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Challenges to the speciation of social business hybrids

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Abstract

Social business hybrids even when fit (operationally successful) face a variety of challenges to their speciation; that is to their becoming sustainable and scaling out (replicate and propagate) beyond a single or a few pioneering organizations. Being operationally fit does not necessarily translate into having institutional fit and, without it, social business hybrids are likely to disappear or they may remain one-of-a-kind organizations, hard to replicate across diverse institutional contexts. This paper identifies two sort of challenges faced by operationally fit social business hybrids. First, challenges deriving from their lack of alignment, which is rooted on the uniqueness of social business hybrids business model and hinders their ability to gain access to support and resources. And second, challenges derived from lack of resilience, which are rooted on their ability to respond to market changes including competition from for profit copycats and market bubbles. It also discusses what to do about these challenges considering a gamut of approaches (nothing, framing, commensalistic collaboration, and activism). The exploration of these approaches allows us to identify factors which may facilitate the speciation of social business hybrids.

Key words: Hybrid organizations, Social business hybrids, Resilience.
Being fit; lacking fit.

Challenges to the speciation of social business hybrids

"Sure he was great, but don't forget that Ginger Rogers did everything he did, ...backwards and in high heels." from Frank and Ernest, Robert Thabes (1982)

Social business hybrid organizations, that is organizations pursuing simultaneously social and profit goals are not new. But the new breed of hybrids which emerged in the last few decades cannot take much comfort from it. Established social business hybrids (hospitals, universities, orchestras) have to strike a delicate balance between their social and economic goals.¹ New social business hybrids have to strike a similarly delicate balance but ...backwards and in high heels; that is in a context which is at best indifferent and at worst hostile to their efforts.² Although there is still much to learn about how new social business hybrids strike this balance we have begun to make some inroads. For example, we know that it matters who organizations hire, and their ability to build a resilient identity.³ But a central concern remains largely unattended namely: How do new social business hybrids speciate; that is how do they become sustainable and scale out (replicate and propagate) beyond a single or a few pioneering organizations?

1. Being fit; lacking fit

Much like hybrid organisms in nature, most social business hybrids are “one-off,” hard to replicate, ventures likely to disappear as soon as founders move on, and difficult to replicate and transport across cultural contexts.⁴ Difficulties associated with the management of these organizations are part of the explanation; but even top performers appear to have difficulties
transitioning from organism to specie (i.e. sustainable and scalable beyond the context of its founding).

This is a point well illustrated by O’Toole and Vogel’s description of socially oriented organizations, such as Ben and Jerry or The Body Shop which failed to became sustainable not because of their lack of fitness (i.e. operational failures) but because of their lack of fit (i.e. failure to become plugged in their social contexts of operation). The challenges faced by Robert Owen (the first “conscious capitalist”) in his efforts to improve the lot of mill workers in 1800s England helps to appreciate some the challenges rooted onto the lack of contextual fit of social business hybrids.

Between 1800 and 1825, Robert Owen was managing a mill in New Lanark, Scotland, which would soon become the world’s most productive and profitable textile mill of its time. Owen argued that the success of the mill responded to the policies he had introduced to improve the living conditions of mill workers. Among these policies were radical social improvements for the time including “relatively short working hours, grievance procedure, guaranteed employment during economic downturns, and contributory health, disability, and retirement plans.” Building on the mill’s operational success Owen began “a public crusade to try to convince other business leaders to adopt this responsible and successful business model.” He failed. As O’Toole and Vogel report:

“… just when Owen succeeded in winning his workers’ trust, and productivity in the mill started to soar, his co-owners began to question his practices, expressing “disapproval for the mixture of philanthropy and business.” … their complain.. if only Owen ceased treating his employee so well and instead, increased dividends to it’s investors.”
Considering what research tells us about how individuals respond to novelty\(^9\) the response of Owen’s peers was to be expected. The causality connection between “social improvements” and “profitability” advanced by Owen violated the market logic\(^{10}\) dominating their thinking. This logic portrayed social improvement as constraints on, instead of contributions to profitability.\(^{11}\) Faced with this unorthodox explanation of the mill success (social improvements increase, instead of, reduce profitability), Owen’s co-owners experienced dissonance; that is they were faced with information which was inconsistent with deep-rooted beliefs. Dissonance is a rather unpleasant cognitive state which can be overcome, as in the case of Owen’s peers, by discarding the novel information.\(^{12}\)

The argument offered here is not that individuals will always discard the most novel explanation, although there is research suggesting that this is likely, but that faced with two dissonant logics of operation they will prioritize the body of knowledge that fulfills the following three conditions.\(^{13}\) In a contest between a social business and a pure business logic, they will priority the second because …

1. It offers the tightest cause and effect connection. It is easier to see how increases in social improvements decreases profits than how these increases may result in increased profits indirectly via an increase in productivity.

2. It offers the causal connection with the shorter time horizon. Limiting social improvements impacts profitability immediately while social improvements impact it in the long term.

3. It is better backed up by a measurement artifact. Once again the value of limiting social improvements is easier to demonstrate in numbers than the value of social improvements.

