

## Hybrid business models in practice

### Abstract

The article consists of four parts. The first concerns the hybrid organizations with essence placed upon organizational forms and practical connection of different goals. The second elaborates upon the components of the hybrid business models, in particular, the issues of creating, delivery and capture of value. The third part informs the reader of the various kinds of hybrid business models. The last part of paper concerns the hybrid companies in practice.

Key-words: hybrid organization, business model, social enterprises

### Introduction

Reality is constantly transformed, and the changes taking place are visible everywhere, from basic products, through the modification of people's habits, to the change of scientific theories. Novelty was the definition of business models. Both scientists and practitioners began to redefine their business, using a new tool (business model canvas) to look for those features that will allow them to achieve success in the market. Advantages brought about by the continuous transformation of the surrounding reality can be seen in the constant improvement of products or services and, consequently, the improvement of the quality of life. Still, often, the omnipresent development entails negative consequences, including degradation and overexploitation of the natural environment. According to theoreticians and practitioners, in addition to focusing on the new and on profit, the interests of all stakeholders of any organization should be balanced out. Hybrid business model (HBM) is, hence, the result of the first evolution of the basic concept of business model, that arose from organizational research, the search for novelty and the aforementioned continuous modification. HBM also developed from the adoption of popular concepts that affect in essence the way of running a business (such as the theory of sustainable development). The aim of the paper is, therefore, to analyze the

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types of hybrid business models applied, based on the latest literature of the subject and a case study of specific examples of companies operating according to the mentioned scheme.

## 1. Hybrid organizations

In 1976, Yunus proposed a concept that, on the one hand, helps spread the use of business logic within communities, and, on the other hand, opposes the widespread relationship between risk and reward in commercial activities. Billis, in 1991, contributed to the development of the theory of organization of the third sector through the differentiation and synthesis of selected organizational resources of companies, whose structures combine aspects of public and private organizations<sup>2</sup>. In the course of research and development of organizational forms, the concept of hybrid organizations has, thus, emerged. This was defined by the prism of key practices characteristic of the discussed issue, namely: implementation of the mission in action; very close relations with stakeholders and competition as market leaders that is less often based on terms of price, introduction of positive socio-environmental changes as the organizational goal of hybrids; gradual interaction with the market, the competition and industrial organizations. Based on a literature review, Hahn, Spieth and Ince found that one of the obvious features that distinguish hybrid organizations from traditional forms is their mission, which essentially includes social and/or environmental goals. Thus, hybrid organizations are deeply related both with their environment, as well as with stakeholders<sup>3</sup>. In the light of the definitions quoted, there is a consensus between the authors in the perception of the type of organization in question.

The synonyms of hybrid organizations present in the subject literature include: social entrepreneurship, social enterprises, social business, social enterprises and conscious capitalism<sup>4</sup>.

In essence, social enterprises combine two different, and, at the same time, contradictory logics of action, namely charitable and commercial<sup>5</sup>. Battilana and Lee point to a different logic than

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<sup>2</sup> R. Hahn, I. Ince, *Constituents and Characteristics of Hybrid Businesses: A Qualitative, Empirical Framework*, "Journal of Small Business Management" nr 54 (S1), 2016, doi: 10.1111/jsbm.12295, p.34

<sup>3</sup> R. Hahn, P. Spieth, I. Ince, *Business Model Design in Sustainable Entrepreneurship: Illuminating The Commercial Logic of Hybrid Businesses*, "Journal of Cleaner Production" 176, 2018, pp.439-440

<sup>4</sup> R. Hahn, I. Ince, *Constituents and Characteristics of Hybrid Businesses: A Qualitative, Empirical Framework*, "Journal of Small Business Management" nr 54 (S1), 2016, doi: 10.1111/jsbm.12295, p.33, F.Santos, A.C. Pache, Ch.Birkholz, *Making Hybrids Work: Aligning Business Models and Organizational Design for Social Enterprises*, "California Management Review", nr 57 (3), 2015, p.36

