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9B18M012

note on hybrid business models

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What is a hybrid business model?

A hybrid business can be defined as “a market-oriented and common-good mission-centered organization.”[[1]](#footnote-1) Here, we will explain what a hybrid business model is and provide examples of hybrid businesses in operation today.

The hybrid business model incorporates the interests of both non-profit organizations and for-profit companies; it is sometimes difficult to explain its structure and development, as it has not been studied to the extent that other types of organizational models have been studied. A hybrid business model uses a strategy that appears to be, essentially, a contradiction: it aims to accomplish social responsibility, as do non-profit organizations, while obtaining economic benefits, as do for-profit organizations. However, it will become clear that this contradiction is non-existent when the nature of hybrid organizations is properly understood.

Specifically, a hybrid business is driven by three fundamental organizational activities:

* Driving positive social/environmental change as an organizational objective
* Creating mutually beneficial relationships with stakeholders
* Interacting progressively with the market, competitors, and industry institutions

Hybrid business models are rather new. They started to emerge around the 2000s, even though ideas of their creation had begun to spread in the late 1980s. However, a particular type of leadership is required to direct a company committed to making social and environmental improvements through its practices and products, at the same time that it tries to achieve financial permanency.

Characteristics of a Hybrid business model

As explained, the mission of a hybrid business is social, but the business focuses on generating income in an effort to be sustainable. Nonetheless, it is sometimes unclear whether the organization prioritizes financial gain over addressing the social issues it has committed to improve. Hybrid organizations can be seen in diverse sectors: health care, microcredit, education, environment, food, security, economic development, governance, technology, and housing. Technically, hybrid businesses can be classified as for-profit or non-profit organizations depending on their position in the market.

These organizations demand careful management, mostly because they may fail if they lose sight of their social objectives. However, they may also fail if they do not generate sufficient revenue to sustain themselves. According to this dual nature, hybrid organizations have been referred to by a variety of names: fourth-sector organizations; low-profit, limited liability (L3C) organizations; blended-value organizations; for-benefit corporations; values-driven organizations; mission-driven organizations; and benefit corporations.[[2]](#footnote-2)

It may be helpful to understand how the mission of hybrid organizations differs from traditional organizational missions that address corporate social responsibility. Initially, it may appear that hybrid organizations are not so different from companies that commit to improving their social and environmental context through classic corporate social responsibility. For hybrid businesses, improving society and the environment is the pre-eminent mission to be pursued over any profitable goals. Thus, every activity aims to sustain the common-good mission and ensure it endures over time. Classic corporate social responsibility can be described as a set of additional steps that a for-profit company pursues for the purpose of mitigating its negative impacts on environment and society, and, as such, it does not gain the broad impact that hybrid organizations can achieve. Hybrid organizations have the specific non-profit mission of improving the conditions of society and creating value, instead of capturing it. The need for financial permanency leads to profitable activities that are pursued for the purpose of sustaining the organization.

Additionally, hybrid organizations are a rich source of organizational innovation since they face the challenge of merging two traditionally separate and even opposing organizational perspectives into a single mission. In achieving this unique positioning, they create many new financial and organizational strategies, which in turn develop characteristic elements that can help to identify this business model. In their book *Hybrid Organizations: New Business Models for Environmental Leadership*,Boyd et al. explain that hybrid organizations may exhibit the following characteristics:[[3]](#footnote-3)

* **Market orientation**: hybrid companies, unlike non-profit organizations, are legally registered as business entities.
* **Common-good mission**: their actions and decision making are explicitly linked to the mission.
* **Non-financial performance valuation**: specific reports on the social performance may be demanded along with financial results.
* **Private ownership by a connected set of shareholders**: Investors in hybrid organizations buy into the mission and purpose. Hybrid companies are mainly controlled by individuals, families, or personally connected individuals and not by traditional investors who invest in common financial markets.
* **Sub-market rates of return**: in spite of their need to be profitable and sustainable, hybrid organizations may continually or perpetually underperform in the financial arena, relative to market rates.
* **Alternative capitalization**: they may use non-traditional financing mechanisms.

Challenges

The main challenge faced by hybrid organizations is financing. Initially, it may be unclear whether hybrids are businesses or charitable organizations, and thus venture capitalists or philanthropic foundations can be suspicious of this model and may be unwilling to invest in it. Since a hybrid business combines the social and environmental logic of a non-profit business with the commercial logic of a for-profit business, it may be difficult for entrepreneurs to achieve a balance between these two elements. Another big challenge for hybrid businesses can be the internal and legal structures required by the hybrid business model. Finding a balance between the for-profit model and the non-profit organization may imply two different boards of directors and thus may lead to communication issues and even legal problems. At least in the United States, due to the novelty of hybrid businesses, they are still not explicitly addressed in the Internal Revenue Service’s rules. Also, hybrid businesses are fragile organizations that face the risk of mission drift if the original purpose is unclear or has been improperly established. Nonetheless, the many examples of successful hybrid organizations may shed some light on how to overcome these difficulties.