In short, Owen’s social business logic run against the grain of his peers’ business logic and they responded by sticking to their logic and discarding his explanations. Not surprisingly
since what Owen’s was offering was not only novel but also it build on a logic which was causally less tight, longer term, and not as well supported by measurement artifacts.\textsuperscript{14} It is not surprising then that although Owen’s mill was successful it failed to gain the support required to speciate (became sustainable and scale). “By 1825, the New Lanark Mills were shut down, and a dejected Owen emigrated to America.”\textsuperscript{15}

Challenges in gaining support for the value of social improvements to further economic ends is, however, not the only challenge to the speciation of operationally fit social business hybrids. The decision in 2010 of the ProCredit Holding, one of the most successful microfinance organizations in the world, to abandon microfinance illustrates a set of challenges rooted on an alternative set of challenges.

Headquartered in Germany, the leadership of the ProCredit group is widely acknowledged as a microfinance pioneer.\textsuperscript{16} The group’s operational success is easily illustrated by its growth and expansion (in about 15 years) into a network of 21 banks in Latin America, Africa, and Eastern Europe. In 2008, the group had a portfolio of over 1 million loans (EUR3.38 billion). Whereas the 2008 crisis was not kind to many of the banks in the group most of them weathered it pretty well and none failed; arguably because of the group’s financial strength. Indeed, as of December 2010 the Group’s loan gross portfolio was 3.65 billion Euros. But following a close examination of the roots of the crisis, this year its leaders took a drastic step: they abandoned the social business hybrid model of microfinance they had developed. Specifically, they abandoned the label microfinance and stop providing loans under EUR 2,000 (or EUR 5,000 depending on the country’s level of income). In their website they explained their decision in the following way:

“In principle, we welcome efforts to highlight the challenges and
opportunities faced by neglected target groups. We fear, however, that the importance attached to microfinance - presented as the cure-all to eliminate poverty - will raise expectations that cannot be fulfilled. If these expectations are disappointed, the public may be disillusioned and lose interest.

In contrast to this mostly short-lived rash of activity, we focus on building stable institutions that make vital contributions to building the financial sectors of the countries in which we operate. This long-term orientation calls for patience, tenacity and moderate expectations based on realism.”


As illustrated in this quote, ProCredit’s decision to abandon the microlending social business model which they had helped to pioneer, did not follow from operational failure, nor did it follow, like in the Lanark mill case, from their inability to find support for their operations. It followed from hype around the microfinance business model and the subsequent “short-lived” rash of activity surrounding it. As explained later in the paper, this rash of activity followed as competitors, new and old, entered the microfinance market and many embraced lending technologies, i.e. transaction based lending, which undermined the relationship based lending core ProCredit’s business model.

In short, as illustrated in figure 1, organizationally fit social business hybrids can experience lack of fit when they fail to gain support for their unique combination of social business goals. But they can also experience it when their model attracts too much attention and
support turns into hype. The next two sections further elaborate on these two sets of challenges which we describe respectively as lack of alignment and lack of resilience.

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Insert Figure 1 here

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2. Lack of alignment\textsuperscript{17}

As illustrated by the Lanark mill case, lack of alignment emerges when the combination of social and business logic embraced by the social business hybrid (e.g. investment in social improvements as a strategy to increase productivity) runs against the grain of the business logic dominant in its market operations (e.g. minimize costs). In the Lanark case, lack of alignment challenged the survival of the mill because it hindered Owen’s ability to convince his co-owners about the value of his socially conscious approach to business but the practical consequences of lack of institutional alignment run the gamut. A couple of examples may suffice to illustrate the challenges to speciation deriving from lack of alignment.

First, because most new social business hybrids are one of a kind, their uniqueness makes it hard for them to identify and hire ready-to-go managers. As a result of this lack of supply, organizations need to hire individuals with experience in related fields and/or they need to invest heavily on training and nurturing individuals to assume leadership positions as organizations grow and develop.\textsuperscript{18} This challenge is difficult for any new organization but it may be particularly so for social business hybrids.

For example, in 2007 First Source Staffing, a New York based nonprofit organizations engaged in the provision of employment to individuals with employment challenges\textsuperscript{19} was looking for a general manager. In contrast with most other nonprofits engaged in employment,
First Source Staffing competed for employer clients with commercial temp agencies and aimed to derive profits from its activities. Their mission, however, was to serve job candidates with employment barriers, such as disabilities, criminal convictions, or homelessness. Potential candidates for the manager job included individuals working on other nonprofits, with little experience in running an organization operating in a competitive market and individuals working in for profit staffing agencies, with little or no experience on how to improve the employability of the profile of individuals served by First Source.

Another challenge frequently faced by new social business hybrids is access to appropriate financing. This challenge is common to most novel organizations but it is particularly problematic for social business hybrids because of the fairly strict division between for profit (e.g. loans, investment capital, bonds) and not for profit (e.g. grants, donations) sources of financing. This strict division makes it hard for social business hybrids to finance their cash flow needs and growth. Take the example of DePaul Industries, another nonprofit operating as temporary employment agency, in their case, with a focus on providing jobs to individuals with disabilities. DePaul’s operating business model is cash flow thirsty and regardless of its success it has had difficulties leveraging funds. It is not for profit enough for banks and it is too business oriented for most donors.

In recent decades we have seen an alleviation of financial challenges with the rise of social finance. The problem is still difficult. Except for the most visible and reputed organizations most social business hybrids access to funds is still fairly restricted. One crucial problem faced by DePaul Industries is the size of the financing it requires. Considering its volume of operations as of December 2012, DePaul required a line of credit upwards of $2 million while most of the social investors it encountered were uncomfortable with providing
financing for any one organization over $250,000.

