

Making Hybrids Work: ALIGNING BUSINESS MODELS AND ORGANIZATIONAL DESIGN FOR SOCIAL ENTERPRISES

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Hybrid organizations pursuing a social mission while relying on a commercial business model have paved the way for a new approach to achieving societal impact. Although they bear strong promise, social enterprises are also fragile organizations that must walk a fine line between achieving a social mission and living up to the requirements of the market. This article moves beyond generic recommendations about managing hybrids in order to highlight a typology of social business hybrids and discuss how each of the four proposed types of hybrid organizations can be managed in order to avoid the danger of mission drift and better achieve financial sustainability. (Keywords: Social Enterprise, Business and Society, Hybrid Organizations)

Welcome to a world where business requirements meet increasing societal demands. Many executives have become keenly aware over the last decades that the business of their business may have to be *more than* business, since they are asked to address an ever stronger set of societal expectations. Some demands originate from local and central governments in the form of new regulations. Other demands stem from activist groups expecting an increased environmental or social focus from corporations, or from consumers who have increasing access to information about companies and can boycott those that they perceive as engaging in corporate misbehavior. Finally, rising societal demands also originate from employees who prefer working for companies perceived to be good corporate citizens.

Addressing societal issues is often good business in itself—social-oriented products may increase sales and pricing power, sustainability initiatives often increase the efficiency of the value chain, CSR projects can create goodwill in the communities in which companies operate, and addressing the needs of low-income populations may open up profitable new markets.¹ However, at some point, difficult decisions may emerge for which business leaders need to weigh the value capture for the company against value creation for society.² One approach is to treat these goals as a trade-off and make a choice between profit and societal

impact, looking at societal demands as constraints on how the business should operate. Another approach is to treat these societal demands as signs of the future and fundamentally re-think the business model of the company—the way activities are organized and how stakeholders are engaged—so that the trade-offs can potentially become win-win situations.³ Developing innovative ways of doing business that align profit and societal impact is a key challenge for corporate leaders in the 21st century.

At the forefront of addressing this challenge are social businesses hybrids, often also called social enterprises—organizations that run commercial operations with the goal of addressing a societal problem, thus adopting a social or environmental mission. While social business hybrid models can be traced back to the 19th century, with legal forms such as cooperatives or mutual companies,⁴ they have grown in number and visibility in the last decades due to the blurring of boundaries between social and commercial sectors. They are present in a wide variety of sectors, including education (such as the Khan Academy, which develops low-cost online education), microfinance (such as the Grameen Bank, which develops commercially viable models of providing loans to the very poor), and the environment (with organizations such as South Pole Carbon Ltd., which is the global leader for developing emission-reduction projects). Social business hybrid organizations have developed valuable experience in combining financial and societal value since they need to be effective in both kinds of activities in order to grow and fulfill their mission.

At a macro-level and in terms of impact, such hybrid organizations have proven effective in addressing longstanding societal issues. Microfinance institutions, for instance, have allowed 91 million people living in poverty to access \$81 billion in small loans, thereby contributing to their economic prosperity.⁵ Fair trade organizations, which benefit small producers mostly in developing countries, have generated \$4.8 billion in sales worldwide in 2011, thereby improving the economic conditions of 1.4 million small producers on a global level.⁶ On a national scale, Work Integration Social Enterprises (WISEs) in France are organizations that help long-term unemployed people by hiring them for two years to produce goods and services sold on the market. In 2012, WISEs provided jobs for 15,000 long-term unemployed individuals, with 47% of them finding a permanent job or training activity upon graduation.⁷

Despite the evidence of societal impact, research suggests that hybrids are fragile organizations that run the risk of internal tensions and mission drift⁸ due to holding incompatible goals,⁹ and they may find it difficult to achieve financial sustainability.¹⁰ Identifying how leaders of social business hybrids are able to address these challenges—through design structures, governance mechanisms, and performance management systems—helps us understand how companies can better align the generation of profit and societal impact.

Our experience with social business hybrids in different sectors suggests that the nature and specific characteristics of the work that they do give rise to

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different types of hybrid organizations that need to be managed in different ways. This article therefore develops a typology of social business hybrids with the goal of deepening our understanding of the challenges of hybridity and informing the management of these organizations. More broadly, we also aim to shed light on the management of any organization or initiative that aims to embrace multiple and competing yet potentially synergistic goals, as is increasingly the case in modern corporations. Indeed, corporate leaders are bringing their CSR activities closer to the core of their business¹¹ and many multinationals companies are developing base of the pyramid (BOP) businesses to serve low-income customers in developing countries in a sustainable way.¹² In order to effectively develop these new business initiatives, corporate leaders need to better understand the nature and management of hybrid organizations.

The Rise of Social Business Hybrids

In the last decades, hybrid organizations pursuing a social mission while relying on a commercial business model have made the headlines and paved the way for a new approach to achieving societal impact.¹³ Delancey Street (in the U.S.) hires former inmates and trains them as employees for a commercial home and office moving service. Dialogue in the Dark (initiated in Germany) developed a global franchise of museum experiences in complete darkness where visitors are guided by blind people. Neither profit maximizers nor charities, neither capitalists nor social activists, social business hybrids primarily use commercial means to achieve a social or environmental mission and adopt different legal forms depending on their regulatory context (e.g., associations, cooperatives, community interest companies in the UK, benefit corporations in the U.S., for-profit companies owned by nonprofits in France, and charitable limited companies in Germany). Social business hybrids attempt to combine the best of both worlds: create value for society in areas where markets and governments are failing,¹⁴ while developing financially sustainable operations that leverage commercial contracts and enable reaching scale.

Are social business hybrids the solution to the failings of our economic system, providing guidelines and inspiration for a new and perhaps more-advanced model of capitalism? Although they bear clear promises, social business hybrids are also fragile organizations that walk a fine line between achieving their social mission and living up to the discipline of the market. A few prominent examples, such as SKS Microfinance and the debacle of commercialization of microfinance in India, have shown that hybrids may, over time, prioritize financial performance over social performance and thereby drift from their core social mission, sometimes with dramatic consequences for the beneficiaries that they were supposed to serve.¹⁵ Alternatively, social business hybrids that prioritize social performance over financial performance and fail to build a business model that ensures the financial sustainability of the organization may find it difficult to survive, also resulting in potentially negative consequences for beneficiaries. The bankruptcy of the British social enterprise Aspire is a well-documented example of such challenges.¹⁶ Organizations that are able to master these trade-offs and prosper offer important lessons.

