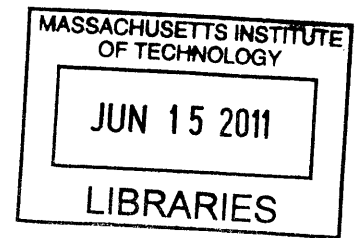


**Growth Strategy for Hybrid Organizations:
Balancing Economic, Environmental, and Social Impacts**

By

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SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT IN PARTIAL
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By

Gustavo Moreira Mamao

Submitted to the MIT Sloan School of Management on May 6, 2011
in partial fulfillment of the requirements for the degree of
Master of Science in Management

ABSTRACT

Hybrid organizations combine the structure and culture of for-profit companies with the commitment to social good of non-profit organizations. This structure enables them to address social problems in an economically sustainable manner and to capitalize on consumer demand for responsibly-made products. While *hybrids* must strike a delicate balance to achieve their profit, social, and environment targets, some degree of quantitative growth is necessary in order for them to have the impact they seek and return value to all their stakeholders.

Recent literature on hybrid organizations does not focus on the different stages of a company's life-cycle nor does it address the challenges of successfully maintaining a hybrid structure over the course of a company's development. Combining this idea of specific strategic phases with the Hybrid Organization's Sustainability-Driven Business Model presented by Hoffman *et al* (in press, 2011), we can explore economic growth strategies for *hybrids* while identifying the tensions inherent to or amplified by the hybrid growth process.

I built four case studies which identify thirteen tensions experienced as hybrid organizations grow. Based on how these companies addressed the challenge of maintaining economic growth while minimizing mission drift, I concluded that it is possible to maintain triple bottom line values and practices during growth, although there is considerable risk that a company will adopt a more conventional business model. The decision to grow a hybrid organization depends on the goals of the founders, but a strategic partnership with an existent traditional business group was found to be particularly useful as a financial growth strategy.

With my thesis, I offer a contribution to practice based on uncovering the root causes of growth tensions for hybrid organizations and a contribution to the literature which builds upon Hoffman's model.

Key words: Hybrid Organizations, Social Enterprises, Corporate Social Responsibility, Triple Bottom Line, Sustainable Entrepreneurship, Growth, Seventh Generation, Stonyfield Farm, Green Mountain Coffee Roasters, Mundo Verde

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CHAPTER 1 - INTRODUCTION

“Between making money and making a difference, choose both.”

(Artemisia, 2010)

In recent years, companies that pursue mutual and balanced goals of environmental sustainability and profitability have been labeled *hybrid organizations* (Boyd, Henning, Reyna, Wang, & Welch, 2009). Other definitions of hybrid organizations often add a third dimension: social responsibility. These three dimensions, environmental, social and economic, represent the so-called *triple bottom line* (Elkington, 1998). With a few notable exceptions, the rise of hybrid organizations is a recent phenomenon, driven by current social, political and environmental challenges that exist across individual societies.

For hybrid organizations to have the broad impact they seek, and return value to all their stakeholders, some degree of quantitative growth may be necessary. But must all hybrid organizations grow? Can hybrid organizations grow and still maintain their triple bottom line values and practices? What “financial” growth strategies for hybrids might enable them to do so? This thesis explores such questions through a detailed analysis of the four case studies, and uncovers key tensions experienced by hybrids during their life-cycle.

What is a Hybrid Organization?

Some hybrid organizations are rooted primarily in a for-profit structure and culture, but are mission-driven and therefore tend to take on some characteristics of civil society organizations. They can be described as having predominantly “business DNA” and use the market system as a tool to fix or drastically mitigate environmental and social problems (Hoffman *et al*, in press, 2011). Another kind of hybrid organization is the mission-driven non-profit that aspires to financial sustainability through the use of business practices and market mechanisms. Financial sustainability is seen by people in these organizations as a way to help the organization focus more on the mission and less on short-term fundraising needs (Billis, 2010).

Finally, there are efforts to define a new type of organization that is a true hybrid, even at the level of its legal charter. B-lab, a nonprofit organization that created the “B-corporation” label, lobbies for

legislation (already passed in Maryland and Vermont) to define this as a new legal form. Such organizations have “a legal responsibility to work for the good of stakeholders, as well as for the profit of shareholders.” Since 2007, the organization has certified 396 B-corporations, most of them small companies (average revenue is less than \$5 million annually). While not all are hybrid organizations, Houlahan (2011) claims that in the US today there are “over 50,000 businesses create shareholder and social value through their environmental stewardship, community impact, and employment practices.”

Characteristics of Hybrid Organizations

An in-depth study of hybrid organizations was made in 2009, and the main results were published in a book titled *Hybrid Organizations New Business Models for Environmental Leadership* (Boyd et al, 2009). This study compiled learning from a survey of 47 hybrid organizations, supplemented by five in-depth case studies chosen from among them. Lessons were extracted in five areas: business model and strategy, finance, organization, processes and metrics, and innovation. The summary of the findings appear in Table 1-1.

Table 1-1 – Key Characteristics of Hybrid Organizations

Organizational Characteristic	Observed Pattern for Hybrid Organizations
Business Model and Strategy	<ul style="list-style-type: none"> • Hybrids believe they do something completely different from competitors • Innovative product and environmental features are sources of competitive advantage
Finance	<ul style="list-style-type: none"> • Hybrids have both positive and negative profit margins • Significant portions of hybrid funding comes from “patient capital” • Financing for hybrids can be both an advantage and a disadvantage
Organization	<ul style="list-style-type: none"> • Hybrids are led by transformational or participative leaders • Hybrids believe they have “fully integrated environmental sustainability”
Processes and Metrics	<ul style="list-style-type: none"> • Some hybrids track environmental metrics
Innovation	<ul style="list-style-type: none"> • Hybrids have “notable innovations” related to product and service

Source: (Boyd et al. 2009, p. 2)

The perception of those running hybrid organizations is that some competitive advantages are intrinsic to their business models. Product and organizational innovations support differentiation. Nevertheless, while many hybrids do indeed offer something “completely different from competitors,” one might

reasonably question how sustainable those advantages are over time. Another important characteristic of hybrids is the presence of “patient capital” (i.e. funding provided by investors who have a long-term outlook, and are therefore tolerant of delayed profitability) as a significant portion of their funding. The availability and flexibility of patient capital can be crucial in shaping decisions related to a hybrid’s growth strategy.

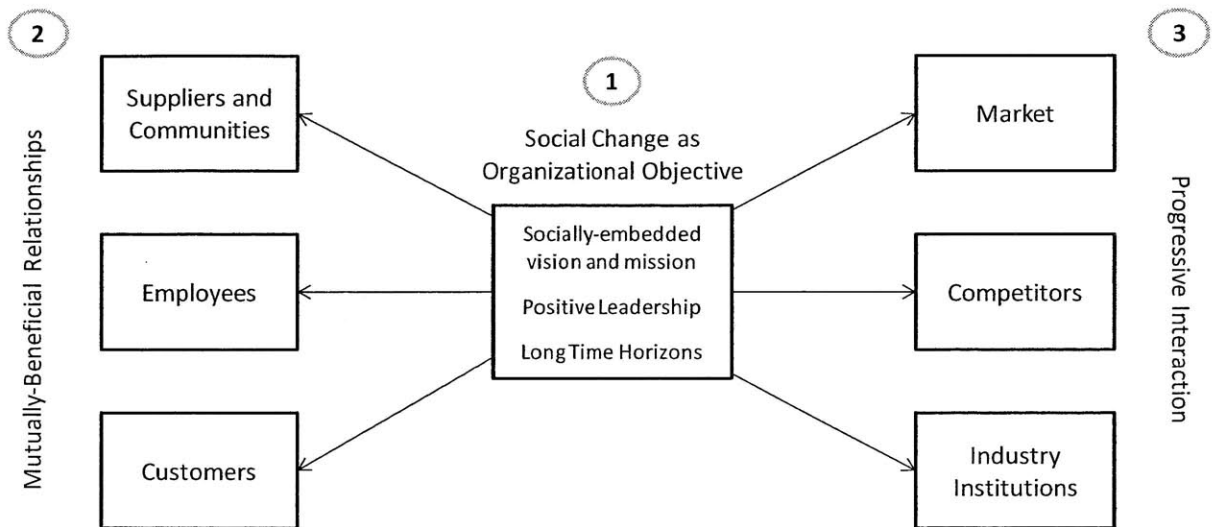
Other observations from Boyd et al. include:

- (i) **Mission.** The mission of hybrids is embedded in the business model and in all major decisions across organizational levels;
- (ii) **Relationships.** Hybrids encourage uncommonly personal, close relationships with suppliers, producers and customers;
- (iii) **Patience.** Ambitious dual-minded missions require patience from all stakeholders, both financial and non-financial.
- (iv) **Limits to growth rate.** Hybrids tend to face challenges in scaling their business while balancing mission and profit goals.
- (v) **Market premium.** Hybrids rarely compete on price. Hybrid organizations tend to compete based on quality or other product characteristics.

As already mentioned, hybrids embed a mission focus into their business models, giving them a sense of purpose. To accomplish this mission, they must balance profit goals and growth targets against non-financial objectives – requiring patience by all stakeholders. That patience and those relationships can be tested by tensions that arise as hybrids seek to balance their intention to scale up (and thereby achieve broad impact) with their need to move cautiously and thoughtfully (taking the time necessary to ensure that decisions support both financial and non-financial goals). These tensions are analogous to other tensions, dilemmas, and paradoxes identified in studies of hybrid organizations (Jay, 2010; Battilana & Dorado, 2010).

Based on this study and others, a hybrid organization’s “sustainability-driven business model” was developed by Hoffman et al. (in press, 2011).

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



Source: Hoffman et al, in press, 2011, p. 30

This framework defines the hybrid as a mission-focused company. Such a hybrid is assumed to be rooted in a business perspective and to have adopted certain characteristics and practices related to environmental and/or social performance. Hoffman's model makes explicit the elements that a hybrid organization would care about. The framework also depicts these elements as existing on three levels: (1) the "core," i.e. the governance system and business model of the organization itself; (2) the "micro-level," or key stakeholders, and (3) the "macro-level," i.e. the external context in which the organization operates. A detailed description of each element can be found in **Appendix A**. While these elements may at first seem similar to those of any traditional business, the intensity and the meaning of each is quite different for hybrids – as will be demonstrated later.

Stakeholder relationships are critical to the success or failure of any organization, and the stakeholder approach is particularly important to hybrids. A different level of interconnection among stakeholders appears when compared to traditional firms, and these interconnections can play decisive role in terms of creating the business competitive advantages mentioned above. For instance, hybrid organizations may have formal long term relationships with suppliers, and the choice of suppliers may not follow only economic criteria.

Growth Phases: How Hybrid Organizations Evolve Over Time

Fundamental to my exploration of the tensions and strategies of hybrid organizations is a desire to understand these companies as dynamic rather than static – i.e. to see how key challenges influence, and are influenced by, the organization’s growth and evolution. Characterizations of organizational growth phases (or “stages of development”) that come from professional investors focus on the amount of capital needed at each stage of growth. In seeking to define relevant stages for hybrid organizations, I relied on two main sources from the investment literature.

In the book *“Engineering Your Start-Up”* (Swanson & Baird, 2003), the authors divide company growth into four stages: (1) “Seed Financing”; (2) “Early-Stage Finance” (subdivided into “Start-up Financing” and “First Stage Financing”); (3) “Expansion Financing” (subdivided into Second, Third and Fourth Stage Financing); and (4) “IPO/Acquisition/Buyout Financing.”

Another model of growth phases comes from MoneyTree™ (PricewaterhouseCoopers, 2010), an initiative created by a collaboration between PricewaterhouseCoopers and the National Venture Capital Association. It is based on data from Thomson Reuters. This model also includes four stages:

- **Seed/Start-Up Stage.** *The initial stage. The company has a concept or product under development, but it is probably not fully operational.*
- **Early Stage.** *The company has a product or service in testing or pilot production. In some cases, the product may be commercially available. The company may or may not be generating revenues.*
- **Expansion Stage.** *Product or service is in production and commercially available. The company demonstrates significant revenue growth, but may or may not be showing a profit.*
- **Later Stage.** *Product or service is widely available. The company is generating on-going revenue; probably positive cash flow. More likely to be, but not necessarily profitable. May include spin-offs of operating divisions of existing private companies and established private companies.*

The data and analysis presented in this thesis follow an original definition for hybrid growth stages. This definition draws on both sources described above, as well as on my own experience managing start-up companies and my understanding of the special characteristics of hybrid organizations. Figure 1-2 shows the link between the “Investment Phases” and what I call “Strategic Phases.”

Figure 1-2 – Developmental Stages

Investment phases:

Source:	Stage 1	Stage 2	Stage 3	Sage 4
Engineering Your Start-up	Seed Financing	Early Stage Finance	Expansion Financing	IPO/ Acquisition/ Buyout Financing
MoneyTree™	Seed/ Start-up stage	Early Stage	Expansion Stage	Later Stage

Strategic phases:

Practitioner Experience	Proof of Concept	Take-off	Accelerated Growth	Expansion
Duration expected (years):	1-3	+2-10	+2-10	Not determined

The definitions of each of the four “Strategic Phases” for hybrid development are as follows:

- **Proof of Concept.** The company is testing a product and a business model in the market. In non-technical companies, some sales may occur during this phase as the company tests demand for the original products. The typical duration of this stage is one to three years.
- **Take-off.** The company has achieved some market success. The product and the business model tested well. Now is the time to scale-up the business to a sustainable level. The organization may, however, face critical constraints in terms of capital, fixed assets, and people. The company may take advantage of initial demand and/or may face great challenges to delivery. The business model will likely be “stressed” and the company may struggle to adapt to the market. This phase can last from two to 10 years.
- **Accelerated Growth.** The company has been able to scale-up the business and demand has proved to be strong enough to produce significant growth rates, often in the double digits. Rapid growth has, in turn, made it necessary for the organization to find new sources of capital. This phase can last from two to 10 years.
- **Expansion.** A new driver of accelerated growth is being pursued by the company, either because the company’s initial growth acceleration will soon begin to stagnate, or because other growth options have been presented to the company. There is no particular limit to this phase, although an organization may reach “maturity” – after which the growth rate can substantially decrease.

These definitions of hybrid growth phases will be used when I consider how tensions originate and evolve within hybrid organizations.

A Key Challenge for Hybrid Organizations: Scaling Up

While there are clear advantages to the hybrid model, these organizations face a fundamental challenge: in order to have a significant positive impact on society, hybrid organizations must reach a critical mass – either through growth or through replication. Thus far, a few hybrid organizations have provided inspiration for society and proof-of-concept for other organizations – but the overall impact of hybrids thus far has been a drop of water in a vast ocean. It is still unclear whether hybrids will have a significant impact on three serious societal problems: (i) collective habits associated with how products and services are consumed today (i.e. a culture of “more is better”); (ii) the rate of natural resource degradation caused by production activities; (iii) the rate of ecosystem regeneration through activities that promote positive environmental effects (Sterman, 2011). It therefore remains to be seen whether these organizations will lead to the deep and lasting societal change envisioned by “conscious capitalism” (Mackey, 2010) or by a “regenerative economy” (Senge et al., 2008).

Even the well-known and successful mission-driven businesses are dwarfed by the traditional corporations with which they compete. Based on revenues and on employment, many are just 0.2% to 3% of the size of their profit-driven peers, as shown by Table 1-2.

Table 1-2 – Hybrid Organizations vs. Traditional Corporations figures

	Revenues (USD MM)			# of employees	
	2008	2009	2010	2010	
Whole Foods	7954	8032	9006	45300	Sources: - Yahoo Finance (WholeFoods, WalMart, Clorox, Green Mountain, Nestle) - Danone Press Release, 2010 Full-Year Results (Feb. 2011) - Company's websites (Seventh Generation, Stonyfield Farm)
WalMart	378799	404374	408214	2000000	
% WF/WM	2.1%	2.0%	2.2%	2.3%	
Seventh Generation	140	136	164	109	Notes: - Seventh Generation employees based on 2009 figures - Nestle figures based on NESR.DE stock - Exchange rate Dollar/Euro = 0.7 for Danone revenues conversion - Stonyfield employees estimated based on an interview with a Stonyfield employee
Clorox	5273	5450	5434	8300	
% SG/Clorox	2.7%	2.5%	3.0%	1.3%	
Green Mountain	492	786	1357	2380	
Nestle	103086	100579	NA	281000	
% Green Mountain/Nestle	0.5%	0.8%	NA	0.8%	
Stonyfield Farm	NA	250	352	500	
Nestle	103086	100579	NA	281000	
Danone	NA	21403	24300	NA	
% SF/Nestle	NA	0.2%	NA	0.2%	
% SF/Danone	NA	1.2%	1.4%	NA	

Given the differences of scale, one might ask which has greater impact: developing new organizations which embed the triple bottom line as part of the business model, or changing the way traditional large corporations do business? Both approaches involve trade-offs: Large companies have difficulty implementing structural changes, yet incremental changes can have a widespread impact. Small organizations can be nimble in adopting new ways of operating, but may not grow fast enough to alleviate large-scale problems. Is it possible to have the best of both worlds if small hybrid organizations are able to pilot new ideas – which are eventually taken up by traditional corporations and rolled out at scale?

Many questions remain, yet hybrid organizations serve as useful examples of new ways to organize productive activities to achieve socially meaningful results. For this reason, a case study approach can be useful. Once the impact that hybrid organizations can have on a small scale are understood, we can explore the ways hybrids might eventually have a broader impact: by scaling-up their operations, replicating until a critical mass of hybrids exists, they can inspire or raise competitive pressure to change the way mainstream organizations operate.

Case Selection and Analysis

This thesis is based on four case studies. These cases help identify the strategic growth phases of hybrids, the challenges experienced by the organization during each phase, and how each specific company overcame these challenges. I recognize that some of the strategies, tactics, and (re)actions adopted may be company- or industry-specific, but my objective here is to draw out of the cases some generalizable lessons.

As I will show, a handful of hybrid organizations have achieved enough scale to challenge mainstream competitors. Three of the four case studies explored in this thesis are well-known American companies that are often cited as examples of “how to make money and do good”: Seventh Generation, Green Mountain Coffee Roasters and Stonyfield Farm. The fourth case was selected from outside the US: Mundo Verde, a mission-focused Brazilian company that has achieved significant growth in the last decade and was acquired two years ago by a Brazilian investor group.

The cases were built from the available literature, company documents, and personal interviews. The level of information available for each organization is somewhat different. Table 1-3 identifies specific sources used for each case:

Table 1-3 – Case Study Sources

Source:	Seventh Generation	Stonyfield Farm	Green Mountain	Mundo Verde
Secondary	- Cases - Articles - Books - Websites	- Cases - Articles - Books - Websites	- Cases - Articles - Books - Websites - Company documents (public)	- Articles - Websites
Primary	- 1 interview (2 people)	- 1 interview	- 1 interview - Internal project	- 3 interviews - Company documents (confidential)

In this thesis, I argue that the recent literature of hybrid organizations does not take into consideration the different stages of a company’s life-cycle, and that much more learning is needed on how to deal with the challenges faced by such organizations during each stage of their development.

The cases – which I present and analyze in Chapter 3 – illustrate how hybrid organizations have challenged certain traditional assumptions of how a business operates. Hybrid organizations can be an inspirational model to promote change, including change in traditional corporations. I believe if they can grow (in numbers and in size), they will be able to multiply the benefits they are promoting.