As mentioned earlier when discussing ProCredit’s decision to abandon microfinance, lack of alignment, fails to account for the challenges faced by other organizational fit social business hybrids. As a “hybrid organism” ProCredit has throughout its history faced the three alignment challenges discussed: difficulties in identifying supporters and investors, identifying and hiring adequate leaders, and identifying sources of financing that allow it to grow at a desirable rate. But they have successfully managed to deal with them without ever having to consider abandoning the microlending business model. But this is exactly the decision they took following changes in market dynamics fueled, in large measure, by their success of microfinance. It helps to think about these challenges using an ecological metaphor embraced by social innovation scholars, namely resilience.\(^{21}\)

3. Lack of resilience

The social context in which social business hybrids are embedded is not stable but subjected to a metastable “continuous (or infinite) cycle of release, reorganization, growth, and consolidation that characterizes all resilient living systems.”\(^{22}\) The relevant image here is that of a forest. Life in the forest is never stable it is meta-stable; much like a ball resting in the hollow of a slope (see figure 2) the forest’s apparently stable equilibrium can change following a spontaneous or a external action that pushes it over the threshold and into another hollow.

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Insert figure 2 here

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For a new organism to become plug-in into the system (the forest), it is not enough for it to be aligned with the current conditions of the forest. It also needs to be able both to become
resilient and contribute to the resilience of the forest; that is it needs to be able to adapt and transition with the forest from one to another metastable state (from one to another hollow in the slope).23 In forests, transition points may follow the arrival of a new organism, for example a new specie of bark beetle. In the markets where social business hybrids operate it can derive from new competitive dynamics following their market success. Research on the evolution of microfinance24 points to two dynamics generated by its own success, namely competition from for profit copycats and market bubbles. (It can also, of course, derive from spontaneous or external events which press the system from one to another point of metastability.)

3.1. Competition from for profit copycats

Organizational ecologists, which have parsimoniously explored the evolution of several industries worldwide,25 have observed that the survival of pioneers with any new to the world business model, is endangered by other organizations, which aware of pioneers’ success, “begin offering slightly different versions of their products/services.”26 In the case of for profit businesses this maybe a rather healthy development (from the perspective of the speciation of a new business model). We expect such crises to weave out the less fit organizations and select for the most operationally fit organizations; those which are most innovative or have the most efficient production structure. But is this also the case when the pioneers are social business hybrids? The concern is that, considering the looser causality, long-term horizon, and measurement difficulties of the logic connecting social improvements and business goals, all other things equal, social business hybrids are likely to be at a competitive disadvantage to survive such Darwinian processes.

The microfinance industry has experienced in different countries and at different times damaging competition from for profit copycats offering products, similar on the surface, but
fundamentally different, when considered from the perspective of their potential for social improvement. This is not surprising considering the lack of a strict distinction of what is microfinance other than small loans to poor people. For example, in 1998, one of the authors was collecting data about microfinance organizations in Bolivia and noticed something unexpected. As part of data collection, she studied moneylenders who were, prior to the emergence of microfinance, one of the few sources of loans available to the poor. She realized that as soon as microfinance organizations had began to have any success, back in the early 1990s, money lenders had begun to use the word micro credit (micro credito, micro prestamo in Spanish) to advertise their services in the pages of El Diario, at the time the most popular outlet for personal and small business adds.

Considering the definition of microfinance as small loans for poor people, the label of micro credit quite suited moneylenders. Their methodology of operation was, however, substantially different in such a way that it allowed microfinance organizations but not money lenders to have a positive impact on the life of their borrowers. Fundamentally, microfinance organizations provided loans for productive uses, at less than half the rate of moneylenders, and incurring in substantial personnel and administrative costs to assure that borrowers were not being over indebted.

As it turned out, eventually, the success of microfinance organizations in Bolivia attracted the attention not only of moneylenders, who were operating at the margins of the financial sector but also of well funded consumer lenders. They had entered the country in 1995 with the ambition of servicing salaried employees but were quickly attracted to the microfinance segment (low income entrepreneurs) by the rate of growth and operational success of microfinance organizations. Estimates suggest that as much as 30 percent of the portfolio of
largest consumer lenders in Bolivia (i.e. Crediagil and Acceso) were on loans to non-salaried individuals. As illustrated in table 2, from the perspective of borrowers, the lending technology of consumer lenders was similar and even superior to that offered by microfinance organizations; that is their loans were larger and were approved even faster. Their transaction-based lending technology, however, was drastically different from the relationship-based lending technology of microfinance in the area of default rates. Repayment delays and default rates were not only acceptable but also part of consumer lenders’ revenue generation strategy. In contrast they were not only disliked and effortfully minimized by microfinance organizations. In fact, minimizing defaults explains microfinance organizations’ embracing of the labor-intensive (and thereby expensive) relationship-based lending technology.

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Insert Table 2 here
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It is fair to say that the entrance and commercial success of consumer lenders is at the root of the crisis the microfinance market experienced in 1990; a crisis which threatened to wipe out all the financial institutions that had been providing loans to the poor, both commercial (money lenders, consumer lenders) and social business hybrids (microfinance organizations). The spark for the crisis was the spread of the Asian financial crisis with its sudden and rather depressing impact on the Bolivian economy and, thereby on the low income entrepreneurs served by microfinance organizations. A wave of loan defaults followed, fueled by unexpected levels of clients engaged in what was labeled “bicicleteo” of debts (i.e. borrowing to pay for loans). Bolivia’s microfinance organizations survived this crisis and, the experience probably increased
their long term resilience because it pushed out of business most of the consumer lenders involved. Currently all the microfinance organizations operating at that time are still operating and have grown into some of the largest banks in the country. They have also improved their operations which have allowed them to cut their interest rates to less than a half what they were in the 1990s (in 2012 rates were 17 percent compared with a high of 45 percent).