Research in management has started to explore the specific challenges associated with the management of hybrid organizations and has identified some best practices.¹⁷ However, there are different types of hybrids that require distinct business models, organizational structures, and management practices. Our goal in this article is to move beyond general recommendations about managing hybrids to focus on the essential nature of the work that they conduct in order to point to the specific organizational structures and business models that allow hybrid organizations to become more effective and sustainable.

The central challenge of social business hybrids is to align the activities that generate profit with the activities that generate impact. We define *profit* as the value captured by the organization for its owners (shareholders in a public company, or partners in a partnership model, or members in a cooperative model); and we define *impact* as the value created by the organization for society in the achievement of its mission, which can include environmental benefits and social gains. While commercial organizations are expected to prioritize value capture for their owners (subject to a set of societal constraints), and social sector organizations are expected to prioritize value creation for their beneficiaries (subject to mobilizing enough resources to continue operating), social business hybrids have to reconcile competing expectations of both value capture and value creation, and they have to do so in a systemic way instead of focusing on the needs of one dominant stakeholder.¹⁸ We adopt the concept of the business model as a central unit of analysis for understanding the functioning of hybrid organizations. The business model—defined as the combination of resources and activities that allow an organization to create, deliver, and capture value¹⁹—is how hybrid organizations can innovate to better promote coherence and focus among these competing goals.

Social business hybrids are likely to be superior to commercial firms in situations of market or government failure created by the specific transaction characteristics of the societal problem that is being addressed. Based on these transaction characteristics, we develop a typology of four hybrid social enterprise models, which we call Market Hybrid, Blending Hybrid, Bridging Hybrid, and Coupling Hybrid. We describe each of these hybrid models, identify the specific challenges faced by managers in each of them, and explain which management structures, models, and practices can be deployed to address these challenges. Our goal is to offer a testable and actionable framework for organizational design and sustainability of hybrid organizations, one that also allows us to draw inspiration for corporate management.

The Role of Social Business Hybrids in Capitalism

Commercial models can be highly efficient in solving societal problems—when compared to government interventions or nonprofit models—due to the strong discipline of the market in aligning business actions with client value, as well as the dynamics of competition that promote increased efficiency of operations and continuous innovation in the delivery of products and services. In certain market conditions—which include low barriers to entry and the ability of customers to make informed buying decisions—the invisible hand of capitalism will largely align

the profit-seeking behavior of self-interested actors with societal welfare. In this context and with appropriate regulation that prevents the abuse of dominant positions and the prevention of negative externalities, commercially driven models have proven their effectiveness in creating both economic growth and social prosperity. A striking example of this positive dynamic is the successful commercialization of mobile telecommunications among the lower income populations of Africa,²⁰ which has arguably been an effective tool for economic empowerment and growth. Mobile services in Africa work as a fully commercial proposition because consumers value the service and exercise choice, while the economies of scale possible in mobile telephony allow for a low enough cost to meet the ability to pay of low-income customers.

Although market outcomes in these situations tend to be efficient, they are rarely fair, as the initial distribution of resources and capabilities greatly determines the welfare of different segments of the population. In order to address this problem, governments—in addition to providing public goods²¹ and performing a market regulatory function—also assume a redistributive function through tax collections that fund a social welfare system and often subsidize the work of social sector organizations. In this system, charities and traditional nonprofits assume the complementary role of helping disadvantaged populations that are not served by markets and are neglected or not easily reached by governments.

In the modern capitalist system, what then is the role of hybrid organizations that combine social missions with commercially driven models? Social enterprises have distinctive advantages over focused commercial firms in sectors or domains that exhibit at least one of two key characteristics: the production and delivery of products and services have potentially significant value spillovers that go beyond the transacting partners; and transaction obstacles prevent the market from operating efficiently. In these contexts, markets tend to lead to weaker societal outcomes if providers are subject to strict commercial goals, leading to unrealized opportunities for value creation in the economy. Social business hybrids are organizations deploying business models that can deliver value to society in domains with these transaction characteristics. By doing so, and as long as they can become sustainable and their solution can scale, social business hybrids can perform an important economic and social role. We now investigate more deeply each of these transaction dimensions and their implications for hybrid organizing.

Dimension 1: Contingent Value Spillovers

The notion that market-based transactions lead to societal welfare rests on the premise that the value from a transaction accrues mostly to the transacting parties and that value spillovers—which are the increases or decreases in value to economic agents outside a specific transaction (usually called externalities in economic language)—are small or would not significantly change the terms of the transaction if internalized. For example, selling a DVD of a blockbuster movie is a commercial transaction in which the price at which the transaction happens signals that the client is willing to pay given the value that he or she assigns to the movie. Since there are little positive or negative value spillovers in consuming this movie beyond its entertainment value for consumers, a competitive market system will lead to a

level of consumption of this good that is correct from a societal welfare point of view. A commercial firm tends to focus its attention on maximizing the value created for the transacting partner (the client) so that it increases the client's willingness to pay for the product or service and thereby increases the firm's ability to capture value from the transaction. Managing any potential value spillovers (by trying to reduce the negative spillovers or increase the positive spillovers for other stakeholders) is usually outside the domain of the commercial provider, unless there is a legal or ethical requirement to do so, in which case this becomes a necessary cost of doing business.

However, some transactions may have significant value spillovers beyond the direct value generated to the customer. For example, if a family in a rural village in Africa not connected to the electricity grid buys a kerosene lamp to obtain light, that commercial transaction has strong negative spillovers to society in the form of carbon emissions, safety hazards, and health issues due to the inhaling of kerosene fumes. For that family, the adoption of an LED-based rechargeable lamp would create significant positive value spillovers in terms of reduction of carbon emissions by replacing kerosene burning, lower societal health care costs from not inhaling kerosene fumes, and improved educational outcomes due to a better reading light for children to study. This is the value proposition for society of the social enterprise Nuru Energy, which commercializes renewable energy lamps for low-income populations in East Africa.²² While a commercial enterprise focuses on the value to the paying customer and either ignores or does not manage the value spillovers, a social business hybrid, such as Nuru Energy, can take a systemic view as a basis for business decisions and focus on the total value created for society—which is the value for the client plus the positive value spillovers for society (minus any negative spillovers that may occur).

