

A photograph of a person wearing a grey turtleneck sweater. They are holding a handful of blueberries in their left hand, and a single blueberry is falling from their right hand. The background is blurred.

SUSTAINABLE DEVELOPMENT AND BUSINESS

Markus Kallifatides and Lin Lerpold (eds.)

Sustainable development and business



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This book is dedicated to Marie Ehrling for her long commitment to enabling studies of management practice conducted by researchers at the Stockholm School of Economics. Her commitment to research has also greatly contributed to our mission of science-based education and, thus, our students' education. Marie has also acted as an important executive within the sustainability field. She is deeply knowledgeable of the dynamic nature between business and society, encompassing both challenges and opportunities, some of which this book addresses.

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Stockholm, December 2016

Markus Kallifatides and Lin Lerpold

¹ Up until 2009, the Annual Book was produced by Ekonomiska forskningsinstitutet (EFI), the predecessor to SIR.



Hybrid organization and social responsibility

– does the organizational form matter?

STAFFAN FURUSTEN AND SVEN-OLOF JUNKER

Introduction

Corporate social responsibility and concerns about how to transform business to become more sustainable are the subjects of lively debate today in media, research, education and organizations. The debate, literature and curricula are, however, often presenting this as something ‘new’ that should be added to ‘normal’ management and governance structures in organizations. In this chapter, we reassess this expectation. While it is true that CSR and sustainability more often are coupled with new forms of social enterprises and add-on activities undertaken by existing organizations, we argue that it is equally true that organizational forms that rank social responsibility highest on the agenda have existed for centuries. We specifically refer to three types of corporations: mutual companies, business cooperatives, and publicly owned enterprises. We define these types of corporations as formal hybrid organizations in the sense that they enact goals to confront and handle logics with differentiated tasks and sources of legitimacy. The meaning of *formal*, as we use it here, is that it is officially stated in the organization’s bylaws and official documents, as well as in public regulations that determine what mandate these kinds of organizations have, what power they have in controlling resources, and how they earn legitimacy (Greenwood and Hinings 1996).

Hybrids represent multiple normative frames that structure both organizational legitimacy and identity. We claim that this type of formal hybridity refers, for example, to companies with explicit objectives to handle societal challenges by running profitable businesses. It is remarkable to note both the

lack of empirically grounded management theories, as well as theories of the organization of social responsibility based on these types of corporations.

The discussion in this chapter aims to contribute to theories of organizing for sustainability and responsible business conduct based on data pertaining to how some hybrids in the private and public sectors have long had dual missions of combining social responsibility with making profits. The research question addressed in the chapter is to what extent the formal organizational structure impacts corporations' capacity to handle societal challenges and engage in responsible business conduct.

Handling diverging institutional logics through hybridity

According to the Swedish national encyclopedia, a hybrid refers to a combination of different species that normally has poor viability. It may be true in biological terms, but hybrids in social life are neither non-viable nor necessarily unfeasible. Rather, adopting strategies for handling hybridity is frequently conceptualized as a key managerial skill (Johansen et al. 2015). Managers are expected to have the abilities to gain the trust of, and establish legitimacy with, a wide range of different audiences. This suggests that real-time organizing is hybridized, meaning that the organizational hybrid blending different values and striving to satisfy different types of stakeholders with sometimes contradictory demands on the organization may in fact be more viable in the long run than organizations that stick very strictly to one organizational form in everything they do. Thus, it is not unlikely that many organizations in practice perform as hybrids while officially presenting themselves as if they are not. In a way, being a hybrid in practice can very well be normal, even if it is not regarded as legitimate to present the organization in these terms (cf. Brunsson 1994).

This intimates a classical dilemma in organization theory, as introduced by Barnard (1938): the difference between the formal and the informal organization. Meyer and Rowan (1977), while discussing myths and ceremonies in organizations, argue that organizations often need to decouple the formal and the informal organization, where the former is how the organization is presented and the latter is how they actually act. This suggests that the image of a hybrid is useful, since it reflects organizational practice in a more representative way. But some organizations are also hybrid in a formal sense, i.e., the way organizations officially present themselves as organizations where different organizational forms are blended.

In organization theory, differentiation is often made between three typical organizational forms, or social categories, to which specific properties and characteristics are devoted, namely the public organization, the limited corporation, and the non-governmental association (Sjöstrand 1992; Forssell and Ivarsson-Westerberg 2007). These are also assumed to be the most compatible organizational forms in the public, market and civic spheres, respectively. Organizations that do not clearly fit into any of these categories are likely to be perceived as some form of hybrids, and thus as organizations with problematic forms.

