Paper to be presented at
the DRUID16 20th Anniversary Conference
Copenhagen, June 13-15, 2016

Balancing Social Values and Profits in Social Business Hybrids: Scaling-Up Traps and Growth through Diversification

Esther Roca
Università Luigi Bocconi
Department of Management and Technology
esther.roca@unibocconi.it

Andrea Fosfuri
Università Luigi Bocconi
Department of Management and Technology
andrea.fosfuri@unibocconi.it

Marco Giarratana
Università Luigi Bocconi
Department of Management and Technology
marco.giarratana@unibocconi.it

Abstract

Organization scholars have recently studied the internal challenges and opportunities faced by companies that combine business and social logics (i.e., social business hybrids). This article addresses the implications of hybridity for strategic choices with products and businesses by focusing on the role of social business hybrids' customers. In the conceptual framework, social identity theory explains how hybridity generates both positive and negative demand-side externalities. Thus, hybridity can be a source of competitive advantage in the marketplace, but also create hurdles to firms' ability to scale up their business. Diversification represents a potential choice that simultaneously avoids a growth trap and preserves hybridity. This article analyzes the optimal type, timing, and scope of such diversification.

Jelcodes:M19,M19

Balancing Social Values and Profits in Social Business Hybrids: Scaling-Up Traps and Growth through Diversification

Abstract

Organization scholars have recently studied the internal challenges and opportunities faced by companies that combine business and social logics (i.e., social business hybrids). This article addresses the implications of hybridity for strategic choices with products and businesses by focusing on the role of social business hybrids' customers. In the conceptual framework, social identity theory explains how hybridity generates both positive and negative demand-side externalities. Thus, hybridity can be a source of competitive advantage in the marketplace, but also create hurdles to firms' ability to scale up their business. Diversification represents a potential choice that simultaneously avoids a growth trap and preserves hybridity. This article analyzes the optimal type, timing, and scope of such diversification.

1. Introduction

The notion that firms can have social objectives beyond profits has been around for decades, but this phenomenon has recently grown substantially, attracting the attention of both scholars and practitioners (e.g., Haigh et al. 2015; McWilliams and Siegel 2001; Porter and Kramer 20011; Sen and Bhattacharya 2001). Nowadays, thousands of ventures worldwide combine aspects of business with a social mission (Lepoutre et al. 2013), even overtly embracing social values as a primary component of their business model (Lee 2014). By 2015, 27 U.S. states had passed laws to legally incorporate new ventures as benefit corporations, defined as firms that contextually maximize shareholder value and meet certain socially responsible standards, including adherence to and support for specific social issues (André 2012). The B-Lab, a nonprofit organization founded in 2007, has certified more than 1,400 firms as B-Corps, such that they combine the power of business with the attempt to solve societal and environmental problems.[1]

These *social business hybrids* (Santos, Pache and Birkholz 2015), i.e., firms with a "double bottom line" associated with a social mission and a commercial logic, can prosper because they create synergies between social values and commercial goals, such that they mutually reinforce one another (Battilana and Lee 2014). However, the coexistence of profit and social goals requires an accurate synchronization between two different logics that must permeate all firm activities, decisions, and policies (Battilana and Lee 2014). Organization literature offers considerable insights into the opportunities and challenges faced by organizations with multiple logics (Havemann and Rao 2006; Marquis and Lounsbury 2007). These scholars point out how, despite the potential advantages, social business hybrids are prone to suffer from organizational, supply-side, tensions: They must overcome important internal hurdles to preserve their hybridity. For example, conflicting institutional logics can lead to organizational paralysis or breakup (Pache and Santos 2013; Tracey and Jarvis, 2006), even if human-resource practices and socialization policies (Battilana and Dorado 2010) might help preserve an organizational identity balanced between the logics. In other cases, social business hybrids either

[1] The B-Corporation certification is conferred by B Lab, to indicate that the B-Corp. has achieved a verified minimum score on the B Impact Assessment (80 points out of 200). However, being a benefit corporation is a legal status, so benefit corporations do not need to be certified. They instead are required to publish an annual report assessing their overall social and environmental performance against a third-party standard.

suffer a mission drift (Battilana and Dorado 2010) or become financially unsustainable (Tracey and Jarvis 2006). Collectively, organization literature has shed light on how social business hybrids can grow and thrive by implementing the appropriate design structures, governance mechanisms, and human resource management systems (Santos et al. 2015).

Compared to supply-side considerations, demand-side dynamics have been less investigated. We will argue in this article that positive and negative demand externalities are important for understanding the opportunities and challenges of social business hybrids. Using social identity theory, we will demonstrate that, under certain conditions, hybridity triggers demand-side dynamics. This holds true especially for social business hybrids that provide products and services to customers who are not recipients of the firm's social actions (Santos et al. 2015), but care about the symbolic meaning of their products and services (Fosfuri, Giarratana, and Roca 2015). While the universe of social business hybrids is much more variegated, these ventures are a vastly diffuse type of organization, especially among B-Corps and benefit corporations, the prototypical examples of our investigation. As a case in point, Little Sun is a German B-Corp. founded in 2012 by Olafur Eliasson and Frederik Ottesen. Its main product is a solar-powered lamp, designed to offer clean, affordable light to disadvantaged people living off-the-grid. However, Little Sun's economic viability comes from customers in industrialized countries, who, by paying prices up to 95 Euros for each lamp, generate healthy margins. How could Little Sun thrive in the market for solar-powered lamps in industrialized countries? Should Little Sun sell more lamps or should it diversify into other businesses? What is the role of hybridity in this strategic decision? When is hybridity a resource and when is it a liability?

Our three-step theoretical framework will address these questions with a demand-oriented perspective by explaining how strategic choices about products and businesses stem from, or are constrained by, a social business hybrid's intention to preserve its dual logic. First, we combine strategy research (Porter and Kramer 2011) with social identity theory (Tajfel and Turner 1979) to show how balancing social values and commercial aims creates demand synergies that give social business hybrids a competitive advantage in the marketplace. By engaging with social values, firms establish value-based relationships with customers who—while not benefitting directly from the firm's social actions—choose to support those values (Barnett 2007; Jones 1995). These investments in turn create positive demand externalities (Ye, Priem, and Alshwer 2012) that can ultimately translate into premium prices and loyalty to a firm's products and services, which also constitute symbols of social identity (Fosfuri et al. 2015). Indeed, for customers in industrialized countries, purchasing Little Sun's lamps associates them with an iconic, visible identity of environmental responsibility and equal opportunity development. In this case, the two logics reinforce one another.

Second, we argue that the balance between the two logics is subject to pressures that might tilt the direction of a social business hybrid exclusively toward commercial aims (Battilana and Lee 2014; Marquis and Lounsbury 2007). For-profit considerations could push social business hybrids to grow and expand their customer base beyond the individuals who care about the social values the firm supports. However, the inflow of customers outside the group of strong believers in the firm's stated social values dilutes the symbolic meaning of its products and services, which are the foundation of the firm's competitive advantage. In sum, hybridity could, in some cases, lead demand externalities to damage the positive returns of scale economies (Moore 1991).

Third, we propose a strategic solution to maintain hybridity without abandoning growth opportunities. We describe how diversification (Helfat and Eisenhardt 2004) might help overcome the scaling-up traps faced by social business hybrids; we also develop hypotheses related to the appropriate type, timing, and scope of diversification processes.

We offer three main contributions to extant literature. First, we complement the efforts of organization scholars who investigate the challenges faced by hybrid social ventures (Battilana and Lee 2014; Marquis and Lounsbury 2007; Pache and Santos 2013). Rather than looking "inside" at organizational, supply-side tensions and their resolutions (Battilana and Dorado 2010), we investigate "outside" the company, focusing on demand-driven dynamics in order to provide strategic implications for the choice of products and businesses. Thus, the relationship between social business hybrids and their customers takes center stage in a setting where hybridity is a resource for competitive advantage *only* if it can be preserved through selective strategic choices.

Second, this study contributes to recent literature that explicitly acknowledges that firms' resources can become liabilities in certain circumstances (Sirmon et al. 2010). In so doing, our theoretical mechanisms blend a standard Porterian approach, which explains the relationship between social engagement and competitive advantage based on differentiation, with the contribution of social identity theory (Tajfel and Turner 1979), which uncovers demand-side dynamics, both in terms of positive and negative demand externalities. Thus, preserving hybridity constrains the firm to a particular set of strategic options, because hybridity is both the source of a firm's competitive advantage and a main constraint to its scaling-up opportunities. In this respect, we also add to literature that defines the hurdles that firms face when they seek to grow by managing their core resources (e.g., Baum and Locke 2004; Hitt et al. 2001; Ireland et al. 2003).