Value spillovers are thus a fundamental concept for understanding the role of social business hybrids in society. In domains or activities where the positive value spillovers are important and happen automatically just by the fact of providing the product or service, then profit is strongly aligned with impact and the business model can be simpler and closer to commercial models. This is the case with Nuru Energy; by replacing kerosene with a rechargeable lamp the spillovers happen automatically without the need for additional interventions.²³ However, in other situations, value spillovers do not happen automatically and require additional effort from the organization providing the service. For example, in the case of Microfinance, providing a loan to a low-income entrepreneurial woman in Bangladesh has benefits for the client in accessing finance, but this activity by itself brings only limited spillovers. The greatest spillover comes from the good use of the surplus income generated by the entrepreneurial activities financed by the loan. When the surplus income is used for buying food for the household, house renovations, or for allowing children to go to school, significant spillovers for society happen. However, if the money is used for alcohol or gambling, for example, the societal impact of microfinance would actually be negative. This means that, to achieve their social mission of poverty alleviation, microfinance institutions (MFIs) need to engage in significant mentoring activities with their clients to help them develop successful entrepreneurial activities and make the best use of their surplus income.

In summary, all businesses, social or commercial, generate value spillovers for society from their activities beyond the central value delivered to customers. Social businesses hybrids tend to operate in domains that exhibit strong potential value spillovers, particularly where markets are likely to fail in achieving societal good due to perceived lower profitability. In some situations, these value spillovers are an *automatic* result of the commercial activities, while in other situations the value spillovers are *contingent* on the development of additional interventions because they are not a direct outcome of commercial activities. This distinction between automatic and contingent value spillovers is the first key dimension of our model since it is critical for the societal effectiveness of commercial models. In contexts of contingent value spillovers, providing these additional interventions (such as training, awareness raising, and mentoring) is required for the generation of social impact, yet it adds additional costs and complexity to the organization.

Dimension 2: Transaction Obstacles and the Degree of Overlap between Clients and Beneficiaries

The effectiveness of commercial models relies on customers being able to engage in the transaction and being willing to pay a price for the product or service that is above the cost of delivering it, allowing for value to be captured by both transacting parties. A key driver of success for commercial companies is thus to increase their clients' willingness to pay since it is largely assumed that, if clients are willing to pay, they are also able to pay.

However, in the case of excluded, disadvantaged, or low-income populations that would often greatly benefit from using new products or services, they may have difficulty in doing so because they are unable to pay, unable to access the offering, or do not value it enough to intend to purchase it. In these situations, pure commercial transactions can fail, while social businesses hybrids can develop business models that allow these transactions to happen despite the existing obstacles, such as by lowering costs or providing novel means of access. The nature of these business models depends on the specific transaction obstacles:

- ***Inability to Pay***—If the obstacle lies in the inability to pay for a product or service, a potential solution is the re-design of the production value chain with a focus on target costing. An example of such a model is David Greene's Auro-lab, which lowered the cost of an intraocular lens by more than 10 times,²⁴ making it more widely accessible. This process of target costing usually involves the re-design of the work through the use of technology to automate certain tasks, and the integration of production to reduce the margins of intermediaries. It also relies on a more specialized role division that leverages locally abundant resources. An example is Lifespring Hospitals, which re-engineered maternal care in India with the use of IT and reduced the scope of the doctor's work (an expensive and scarce resource) while increasing the role of expert nurses (a cheaper and locally abundant resource). This enabled lowering the cost of maternal health care by 50-70% (compared to the average cost of maternal care in India) without reducing the quality of care. These innovations made maternal care affordable to a large segment of

the low/middle-income population. Lifespring Hospitals currently operates a chain of 12 hospitals and has ambitious plans for growth.²⁵

- ***Difficulty of Access***—If the obstacle to the transaction is difficult access to customers (such as populations in remote villages), models of micro-franchisees (locally based networks of individuals or micro-stores as retailers to reach the end customer) allow reaching potential customers in a more cost-efficient manner than traditional distribution methods, in particular when coupled with automated micro-payment systems that allow for cheap and scalable ways of monitoring the micro-franchisees and collecting the fees. This is the model that Nuru Energy deploys to reach hundreds of thousands of families that do not have access to electricity. An alternative or complement to micro-franchise models are models of customer involvement in the production process at the local level that help resource mobilization and generate economies of aggregation. An example is the U.S.-based venture One Acre Fund, which empowers hundreds of thousands of very small-scale farmers in Kenya through selling supplies of seeds, providing knowledge and training, and facilitating access to markets.²⁶
- ***Unwillingness to Pay***—In other cases, the transaction obstacles may be due to an unwillingness to pay due to a value perception mismatch. This means that while potential clients would greatly gain from the offering, they do not know about it or do not recognize its value. In these cases, business models bundling together products that customers want with products that customers need can lead to a better alignment of customer choice with societal impact. An example is the organization Boond.com, which sells mosquito nets that people need to protect their family from malaria (but are not willing to pay for because they do not recognize the value) bundled together with renewable lamps that people want to buy to light their houses. This is a type of transaction obstacle for which traditional investments in marketing and advertising for social impact oriented products may be warranted.

By implementing these types of business model innovations, social business hybrids fulfill their social mission while transacting with their target beneficiaries as customers. However, despite these and other business model innovations that aim to align profit and impact by allowing valuable transactions to happen, there are situations in which it may be difficult to lower the costs or change the offering enough for the target segment to be able to afford, access, or want the product/service. While commercial enterprises would simply not serve these customers, hybrid social businesses are attracted by the high potential value spillovers of these transactions and will want to serve these customers despite the difficulties.