Still, although these organizational forms can be seen as ideal types that are criticized for being poor representations of organizational practice, they play central roles in the shaping of formal social order. Formal organizational forms are used as grounds for public legislation, and they constitute norms and meanings that form institutions. This suggests that these three different organizational forms are not only ideal types but also social prescriptions to which certain values and assumptions, today often referred to as institutional logics, are connected (Thornton, Ocasio and Lounsbury 2012). As observers, organizational stakeholders can expect certain patterns of behaviour from organizations complying with these institutional logics, and they are normally puzzled and confused when the organizations' actions do not match these predictions (Brunsson 1994). Thus, when organizations become hybridized in how they are presented, i.e., when their formal organizations do not clearly fit into a specific category, it is not unlikely that they will be regarded as problematic and non-viable, and perhaps in need of organizational reform to better match one or the other ideal type. In Table 1 below, the most typical characteristics of these ideal types of organizational forms used in organization theory are defined, as well as the institutional spheres in which they are expected to appear.

INSTITUTIONAL SPHERE	PUBLIC	MARKET	CIVIC
Organizational form	The public agency	The limited corporation	The ideological association
Main principals	State (including counties and municipalities)	Shareholders	Members
Purpose	Administration and service of public benefits	Profit and dividends to shareholders	Facilitate actions to reach common goals
Main stakeholders	Citizens	Customers	Members
Main source of financing	Taxes	Sales	Fees

Source: Adapted version from Sjöstrand (1992) and Forssell & Ivarsson-Westerberg (2007)

Table 1: Organizational ideal types

When corporations focus on sustainability and social responsibility issues, it means that properties from all three spheres should be considered, with potential conflicts between institutional logics being one possible outcome. That organizations in practice continually have to respond to multiple institutional demands is, however, not a new discovery (Besharov and Smith 2014). Selznick (1949) as well as Cyert and March (1963) noted that organizations have diverse expectations to live up to, including incompatible demands that sometimes imply decoupling between what organizations say and do in order to meet different institutional demands (DiMaggio and Powell 1983; Brunsson 1989). More recently it has been observed that organizations have broad repertoires of strategies available that they apply to handle different institutional demands. Pache and Santos (2010), for example, building on Oliver's (1991) framework of organizational strategies to manage institutional pressure, suggest that organizations engage in:

- Acquiescence – the acceptance of something without protest
- Compromise – the attempt to achieve partial conformity to accommodate demands
- Avoidance – the attempt to preclude demands

- Defiance – the explicit rejection of demands
- Manipulation – the active attempt to alter the content of demands

There is a growing literature on hybrid organizations today, but so far the main focus has been on other types of organizations than the established formal hybrids. Moreover, the ways in which formal hybrids have the capacity to handle conflicting demands has not yet been widely discussed. One strand of the literature focuses on new forms of organizations, such as social entrepreneurship ventures, and how they handle multiple values, such as cultivating social engagement, running effective organizations, making profits in combination with creating value for their main stakeholders, i.e., members, customers, or citizens (Battilana and Dorado 2010; Lahire 2011; Haigh and Hoffman 2012). In another strand, the focus is on how organizations handle conflicting institutional demands from the viewpoint of one of the traditional organizational forms defined in Table 1 above. Examples are studies of the healthcare sector where the implementation of NPM (new public management) reforms gradually over the last three decades has established markets and managerialism as dominant organizing logics. One consequence of this is de-professionalization and changed power structures, where the power of traditional professionals; the physicians, has been challenged by experts in management (Noordegraaf 2007; Blomgren and Waks 2015). In this literature, it is argued that organizations that initially belonged to the public sector (such as hospitals) now have become hybridized. They are still formally public organizations, but the organizing logic is no longer the typical public organization; rather, it is a blend of this and the limited corporation. Moreover, they no longer only work in the public sphere; instead, they also act in markets. Blomgren and Waks (2015) argue that this development has forced healthcare professionals to become hybrid professionals who must achieve high competency in management in addition to their medical credentials.

In this chapter, we arrive at the phenomenon of hybrid organizations from another end, the formal hybrids. While earlier studies focus chiefly on organizations belonging to one organizational ideal type, our focus is on organizations that are set up originally as combinations (or hybrids) of the three ideal types – that is, organizations that have from the outset intentionally blended categorical characteristics shown in Table 1.

Given that these types of organizations are formal blends of different organizing logics, it can also be expected that they respond differently to exogenous institutional pressure than do the type of organizations that the literature on responses to institutional pressure has studied (Powell 1987; Joldersma and Winter 2002, Pache and Santos 2013). We claim there is a lack of relevant discussion in both the literature and in practice regarding the formal capacity of different organizational forms to deal with the multiplicity of institutional logics, as well as pertaining to the repertoire of different responses that various types of organizations develop and enact.