<sup>5</sup> I.A Davies., B. Doherty, *Balancing a Hybrid Business Model: The Search for Equilibrium at Cafédirect*, "Journal of Business Ethics" 2018, <https://doi.org/10.1007/s10551-018-3960-9>, p.1

those mentioned, namely the logic of banking, social development, education, care and science<sup>6</sup>. These connections evoke some kind of tension because commercial organizations generally focus on making profits. In turn, in social enterprises, a different approach is visible. This is characterized by intent to achieve set social or environmental goals. The combination of these two dimensions takes the form of private-public organizations, private non-profit organizations and public non-profit hybrids<sup>7</sup>. Kolk and Lenfant in the course of defining the hybridization continuum indicate the following organizational forms: traditional non-profit organizations - following economics-based programs; half-hybrid non-profit organizations - with a profit orientation, but also following clearly defined social goals; hybrid enterprises - semi-hybrid companies with active positive social programs. The last two types of organizational form are social companies with a strong focus on profit, average levels of hybrid indicators and low level of mentioned indicators<sup>8</sup>.

Hybrid organizations are subject to development, as other entities, but many authors - Haigh and Hoffman, Hybes, Smith, Gonin and Besharov emphasize that peculiar to hybrids, growth is treated as a means of broadening social impact. Another group of researchers hold that in hybrids, indicates organic growth strategies as a method of expanding impacts and meeting stakeholders' expectations. In addition, both organic development, as well as the implementation of actions guaranteeing its occurrence require considerable time expenditure<sup>9</sup>. The definition of social enterprises developed by the European Commission points to two important aspects of hybrids: the use of a participative management model and the allocation of financial surpluses towards implementing social objectives<sup>10</sup>. Through research on business models of 17 social enterprises carried out by Spieth and Schneider, it is possible to learn the effective practical ways of combining the different dimensions characteristic of hybrids<sup>11</sup>.

The analyzed organizations operate in the food industry, and in the financial, textile, energy, education, cosmetics and pharmaceutical industries. In practice, there is, first of all, a strong interdependence of social and economic benefits. As stated by the authors of the research, these

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<sup>6</sup> W. Stubbs, *Characterising B Corps as a Sustainable Business Model: An Exploratory Study of B Corps in Australia*, "Journal of Cleaner Production" nr 144, 2017, p.300

<sup>7</sup> I.A Davies., B. Doherty, *Balancing a Hybrid Business Model: The Search for Equilibrium at Cafédirect*, "Journal of Business Ethics" 2018, <https://doi.org/10.1007/s10551-018-3960-9>, p.1

<sup>8</sup> A. Kolk, F. Lenfant, *Hybrid Business Models for Peace and Reconciliation*, "Business Horizons", nr 59, 2016, <http://dx.doi.org/10.1016/j.bushor.2016.03.014>, pp.506-508

<sup>9</sup> R. Hahn, I. Ince, *Constituents and Characteristics of Hybrid Businesses: A Qualitative, Empirical Framework*, "Journal of Small Business Management" nr 54 (S1), 2016, doi: 10.1111/jsbm.12295, p.36

<sup>10</sup> [http://ec.europa.eu/growth/sectors/social-economy/enterprises\\_en](http://ec.europa.eu/growth/sectors/social-economy/enterprises_en), access 8<sup>th</sup> 06.2019

<sup>11</sup> P. Spieth., S. Schneider, T. Clauß, D. Eichenberg, *Value Drivers of Social Businesses: A business Model Perspective*, "Long Range Planning", 2018, <https://doi.org/10.1016/j.lrp.2018.04.004>, pp.5-9

companies apply the same business logic as traditional organizations by creating a competitive offer, standardizing processes along with a lean administration. In addition, in the course of conducting the research, the authors found a common method of treatment of profit for all selected organizations as a means of achieving social goals, including satisfying people's needs. The conclusions drawn from the analysis are consistent with the essence of such projects. Still, there is always the risk of revealing a discrepancy between theory and practice (which in this case did not take place).