The remainder of this thesis is organized as follows: Chapter 2 provides a broad overview of the literature on hybrid organizations; Chapter 3 presents the case studies; Chapter 4 concludes by exploring the general lessons that emerge from the cases and suggests areas for future research.

CHAPTER 2 – LITERATURE REVIEW

“We are not going to return – at least in the near future – to an (apparently) benign era of more straightforward organizational boundaries.”

Billis, 2010, p. 11

The literature on hybrid organizations is fairly recent, but many writers see the trend as significant and predict that it will be long-lasting. In this chapter, I first review key definitions of hybrid organizations from the literature, and specify the type of hybrid organization relevant to this thesis. I then describe some key characteristics common to hybrids, and show hybrid organizations on a spectrum between traditional for-profit businesses and traditional non-profit organizations. Finally, I explore in some detail the origins of the hybrid form, which lie primarily in attempts over the last several decades to “reinvent” capitalism.

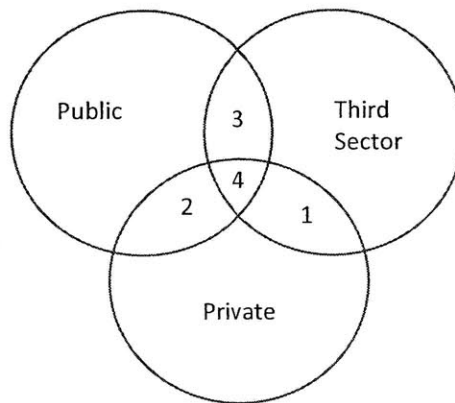
Definitions of Hybrid Organizations

The business literature has used the term “hybrid organization” for some time, but not always with a consistent meaning. In order to focus clearly on what the term signifies within the context of this thesis, it is important to identify other valid definitions that are *not* within the scope of my research.

- In a broad sense, the term “hybrid” has been used to indicate a “new great way to manage a company” within the context of a particular business era. During the 1990s, for instance, the business press labeled as hybrid organizations those companies moving toward a “new model” that was networked, flat, flexible, diverse, and global – while retaining some characteristics of the “old model” (Ancona *et al.*, 2003). This is not the sort of hybrid that I have in mind.
- Another type of “hybrid” combines multiple organizations with different legal forms under one roof. For example, a technology-based company (such as a biotech start-up) might decide to incorporate as a business, and, at the same time, create a nonprofit organization that conducts research in the early stage of product development. This “dual form” structure helps resolve the limitations of each model (e.g., a corporation might not receive grants from foundations, yet a nonprofit cannot offer equity to a private investor). I do not examine dual forms in this thesis.

In the context of this thesis, as in the much of the recent business literature, the term “hybrid organizations” represents those organizations that attempt to combine characteristics of the three sectors: “Public” (government), “Private” (business) and the “Third Sector” (civil society / NGOs). While hybrids draw on multiple sectors, they attempt to blend diverse elements together in a holistic way – creating a single new organization with specific proposes. From this perspective, hybrid organizations are a fusion of two or three of these “pure” organizations types (Billis, 2010). The picture below shows the possible combinations:

Figure 2-1 – Hybrid Organization “Possibilities”



1 – Private/Third Sector 2 – Private/Public 3 – Public/Third Sector 4 – Private/Public/Third Sector

Source: adapted from (Billis, 2010, p. 57)

In the case of this thesis, the particular form of hybridism that I am investigating is labeled as “1” in Figure 2-1; it is the combination of the Private Sector and the Third Sector.

While various sector combinations form a hybrid organization, some academics argue that each hybrid has “roots” in one particular sector – in other words, they are in some fundamental sense “from” one sector, but adopt characteristics of one or more other sectors. This view is presented in the book *Hybrid Organizations and the Third Sector – Challenges for Practice, Theory and Policy* edited by Billis. On the origins of hybrids, Billis says:

Organizations have ‘roots’ and have primary adherence to the distinctive principles – the ‘rules of the game’ – of just one sector.

(Billis 2010, p. 3)

Within this thesis, I specifically focus on hybrid organizations that have roots in the private sector, and have taken on some characteristics from the NGO sector – such as a focus on a social or environmental mission. Other sector combinations and other ‘roots’ are also valid and valuable, but my primary interest is in understanding how the private sector can give rise to transformative change – because today’s private sector is larger and more powerful than ever before.

Some of the main characteristics of the hybrid organizations of interest in this thesis are listed in the *Social Enterprise Typology* report written by Alter (2004, p. 8):

- *Use business tools and approaches to achieve social objectives*
- *Blend social and commercial capital and methods*
- *Create social and economic value*
- *Generate income from commercial activities to fund social programs*
- *Market-driven and mission-led*
- *Measure financial performance and social impact*
- *Meet financial goals in way that contributes to the public good*
- *Enjoy financial freedom from unrestricted income*
- *Incorporate enterprise strategically to accomplish mission*

Boyd et al. (2009, p. 6) provide a useful description of the overall model and mission of such business/NGO hybrids with special emphasis on the environmental role that these organizations can have:

The business model of this type of organization strives to have a positive impact on the environment, not just to minimize or reduce negative impact. Hybrids are different from traditional for-profit and nonprofit organizations because their primary motivation is to use business and market forces as tools to solve the world’s largest challenges.

On the right side of the spectrum are entities oriented more toward profit, with the traditional company depicted on the far right and increasing degrees of hybridization represented closer to the middle. Traditional for-profits are seen as pursuing shareholder returns as their ultimate objective, within regulatory and legal boundaries. One step to the left, a “Corporation Practicing Social Responsibility” can be engaged with the community and other environmental projects, but these do not challenge the core business of the firm (e.g. a mining company might engage in many social projects with the community, but its primary activity does not promote a better environmental condition). Even further to the left, and close to the middle of the spectrum, a “Socially Responsible Business” is a for-profit company that works with dual objectives – earning profit for shareholders and contributing to a broader social good. Companies in this category have their social mission embedded in their core mission.

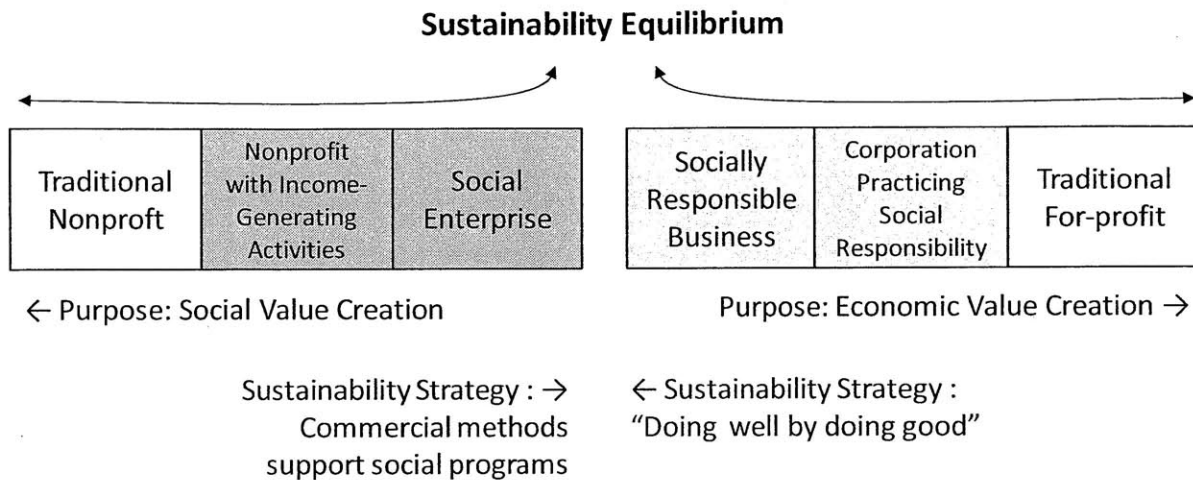
On the left side of the spectrum are organizations that are primarily mission-oriented; these tend to adopt a “nonprofit” legal status as their organizational form. Pure nonprofits are depicted on the far left side of the spectrum, with increasing degrees of hybridization toward the middle. In general, hybridization involves the search for long-term economic sustainability through income-generating activities. Just one step removed from a Traditional Nonprofit, a “Nonprofit with Income-Generating Activities” looks at such activities as a complement to a fundamentally traditional nonprofit model. Further to the right, the “Social Enterprise” considers income generation at the core of its strategy. About the Social Enterprise, Alter says:

It has a long-term vision and is managed as a going concern. Growing and revenue targets are set for the activity in a business or operational plan. Qualified staff with business or industry experience manages the activity or provide oversight, as opposed to nonprofit program staff.

(Alter, 2004, p. 10)

There is a discontinuity in the center of the spectrum. While there is a range from traditional nonprofit (NGO sector) to for-profit (private sector), there is a significant difference in the ethos and activities of the hybrid organization just to the left of center, whose main purpose is social impact, and the hybrid organization just to the right of center, whose primary purpose is shareholder return. Although for-profit hybrids strive for a better balance of the triple bottom line than traditional for-profits, the economic bottom line is still primary. This division is made more explicit in Figure 2-3.

Figure 2-3 – Hybrid Spectrum Showing Discontinuity



Source (Alter, 2004, p. 8)

New Visions of Capitalism

As I noted earlier, the emergence of the hybrid model is relatively recent. Most of the literature about hybrid organizations has been published only in the last decade. But the original conditions for the emergence of hybrids dates back nearly 40 years – to the United Nations (UN) Stockholm Conference that took place in 1972. This conference exerted great influence on environmental legislation, first in Europe and then in other parts of the world. The need for corporate compliance with new environmental regulations has led to a wider discussion about the role of the corporation in society.

At the macroeconomic level, in the 1980s, discussions about what kind of capitalism was best for a society began bubbling up, and “softer” versions of capitalism were described and promoted. An example is found in the book *The Green Capitalists*:

Perhaps, what we are seeing is the emergence of a new capitalism appropriate to a new millennium, in which the boundary between corporate and human values is beginning to dissolve. It is not clear from the results who won the nineteenth-century argument about capital and labor. Socialism, as an economic theory, though not as a moral crusade, is dead. The argument now is about what kind of capitalism we want.

(Elkington & Burke, 1987, p. 252; emphasis added)

One of the most thoughtful books in this field is **Natural Capitalism** (Hawken, Lovins, & Lovins, 1999). The authors propose the need for a restoration of “natural capital.” This is in contrast to the “eco-efficiency approach” which would merely decrease environmental damage, without providing a definitive solution for natural depletion. The authors believe it is a mistake to view priorities and policies as specifically economic, environmental and social:

The best solutions are based not on tradeoffs or “balance” between these objectives but on the design integration achieving all of them together – at every level, from technical devices to production systems to companies to economic sectors to entire cities and societies.

(Hawken, Lovins, & Lovins, 1999, p. xi)

Other authors have taken a more focused approach to “reinventing capitalism” by examining the role of the corporation in society. An example is Neville’s (2008) **Conscientious Capitalism** which is defined as “a practice of individual and organizational behaviors that shift corporate outcomes toward positive deviance in today’s business world.” This means going “beyond compliance” with regulatory requirements. The three basic assumptions of conscientious capitalism are: (1) “interconnectedness” (between individuals, businesses, and global society); (2) “holistic wealth” (not exclusively a financial matter); and (3) the relevance of “multiple generations of time” as parameters for business decisions. The argument is that companies who “do good” will also do well financially.

Another reinvention of capitalism is called **Capitalism 3.0**. This new brand of capitalism is associated with the phrase “blended values” and is sometimes used as a label for hybrid organizations. Emerson and Bonini promote this form of organization in the following way:

What’s needed is the next iteration of capitalism — a new model that stems from an understanding that our common goal should be to maximize our value potential. The model should be based on a common understanding of what value is (to our minds, it should be a blend of economic, environmental, and social factors). And, it should be implemented with the common understanding that maximizing value, regardless of whether one is the “customer of” or the “investor in” the entity, requires taking all three elements into account.

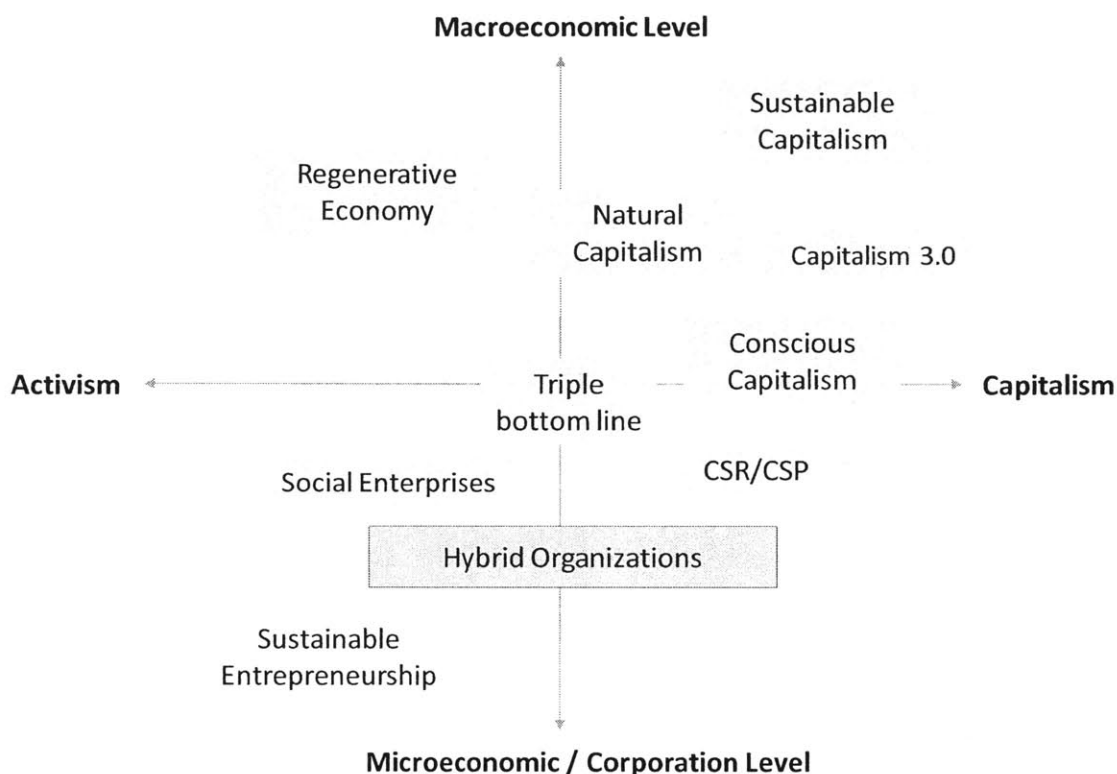
(Emerson and Bonini, 2005, p.26; emphasis added)

Scharmer (2010) also uses the expression “Capitalism 3.0” but with a different definition. He calls it “[the] intentional and inclusive ecosystem economy that upgrades the capacity for collaboration and innovation across all sectors and systems.” He sees seven distinct points of intervention as necessary to make possible the achievement of this new vision, among them the capacity to think about the product lifecycle (“earth-to-earth”), the development of new organizational and leadership capacities connected to the environmental challenges faced by our society, and the redesign and redirection of the flow of capital to promote health and well being. Scharmer’s vision is to go beyond shareholder-driven objectives toward a “shared eco-system awareness-driven” economy. Senge, who uses some of the same terms as Scharmer, employs the expression “**Regenerative Economy**” to describe what might replace the “old” industrialized model of organization (Senge et al., 2008).

On the civil society side of the organizational spectrum, there are questions about how environmental and social activists should behave in order to achieve their desired results. Can they offer a positive agenda to make possible environmental protection and poverty elimination? In recent years, some authors differentiate among activist groups according to their willingness to collaborate with the private sector. The “dark green NGOs” (e.g. Rainforest Action Network, Friends of the Earth) do not offer clear agendas for how capitalism should generate and distribute its wealth – and do not generally work with companies. The “bright green NGOs” (e.g. Environmental Defense Fund, World Wildlife Federation) do work with companies, often by seeking commitments from large organizations to develop and share best practices for economic development and ecological sustainability (Hoffman *et al*, in press, 2011).

Figure 2-4 puts the different approaches on a two dimensional matrix. The horizontal axis represents the capitalism vs. activism spectrum; the vertical axis represents the level of abstraction from microeconomic to macroeconomic. The approaches already described as “new visions of capitalism” are positioned in the upper part of the matrix; approaches positioned in the lower part of the matrix are described in the section that follows.

Figure 2-4 – Hybrid Organizations Big Picture



In the very middle of the matrix is the Triple Bottom Line (TBL) approach suggested by John Elkington, author of *The Green Capitalists* (1987) and *Cannibals with Forks* (1998). Elkington argues in the latter book that it is urgent for corporations to consider the balance of three “bottom lines” (economic prosperity, environmental quality and social justice). Reasons to adopt a triple bottom line approach vary from the practical (an environmental crisis represents a risk to corporate resources) to the moral (a broader range of human and societal values are needed). Elkington also suggests that business is becoming more central in all societies, and business is gradually being held to account for problems that in the past were considered political – and were therefore seen as the responsibility of governments.

Theoretical Pillars of Hybrid Organizations

At the level of the corporation (i.e. the lower half of Figure 2-4), the literature on for-profit hybrid organizations has three main pillars: (1) Corporate Social Responsibility; (2) Social Enterprises; and (3) Sustainable (or “Green”) Entrepreneurship. I describe each below.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) corresponds to self-regulated practices that corporations adopt that go beyond regular or local compliance standards. CSR promotes high ethical standards, and seeks to meet the legitimate needs of the environment, consumers, employees, and communities – all of whom are affected by the corporation's actions.

The CSR literature is extensive and brings many different and subtle distinctions. According to (Locke, 2003), these can be summarized into four models, based on the *motivation behind* and the *beneficiaries of* each perspective. The first model, called "Minimalist," is a shareholder-driven model articulated by Friedman (1970): "the social responsibility of business is to increase the wealth of shareholders." It is also the model espoused by Levitt (1958), who wrote about "the dangers of social responsibility" and emphasized that corporations already play a constructive social role when they are efficient, create jobs and pay taxes. In the "minimalist" model, any adoption of social goals would lead to inefficiencies.

The second model proposed by Locke is the "Philanthropic" model, which is essentially an extension of the minimalist view. It adds that the company, including its managers and employees, can engage in philanthropic activities. These activities, however, are not considered relevant to the core business of the company; they are motivated separately by moral or ethical considerations.

A third model, called "Encompassing," sees companies as responsible not only to shareholders but also to other groups affected by the company's practices (employees, consumers, suppliers, etc.). Such groups are called "stakeholders." This is an instrumental perspective; a company would only engage in CSR practices if it could profit from them. For instance, Porter and Kramer (2007) say that business could gain a competitive advantage by using CSR "strategically," noting:

"CSR can be much more than just cost, constraint, or charitable deed. Approached strategically, it generates opportunity, innovation, and competitive advantage for corporations – while solving pressing social problems"

(Porter & Kramer, 2007, p. 1).

If CSR is instrumental, then the question of whether it "pays off" financially is a very important one. Many researchers have explored this question, but with mixed results. Boyd et al. (2009, p. 12) point out

that some writers suggest a trade-off between social and financial success, while other writers believe that no such trade-off exists. At this point in time, there is no consensus about the relationship; some studies claim a positive relationship and others claim a negative or neutral one (Salzmann et al., 2005).