One solution for sustainably engaging in these transactions is to develop business models in which there is a client segment that is able and willing to pay for the service or product and that is different from the intended beneficiary. Serving this paying client segment enables reaching the intended beneficiaries through cross-segment subsidies, in which the margin from the segment that is willing and able to pay is used to subsidize the client segment that cannot afford to pay. An example is Aravind Eye Hospital in India, which provides high-quality

cataract surgeries at market prices to affluent and middle-class clients in order to gain a margin that allows offering cataract surgeries to low-income populations who cannot afford to pay and are being neglected by the public health systems.²⁷ Aravind has so far performed close to four million surgeries using this cross-segment subsidy model.

Another approach is to develop models where some stakeholders are willing to pay for the product or service (such as individual donors, foundations, or governmental entities) although they are not the ones who directly benefit from the service (for instance, disadvantaged or low-income populations). Examples are “adopt a child models,” or outcomes-based contracts and subsidies (from foundations or governments) in which payments are provided to hybrid social enterprises in exchange of measurable outcomes. These mechanisms make the business model more complex, particularly when multiple stakeholders or government agencies are involved as payers and/or regulators.²⁸

Particularly complex are business models where the social business hybrids build a dual offering for a paying customer segment that is not the beneficiary segment. For example, WISEs hire long-term unemployed people for a limited period of time and employ them to produce services such as recycling, gardening, catering, or cleaning. However, the spillover to society comes not from hiring these people (since other more productive people could be hired in their place), but from the social support given to these long-term unemployed people to allow them to create work routines, be able to present themselves well, and, critically, be able to find a regular job after their tenure in the WISE, thereby ensuring their integration in society. However, this desired outcome requires that these social business hybrids also engage in commercial transactions in the market. WISEs thus need to develop a business model that combines commercial activities with a supplemental set of activities focused on achieving the social mission of the organization (such as training in job search techniques or social counseling to address health or administrative issues).

The degree of overlap between clients (i.e., those who pay for the product or service) and beneficiaries (i.e., those who benefit from it according to the social mission) shows how social business hybrids can overcome these transaction obstacles. A critical issue is that when the payer is not the direct beneficiary, a fundamental market discipline disappears: the clarity of feedback provided by paying clients who have the choice to opt for competing products leads to innovation among competing companies. In these cases where clients and beneficiaries are different groups, social business hybrids need to serve both groups, which leads to more complex business models that are harder to manage and scale. Moreover, these models may be associated with a greater danger of mission drift since hybrid organizations may be tempted to focus on serving the needs of their paying clients (who provide them with resources) rather than those of their beneficiaries (as informed by their social mission).

A Typology of Hybrid Models

The two key dimensions of level of contingent value spillovers and degree of overlap between clients and beneficiaries are the basis for classifying social

business hybrids. By plotting these two dimensions in a matrix, we derive a typology of four social business hybrid models that we call Market Hybrids, Blending Hybrids, Bridging Hybrids, and Coupling Hybrids (see Table 1). It should be noted that despite our use of discrete outcomes in the matrix, both dimensions can be measured as continuous outcomes. For example, the first dimension can be measured by the estimate of value spillovers that are automatic compared to the total potential spillovers. The second dimension can be measured by the percentage of revenues coming from beneficiaries versus the total budget. Therefore, we discuss these dimensions as low versus high and recognize that there may be a significant grey area. Yet, despite this grey area, executives of social business hybrids may be able to recognize the type of hybrid their organization belongs to.

We focus on four specific managerial levers dealing with the specific challenges experienced by hybrids: organizational structure, board governance, human resources strategy, and performance management.²⁹

Market Hybrids

Understanding Market Hybrids

Market Hybrids are designed in such a way that beneficiaries are clients that pay for a product or service for which the value spillovers happen automatically without requiring additional interventions. Such hybrids are close to pure commercial models with the difference being that the organization adopts a social mission. Examples of such hybrids are base of the pyramid models where companies provide access at low cost to basic products or services with strong spillovers: water, sanitation, health care, energy, communications, and insurance. In these models, products are designed in such a way (e.g., packaged in smaller quantities,

TABLE I. A Typology of Social Business Hybrids

Dimensions	Clients = Beneficiaries	Clients ≠ Beneficiaries
Automatic Value Spillovers	<p>MARKET HYBRID <i>Examples: BOP initiatives for access to basic services (energy, health)</i></p> <p>Risk of Mission Drift: Low</p> <p>Financial Sustainability: Easy</p>	<p>BRIDGING HYBRID <i>Examples: integrated business model with job matching for people with disabilities</i></p> <p>Risk of Mission Drift: Intermediate (lower risk for more integrated models)</p> <p>Financial Sustainability: Moderately Difficult</p>
	<p>BLENDING HYBRID <i>Examples: Microfinance, integration models that require regular support or change of behavior for value to be created</i></p> <p>Risk of Mission Drift: Intermediate</p> <p>Financial Sustainability: Moderately Difficult</p>	<p>COUPLING HYBRID <i>Example: Work integration social enterprises that require a dual value chain that serves both clients and beneficiaries</i></p> <p>Risk of Mission Drift: High</p> <p>Financial Sustainability: Difficult</p>
Contingent Value Spillovers		

produced with basic quality, or built upon technological innovation) that they can be produced and sold for an affordable price to poor clients. In turn, access to these products or services generates automatic value spillovers in terms of health benefits or economic development for the clients. In these situations, the more products are sold, the more societal impact is generated. Market Hybrids can thus focus their attention on commercial activities, because perfecting and scaling these activities will not only generate revenues (and potentially profits), but also directly contribute to societal impact as well.

As organizations for which social impact is directly derived from commercial activities targeted at segments of the population that are underserved by traditional commercial offers, Market Hybrids are relatively unlikely to experience mission drift. By focusing on commercial performance, Market Hybrids simultaneously enhance their social performance. While the risk of mission drift is minimal, it nevertheless exists if an organization chooses to maximize its revenues at the expense of its social impact by progressively focusing on clients with higher ability to pay, thereby neglecting the more disadvantaged clients.

Given their market-focused model, Market Hybrids may not find it too difficult to achieve financial sustainability to the extent that they are able to find paying clients for their offering. However, as noted, this requires the development of business model innovations that are capable of keeping the cost of the offering accessible to clients that are priced out of the regular commercial market and may be difficult to reach.