Third, we contribute to the diversification literature (Helfat and Eisenhardt 2004; Palich et al. 2000; Teece 1982) by explicitly analyzing implications for social business hybrids' diversification strategies. This is in line with the recent interest in demand-driven factors (different from technology or production assets) of product diversification (Ye et al. 2012); we focus on the positive demand externalities that hybridity induces and that could be finalized in serving the same customers with diverse and likely unrelated products.

2. Theoretical Background

We first outline the boundary conditions of our theoretical framework by delimiting the population of companies we investigate. We then define the key concepts and theoretical approaches that we leverage to describe how balancing social values and commercial goals in social business hybrids can establish a competitive advantage in the marketplace.

2.1 Boundary conditions

The ventures we study are drawn from the population of hybrid organizations that combine business and social objectives (Haigh et al. 2015). Differently from the more traditional social ventures (Lee 2014), where aspects of business are only adopted to enhance the social mission, we address here companies for which the business logic is not subjugated to the social logic but rather exists on an equal footing. These *for-profit* ventures undertake strategic actions, decisions, and policies that reflect their long-term commitment, rather than a one-off choice, to support specific social values (Fosfuri et al. 2015; Maurer et al. 2011; Moss et al. 2011). The association with social values must permeate all aspects of a firm's activity and assume a prominent role in shaping its corporate identity. However, while supporting social values, our focal ventures must find ways to survive by competing in the marketplace. According to the taxonomy of social business hybrids recently proposed by Santos et al. (2015), our ideal subjects are the "coupling" hybrids, or firms with paying customers who are not direct beneficiaries of the firms' social actions. This type of social business hybrid presents the most difficult case in terms of economic success, in that it is not obvious why paying customers should prefer the hybrids' products and services over those of non-hybrid firms (Santos et al. 2015).

Another important boundary condition is the existence of customers who, not only care about a hybrid firm's social values, but also are subject to group identification with those values; this assumption is crucial for understanding both positive and negative externalities associated with demand-side dynamics. In this respect, social identity theory (Tajfel and Turner 1979) has demonstrated that any form of categorization—for instance, caring or not about a given social value—leads to social identification and in-group positivity.

As good examples of the types of social business hybrids we study here, benefit corporations and B-Corps tend to be firms that combine a social logic, which guides their mission, with a for-profit logic. For example, the first sushi restaurant certified as a B-Corp., Bamboo Sushi, explicitly states in its mission statement that its goal is "to learn, educate, and raise awareness about sustainable seafood, ocean, and environmental conservation" (http://bamboosushi.com/about-us/partners/) by selling its products and services. From a social perspective, it recently helped create and fund The Berry Islands Marine Preserve in the Bahamas to study regenerative fish processes; from a business point of view, the company has expanded to three restaurants in Portland, Ore., which offer tasting menus for about US$100 to customers who do not benefit directly from their social actions.

2.2 Creating a differentiation advantage by balancing social values and profits

Organization theory describes the likely consequences of combining multiple logics under the same organizational roof. Combining logics might stimulate innovation and the emergence of new practices and institutions (Starck 2009). Yet hybrid organizations, by definition, are arenas of contradiction. Their most important challenge is to avoid the dominance of either logic over the other, such that they strike a sustainable balance (Kraatz and Block 2008). Prior literature mainly focuses on the intraorganization tensions that are the basis of the unstable nature of social business hybrids (Battilana and Dorado 2010) and explores the challenges associated with the complex situations these firms face internally (Haveman and Rao 2006; Jay 2013; Pache and Santos 2013). Typically, the outcome of a power struggle between logics is that one prevails, with social business hybrids either suffering a mission drift (Battilana and Dorado 2010) or becoming financially unsustainable (Tracey and Owen 2006). Overall, this literature has shed light on how social business hybrids can grow and thrive by implementing the appropriate design structures (Battilana and Dorado 2010), governance mechanisms, and performance management systems (Jay 2010; Santos, Pache and Birkholz 2015).

Despite considerable advances in understanding these opportunities and challenges, relatively little guidance suggests how a company that embodies a social logic should compete by selling products and services. This question moves the perspective outside the boundaries of an organization and brings the relationship between a social business hybrid and its customers to center stage. In so doing, we adopt a strategy perspective to derive our conceptual framework, in which a venture that can combine a business logic with a social logic accrues a competitive advantage in the marketplace due to its hybridity. Our claim is that hybridity allows the focal firm to establish a relationship with customers who care about the supported social values and, additionally, lets the firm infuse symbolic meaning into its products, thereby making them more attractive for some customers (Fosfuri et al. 2015).

To build our conceptual framework, we first define social values and explain why people care about them. Then we illustrate the dynamics that unfold when groups share the same social values and explain how social-value considerations affect consumption patterns. Finally, we note that firms that embody a social logic can infuse their products with a symbolic meaning that reflects the supported social values.

2.2.1 Social values

Values have a central role in configuring people’s personal identity, which can be reinforced when groups hold common values or share cultural material that facilitate social identification (Ashforth and Mael 1989; Tajfel and Turner 1979). We focus on values that pertain to the broadly defined domain of social issues (Marquis et al. 2007), usually categorized as self-transcendent values (e.g., Adams et al. 2011), which encompass notions such as protection of the environment or economic and cultural revitalization of a specific community. People care, with varying degrees of intensity, about diverse social values; formally, they are differentiated in their tastes for social values. Thus, social values constitute key components of an individual identity by defining personal traits and social group membership (Ashforth and Mael 1989; Gecas 1982; Ibarra 1999). Note that we explicitly exclude values related to self-enhancement and dominance, as might be derived from luxury goods, because marketing psychology research indicates they conflict with self-transcendence and socially responsible images (Torelli et al. 2012).

We can characterize social values according to their degree of *distinctiveness* (Mehra et al. 1998). Some social values have a more universal appeal and tend to be held by most people; for example, few consumers would have problems being associated with the defense of human rights. Other social values are more specific (distinctive) and matter for only a fraction of the population (McGuire 1984); for instance, fewer people likely identify with protecting the Bocaccio rockfish (Terramar project). The degree of distinctiveness of social values might relate to some idiosyncratic feature of a population (e.g., geographical location, ethnicity, physical appearance) and be subject to variation across time (e.g., "organic" was distinctive a few decades ago but is less so today). Distinctiveness also is associated with the extent to which people perceive intense, sharp demarcations between an in-group (who care about certain values) and out-groups (who do not) (Tajfel and Turner 1979). Because given social values may have a high level of distinctiveness, they would be difficult to substitute with other, potentially unrelated social values.

2.2.2 Social values and identity

Identity comprises two components (Reed 2002): individual (sense of self) and social (group belonging). Social values matter because they (1) configure people's personal identity and (2) provide social identification. Social identity theory (Tajfel and Turner 1979) postulates that the sense of identity generated by social values is reinforced when accompanied by real or perceived membership in a social group. When a person regards him- or herself as a part of a social group, he or she derives self-esteem from that membership and adopts behaviors consistent with the social values associated with the group's identity (Shih et al. 1999) through processes of categorization, identification, and comparison. Specifically, the greater the extent of categorization, i.e., the fit between individual and group values, and of comparison, i.e., the separation between in-group and out-group, the stronger the identification and thus the identity derived from group membership. The distinction between individual identity and social identity is key for our theoretical mechanism: social identity, differently from individual identity, directly depends on group dynamics and is therefore subject to both positive and negative externalities (Tajfel and Turner 1979).

2.2.3 Identity and consumption

Social values influence not only the formation of individual and group identity but also consumption behaviors and choices. Research in consumer behavior, anthropology, and sociology indicates that consumers value products as much for their symbolic meaning as for their functional and technical performance (e.g., Belk 1988; Ravasi et al. 2012; Rindova and Petkova 2007). Consumption patterns and choices thus are indicative of customers' self-identity, such that people buy products to affirm their adherence to certain social values. Economics and identity research recommend adjusting traditional utility functions to include symbolic aspects related to social categories (Akerlof and Kranton 2000; Benjamin et al. 2010), to produce demand curves more in line with factual consumption decisions. Social identity forces can be reflected in consumption patterns when consumers buy products not only for the social value they signify but also for the social group they represent (Muniz and O'Guinn 2001). Utility for a customer and willingness to pay for a product thus are (positive) functions of the tangible quality of the product, the sense of self that the product invokes, and the social group affiliation the product establishes.