Locke’s fourth model is the “Social Activist” model. According to this view, corporations should go beyond instrumental stakeholder management and aim to achieve broader societal goals. Those who embrace this model see businesses as potential societal change makers – with moral obligations to operate in a way that helps less fortunate citizens, and to consider the holistic impact of their activities.

Hybrid organizations fit within the “Social Activist” view of CSR, as depicted in Figure 2-5:

Figure 2-5 – “Models of Corporate Social Responsibility”

		<u>Motivation</u>	
		<i>Instrumental</i>	<i>Ethical/Moral</i>
<u>Beneficiaries</u>	<i>Shareholders</i>	Minimalist	Philanthropic
	<i>Stakeholders</i>	Encompassing	<div style="border: 1px solid black; border-radius: 50%; padding: 5px; display: inline-block;"> <i>Hybrid Organizations</i> </div> Social Activist

Source: Adapted from Locke (2003, p. 40)

Because CSR deals with the responsibilities of the corporation, and with the relationship between social and financial success, CSR practice is one of the antecedents of the hybrid organization. However, hybrid organizations are more than simply the employment of CSR practices – “socially responsible” practices are embedded in the core of the business model of hybrids.

Social Enterprise

Alter (2004, p.5) defines a social enterprise as “any business venture created for a social purpose – mitigating/reducing a social problem or a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business.” Consistent with this broad definition, Bornstein & Davis (2010, p. 2) argue: “Social entrepreneurs have always existed. But in the past they were called visionaries, humanitarians, philanthropists, reformers, or simply great leaders.”

Currently, the practice of social enterprise is largely taken on by nonprofit organizations, but there is an increased focus on financial sustainability – in order to scale up and become less reliant on donations. This synergy of social and financial performance is at the heart of social enterprise. As Alter states: “Social enterprise enables nonprofits to expand vital services to their constituents while moving the organization toward self-sufficiency” (2004, p. 1).

The hybrid spectrum presented earlier includes companies practicing CSR and also Social Enterprises. The two literature streams that deal with these types of organizations, however, are separate and distinct. While CSR is assumed to apply to for-profit organizations, Social Enterprise is generally applied to nonprofits. And while CSR tends to refer to both social and environmental concerns, there is a lack of emphasis within Social Enterprise on the environmental dimension.

Table 2-2 consolidates the literature review put together by Boyd et al. (2009) concerning social enterprises. The finding of relevance here is that some nonprofits achieved success by undertaking commercial endeavors; many social enterprises are thus profitable and sustainable.

Table 2-2 – Social Enterprise Literature

Themes and Focus	Authors
Focuses solely on nonprofit organizations	Dees 1998b; Dees et al. 2004; Emerson and Twersky 1996; Hall 2005
States that social enterprises can be formed only through nonprofit organizations	Taylor <i>et al.</i> 2000
Views social entrepreneurship simply as good business practice within nonprofits	Reis and Clohesy 2001
Questions whether social enterprises are good for	Casselman 2007; Foster and Bradach 2005

nonprofit organizations or addressing social issues	
Definition of social entrepreneurship and social enterprises	Boschee and McClurg 2003; Dees 1998b
Case studies	Alvord et al. 2004; Boschee 2001; Emerson and Twesky 1996; Massarsky and Beinhancker 2002; Shaw et al. 2002; Websites on social entrepreneurship (examples: Ashoka and Schwab Foundation for Social Entrepreneurship)

Source: Adapted from Boyd et al. 2009, pp. 15-17

Sustainable Entrepreneurship

Sustainable entrepreneurship, sometimes referred to as “green” entrepreneurship, can be understood as the creation of new business with a focus on delivering environmentally friendly products and services. “Ecopreneurs,” “Ecopreneuring,” “Ecopreneurship” and “Green” are labels for this sort of entrepreneurship. What they have in common is the use of traditional businesses skills and knowledge to accomplish social and environmental goals (Boyd et al., 2009).

The understanding of sustainable entrepreneurship is a key element in the formation of for-profit hybrid organizations. The vision and mission conceived by those entrepreneurs at the time of the creation of their organizations is one of the basic elements of the hybrids. Organizational values will also be embedded at this point, and these entrepreneurs will shape the culture of such organizations. Thus, this is a very special moment in the development of a hybrid’s “DNA.” Table 2-3 identifies relevant research in this domain.

Table 2-3 – Sustainable Entrepreneurship Literature Review

Themes and Focus	Authors
Starts with the traditional definition of entrepreneurship as value creation through innovation	Drucker 2006; Schumpeter 1989
Views sustainable entrepreneurs as one category of entrepreneurs with little difference between them and traditional entrepreneurs	Dees 1998a
Value-based sustainable enterprises as a different breed requiring a unique perspective	Brown and NetLibrary Inc. 2005; Parrish 2005
General sustainable entrepreneurship recent researches	Abrahamsson 2007; Cohen and Winn 2005; Crals and Vereeck 2004; Keijzers 2002

<p>Different terminologies:</p> <ul style="list-style-type: none"> - Ecopreneur - Ecopreneuring and ecopreneurship - Green entrepreneur - Sustainability entrepreneurship or sustainopreneurship 	<p>Emerson and Twersky 1996 Bennett 1991; Blue 1990; Dixon and Clifford 207; Schaper 2002, 2005 Berle 1991 Abrahamson 2007; Gerlach 2003a,b; Hockerts 2003; Schaltegger 2000</p>
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Source: Adapted from (Boyd *et al*, 2009, pp. 14-15)

The literature on sustainable entrepreneurship is valuable for understanding the process of the creation of hybrid organizations. But, its focus is mainly on the initial phase in the organizational life-cycle; it does not fully explore the later stages of an organization's development.

The chapters that follow deal with hybrids both at an early stage, when entrepreneurship is an appropriate frame, and also at later stages, when growth and scaling-up are more pertinent. Only through understanding the full life cycle of these hybrid organizations can we understand their potential as a harbinger or carrier of a new form of capitalism.

CHAPTER 3 – CASES

“Restorative entrepreneurs may not be as mediagenic as Wall Street tycoons, because their companies will be smaller, quieter, and less glamorous. However, it is the former who challenge the economic superstitions and fantasies that determine our concept of what business should be.”
(Hawken P. , 1993, p. 14)

As noted in the previous chapter, the emerging literature on hybrid organizations has not sufficiently addressed the dynamics of organizational growth. To address this gap, I looked for examples of hybrid organizations that had experienced strong growth, enabling at least a retrospective view of the dynamics involved. Thus, the size and age of the organizations were important. In the end, I chose to examine four hybrid organizations in depth, each representing different ownership characteristics and growth strategies. The four cases are:

- **Seventh Generation** is a leading brand of eco-friendly household and personal care products that has blended different growth strategies during its history. Today, the company is owned by venture capital and private equity firms and is still expanding existing businesses.
- **Stonyfield Farm** is an organic yogurt company that grew substantially through a strategic partnership with a big player in the sector. The majority of its shares were acquired by Groupe Danone but the company continues to operate independently with the original entrepreneur at the helm.
- **Green Mountain Coffee Roasters** leveraged the stock market and closed a significant number of acquisition deals in the past few years to fuel its growth.
- **Mundo Verde** is a Brazilian retailer of food and other natural products. Two years ago, the original entrepreneurs sold their stake to a private equity firm and new entrepreneurs have joined the company leadership.

Mundo Verde was included to bring a “new geography” to the analysis of the cases since the first three represent a group of well-known companies based in the United States. Additionally, I thought it was important to look beyond the current literature on hybrids since most of this research is based on examples from the United States.

Three of my cases are in the food industry (Stonyfield, Green Mountain, and Mundo Verde). The substantial growth experienced by the natural and organic food sector has its roots in the 1980's. These companies were all created during that decade, and each originated in small towns or regions not known for fostering entrepreneurial activities. These cases were also selected for their fit to the "Socially Responsible Business" definition as discussed in Chapter 2, and each embeds a very strong environmental commitment into the company's mission.

Case Methodology

In using case studies to explore the research questions put forward by this thesis, I followed two different approaches. The first approach was applied for Seventh Generation, Stonyfield Farm, and Green Mountain, and relied on published materials and interviews. In this approach, the following steps were applied:

Step 1. Identification of the case and validation.

Step 2. Research of general secondary information about the company.

Step 3. Analysis of the information gathered using "Hybrid Organization's Sustainability-Driven Business Model" and the company's developmental stages.

Step 4. Research of specific secondary information (cases, articles, books, company documents).

Step 5. Interviews with people knowledgeable about the company (in the past or currently) for clarification of specific questions.

Step 6. Identification of key facts/insights in each case.

Step 7. Writing the case studies.

It was necessary to take a different approach for Mundo Verde due to the scarcity of publicly available documentation. Fortunately, I was able to secure access to key people in the company. In this case, the following steps were applied:

Step 1. Identification of the case and validation.

Step 2. Interviews with people knowledgeable about the company (in the past or currently).

Step 3. Analysis of the information gathered using "Hybrid Organization's Sustainability-Driven Business Model" and company's developmental stages.

Step 4. Research of specific secondary information.

Step 5. Identification of key facts/insights in the case.

Step 6. Writing the case study.

CASE – SEVENTH GENERATION

Table 3-1 – Seventh Generation Overview

<i>Year founded / Founders:</i>	In 1988, Alan Newman acquired Renew America catalog business. In 1989, Jeffrey Hollender joined the company.
<i>Annual Revenue⁽¹⁾:</i>	\$ 136.5M (2009)
<i># of Employees⁽²⁾:</i>	106 (2009)
<i>Headquarters:</i>	Burlington, Vermont (USA)
<i>Sector:</i>	Household and personal care products
<i>Vision / Mission⁽³⁾:</i>	<p>“In our everyday deliberation, we must consider the impact of our decisions on the next seven generations.”</p> <p>Company’s “global imperatives”:</p> <ul style="list-style-type: none"> • Restore the Environment • Inspire Conscious Consumption • Create a Just and Equitable World
<i>Core values⁽³⁾:</i>	<p>Company’s operating principles:</p> <ul style="list-style-type: none"> • Systems Thinking • Radical Transparency • Influence Beyond Our Size
<i>Characteristics of Hybrid Organization⁽⁴⁾:</i>	
<ul style="list-style-type: none"> • Donates 10% of pretax operating profits to support organizations working for positive change • Prefers natural and non-toxic ingredients (normally more expensive) rather than synthetics to develop products that are “as green as possible” • Established a company transparency policy, which includes listing all ingredients used in products • Conducts annual “sustainable audits” to create transparency in supply chain management • Commitment to company values includes a Values and Operating Principles Committee (VOPS) and recruitment of staff based on values 	

Sources: (1) Hollender (2010), for 2007 revenue, and company website www.seventhgeneration.com for revenue growth rates 2008 and 2009; (2) and (3) company website www.seventhgeneration.com; (4) thesis analysis

Seventh Generation sells an array of personal care and home cleaning products – from toilet paper and glass cleaner to hand lotion and diapers – and attempts to minimize these products’ harm to human and the environment. Seventh Generation has a public vision: to be “a company with the authority to lead, the creativity to inspire, and the will to foster positive social and environmental change” that will “make the world a better place” through “sustainability, justice, compassion and an earth restoration” (Seventh Generation, 2011).

According to the founders, Seventh Generation’s inspiration comes from The Great Law of the Iroquois Confederacy which states that “in our everyday deliberation, we must consider the impact of our decisions on the next seven generations” (Seventh Generation, 2011). In 1988, when Alan Newman

acquired the Renew America catalog business, and recruited Jeffrey Hollender one year later, they envisioned creating a “purpose-driven” company with the impetuous “to save the world” and ensured that their vision, mission, values, and operating principles were clearly reflected in the firm’s business strategy.

At Seventh Generation, considerable attention was devoted to branding, as the company needed to develop a market position that would clearly communicate its differentiated value proposition: it offers household products that are “Healthier for You and the Environment” than other companies. By doing this, Seventh Generation was being true to its founding principles and also responding to two important market opportunities: (i) demand: specifically, baby boomers interested in buying environmentally friendly household products as one way to live healthier as they aged, as well as the growth of the LOHAS (Lifestyles of Health and Sustainability) segment, a group of consumers committed to sustainable lifestyles and willing to pay higher prices to be consistent with their values; (ii) distribution channels: the receptiveness of supermarkets and specialty stores (Whole Foods, etc.) to offer products that would allow them to differentiate themselves from the mega-discount stores (Walmart, etc.) and earn a higher profit margins.

Seventh Generation’s business case is based on the design and packaging of products that enables its customers the opportunity to “buy” health, “speak” their identity, and contribute to a better world. Business success is sought as a means to prove sustainability as a viable way for companies to do business. Details of its mission-driven business proposition are in Table 3-1.

Company history

Table 3-2 presents the history of Seventh Generation.

Table 3-2 – Seventh Generation – Timeline

External events	Dates	Organizational milestones
	1988	Alan Newman acquires Renew America catalog business.
	1989	Jeffrey Hollender joins the company; Raises \$0.85M by selling 54% of the company to 40 different investors

	1990	Raises another \$5M
US economic recession	1991	Faces huge sales gap: Brings in 30% (\$6M) of total sales forecasted (\$20M)
	1992	Newman takes a 6 months sabbatical and company shareholders do not let him return
	1994	IPO: \$7M (\$5/share) raised
	1995	Direct Sales Spin-off: \$1.3M raised, acquired by Gaiam; Decides to focus on the wholesale business
	1999	Purchases back public stocks; Raises \$4.6M of private equity; stock acquisition requires only \$3M
	1998-99	Repositions the brand as "Healthier for you and the Environment"
	2002	Enjoys its first profitable year of operations
	2003	Publishes first corporate responsibility report
	2005	Expands into the diaper business (a few years later new mothers would become the company's main customers); New vision statement published which enlarges company's responsibilities
	2006	Faces "the baby wipes" supplier transparency issue
Clorox launches Green Works Cleaners (Jan/08) Clorox Green Works Cleaners take the lead of the "natural" green cleaners segment (Nov/08)	2008	Reports 4% of the total household cleanser market; Starts selling at Walmart's Marketside concept retail centers
US economic recession	2009	New CEO (Chuck Maniscalco) is hired
	2010	Announces strategic partnership with WalMart
	2010	Co-founder (Jeffrey Hollender) and other original key directors (Gregor Barnum) are fired
	2011	CEO Chuck Maniscalco is fired; John Replogle, former Burt's Bees CEO, is hired as new CEO

Source: (1) 2B (7Gen) – Source CSR 2009 report (www.seventhgeneration.com); (2) (Green Biz, 2008); (3) (Seirreeni, 2008); (4) (Goldstein & Russo, 2006); (5) (Hollender J. , 2009)

NGO seeds in a new business

Seventh Generation started when the shareholders of Renew America, a wholesale catalog of natural products owned and managed by a Washington D.C. nonprofit organization, could not find a buyer for their catalog business and simply gave the business to Alan Newman. Newman was in charge of a company that provided marketing services to progressive and non-profit companies, including Renew America (Goldstein & Russo, 2006).

Jeffrey Hollender joined Newman about one year later, primarily to raise money. Before joining the Seventh Generation team, he had had a successful career in the audio book division at Warner Communication and had written *How to Make the World a Better Place*, a guide for how to live in a more sustainable way. This was a common theme for Newman as well. Hollender had more business experience than Newman and used his connections and reputation to attract investment for Seventh Generation (Goldstein & Russo, 2006).

In 1989, the first year under the new command, Seventh Generation generated approximately \$1 million in direct mail sales to early adopters of natural products. This result exceeded the founders' expectations and attracted outside investors. Seventh Generation raised \$0.85 million in 1989, effectively financing the company for the next four years (Goldstein & Russo, 2006). The company's fundraising history is summarized in the table 3.3.

Table 3-3 - Seventh Generation fund raising history

- From 1989 to 1993, the company raised money from private investors primarily in Jeffrey Hollender's network (\$0.85M in the first round in 1989 and \$5M in the second round in 1990).
- In 1994, the company held an IPO which raised another \$7M. Hollender justified the IPO in one of his books: "by 1993, I have run out of family members, friends, associates, doctors, dentists, mailmen, milkmen, and random strangers I can convince to invest in the company. As a last resort, unwilling to take funds from venture capital firms, we take Seventh Generation public at \$5.00 a share" (Hollender, 2009, p. 43).
- In 1995, the catalog business unit was sold to Gaiam for \$1.3 million, along with the assumption of \$500,000 in liabilities. Gaiam, a business specialized in direct mail sales, became a significant wholesale client and also paid \$100,000 per year to license the Seventh Generation brand to use on its mail order catalog. "Without the sale of the catalog and the subsequent revenue from Gaiam, it's unlikely that Seventh Generation would have survived" (Hollender, 2009, p. 44).
- In 1999, the directors of the company bought back its stock. Traded at \$0.70, the company bought it at a premium of \$1.30 per share. Seventh Generation obtained funding for this stock acquisition from a round of private equity fundraising, which secured \$4.6 million in capital (Goldstein & Russo, 2006).

Reaching accelerated growth pace

After initial rounds of investment, the company seemed to take off. Forecasted sales went up to \$20 million for 1991. However, macroeconomic conditions at the beginning of the 90's and overly optimistic expectations of the pace of growth undermined some of the company's early success and almost led to bankruptcy. Seventh Generation only reached 30% (\$6M) of its forecasted revenue in 1991 (\$20M) and was forced to lay off 50 employees (Goldstein & Russo, 2006).

The period between 1991 and 1994 proved to be very challenging, straining the founders' relationship and exposing a fundamental difference:

Newman still believed Seventh Generation should stay in the catalog business in order to provide a channel of distribution for small, green entrepreneurs who had no other means of reaching potential customers. Hollender, on the other hand, believed the best way to both grow the business and stay true to the company's mission of spreading sustainable business practices was to become a player in the mainstream marketplace. He wanted to build Seventh Generation as a solid brand and position it in natural foods stores as well as in mainstream grocery channels.

(Goldstein & Russo, 2006, p. 512)

In 1994, as a result of the differences over the previous three years, Newman asked for a six-month sabbatical. The board felt that he was not sufficiently interested in making money and did not allow him to return to the business. Once more, Hollender went to work on raising money to avoid insolvency. This time, the board decided to take the company public. Going public appeared to be the most socially responsible course of action since the board felt that no positive impact would result from letting the company disappear. The IPO generated \$7M and a modicum of hope (Goldstein & Russo, 2006).

In 1995, the company sold the catalog business unit and decided to focus its sales efforts on the retail market, targeting Whole Foods, a prominent new natural food store. Leveraging capital and a new sales strategy, the company finally took-off. According to Hollender (2009, p.43):

In many respects Whole Foods is the engine that not only saves us, but puts our company and brand in front of the hundreds of thousands of customers that today form the Seventh Generation Nation.

By the end of the 90's, Seventh Generation was developing a new approach to product positioning. They determined that consumers were not buying organic food because they were concerned about the environment per se; rather, they were worried about consuming pesticides. If the early customers of Seventh Generation bought its products to "save the world", the expansion of the company to the mainstream markets attracted consumers who were more worried about "saving themselves". Hollender continued this repositioning with cleaning products, changing the company's tagline from "Products for a Healthy Planet" to "Healthier for You and the Environment" (Goldstein & Russo, 2006).