A study of formal hybrids and social responsibility

The study is based on different types of data, and the overall approach is qualitative and explorative. The main set of data is documentation in the form of annual reports, sustainability reports, web pages, and official statistics. As reference material, we have also made use of ethnographic field notes from about twenty informal meetings one of the authors have had with managers in mutual companies, business cooperatives and publicly owned companies, as well as meta-organizations representing business cooperatives and civil society corporations between 2014 and 2016 (Folksam, Skandia, Länsförsäkringar, Alecta, AFA, AMF, Dina försäkringar, Fonus, OK, KFO, Famna, Ideell Arena). In these meetings, we mainly discussed the role of the respective organizations in contemporary society. In this chapter, we focus on nine corporations, three of each category of the chosen formal hybrids:

- Mutual companies: Folksam, Alecta, and Skandia
- Cooperative companies: Arla, Fonus, and Coop
- Publicly owned companies: Systembolaget, SBAB, and Samhall

Although we can divide formal hybrid organizations into the three broad categories of corporations, they are not uniform. The selection of examples is therefore based on the fact that we expect them to represent different groups within the categories. Thus, they are selected in an explorative mode to represent some variation in the type of organizations and activities. Based on the literature on hybrid organizations and institutional logics, we analyse our data in three dimensions. First, we compare how the organizations frame their *mission*. Second, we discuss the *institutional demands* we have observed that

they are struggling with and whether we see *dimensions of conflicts* here. Finally, we discuss the *organizational responses* we have observed that they adopt in order to handle the experienced conflicts. Before this analysis, however, we give some background as to why and for what purposes the type of corporations we focus on were founded.

Organizing to solve societal challenges is nothing new

Today, social enterprises are on the rise, with the purpose of running profit-making businesses both to do good in the core operations, e.g., by giving unemployed or disabled people meaningful work, or to get resources to do good as part of the business. To start a business venture in order to tackle societal challenges is, however, not new.

At the turn of the twentieth century, Sweden was still a poor and rural country. Growing urbanization and industrialization gave rise to a number of crucial societal challenges that could be handled by neither the weak state nor existing companies. In many instances, going collective was considered to be the right way forward. One example is that many local cooperative consumer associations were founded around the country in order to improve living conditions for impoverished and socially vulnerable groups of people by providing higher-quality food for lower prices. In 1899, some of these undertook a joint effort to establish a national association to join together all local consumer associations, KF (the cooperative federation)¹. Since KF's mission was to improve living conditions for its members and insurance was not an option for everyone, the recently formed organization initiated the establishment of the mutually owned insurance company for its members (1908), which after a number of years came to be known as Folksam². Thus, it was a societal challenge at that time to increase income and food security for impoverished people. Further, existing actors, such as firms on the market and public organizations, did not have the tools to tackle these challenges.

In a mutually owned company, the customers are also the owners. Once you sign up for and purchase insurance, you also become one of the owners. In our meetings with managers at Folksam, it has been said that the purpose of this organizational form is to provide 'utility to the owners' rather than dividends, as is the purpose of listed companies. A representative of another

¹ www.kf.se

² www.folksam.se

company in the insurance industry with a long history, Skandia (which in 2014 transitioned from a limited company to a mutual), described its vision as helping to facilitate a ‘richer life for their community of owners’, and not necessarily always in terms of monetary bonus. In their role as insurance companies, they need to adhere to regulations mandating that a certain level of risk capital is needed to safeguard their obligations in case the owners/customers need to use their insurance, but if they have an accumulated surplus above this limit, they can use these resources for the owners/customers, or to help give them a richer life, or however they choose to safeguard their owners/customers interests in the long run in a sustainable way (Alexius, Gustafsson and Sardiello 2016).

The idea with cooperatives is similar: to solve societal challenges by going collective. Most local consumer cooperatives were established for practical reasons. OK, the Swedish cooperative in the petrol industry that runs a nationwide network of gas stations (today in cooperation with Q8), was founded in 1926 by Swedish car owners³. As presented on the cooperative’s website, local car owners felt that the supply of gas in the country was insufficient and gas prices too high. At the time, the gas market was dominated by a few international actors, and OK says that founding a cooperative was considered to be a way to increase the power of the car drivers, to bring down prices, and to develop better supply chains for oil and gas in the country. Another example of a cooperative is the Swedish federation for farmers founded in 1905. Although local initiatives had been undertaken for this group more than a century earlier, it is said on the cooperative’s website that this was the first initiative that allowed for cooperation between regions. The purpose was to increase product quality, decrease purchasing prices and costs for transportation, and create a platform for exchange of knowledge and experience among farmers.