2.2.4. Hybridity and differentiation advantage

Social business hybrids interact with the marketplace at two different levels. First, by supporting certain social values, these companies establish a value-based relationship with individuals who care about a particular set of social values. Actions and policies that express a strong commitment to specific social issues act as value-bridging mechanisms (Maurer et al. 2011) by connecting the firm's products and services to the supported social values. Second, the social identity formed by people who care about the social values the firm supports generates a pattern of consumption that is aligned with such values. Given comparison processes, these people demand symbols that signify their adherence to a social group. Companies that establish a value-based relationship with such consumers are in a privileged position to infuse their products with symbolic meaning, thereby making them more attractive to those (potential) customers (Fosfuri et al. 2015). This process creates a differentiation advantage (Porter and Kramer 2011), because consumers who acquire a product for its symbolic meaning tend to exhibit greater loyalty and willingness to pay (Ravasi et al. 2012), given that their consumption activates or reinforces a particular sense of self and social identification.

Hybridity is at the base of this advantage, because social and profit actions tend to reinforce one another. On the one hand, a company's social commitment legitimates it as a specialized supplier of symbols of a particular set of social values, generating a differentiation advantage. On the other hand, its products, by acting as symbols, reinforce consumers' social identity, through their consumption patterns and the ensuing comparison processes.

3. Competitive Advantage and Size of the Customer Base

In this section, we consider a hypothetical social business hybrid that has infused its products with symbolic meaning and investigate the hurdles it faces in scaling up its customer base. For clarity of exposition, we first analyze the relationship between the size of the customer base and customers' average willingness to pay (WTP) for products (e.g., apparel, accessories, etc.) that signify adherence to a given social value (e.g., protection of the ocean and waterways).[2] Then we add cost considerations.

Customers initially targeted by and attracted to the social business hybrid's product offering are likely those who care about the supported social values, i.e., hold them in their identity set. For these customers, social investment by the focal venture creates a value-based link and infuses products with symbolic meaning, such that they are willing to pay more for those products (Ravasi et al. 2012). This *additional* average WTP represents the monetary value attributed to the symbolic meaning of the focal venture's products, after accounting for all other tangible and intangible product attributes. This WTP has two components: one is derived from an *individual sense-of-self effect*, that

[2] This illustration is hypothetical but realistic. For example, UnitedByBlue, a B-Corp. founded in Philadelphia in 2010, removes one pound of trash from oceans and waterways for every product sold, through cleanup events the company organizes and hosts.

is, a customer is willing to pay more just because he/she cares about the social values purported by the company. The other comes from the *social group effect* (Tajfel and Turner 1979; Reed 2002); that is, from the sense of identification with, and perceived membership in, a group that shares the same social values. The distinction between these two components is important because it is the social group effect that generates positive or negative demand externalities according to the size of the customer base.

Figure 1 depicts this relationship. On the vertical axis, we report the average additional WTP; on the horizontal axis, we display the size of a social business hybrid's customer base. We represent this relationship for two different social values, *A* and *B*, where *A* is a social value with a higher level of distinctiveness than *B*. For example, a firm's general commitment to waste less and recycle more (e.g., Ecobags) is not as distinct as facilitating the daily lives of people with disabilities (e.g., Komodo).[3] The number of people who hold social value *A* (*B*) in their identity set is C_A (C_B). In the graph, $C_A < C_B$, consistent with the notion that *A* offers a higher level of distinctiveness than *B* (McGuire 1984).

Consider the solid curve. We focus here only on the social group effect because the individual sense-of-self effect is independent of the size of the customer base. The average additional WTP is depicted to first increase and then decrease with the size of the customer base. The turning point is C_B. For sufficiently small customer bases (left of C_B), the company only addresses customers who hold *B* in their identity set. They receive symbolic meaning by purchasing and owning the company's products. In particular, these customers gain perceived membership in the group that shares the supported social values. As more customers with *B* in their identity set acquire the social business hybrid's products, categorization and comparison processes strengthen (Shih et al. 1999) and generate positive demand externalities because identification increases. Indeed, these customers develop stronger perceptions of group membership, and contextually, view those with dissimilar values as an out-group (Stets and Burke 2000). Thus, both shared identity and social differentiation are reinforced. As the venture's products acquire more identification power, customers' average additional WTP

[3] See http://www.ecobags.com/About-Us_2 and http://www.bcorporation.net/community/komodo-openlab-inc, respectively.

increases accordingly. These mechanisms explain how social and business logics can lead to a positive, self-reinforcing feedback loop: hybridity helps transform social group effects into WTP because products are perceived as symbols, and the power of symbols increases as their use in the relevant social group becomes more pervasive.

The focal social business hybrid also might enlarge its customer base beyond C_B, which is a critical point for our theoretical logic. It could well be that the demand for its products may be larger than just customers who share the supported social values. Customers who do not hold *B* in their identity set could be willing to buy the firm's products simply because they are interested in their tangible characteristics. These customers attach less symbolic meaning to the products and thus display a reduced WTP. To attract these new customers, the firm needs to lower its overall price or price discriminate and charge a lower price just to customers who do not hold *B* in their identity set.

Prima facie, this situation resembles a canonical niche strategy (Porter 1996): Companies target a customer segment by offering a product or service that matches the segment's particular tastes and then charge a premium price. The same companies could lower their prices to attract more customers (if doing so increases profits), or they can enact price discrimination (Armstrong 2006). For instance, one may argue that our target company could offer a "premium version" for customers who hold *B* in their identity set, with a higher price, and a "standard version" for everybody else, at a lower price. Even ignoring the difficulties of implementing price discrimination based on social values, the crucial distinction with a traditional niche strategy is that, for customers who hold *B* in their identity set, the social business hybrid's products are manifestations of group identity. If a venture's customer base includes individuals who progressively care less about *B*, categorization and comparison fade away; that is, the distinction between the in- and out-groups tends to disappear (Stets and Burke 2000). Hard-core believers in the social values the firm supports might react negatively because the process of group identification is compromised. The dissipation of the social group effect is the mechanism through which network externalities turn negative beyond C_B. As the customer base expands, the additional WTP for social identification drops, and customers who hold *B* in their identity set stop buying the products or even retaliate against the focal venture (Palazzo and Basu, 2007). In conclusion, moving beyond C_B is likely to create negative, self-reinforcing externalities that threaten the foundations of the company's competitive advantage, derived from its hybridity. This representation reflects quite closely the insights of Moore (1991), who points out how, under some circumstances, it could be a strategic mistake to over-value the power of scale economies relative to the power of demand externalities.

As an illustrative example, assume that Bamboo Sushi would like to increase its table turnover ratio during working days by proposing business lunch menus or by hosting business social events. Assume these activities also attract employees of Portland's large chemical companies, which are known to be polluters of the Willamette river, a natural habitat for wild salmon. If social group effects are present, and hard-core believers of Bamboo Sushi's mission are paying premium prices because of the power of group identity, they are likely to abandon the restaurant when eating there is no longer recognized as a sign of categorization.

This discussion highlights a key difference with the canonical niche strategy. In the Porterian view of horizontal differentiation, higher WTP results when product characteristics adhere to a particular landscape of customer preferences, usually *independent* of whether the firm's customers have different tastes. For example, if a beverage company targets customers with differentiated soda preferences, those customers will pay extra for a drink with a specific flavor. The average WTP might drop if the company attempts to sell the same drink to all customers, including those who do not prefer its taste, but those who like it will retain the same high WTP. If the firm can price discriminate, it can expand its customer base without any real harm. When hybridity exists though, this independence disappears, because the "niche" boundaries are defined by social values, not product preferences. This idiosyncrasy generates scaling-up problems: The locus of the competitive advantage comes from the social group effect and the demand externalities between social values and products, which are compromised when people who do not share the same social values join the customer base. Table 1 sums up the difference between the standard niche advantage and the competitive advantage based on hybridity.