Recently, a related crisis occurred in Andre Pradesh, India, with still uncertain results. In this case, SKS, an organization which identified itself as a social business hybrid engaged in practices which deviated from the careful loan analysis process at the root of the success of microfinance organizations. Moreover in contrast with the Bolivian case in which borrowers organized and negotiated a settlement, in Andre Pradesh SKS aggressive collection strategies made some defaulted borrowers desperate enough to turn to suicide as a response. The final result was a discrediting of microfinance at large as news from this crisis spread world wide and exposed what some were quick to call the dark side of microfinance without considering differences between SKS lending product and what the pioneers of microfinance had offered.

Currently competition from organizations embracing the transaction-based approach to lending, including microfinance organizations, presents the highest threat to the survival of the relationship-based lending technology at the root of microfinance’s social business model. This threat appears now to be even higher because of the increase in the number of microfinance organizations which have begun to adopt transaction-base lending while others, such as ProCredit, have decided to abandoned those market segments traditionally identified with microfinance (i.e. under $2,000).

3.2. Market Bubbles

Our collective memories are well acquainted with the risk of market bubbles following
the recent global recession dynamics that accompanied the dot.com bubble and the real state one in a period of less than 10 years later. This has also been a challenge in microfinance.

David Roodman\textsuperscript{30} provides a brief but insightful description of market bubbles which in recent years have impacted the microfinance industry in Bosnia and Herzegovina and Nicaragua among several other countries including also countries such as Morocco, or Pakistan. In Bosnia and Herzegovina in a period of less than 10 years microfinance organizations including a ProCredit bank, EKI (an affiliate from US based World Vision), and a Mercy Corps’ bank (called Partner) multiplied their value of operation several times in a market which appeared to have no ceiling. Then “the bubble burst.” Citing Selma Cizmic (LIDER), Roodman describes that at the root of the burst was the fact that:

“The clients were aware that there are many microfinance lenders offering loans and wherever they could go they could get it. They were attracted by the possibilities and rushed into it without thinking.”

In Nicaragua the responsibility for a bubble, which almost wiped out the industry in 2008, appears to have been rooted in easy access to funds from donors. Quoting Barbara Magnoni, an industry consultant. Roodman reports:

“At [a conference] in Salvador in 2007, I knew there was a bubble as I watched investment funds competing to get face time with a number of Nicaraguan MFIs [microfinance institutions]. Already, the market had grown substantially since 2004; Findesa (now Banex) hand a loan portfolio of US$125 million, up from US$33 million at the end of 2004. I wondered why it made sense to lend to so many small MFIs in one country with 5 million people, 600,000 informal sector workers and 300,000 credit clients . . . .
I visited Findesa later that year in Managua and asked the CFO what the institution’s main competitive advantage was. His answer reinforced my fears. He said, “We are very good at raising money from foreign investors.” Debt financing was clearly flowing to Nicaragua, with high profile, fast growing institutions like Findesa bringing in the bulk of the money; yet how would these MFIs’ loans portfolios grow? Mostly, by trying to compete for each other’s clients, ultimately adding to the clients’ debt burdens.”

Microfinance is perhaps the most developed among the new breed of social business hybrids. It is also a particularly interesting case because of its dissemination well beyond the countries where it was pioneered (Bangladesh, Indonesia, Bolivia, or the Philippines among others) including expansion to developed countries. Its development is then of particular interest to consider the range of challenges to social business hybrids deriving from their lack of resilience and their ability to retain the social improvement goals that inspired their formation on the first place.

4. What to do about lack of fit?

Research in the ecology of forest systems provides a rather fatalistic perspective. In fact, most research on interventions to help protect or improve a specific metastable configuration have backfired because of the complexity involved and thereby policy makers’ inability to forecast and control for the unexpected consequences of interventions.31

Similarly in markets, the dominant approach to intervention in the protection of one particular organization over another builds on Laissez faire economics. The idea behind Laissez faire is, of course, that the problem of lack of resilience may actually be best addressed by allowing organizations to experience and survive the competitive challenges generated by
copycats and bubbles, which will both, help to select the most fit organization, and press all others to become more efficient.

This explanation, however, appears wanting in the social business hybrid arena considering the potential intrinsic instability of combining social and business ends.\textsuperscript{32} First, as stated earlier, cognitively, the justification for the hybridization of social and profit goals is less causally tight, involves longer term horizons, and is harder to measure than the pure for profit logic. Second, these difficulties are compounded by challenges derived from their lack of alignment which further hinder the ability of these organizations to access much needed resources including talented employees and financial resources.