From 1999 to 2008, Seventh Generation's Compound Annual Growth Rate (CAGR) was almost 33% and "[i]n 2002, after 14 years of losing money, the company enjoys its very first profitable year of operations" (Hollender, 2009, p. 45). During this period, Seventh Generation also increased the number of initiatives focused on realizing its core values. In 2003, the company published its first corporate report reinforcing the "transparency" value. In 2005, the company wrote a new vision statement expanding the company's social responsibilities. New internal programs were designed to improve "employee consciousness" that top managers felt would provide "clarity of purpose" to employees (Hollender & Breen, 2010).

In 2006, one of Seventh Generation's suppliers for baby wipes decided that it was too expensive to change their factory set-up and ingredients to produce Seventh Generation wipes. (Seventh Generation wipes had natural material in the composition while most standard baby wipes did not.) Customers noticed the change and felt betrayed by Seventh Generation (Goldstein & Russo, 2006). This incident stressed the challenges of maintaining a hybrid structure while sharing a supply chain with and being reliant on less environmentally conscious businesses.

In 2008, after an extended period of growth, traditional multinational companies like Clorox launched "green" cleaning products, increasing competition. In response, Seventh Generation shifted its communication to customers, emphasizing that the value proposition was not only about green products, it was also about an "overall green approach."

In an effort to stay competitive, Seventh Generation shocked some traditional customers when the company, as part of a marketing test, started selling its products at Walmart's Marketside retail centers. Only a few years before, Hollender had declared, "hell would freeze over before Seventh Generation

would ever do business with Walmart.” Hollender explained the company’s decision by saying: “We are not, however, about to put Seventh Generation’s products in Wal-Mart’s supercenters. Far from it. Our partnership with Marketside is akin to a software product that’s entering beta. It’s a small first step that’s very much under development.” Two years later, in 2010, Seventh Generation announced a strategic partnership with WalMart to sell in 1,500 WalMart’s supercenters (Fast Company, 2011).

Leadership crisis

After a long period of growth, the company’s sales decreased by 2.8% in 2009 (Seventh Generation, 2011). Competition and a lack of coordination with retailers to review product pricing in the middle of an economic crisis were the main reasons provided by Hollender to explain the drop in sales (Mitworld, 2009).

In 2008, Hollender considered the possibility of stepping down as CEO. For Hollender, the new CEO had to bring some of the competencies the company needed to reach its new strategic objectives: growing, becoming more profitable, and competing with the giants of the consumer packaged goods. According to Hollender (2010, p.2):

Profits are the score, not the game. But to fulfill the company’s mission, we had to come bigger and more profitable. We needed a CEO who would use our financial imperatives to fuel our social and environmental imperatives (...).

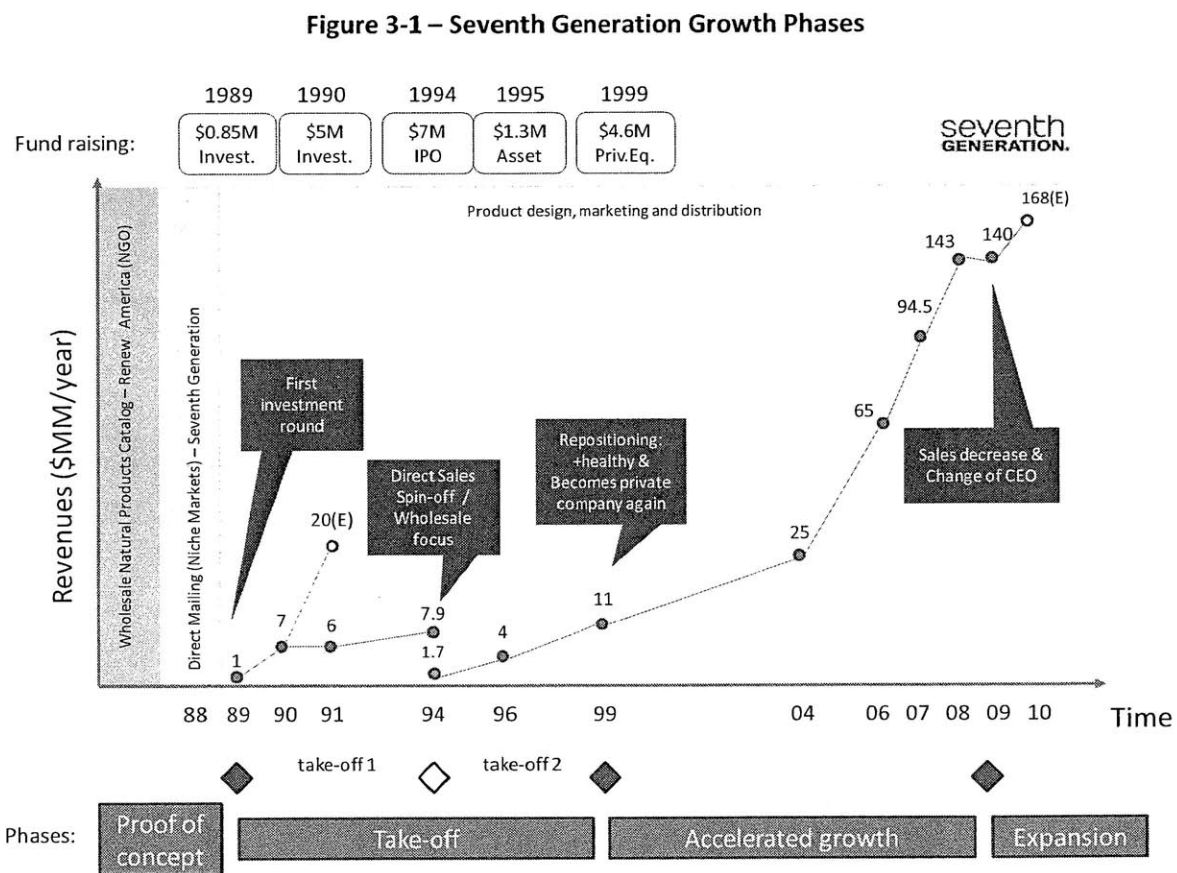
Chuck Maniscalco was selected in 2009 to replace Hollender after a long recruiting process. He had previously worked for Pepsi and seemed to have the credentials to lead a potentially high growth company (Hollender, 2010).

What seemed to be a smooth leadership transition turned out to be a new crisis for Seventh Generation. Two events are of particular note: First, founder and former CEO Jeffrey Hollender was fired in 2010. At that time, he was the “Chief Inspirational Officer,” a kind of symbolic role that rewarded him for his contributions to the company. The first decision occurred quietly, without public explanation, reaching Seventh Generation’s stakeholders only through blog posts. Hollender remained publicly silent about the underlying reasons for being fired. This incident created a PR problem for Seventh Generation since “transparency” is one of its core values (Ecopreneurist, 2011). Second, the new CEO, Chuck Maniscalco, was fired after two years. The new CEO, John Replogle, was appointed in March of 2011. Before taking

the helm at Seventh Generation, he was CEO of Burt's Bees, a mission-driven company acquired by Clorox in 2008, during his tenure (Forbes.com, 2010).

These events reshaped the organization. The recent instability at the head of the company makes the future of Seventh Generation less predictable, particularly in terms of how the company will achieve greater scale and profitability while maintaining its core values.

Figure 3-1 summarizes Seventh Generation history by growth phase.



Sources: (1) Goldstein & Russo (2006); (2) company website www.seventhgeneration.com; (3) Hollender (2010)

Jeffrey Hollender's Reflections

On April 4th, 2011, I had the opportunity to ask Jeffrey Hollender about the main challenges he faced when growing Seventh Generation. He thought for a few seconds and said there were two. The first was

the capital structure: “once you set or don’t set the foundation, the organization will feel the consequences”. He also said it was difficult to plan from the beginning since “you can not know in advance what is going to happen in your company and which sources of capital the company will be able to get”. I asked Hollender about Seventh Generation’s current owners. He said they were some venture capital and private equity firms. I asked him if I could have their names and he said, “They do not want people to know who they are.”

The second growth challenge according to Hollender was “culture.” He made it sound like culture was even harder. Gregor Barnum, former Director of Corporate Consciousness at Seventh Generation who was with Hollender during the interview, said that they had “pushed hard” to change the organization over the years, but “the success of the past”, made it hard to change “people’s mindset”. He mentioned Peter Senge’s famous notion of “Learning Organization” and said that a company should be able to learn and change over the years. Barnum added that they tried to implement a broader sense of ownership, but it was hard to encourage the staff to feel like more than just employees. At this point, Barnum said they were in the middle of an experiment in 2008-09 to develop “employee consciousness” when Seventh Generation shareholders discontinued the program.

On the question of “why grow,” Hollender said: “I was too obsessed with growth.” He explained that the image of success in our society influenced him to prioritize growth. As a counter-example to his experience, he mentioned a friend who was able to maintain ownership of his company by keeping growth in check.

Final Reflections

Seventh Generation has a long and complex equity ownership history. It is not clear whether the current shareholders are committed to Seventh Generation’s environmental values and hybrid mission. The motivation behind the dismissal of founder Jeffrey Hollender was not publicly disclosed, despite the company’s espoused principle of transparency. Who are the current shareholders? What do they stand for? How has CEO turnover (three CEOs in two years) changed the company? Is Seventh Generation just a strong green brand or is it still a values-based business?

Seventh Generation demonstrates the challenges of leadership transition in hybrid organizations. At first, Jeffery Hollender's departure seemed representative of a smooth change, which was reinforced through public statements about his readiness to leave CEO position. While one might expect that hybrid organizations to respect the legacy of their founders, this was not the case for Seventh Generation.

CASE – STONYFIELD FARM

Table 3-4– Stonyfield Farm Overview

<i>Year founded / Founders:</i>	Founded in 1983 by Samuel Kaymen and Gary Hirshberg
<i>Annual Revenue⁽¹⁾:</i>	\$ 352M (2010)
<i># of Employees⁽²⁾:</i>	500 (2010)
<i>Headquarters:</i>	Londonderry, New Hampshire
<i>Sector:</i>	Food – organic yogurt / milk
<i>Vision / Mission⁽³⁾:</i>	<ul style="list-style-type: none"> • To provide the very highest-quality, best-tasting, all-natural, and certified organic products. • To educate consumers and producers about the value of protecting the environment and supporting family farmers and sustainable farming methods. • To demonstrate that environmentally and socially responsible businesses can also be profitable. • To provide a healthful, productive, and enjoyable workplace for all employees, with opportunities to gain new skills and advance personal career goals. • To recognize our obligations to stockholders and lenders by providing an excellent return on their investment.
<i>Core values⁽⁴⁾:</i>	<ul style="list-style-type: none"> • Healthy food, healthy planet, local production, business as change force, social entrepreneurship
<i>Characteristics of Hybrid Organization⁽⁴⁾:</i>	
<ul style="list-style-type: none"> • Donates 10% of pretax operating profits to support environmental and social programs, especially those related to organic and local production (\$12M total donated through March 2011) • Full organic production since 2007 <ul style="list-style-type: none"> ○ Offers supply chain loans for “organic conversion” • Uses its communication channels, including product labels, to stand for social and environmental causes • Leads bold efforts to eliminate CO₂ gas emissions, including investments in renewable energies and support of NGOs such as Climate Counts 	

Sources: (1) company website; (2) company employee interview; (3) (Hirshberg, 2008, pp. 23-24); (4) thesis analysis

Stonyfield Farm was founded in 1983 by Samuel Kaymen and Gary Hirshberg as part of an effort to develop a business model for The Rural Education Center (TREC). Based in Wilton, New Hampshire, TREC was a nonprofit organization specializing in teaching rural and homesteading skills with an emphasis on organic food production. Kaymen was the general manager of TREC and Hirshberg was a board member when they envisioned that the best way to ensure long-term sustainability for the organization would be through a for-profit business. A few months after this decision, Hirshberg joined Kaymen full-time, with the dream of turning a small-scale yogurt company into a flourishing business (Stonyfield Farm, 2011).

At the beginning, according to Hirshberg “we had a wonderful business; the only problem was that we had no supply and no demand” (Seirreeni, 2008, p. 221).

From the company’s early days until today, the influence of founder Gary Hirshberg has been remarkable. He is the face of Stonyfield Farm, and staff refer to him as its “idea man” (Stonyfield Farm, 2011). He proudly recognizes his marketing skills as his main strength. Hirshberg is the motor of the company, setting its vision and using his passion for helping the planet to change the way people do business. In Hirshberg’s own words:

For Stonyfield, as for other sustainable businesses, the secret of success is staying true to yourself and never betraying your mission. At the heart of every thriving business is a unique selling proposition. Sustainable companies are no different, but the standards we set to ourselves are higher, harder, riskier – and more rewarding.

(Hirshberg, 2008, pp. 53-54)

Although the company’s acquisition by Groupe Danone in 2002 significantly changed the shareholder structure (today Groupe Danone has an 85% share), the company has demonstrated its commitment to the values established by Gary Hirshberg, who maintains control of the company under certain performance conditions defined in the partnership agreement with Danone. Stonyfield’s official communications try to reinforce the perception the company has not changed even though a major multinational company is now the main shareholder:

We started as a nonprofit agricultural school on a hilltop farm and evolved into the organic yogurt company we are today. So we’ve done some changing. But we’ve also stayed the same. Right from the beginning, we’ve been committed to healthy food, healthy people, and a healthy planet.

(Stonyfield Farm, 2011)

Company history

Table 3-5 presents a chronological history of Stonyfield Farm:

Table 3-5– Stonyfield Farm – Timeline

External events	Dates	Organizational milestones
	1983	Founded by Samuel Kaymen and Gary Hirshberg
	1984	Decides on yogurt production specialization (milk purchased by suppliers)
	1986	Opts to have our yogurt made “outside” due to the increase in demand and the farm’s limitations
	1987	Experiences a major setback: about \$1.4M in losses when a co-packer falls into bankruptcy
	1987/89	Raises \$2.5M to allow production facility expansion
	1989	New production facility enters operation
Listed as #113 on Inc. 500’s List of Fastest Growing Companies in USA	1990	
	1992	Announces first profitable fiscal year
	1993	Launches “Profits for the Planet” program and begins giving 10% of profits to efforts that help protect and restore the earth
FDA approves Monsanto’s synthetic bovine growth hormone (rBST)	1994	Stands against rBST usage; Makes agreements with milk suppliers to ensure no rBST in purchased milk
	1995	Starts making certified organic yogurt
	1997	Develops a guide called “Reversing Global Warming: Offsetting Carbon Dioxide Emissions”
Stonyfield Farm moves ahead of Colombo to take the #4 position in the Northeast; Nationally, becomes the #5 brand	2000	Founder Samuel Kaymen retires but remains on the board of directors
	2001	Signs partnership agreement with Groupe Danone
Release of the USDA National Organic Standards	2002	Groupe Danone acquires 40% of Stonyfield shares
	2004	Groupe Danone acquires additional 45% of Stonyfield shares, holding a total of 85% of the shares
	2006	Donates \$450,000 to help The University of New Hampshire start an organic dairy research farm; Establishes Stonyfield Europe, in partnership with Groupe Danone, to create and grow organic dairy enterprises overseas; Yogurt maker Stonyfield France is born shortly thereafter
	2007	Announces that it had succeeded in converting to 100% organic milk; Funds a new nonprofit called “Climate Counts” and creates the consumer website ClimateCounts.org
	2008	Founder and CEO Gary Hirshberg writes <i>Stirring It Up: How to Make Money and Save the World</i>
US economic recession	2009	

Sources: (1) Company website – www.stonyfieldfarm.com; (2) (Hirshberg, 2008); (3) (Thurber, 1995)

Getting started

After developing Stonyfield's business plan and securing business loans, Gary Hirshberg started marketing his yogurt. The product was initially well-received in some specialized natural foods chains restricted to the New England area. The initial success in securing orders combined with the lack of adequate facilities stressed production in the early years. One of the first strategic decisions the company made was to get rid of the 19 cows they milked on the farm each day and focus on the yogurt production alone. From this moment on, the milk would be acquired from local producers.

The company then turned to marketing. Taste tests of the products at point of sale and creative public relations initiatives were successful in garnering customer and media attention. Unfortunately, production was a problem limiting the company's growth. According to the company website:

We outgrow the farm. On our quaint little hilltop farm, with all its quirks and inefficiencies, we're no longer able to keep up with consumer demand. Repeatedly, pumps break down, pipes freeze, every square inch of the 1852 barn is converted to cup and lid storage, and trailer trucks get stuck on the long dirt road leading to the farm.

(Stonyfield Farm, 2011)

To overcome these problems, the company opted to have the yogurt production outsourced. After making this decision, a co-packer fell into bankruptcy. According to the company website:

The bank shuts them down and creditors attach the building and all the assets inside, including our equipment, cups and lids, ingredients, and finished goods. We lose our means of production.

(Stonyfield Farm, 2011)

It was estimated that the company lost approximately \$1.4 million in 1986 due to this and to the inefficiencies of its old and limited production facilities (Thurber, 1995). In an attempt to find a new solution, Hirshberg and Kaymen were approached by a Vermont dairy interested in investing in Stonyfield: "When the long-awaited closing finally arrives, instead of the hundred-page agreement that had been negotiated, they are presented with a one-page deal that amounts to a takeover" (Stonyfield Farm, 2011).

These events triggered the decision to build their own industrial plant. Hirshberg took responsibility for raising the capital. After approximately seven months, he had collected \$2.5M from individual investors. While the initial production set-up was difficult to operate and affected the company's profitability, optimization of the plant eventually led to better financial performance. In 1992, the company had the first profitable year of its history.

Even with all this attention to controlling our costs, however, we still weren't able to make a profit for eight years. We had an eight-year start-up—our first profitable fiscal year was 1992.

(Thurber, 1995, p. 11)

The profitability “mark” achieved by adjusting the supply side while demand continued to grow gave Hirshberg and Kaymen confidence in their model.

Shaking the industry

In 1993, company sales were \$12.5M. At the end of 2001, sales were \$83M, representing a 27% CAGR over this period. During this accelerated period of economic growth, the company's activist roots flourished as well: “[in 1993] with our company now safely afloat, we're able to devote more resources to our environmental goals” (Stonyfield Farm, 2011).

During this period, the company launched the program “Profits for the Planet,” giving 10% of its profits to efforts related to environmental and social projects. Stonyfield took public stands against rBST, Monsanto's synthetic bovine growth hormone approved by the FDA, and the company closed an agreement with its milk suppliers to ensure that they did not use rBST. In 1995, the company started making certified organic yogurt after relying on “natural” labeling due to the lack of organic suppliers in the early years. The company also developed a guide called “Reversing Global Warming: Offsetting Carbon Dioxide Emissions”, demonstrating its commitment to offset carbon emissions and to fight global warming.

Stonyfield, along with Ben & Jerry's Ice Cream, Tom's of Maine, and EqualExchange, is often seen as a leader in encouraging mainstream America to embrace organic products. The founders of these companies knew each other and frequently communicated. As members of the same generation who

were connected in varying degrees to “hippie culture”, they created an informal support network and an ecosystem of natural food co-op buyers, social investors, and farmers, and inspired other entrepreneurs.

Strategic Partnership

The next milestone for the company came with Stonyfield Farm’s initial agreements to partner with Groupe Danone, the French-based consumer products company and one of the world leaders in yogurt sales. While the acquisition could have represented the end of a mission-driven company, Groupe Danone acquired the company as a learning laboratory, enabling Stonyfield to maintain its hybrid goals. The rationale behind the Stonyfield investment, according to Franck Riboud, Chairman of Groupe Danone, was:

I bought Stonyfield because I want to understand the organic segment. I want to understand because it’s my job to understand the organic segment. I told Gary, I don’t want to buy you; I want to look at you and understand what I can really take in from your organization, from your corporate organization, to make my organization more efficient. Not only in terms of savings, but in terms of new ideas, to understand this organic planet.