[TABLE 1 ABOUT HERE]

Greater WTP is a necessary but not sufficient condition to create a competitive advantage;

costs cannot increase simultaneously (Porter 1996). The costs associated with a venture's engagement with social values probably include a fixed component (i.e., organizing events, parades, contests) and some variable elements that increase with the size of the customer base (e.g., social investments that depend on the revenues generated by its commercial activity). In Figure 1, we therefore include average cost curves (red lines) that display economies of scale. As one can observe, we assume that supporting less distinctive social values entails higher fixed costs because, for instance, the company has to organize broader and more visible actions (i.e., a worldwide campaign). On the contrary, in the same case, the marginal costs are smaller because it will require less effort to attract an additional customer to social values that are more universally appealing, i.e. that are less distinctive. Nonetheless, the insights would not change qualitatively if we have identical cost curves for the two types of social values. Beyond a certain level, the decline in WTP is greater than the decline in average costs, so performance starts to deteriorate. The difference between the curves representing the average additional WTP and the average cost associated with engagement in social values (i.e., value created) first increases and then decreases with the size of the customer base. Therefore, we propose:

> *Proposition 1: For social business hybrids, an inverted U-shaped relationship exists between the size of their customer base and their profitability.*

The dotted curve indicates the relationship for a company that invests in and supports social values *A*, which have a higher degree of distinctiveness. The additional average WTP thus starts with a higher value, in line with our previous arguments. The curve increases more steeply, but it starts decreasing sooner and more rapidly than it would for less distinctive social values. First, more distinctive values provide stronger identification and thus a sharper demarcation between the in-group and the out-group (Stets and Burke 2000). Second, by definition, C_A provides a stronger constraint than C_B. Third, when social values are highly distinctive, adding new customers beyond C_A implies a stronger incremental increase in the heterogeneity of their identities. The amount of economic value the focal venture can capture through social value commitment thus should decrease even more rapidly with the size of the customer base. On the basis of these arguments, we conclude:

> *Proposition 2: For social business hybrids, the relationship between the size of their customer base and their profitability is moderated by the distinctiveness of the supported social values, such that both positive and negative effects are stronger when distinctiveness is greater.*

[FIGURE 1 ABOUT HERE]

4. Strategic Choices

How should social business hybrids respond to the trade-offs imposed as their customer base expands? Are there risks of jeopardizing their competitive advantage and further business development (Hitt et al. 2001)? These questions are pertinent because the scaling-up trap originates from the same dual logic that led to the social business hybrid's success in the first place. What's more, organizational practices that address internal tensions might be insufficient to address negative demand-side externalities. In this section we discuss a number of different strategic solutions, while in the subsequent section we investigate in depth a specific growth pattern that preserves a venture's hybridity.

Some strategic alternatives imply that the social business hybrid prioritizes one logic over the other. The venture might renounce growth prospects, thus discounting the business logic, which likely appears consistent with the core social identity of the company. Doing so will keep the size of the customer base below the threshold level that triggers negative demand-side externalities. However, in the presence of fixed and sunk costs, constraining growth likely leaves money on the table, and it is detrimental for the social business hybrid's long-term viability (Gilbert et al. 2006). The bankruptcy of the British social enterprise Aspire is a good example of such risks. Aspire was launched in 1999 in Bristol with a double bottom line: help create jobs for homeless people, and distribute fair-trade products through catalogues and Aspire warehouses. While the causes of failure were multiple, one factor that limited its commercial success and expansion was offering a narrow range of products that failed to generate a sufficient stream of revenues (Tracey and Jarvis 2006).

Conversely, a hybrid might face pressure from different stakeholders, for example, financial investors, to scale up operations and expand the size of the customer base. Growth could generate internal tensions between the social logic and the business logic (Battilana and Dorado 2010; Pache and Santos 2013), but these tensions can be repaired using appropriate organizational solutions (Santos et al. 2015). More problematic is when growth also produces external tensions due to negative demand-side externalities—that is, when expanding the customer base dilutes the group identification effect associated with the venture's products. A case in point is Fearless Chocolate, a Californian company founded in 2006 to produce and sell organic chocolate bars free of gluten, soy, and dairy. It was focused on production techniques that, while preserving the nutrients, enzymes and anti-oxidants, had a minimal impact on the environment, from raw materials to packaging. Most importantly, the company was extremely active in supporting environmental programs and causes suggested by its customers. Fearless Chocolate obtained the B-Corp certification in 2011 and managed to establish a value-based relationship with customers who were willing to pay premium prices for its chocolate bars. After an initial success, the company embarked on a plan of sustained customer expansion that created inconsistencies among its social values, its product quality, and its price decisions. Fearless Chocolate was unable to overcome these inconsistencies and announced its closure in 2014.

How can social business hybrids scale up operations and still remain successful? There are different responses to this question. Consider North Face, which started as a "hard core" mountaineering brand with a strong commitment to the protection of wildlife and then opted to grow and include more heterogeneous customers. In this case, the strategic choice elevated the business logic in this company's hybrid positioning, such that its customers no longer really buy the firm's products for their original symbolic values. Such a transition is possible only if the firm's competitive advantage is not mainly based on its hybridity. In the case of North Face, the quality of its products and the awareness of its mountaineering brand are the two main drivers of sustained performance nowadays. Another company might try to limit the damage of expanding its customer base by separating different customer groups, such as through brand multiplications or differentiated products. For instance, the company could create a brand for a "premium version" for customers who care about a given social value, with a higher price, and another brand for a "standard version" for everybody else, at a lower price. Creating different brands, sub-units or product divisions might also solve internal conflicts between competing logics (Pache and Santos 2013; Battilana and Lee 2014). However, when social values and identity concerns are at issue, customers often are hypercritical and might not be persuaded by "cosmetic" organizational solutions. Where this option is feasible, though, the negative effects of enlarging the customer base should be weaker and the firm can grow, as exemplified by some hybrid firms that without compromising their independence are acquired by or serve as allies to established companies in the conduct of their sustainability strategies. For example, Plum Organics, a B-Corp. established in 2007 with the mission of "delivering nutrient rich, organic food into the hands of little ones in need across America" (http://bcorporation.eu/community/plum-organics), was acquired by Campbell Soup in 2013, but it operated under the legal status of a Public Benefit Corporation preserving its standalone identity . Nevertheless, potential challenges may arise for a hybrid relating to the authenticity of its values, organizational identity, and culture.

A final option might be a more dynamic interpretation of the size of the population of people with the given social value in their identity set. We assume that it is fixed, but for different reasons, it might change over time. In some cases, this is just an exogenous shift in the perception of potential customers. In others, firms might individually or collectively alter social trends, create opportunities, and spur growth. Research on categorization processes has shown that producers can gain greater legitimacy and nurture a market category by recruiting new entrants and customers, but at the risk of diluting the coherent collective identity that had been developed initially (Navis and Glynn 2010). For example, "organic" was a distinctive social identity in the 1970s, but the actions of standards-based certifying organizations (Lee, Hiatt and Lounsbury 2014) created a wider diffusion of organic products in the population, and thereby reduced their distinctiveness. If reduced distinctiveness is accompanied by a more-than-proportional increase in the size of the customer base, there are clear opportunities for growth and wealth creation, as the success of Whole Foods in the grocery sector and Patagonia in the clothing industry indicate.

5. Diversification: Type, Timing, and Scope

A firm that possesses resources that it can deploy in different domains has strong economic incentives to exploit them through diversification (Helfat and Eisenhardt 2004; Sakhartov and Folta 2014). These resources generally result from sunk investments, which generate important economies of scale and scope (Wang and Barney 2006). The same feature that makes a resource useful for achieving a competitive advantage—that is, the difficulty of replicating or imitating it—also implies that the firm may find it difficult to sell in a broader market (i.e., through licensing), because of the high transaction costs associated with arm's-length contracting (Teece 1982; Wan et al. 2011). Exploiting these resources through diversification instead emerges as a viable strategy, because the marginal costs of using them internally is small, and the expected benefits can be substantial (Markides 1992; Silverman 1999).

The mainstream logic for resource-based diversification posits that firms should maximize the use of their core resources across several businesses to realize additional returns (Markides and Williamson 1996). This logic can be applied to our case as well. Our strategic resource is not easily tradable because it entails social-values–based relationships with customers. Moreover, it is fungible to different applications. This intangible resource generates economies of scope from demand when customers, attracted by the social logic of the firm, seek to express their individual identities in different areas of their lives and flag symbols of this identity across different behavioral contexts (Rindova and Petkova 2007). A venture that can leverage the values-based relationship with its customers and become a unique supplier of symbols of certain social values thus achieves an opportunity to extend its symbolic meaning to other products. In this setting, coherent diversification implies an entry into new businesses, with the additional products carrying the same symbolic meaning and manifesting the same social values as the social business hybrid's original products. This diversification does not compromise the dual logic, because it does not add new customers (i.e., those who do not share the same social values) but rather expands to sell new products to a fixed customer base. The two logics, social and business, thus remain balanced: The social business hybrid grows, investments in social values persist as key components of the firm's business logic, and products continue to reaffirm customers' social identity.