Managing Market Hybrids

Given the strong alignment between social and economic activities, Market Hybrids are the least challenging hybrids to manage. To avoid overemphasizing economic performance, Market Hybrids need to structure their governance in such a way that all board members demonstrate a sound understanding of business principles combined with a clear focus on the social mission. The board should monitor client segmentation on a regular basis in order to avoid prioritizing more-affluent or less-excluded clients. In addition, the board should periodically check the organization's theory of change (which is the articulation of how the company creates societal value) in order to ensure that the delivery of commercial services still generates the desired social impact without the need for additional interventions.

Since they focus on one activity only (the sale of products or services that have automatic value spillovers), Market Hybrids are best designed with a uni-functional organizational structure centered on commercial activities. When it comes to recruitment for Market Hybrids, staff with operational business expertise should be prioritized. The accomplishment of the social mission being synergistic with the provision of commercial products or services, it is important to seek the highest level of operational business expertise. This ensures operational efficiency, which leads, in turn, to higher social performance. An advantage of this recruitment pattern is that it allows for the development of a very homogeneous culture in the hybrid organization, with organizational members adhering to similar logics and norms of behavior, thus lowering internal tensions and the potential for conflict.

Finally, given the alignment between social and commercial operations, the monitoring of performance in Market Hybrids requires the development of strong

key operational performance indicators monitoring the efficiency of the commercial operations, while tracking the profile of customers served to anticipate and avoid the risk of mission drift. Periodic external reviews are important to validate the impact of the model and reinforce the theory of change.

Blending Hybrids

Understanding Blending Hybrids

Like Market Hybrids, Blending Hybrids are organizations that serve paying clients who are also the beneficiaries of their societal mission. For Blending Hybrids, however, achieving the desired societal impact requires blending commercial offerings with additional interventions (such as training or community outreach) upon which positive societal spillovers are contingent. This type of hybrids includes microfinance, education, and social inclusion organizations that require changes in behavior on the part of clients for impact to happen. Such a dedicated social-oriented intervention often exposes Blending Hybrids to a higher risk of mission drift than is the case for Market Hybrids because the additional activities required to generate impact do not contribute to generating revenues and thus have a negative impact on profits, facing the risk of being neglected. As noted, SKS Microfinance increasingly focused on commercial goals to the detriment of social goals, focusing on rapid growth in lending without enough care for how clients were using the funds they received, leading to over-lending, increased defaults, and the near collapse of the industry.³⁰ Furthermore, while Blending Hybrids rely on a steady stream of revenues from clients to ensure their financial sustainability just like Market Hybrids, they incur additional costs to implement the additional interventions, which makes it more challenging for them to achieve financial sustainability.

Managing Blending Hybrids

In terms of governance, the boards of Blending Hybrids should focus, even more than those from Market Hybrids, on monitoring the profile of clients served since their business model may lead them to prioritize clients with the higher ability to pay and neglect disadvantaged clients/beneficiaries requiring the most additional interventions. The board should also monitor the quality and effectiveness of the social interventions. To achieve that, the board of Blending Hybrids should be composed of members with a combination of business and social expertise, including one or more champions of the social mission.

To fulfill their mission, Blending Hybrids need to develop two types of competencies: the operational expertise to perform their commercial activity as well as the expertise for the required intervention to achieve societal impact. Depending on the nature of the additional intervention required and its complexity, managers of Blending Hybrids may opt for either an integrated organizational structure (with the same organizational members performing both the commercial activities as well as the social interventions with separate metrics for each) or a differentiated structure (with different organizational members performing different sets of interventions). For example, a microfinance institution may find it more efficient to have organizational members perform both the loan servicing

and the mentoring programs that enable beneficiaries to acquire business and life management skills, while a health care organization may find it more efficient to have a dedicated medical team and a dedicated social support team. In some cases, when the social expertise is difficult or costly to acquire, Blending Hybrids can rely on external partners to outsource those additional interventions. In some of these cases, social business hybrids can be created as a joint venture between a corporation and social organization (a model that has been used, for example, by Grameen with different multinationals).³¹

The choice of organizational structure, whether integrated or differentiated, in turn drives the profile of staff required to operate it. A Blending Hybrid with an integrated structure requires organizational members with hybrid profiles (i.e., individuals combining business as well as social expertise). Note that these hybrid members may either be recruited as such by the social enterprise, or may be recruited as “blank slate” without prior experience and be trained by the social business hybrid to become hybrid individuals.³² A Blending Hybrid with a differentiated structure requires a differentiated team with staff experts in business operations on the one hand and staff experts in the social intervention on the other hand. In this case, the benefits of specialization may be outweighed by the rise of internal conflicts between these two groups.

Performance monitoring of Blending Hybrids requires a combination of operational and impact KPIs, since operational KPIs alone are insufficient to monitor the achievement of the social mission. Dedicated staff members should develop and oversee the impact measurement system separately from the financial accounting and using standard impact benchmarks that are comparable across the industry. This is important to continuously track and improve the management of the social interventions.

Bridging Hybrids

Understanding Bridging Hybrids

Since Bridging Hybrids attend to clients and beneficiaries who are from different groups, they must bridge the needs and resources of both constituencies. An example is the earlier mentioned Dialogue in the Dark that organizes exhibitions in complete darkness guided by blind people. This role reversal helps transform clients’ perception of disability by creating meaningful employment for people with blindness. The challenge for this type of hybrid is that the business model needs to integrate clients and beneficiaries in the same intervention. A useful business model innovation to achieve this is complementary needs matching. This is the model adopted by disability integration ventures, such as Specialisterne in Denmark and Auticon in Germany, which train people with autism and match them with qualified job opportunities in the IT sector. There is also the business model of cross-segment subsidy, in which a high profit margin client segment subsidizes the offering to the low-income segment, such as the case of Aravind Eye Hospital mentioned earlier.

In the Bridging Hybrid model, the risk of mission drift is significant due to the danger of prioritizing the needs of the commercial clients over beneficiaries

due to resource dependence patterns, particularly in the cross-segment subsidy models. In cases of an integrated business model that serves both segments simultaneously, the risk of mission drift is lower. The challenge of achieving financial sustainability is intermediate, as the social mission requires serving the needs of beneficiaries in addition to the clients while operating in a competitive market.