Both as individual organizations and as a group of organizations, cooperatives and mutual companies can be categorized as political actors, in the sense they are based on ideological claims for a better society. They exist to improve and do good. Many of the existing state-owned enterprises also have an outspoken social mission. Even those established with clear profit-making objectives are often under scrutiny for making political trade-offs in their operations

³ www.ok.se

(cf. Alexius and Cisneros Örnberg 2015). One example is the state-owned enterprise Systembolaget, which was founded in 1955 as a direct consequence of the government monopoly on the retail sale (outside registered restaurants and bars) of alcoholic beverages in the country. It has a social mission of controlling alcohol consumption in order to reduce negative health impacts on the population. Another example is the public bank SBAB, which began offering residential mortgages for citizens in 1985. The bank has numerous social missions, such as treating every client equally as well as engaging in activities aiming at improving housing conditions for marginalized groups. Recently, it has started offering other banking services like personal saving accounts and deposits for the corporate market and tenant-owner associations. A third example is Samhall, a state-owned enterprise established with a social mandate to create work that furthers the development of people with functional impairment that has reduced their working capacity.

These short narratives aim to show that the organizational form we label as formal hybrids in many cases were established to handle societal challenges. Referring to Table 1 presented above, we argue that formal hybrid organizations such as mutual companies, business cooperatives, and publicly owned corporations are all operating in the market sphere as corporations, but they actually exist to serve stakeholders rather than shareholders. Specifically, in the case of cooperatives, the stakeholders being served are members, meaning that the companies also operate in the civic sphere. Moreover, since they all have some form of public benefit as their core mission, they can also be seen as operating in the public sphere. This means that these types of companies are formally pooling different institutional logics, such as the for-profit corporation, the concept-based association (as in the case of the business cooperative that is owned by its members), mutual companies where the customers are also owners, and the public agency which exists for the sake of the common good. In the case of companies owned by the state, municipalities, or counties and thus indirectly by the citizens, the blend of all logics is perhaps most striking, since it is formally clear that the logics of political control and civic value are mixed with the logic of profit-making. We therefore call these organizations formal hybrids because the ability to handle mixed logics has been the goal from the outset.

Organizational legacy as a basis for legitimacy

Social mission still serves as the core value in the public reporting of most analysed mutually and cooperatively owned corporations. The companies do not, however, only refer to the social setting when they were founded; their organizational legacy is still frequently cited in presentations, as well as verbally in meetings, on their websites, and in documents. In annual reports, web pages, and ethical codes of conduct, as well as the sustainability reports that we have studied, the organizational legacy is very often given top billing. They frequently discuss why the companies were established and which social problems they have attempted to solve, as well as new societal challenges they have taken on.

One example of this is the cooperative retail firm Coop, the subsidiary of KF that was discussed above. On its website, the company states that it was established to improve the selection of food available for consumers under the slogan ‘Together we make a better deal’ (Annual Report 2015). Based on its legacy, Coop claims to have had a long-term commitment to sustainable development, and lists projects that are almost 100 years old as a way of ensuring that the goals of the company are still intact. Another example is in the 2015 annual report of the cooperative funeral agency Fonus. On its website, the emphasis is on the cooperative’s social mission and the handling of social challenges, which are identified as its chief purpose since it was established in 1945. In the annual report, it is also highlighted that the lack of regulation on the funeral industry led to rapid price increases in the post-war period. The purpose of founding Fonus, it is claimed, was to act as a ‘counterforce’ to economic injustices and to give everyone access to what the company calls an ‘honorable memorial’.

Similar type of inheritance is also a crucial part of the stories told by the mutual companies we have analysed. Alecta, for instance, claims to be one of the ‘architects’ of the Swedish occupational pension plan system. Since its start in 1917, Alecta has been ‘bold and far-sighted’, and therefore is ‘a core part of the construction of a more modern and safer Sweden’ (Annual Report 2015).⁴ Another example is Folksam, which in its 2015 Annual Report and on its website emphasizes its legacy and the fact that since its establishment it has

⁴ The firm today called Alecta started in 1917 under the name *Sveriges privatanställdas pensionskassa (SPP)*. The name was changed to Alecta in 2001.

continuously sought to offer insurance to people facing challenging social circumstances and marginalization.

The publicly owned companies we have examined do not emphasize their organizational legacy as much as the cooperatives and mutual companies do. State-owned bank SBAB, for example, maintains quite a low profile regarding its social mission. Systembolaget, on the other hand, claims that the basic impetus for its creation in 1955, i.e., to sell alcohol without focusing on making profits, remains the top priority for the company. One recent decision that seeks to enforce this legacy is that customers who are checking out from Systembolaget stores now encounter a sign asking, 'Hey, did you change your mind?' and a trolley in which to place unwanted bottles. The company's official reports features quotes from executives and representatives stating that they are proud of Systembolaget's social accomplishments (Annual report 2015).

The legacy of state-owned Samhall is framed in a slightly different manner. In 1980, the state decided to integrate many municipal companies into one central organization with regional offices. Cost-effectiveness and corporate governance appear to have been the major goals for integration and reforms since then, but this has been undertaken without changing the primary mission of the company to create stimulating jobs for persons with disabilities. The vision of the organization, as presented in the annual report from 2015, is to contribute to a society where everyone in Sweden can function as an asset in the labour market.