> *Proposition 3. All else being equal, social business hybrids that grow through diversification are more likely to preserve their dual (business and social) logic than social business hybrids that scale up the same business.*

A mainstream view of diversification suggests that companies tend to diversify into industries in which their existing production and technological resources are more fungible (Markides 1992; Silverman 1999) and can be redeployed without substantial adjustment costs (Wu 2013). Therefore, they end up creating portfolios of products that relate in some production and/or technology sense but that in principle target very heterogeneous customers in different businesses. A canonical example of such a growth process is the diversification of DuPont from its polymer technology. For our study context, though, the resource that triggers diversification is the values-based relationship between a social business hybrid and a well-defined group of customers. Compared with a canonical technology/production-push case, diversification of social business hybrids implies *demand-pull* forces (Dosi 1988), which depend on the behavioral patterns of a particular set of customers. If diversification is driven by the extension of symbolic power across various business domains, the type of diversification will be mostly unrelated from a technology or production viewpoint. It is spurred by the opportunity to satisfy customers' needs for identification with given social values and fulfill their demand for products that symbolize support to those values.

The notion that economies of scope can be formulated in terms of demand-side benefits and diversification, built around the reuse and fungibility of market knowledge, is not new (Helfat and Eisenhardt 2004). Helfat and Lieberman (2002) postulate commonality in market-based resources (e.g., brands, customer relationships, recognized preferences and needs of key customers) as a driver of diversification. Chatain and Zemsky (2007) also explore the importance of a one-stop-shop effect, which allows customers to minimize their search costs and uncertainty. We advance a similar mechanism: The commonality of social values across different businesses enables customers to purchase multiple, diverse products from the same company and thereby enjoy reinforced social identity. However, the products that command the highest WTP, due to their symbolic meanings, are not necessarily the ones for which the production- or technology-based economies of scope are the strongest. This is rather different from ventures that follow only a business logic. These companies have more incentive to invest in scaling up the market with a single product or exploiting the canonical economies of scope from existing production and R&D assets. Therefore, we posit:

> *Proposition 4. Compared with ventures with only a business logic, social business hybrids display a higher degree of diversification unrelated to technology and/or production.*

Economic trade-offs still exist. Diversification creates substantial administrative, hierarchical, control, and information processing costs (Hoskisson and Turk 1990; Markides 1992). Some of these costs are fixed and require sufficient scale to make diversification profitable. In our context, diversification becomes relatively more attractive when the company grows to serve the majority of customers who hold a given social value in their identity set, because the potential costs of diversification can be spread across more units (i.e., customers). Although diversification preserves the firm's dual logic, it cannot occur in the initial phase of the social business hybrid's life but must wait until later stages (Ireland et al. 2003).

As Figure 1 shows, the diversification timing decision has strategic value, because social business hybrids face heterogeneous relationships between WTP and the size of their customer base, according to differences in the distinctiveness of the social values they embrace. More distinctive social values appear in the identity sets of fewer customers, and companies targeting social values with more distinctiveness will reach the critical size that makes diversification valuable more quickly. That is, the relative attractiveness of diversification is higher for a social business hybrid that invests in more distinctive social values, serving a smaller customer base. In addition, people who care about more distinctive values form more cohesive social categories, in which information flows and social comparisons are highly evident (Reed 2002). Diffusion processes correlate with the degree of homophily in social contexts (McPherson et al. 2001), such that when products acquire symbolic meaning, their diffusion within a social group occurs faster. The optimal size of the customer base thus should be reached sooner, all else being equal. Noting both the smaller absolute size and the faster rate of diffusion for symbolic products, we postulate:

> *Proposition 5. All else being equal, social business hybrids will diversify faster when the social values they support are more distinctive.*

Prior literature also identifies several constraints that might curtail the scope of this diversification. First, as a firm moves from more into less familiar businesses, its adjustment costs, representing inefficiencies in transferring and adapting resources to different products, tend to increase (Hashai 2015). Second, coordination costs, which result from the complexities of sharing and creating effective linkages across different products, increase as the company expands into more markets (Hashai 2015). Managers also face growing strain as they try to accommodate more and more disparate businesses (Markides 1992). Usually a firm begins by entering businesses that are more attractive (or have lower adjustment costs) and provide greater returns at similar levels of risk, then moves on to markets that offer lower performance (or have higher adjustment costs). If synergies do not increase exponentially with the number of businesses, the most recent diversification move will be less profitable than the first (Mitchell 2000). The interplay among adjustment costs, coordination costs, business attractiveness, and synergies then determines the scope of a venture's diversification.

We note two additional considerations that are relevant for our context. First, we do not expect synergies in production processes, because the strategic resource is not based on technology or production. Second, the dual logic of these ventures imposes specific restrictions on their diversification processes. Not all products can align with the specific social values supported by a firm, which adds another constraint on the scope of diversification. Thus, for example, if consideration of the previous constraints (e.g., adjustment costs, coordination costs) leads to the identification of five profitable businesses that the focal company could enter, considerations about social values might reduce that number to three. Atayne, a B-Corp. specializing in high-performance outdoor and athletic apparel, pursues environmental and social change through the power of active lifestyles. It arguably could use its high-tech production capabilities to create fabrics that supply non-active, pollution-creating sports (e.g., car or powerboat racing). Yet, if it were to do so, it would alienate the loyal customer base that attaches symbolic support for environmentalism and active lifestyles to its products.

This value-based constraint becomes even more binding when the social values of a venture are more distinctive, and thus elicit stronger group identity. Individuals who share a distinctive social value establish a clearer demarcation between their in-group and the out-group (Mehra et al. 1998). This boundary makes it more difficult to find products that might carry the same symbolic meaning. Therefore, the risk of value frictions of the type we described previously is greater when firms invested in very distinctive social values expand into other markets.

As Proposition 4 suggests, even if a company tries to enter production- or technology-related businesses first, these forces will not be primary in driving the process of diversification. The choice of businesses in which to diversify instead is dictated by the demand for products with symbolic meaning by the venture's customer base. In addition, the more distinctive the social values, the less likely it becomes that the same businesses would both be coherent with social values and support easy redeployment of the firm's current production and technology assets. Products that offer potential economies of scope from available production assets or technology (Helfat and Eisenhardt 2004; Wang and Barney 2006) thus should be exhausted more rapidly when social values are more distinctive. We conclude:

> *Proposition 6. All else being equal, social business hybrids whose social values are more distinctive will diversify into fewer businesses, and those businesses will be less related by production and/or technology to their initial business.*

6. Discussion and Implications

Hybrid organizations that combine a social logic with a business logic have proliferated recently, despite the challenges that such organizational hybridity poses to their management (Battilana and Dorado 2010; Pache and Santos 2013). Many social business hybrids, including B-Corps and benefit corporations, actively seek to thrive in the market for products and services by keeping captive economically valuable customers who might otherwise be attracted by competing offers from purely for-profit corporations. This paper advances a conceptual framework that helps understand how social business hybrids can position themselves strategically to prosper in the marketplace. Consequently, it underscores the role of demand-side dynamics, which constitute a natural complement to existing supply-side organizational perspectives (Battilana and Lee 2014).

Our study has important theoretical implications for different streams of research. There is an emerging body of scholarly work on the phenomenon of social business hybrids (Batillana and Dorado 2010). This literature has focused on some key aspects concerning the virtues and sustainability of this organizational form (Pache and Santos 2013; Batillana and Dorado 2010). However, with only a few recent exceptions (see, for instance, Santos, Pache, and Birkholz 2015), the question of how product strategies interact with a venture's social mission has gone unexplored. Firms with a social mission have proliferated rapidly (Lepoutre et al. 2013), often targeting customers who care profoundly about the supported social values but do not directly benefit from the companies' social actions. Our research provides one important theoretical insight: To understand this rising organizational form one has to take both an internal view and a market perspective. We argue that, for social business hybrids that sell products in the marketplace, fixing the organizational challenges associated with hybridity might not be enough to solve the tensions related to growth. Instead, they must also take care of potentially damaging demand-side negative externalities.

