991; Polanyi, 1944; Smith, 1994 [1776]). In this chapter, we sought to apply a positive lens to hybrid organizations,



and through that lens we examined ways in which the hybrid form fosters positive social and environmental change. By doing so, we identified a model of social change agency that hybrid organizations develop that uses the market system to yield positive social and environmental outcomes. In this way, hybrid organizations offer exciting insights into possibilities for sustainability outcomes.

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## FIGURES

Figure 1: The Hybrid Organization's Sustainability-Driven Business Model