The second important and cohesive dimension of the social business models practiced by the surveyed organizations is the integration of social values with products or services, and thus with the values important to customers. Examples include the use of sustainable materials in the production process or the provision of climate-neutral energy for private and corporate clients. Another characteristic feature of companies included in hybrid organizations was the prioritization of social values, which is reflected in rational prices - *without the component aimed only at maximizing profits*<sup>12</sup>. What is more, in this type of organization, the social value of community development is in the form of cooperation with similar partners in terms of values and beliefs, offering for example, interest-free loans or assistance in optimizing return in the dealings with partner companies<sup>13</sup>.

The positive impact of hybrid organizations is also visible at the macro level. Indeed, by way of microfinance institutions, 91 million people living in poverty have gained access to loans totalling USD 81 billion. This has translated into an improvement in their situation. Moreover, fair trade organizations that in 2011, generated global sales of the value of 4.8 billion USD, have brought about improvement in the living conditions of 1.4 million partnered small producers<sup>14</sup>.

## 2. Components of the hybrid business model

In the issue of value proposition, which is a key element in business models, the views of researchers are divided, namely, some authors such as Austin, Hahn, Ince and Moss point to the integration of many dimensions of hybrid organizations into value propositions to

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<sup>12</sup> P. Spieth., S. Schneider, T. Clauß, D. Eichenberg, *Value Drivers of Social Businesses: A business Model Perspective*, "Long Range Planning", 2018, <https://doi.org/10.1016/j.lrp.2018.04.004>, p.8

<sup>13</sup> P. Spieth., S. Schneider, T. Clauß, D. Eichenberg, *Value Drivers of Social Businesses: A business Model Perspective*, "Long Range Planning", 2018, <https://doi.org/10.1016/j.lrp.2018.04.004>, p.9

<sup>14</sup> F.Santos, A.C. Pache, Ch.Birkholz, *Making Hybrids Work: Aligning Business Models and Organizational Design for Social Enterprises*, "California Management Review", nr 57 (3), 2015, p. 37

communicate social values to the organization's stakeholders. A different opinion is held by Dey and Teasdale, who think that, due to the nature of the organization, companies have to strategically manipulate proposals for various stakeholder groups. However, other researchers point out the limited scope of research and scientific studies on this issue.

In the subject literature, creation and delivery of values are defined through the prism of hybrid tensions in obtaining, among others, external resources for their internal processes, as well as human and capital resources. Dacin underlines two important areas in which hybrid organizations network, i.e: at the local level with direct stakeholders, and at the level of social enterprises allied within specialist networks, e.g: Ashoka- associating entrepreneurial social innovators, Schwab Foundation for social entrepreneurship and Skoll Foundation<sup>15</sup>. A further third area is in socially scalable networks that have an inter-organizational dimension of relationships and increase the scale of the system through their nature. Relations with these network actors, along with their resources, affect the creation of values and the management of tensions mentioned in the first part of the article. Many researchers have found, based on the results of research, that hybrid organizations have problems finding suitable managerial staff, who would be able to balance social and economic values. The proposed solution in this area is firstly employing people, who share similar values, but the complexity of hybrid organizations makes this difficult to match. To overcome this dilemma, Battilana and Lee, and Davies and Crane suggest employing people with commercial abilities which will translate into socializing a sustainable identity through organizational culture<sup>16</sup>.

The source of tension in hybrid organizations are issues related to raising capital. Financial institutions with a reserve approach the structure of costs and income streams which in business models are responsible for interception of value. This, in practice, translates into micro-businesses having difficulties in obtaining loans. In turn, new forms of financing, such as: social finance and crowd-funding, are more designed for new companies than for existing organizations. An additional limitation in the creation of economic, social and environmental value may arise through market access, wherein enterprises, by promoting local craft values, somehow oppose cooperation with established retailers and with common and in place distribution channel networks.

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<sup>15</sup> <http://ashoka-cee.org/poland/>, access: 8<sup>th</sup> 06.2019, <https://www.schwabfound.org/>, access: 8<sup>th</sup> 06.2019, <http://skoll.org/>, access: 8<sup>th</sup> 06.2019

<sup>16</sup> I.A Davies, L. Chambers, *Integrating Hybridity and Business Model Theory in Sustainable Entrepreneurship*, "Journal of Cleaner Production" nr 177, 2018, p.380

In analysing business models, in the context of hybrid organizations, describing value capture is a difficult task due to the wide range of potential goals of value creation, and because of limited measurement methods. As Santos observes, the interception of value is additionally hampered to the extent to which the social value is created automatically together with the economic value, resulting, for example, from the sale of more sustainable technology<sup>17</sup>.