Managing Bridging Hybrids

An important design challenge for Bridging Hybrids organizations is to set up appropriate rules to ensure that beneficiaries are well served in order to generate social impact. Given the inherent risk of prioritizing clients over beneficiaries, the board plays an important role in monitoring the segmentation of the two groups with the goal of ensuring the balance required to achieve the organization's social mission. In order to remain attuned to the needs of beneficiaries and allow for their voices to be heard, it is useful to invite beneficiaries' advocates at the board level and to encourage processes at the organizational level (such as focus groups and advisory boards). The board has to revisit the theory of change on a regular basis in order to ensure sustainability of the model and the synergies between commercial activities and societal impact.

In terms of human resources, Bridging Hybrids need to mobilize staff with a clear expertise in delivering the service or product that they sell. The staff should also possess learning skills since they have to adapt to the different needs of clients and beneficiaries. For example, at Grameen Veolia Water, a social business that sells affordable drinking water in rural Bangladesh using a cross-segment subsidy model, staff members need to understand and adapt to the culture of rural beneficiaries who purchase water at lower prices, while still being able to sell to corporate clients in the capital.

Performance management processes should focus first and foremost on operational KPIs, since it is the commercial operations that are at the source of social impact. However, to monitor the risks of mission drift, it will be important for Bridging Hybrids to monitor the proportion of customers and beneficiaries served, as well as the quality of the service received. At Grameen Veolia, an important KPI to follow is the number of regular rural clients who, as they drink the clean Grameen Veolia Water, avoid the lethal risks of arsenic contamination or dysentery.

Coupling Hybrids

Understanding Coupling Hybrids

Coupling Hybrids also have clients and the beneficiaries that are different but most value spillovers do not happen automatically, requiring distinct social interventions alongside the commercial operations. An example of such hybrids are the WISEs described earlier that serve both their beneficiaries (who are long-term unemployed that need dedicated social interventions such as training and counseling) as well as their paying clients (who require a product or service with competitive levels of quality and price).

Coupling Hybrids are the most complex hybrid type to manage: they not only need to serve two very different types of constituencies, but their social impact

is also dependent on additional interventions that are not included in the provision of their core commercial activity. Such business models are quite demanding for organizational leaders because they need to constantly balance the competing demands on their attention and resources. The risk of mission drift is high because they may be tempted to prioritize clients over beneficiaries, as well as discard or reduce the focus on additional interventions that consume resources and do not contribute to the financial sustainability of the organization.

Reaching financial sustainability is thus difficult for Coupling Hybrids, given the additional costs that they incur to perform the interventions required to generate impact. This sustainability challenge usually requires that governments or private donors subsidize the interventions that leverage the contingent value spillovers, which may depend on a strong regulatory framework defining the activities entitled to subsidy.

Managing Coupling Hybrids

As with Bridging Hybrids, the governance of Coupling Hybrids should ensure that beneficiaries are not neglected in favor of clients. Governance should, in addition, ensure the sustainable provision of the additional interventions required to generate impact by monitoring the segmentation of activities between clients and beneficiaries. The invitation of beneficiaries' advocates at the board level plays an important role in ensuring that the managers remain attuned to the needs of beneficiaries, and that no decisions are taken that jeopardize the organization's ability to achieve its social mission.

To make Coupling Hybrids work, we recommend establishing structural differentiation so that the organization develops an internal capacity to perform both the commercial and the impact operations with the highest level of expertise. In some cases, this may happen through the development of a separate legal entity. In contrast to the Blending Hybrid, the impact activity should always remain under the control of the hybrid (instead of being outsourced to partners) because the Coupling Hybrid should not lose control over the relationship with its beneficiaries. If this happens, the focus on the social mission is seriously jeopardized and, over time, its hybrid nature may disappear and its potential for impact could be diminished. Structural differentiation will require Coupling Hybrids to recruit differentiated staff, i.e., different groups of organizational members with expertise in commercial and social impact operations, respectively. To ensure the coordination between these structurally differentiated groups of organizational members, it will be important for these organizations to create coordination mechanisms and processes that can prevent the emergence of tensions between potentially conflicting demands from customers and beneficiaries.

To avoid mission drift and ensure the highest level of performance on both activities, performance management systems should rely on the monitoring of both operational (commercial) KPIs as well as impact KPIs.

Summarizing this section, we argue with our typology of social business hybrids that, independent of their sector or activity, managers of hybrid organizations need to look at two critical dimensions of the work that they do—the contingency of

value spillovers and the overlap between clients and beneficiaries—to understand what type of hybrid they operate, and the management challenges they may face in terms of mission drift and financial sustainability. We also outlined the design and management choices that may allow hybrids to become more effective at achieving their social mission in sustainable ways. Table 2 summarizes our recommendations about the management of each hybrid type.

TABLE 2. Organizational Design for Social Business Hybrids

	Clients = Beneficiaries	Clients ≠ Beneficiaries
Automatic Value Creation	<p>MARKET HYBRID Structure: Uni-functional (commercial) structure Governance:</p> <ul style="list-style-type: none"> Board monitoring on client segmentation Regular board level checks of theory of change 	<p>BRIDGING HYBRID Structure: Uni-functional (commercial) structure Governance:</p> <ul style="list-style-type: none"> Board monitoring on client segmentation Regular board level checks of theory of change Invite beneficiaries advocates to board
	<p>HR: Staff with business expertise Performance Management: Operational KPIs only, with focus on customer segments served + regular validation of theory of change</p>	<p>HR: Staff with business expertise Performance Management: Operational KPIs only, with focus on customer segments served + regular validation of theory of change</p>
Contingent Value Creation	<p>BLENDING HYBRID Structure: Structure is either:</p> <ul style="list-style-type: none"> integrated <p>Or</p> <ul style="list-style-type: none"> structurally differentiated if the complexity of both functions is such that it cannot be mastered by the same individuals (potentially relying on external actors/partners to provide additional intervention) <p>Governance:</p> <ul style="list-style-type: none"> Board monitoring on client segmentation Management monitoring of impact activities (because board cannot do it) 	<p>COUPLING HYBRID Structure: Multi-functional structure with differentiation for each value chain</p> <p>Governance:</p> <ul style="list-style-type: none"> Board monitoring on client segmentation Management monitoring of impact activities Invite advocates of beneficiaries at board level
	<p>HR:</p> <ul style="list-style-type: none"> Staff with Blended business expertise + impact expertise (if integrated) <p>Or</p> <ul style="list-style-type: none"> Staff with business expertise + staff with impact expertise (if structural differentiation) <p>Performance Management: Operational KPIs + Impact KPIs</p>	<p>HR: Differentiated: staff with operational expertise + staff with impact expertise</p> <p>Performance Management: Operational KPIs + Impact KPIs</p>