In sum, regarding organizational legacy, an organization's orientation, mission, and length of service seem to be crucial factors for building legitimacy in public communication for most of the organizations we have studied. In particular, the mutual companies and cooperatives seem to exhibit pride in their heritage and the founding impulse to solve social problems by bringing together, promoting, representing and defending their main stakeholders. Organizational legacy is central for these organizations in formulating their internal mission. Also, the examined publicly owned corporations communicate the historical rationale on a frequent basis. It is clear that these companies have been established as a political solution to a wider societal issue. However, the organizational legacy is positioned as neither a hindrance nor a boon when it comes to pursuing desired outcomes. Rather, managing the organization as a limited company is often illustrated as the most effective way of fulfilling the political goals.

Highlighting the pros and cons of being 'different'

Another core characteristic of the official communication from the organizations in focus is that they frequently point out that they are fundamentally 'different' from regular companies. In many cases, organizational differences are framed as justifications for sidestepping a commitment to a business rationale. Often, this type of rhetoric is related to the organizational legacy that was discussed above. However, characterizing the companies as different also grants some latitude for unconventional manoeuvres and actions. In our study of official reporting, we have identified three different ways of portraying organizational difference.

First, many of the analysed formal hybrids highlight that they have enacted a primarily stakeholder-focused approach to operations, in contrast to the shareholder focus normally associated with profit-making companies. Several of the organizations claim they intend to take responsibility for the entire value chain, adopting a more comprehensive approach than those adopted by typical profit-making firms. According to Arla's latest CSR report (2015), the cooperative strives to operate responsibly across the full cycle of milk production – 'from cow to consumer'. In annual and sustainability reports, Coop frames itself in a similar manner, claiming that farming and transportation to stores, as well as broader concepts of sustainable consumption, are all foundational elements of bringing its vision of sustainable development to fruition. Mutual Alecta states that it is a 'different' pension firm, citing the following reasoning: 'We do not advertise', [...] 'We do not sell any funds, we pay no commissions, and we have no fancy office networks'⁵. Alecta instead claims to focus primarily on how best to protect the pension savers' interests.

Secondly, another identified organizational difference is the practice of questioning the centrality of profits as the chief organizational goal. In the annual report of Folksam (much like Skandia, the mutual insurance company), it is noted that insurance companies' basic premise is to reduce costs by sharing risk. However, it states that at 'Folksam, we also share profits'⁶. This is not a wholesale rejection but rather a redefinition of the rationale behind profit-making as merely a matter of cost efficiency and economies of scale. State-owned Samhall acknowledges that its stocks are 'without dividends'.

5 Our translation from <https://www.alecta.se/Om-Alecta/Detta-ar-Alecta>

6 Our translation from <http://www.folksam.se/om-oss/om-folksam/det-har-ar-vi-vi-ar-kundagda>

Instead, profits are reinvested in the company. However, it is also claimed 'that active sustainability measures do not hinder business skills'. This is clearly an attempt to balance the expected positive effects of profits, such as cost-efficiency and consequential decision-making, with the expected negative effect of losing resources as disbursements to capital owners. State-owned Systembolaget, on the other hand, is profiled as a company largely disassociated from profits: 'A company that sells beer, wine and liquor without profit limits the alcohol problems in Sweden. That is good for society'⁷. Despite the statement, it is still clearly stated in the 2015 Annual Report that Systembolaget aims at reaching 'cost-efficiency and business-mindedness'. It is also obvious that the state-owned enterprise sets a goal of providing a source of income for the state.

And finally, some corporations in the study are portrayed as being different because they are more open and democratic. Cooperative Fonus, many members of which are nonprofit associations, asserts its organizational difference primarily by referencing democratic values. It is stated that all members of the organization have the power to choose representatives that make essential decisions for the operations of the company. Openness seems also to be a crucial factor for Skandia, established as a limited company in 1855. However, the company suffered several major crises in the early 2000s and was taken over by non-Swedish owners (Kallifatides, Nachemson-Ekwall and Sjöstrand 2010). Recently, the mutual subsidiary life insurance company and other parts of the former listed company have been reorganized with the mutual as parent company, now with the express objectives of regaining the faith and respect of its customers and owners under the motto 'full transparency and customer control' (Annual Report 2015). To bolster customer influence, a non-profit association named ProSkandia has been established to safeguard the mutual owners' interests in the company.