### 3. Kinds of hybrid business models

Battilana and Ebrahim in their analysis of enterprise external social activities, defined two general types of hybrid organizations with regard to their followed business models. The first is an integrated form in which both positive social and environmental impact is achieved with the same activity that creates economic value in their business model. The second defined type of hybrid organizations are diverse form in which the creation of social and environmental values requires additional activities in order to create economic value<sup>18</sup>.

Another type that fully reflects the essence of social organizations are sustainable hybrid business models (sustainability-driven hybrid business model SDHBM). Stubbs made a statement that emphasizes the differences between convergent business models balanced and similar, only in a hybrid organization. In sustainable business models, the vision or mission expressed in socio-economic-environmental results that allow achieving a balanced goal, in the second concept there is no focus on results and economic aspects. A distinctive feature of the two models is the time horizon provided for development, i.e. in the case of sustainable business models, a shorter time span dominates, as opposed to hybrid organizations that develop in a more free and autonomous way. In addition, in sustainable hybrid business models, actions are undertaken simultaneously that limit the negative impact in the socio-economic and environmental dimension and create a positive impact in this respect. There is also visible a gradual cooperation with markets, competitors and industrial organizations while the challenge of continuous economic growth is met<sup>19</sup>.

At the source of activities undertaken by organizations are situational conditions inside and outside the business enterprise. In order to adapt to different requirements, selected entities of

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<sup>17</sup> I.A Davies, L. Chambers, *Integrating Hybridity and Business Model Theory in Sustainable Entrepreneurship*, "Journal of Cleaner Production" nr 177, 2018, p.380

<sup>18</sup> I.A Davies., B. Doherty, *Balancing a Hybrid Business Model: The Search for Equilibrium at Cafédirect*, "Journal of Business Ethics", 2018, <https://doi.org/10.1007/s10551-018-3960-9>, p.2

<sup>19</sup> W. Stubbs, *Characterising B Corps as a Sustainable Business Model: An Exploratory Study of B Corps in Australia*, "Journal of Cleaner Production" nr 144, 2017, pp.301-303

economic life have sought to develop eco-friendly products through ecological design. In practice, these products were not popular among customers due to high price. As a result, the companies changed the sales model for leasing services by applying the product-service system (PSS).

Despite the clients' complete understanding of the importance of recovering resources, the price for using products remained the most important factor in making decisions. The starting point for defining a hybrid model that increases the efficiency of products that was noted by Kou and others was a price analysis of two types of business models, the example being a purchasing and leasing company producing energy-efficient photocopiers. In the course of their deliberations, they indicated three types of hybrid business models: purchasing, leasing and value-added services. In their definition, the authors emphasized the financial aspect of the models mentioned. This was expressed by means of calculation formulas of generated total revenues. Based on the analyzes carried out, the authors stated that the product should be designed in such a manner so as to reduce the consumption of materials and energy, as well as to minimize environmental impact during the production process. Furthermore, the company should offer value added services that will keep up with clients' expectations<sup>20</sup>.

#### 4. Hybrid companies in practice

The unquestionable advantage of the management sciences and the majority of research conducted within the discipline mentioned above is a deep connection with and embedding within standard business practice. On the basis of analyses of various organizational dimensions, researchers have attempted to establish certain regularities that may become the beginning of a theory or which will illustrate the way of evolution of certain concepts. Hybrid organizations are not exceptions and are one of many valid forms in practice of doing business. This part of the article will, hence, analyze the organizations that formed the basis for the deliberations of, and research made by the authors of selected studies. In undertaking this analysis, the total number of surveyed enterprises amounted to 135 companies that combined social and economic goals in their day-to-day activities. However, the number of organizations in which the authors conducted research depended upon the study problem and varied from one company analyzed, to 53 diverse organizations. The scope of information presented in selected articles is, hence, very different - from a general statement that particular companies operate in