Accordingly, we expect that, without intervention, most social business hybrids would be handicapped from the start in their efforts to survive lack of resilience challenges. Interestingly, even the most adamant free marketers accept that, in the presence of a desirable social goal, intervention maybe justified. For example, there is widespread acceptance for patent protection legislation to increase the resilience of research-oriented organizations justified by the expected social value of innovations. Less accepted, but also quite widespread, are systems, such as quotas or subsidies, which help to protect vulnerable business populations (e.g. farmers) from the competitive consequences in terms of lost revenue and increased competition from both foreign competitors and potential bubbles. We advocate that intervention may be desirable in the case of social business hybrids but it is worth exploring how different forms and instances may alleviate the lack of alignment and lack resilience challenges faced by social business hybrids.

The next three sections address this important question broadly. We consider three broad categories of intervention namely framing, commensalism, and social activism. We finish the paper with a discussion on the impact and value of the interventions advanced by these three
approaches.

4.1. Framing

There is a growing body of research pointing to framing as the most effective strategy to alleviate the lack of alignment of social business hybrids deriving both from dissonance and lack of a supportive environmental context. Framing describes the depiction of novel endeavors in ways which leverage support and approval from an audience (e.g. investors, employees, clients) in the absence of sufficient factual information to confirm the purposed value.\(^{33}\) We usually observe framing at the hands of charismatic leaders whose persona, social connections, and general skills allow them to gain support for new to the world ideas. An excellent example, in the arena of social business hybrids, is Mohamed Yunus, founder of Grameen Bank and winner of the 2006 Nobel Peace Prize. Yunus is among the best-known social entrepreneurs in the world and, widely acknowledged, not only because of his role in the founding of Grameen but his wider role in the advancement of microfinance.\(^{34}\)

The impact of these individuals can be quite striking. In the case of Mohamed Yunus, his own personal story as a Bangladeshi professor who saw the value and succeeded against the odds in the provision of loans to people previously considered unbankable. But also the fact that, as an economics professor educated abroad, he had access and the required skill to gain the support -- although not easily and readily--from local banks and international donors. The problem is that individuals with Yunus’ profile, e.g. with his commitment, social assets, personal skill, and training, are scarce.

It is interesting to note though that, on occasion, framing can also help to ameliorate the alignment of social business hybrids even in the absence of such charismatic individuals. For example one of the authors of this paper was involved on the naming of organizations which as
the nonprofits we described earlier (First Source Staffing and DePaul Industries) are engaged in temporary and temp-to-perm (placing temporary workers into permanent positions) job brokering.

The name given was rather descriptive, Alternative Staffing Organizations, but the label was quickly embraced because it helped the organizations involved, which had been operating in isolation, to identify willing peers and engage in information rich exchanges and interpersonal support. The process of self-identification that accompanied the identification of these organizations as part of a community resided more on a fertile audience than on the name itself. But it contributed, together with other factors, including funds from the C.S. Mott Foundation, to the organizing of this group of nonprofits into an association, namely the Alternative Staffing Alliance. Founded in March 2007 with 13 members. The Alternative Staffing Alliance currently has over 40 members in the United States and Canada.

In short, framing whether at the hands of charismatic leaders and even as a serendipitous occurrence can have a relevant impact in gaining alignment for new social business hybrids and thereby increasing their chances of speciating. The visibility which charismatic framers, such as Yunus, can stir serves to gain support from investors and policy makers. The self identification unexpectedly following an innocuous naming exercise can support the development of a group identity which allows for peer collaboration and thereby the opportunity for the other two approaches of intervention discussed in this section: commensalism and activism.

Interestingly whereas framing appears to alleviate lack of alignment it is unclear whether it can actually worsen challenges deriving from lack of resilience. It can spark, more quickly than otherwise would have happened, the interest of deep pocket business oriented organizations to develop products or services, which appear similar, but undermine the social goals of the
social business hybrid. This is the example of the encroachment of transaction-based lending technologies in markets once dominated by the relationship-based lending technology pioneered by microfinance organizations. It can also accelerate the growth of social business hybrids beyond a sustainable threshold, as we saw e.g. in the case of Nicaragua.

4.2. Commensalism: cooperation among competitors

Business historians have identified a number of examples in which new businesses have ameliorated their chances of success by engaging in commensalism; that is cooperation among competitors. Many instances of this type of cooperation involve collusive behaviors around illegal and legally gray areas, e.g. price fixing. For example, Kolko has identified several commensalistic initiatives at the inception of the railroad industry in the United States. But others have revolved around knowledge sharing initiatives. For example, Ingram has identified “early hotel chains the USA cooperating to establish the Cornell hotel school to alleviate the scarcity of qualified job applicants,” and Ingram and Lifschitz described how collaboration in R&D among shipbuilders on the Clyde River helped that area to obtain the unofficial status of “shipbuilding capital of the world” in the late nineteenth century. More recently, Almeida and Kogut describe the advantages derived by firms, which would typically be characterized as competitors, because of their co-location in Silicon Valley which facilitates processes of knowledge non possible otherwise. Finally, Zuckerman and Sgourev describe the value of commensalism among parallel peers; that is companies such as car dealers which share a similar business model but operate in different geographic locations. They have identified a large number of associations among these parallel peers in the United States which members use for information exchange and to support each other on their individual strategic endeavors.