(Austin & Leonard, 2008, pp. 82-83)

Mr. Riboud continued to explain what he told Stonyfield’s founder Gary Hirshberg:

“Together, we are going to create the best team to transform the consumption of organic food. You want to become bigger, bigger, and bigger with organic. I will help you achieve your dream.”

(Austin & Leonard, 2008, p. 85)

Hirshberg response to Danone’s acquisition was thoughtful but positive:

After 17 years, I felt I had proven the model. And because I had started the company to save the world, not grow the company, I was enchanted with the idea that I could actually replicate this model on a much larger scale. (...) I never dreamt we’d be investing \$104 million in our factory.”

(Austin & Leonard, 2008, p. 85)

How Hirshberg can maintain control of the company when he only owns a small number of shares is perhaps the main tension in the partnership with Danone as Business Week (2006) reported: “The way the agreement is set-up, in order to ‘retain management control’ he has to keep Stonyfield Farm growing at double digit rates.”

So far, Stonyfield Farm is considered by Austin & Leonard (2008) to be a “good case” on how to structure an acquisition/partnership. According to the authors, who studied acquisitions of other hybrid organizations by large companies, Hirshberg’s goals for the “partnership” with Danone included: (i) scaling the mission; (ii) accessing new markets; (iii) gaining competitiveness; (iv) offering an exit strategy for current shareholders; and (v) providing permission for changes.

In terms of “scaling the mission”, Stonyfield Farm is now demonstrating some of the company’s greatest achievements. The company announced in 2007 that it had succeeded in converting to organic milk for 100% of production – “An abundance of organic milk and fruit supplies allows us to convert all of our fat-free yogurts to organic. Now everything we make is organic” (Stonyfield Farm, 2011).

As a consequence of company’s increase in profitability, the program “Profits for the Planet” significantly increased its impact. For example, in 2006 \$450,000 donation was given to The University of New Hampshire to start the nation’s first organic dairy research lab. In 2007, the company provided funds for the creation of a nonprofit called Climate Counts “...to show consumers how to fight climate change with their purchases and investments” (Stonyfield Farm, 2011).

Stonyfield has also participated in an initiative to establish a \$300,000 loan fund for companies that transition to organic production (Hirshberg, 2008). Moreover, the company recently created the “Stonyfield Entrepreneurship Institute” with the objective of using Gary Hirshberg and Samuel Kaymen’s path as an inspiration for entrepreneurs interested in learning how to build sustainable businesses.

In terms of “accessing new markets”, Stonyfield Europe was established in 2006 to create and grow organic dairy enterprises overseas. Yogurt maker Stonyfield France was launched shortly thereafter (Stonyfield Farm, 2011).

In terms of “gaining competitiveness”, the company increased its investment capability. In the past five years the company invested \$104M in a new plant and has developed very efficient manufacturing production (Austin & Leonard, 2008).

In terms of “offering an exit strategy for current shareholders”, Hirshberg once declared: “I had 297 shareholders. And I had many people who had been in for as many as 16, 17 years, and who needed an exit. I felt a moral obligation to provide them with an exit” (Austin & Leonard, 2008, p. 87). Samuel Kaymen, the other founder who retired in 2000, was one of these shareholders mentioned by Hirshberg (Stonyfield Farm, 2011).

Providing permission for changes

On March 3rd, 2011, I had the opportunity to interview a professional who worked at Danone for several years and now works at Stonyfield. This person preferred to remain anonymous in order to speak candidly. For ease of reading, I will refer to this person as “Alex” moving forward.

During the interview I explored the cultural shifts “Alex” experienced as a staff member of both organizations and as someone who was present for some of Stonyfield’s changes. Part of “Alex’s” role at the company was to challenge the assumptions of original employees who had been at the organization more than five years. “Alex” shared these thoughts about the longer-term employees:

People who are there [at Stonyfield] for a long time do not like change. They do not like the way the company is growing.

Interviewed Stonyfield’s Professional, March 3rd 2011

When I asked if longer-term employees had a specific complaint, particularly since the company was now putting aside 10% of the profits for social programs, “Alex” explained:

It’s like our core consumers... they want the image of the farm on the background, products made by hand, they do not care if it is safe or not, they want the little thing that does not exist anymore. It is the third brand in US, a huge factory, but it is organic and the mission and the vision is still the same.

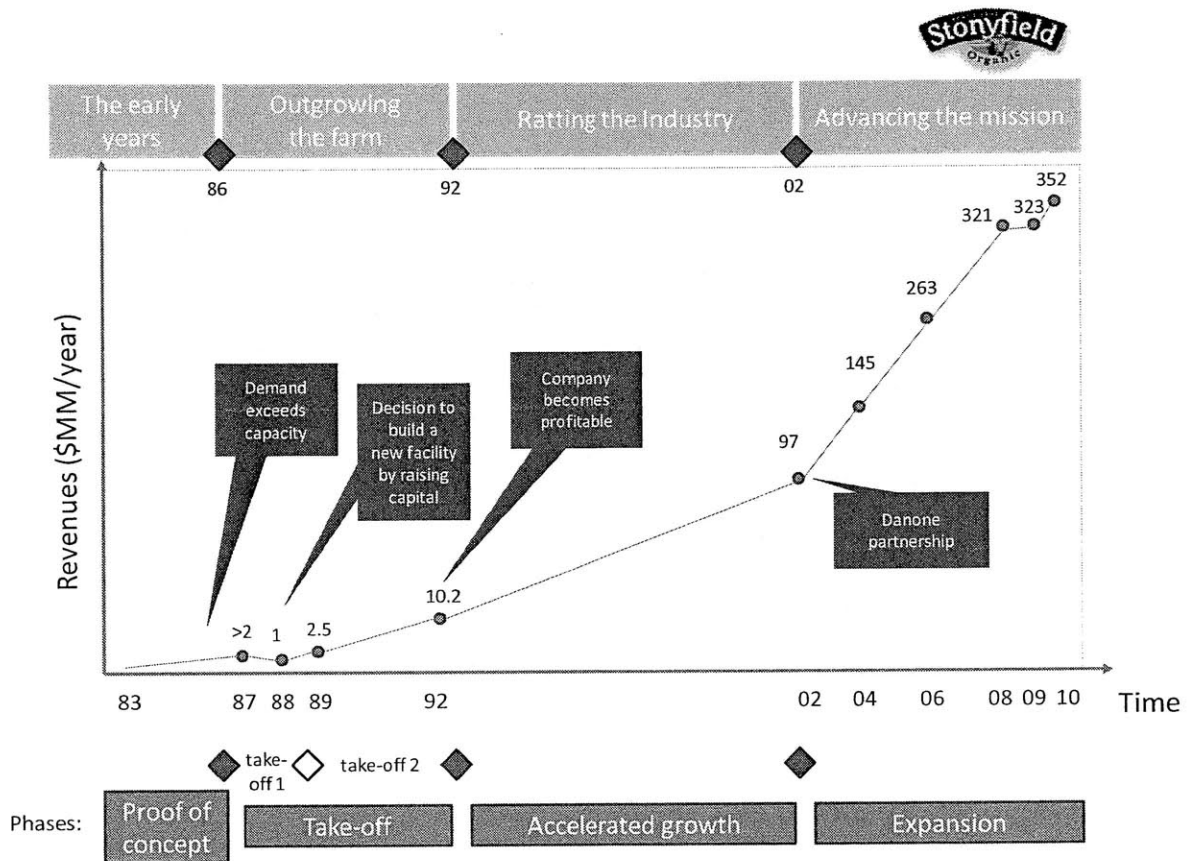
Another potential challenge in implementing organizational or cultural change is “Alex’s” perception that “Stonyfield is Gary, Gary is Stonyfield”. This represents a risk for the company as Hirshberg may not be preparing the organization to survive without him.

The tension over who controls the company, raised by Hirshberg’s performance agreement with Danone, also affects the environment inside the company. When compared his current position at Stonyfield with his previous assignment at Danone, he said: “Here, there is much more pressure to do, to make the numbers.”

The recent recession contributed to the company falling short of expectations in 2009 – the company grew less than 1% compared to the previous year. As a consequence, the time required to recoup on investments has increased. Even so, according to “Alex” there is considerable pressure from Danone to meet targets and hit the expected double-digit growth, something that Hirshberg “is very stressed about...”.

Figure 3-2 describes the company history by each phase. In the case of Stonyfield Farm, there are four main life cycle phases.

Figure 3-2 – Stonyfield Farm Growth Phases



NOTE: According to the company the phases are: "The early years 1978 – 1985" (1983-1985); "We outgrow the farm" (1986-1993); "Rattling the industry" (1994-2001); "Advancing the mission" (2002-today).

Final Reflections

The Stonyfield case shows how a strategic investor was able "to keep the soul" of the organization from 2001 until the present. Over the past decade, Stonyfield has experienced extraordinary growth, with revenues rising from under \$100 million to over \$350 annually. At the same time, positive environmental and social impacts have also been achieved (and increased). For instance, Stonyfield achieved 100% organic production in 2007. Such results are largely due to the infusion of capital that Stonyfield received through the Danone partnership and acquisition. The founder was able to keep control of the company – thus retaining the focus on environmental and social outcomes. But the "mindset" of the acquirer also played an important role in scaling-up production and achieving financial growth.

But how long can this partnership be healthy for both sides? Gary Hirshberg will only keep control of the company if he is able to maintain strong growth rates. This can create tensions in an organization that has always sought to drive the “right growth” for the organization instead of “growth for the sake of growth.” So far, however, Stonyfield and Danone have managed this potential tension well; if they continue to do so, they may serve as a useful model of how to successfully navigate potential tensions when a hybrid organization is acquired by a large traditional company.

The case of Stonyfield Farm also shows that success is possible under the continuing guidance of the original founder. Gary Hirshberg started the organization three decades ago, still leads it today, and is widely seen as a positive influence. However, the statement “Stonyfield is Gary, Gary is Stonyfield” is a risk for an established organization with nearly 500 employees. Stonyfield has attracted employees who are passionate about changing the world and are followers of a great leader. But what will happen if the leader is not there anymore?

CASE – GREEN MOUNTAIN COFFEE ROASTERS (GMCR)

Table 3-6 – GMCR Overview

<i>Year founded / Founders:</i>	Founded in 1981 by Robert (Bob) Stiller
<i>Annual Revenue⁽¹⁾:</i>	\$1,357 M (2010)
<i>No of Employees⁽¹⁾:</i>	2,380
<i>Headquarters:</i>	Waterbury, Vermont
<i>Sector:</i>	Coffee / Beverages
<i>Vision/ Mission⁽²⁾:</i>	<ul style="list-style-type: none"> • “We create the ultimate coffee experience in every life we touch from tree to cup – transforming the way the world understands business.”
<i>Core values⁽²⁾:</i>	<ul style="list-style-type: none"> • ETHICS – Do the right thing. • PASSION FOR COFFEE – From tree to cup. • SUSTAINABILITY – Pathway to our future. • COMMUNICATION – Open dialogue. • APPRECIATING DIFFERENCES – Finding opportunity in conflict. • CONTINUOUS LEARNING – For today and tomorrow. • BUSINESS SUCCESS – Financial Strength. • PLANNING & MEASURING – To understand and improve. • DECISION-MAKING – At the most effective level. • PERSONAL EXCELLENCE – Strong organizations rely on strong individuals. • LEADERSHIP – At every level. • PARTNERSHIPS – Success for all. • VIBRANT WORKPLACE – A place where you can make a difference in the world. • SHARED OWNERSHIP – Thinking and acting like owners. • WORLD BENEFIT – Creating positive change.
<i>Characteristics of Hybrid Organization⁽³⁾:</i>	
<ul style="list-style-type: none"> • Donates 5% of pretax operating profits to support environmental and social activities • First US-based coffee company (early 90’s) to embrace a fair trade model • Employee-community relationship, including paid volunteer time, matching donations, and visits to coffee farms to foster personal connections 	

Sources: (1) Yahoo Finance; (2) Company website (www.gmcr.com); (3) Thesis analysis

The history of Green Mountain Coffee Roasters (GMCR) started in 1981 when Bob Stiller drank a cup of coffee in a restaurant near his ski condo in Sugar Bush, Vermont. He liked it so much that he wanted to find out where it came from. After asking around, he discovered that it was made by Green Mountain, a small retail store in Waitsfield, Vermont, that sold around 20 specialty coffees to the public and to a few local restaurants. Stiller also discovered that the couple who owned the retail coffee business

wanted to move to Florida. He decided to buy them out and to become Green Mountain’s new CEO (Neville, 2008).

Thirty years ago, Green Mountain was a small café in rural Vermont, roasting and serving premium coffee on its premises. Today, Green Mountain Coffee Roasters (GMCR) has grown into one of the largest coffee companies in the world and it is the largest single cup coffee roaster in the world. The company is recognized for its award-winning coffees, innovative brewing technology, and socially responsible business practices.

Company history

Table 3-7 presents an overall history of GMCR.

Table 3-7 – GMCR Timeline

External events	Dates	Organizational milestones
	1981	Founded/acquired by Robert (Bob) Stiller
	1983	Begins composting coffee grounds in retail shops
	1989	Develops earth-friendly coffee filters that are oxygen-whitened and dioxin-free
	1990	Begins offering organic coffee
	1993	IPO (Boston Stock Exchange)
	1996	Develops the industry’s first biodegradable bag for bulk coffee purchases
	1997	Shares listed on NASDAQ; Introduces Organic Peruvian Select, the first coffee in the certified organic coffee line
	2000	Introduces the Fair Trade Certified™ line, including seven double-certified Fair Trade Certified™ organic coffees; Signs an agreement with TransFair USA to certify its organic coffees as Fair Trade Certified™; Reaches 5% fair trade
Founder/CEO named entrepreneur of the year by Forbes Magazine	2001	Increases the certified organic line to 27 coffees through the acquisition of Frontier Organic Coffee
	2002	Collaborates with Newman’s Own® Organics and Wild Oats to reach new markets and more consumers with the Fair Trade Certified™ organic message; Begins offsetting greenhouse gas emissions by purchasing renewable energy credits
Ranked #8 in Business Ethics	2003	Reaches 100% of greenhouse gas emissions offsetting

magazine's 100 Best Corporate Citizens		(% relative to what it is measured by the company)
	2005	Publishes first corporate responsibility report
Rated #1 Company by CRO (Corporate Responsibility Officer) Magazine	2006	Acquires Keurig; Signs a contract with McDonald's to provide fair trade coffee in 650 restaurants in New England
Rated #1 Company by CRO (Corporate Responsibility Officer) Magazine	2007	Founder Bob Stiller hires Larry Blanford to replace him as CEO
	2009	Acquires the Tully's Coffee brand and wholesale business; Acquires Timothy's Coffees of the World, Inc.; Acquires Diedrich Coffee Inc.
Fortune Magazine named GMCR #2 on its list of "Global 100 Fastest-Growing Companies," moving up from #11 the prior year	2010	GMCR strategic equity acquisition by Italian Group Lavazza (Luigi Lavazza S.p.A.); Acquires Van Houtte Inc.
	2011	Announces strategic partnership with Starbucks; Stock price hits all time high

Sources: (1) Company Website www.gmcr.com ("Building a Sustainable Supply Chain"); (2) Corporate Social Report 2009; (3) Capital IQ for M&A information; (4) (Seirreeni, 2008); (5) (Arena, 2004); (6) (Neville, 2008); (7) Company Press Release – Starbucks Corporation and Green Mountain Coffee Roasters, Inc. Enter Into Strategic Manufacturing, Marketing, Distribution and Sales Relationship - March 10th 2011

Establishing a Fair Trade Mentality

GMCR has long been involved with innovations in its sector. For instance, GMCR began composting coffee grounds in its retail shops in 1983; it developed earth-friendly coffee filters (oxygen-whitened and dioxin-free) in 1989; and the company invested in computerized roasters and adopted a database management program to manage inventory and distribution channels at the end of the 80's and the beginning of the 90's (GMCR, 2009; Funding Universe, 2006).

In the early 90's, GMCR became the first US-based coffee company to embrace fair trade. "Since Stiller's initial trips to Mexico and Guatemala, his indignation over iniquitous corporate practices has peaked – and so has his devotion for fair trade" (Arena, 2004, p. 102). Stiller supported community-supply development overseas, ensuring higher prices (above cost) and a long-term relationship with producers. Part of his fair trade approach was also to encourage his employees to visit coffee growers around the world. "We're all connected through coffee," said Stiller (Arena, 2004, p. 105). "Community-supply development" is a hallmark of GMCR's way of doing business.

In 1993, the company decided to undertake an Initial Public Offer (IPO) on the Boston Stock Exchange. With sales reaching over \$10 million, the company wanted to boost sales growth by investing in new stores and strengthening its wholesale channels. In the year following the IPO, the company reported 100% sales growth (Funding Universe, 2006).

Harvesting the Seeds of Fair Trade

While the coffee sector suffered at the end of the 90's and many coffee producers were "being squeezed" by traders around the world, GMCR continued to offer "coffee growers a chance to bootstrap their way out of poverty" (Arena, 2004, p. 106). Stiller believed that "doing good" could also mean doing well in business. For example, GMCR helped supplier communities build "cupping labs," places where local farmers could taste-test their coffee before shipping. With this investment, GMCR guaranteed the quality of its sourcing. The long-term relationship built with farmers also provided GMCR with a stable platform of suppliers around the world (Arena, 2004, p. 107).

In 1997, the company began trading on the NASDAQ National Market System (Funding Universe, 2006). At the time, the wholesale business was booming (national supermarket chains, airline companies, office suppliers, etc.), and in May 1998, GMCR announced plans to leave retail entirely. GMCR also entered international markets and began exporting to Canada and Taiwan in 1994 and to Great Britain in 1999 (Funding Universe, 2006).

In 2000, the company formalized its fair trade practices by signing an agreement with TransFair USA to certify organic coffees as Fair Trade Certified™. In 2001, GMCR increased its certified organic line through the acquisition of Frontier Organic Coffee. In the same year, Stiller was named entrepreneur of the year by *Forbes Magazine*. In 2005, 20% of the total coffee pounds shipped by GMCR were fair trade or organic certified. Additionally, a large percentage of GMCR coffee was "farm-direct," meaning that producers maintained fair trade practices even though the process was not certified by an outside institution (Arena, 2004).

In the eight years from 1998-2006, GMCR's revenues grew from \$55.8M to \$226M, close to 19% CAGR. It seemed like strong growth at the time but it was dwarfed the growth during the next few years.

The Keurig Platform

In 2006, after the complete acquisition of Keurig business, GMCR had another strong growth period. Keurig was not just another market expansion acquisition; it represented a major change for the GMCR business model. Keurig built a portable brewing machine that made single cups of coffee, tea, or other hot beverages. The investment in Keurig was a visionary market movement. According to Paul Comey, Vice President of Environmental Affairs, who I interviewed on April 8th 2011, it was a great market opportunity. They thought that “Keurig was going to become the leading single cup coffee in America” because “it was a fantastic quality cup....”