Our article has implications for mainstream strategy research, as well. Increasing attention has centered on firm resources that, while crucial for gaining a competitive advantage in some specific contingencies (Barney 1991; Dierickx and Cool 1989), may transform into liabilities in other circumstances (Sirmon et al. 2010). Our theory offers an interesting and novel way to interpret the mechanisms that generate this dual role for strategic resources. Hybridity provides advantages among a specific set of customers under certain conditions, but it might constrain a firm's opportunities to scale up. This scaling-up trap is determined endogenously by the same hybridity, because the value set a firm chooses initially will both propel its success and erect the boundaries to its growth. The more distinctive a firm's social values are, the more likely it will enjoy a competitive advantage *and* the more likely it will face constraints on its options for subsequent growth. We highlight a mechanism based on the existence of demand-side externalities among a social business hybrid's customers. These externalities, triggered by the hybridity of the corporation, provide an advantage when they are positive but generate tradeoffs when they are negative. In this respect, we respond to recent calls to place demand-side considerations at center stage in efforts to understand the growth of innovative firms (Ye et al. 2012).

Our work also offers insights into how a firm that aims to preserve hybridity can avoid scaling-up traps. We propose a corporate diversification approach that prioritizes the relationship between hybrid firms and their customers. Specifically, we argue that diversification can be a strategic tool for scaling up a business without disrupting hybridity, since hybridity is the company's fundamental resource (Helfat and Eisenhardt 2004; Palich et al. 2000; Teece 1982). For social business hybrids, diversification means providing more products to customers whose priority is expressing affiliation with a given set of social values. Several studies describe technological or production resources that can be extended to different businesses (Peteraf 1993; Silverman 1999), thereby creating relatedness through economies of scope in production inputs and processes (Helfat and Eisenhardt 2004; Palich et al. 2000; Teece 1982). In our case, diversification strategies instead seek to serve the same customers with diverse and probably unrelated products.

However, the type of social values a company supports can limit its options for diversification. Not all products will be consistent with those social values or could be infused with a compatible symbolic meaning. These social values also are conduits for spillover transmissions across businesses: Strategic choices in one business could be magnified and spread to other businesses (Sakhartov and Folta 2014). Entering a new market by launching a product that creates friction with the social values embodied in the rest of the product portfolio might hinder the symbolic meanings and impacts of all other products sold by the focal company.

Some important assumptions and boundary conditions also mark our conceptual framework. First, we focus on a theory that sees competitive advantage as an outcome of successfully balancing a hybrid firm's social and business logics. This mechanism requires the presence of customers who care about social values and attach symbolic meaning to the focal firm's products. Most importantly, it requires that purchasing the focal firm's products not only reinforces an individual customer's identity—because he/she cares about the social meaning attached to the product—but also creates a channel for group identification—because he/she gains perceived membership in a social category. Moreover, the number of customers who care about the particular values the firm supports—that is, the distinctiveness of those values—is independent from the firm's actions. Accordingly, we are likely to observe the strategies and trade-offs we have postulated herein only in specific industries. For example, our framework largely excludes business-to-business segments and commodity markets, where the mechanisms we model are mostly absent.

Second, we are interested in companies that aim to grow without compromising their hybridity, but as we noted, several alternative avenues to growth exist, some of which imply a substantial detachment from the social logic. For some companies, a hybrid identity may provide the initial boost that ensures their survival, but then become a liability in the scaling-up phase. Our goal was to understand how a social business hybrid can thrive and grow by preserving the balance between logics; it also would be interesting and relevant to perform a more general analysis of the various options. We hope to expand our conceptual framework to encompass these alternative possibilities in the future. In the meantime, however, it is worth noting that preserving hybridity in a company's growth phase could be an important condition for allowing social business hybrids to acquire solid legitimacy as an organizational form.

Third, we have underscored the relationship between hybridity and product market positioning, but we have ignored competition among companies. A natural extension of our framework would be to allow social business hybrids to compete with one another for the same customers For instance, in a recent paper, Kaul and Luo (2015) explored the conditions under which a for-profit venture with a social mission has a competitive advantage in the market for social goods. As in our case, a key condition is the presence of synergies between the social actions and the commercial aims. A more interesting extension would consider competition between two social business hybrids that target the same social values. If group identification is gained by purchasing any of the two firms' products, then demand-side externalities occur at the aggregate level, with important implications for both the benefits and timing of the optimal diversification strategy (Bowen and Wiersema, 2005; Santalo and Becerra 2008).

Throughout this study we have been agnostic about the demographic of social business hybrids. As our focus was primarily on the challenges faced by expanding social business hybrids, most of our examples and references were to young and small companies, which are more likely to face growth pressures (see Cabral and Mata 2003). Future research could explore to what extent our insights change as a function of the size of the focal company. Most of the internal challenges of social business hybrids that the organization literature has focused on (Pache and Santos 2013; Battilana and Dorado 2010) are likely to be exacerbated in large corporations. Crucial for our demand-side approach, large companies interact with large populations of diverse customers whose social values are unlikely to be homogenously aligned. Thus, any strong association between the corporation and a given set of social values might please some customers but potentially upset others (Maurer et al. 2011). For large companies, embracing a social mission around distinctive social values might be problematic. Their choice thus end up favoring more generic social values, with a more limited potential to create competitive advantage based on customers' social identification. Understanding how large corporations differ from smaller firms in their choice of supported social values offers an interesting avenue for further research.

Finally, while our goal was to systematize the existing knowledge about hybrid ventures and provide theoretical guidance on how to understand their product and business strategies, this article also offers also some implications for practitioners. In particular, social values that are more distinctive offer a stronger differentiation advantage to social business hybrids, but they also place more constraints on their growth. Assuming that the choice of social values is endogenous to the company, this finding represents an important consideration for managers who want to establish a competitive advantage but also scale up their firm's operations.

Another lesson for social business hybrids regards the managerial attention required for entry decisions and exit strategies. A social business hybrid must consider any potential value frictions that entry in a given market might induce. In some cases, the company will be well advised to stay out of some businesses, even if they pass the test of a simple cost–benefit analysis. Culling products that are no longer profitable, due to increased production costs or other efficiency considerations, also might be risky if those products are infused with strong symbolic meaning. If customers feel betrayed by a product line reduction, their negative reaction might spill over to other products the focal company sells. Thus, an important overall lesson is that a social business hybrid's businesses are no longer independent, but rather connected through the demand-side dynamics triggered by its commitment to social values.

6. References

Adams, R., Licht, A., & Sagiv, L. 2011. Shareholders and Stakeholders: How Do Directors Decide? ***Strategic Management Journal***, 32: 1331-1355.

Akerlof, G.A., & Kranton, R.E. 2000. Economics and Identity. ***Quarterly Journal of Economics***, 105(3): 715-753.

André, R. 2012. Assessing the Accountability of the Benefit Corporation: Will This New Gray Sector Organization Enhance Corporate Social Responsibility? ***Journal of Business Ethics***, 110(1): 133-150.

Armstrong, M. 2006. Recent Developments in the Economics of Price Discrimination. ***Cambridge University Press***, 42: 97-141.

Ashforth, B., & Mael, F. 1989. Social Identity Theory and the Organization. ***Academy of Management Review,*** 14: 20-39.

Barnett, M.L. 2007. Stakeholder Influence Capacity and the Variability of Financial Returns to Corporate Social Responsibility. ***Academy of Management Review,*** 32(3): 794–816.

Barney, J. 1991. Firm Resources and Sustained Competitive Advantage. ***Journal of Management,*** 17(1): 99-120.

Battilana, J., & Dorado, S. 2010. Building Sustainable Hybrid Organizations: The Case of Microfinance Commercial Organizations. ***Academy of Management Journal***, 53: 1419-1440.

Battilana, J., & Lee, M. 2014. Advancing Research in Hybrid Organizations. ***Academy of Management Annals***, 8: 397-441.

Baum, J.R., & Locke, E.A. 2004. The Relationship of Entrepreneurial Traits, Skill, and Motivation to Subsequent Venture Growth. ***Journal of Applied Psychology***, 89(4): 587-598.

Belk, R.W. 1988. Possessions and the Extended Self. ***Journal of Consumer Research***, 15(2): 139-168.