We have also observed the value of commensalistic groupings in our research on
microfinance and alternative staffing. As explained earlier Bolivia is one of the birth nests of microfinance with some of the largest and best-known microfinance organizations in the world competing against one another, including BancoSol and Banco ProCredit Los Andes, FIE, or ProMujer. In the early days, when the size of the demand was yet unclear and all organizations were rapidly expanding, these organizations, and, particularly the largest, where engaged in constant communication. They consulted and collaborated on issues of shared interest such as potential new legislation which could have a competitive impact. They also shared information that allowed them to benchmark their efforts. This level of collaboration surprised many observers but it appeared natural for participants who saw each others as allies and perceived the highest risks to the success of their organizations to be coming from the outside; namely from legislative processes which could undermine their sustainability and operations; and from competition from consumer lenders with their aggressive sales strategies and transaction based approach to lending.41

We have also observed a similar degree of cooperation and information sharing among the nonprofits members of the Alternative Staffing Alliance. The Alternative Staffing Alliance defines itself as “a national association dedicated to supporting the efforts of groups nationwide who use a fee-based staffing services model to help individuals with barriers to employment find and retain work.” Its aim is to become “a source of practical tools and resources, along with peer learning opportunities, to strengthen the field of practice and promote the alternative staffing model. It also serves as the voice of the sector, communicating practitioners' distinctive worker-focused approach and the market-based advantages of this transitional jobs strategy.”42

Participant surveys on the value of the Alliance suggests that what members find most useful are the annual conferences which it has organized every year since 2007. These gatherings
provide organizations with an opportunity to share operational information and identify potential partners. Regularly the conference is attended by nonprofit organizations considering the adoption of the alternative staffing model. Several organizations including Embers Staffing Solutions (Vancouver, Canada), Teenforce (San Jose, California), and Worksquare (Miami, Florida) have initiated operations right before or soon after attending one of these conferences. Their founders credit the friendships and partnerships they developed in these conferences with members of other alternative staffing organizations as crucial to their gaining access to much needed know-how to open and build their operations.

The two commensalistic groups of social business hybrids identified here have had an important role on the development of their participants. Fundamentally, this role has been along the lines of increasing the fitness of the organizations and ameliorating their lack of fit within their context of operation. As seen on the next section, on occasion these groupings can also play a role in alleviating lack of fit at the coattails of social activist movements which use economic, instead of political mechanisms, to advance social goals; most notably ethical consumption.

1.1. Activism at the coat-tails of ethical consumption

Recent decades have seen the emergence of activist movements among individuals using their buying habits to advance social goals which they may have previously seek to advance through philanthropic donations or political engagement. Slogans such as “trade not aid” capture the essence of this new development. The focus is on bringing about change by influencing the behavior of economic actors and most particularly corporations. The example of fair trade serves to illustrate quite well the value of this profile of activism to increase the chances of speciation of social business hybrids.

The origins of fair trade organizations can be traced back to, at least, three distinct
profiles of organizations. Some initiatives, e.g. Equal Exchange, can be traced back to initiatives pursuing the advancements of a cooperative economy with economic agendas of redistribution of wealth and political power.” Others trace back to religious and other aid organizations which saw the potential for trade, particularly of craft products, as a strategy to support poverty alleviation. Ten Thousand Villages is perhaps the oldest and best-known example. Alternative but related initiatives have emerged around the idea of solidarity trade advanced by “activist who opposed capitalism and neo-imperialism.” Twin Trading (Divine Chocolates) is perhaps one of the best-known organizations rooted in this movement. These three different types of social business hybrids came together in the 1980s and 1990s as organizations coalesce around the value of labels and third party certification initiatives in order both to strengthen and benefit from this new form of social activism (ethical consumption).

Historians of the process describe the origins of this coalition as a response to the incursion of for profit competitors, such as Pier 1 Imports, in the market space that fair trade organizations had been occupying. These developments were received by fair trade organizations as a challenge to improve their own fitness, and an opportunity to expand the social impact of fair trade by introducing fair trade products into the conventional distribution channels used by most consumers; i.e. retail outlets like Starbucks and supermarkets such as Wal-Mart or Carrefour.

The first label, Max Havelaar coffee, was introduced in the Netherlands 1988. Inspired by this success within a few years the Max Havelaar labeling system had been adopted in several other European countries (e.g. Belgium and Switzerland). As Gendron et al. report, other labeling initiatives followed including “Fair Trade (the United Kingdom, Ireland, and Canada), Transfair (Austria, Germany, Italy, Luxemburg, Japan, the United States, and Canada), and
Rattvisenma (Sweden). “In 1997, seventeen certification organizations joined together in an international federation, the Fair Labeling Organization International (FLO).”

Fair trade labels, and the certification systems attached to them, have had a fantastic impact on the expansion of fair trade and the development of the social business hybrid organizations attached to them. In the UK all major supermarkets “now stock at least one fair trade product and they have seen impressive year-on-year growth in fair trade sales – a 112 per cent increase from 2002 to 2003 for the Co-Op, 70 per cent for Tesco and 24 per cent for Waitrose.” In the US, Transfair reports that it “now works with over 800 companies that serve an estimated 40 million consumers through over 50,000 retail outlets.” Some of these outlets include the best known US retailers including Wholefoods, Target, Costco, and Walmart.

There are, however, many voices raising concerns about the value of this labeling processes in the protection of the social goals pursued by fair trade organizations. Much like patents have been shown to undermine the social goal that they were designed to protect (the advancement of innovation and new technologies), labels may result on corporate cooptation and undermining of the social goals they were set to protect.