With the acquisition, GMCR would not only sell coffee, but brewing machines and accessories, as well as other beverages delivered through the Keurig platform. Organic fair trade coffee would be one of many beverage types. In order to stay true to the values of the organization, a fair trade, community-based supply chains would need to be developed for tea and other beverages. Additionally, the production of brewing machines and the manner in which the beverages are delivered leads to a different environmental and social analysis. GMCR added new consumer products to residences and offices while developing different supply-chain relationships, including one with a facility manufacturer in China. Furthermore, Keurig machines require single-use “K-cups” which create a very different environmental impact than GMCR’s operations in wholesale distribution.

According to Paul Comey, people inside the company did not question Keurig’s environmental implications. “We saw consumer demand,” he said. He continued:

At the end of the day you are trying to put a balance, if you make a product that the consumer doesn't want, I don't care how environmental friendly it is..., what does it matter? So, we saw a product that consumers want, we saw our ability to take our fair trade coffee and put in those K-cups and really spread the word about fair trade coffee... and by acquiring Keurig we would be continuously committed to find environmental friendly solutions in both the production and the disposal of the K-cups.

In 2006, GMCR sales numbers were already impressive: 1.2% of the US coffee market; 7.1% of specialty coffee; 10% of fair trade coffee sales (Seirreeni, 2008, p. 212). That same year, GMCR was elected the best company according to *CRO (Corporate Responsibility Officer) Magazine* and they signed a substantial contract with McDonald’s to provide specialty coffee for 650 stores.

In 2007, Stiller decided to hand the CEO mantle to Larry Blanford, who was experienced in leading high-growth companies. Blanford was Chief Executive Officer at Royal Group Technologies, a company that generated \$1.5 billion in revenue per year. Prior to that, he was President and CEO of Philips Consumer Electronics North America, where he was responsible for approximately \$2 billion in sales (GMCR, 2009).

During the following years, the company continued to hold its “growth by acquisition” strategy. The list of GMCR acquisitions from 2001 to 2010 is presented in Table 3-8.

Table 3-8 – GMCR acquisitions (2001 to 2010)

Closed Date	Target	Objective	Value (\$MM)
Dec-17-2010	Van Houtte Inc.	Regional Expansion (Canada)	893.6
May-10-2010	Diedrich Coffee Inc.	Product Line Expansion	227.5
Nov-13-2009	Timothy’s Coffees of the World, Inc.	Regional Expansion (Canada)	194.5
Mar-27-2009	Tullys Coffee Corp., Tully’s Coffee Brand and Wholesale Business	Regional Expansion (West Coast)	40.3
Jun-15-2006	Keurig, Inc.	New Technology / Business Platform	111.3
Apr-05-2002	Keurig, Inc.	New Technology / Business Platform	14.4
Jun-05-2001	Frontier Organic Coffee	Product Line Expansion	NA

Source: Capital IQ; thesis analysis

In 2010, approximately 7% of GMCR’s shares were acquired by the Italian Group Lavazza (Luigi Lavazza S.p.A.), a company that produces brewer machinery for coffee and other beverages (Lavazza, 2010). According to Paul Comey, the two companies “are going to be great partners going forward, combining the competences of the espresso coffee machine brought by Lavazza and the drip coffee machine know-how of GMCR.”

Today, GMCR is one of the fastest growing companies in the world. In 2010, *Fortune Magazine* named GMCR #2 on its list of “Global 100 Fastest-Growing Companies,” moving up from #11 the prior year. The last company report of fiscal year 2010 says:

In fiscal 2010, our net sales grew 73% to \$1,356.8 million, largely as a result of sales related to the Keurig® Single-Cup Brewing System. Sales from the system, which enables consumers to

choose their favorite coffee, tea, or other beverage; brew with the touch of a button; and enjoy a convenient, consistent, fresh, quality beverage, represented 88% of our total revenue for the year. Net sales from Keurig Brewers and accessories totaled \$330.8 million in 2010, up 67%, or \$133.1 million, from 2009. Net sales from K-Cup portion packs totaled \$834.4 million in 2010, up 103%, or \$424.0 million, over 2009.

Based on these figures and assuming that the Keurig business unit represents 88% of the 2010 fiscal year (ending September 2010), the non-Keurig sales were responsible for approximately \$163 million, a lower number than the sales registered before Keurig acquisition. This suggests a dramatic shift in the company's business model has taken place. Yet the recent announcement of a strategic partnership with Starbucks shows that the wholesale business is still alive and well (GMCR, 2011). That said, a consequence of this shift is that GMCR is paying less attention to its initial customer base, especially small retailers.

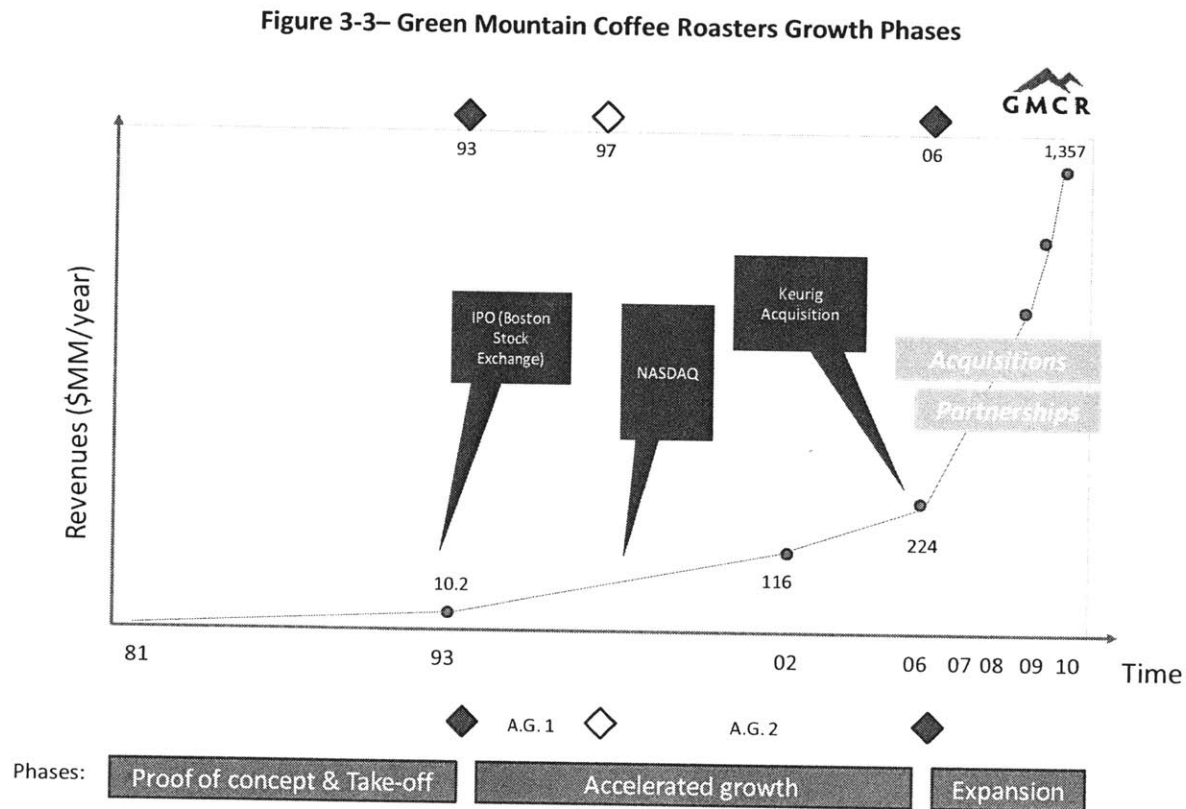
The high demand for GMCR's coffee and products is also stressing the organic fair trade supply. The total amount of fair trade coffee that GMCR sourced increased by 40% over the last fiscal year (2010 compared to 2009). On the other hand, the percentage of the total fair trade coffee roasted by the company declined. According to the company, the share of fair trade coffee sourced dropped from 32% (2009) to 24% in (2010), in relative numbers (percentage of fair trade coffee sourced over the total). "We are trying to keep the percentages where they are, but we are going so quickly, it is a challenge," said Paul Comey. GMCR is working with Sustainable Harvest International, a NGO focused in Central America, and increasing the number of people sourcing Fair Trade coffee to maintain a ratio around 30%.

GMCR's growth raises questions. Is the company still a hybrid? According to Paul Comey:

We always try to do environmental projects that make sense and have investment return. (...). As much as we strive to behave environmentally friendly, we also strive to have financial sense. One thing about being a publicly traded company is that you have the fiduciary responsibilities to your shareholders to make sure the projects you are doing are both sound environmentally and financially.

Despite the concern about how the company will grow and remain true to its founding values, spending 5% of pretax operating profits to support CSR initiatives should be recognized, because the company will be able to support more projects thanks to increased profits.

Figure 3-3 recaps the history of GMCR, and notes its three major growth phases.



Note: partnerships refer, for instance, to McDonald and Starbucks agreements.

Final Reflections

Green Mountain became a publicly-traded company in the mid-1990s but a major shift occurred in 2006 when it completed the acquisition of Keurig. Under its publicly-traded structure, GMCR went on to win many CSR awards. Since 2006 the company has been following a “growth by acquisition” strategy that may present a significant challenge to GMCR’s original values. Thus far, GMCR has shown that a hybrid organization can thrive under different ownership structures. At the same time, the changes have been

so radical that GMCR may now be an example of an organization with a CSR department, rather than an organization which makes CSR the core business of the company.

Green Mountain also experienced a phase-out of its founder and CEO. For the past four years a new CEO has been managing the company. It is still unknown whether the new leadership will be able to balance profits and other hybrid organization objectives.

Finally, Green Mountain may represent an example of how a company can remain loyal to its values through the power of employees. GMCR's founder realized that employees and farmers had to feel "interconnected," so he strongly encouraged GMCR employees to visit farmers around the world. The development and deep understanding of this "community-supply chain" played a key role in shaping the culture of the company. GMCR continues to maintain a strong organizational culture today, and it will be interesting to see whether this culture is resilient as the company moves forward.

Table 3-9 – Mundo Verde Overview

<i>Year founded / Founders:</i>	Founded in 1987 by Isabel Antunes Joffe, Jorge Antunes, Arlindo Antunes, and Elisio Joffe
<i>Annual Revenue⁽¹⁾:</i>	\$ 100M (2010) – total franchise network sales
<i>No of Employees⁽¹⁾:</i>	40 (2010)
<i>Headquarters:</i>	Petropolis – RJ (Brazil)
<i>Sector:</i>	Retail of Natural and Healthy Products (Food, etc.)
<i>Vision / Mission⁽²⁾:</i>	Mission: Provide quality of life, responsible consumption, and sustainability Vision: Become an international brand in well-being
<i>Core values⁽²⁾:</i>	<ol style="list-style-type: none"> 1. Waking up every morning to a new celebration of the world. 2. Watching birds sing at least once a day. 3. Resting under the trees that give us shade, fruits, and flowers. 4. Preserving water and avoiding waste. 5. Walking the world with the care of those who must protect the air. 6. Stopping to understand that we are all connected - all living beings. 7. Respecting life in all its forms. 8. Acting for nature, considering simple actions. 9. Listening to children that support the preservation of beauty and its future. 10. Being Green. As a flag. As a sign that you have chosen the side of life.
<i>Characteristics of Hybrid Organization⁽³⁾:</i>	
<ul style="list-style-type: none"> • Vision, mission, and values focused on creating an inspirational business that is concerned with more than economic objectives • Developed a natural and organic food supply chain; a number of start-up companies in this field benefited from Mundo Verde’s sales and expansion • Became one of the main retailers in Brazil to promote healthy products 	

Sources: (1) company website; (2) company founders/entrepreneurs interviews; (3) thesis analysis

NOTE: \$/BRL = \$1.8

I interviewed the founders Isabel Antunes Joffe, on March 22nd, 2011, and Jorge Antunes, on March 26th, 2011, and the new CEO and one of the current Mundo Verde’s shareholders, Sergio Bocayuva, on April 06th, 2011.

The first time Isabel Antunes Joffe did not obey her father was when she decided to create Mundo Verde with two of her brothers and her husband. In 1987, the group decided to invest \$1,000 each to open their first “healthy products” store. Joffe’s father said, “I do not know why you want to sell these natural ‘crap’ products. If these products that you are about to sell were good, my colleagues, owners of

supermarkets, would know that customers would be willing to pay for them, and would sell them too. Do you think they don't do market research? Nobody wants these natural products!"

The family lived in Petropolis, a city of about two hundred thousand people located an hour from Rio de Janeiro. It was not an obvious city in which to start a business. According to Arlindo Antunes da Silva, the patriarch of the Antunes, a new business concept should be launched in Sao Paulo or Rio de Janeiro, or any other big city in Brazil. 17 years later, in 2004, one month before he passed away, Mr. da Silva saw Mundo Verde awarded "The best franchise in Brazil." The company had grown into a franchise of more than 100 stores.

According to Jorge Antunes, there is an explanation for their success. He remembers a conversation with a journalist he had few years ago:

The journalist said, "You are not going to tell us the secret of your business because, as we Brazilians say, 'the secret is the soul of the business.'" And I said, "No, I can tell you. In our case 'the soul is the secret of the business.'"

In 2009, the four original founders sold the company to a private equity firm and a group of entrepreneurs who are now responsible for maintaining Mundo Verde's mission. The new owners have ambitious plans. They want the number of company stores to grow threefold, to 450, in an expansion that may stress the company's values and culture.

Company history

Table 3-10 presents some facts of Mundo Verde's history.

Table 3-10 – Mundo Verde – Timeline

External events	Dates	Organizational milestones
	1987	Isabel Antunes Joffe, Jorge Antunes, Arlindo Antunes, and Elisio Joffe decide to build the first store
	1993	Inauguration of the franchise model; First franchise store opens in Nova Friburgo, state of Rio de Janeiro
	1994	Franchise store opens in Rio de Janeiro
	1996	Franchise store opens outside the state of Rio de Janeiro in Fortaleza, state of Ceara, Northeastern

		region of Brazil
Selected by <i>Jornal do Comercio (RJ)</i> as “the most admired brand in Rio de Janeiro”	2003	
Wins “The Best Franchise of Brazil” award given by <i>Pequenas Empresas, Grandes Negocios</i>	2004	
	2008	Franchise store opens outside of Brazil in Porto, Portugal
	2009	Acquired by Axxon Group and a group of entrepreneurs; Initiates a process of “management professionalization”

Getting started

As Isabel Antunes Joffe said in the interview on March 22nd 2011, motivated by the arrival of her first daughter in the end of the 1970’s, she started researching healthy food. In 1980, her husband was transferred to a new position at multinational company in United States and she relocated with him. She decided to get involved with activities in her new community and particularly enjoyed courses on health, nutrition, and natural medicine. Later, she took a nutrition course at Tiffin Sprouts Farm, an organic farm in Tiffin, Ohio. She then accompanied her husband to a job placement in Germany where she continued her nutrition studies.

Isabel said that she was inspired by the natural food store movement in United States and Europe. As she shared with me:

I always had a dream... If one day I went back to Brazil, I would like to offer Brazilian people a better quality of nutrition and better quality of life. This new business should not only seek profits, but the creation of many jobs with a great mission, that could become an example and create a legacy for people working with us and our society in general. By creating Mundo Verde, this dream came true!

Recollecting the way she imagined this new business in her mind, she said:

I wanted to have a spiritual structure as our basis. I perceived that the corporate world structure was completely oriented to the “material side”, structures oriented toward “having” instead of “being.” Corporations are all about competition, job roles, salaries, and benefits, etc. They operate only with the mindset of achieving ‘goals’.

According to Jorge, Mundo Verde was the first company that offered quality of health in a broad sense – nutrition for the body and the mind. In addition to food products, Mundo Verde stocked books, new age music, and other “natural” items like incense. As Jorge said to me:

It is not only about eating good food, it is also about having good thoughts, listening to good music. It was part of the success of Mundo Verde surprising people by offering what they wanted but they did not know they wanted. People only realized what they wanted after coming into a Mundo Verde store and experiencing it – and this is why the company grew so fast. Mundo Verde was a new concept!

From the beginning, Mundo Verde wanted to work with suppliers who shared its values and who were also “idealists”, to use Jorge’s phrase. At first, it was hard to find enough appropriate suppliers since there were few “natural stores” at the time. But even though the supply chain was a development constraint for Mundo Verde, they worked through it and opened their first store in Petropolis in 1987. It was 82 square feet and had one employee. It was certainly not clear to them that this tiny store would someday lead to a large chain of health product stores.

Building Regional Coverage and Facing “Philosophical” Challenges

In 1993, the second store was opened in Nova Friburgo, about 80 miles away from the first store. It came about because Mundo Verde received an unusual request from a customer: Would the company like to create a franchise? According to Isabel:

For me, the main challenge of the company after we started the deployment of franchise stores was to keep the company’s philosophy.

According to Isabel, the franchisees should be chosen based on their values. But when these franchisees were faced with operational challenges, some of their practices were not aligned with the company’s philosophy. For instance, there were examples of franchisees selling Coke in their stores. According to Isabel, this also affected the customers’ perceptions since “clients perceived that some stores were ‘greener’ than others.”

Hiring people who were aligned with the company’s values also became a challenge. The problem was amplified when the employees of the commercial department selected franchisees not aligned with the

company's culture. According to Isabel, "nowadays, employee candidates look the same... but it is necessary to be able to assess the people's values." In 1997, the company decided to implement stricter human resource policies to do just that, and to confirm that there is a good match between the candidate and the company.

The need to develop the supply chain was another critical piece of the business. The Mundo Verde management team created special arrangements so that suppliers could follow the growth of the company. In some cases, Mundo Verde anticipated the payments of six months of purchasing. In another case, Mundo Verde bought a vehicle for a supplier to use in order to ensure regional coverage and timely delivery. This opportunity greatly benefited both Mundo Verde and the supplier, particularly since early stage companies can find it difficult to secure credit in Brazil. In the example, the supplier paid back the vehicle in two years by supplying products to the company during this period.

Banana Brasil is another example of a supplier that grew in tandem with Mundo Verde. The company, based in Southern Brazil, was very small when Mundo Verde started its franchise model. The owners were concerned when they received their first large order from Mundo Verde because they assumed that they would be unable to collect the money from sales after delivering their product to Rio de Janeiro. To build trust with the supplier, Mundo Verde decided to pay them up front.

Mundo Verde also became a role model for firms in their value chain, especially among natural food product suppliers. According to Jorge Antunes:

Mundo Verde is not the largest buyer of some of the suppliers, but they like to do business with a company aligned with the same values and principles that they have.

Jorge Antunes added, "Mundo Verde was responsible for the change in this market." His bold statement is consistent with recent market research conducted by Euromonitor that demonstrates that Mundo Verde is the key driver of an entire supply chain in Brazil, analogous to Whole Foods in the United States.

Referring to how Mundo Verde was able to attract a large number of customers from different market segments, Jorge Antunes said:

The first customers were naturalists, vegetarians, and macrobiotics. For Brazilian standards, where most of the population is not vegetarian, those customers were considered “radicals.” Mundo Verde added some other products, like products for gym practitioners and cosmetics. Gifts related to new age themes were also introduced in the stores. A broader range of products was then able to attract new profiles of customers. The company was able to attract people who cared about a variety of themes: “well being,” “sustainability,” and “health of body and mind.”