In official reporting, these differences are often contended to be advantages in terms of conducting business responsibly while simultaneously tackling societal challenges. This unique class of organization has some leeway when it comes to jettisoning some of the institutional demands normally associated with traditional companies. This could help them rationalize legacy as something essential for successfully carrying out the role of change agent in the

⁷ Our translation from <https://www.systembolaget.se/vart-uppdrag>

march towards sustainability. Nevertheless, finding the right balance is not always easy. The study indicates that mutual companies, and even more particularly, cooperatives can face problems in raising financial capital. Moderate profit expectations decrease the interest of investors. Instead of relying on organic growth, the cooperative Arla devotes a large portion of the text in its latest annual report to analysing the problem of raising capital for global expansion. Based on this problem, the cooperative has recently decided to issue a new type of financial bond aimed at institutional investors. In the annual report, the decision is characterized as a substantial shift towards market logics in the cooperative business.

On the other hand, the state-owned enterprises studied have also adopted values in conflict with an economic rationale, but these conflicts are rarely spelled out in formal documentation. For example, Systembolaget is not under much market pressure since it has a strict monopoly on retail alcohol sales in Sweden, with the exception of sales made in restaurants and bars. A change in its monopoly status would impose a totally new set of institutional demands. In the face of competition, Systembolaget could encounter problems retaining some of the values that make it 'different'. Another example is Samhall, which over the last two decades has reduced the number of people working for the company with over one-third, despite its vision of providing jobs to the most vulnerable people in society. A former chairman has accused the company of cutting the jobs of the most profoundly disabled staff members in order to achieve economic objectives.⁸ These organizational reforms in Samhall seem to indicate that the idealistic social goals adopted by an organization are sometimes impossible to achieve in practice.

Discussion: Is hybridity a means for handling conflicting logics?

In comparing the three categories of formal hybrid organizations – mutual companies, cooperatives, and publicly owned firms – we see both similarities and differences. All in all, it is clear that mutual companies and cooperatives are almost identical, with the main difference being that the mutual company exclusively has its current customers as owners. This means that if customers stop buying the product, normally an insurance policy, they are also giving

⁸ SvD Näringsliv 2016-04-04

up the rights of ownership. In cooperatives, the owners are members, but non-members can also be customers. This means that a mutual company's main concern is its customers, while the cooperative's chief concern is its members. Publicly owned corporations, on the other hand, have a wider concern. They are owned by and exist on behalf of all Swedish citizens in order to provide social benefits to the population on a long-term basis. So what unique capacities do formal hybrid organizations possess when it comes to handling conflicting logics?

Internal mission: Both mutual companies and cooperatives share similar internal missions; they emphasize their organizational legacy in their public presentations in documents, on the web, and verbally in interviews and meetings. Rhetorically, they build up an image that they were established to solve important social challenges, and that this legacy justifies their present and future existence. The image these organizations are trying to build is that they have done something beneficial for society in the past, and that they still are dedicated to the same mission. In emphasizing that they exist to make life better for their owners, customers or members in the long term, they are staking out a claim of uniqueness in the corporate landscape. In internal communications and rhetoric, publicly owned enterprises posit that they exist for the sake of social betterment; however, these types of communications tend not to focus on organizational legacy to the same extent. In these domains, the companies do not strongly contend that they are inherently different from the 'normal', profit-making, listed company. The main difference is that they in most cases are completely owned by public organizations. Still, although they are technically corporations, they continue to emphasize that their long-term mission is to be of societal benefit. In this dimension, publicly owned enterprises' social concerns are much broader than those of mutual companies and cooperatives, which only have a formal mandate to focus on their customers or members.

Conflicting institutional demands: The respective missions and institutional demands associated with the three categories of hybrid organizations rest on different institutional logics. They are all corporations, which means that they are expected to adhere to the same standards of behaviour and best practices as if they were traditional companies that generate profit, are autonomous and focus on strategy (Bromley and Meyer 2014). However, the mutual companies and cooperatives also draw upon the logics of the association,

since they are based on the idea of a shared interest that only accrues to the benefit of the owners. However, although this supposition seems to be very clear on the surface, it is also open for interpretation. Mutual companies claim, for example, that they are focusing on the needs of, and benefits to, not only the current owners, but also those that will exist in the future. This is arguably inconsistent with the logics underlying both the corporation and the association. Both of these logics dictate that the organization should focus strictly on the owners and the benefits that will accrue to them only, which means that the mutual companies' stated focus on the future is misguided. For insurance companies, this point is crucial, as it is necessary that they retain a sufficient number of owners at all times, so that if a disaster or event transpires that would force them to marshal their resources to support their policyholders, they would be financially capable of doing so. Thus, there is an inherent conflict extant in both mutual companies and cooperatives that have blended the defining characteristics of the corporation and association into one hybrid practice that simultaneously focuses on the demands of benefitting the customer and fulfilling the duties of an owner. The cooperative, on the other hand, is formally clearer in this regard. Customers must make an active choice in order to become a member, and there is no formal connection between being a member and being a customer. You can also be a customer without being a member, but you might not be able to access the lower prices available to members.