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<sup>20</sup>T.Ch. Kuo, H.M. Chen, M.L. Wang i in., *A Hybrid Business Model of Energy- Efficient Products Based on a Product Service System*, "International Journal of Electronic Business Management", nr 13, 2015, pp.15-20

several sectors, to detailed characteristics in which information about activities introducing the theory of sustainable development was also included. Among the most important information about hybrid organizations is that of:

- country or area of origin: Germany, France, Belgium, Switzerland, the United Kingdom, Australia, Africa,
- industry: agri-food (including vegetables, coffee, water, sweets, spices), textile, educational, cosmetics and pharmaceutical, financial and IT, renewable energy,
- year of founding of selected companies - 1935-2014.

The most important social goals of selected hybrid companies include, first of all, to provide global access to potable drinking water, to practice ecological and fair methods of production, to bring about integration of people with disabilities or from marginalized societies, to promote regional economies and sustainable agriculture with the participation of the local community, who must profit from sales, and the application of modern solutions, such as aquaponic cultures (aquatic or semi-aquatic crop production together with the fish living in the production area). Other goals include creating positive changes, creating a network of cooperation and promoting regional products using various tools, including on-line platforms. It should be noted that some enterprises place the interests of suppliers and customers at the centre of the operating philosophy, i.e. they ensure healthy and natural products, fair remuneration of suppliers and the promotion of a healthy lifestyle. Other organizations emphasize the importance of environmental reasons, including support for rainforest management, or adaptation of climate protection measures<sup>21</sup>.

As a result of the aforementioned analysis, several conclusions are drawn, namely, that the goals of hybrid social organizations are strictly defined, which, in practice, sets a specific path of action and at the same time facilitates the measurement of the adopted goals. In addition, most companies operate in the agri-food industry, wherein there are strong links with the local community and irregularities in the form of understated wages. Here, hybrid organizations were designed to offset the negative effects of capitalism by providing fair terms of cooperation and appropriate level of remuneration.

The hybrid form of the organization is not reserved only for newly-established enterprises, which in practice means the possibility exists of adapting current organizational structures and

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<sup>21</sup> Stubbs 2017, p.304, op.cit, Hahn, Spieth, Ince 2018, pp.442,445-448, op.cit, Davies, Doherty 2018, pp. 6-22, op.cit, Kolk, Lenfant 2016, pp.506-520, op.cit, Hahn, Ince 2016, pp.36-40, op.cit, Davies, Chambers 2018, pp.381-384, op.cit, Spieth, Schneider 2018, pp.4-16 op.cit.



business practices. It must be noted, however, that the type of company discussed here works to a greater extent in developed countries, absorbing new and innovative technologies.

## **Conclusion**

In the literature on the subject, there is a growing interest in hybrid organizations and their business models, and many researchers are carrying-out research to fill the cognitive gap. The mentioned interest is additionally strengthened by the important roles played by these organizations, which can be considered as tools enabling a solution to numerous social and environmental problems. The idea of guiding the creation of a social organization is right and generally desirable, still, it generates difficulties in reconciling different philosophies of action. As noted by Hahn and Ince, among the premises for establishing hybrid companies, one can list family experiences or unsuccessful attempts to satisfy social needs by the market<sup>22</sup>. The above-mentioned motivations for choosing a hybrid form of the organization confirm, firstly, the existing strong links with the economic dimension of reality, secondly, the legitimacy of treating these forms as a concrete instrument for introducing changes and reducing the negative effects of the practices of selected entities.

In hybrid organizations, firstly, orientation towards the common good is visible in the maintenance of the principles of sustainable development, and, secondly, these organizations aim to strengthen local communities and economies by intentionally using profit and value creation. In their activity, they create various cooperative networks in which, in the long run, the flow of both goods and services is visible, as is information and experience. To sum up, the hybrid organization can be considered as a concrete tool for realizing the idea of sustainable development, and does so by providing modern and innovative solutions so as to advance the progress of general good.

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