Growth: National Recognition and Struggles

In 2003, the company was selected by *Jornal do Comercio of Rio de Janeiro* as “the most admired brand” in the city of Rio. The headline in the local newspaper was “Mundo Verde, the Brand of the Dreams of the ‘Cariocas’” (“Cariocas” are people from the city of Rio de Janeiro). Up until this point, the company did not invest in advertising.

Another accomplishment for Mundo Verde was the national award for “Best Franchise of Brazil in 2004,” sponsored by the national magazine *Pequenas Empresas, Grandes Negocios (Small Firms, Big Businesses)* published by Editora Globo, the largest media company in Brazil.

However, the company’s growth also produced great stress. In 2008, the founders realized that it was time to allow Mundo Verde to move forward without them. After over 20 years, the founders sold the company, enabling a professional with more resources to assume leadership and implement changes required by the company’s new size (almost 150 stores).

Among the reasons to sell the company were: (1) lack of retail chain management experience by the original founders; (2) increase in business complexity (for example, large numbers of suppliers offering similar products and new suppliers, including traditional large companies, launching “natural lines”); (3) Investments required to sustain competitiveness and to support more than 150 stores in the franchise network. According to the founders interviewed:

The company grew much more than we could expect. We had imagined having one store in Petropolis and that we would keep this store for a long time.

Isabel Antunes Joffe (March 22nd 2011)

We always thought that the biggest challenge for Mundo Verde was to keep growing and not lose the soul and energy that originated the company. This is an incredible challenge. During some years in the 2000's, with a pace of one new store per month, we ended up becoming a "machine of opening stores."

At some point the owners of a "well-being" company did not experience "well-being"... we were working too hard and becoming too connected with the material world.

Jorge Antunes (March 26th 2011)

Isabel summarizes these points very well:

We got to a point that we did not have more time for us... we were glad about what we had achieved, both in terms of material [financial] results and the spiritual side. We are happy to have sold the company to Axxon Group ... I do not regret anything; I believe that I made my contribution to society, to Brazil and to the people who worked with us.

Professionalism Phase

Since the acquisition in 2009, the company has gone through changes in order to transition from a "family" company to a "professional" company, Isabel and Jorge are now members of the board and meet regularly with new shareholders and directors.

Between 2008 and 2009, Sergio Bocayuva tracked the operations of the company (At the time, he worked for Modal, an investment bank firm that had the mandate of the founders of Mundo Verde to negotiate the sale of the company). Thanks to this experience that gave him a good understanding of the business, he was invited to join the company as CEO. Moreover, his previous experience in retail (which he says he missed while working for the investment bank) was important in expanding Mundo Verde and ensuring that the company would be "properly structured to meet new challenges".

Prior to the acquisition, the new owners had considered moving Mundo Verde's headquarters to Rio de Janeiro. During his first week as CEO of the company, Bocayuva said he decided to rethink this idea since he realized it would force all employees living in Petropolis to move to Rio. Bocayuva said:

One of the components of our mission is to offer "quality of life." If we took the decision to move all employees to Rio we would be acting contrary to our values. So, we acquired a new house in

Petropolis to be our new headquarters; some of the directors who are now working for the company, commute from Rio every week; and spend the week in Petropolis.

The company had 19 employees when the acquisition was finalized. After a year and a half, the number of staff grew to 40 at the end of 2010. By the end of 2011, the total number of staff is expected to reach 50. In Bocayuva's view, the real change for employees was in their knowledge of the company. He said:

They did not understand what was really going on; the importance that the company was gaining in the market. Right now, after each board meeting, the numbers of the company are shared with them and so they can better align their efforts with the objectives of the company.

Moreover, after the acquisition, pay for employees was increased by 15-20%. A bonus policy was also implemented. For instance, in 2010, when the company achieved 97% of its sales goals, some employees evaluated as top performers were able to add the equivalent of four months salaries to their annual income.

The company is now strongly investing in training. They are also increasing the number of employees, increasing fixed salaries, and providing performance bonus payment. Bocayuva also expects that the internal training will benefit the franchising network since the training modules now reflect a "brand" and are creating "Mundo Verde University".

Regarding the franchising network, operational investments are being made to create an efficient and homogeneous network. A logistics operator will centralize purchasing for all franchisees, ensuring that they only buy products specifically approved by the franchiser. The focus will be on developing national suppliers to avoid the added complexity of having too many regional suppliers. The franchisee network will operate using one Enterprise Resource Planning (ERP) instead of the five current systems that were implemented due to lack of central coordination. This change will enable Mundo Verde to consolidate information about its entire network of stores.

According to Bocayuva, there are "suppliers that deserve to be helped" who follow the same philosophy as Mundo Verde. The company will try to offer support to their entrepreneurs – for example, by registering their products with governmental agencies like the Ministry of Agriculture - so they can grow their companies. Suppliers that might not have the same philosophy as Mundo Verde but are in the

natural food or health industry business for the business opportunity will have to demonstrate that they have a differentiated product. If they do, they will not be excluded. But the number of suppliers will be consolidated and held to higher standards as part of the company's new plans.

The new administration also hired a market research company to understand how customers perceive the company. 2,600 people were interviewed and a marketing plan is now being devised based on this feedback. Before the acquisition, Isabel, who was the "guardian" of the brand, defended the company's word-of-mouth communication strategy (inspired by the Body Shop approach). According to Sergio, the company must acknowledge its growth and how this affects expenditures in marketing and communications. In fact, these investments have already begun. In 2010, Mundo Verde advertised in all the main health magazines in Brazil.

Axxon Private Equity Fund is now the major shareholder of Mundo Verde. This fund was created by 99.5% ownership of Natix Private Equity, a subsidiary company of Natix, a French bank with investments in more than 690 companies around the world. So far, the Brazilian private equity company is seemingly pleased with the Mundo Verde investment, listing the company as one of the "stars" of its first fund. According to Bocayuva, Mundo Verde attracts attention from international investors due to its "green appeal".

Regarding the shareholder view of the company, Bocayuva says:

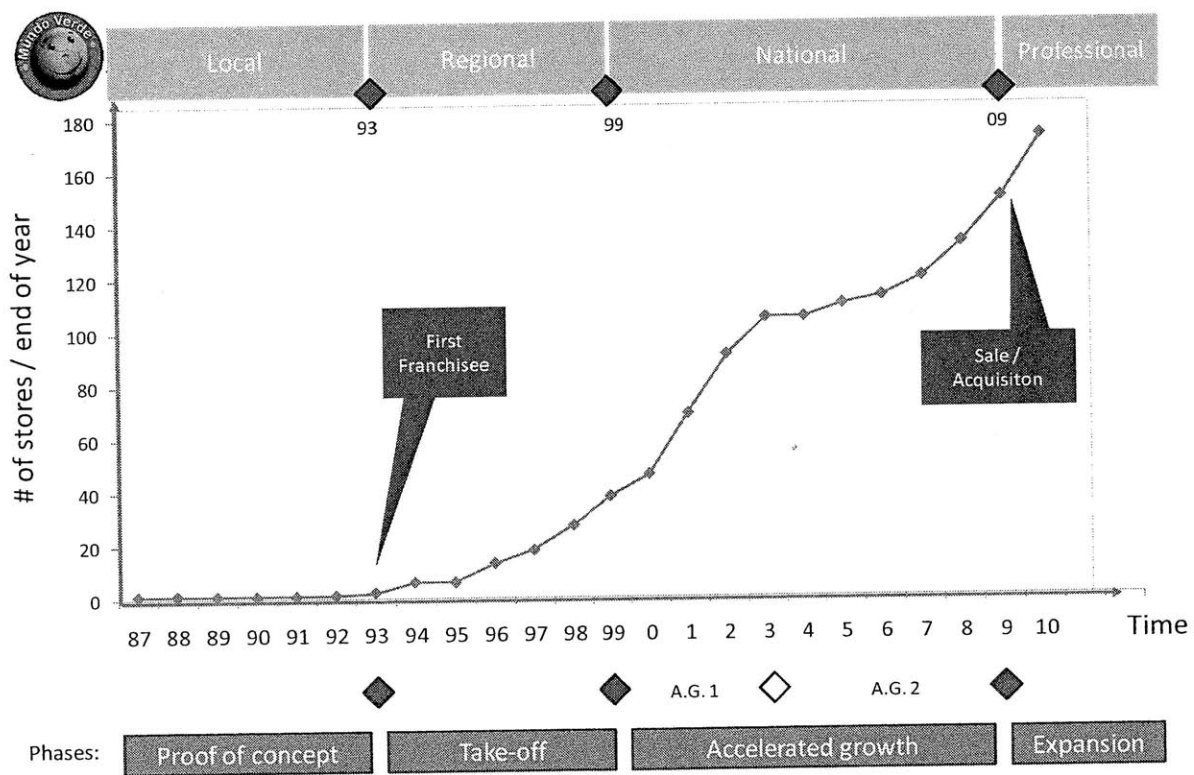
They know that the critical success factor for Mundo Verde is the brand, and the soul of this business. Although it [Axxon Group] has a complete financial results oriented view, they do not want to risk losing all the value and goodwill created around the emotional appeal of the company, because they know that this is its competitive advantage. Of course, if someone comes and offer fivefold what Axxon Group invested; they will say 'Bocayuva, we adore you, we are going to do business with you in the future, but we are going to sell your company anyway'."

The other shareholders are the CEO Sergio Bocayuva and the board of directors, who had the chance to buy company stock at the same time and at the same price as Axxon Group. This contributes to the connection between shareholders and the company's leadership.

Sergio and other directors expect to adjust their lifestyle to reflect Mundo's values. For example, they recently joined a nutrition program established by employees of the company. But the company's expansion plans and a demand backlog of 1,500 franchisee candidates require constant work and travel even though Bocayuva recognizes that this is not a healthy lifestyle.

Figure 3-4 describes the company history across growth phases. The number of stores of Mundo Verde franchise network is used as the metric to measure growth.

Figure 3-4 – Mundo Verde Growth Phases



Final Reflections

At Mundo Verde, some of the growth challenges came early in the company history during the transition to the franchise model. This shift generated tensions that accelerated over time and led the founders to realize that new leadership might be required for the company to continue to grow.

The new leadership team understands that the company's competitive advantage comes from its values. The fact that two of the original founders were invited to participate on the company's board is a good sign. The new shareholder arrangement, involving the private equity firm and the new directors of the company, also offers an example of how to align the goals and perspectives of different stakeholders. Moreover, the company is implementing professional management "best practices" to address some of their human resource and supply chain challenges.

CHAPTER 4 – ANALYSIS AND CONCLUSIONS

All organizations face challenges as they seek to grow and to expand to new markets, but hybrid organizations present a special case. In blending mission and profit, and in seeking to balance the two rather than to prioritize one over the other, hybrids take on competing commitments to a broad range of stakeholders. Many explicitly embrace a stakeholder approach that strives to incorporate diverse and often competing demands. While this may be fundamental to a hybrid's mission and vision, it is also a management challenge: the lack of a clear hierarchy of stakeholder demands creates tensions within the organization. Furthermore, while management may find ways to successfully resolve such tensions at any one point in time, new tensions are sure to arise again and again as the organization moves along its growth path – because, as I have shown, each stage of development tends to bring a new mix of stakeholders on board. New investors, new managers, new employees, and new customer segments all affect the direction of the company.

Therein lies the dilemma: hybrid organizations must scale up in order to create change at a societal level, but this growth will tend to upset the delicate balance already created among stakeholder needs. The hybrid organization will therefore be forced to continually re-think and re-negotiate the ways in which it occupies the gray area between the nonprofit and for-profit worlds – and at every stage there will be a new risk of failure.

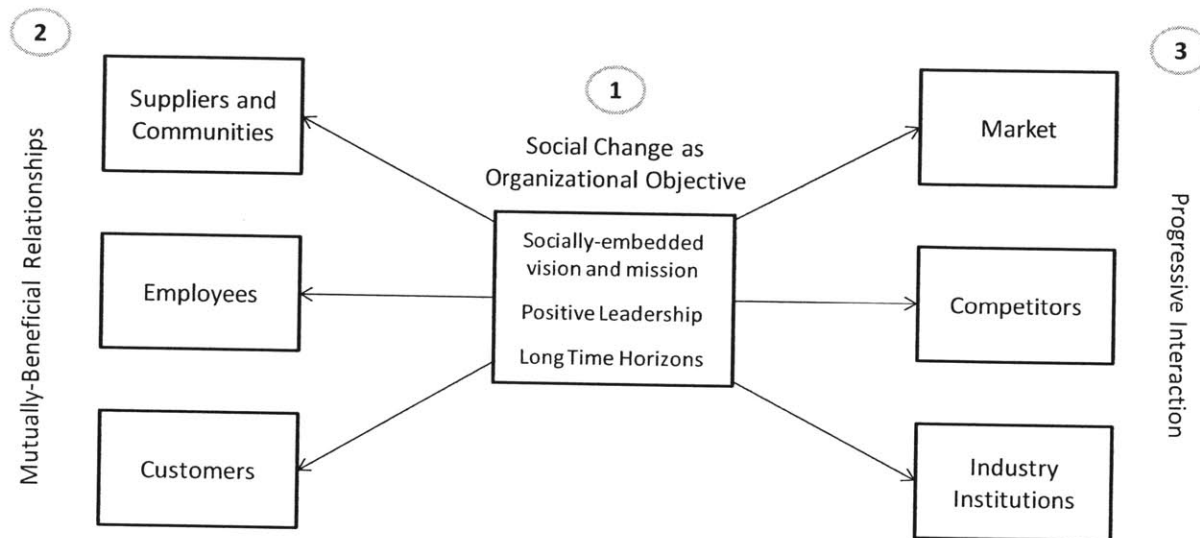
While the tensions inherent to hybrid organizations may never be completely avoided or fully resolved, I hope that a better understanding of them will create possibilities to anticipate them and to reduce their negative consequences.

This chapter examines the four case studies presented earlier, each of which focuses on a hybrid organization that has more or less successfully navigated its growth and reached a relatively influential size. Specifically, I explore the main tensions faced by these organizations. Drawing on the four case studies, I then explore the “root causes” of these particular tensions – paying particular attention to how they play out over the life-cycle of the organization. After that, I discuss the specific contribution of this thesis to the literature. Finally, I offer some areas for future research.

Case Study Analysis

The following framework was presented in Chapter 1.

Figure 4-1 – Framework “The Hybrid Organization’s Sustainability-Driven Business Model”



Source: Hoffman et al, in press, 2011, p. 30

Remember that Area 1 focuses on the “core” of the hybrid organization’s own governance and its business model, Area 2 focuses on the key stakeholders, or the “micro-level,” and Area 3 deals with the wider environmental context in which the organization is operating, or the “macro level.”

In the the four cases, I identified some “typical” tensions. Some of these tensions are amplified by the company’s economic growth. I use Hoffman’s framework to categorize the tensions hybrids face as they grow.

Tensions in the core:

- Socially-embedded vision and mission.
 - 1) **Deep sustainable values embedded in the organization vs. green brand value as a marketing ploy.** As the brand gains power over the time, the company’s products must meet the expectations of a larger base of customers, some of whom may not care about company’s core values.

- 2) **CSR as a core value of the company vs. CSR represented by the initiatives of a separate department.** This tension is about the extent to which the environmental and social values of a hybrid organization are embedded in its business model. It challenges the definition of a hybrid organization: Should any company that has CSR practices or a CSR department be considered a hybrid organization?
 - 3) **Shareholder vs. stakeholder values.** This tension may have legal roots, such as fiduciary responsibilities to shareholders of a public company. As the profile of investors changes – through private equity investment, IPO, and/or acquisition – do the values that drive the company also change.
- Positive Leadership.
 - 4) **Old vs. new leadership values.** As new executive leaders come on board, there may be doubts about their respect for the company founder’s values. This tension is particularly relevant during the transition from a founder-led organization to one headed by a “professional” CEO with experience in more “traditional” organizations.
 - 5) **Centralized vs. decentralized leadership style.** The tendency toward over-dependence on one leader, normally the company founder, can make that person’s leadership style very prominent in the company culture.
 - Long Time Horizons.
 - 6) **Short term vs. long term decision making.** It may be difficult for a growing company to maintain a long-term focus that is typical of hybrid organizations. A “high growth company” may mean that short term results are emphasized to support such growth.

Tensions in the micro-level:

- Suppliers
 - 7) **Suppliers are not able to meet orders or keep the same growth rate.** The original suppliers may not be able to meet the new volume requirements of the hybrid, forcing a search for new suppliers to fill the gap.
 - 8) **Suppliers with different “philosophies”** – In the organic food industry, scaling-up brought in new suppliers that met the technical requirements for organic production, but their use of mechanization and large-scale mono-cropping defied the “spirit” of organic farming.

- Employees
 - 9) **Celebrating employee values vs. implementing employee policies** – While employees are a valuable stakeholder group, and often reinforce the environmental and social values of the hybrid, unpleasant policies such as discipline and lay-offs are sometimes necessary.
 - 10) **Current employees question the rationale for economic growth.** While the strategies designed by the company may lead to economic growth, employees may not understand or appreciate the need for organizational growth – and may not be supportive.
 - 11) **Employees aligned with hybrid values vs. not aligned.** As “specialist” employees are brought on board from other companies, they may fill the organization’s technical needs but not share the values that are already embedded in the culture.
- Clients
 - 12) **Loyal clients identified with the values of the company vs. need to increase customer base.** New clients served are not necessarily aligned with company’s values, and meeting their needs can be seen as abandoning the needs of early clients.

Tensions in the macro-level:

- Market / Competitors
 - 13) **Education of the market vs. increasing competition.** While social or environmental goals may be best served by inspiring other companies to change their operations, the hybrid nonetheless needs to survive in a competitive marketplace – and that may require maintaining competitive differentiation.

Table 4-1 presents detailed evidence of specific challenges faced by the four organizations studied. The elements of Hoffman’s framework have been used to categorize these tensions. The evidence extracted from each case is presented in its respective column. Where/When a tension was managed well, a “[+]” sign precedes the text; where a tension represented a threat to the hybrid business model, a “[-]” sign is used instead. The numbers at the end of the each example categorize the type of tension according to the numbered list above.