Discussion: Insights for the Management of Hybrid Initiatives

Our framework for designing and managing hybrids offers useful insights for those who believe that commercial organizations with a social mission play an increasingly important role in modern capitalism by addressing market failures and domains of government neglect. However, in the pursuit of financial sustainability they may drift from their mission, while a rigid adherence to the social mission may prevent hybrid organizations from reaching financial sustainability. The solution often lies in innovations that more strongly align profit with impact. Because constraint is an excellent source of creativity, hybrid organizations have developed interesting and effective business model innovations that align low costs with high quality and allow them to deliver value for society in sustainable ways. Cross-segment subsidies, micro-franchise systems offerings, and complementary needs matching models are some of the business model innovations described here that allow hybrid organizations to be competitive in areas where traditional commercial ventures fear to tread. As a general principle, the stronger the alignment between profit and impact in the business model, and the simpler the value chain that delivers these outcomes, the more competitive and sustainable the hybrid organization will be. Despite these innovations, however, social business hybrids still face managerial hurdles in achieving impact, given the transaction obstacles that they face. Our typology identifies these specific challenges and the managerial structures required to address them.

The type of hybrid organizations that social entrepreneurs develop is not only determined by the sector or domain of operation, but it is also a function of the innovations in the business model. For example, an organization that is able to develop a very low-cost delivery model, enabling its beneficiaries to pay for the service, can develop a Market Hybrid instead of a Bridging Hybrid that relies on cross-segment subsidies. This generates benefits for financial sustainability and simplicity of organizational design and management. In another example, organizations such as Dialogue in the Dark or Aravind Eye Hospital that are able to develop an integrated value chain for both clients and beneficiaries, instead of operating two separate value chains for each, may be able to move from a Coupling Hybrid to a Bridging Hybrid.

Interestingly, organizational evolution in the other direction, towards higher complexity of hybrid management, also exists. For example, Lumni Inc. provides student financing and mentoring in Latin American countries as well as in the United States. Most of the students targeted by Lumni are the first ever to graduate from high school in their households and are given the opportunity to go to a university with funding and mentoring from Lumni in exchange for a fixed percentage of their future incomes. In order to manage the total risk of its student portfolios, Lumni may include financing to students from middle-class families, thus moving from a Blending Hybrid towards a Coupling Hybrid. When such a change occurs, Lumni's management may need to adjust its structure, governance, HR policies, and performance metrics. Depending on the student composition of their financing model, Lumni's board needs to review the segmentation of students receiving financing and their respective socio-economic backgrounds so that the company maintains a focus on economically disadvantaged students and their families. Our typology thus anticipates the management challenges that social

business hybrids may face as they navigate the dynamic endeavor of better aligning profit and impact.

Leaders of social business hybrids should first acquire a clear understanding of the type of hybrid organization they are building, given the nature of the work they do and the business model they are deploying, and also consider any transitions in the business model that they may be facing. In turn, this assessment allows them to understand the risks of mission drift and the challenge of financial sustainability so that they can identify management choices and practices that enable them to create a more resilient organization.

Financing the Growth of Social Business Hybrids

Social business hybrids aim to maximize societal impact just as traditional businesses aim to maximize value capture. Yet compared to traditional businesses, they face the challenge of achieving scale (and mobilizing the resources required to do so) in a context of weaker prospects of financial sustainability. As the field of social entrepreneurship has grown in the last few years, a new parallel field of social finance has also been emerging with the development of new financing mechanisms (such as impact investing, venture philanthropy, and social impact bonds).³³ Our different types of social business hybrid seem well aligned with specific financing mechanisms.

Market Hybrids, being closer to traditional commercial models given the strong alignment between profit generated by serving clients and societal impact, are ideally financed by venture-capital-type impact investing, a new investment approach that intentionally seeks to create both financial return and positive social or environmental impact by allocating capital against debt or equity in impact-oriented businesses. Indeed, we see that Market Hybrids are typically either financed by multinational corporations as new business initiatives, or by impact-investing funds that expect a payback of their investment through dividend payments, royalties, or selling of equity stakes of their investee companies.

Blending Hybrids, which operate dual commercial and social value chains to capture contingent value spillovers, do not have as strong an alignment between profits and impact as Market Hybrids. Equity investors, which pursue a financial upside, would not be a good match to finance this type of hybrid model as the investors' incentives would accentuate the danger of mission drift. Thus, the growth of this type of hybrid is ideally financed by re-invested surplus and, in cases like microfinance or renewable energies (where there is the need to allocate capital to clients or where larger capital investments in infrastructure or technology are needed), the financing could be done through fixed-return instruments (bank credit or traditional bonds).

Bridging Hybrids use commercial revenues to subsidize a segment of clients that cannot pay for the service. Their ability to generate a surplus is constrained by their own social mission, as they tend to allocate any extra surplus to subsidize a larger number of low-income clients. While Bridging Hybrids should try to reach financial sustainability in their business models, they are more likely to incorporate as nonprofits and, to finance their growth, use philanthropic funds such as

TABLE 3. Ideal Financing Mechanisms for Scaling-Up Social Business Hybrids

Dimensions	Clients = Beneficiaries	Clients ≠ Beneficiaries
Automatic Value Spillovers	<p>MARKET HYBRID <i>Examples: BOP initiatives for access to basic services (energy, health)</i> Ideal financing for scaling up: (venture capital type) Impact Investing</p>	<p>BRIDGING HYBRID <i>Examples: Integrated business model with job matching for people with disabilities</i> Ideal financing for scaling up: Venture Philanthropy</p>
Contingent Value Spillovers	<p>BLENDING HYBRID <i>Examples: Microfinance or other models which require regular support or change of behavior for value to be created</i> Ideal financing for scaling up is fixed-income credit products (loans and bonds) and re-invested surplus</p>	<p>COUPLING HYBRID <i>Example: Work integration social enterprises</i> Ideal financing for scaling up is outcome-based contracts, such as social impact bonds</p>

venture philanthropy³⁴ (the allocation of capital as a long-term capacity-building grant to a social enterprise, with zero or very low expectations of financial return but with a strong expectation of impact measurement and return).