In a way, it is the same with the publicly owned enterprises. They are set up to take long-term, sustainable responsibility for core societal functions, but the organizational logics under which they operate are designed to be applied to the limited corporation. Moreover, citizens indirectly own them, and their customers are also citizens in most cases. Still, there is a conflict inherent in the fact that they are supposed to make profit in business relationships with their owners, the citizens. A common critique of publicly owned enterprises is their corporate governance structure. They are often accused of having weak owners who do not take ownership responsibility (Sjöstrand and Hammarqvist 2012). This is not surprising, because although citizens own them indirectly, owner performance is governed by particular social circumstances. As citizens, we are members of different communities, such as municipalities, county councils and states. We elect people to represent our will in local, regional, and national parliaments via public elections. It is at this level that

corporate governance is executed. This means that for citizens – the true owners of publicly owned corporations – there is a disconnect between being an owner in practice and executing governance. Most of us are not aware of, or bother to educate ourselves about, our ownership stake. This little-known ownership structure is probably even more complicated in the case of mutual companies. We are aware that we are customers when we sign up for an insurance policy and pay our premiums, but the fact that this also means that we become owners with the opportunity – and perhaps even the duty – to exercise corporate governance duties is not clear to most of us (cf. Michels 1962).

Organizational response: The dualities in internal missions, as well as conflicting formal institutional demands, shed light on what the struggle to attain legitimacy looks like in formal hybrid organizations. This means that there are demands on hybrid organizations that require a response. Depending on their degrees of awareness and comfort in being hybrids, they can respond to this in different ways. If there is widespread awareness within a hybrid that it is different and that this means the organization does not have to adapt to either one logic or the other in a strictly binary fashion, they can use the strategy of *avoidance*, emphasizing the argument that the pressure to adapt does not apply to the organization, precisely because ‘we are different’ (cf. Alexius 2007).

However, our observations indicate that it is likely that there are tendencies within the companies to emphasize one or the other logic. There are groups of people in mutual companies, for example, who think it would be better to opt for de-mutualization and become an ordinary listed corporation. On the other hand, there are people in the organizations we have studied who emphasize that they stand for a completely different view – they regard mutual companies and cooperatives as ideological communities and see the employees as civil servants representing the ‘members’ of these communities. This duality in views suggests that another common response is *decoupling* (Meyer and Rowan 1977), although this choice may not always be a conscious one. We observed that in formal reporting, the message is often conveyed that the companies are still dedicated to the organizational legacy and to addressing the societal challenges that were established to deal with. This is the official version. In various other situations, however, we observed that different representatives of these corporations tended to express contradictory visions of

what type of corporation the organization is, or should be, and where it is heading.

We also see, however, that they are struggling to grapple with the evolving environment. They take actions in order to place arguments in the media about the societal benefits of mutual companies and cooperatives. One example is an initiative undertaken by KFO, the association for employers in the civil service sector in Sweden – such as cooperatives and mutual companies – of arranging a seminar on the topic ‘Leadership in hybrid organizations’ at the 2016 Almedalen Week in Visby.⁹ This is an example of the political strategy *manipulation*, in that they are actively trying to shift or diminish the pressure on them by engaging in marketing, communication, and lobbying activities in order to change norms, standards, and rules according to which their results are assessed.

The publicly owned enterprises, however, do not seem to have as much trouble with their identity and institutional demands as do the mutual and cooperative companies. The typical response from them is the strategy of *compromise*, whereby they accept the demands directed towards them and struggle to uphold the governance mandate given to them by the owners, even as they strive to function as responsible market actors (Alexius and Cisneros Örnberg 2015).

⁹ The Almedalen week is an annual event in Visby, Sweden, where politicians, lobbyists, consultants, researchers, policymakers, corporations, etc., gather for discussions, negotiations, networking, and introducing their ideas into the public discourse.

CATEGORY OF FORMAL HYBRID	INTERNAL MISSIONS	CONFLICTING INSTITUTIONAL DEMANDS	ORGANIZATIONAL RESPONSE
Mutual	Organizational legacy	Financial surplus as means not ends Customers as owners Social customer related benefit rather than profit	Avoidance Decoupling Manipulation
Cooperatives	Organizational legacy	Financial surplus as means not ends Members as owners Social member related benefit instead of profit	Avoidance Decoupling Manipulation
Publicly owned enterprises	A limited corporation for the public benefit	Public benefit and self-financed activities Financial surplus as means not ends Making profit while taking long-term societal responsibility	Compromise

Table 2: A model for balancing conflicting institutional demands

Conclusions: Does the organizational form matter?

We have discussed three categories of formal hybrid organizations in order to explore organizational form's impact on organizations' capacity to handle societal challenges and engage in responsible business conduct. Due to the long history of the studied mutual companies, business cooperatives, and publicly owned corporations, it is evident that they are viable. The similarities between the three categories of formal hybrids studied here can also be seen as evidence that it is reasonable to categorize formal hybrids as a fourth typical organizational form.

