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Rise of the Hybrid Organization

This article argues that for enterprises to remain sustainable in today's challenging times, organisations need to address the needs of the stakeholders rather than only the shareholders. Cooperatives are an example of such enterprises. These hybrid organisations adopt a "blended value" approach in their business model, intertwining social and commercial goals.

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The Short Article series by the Centre for Cooperatives and Livelihoods addresses key aspects of the management of cooperatives, the livelihoods of stakeholders related to cooperatives and the sectors of economy impacted by them. The objective of these articles is to bring new ideas and perspectives on this vital area of the economy to practitioners and administrators.

The views and recommendations expressed are those of the author and not necessarily of the Centre for Cooperatives and Livelihoods or Lal Bahadur Shastri National Academy of Administration, Mussoorie, Uttarakhand.

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Rise of the Hybrid Organisation

COVID-19 has been ravaging the country and the world for the past year. Sadly, the disruption to life has been enormous, exposing the fragility of our existence. However, it has also led to critical introspection and debates on society and the nature of our cooperation. One of these topics is about the nature of enterprises and their role in society. Summarily, it is whether businesses are meant to focus on profit versus public good? While the debate itself has been old (*See "A Friedman doctrine-- The Social Responsibility of Business Is to Increase Its Profits", Milton Friedman, New York Times, Sep 13, 1970*), it has come to the fore owing to the turmoil caused by COVID-19. Businesses find their profits plummet and business models upended but having to keep up with the expectation of the stakeholders to contribute to welfare selflessly. Thus, the business model and its approach to stakeholder relationships assume great importance.

Hybrid organisations are one type of enterprise that blend multiple conflicting goals in their business model through institutional structures and governing mechanisms. Such organisations have been well studied in the health, agriculture, education sectors. These enterprises are called "hybrids" as they combine or "blend" multiple institutional objectives or goals together. For example, these might be goals to be commercially viable and serve the underprivileged.

A case in point could be the cooperatives where the principles of cooperation drive policies and culture to improve the livelihood of its members. An example of such organisations is AMUL (www.amul.com) and the Anand Pattern of cooperatives promoted by the National Dairy Development Board (www.nddb.coop). These institutions follow a three-tier structure of governance. Farmers select or elect their representatives at a village level on the board, who then get federated at a district level and then onto a state level. To a great extent, India's self-sufficiency in milk production owes to the replication of this model, first championed by Dr. Verghese Kurien. The business model entwines the social purpose of improving the livelihoods of smallholder farmers with the commercial objective of capturing a market in dairy products. Thus, the more milk that is sold, the more prosperous the farmer becomes. Farmers get an organisational identity and feel empowered, especially the women who tend to the cattle. As the dairy value chain becomes robust, so does the community's prosperity, both socially and economically.

In contrast to "for-profit" and "not-for-profit" firms, hybrids do not prioritise one goal over another. They seamlessly "slide through" the continuum of social and commercial objectives

as circumstances arise. Organisational structure and governance mechanisms aid in alleviating conflicts arising due to serving the twin purposes. The approach taken by the enterprises is to prioritise stakeholder concerns instead of the traditional firm's focus on shareholder returns.

The attribute of giving primacy to stakeholders assumes great importance in the context of value creation by enterprises. Corporate social responsibility (CSR), by many firms, is seen more as a tool for compliance than a purpose. This view of CSR for compliance is very different from it being a purpose as seen in the cooperatives mentioned earlier where value creation happens on three front: social, commercial and environmental. Thus, value creation becomes more inclusive in nature and hence promotes sustainability.

Leaders of businesses must question the purpose of their organisation and what value it delivers for their stakeholders and the society at large. Moran and Ghoshal in 1996, wrote in their theory of value creation by firms: "what is good for society does not necessarily have to be bad for the firm, and what is good for the firm does not necessarily have to come at a cost to society". Enterprises should examine a blended approach of serving social, commercial and environmental objectives in their business model rather than preferring only commercial and relegating the other two as an optional appendage .

As the realisation of its importance is increasing, hybrid organisations have started catching the attention of corporates too. Take Danone(www.danone.com), one of the leading global food and beverage business with dairy as a significant portfolio. It became one of the first multinationals to be certified as a B CorpTM (see Financial Times, June 26, 2020 article on "*Danone adopts new legal status to reflect social mission*"). It defines its approach as a "dual approach" combining both shareholder and societal values. Such changes by corporates mirrors the felt angst and expectations of society that look to enterprises delivering on more than mere products or services and shareholder returns. Evidently then, those that adapt themselves will win in the marketplace and be sustainable.

Learnings from research in this area indicate that leaders would do well to realise that proactiveness and transparent governance are the master-key in managing the hybridity. Strategic governance decisions must embody social value and sustainability considerations. This implies that managers and leaders must factor in the consequences of their decisions on the community where they are embedded or that they serve and the impact on the environment. Doing so lends the organisation with the power of an organisational identity among its stakeholders which, in turn, can well be a huge source of competitive advantage. This bears out as well in the case of our examples of AMUL and the dairy cooperatives.

As leaders of organisations and global citizens, it is the responsibility of executives to think about the purpose of organisations and how it contributes to the environment and to society. Organisations become sustainable when the belief systems of the enterprises and its stakeholders match. Most crucially, management needs to realise that a "blended value" for the stakeholders is commercially viable and sustainable for the enterprise and the planet.

It is clear from the debate raging all around that more hybrid organisations are needed for a prosperous future for both the enterprises and its stakeholders. Hybrids, such as the cooperatives, have shown that organisations can reap both social and economic value for their stakeholders. They achieve this by incorporating an organisational structure and processes that support practices such as good governance such as including stakeholders in the decision-making process, having a staff team that has experience of having worked in both commercial and social impact roles, having key performance indicators for both operational and social impact objectives and, above all, ensuring equity and transparency in decision making. Hybrid organisations provide management with a prized capability of being able to respond to not only the needs of shareholders and customers but also other key stakeholders, because "doing good" is ingrained in their business model canvas.