At the end of day, what was been gained with the introduction of labels is a new degree of resilience to the challenges brought about by competition from for profit providers into the market space inhabited by these organizations in the 1980s and 90s. But the introduction of labels generated new dynamic challenges. Using the language of resilience, what was gained was not a protected niche but a saddle in the slope of the market (see figure 2). The resilience of the saddle will depend on the actions of fair trade organizations, but it will also depend on wider dynamics including (a) the continuity and effectiveness of social activism rooted on ethical consumption, and (b) the potential for corporations to coopt the labeling system that has
protected and fueled the growth of social business hybrids engaged in fair trade.

Consumer activism has also fueled the expansion of other social business hybrids. Of particular interest are social finance ventures because of their potential impact on the alleviation of lack of access to adequate financing which hinders the development of many social business hybrids. As stated in the call for papers to this journal the market for socially responsible investments has grown to $3 trillion in assets (or 12% of professionally managed funds) in the U.S. alone.\textsuperscript{50} This profile of organizations is thereby flourishing and its impact on the wider population of social business hybrids (and the current metastable hollow they have found in the market, see figure 2) is still to be seen.

Table 4 provides a summary of the three approaches identified. As shown on the table each of these approaches is not independent. Framing, commensalism, and activism can all play a role on the alleviation of lack of alignment and lack of resilience challenges but they can also interact in alternative ways with unexpected results.

5. Conclusions

Social business hybrids even when successful in their operations face a variety of challenges to their speciation. Being operationally fit does not necessarily translate into having environmental fit and, without it, social business hybrids are likely to disappear over time as their charismatic founders move on, or they may remain one-of-a-kind organizations, hard to replicate in different institutional contexts.

We have identified two sort of challenges faced by operationally fit social business
hybrids. First, challenges deriving from their lack of alignment which is rooted on the uniqueness of social business hybrids mode of operation and hinder their ability to gain access to the support and resources needed for their survival and proliferation. And second, challenges derived from lack of resilience which are rooted on their ability to respond to market changes generated by their own success including competition from for profit copycats and market bubbles.

We have discussed what to do about these challenges considering a gamut of approaches including nothing, framing, commensalistic collaboration, and activism. This exploration has allowed us to identify some of the factors which may facilitate the speciation of social business hybrids. First, problems engendered by lack of fit maybe alleviated through framing. At the hands of charismatic leaders framing can help social business hybrids gain support and develop resources they may not have otherwise. In their absence, framing can also support the development of social business hybrids by facilitating their self-identification and thereby creating the stage for commensalistic processes of self-support and activism.

Problems engendered by lack of resilience can actually be made worse by framing because it is likely to have the impact of accelerating the entrance of competitors. Throughout business history commensalistic groupings have been seen to have a positive impact on the survival and growth of new types of businesses and, in our research, we have seen them play a similar role. These groupings are likely to improve the fit of social business hybrids when they facilitate learning and create the conditions for investment on areas that can benefit them all, such as training institutions or sources of resources. Finally, building on research on fair trade organizations, we have explored the role of social activism on the introduction of mechanisms (i.e. certification systems and labels) which allow extra protection to these social business hybrids from both for profit copycats as well as bubbles.
There is no panacea. Most efforts to support the sustainability of social business hybrids in the markets where they operate will, like most interventions in complex systems, have unexpected consequences which may finish by undermining instead of supporting the speciation of social business hybrids.\textsuperscript{51} Framing can alleviate alignment challenges, but also accelerate resilience ones. As seen in microfinance, commensalism can both alleviate alignment and resilience challenges but may not be able to stop challenges from similar, but sufficiently different approaches (transaction-based lending in the case of microfinance). Finally, much like patents can be used to slow down (instead of accelerating) the incorporation of technologies that allow for inventions to solve complex problems, certifications and labeling can be used to coopt the social goals they were set to protect. In short, much like the speciation of hybrid organisms, the speciation of social business hybrids involves their becoming plug-in into a complex social system which at best metastable.

But this does not mean that there is no hope for social business hybrids or the need to support them. Most relevantly, the impact of social business hybrids may not be as much on their survival as on the identification of business models which, even when their most valuable social goals are diluted, continues to offer social improvements over what existed prior to their emergence. The consumer lending approach to lending was rather widespread prior to the emergence of microfinance organizations but had never been applied to lending to the poor. Whether or not microfinance’s relationship-based lending technology survives, low-income entrepreneurs may still be better off now (have better access to financing options) than they were prior to the arrival of microfinance. Fair trade may be coopted by corporate interests but it did contribute to the creation of monitoring and leverage points for global consumers to influence global supply chains in ways impossible prior to their emergence.\textsuperscript{52}
Finally, it is relevant to mention that the idea of resilience as a central metaphor to understand the challenges involved on the alleviation of many of the complex social problems addressed by social business hybrids (e.g. poverty, long term unemployment) is common among scholars that have embraced the label of social innovation. By calling attention to its value in understanding the challenges to the sustainability and scaling of social business hybrids (an area which to our knowledge this metaphor has not been applied) this paper paves the way for further disciplinary conversations bridging the artificial gap currently separating research on social entrepreneurship and social innovation.
Figure 1: Lacking fit

Point of Metastable equilibrium

Lack of alignment: Social business hybrid fails to gain external support

Lack of resilience: Contextual support turns into hype
Table 1: Comparison microfinance and consumer lending