Benjamin, D.J., Choi, J.J., & Strickland, A.J. 2010. Social Identity and Preferences. ***American Economic Review,*** 100(4): 1913-1928.

Bowen, H., & Wiersema, M. 2005. Foreign-Based Competition and Corporate Diversification Strategy**. *Strategic Management Journal,*** 26:1153-1171.

Cabral, L., & Mata, J. 2003 On the Evolution of the Firm Size Distribution: Facts and Theory ***American Economic Review***, 93(4): 1075-1090.

Chatain, O., & Zemsky, P. 2007. The Horizontal Scope of the Firm: Organizational Tradeoffs vs. Buyer-Supplier Relationships. ***Management Science***, 53(4): 550-565.

Dierickx, I., & Cool, K. 1989. Asset Stock Accumulation and Sustainability of Competitive Advantage. ***Management Science,*** 35: 1504-1511.

Dosi, G. 1988. Sources, Procedures, and Microeconomic Effects of Innovation. ***Journal of Economic Literature***, 26: 1120-1171.

Fosfuri, A., Giarratana, M., & Roca, E. 2015. Walking a Slippery Line: Investments in Social Values and Product Longevity. ***Strategic Management Journal***, 36, 1750-1760.

Gecas, V. 1982. The Self-Concept. ***Annual Review of Sociology***, 8: 1-33.

Gilbert, B.A., McDougall, P.P., & Audretsch, D.B. 2006. New Venture Growth: A Review and Extension. ***Journal of Management***, 32(6): 926-950.

Haigh, N., Walker, J., Bacq, S., & Kickul, J. 2015. Hybrid Organizations: Origins, Strategies, Impacts and Implications. ***California Management Review***, 57(3): 5-12.

Hashai, N. 2015. Within-Industry Diversification and Firm Performance: An S-shaped Hypothesis. ***Strategic Management Journal***, forthcoming.

Havemann, H., & Rao, H. 2006. Hybrid Forms and the Evolution of Thrifts. ***American Behavioral Scientist***, 49: 974-986.

Helfat, C., & Lieberman, M. 2002. The Birth of Capabilities: Market Entry and the Importance of the Pre-History. ***Industrial and Corporate Change***, 11(4): 725-760.

Helfat, C., & Eisenhardt, K. 2004. Inter-temporal Economies of Scope, Organizational Modularity and the Dynamics of Diversification. ***Strategic Management Journal***, 25: 1217-1232.

Hitt, M.A., Bierman, L., Shimizu, K., & Kochhar, R. 2001. Direct and Moderating Effects of Human Capital on Strategy and Performance in Professional Service Firms: A Resource-Based Perspective. ***Academy of Management Journal***, 44(1): 13-28.

Hitt, M.A., Ireland, R.D., Camp, S.M., & Sexton, D.L. 2001. Strategic Entrepreneurship: Entrepreneurial Strategies for Wealth Creation. ***Strategic Management Journal***, 22(6-7): 479-491.

Hoskisson, R., & Turk, T. 1990. Corporate Restructuring: Governance and Control Limits of Internal Market. ***Academy Management Review***, 15: 72-87.

Ibarra, H. 1999. Provisional Self: Experimenting with Image and Identity in Professional Adaptation. ***Administrative Science Quarterly***, 44(4): 764-791.

Ireland, R.D., Hitt, M.A., & Sirmon, D.G. 2003. A Model of Strategic Entrepreneurship: The Construct and its Dimensions. ***Journal of Management***, 29(6): 963-989.

Jay, J. 2010. Navigating Paradox of a Mechanism of Change and Innovation Paradox in Hybrid Organizations. ***Academy Management Journal***, 56: 137-159.

Jones, T.M. 1995. Instrumental Stakeholder Theory—A Synthesis of Ethics and Economics. ***Academy of Management Review,*** 20(2): 404-437.

Kaul, A., & Luo, J. 2015. The Economic Case for CSR: When Profit-Maximizing Firms Have an Advantage in the Provision of Social Goods. ***Academy of Management Best Paper Proceedings***. Vancouver, Canada

Kraatz, M., & Block, E. 2008. Organizational Implications of Institutional Pluralism. In R. Greenwood et al. (Eds.), ***Handbook of Organizational Institutionalism***, pp. 243-276. London: Sage.

Lee, M. 2014. Mission and Markets? The Viability of Hybrid Social Ventures. ***Academy of Management Proceedings,*** abstract 13958.

Lee, B.H., Hiatt, S., Lounsbury, M. 2014. Mediators and the Tradeoffs of Legitimacy-Seeking Behaviors in a Nascent Category. Available at SSRN: http://ssrn.com/abstract=2615964 or http://dx.doi.org/10.2139/ssrn.2615964

Lepoutre, J., Justo, R., Terjesen, S., & Bosma, N. 2013. Designing a Global Standardized Methodology for Measuring Social Enterpreneurship Activity: The Global Enterpreneurship Monitor Social Enterpreneurship Study. ***Small Business Economics***, 40: 693-714.

Markides, C. 1992. Consequences of Corporate Refocusing: Ex Ante Evidence. ***Academy of Management Journal***, 35(2): 398-412.

Markides, C., & Williamson, P. 1996. Corporate Diversification and Organizational Structure. ***Academy Management Journal***, 39: 340-367.

Marquis, C., Glynn, M.A., & Davis, G.F. 2007. Community Isomorphism and Corporate Social Action. ***Academy of Management Review***, 32(3): 925-945.

Marquis, C., & Lounsbury, M. 2007. Vive la Resistance. Competing Logics and the Consolidation of U.S. Community Banking. ***Academy Management Journal***, 50: 799-820.

Maurer, C.C., Bansal, P., & Crossan, M.M. 2011. Creating Economic Value Through Social Values: Introducing a Culturally Informed Resource-Based View. ***Organization Science***, 22(2): 432-448.

McGuire, W. J. 1984. Search for the Self: Going Beyond Self-Esteem and the Reactive Self. In R. A. Zucker, J. Aronoff, & A. I. Rabin (Eds.), ***Personality and the Prediction of Behavior***, pp. 73-120. New York: Academic Press.

McPherson, M., Smith-Lovin, L., & Cook, J.M. 2001. Birds of a Feather: Homophily in Social Networks. ***Annual Review of Sociology,*** 27: 415–44.

McWilliams, A., & Siegel, D.S. 2001. Corporate Social Responsibility: A Theory of the Firm Perspective. ***Academy Management Review,*** 26: 117-127.

Mehra, A., Kilduff, M., & Brass, D.J. 1998. At the Margins: A Distinctiveness Approach to the Social Identity and Social Networks of Underrepresented Groups. ***Academy of Management Journal***, 41(4): 441-452.

Mitchell, M.F. 2000. The Scope and Organization of Production: Firm Dynamics over the Learning Curve. ***RAND Journal of Economics***, 31(1): 180-206.

Moore, A.G. 1991. ***Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers.*** New York: HarperCollins.

Moss, T.W., Short, J.C., Payne, G.T, & Lumpkin, G.T. 2011. Dual Identities in Social Ventures: An Exploratory Study. ***Entrepreneurship Theory and Practice,*** 35(4): 805-830.

Muniz, A., & O'Guinn, T. 2001. Brand Community. ***Journal of Consumer Research***, 27: 412-432.

Navis, C., & Glynn, M.A. 2011. Legitimate Distinctiveness and the Entrepreneurial Identity: Influence on Invest Judgments of New Venture Plausibility. ***Academy of Management Review***, 36(3): 479-499.

Pache, A., & Santos, F. 2013. When Worlds Collide: The Internal Dynamics of Organizational Responses to Conflicting to Institutional Demands. ***Academy of Management Review***, 35: 455-476.

Palazzo, G., & Basu, K. 2007. The Ethical Backlash of Corporate Branding. ***Journal of Business Ethics***, 73: 333-346.

Palich, L.E., Cardinal, L.B., & Miller, C.C. 2000. Curvilinearity in the Diversification-Performance Linkage: An Examination of over Three Decades of Research. ***Strategic Management Journal***, 21: 155-174.

Peteraf, M.A. 1993. The Cornerstones of Competitive Advantage–A Resource-Based View. ***Strategic Management Journal***, 14(3): 179-191.

Porter, M.E. 1996. What Is Strategy? ***Harvard Business Review***, (November-December): 1-19.

Porter, M.E., & Kramer, M.R. 2011. Creating Shared Value. ***Harvard Business Review***, (January-February): 1-17.

