BACHELOR THESIS

# HYBRID ORGANIZATIONS IN EAST AFRICA

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# Abstract

Hybrid organizations are defined as organizations that pursue a dual mission based on the intersection of the non-profit and for-profit sector. Existing literature is mostly about hybrid organizations in North America and Europe. This research aims to narrow this knowledge gap and is therefore about hybrid organizations in East Africa. The literature review of Doherty, Haugh and Lyon (2014) also mention the need for research about hybrids in African countries. The business context of the East African countries considered in this research are emerging and therefore might offer some interesting opportunities for hybrids.. A literature study is conducted which aims to examine the applicability of the concept of hybrid organizations on the context of East Africa. First, the concept of hybrid organizations is explored, where the characteristics and difficulties that hybrids face are discussed. The main characteristics of hybrid organizations are that they operate on the intersection of the for-profit and non-profit sector, that they pursue at least two missions and that they face two or more conflicting institutional logics. The second part discusses the context of East Africa. The business environment, the difficulties for hybrids and the solutions that are present in East Africa and the unique characteristics of East Africa are discussed. The difficulties are legal frameworks, financing methods, the composition of the workforce and performance measures. Finally, the factors that can contribute to success for hybrids are discussed.

# Introduction

Within some of the firms that engage in social issues and pursue a social mission the concept of hybridity occurs. Hybridity in social organizations, on which this paper will focus, means operating at the interface between the non-profit and for-profit sector (Holt & Littlewood, 2015). Social organizations identify issues of exclusion or suffering of a group of people who cannot change this by themselves and aim to improve their situation by developing a social value proposition (Martin & Osberg, 2007).

In hybrid organizations, multiple and sometimes conflicting organizational identities have to collaborate. In social ventures, these conflicting logics are mostly a non-profit logic and a for-profit logic. Managers have to manage these conflicts between identities so that they do not harm the organization and that they achieve the goals that are aligned with both identities (Greinert & Levinsohn, 2016). There are some difficulties that typically occur in hybrid organizations. One of the problems is internal tension that arises because of the conflicting business logics. As there are multiple conflicting goals, the risk of mission drift occurs, where one goal is prioritized over another. As hybrid organizations are new types of businesses there is no legal structure that fits the duality. This is also something hybrid organizations have to face and which can entail large consequences (Greinert & Levinsohn, 2016).

Greinert and Levinsohn (2016) state that research about sustainable entrepreneurship is mostly about North America and Europe and that more research is needed about other regions. In accordance to the findings of Greinert and Levinsohn (2016), Doherty, Haugh and Lyon (2014), wrote a review and research agenda about hybrid organizations where they mentioned that there is a lack of knowledge about hybrids that operate in developing regions and that further research is needed about these regions. The countries or areas that are mentioned to be investigated are African countries, China, the Middle East and Russia. Another gap of knowledge that they discuss and that needs to be addressed for these regions are the conditions that promote the establishment and growth of social enterprises and what conditions hinders the start of a social enterprise. Knowing conditions that can provide success or failure is of practical relevance for scholars wanting to start a hybrid organization and for scholars that already have established hybrids in developing countries.

This paper will focus on East Africa, because this region mentioned by Dohery, Haugh and Lyon (2014) consist of multiple emerging countries that are related and interact with each other. They are connected through the East African Community, which is a regional intergovernmental organization that functions as an economic block (East African Community, n.d.). This research aims to execute a literature study about the applicability of the concept of hybrid organizations in East Africa. In this paper, the countries that are considered East Africa are Burundi, Kenya, Rwanda Tanzania, South Sudan and Uganda as they are part of the EAC.

This paper will focus on the applicability of the concept of hybrid organizations in the context of East Africa and will discuss conditions that promote hybrid organizations. Therefore, the research question of this paper is *"Is the concept of hybrid organizations successfully applicable to the East African context?"*

In order to answer this question, three sub-questions are formed. The first sub-question is *"What are the characteristics of a hybrid organization?"* In this question the concept of hybrid organizations is explored. The characteristics and the difficulties that hybrids face will be discussed. The second sub-question is *"What is unique about the East African context concerning hybrid organizations?"* In this sub-question the external environment, the difficulties for hybrids and possible solutions that are present in East Africa and the unique characteristics of East Africa will be discussed. The last sub-question is *"Which factors determine the success of a hybrid organization in East Africa?"* This question will discuss the conditions that promote the creation and survival of hybrid organizations and factors that tend to promote success for hybrids.