Table 4-1 – Growth Tensions: Examples from the Cases

Framework Components	Cases			
	Seventh Generation	Stonyfield Farm	Green Mountain Coffee Roasters	Mundo Verde
Vision and mission	[-] Shareholder structure and the recent non-transparent changes in leadership pose questions on how the company's core values will be sustained over time. At the same time, Seventh Generation has become a "green brand" icon. [1]	[+] Good practice so far. Dependent on Gary and Danone continuous agreements in the future.	[-] The Keurig Platform, 88% of the revenues in 2010, represented a strategic shift with different environment consequences. [2] [-] There is a tension between shareholder values vs. stakeholder values, derived from GMCR status as a public company. GMCR seems to have managed this tension well to a certain point, but this tension may be accentuated after the acquisition of GMCR shares by the Italian group Lavazza. [3]	[+] Good practice so far. Dependent on the execution of the plans of the private equity firm and new entrepreneurs. The differences between the previous owners and the new shareholders are apparent in the management expertise required for the size of current operations.
Positive Leadership	[-] The relationship with the former founder was abruptly interrupted and a second new CEO was brought in last March. [4]	[-] Overdependence on the founder - " <i>Stonyfield is Gary, Gary is Stonyfield.</i> " [5]	[+]/[-] GMCR experienced a leadership transition from the founders to a new CEO in 2007. [4]	[+]/[-] Mundo Verde experienced a leadership transition from the founders to a new CEO in 2009. [4]
Long Time Horizons	[-] One reason for CEO changes was due to lack of growth in the short term. [6]	[-] Gary Hirshberg will keep control of the company only if he is able to maintain strong growth rates. This can create tensions in an organization that has always sought to choose the "right growth" for the organization, instead of "growth for the sake of growth." [6]	[-] After gaining recognition from its CSR efforts GMCR has today the image of a "fast growing company". This image creates an internal tension - how to keep growing while maintaining its values and how to reinforce those values with current employees and employees from newly acquired companies. [6]	[-] Mundo Verde Board and entrepreneurs support a high growth strategy - about threefold growth in 4 years. [6]
Suppliers and Communities	[-] The baby wipes case. Suppliers not always committed to supply	[+] Good practice so far. Stonyfield is one of the major	[+]/[-] Good practice related to Fair Trade coffee supply,	[-] " <i>Suppliers that have their brands associated with junk food</i>

	green products due to additional costs. [8]	players responsible for the growth of organic food in mainstream supermarkets and one of the leading corporate promoters of local sourcing.	although the share of fair trade coffee sourced by GMCR dropped from 32% (2009) to 24% in (2010). [7]	<i>are developing natural food lines. If they have a differentiated product Mundo Verde 'has to' buy it."</i> [8]
Employees	[-] In the history of Seventh Generation, the company had to face a massive lay-off (50% of employees). Later, the company lost almost all its original employees when spinning-off a business unit. [9]	[-] <i>"People, who are there [at Stonyfield] for a long time do not like change. They do not like the way the company is growing."</i> [10] [-] Specialized professionals are being brought in to perform new roles that are more appropriate for the company's current size. [11]	[-] GMCR employees question fast growth of the company. [10] [-] Cultural integration of acquired company employees. [11]	[-] "We hired people not aligned with the culture of the company." [11]
Customers	[-] Whole Foods was one of the main corporate players responsible for Seventh Generation's growth. Part of Whole Foods strategy was to differentiate its products to large supermarkets like WalMart. Last year, Seventh Generation announced a partnership to sell its products in 1,500 WalMart stores. [12]	[+] Good practices. The fact that Stonyfield was able to be sold in some mainstream supermarkets from the beginning eliminated the tension between channels (as a contrast to Seventh Generation which was associated with Whole Foods brand).	[-] Small- and medium-sized retailers do not get the same attention as in the past. Deals with McDonald's (2006) and Starbucks (2011) illustrate this change. In 2010, only 12% of the company's revenues came from the original wholesale model. [12]	[-] "Clients perceived that some stores were 'greener' than others." [12]
Market / Competitors	[-] Seventh Generation developed the market but large companies (i.e. Clorox) launched green products and took the lead when the market was sufficiently large. [13]	[-] Organic competition growth. [13]	[-] Fair trade competition growth. [13]	[-] Natural / healthy food promotion led to increased competition among suppliers. [13]
Industry Institutions	[+] Promoting cleaner products, B-corporations.	[+] Promoting organic and local, combating climate changing.	[+] Promoting fair trade.	[+] Promoting natural and health food.

NOTE: [+] / [-] represents ambiguity; or positive and negative aspects identified.

Based on these identified tensions, it is possible to address the original research questions presented in Chapter 1:

Must all hybrid organizations grow?

It is still a question for founders of these organizations. One can grow and sell-off as the founders of Mundo Verde did, feeling that their mission was accomplished – they had created a significant impact for society, higher than they expected. Others like Gary Hirshberg from Stonyfield Farm can recognize the value of maintaining control in order to continue managing the triple bottom line. Based on the cases selected, there is no evidence that hybrids should not grow; again, the question is how these organizations manage their growth strategy.

Can hybrid organizations grow and still maintain their triple bottom line values and practices?

Yes, it is a matter of how they manage their growth strategies. Stonyfield Farm is a good example of a hybrid that grew successfully while balancing the triple bottom line. Through its strategic partnership with Groupe Danone, Stonyfield was able to find a way to balance the need for capital to expand its mission, while at the same time maintaining entrepreneur control over the vision and main strategic actions of the company.

In all cases, it was found that the tensions increase over the time and that maintaining a balanced multi-stakeholder approach becomes more difficult. As hybrids grow, there is considerable risk of morphing into a more conventional business organization. To successfully address these tensions, it is necessary that shareholders and the company's leadership have a common understanding of what constitutes "value creation" in the organization.

What "financial" growth strategies for hybrids might enable them to achieve this balance?

Drawing on the four case studies, a "strategic partnership" was found to be particularly useful. Although tensions were created by the specific requirements of the contract between the founder of Stonyfield Farm and Group Danone, the model of strategic partnership (assuring the control of the founder) has proven effective for almost 10 years. The company was able to grow, increasing environmental and social impacts, while remaining true to its original values.

Founders or entrepreneurs of hybrid organizations should consider venture capital or private equity investments. But the success of this strategy may depend on the profile of the investors and the interests they stand for. Some of them can be found under the brand of “patient capital.” Seventh Generation’s recent leadership crisis shows the potential downside when investors do not share the original values of the hybrid organization. On the other hand, Mundo Verde highlights how such an investor can take the company to the next level while maintaining the hybrid’s original values.

In using the stock market to finance the company growth, the company should take even more precautions, and should be especially cautious of taking on fiduciary responsibilities to shareholders. Among the cases investigated, Green Mountain is the one most affected by the tensions “in the core,” related to “vision and mission,” “positive leadership,” “long time horizons.” It is questionable if the company will ever solve these tensions.

Contributions to Practice

My goal in exploring the tensions that arise within hybrid organizations was not purely academic. I believe that hybrid organizations have an important role to play in bringing about positive social and environmental changes. I would like to see them succeed. I hope that the insights developed in this thesis will assist hybrid organizations in foreseeing and in managing the tensions that they will inevitably face as they grow. In particular, I believe that I can contribute a useful understanding of how specific tensions are linked to specific growth phases. In fact, I would see the transition between growth phases as an important “root cause” of tensions among a shifting mix of key stakeholders.

Uncovering the Root Causes of Key Tensions

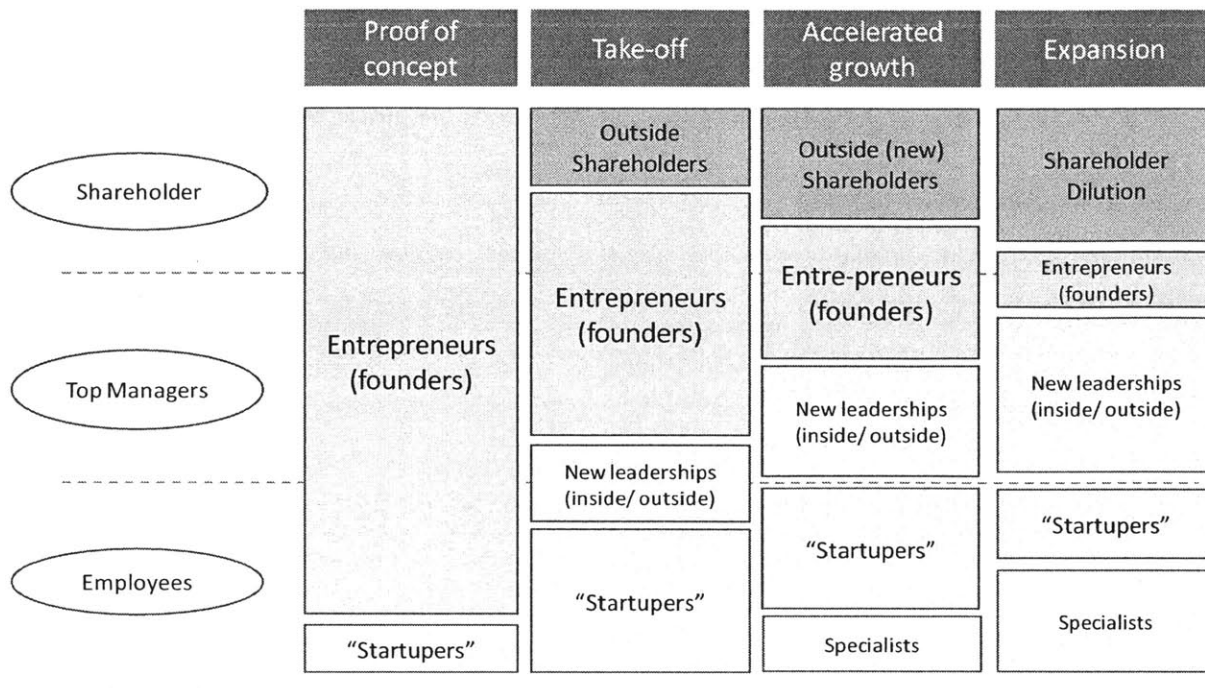
In defining the developmental phases of the hybrid organization, I was influenced to a large extent by the investor perspective and its focus on securing the necessary capital to lead a company to the next level. As discussed, some investment rounds bring with them a new shareholder structure, especially when an investment is made in terms of equity. Not only does the shareholder structure may change as the organization moves from one phase to another, so too do the organizational objectives. For instance, in the first phase (“proof of concept”), the main goal is to run the company as an “experiment” and to prove that whatever innovation has been proposed gets good feedback from the market. In the

“accelerated growth” phase, other abilities are necessary to scale-up operations whose value has already been proven. The need for a different set of competencies over time implies that different employee skills, and even leadership styles, will be necessary.

By following the growth history of four organizations, and by having the opportunity to interview the CEOs of some of these organizations, I confirmed what I tacitly knew based on my past experience in the “start-up world”: The addition of new stakeholders, or a change in their mix, represents a critical point of tension for these organizations. I link this change with the company growth phases because a move from one phase to the next may well shift stakeholder dynamics.

I see the following three groups as being particularly crucial in terms of their potential to create destabilizing tensions over time: **shareholders**, as they have a strong influence on the governance of the organization; **top managers**, the main formal leadership inside the organization; and **employees**, including those who join during the startup phase and those who come onboard at later stages. Figure 4-2 illustrates how the three key constituencies may evolve over time:

Figure 4-2 – Constituent Influences during Company Lifecycle



During the early stage, "Proof of Concept," entrepreneurs/founders are the shareholders, the leaders, and represent most of the employees. New employees drawn to the company in this stage will be attracted by the mission and values of the organization and will be likely to share the dream of the founders. These early recruits are called "startupers" in Figure 4-2.

In the second phase, especially if the company becomes attractive for investors and/or needs investment to grow, the entrepreneurs will have to take on outside shareholders – often professional investors. At this point, a new leadership will start being established; professionals from outside the organization may be hired and insiders of the company may start "speaking up" and become new leaders.

The third phase, "Accelerated Growth," amplifies these trends. Outside shareholders may gain more power through new rounds of investment, and new investors may come on board as well. The new leaders (from outside and from inside) will gain even more "voice." The entrepreneurs may now be surrounded by these groups, and will experience a dilution of their power. In addition, this is a point at which specialized skills may be needed; professionals with experience in specific functional areas may be

required, and these individuals may or may not have enthusiasm for the organization's mission and vision. This new group of employees is referred to as "specialists" in Figure 4-2.

Finally, in the fourth phase, "Expansion," the shift of influence inside the organization continues. At this point, the leadership position of the founders may be questioned, either by themselves (e.g., a desire to sell the company, and/or to have only a board member role in the company) or by the other shareholders (e.g., believing someone with a different profile needs to lead the company to further growth). The main problem for the organization at this stage could be the role of the original entrepreneur(s) in the future of the organization. There may also be a great deal of dissatisfaction among the original employees of the company ("startupers") if the organizational culture shifts. Finally, the company may also experience "shareholder dilution" as the small set of highly-involved investors who understand the organization's mission and vision expands to include a broader base of investors who are less interested in the original values and objectives.

Overall, the information gathered to build the cases also shows that the *most threatening* of these tensions are those that are irreversible. A falling out with a supplier or customer can be resolved, but a falling out with a CEO is much more difficult to resolve. Such tensions often occur close to the heart of the organization – i.e. within the hybrid's own governance structure. By the same logic, tensions among the organization's employees are also destabilizing. These are perhaps the most crucial tensions because they strongly affect all other elements in the hybrid environment.

Contributions to the Literature

Building on Hoffman's Model of Hybrid Organization

Although Hoffman's model proved to be an excellent tool to understand hybrid organization history and characteristics, two major shortcomings remained:

- The lack of representation of the key constituent shareholder. One can say that the concept of "Positive Leadership" could be extended to shareholders. In this way the description of the model should make it clear. But I still believe that "Shareholder long term commitment" should be explicitly represented inside the box of "Social Change as Organizational Objective."
- Based on my research, "Employees" could reasonably be placed in the core of the framework, i.e. within "Social Change as Organizational Objective" rather than within "Mutually-Beneficial

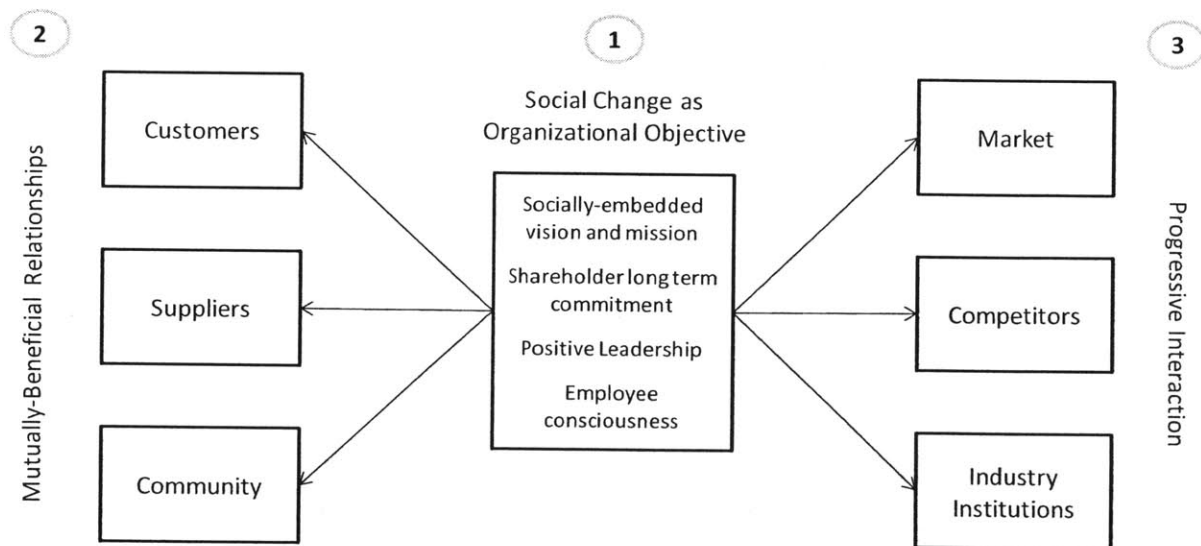
Relationships.” Although it is common to think of employees as a stakeholder group (and therefore a “relationship”), for a hybrid, this may be the case only during the later stages of growth. Early on, dedicated employees can help the organization develop its mission and vision, providing a solid foundation for the creation and maintenance of a company's culture. I therefore propose placing employees within the box “Social Change as Organizational Objective,” thereby granting them a protagonist role. Labeling this “Employee Consciousness” captures the importance of these constituents in defining the growing organization.

Other observations derive from the two points above:

- The “Employee” change from the second to the first part of the framework could also create room for having a more explicit role for the “Community,” distinguished from the “Supplier” category.
- The order of the Part 2 of the framework could benefit from a change, by putting the “Customers” at the top.

Figure 4-3 represents these proposed changes:

Figure 4-3 – Adapted Framework “The Hybrid Organization’s Sustainability-Driven Business Model”



Source: Adapted from Hoffman et al, in press, 2011, p. 30

Opportunities for Future Research

My four cases studies provided a range of information and enabled me to address the questions proposed in my thesis. That said, I wish I had time to include data points from additional cases and to expand my sample to include a more comprehensive range of industries and geographical locations. I think it would be useful to continue to track the original case study organizations for a sustained period of time, monitoring how they deal with specific issues identified in my analysis and whether or not they face new obstacles as the hybrid business matures. I would also like to see someone identify recently formed hybrid organizations, test my analysis of growth tensions against the challenges experienced by organizations that are younger than my sample companies, and follow their progress for an extended period of time.

To pursue further research based on my thesis, I recommend securing access to additional internal company documents and key informants. Due to the dynamic nature of companies and individuals, qualitative feedback from stakeholders is helpful in understanding how mission, vision, and values are incorporated into the company's structure, governance, and culture. Questions I would ask of founders, current managers, investors, and other stakeholders include: How do you choose investors? How do you plan shareholder structure and governance? What do you consider essential for good governance? How do you identify new leaders for your organization? How do you balance internal and external leadership? How do you address a changing employee culture as your company evolves? How do you create employee "ownership"? How do you build a resilient company that can navigate the risk of mission drift during times of growth?

One theme that I did not explore in detail but that is of great interest to me is the experience of companies who have received investments of "patient capital". I would be curious to see how these companies deal with the tensions raised in this thesis, if there are constraints to growth stemming from this specific type of investment, and if they have special policies to manage relationships with patient capital stakeholders. The discussion of patient capital raises another crucial issue for hybrid companies: the importance of nurturing a new breed of investor who is concerned with the environmental and social impact of business in addition to profits.

Appendix A: Description of Hoffman’s Framework

Elements	Core firm-levels qualities	Hoffman <i>et al</i> (in press, 2011)’s description
(1) Social Change as Organizational Objective	(A) Socially-embedded vision and mission	Hybrid Organizations (HO) “have values-based missions baked in” (Boyd et al., 2009: 1).
	(B) Positive Leadership	Leadership is particularly relevant to the development and operation of a HO. Much like a non-profit organization, there are strong links between the objectives and mission of the organization and the deeply held personal values of its employees. Employees often feel a sense of calling or purpose through their work in a HO. For that reason, leaders of HO must generally embody the culture and the strong social values that drive their organization’s mission.
	(C) Long Time Horizons	The social change objectives that HO adopt – potentially taking several generations to realize – often drive them to operate on a longer time horizon than traditional for-profit businesses.
(2) Mutually-Beneficial Relationships	(A) Suppliers and Communities	Rather than sourcing from suppliers on the basis of price alone and maintaining a strictly economic and transactional relationship, HO invest in deep personal relationships with suppliers, and develop an intimate understanding of what is required for the relationship to be mutually beneficial.
	(B) Employees	HO select employees who possess the sustainability values of the organization, ensuring that the organization’s sustainability identity (Hamilton & Gioia, 2009) is maintained.
	(C) Customers	HO develop a line of products that represent far more than simply the utility they provide. To their customers, these products are a projection of the values that they mutually share and an opportunity to express themselves through the companies’ positive sustainable identity (Hamilton & Gioia, 2009)
(3) Progressive Interaction	(A) Market	HO produce products for a sustainable market segment they seek to grow, not simply for their own benefit, but also for other firms in associated markets.
	(B) Competitors	The growing success and profitability of HO organizations and the markets they help to build has made them targets for competition with dominant incumbent firms that develop sustainable product offerings of their own.
	(C) Industry Institutions	While other companies seek to influence institutions to reduce regulation and external costs to protect their competitive advantage, HO seek to influence institutions to draw other companies into emulating them. In other words, while other companies seek to create barriers to entry to the markets, hybrids actively encourage entry.

Source: Hoffman *et al* (in press, 2011)

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