Ravasi, D., Rindova, V., & Dalpiaz, E. 2012. The Cultural Side of Value Creation. ***Strategic Organization***, 10(3): 231-239.

Reed, A. 2002. Social Identity as a Useful Perspective for Self-Concept-Based Consumer Research. ***Psychology & Marketing***, 19 (3): 235-266.

Rindova, V.P., & Petkova, A.P. 2007. When Is a New Thing a Good Thing? Technological Change, Product Form Design, and Perceptions of Value for Product Innovations. ***Organization Science***, 18(2): 217-232.

Sakhartov, A., & Folta, T. 2014. Resource relatedness, redeployability, and firm value. ***Strategic Management Journal***, 35(12): 1781-1797.

Santalò, J., & Becerra, M. 2008. Competition from Specialized Firms and the Diversification–Performance Linkage. ***Journal of Finance*** 63: 851- 883.

Santos, F., Pache, A.C., & Birkholz, C. 2015. Making Hybrids Work: Aligning Business Models and Organizational Design for Social Enterprises. ***California Management Review***, 57(3): 36-58.

Sen, S., & Bhattacharya, C. 2001. Does Doing Good Always Lead to Doing Better? Consumer Reactions to Corporate Social Responsibility. ***Journal of Marketing Research,*** 38: 225-238.

Shih, M., Pittinsky, T.L., & Ambady, N. 1999. Stereotype Susceptibility: Identity Salience and Shifts in Quantitative Performance. ***Psychological Science***, 10: 81–84.

Silverman, B. 1999. Technological Resources and the Direction of Corporate Diversification. Towards an Integration of Resource-Based View Theory and Transaction Costs Economics. ***Management Science***, 45: 1109-1124.

Sirmon, D.G., Hitt, M.A., Arregle, J.L., et al. 2010. The Dynamic Interplay of Capability Strengths and Weaknesses: Investigating the Bases of Temporary Competitive Advantage. ***Strategic Management Journal***, 31(13): 1386-1409

Stark, D. 2009. ***The Sense of Dissonance: Accounts of Worth in Economic Life***. Princeton: Princeton University Press.

Stets, J.E., & Burke, P.J. 2000. Identity Theory and Social Identity Theory. ***Social Psychology Quarterly***, 63(3): 224–37.

Tajfel, H., & Turner, J.C. 1979. An Integrative Theory of Intergroup Conflict. In Austin, W.G., & Worchel, S. (eds.) ***The Social Psychology of Intergroup Relations***. Monterey, CA: Brooks-Cole.

Teece, D.J. 1982. Towards an Economic Theory of the Multiproduct Firm. ***Journal of Economic Behavior and Organization***, 3: 39–63.

Torelli, C.J., Monga, A.B., & Kaikati, A.M. 2012. Doing Poorly by Doing Good: Corporate Social Responsibility and Brand Concepts. ***Journal of Consumer Research,*** 38(5): 948-963.

Tracey, P., & Jarvis, O. 2006. Case Study: An Enterprising Failure. Why a Promising Social Franchise Collapsed. ***Stanford Social Innovation Review***, spring: 66-70.

Wan, W., Hoskisson, R., Short, J., & Yiu, D. 2011. Resource-Based Theory and Corporate Diversification: Opportunities and Accomplishments. ***Journal of Management***, 37: 1335-1368.

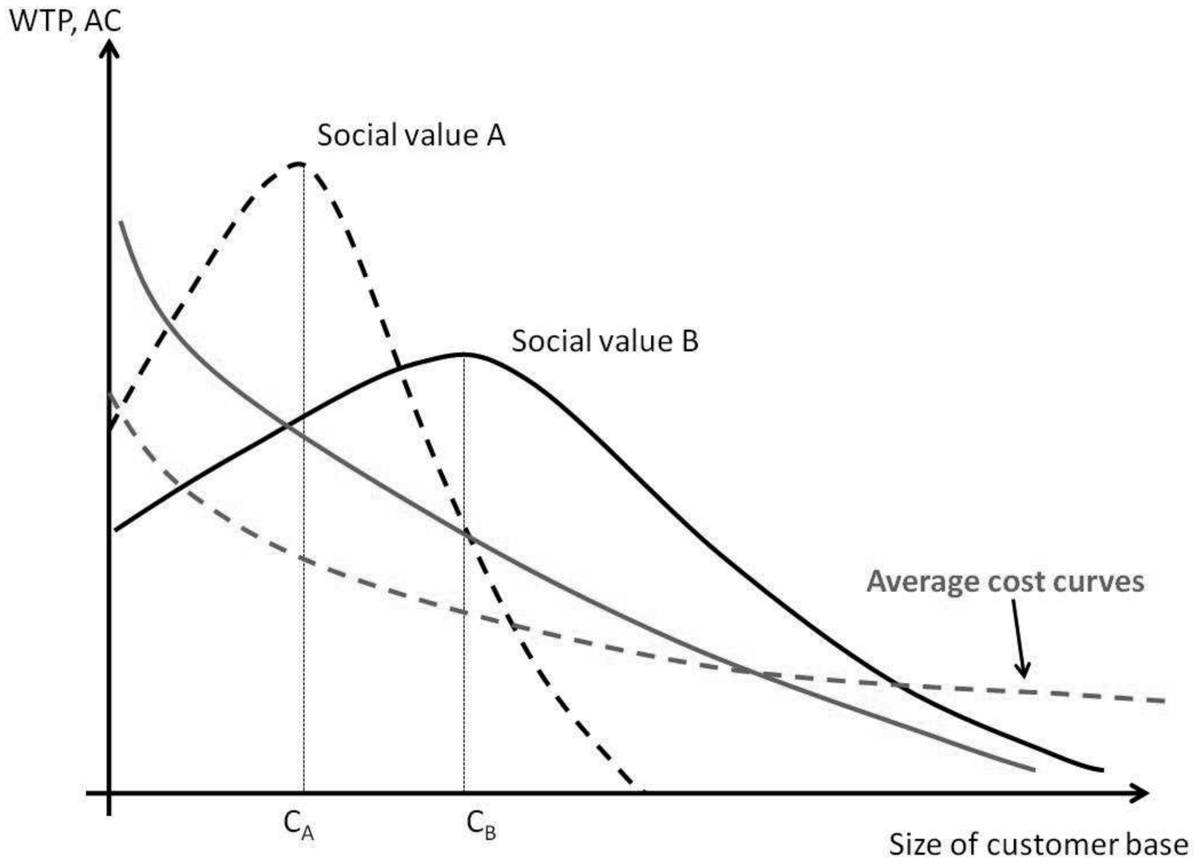
Wang, H., & Barney, J. 2006. Employee Incentives to Make Firm Specific Investments: Implications for Resource-Based-View Theories on Corporate Diversification. ***Academy Management Review***, 31: 466-476.

Westphal, J., & Zajac, E. 2001. Decoupling Policy from Practice: The Case of Stock Repurchase Programs. ***Administrative Science Quarterly***, 46: 202-228.

Wu, B. 2013. Opportunity Costs, Industry Dynamics, and Corporate Diversification: Evidence from the Cardiovascular Medical Device Industry, 1976-2004. ***Strategic Management Journal***, 34(11): 1265-1287.

Ye, G., Priem, R. L. & Alshwer, A. 2012. Achieving Demand-side Synergy from Strategic Diversification: How Combining Mundane Assets Can Leverage Consumer Utilities. ***Organization Science***, 23: 207-224.

Figure 1: Average willingness to pay due to value-based strategies, size of the customer base, average costs, and social group effects.



Notes: WTP: Additional Average Willingness to Pay; AC: Average costs. Solid curves represent a social value B with lower distinctiveness compared to value A (dotted curves). Average costs are in red.

Table 1: Differences between niche strategy and competitive advantage via hybridity

	Niche Strategy	*Competitive Advantage via Hybridity*
Main segmentation criteria	Customers' preferences, tastes, or needs	Social values
Main segmenting actions	Products' or services' attributes, advertising	Social investments (fundraising, philanthropy, social events, etc.), products with symbolic value
Main resources beyond differentiation advantage	R&D and Marketing capabilities	Hybridity
Demand externalities	Nil	High
Willingness to pay of a core customer as a function of the size of the customer base*	Constant	Increasing and then decreasing
Price discrimination	Feasible	Hard to implement

* Either a customer with a specific taste or need, or a customer who embraces a given social value.