Formal hybrids could be defined as operating mainly in community spheres, in the sense that their stakeholders are either owners or members and that they are formally set up in order to better the circumstances of the members in these communities. But they do that by acting in markets and repre-

senting civic interests. Their main principals are the communities of stakeholders that they constitute, thus their owners are the members of these communities. For mutual companies, the community consists of their customers (contemporary as well as future); for cooperatives, it consists of their members; and for publicly owned corporations, it is citizens in the nation, the county, or the municipality. Sales account for the chief source of financing, and for mutually owned corporations, the only source. This description characterizes formal hybrids as a distinct organizational form that we attempt to sketch more fully in Table 3 below.

INSTITUTIONAL SPHERE	PUBLIC	MARKET	CIVIC	COMMUNITY
Organizational form	The public agency	The limited corporation	The ideological association	The hybrid organization: Ideological corporation
Main principals	State (including counties and municipalities)	Shareholders	Members	Communities of stakeholders
Purpose	Administration and service of public benefits	Profit and dividends to shareholders	Facilitate actions to reach common goals	Service of benefit for the community
Main stakeholders	Citizens	Customers	Members	Owners: customers, members, and citizens
Main source of financing	Taxes	Sales	Fees	Sales

Table 3: Four typical organizational forms

Still, although it makes sense to see formal hybrid organizations as an analytical category with particular characteristics, it is a generally contested organizational form. One of our main empirical findings is that formal hybrids meet institutional demands that they should become more ‘normal’ corporations acting in the market sphere. So far, however, our observations tell us that they can handle this pressure and justify their difference by referring to their organizational legacy.

This, however, often entails institutional conflicts that need to be responded to. As shown in Table 3 above, mutual companies and cooperatives employ

similar types of strategies: they avoid, decouple, and manipulate in parallel processes. They manage to avoid the pressure by referring to their organizational legacy, but they also decouple depending on the situation they are in. To some extent, their references to their legacy can be interpreted as mainly being a discursive representation of what they are, thus the rhetoric in how they present themselves, while acting more or less as other market actors when they carry out their businesses. At the same time, they also manipulate the demands by propagating the need of the kind of organizational form they represent in contemporary society in order to take social responsibility by arranging seminars and making statements on their websites and in media, as well as challenging international financial standards and national financial regulation.

Publicly owned corporations, on the other hand, do not seem to have room for these ways of meeting institutional demands. They are formally a part of the political system as publicly owned, and as such, it is not acceptable for them to manipulate the system. They are also targets of media scrutiny, often in a more direct way than are the others, due to the fact that they are, however indirectly, citizen-owned. Thus, their existence is not voluntary like the other categories of formal hybrids. For these reasons, they are more likely to practice compromise, accepting their situation. Still, the fact that they exist to serve society gives them legitimacy to prioritize actions that strengthen sustainability and social responsibility.

So, does organizational form influence organization's capacities to handle dual missions and conflicting institutional demands? Although we suspect this is in fact the case, our analyses here do not provide a clear answer. More comparative research is needed. Still, based on our discussion, we claim that corporations organized as formal hybrids have dual missions integrated in their organizational legacy, and this gives them, we argue, heightened capacity to justify actions that deviate from the logics of the typical corporation (cf. Brunsson 1994). Moreover, formal hybrids are political, they were founded to deal with social challenges, and thereby have a long history of being engaged in political discourse and debate in their areas of practice, which means they have developed capacity to deal with opinions and conflicting demands from stakeholders. Their long-term perspective on the services they offer also justifies that they can engage in other types of actions and considerations that deviate from organizational stereotypes. Thus, formal hybrids function as organizational

chameleons, using different arguments over time and in different situations to justify their existence, actions, and performance.

This suggests that the formal organizational form may matter, that hybrid organizations seem to have other capacities different from those of typical corporations, public organizations, and associations. It is normal for them to meet and handle conflicting institutional demands, while this is more problematic for other types of organizations. This suggests that formal hybrids, despite being exposed to conflicting institutional demands, may have better capacity to handle them and be viable over time. It is legitimate for them to be different, to set shareholder value aside, and emphasize that they have legitimate reasons to take actions for the benefit of their stakeholders.

Does this give them better capacity than other organizational forms to take social responsibility? Our analysis supports the notion that this is likely to be the case, since taking social responsibility in practice means that the corporate logic is blended with the public and civic, and blending logics is what formal hybrids are legitimized to do. However, the question of whether they are better at taking social responsibility than are other organizations remains to be studied empirically. Due to their internal mission and organizational legacy, it may be that there is a risk that it is easier for formal hybrids than for other types of organizations to decouple from what they say they do. The questions of whether and in what specific ways they act responsibly today, and whether they are better equipped than other organizations to do so, can only be answered through more empirical studies.

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