<table>
<thead>
<tr>
<th></th>
<th>Microfinance</th>
<th>Consumer loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan terms</td>
<td>Average new $1,000; short term; fast turnaround; interest rates(^{54})</td>
<td>Average new $1,000; short term; fast turnaround; interest rates</td>
</tr>
<tr>
<td>Basis for loan approval</td>
<td>Enterprise and household cash flow; credit history, personal references</td>
<td>Credit “score” building on detailed survey information, guarantors</td>
</tr>
<tr>
<td>Basis for loan repayment</td>
<td>Motivation for continued access to credit</td>
<td>Motivation for continued access to credit; penalties, and fees</td>
</tr>
<tr>
<td>Tolerance for delinquency</td>
<td>“Zero tolerance” policy. Expected delinquency less than 3-5%</td>
<td>No concern until after 30 days late. Expected delinquency 15-20%. Still profitable with 30% defaults(^{55})</td>
</tr>
<tr>
<td>Method of follow-up</td>
<td>Immediate, personal visit by loan officer</td>
<td>A letter in the mail</td>
</tr>
<tr>
<td>Staff organization</td>
<td>Relationship-based lending: Loan officer responsibility for client from start to finish</td>
<td>Transaction-based lending: Assembly-line loan processing(^{56})</td>
</tr>
</tbody>
</table>

Source: The author building on Rhyne 2001
Figure 2: Metastable equilibrium in complex systems

Source: http://earth.usc.edu/~zheqians/Final_project.html visited on October 28, 2013.
| Table 2 |
|-----------------|-----------------|-----------------|
|                 | Lack of alignment | Lack of resilience |
| Framing         | Charismatic leaders can help gain alignment. Timely framing can fuel supportive processes of self-identification | Successful framing may strengthen market dynamics fueling the emergence of for profit copy cuts and market bubbles. |
| Commensality    | Competing social business hybrids can alleviate lack of alignment peer learning, mutual support, and shared investments | It may turn into social activism | It may disappear with increased competitive rivalry among the organizations |
| Activism        | Gaining alignment by building on social movements of ethical consumption. It appears to be behind the expansion of social finance and thereby potential for large impact on social business hybrids in multiple sectors | Under risk of cooptation |


O’Toole and Vogel, “Two and Half Cheers for Conscious Capitalism.”

Ibid., 64.


Jennifer A Howard-Grenville and Paul R Carlile, “The Incompatibility of Knowledge


O’Toole and Vogel, “Two and Half Cheers for Conscious Capitalism,” 64.


Management scholars refer to the problem of lack of alignment using the term legitimacy (see e.g. Schuman, “Managing Legitimacy: Strategic and Institutional Approaches.”)

Battilana and Dorado, “Building Sustainable Hybrid Organizations: The Case of Commercial Microfinance Organizations” provide a good analysis of these issues.

First Source and most other nonprofits which have adopted this business model provide temporary employment services and temp to perm positions (services to organizations that wish to turn their temporary workers into permanent employees.


The forest metaphor works because it implies that whereas the context in which the social business hybrid is operating is not static it is ever changing. In the case of a forest, the anchors of its adaptive cycle, which hold it recognizably similar cycle are drivers, such as weather patterns or latitude which vary only through relatively long spans of time. The social contests in which social business hybrids operate are anchored on three set of drivers, namely (a) broad beliefs which represent our culture, (b) rules and norms that define laws and practices, and (c) financial, material, and authority resources that define our political and economic life.


28 Ibid.

29 Roodman, *Due Diligence: An Impertinent Inquiry into Microfinance*.

Ibid., 252–259.

30 One of the best-documented examples involves efforts to control the population of spruce budworm in New Brunswick, an insect that feeds on the foliage of balsam fir and spruce trees. This insect has been around for centuries but it became a threat after World War II. It is at this time that, considering the economic value of the forest for local mills, the government of New Brunswick initiated an aggressive pesticide campaign to limit the damage that this insect inflicted periodically. The approach backfired and 60 years later it appears that the economic interests surrounding the forest may have been better served without the use of insecticides. See Gordon L. Baskerville, “The Forestry Problem: Adaptive Lurches of Renewal,” in *Barriers and Bridges to the Renewal of Ecosystems and Institutions*, ed. Lance H. Gunderson, C.A. Holling, and Stephen S. Light (New York: Columbia University Press, 1995), 37–102.


34 Paul Ingram and Lori Qingyuan Yue, “Structure, Affect and Identity as Bases of Organizational Competition and Cooperation,” *The Academy of Management Annals* 2,


37 Ingram and Yue, “Structure, Affect and Identity as Bases of Organizational Competition and Cooperation.”


39 Paul Almeida and Bruce Kogut, “Localization of Knowledge and the Mobility of Engineers in Regional Networks,” Management Science 45, no. 7 (1999): 905–917; Ingram and Yue, “Structure, Affect and Identity as Bases of Organizational Competition and Cooperation.”


41 Author-name-withheld (2013).


44 Ibid.


46 Gendron, Bisaillon, and Rance, “The Institutionalization of Fair Trade: More Than Just a Degraded Form of Social Action.”


50 USSIF, “Report: Socially Responsible Investing Assets in US Top $3 Trillion; Nearly 1 Out of Every 8 Dollars Under Professional Management,” 2010,


At this point in history rates could be as high as 45%. They had since fallen and in 2012 they average 17 percent.

The policy on late payment penalties is a source of revenue for consumer lenders which explains their relaxed policies towards late payments.

Maximizing division of labor: Loans are offered by sales personnel; evaluated in the back room office; collected by expert collectors and/or collection agencies.
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