# Methods

This paper is a literature review. In this literature review, the topic of hybrid organizations is explored to analyse the applicability of the concept to the East African context. Literature found in different databases was used to explore this concept and conclusions are drawn based on the literature that was analysed. The data is collected trough database searching and snowballing of which the main search strategy was database searching.

The databases that were used in this research were the library catalogue of Wageningen University & Research, Scopus, Google Scholar and Global Search. During this research, the library catalogue of Wageningen University & Research and Global search were put together to form WUR library search. WUR library search contains a large amount of databases that exists of Scopus, Google Scholar and Global Search among others. After the implementation of WUR library search, this was mainly used as database.

To make sure all relevant literature was found, it was key to use appropriate synonyms for important search terms. For example, when exploring the issue of legal forms, different search terms could be used: legal forms, legal structures, legal system, legal entity, legal frameworks and regulation. The same applies to all other search terms.

The literature used in this research also had to meet the following requirements: the articles had to be directly related to the topic, the articles had to be less than twenty years old and only English-language literature was used. These restrictions were chosen to ensure the relevance of the literature while also enabling the possibility to capture development over time.

# Results

## What are the characteristics of hybrid organizations?

This section starts with formulating a definition of hybrid organizations. After that, characteristics of hybrid organizations and difficulties that occur in hybrids are discussed.

Literature suggest a range of definitions of hybrid organizations. Haigh and Hoffman (2012) state that hybrids are able to act both on the side of the for-profit and non-profit sector and that hybrids pursue a social or environmental goal while generating income the same way as for-profit organizations do.

The research of Doherty, Haugh and Lyon (2014) suggests that hybrid organizations seek a social purpose and financial sustainability. They further mention that hybrids connect institutional fields by widen the boundaries of the non-profit, private and public sectors and that they face conflicting institutional logics. The definition that Doherty, Haugh and Lyon (2014) use is: "Drawing on the previous conceptualizations of hybridity, we define hybrid organizational forms as structures and practices that allow the coexistence of values and artefacts from two or more categories. Hybrid organizational forms therefore draw on at least two different sectoral paradigms, logics and value systems, and in the case of SE, relate to the emergence of novel institutional forms that challenge traditional conceptions of economic organizing." (Doherty, Haugh & Lyon, 2014 pp. 418).

Based on a combination of the above mentioned definitions, a definition is formed that is suitable for this research and will be used in this research. The definition is as follows: *"hybrid organizations have a dual mission based on the intersection of non-profit and for-profit sectors, where the strongest attributes of both models are combined to pursue a social goal"* (Haigh and Hoffman, 2012; Doherty et al., 2014).

### Characteristics

The key characteristic of hybrid organizations is that they combine the best practices of the non-profit sector and the for-profit sector. This implies that hybrid organizations exercise some sort of commercial activity to generate revenue or profit and aim to generate a positive social and environmental impact on (a part of) society.

Due to the dual mission there are two business logics that are combined within hybrid organizations. Business logics are about cultural beliefs and rules that influence actions taken in businesses (Pache & Santos, 2011). According to Pache and Santos (2011) these two business logics are the social welfare logic and the commercial logic. The social welfare logic entails the goal of addressing local social needs and which shapes the practices, norms and values within companies. The goal of the commercial logic is to sell products and services to generate as much profit as possible and this goal also shapes the practices, norms and values of companies (Pache & Santos, 2011). These two business logics and their goals seem contradictory. When these conflicting goals are not managed and balanced well, mission drift could occur where companies lose sight of their social goals and are too focussed on their profits (Ebrahim, Battilana & Mair, 2014). Because of these conflicting goals and logics, there are some difficulties that hybrids often face. These difficulties concern choosing the appropriate legal form, choosing the right financing method, composing the right workforce and performance measure. These difficulties will be discussed later on.

To conclude this section, the unique characteristics of hybrid organizations are the fact that that they operate on the intersection of the non-profit and for-profit sectors and thus pursue multiple goals and consist of multiple logics.

## Legal forms

Most countries offer two possibilities of legal structures to firms. One focuses on the for-profit sector and the other one on the non-profit sector. As hybrid organizations act on the intersection of the for-profit and non-profit sector, it is difficult to choose either one as they both seem inappropriate. When a hybrid chooses for a for-profit legal structure, difficulties occur regarding increased competitive pressures which may lead to mission drift, where social goals are undermined. If a non-profit legal structure is chosen, firms benefit from a tax-exemption. But as most hybrids are involved in commercial activities like selling products and offering services, it is likely that they lose that tax-exempt (Battilana, Lee, Walker & Dorsey, 2012). This forces some hybrids to create two legal entities.