Finally, Coupling Hybrids often combine earned income from commercial activities with grant-based income from engaged stakeholders. These stakeholders support the social interventions that need to be deployed to achieve certain societal outcomes such as inclusion, employability, well-being, or environmental protection. Social impact bonds³⁵ are an example of a recent financial innovation that aligns payments with outcomes and helps finance the scaling up of Coupling Hybrids, allowing them to validate their solution at scale, build organizational capacity, and then establish long-term government or philanthropic contracts to financially sustain their offering. However, social impact bonds are only effective when there is comparability of outcomes, i.e., when there is a consensus about how to measure the status quo situation as well as the changes and attribution of outcomes of the intervention.

Table 3 summarizes our suggestions about the ideal financing mechanisms for scaling each type of hybrids. The scaling of social business hybrids is a key bottleneck for the development of a vibrant hybrid sector at the interface of the social and commercial sectors. Our typology aligns with specific forms of growth financing and can help clarify what type of external financing is better aligned with the nature of each type of social business hybrid.

Why Corporate Executives Should Care about Social Business Hybrids

As noted, rising societal expectations being imposed on the business sector suggest that corporate leaders can no longer ignore contingent value spillovers or large excluded populations. Doing so would mean that these companies do not

align their profits with value creation for society in the long-term, which would at some point disengage employees and customers, upset regulators and policy-makers, and even turn away investors who are increasingly focusing on socially responsible investing. Companies that are able to more closely align profit and impact will strengthen their long-term sustainability and survival, as well as the sustainability of the societal context and communities on which they depend.

The growing importance of hybrid organizations also means that in areas where the potential for societal value creation is important, commercial companies are at risk of being placed in competition with social mission organizations that operate commercial models. While in the past, social business hybrids operated largely in domains neglected by commercial companies and underserved by governments, the power of the business models developed by social entrepreneurs is increasingly displacing established commercial companies. For example, Microsoft Encarta, a proprietary encyclopedia that was sold on CD or online, competed and lost against the social business hybrid, Wikipedia, which is an open source platform to share and organize the world's knowledge. In another example, commercial banks offering microfinance services are, in some cases, competing head-to-head with nonprofit microfinance institutions. Likewise, private health care providers are facing competition from community inspired health care models. In some countries, social mission oriented models dominate certain markets, as is the case of mutual insurance providers in France. In fact, the superiority of profit-maximizing models over social mission models may not be as generally applicable as most corporate executives believe. Due to market failure and government neglect, social business hybrids in many domains are likely to emerge as effective at tackling the transaction obstacles that render pure commercial models either unsustainable or unable to achieve societal welfare.

Understanding commercial firms' advantages and disadvantages over social mission models and leveraging areas of complementarity between the two types of organizations is a key input for strategic thinking. Moreover, being able to identify and leverage value spillovers and engage with excluded segments of the population is a key element for business model innovation or new market entries. For example, the pharmaceutical giant GlaxoSmithKline initiated a partnership with Barclays, the London-headquartered bank, to provide affordable health care and medicine in Zambia, alongside the necessary customer finance. Although the partnership delivers on a social mission (i.e., improving health care in African countries), it is also based on a commercial rationale for both companies in the region. As the project additionally aims to improve health care awareness and will be complemented with further innovations such as health care insurance, their executives can benefit from the recommendations that our typology offers as they move from a Market Hybrid towards a Blending Hybrid model.

Importantly, learning from social business hybrids about how to align profits and societal impact may be a driver of long-term competitive advantage. Overall, the rising societal expectations on businesses and the growing number of hybrid initiatives and organizations being developed represent significant changes in the competitive landscape that business leaders can no longer afford to ignore. Socially driven and environmentally oriented companies are becoming serious competitors

as well as attractive acquisition targets for multinationals, as was the case with The Body Shop acquired by L'Oréal and with Ben & Jerry's acquired by Unilever. Unilever, with its Sustainable Living Plan and with changes on its reporting to financial analysts, is one of the leading multinational corporations integrating social business approaches into their strategy and practices.

In addition to helping managers consider their strategic positioning in contexts of increasing societal expectations, our model offers practical insights for managers engaged in initiatives creating shared value for their shareholders and for society. In particular, we point to four important elements (governance, organizational structure, HR processes, and performance management systems) that can help managers create value for society while capturing value for their shareholders. In terms of governance, our model suggests that the representation of societal stakeholders in the governance may allow organizational leaders to take the perspectives of these stakeholders into account and therefore better address their demands. It further proposes that organizational structures are important means to organize the complexity of the work required to achieve a combination of societal and financial performance. In addition, our model encourages modern companies to cope with the multiple demands by recruiting "advocates" who can sympathize with the social and environmental claims coming from other stakeholders and who can signal authentic compliance of the company with those expectations. Finally, our model also proposes that modern performance measurement (and manager incentive) systems should include a combination of social and environmental key performance indicators (KPIs), instead of monitoring conventional financial KPIs on one side and a CSR-reporting processes on the other.

Conclusion

Based on the essential nature of hybrids and the market failures that they address, we have derived two key dimensions in which social business hybrid differ—contingent versus automatic value spillovers and the degree of overlap between beneficiaries and customers. Our typology of hybrid models enables social entrepreneurs and managers of hybrid organizations to assess their situation, learn how to best design their social enterprises, and organize for sustainable value creation. This provides insights for any economic agent committed to addressing pressing societal problems using commercial models and, ultimately, making the world a better place.

Notes

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