EXAMPLES OF HYBRID ORGANIZATIONS

Mozilla Foundation and Mozilla Corporation

A classic example of a successful use of a hybrid model is the Mozilla Foundation (the Foundation), whose main purpose is promoting the openness and innovation of the Internet. In 2005, the Foundation created Mozilla Corporation, a for-profit and taxable subsidiary, to develop products to be introduced into the market and thus achieve sustainability for the parent organization. Some of the products developed by Mozilla Corporation are the web browser Firefox, which by March 2016 was the third most widely used browser in the world;[[4]](#footnote-4) Mozilla Thunderbird, an email and chat client; and a web browser called SeaMonkey. With these and other products, Mozilla Corporation was able to generate revenue of US$329.5 million[[5]](#footnote-5) by 2014, which in turn was used by the Mozilla Foundation to “promote choice and innovation on the Internet.”[[6]](#footnote-6)

groupelephant.com

Another successful hybrid organization is groupelephant.com (the Group), a group of African-based companies that strive for the preservation of elephants, rhinos, and people, a mission that is expressed by the acronym ERP. The Group describes itself as “going beyond corporate purpose” since its principal motivation is non-profit. However, to achieve its purpose, the Group undertakes activities from three different areas, or zones.

The first zone comprises typical enterprise resource planning tasks, from which the Group generates profit that is used in turn to finance its non-profit mission. This zone comprises a wide variety of services, including proprietary software, Cloud-migration services, and medical record systems. The second zone is completely non-profit and comprises activities directly focused on the protection of elephants and rhinos and the alleviation of poverty among people living in rural Africa. Examples of the tasks undertaken in this zone include the P.E.A.C.E Initiative (Putting an End to Abuse through Community Efforts) and the project 911Elephant. Finally, the third zone comprises companies focused on ecotourism asset management and wildlife-related property development to support the objectives expressed by the motto “going beyond corporate purpose.”

By distinguishing and delimiting the triple nature of the tasks it undertakes, the Group is able to pursue its social and environmental mission, which is eminently non-profit. By conglomerating companies of diverse sectors, from tourism to software development, groupelephant.com successfully finances its activities and preserves the environment while contributing to the alleviation of social issues in Africa. With this business model, the Group goes beyond classic corporate social responsibility. The preservation of elephants and rhinos and the protection of people in Africa are the main motivations for its activities, and every other task is derived from these motivations. The success of groupelephant.com serves as an example of how the financial challenges typically faced by hybrid organizations can be overcome through creative and innovative strategies.

Social and Environmental ImpactS

Hybrid organizations emerge from the conviction that neither for-profit companies nor non-profit organizations address social and environmental issues in the most proper and effective way.[[7]](#footnote-7) The entrepreneurs who decide to launch businesses using a hybrid business model are part of a generation that places a higher value on social justice and the health of the environment. For such individuals, a main driver is the desire to achieve a positive impact on their social and environmental surroundings. They are conscious of the need for organizations that are not only responsible within their context but also actively engaged in improving the living conditions for every human, animal, and living being that may be affected by their activities.

According to some studies, hybrid organizations have proven to be effective in addressing social and environmental issues. For example, microfinance institutions have allowed 91 million people living in poverty to access $81 billion in small loans, helping them to improve both their living conditions and their economic prosperity.[[8]](#footnote-8) Also, hybrid organizations are more likely than non-profit organizations to be able to effectively address social issues and even government interventions, due to the strong commercial discipline and competition that impel them to innovate, promote efficiency in operations, and align their business actions with client needs.

Conclusion

Companies that adopt a hybrid business model differ from traditional firms in terms of their missions. They also present a challenging understanding of what it means to be a sustainable business. Unlike traditional companies that pursue corporate social responsibility practices in addition to their main profit-making objectives, a hybrid organization’s main mission is to achieve social or environmental progress. Hybrid organizations appear to have a promising future since their strategies are long-term missions based on a solid product or service that a growing market will support; they develop close relationships with suppliers to ensure continued resources for maintaining that market, and their leaders are guided by a clear vision that should be sustained through generations.

It is important to highlight the innovative nature of the hybrid business model since it modifies the conception of the role of corporations in society: while the objective of hybrid organizations is social and environmental change, these organizations are interested in becoming competitors in the market. For some hybrid companies, their mission must be carried out as a moral imperative, but for all hybrid organizations, it is clear that adopting this strategy is both profitable and sustainable.

1. Brewster Boyd, Nina Henning, Emily Reyna, Daniel E. Wang, and Matthew D. Welch, *Hybrid Organizations: New Business Models for Environmental Leadership* (Sheffield, UK: Greenleaf Publishing Limited, 2009), 18. [↑](#footnote-ref-1)
2. Nardia Haigh and Andrew J. Hoffman, “Hybrid Organizations: The Next Chapter of Sustainable Business,” *Organizational Dynamics* 41, no. 2 (2012): 126. [↑](#footnote-ref-2)
3. Boyd, Henning, Reyna, Wang, and Welch,op. cit., 19. [↑](#footnote-ref-3)
4. “Top 9 Browsers,” StatCounter GlobalStats, accessed September 27, 2016, http://gs.statcounter.com/#all-browser-ww-monthly-201603-201603-bar. [↑](#footnote-ref-4)
5. All currency amounts are shown in U.S. dollars. [↑](#footnote-ref-5)
6. “Mozilla Foundation Forms New Organization to Further the Creation of Free, Open Source Internet Software, Including the Award-Winning Mozilla Firefox Browser,” press release, Mozilla, August 3, 2005, accessed November 14, 2017, https://blog.mozilla.org/press/2005/08/mozilla-foundation-forms-new-organization-to-further-the-creation-of-free-open-source-internet-software-including-the-award-winning-mozilla-firefox-browser/. [↑](#footnote-ref-6)
7. Haigh and Hoffman, op. cit. [↑](#footnote-ref-7)
8. Filipe Santos, Anne-Claire Pache, Christoph Birkholz, “Making Hybrids Work: Aligning Business Models and Organizational Design for Social Enterprises,” *California Management Review* 57, no. 3 (2015): 37. [↑](#footnote-ref-8)