Governments are starting to offer legal forms designed for hybrid organizations, which create opportunities for firms to combine the social and commercial objectives. Examples are the Low Profit Limited Liability Company (L3C) and the Benefit Corporation in the US, the Community Interest Company (CIC) in the UK and social cooperatives in Italy (Ebrahim et al., 2014). The L3C form offers the ability to give different members different decision rights. In the L3C form, the social purpose is unprotected and it is the responsibility of the firm to secure the social purpose. The CIC is more strict than the L3C form in terms of the requirements to secure the social purpose. As a consequence, it is less flexible in terms of the distribution of assets and earnings (Ebrahim et al., 2014). The benefit corporation forces directors to consider the interests beyond those of the shareholders and firms must pursue a public benefit purpose which is reported in the annual benefit report. The benefit corporation however does not secure the social purpose and there are no limitations on the payment of dividends and transfer of assets (Ebrahim et al., 2014). However, these legal structures are not common in all countries yet and even when applying these legal forms the internal tension will not be solved as the risk of mission drift is not solved by these legal statuses, especially for the L3C form (Ebrahim et al., 2014). These more suitable legal forms promote the existence of hybrids, but the internal tension is something that has to be solved from within the organization.

The current composition of legal structures does not stimulate the existence of hybrids, but makes it more difficult for hybrids to exist. However, the developments regarding new legal forms are promising for the development of hybrid organizations.

## Financing methods

For both the for-profit and non-profit sectors there are traditional tools that provide financing. The most common financing methods for for-profit organizations are debt and equity. Non-profit organizations are most often financed by foundations, grantors and philanthropists. The same problem as for the legal structure does occur: hybrids do not fully fit in either sector and the appropriate financing strategy may not be clear (Battilana et al., 2012). An option for hybrids is to use different financing methods for either the social or commercial activities (Battilana et al., 2012).

There are financing methods that try to combine the dual missions, for example program-related investments and impact investing. Program related investments support charitable aims, but also pursue financial return. Financial benefits are gained through equity or repayments and returns on loans below the market rate (Qu & Osili, 2017). Impact investing aims to make a difference in social and environmental problems (Rangan, Appleby & Moon, 2011). The Monitor Institute defines impact investing as "Actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor" (Monitor Institute, 2009, p. 11).

Finding the appropriate way of financing can be a challenge for hybrid organizations. However, not fully fitting in the boxes of either non-profit or for-profit can also be seen as an advantage regarding financing. As they have characteristics of both sectors, they are less limited by the traditional financing methods. Above that, new initiatives such as impact investing are promising for hybrids and might be a way to succeed in finding appropriate capital for hybrids.

## Workforce composition

Hybrids consist of a combination of goals, logics and characteristics of both the non-profit sector and the for-profit sector. This is also reflected in the workforce. Hybrids can choose to hire people with different backgrounds. However, the risk of mission drift is present where people with certain backgrounds only focus on goals that are aligned with their background.

This is seen in the research of Battilana and Dorado (2010). In their research they assessed two microfinance firms about the way they combine different logics.

The first firm hired both people with a background in social work and people with a financing background and offered a training program in which social workers were converted into bankers and bankers into social workers. However, the employees started to focus more and more on their own logic and consequently started to polarize. Employees with a social background prioritized social missions and those with a banking background prioritized the commercial goals (Battilana & Dorado, 2010).

In order to try to align the workforce with all goals and to lower the risk of mission drift it might be convenient to provide training and education. Training and education about the firm, the values, the goals and the reason why these goals exist might shape the workforce according to the hybrid model.

The second firm in the research of Battilana and Dorado hired mostly people without working experience. The idea is that those people are not yet shaped by certain backgrounds and logics and can be shaped according to the hybrid model. The hiring model consisted of a screening based on exams, training and a test period (Battilana & Dorado, 2010). Hiring people without working experience might be convenient to lower the risk of mission drift.

The composition of the workforce has effect on the level of internal tension. Education and training might support understanding of multiple logics and the logics of others, which might lower the internal tension. This is one of the main challenges for hybrid organizations and managers need to keep a close eye to detect early signs of mission drift and disconnection of the business goals.

## Performance measure

Assessing commercial and social performance asks for different tools, thus different tools are used within hybrids. There are multiple established measures for assessing the financial performance. These measures often include accounting measures (profit, sales, return on investment) and market measures (market share, market value, share price, return on equity). These standardized measures together form an financial overview, which can be compared over time and across companies (Ebrahim et al., 2014).

In assessing social performance, there is no clear measure. This is caused by the fact that hybrids and other social enterprises operate in a wide variety of sectors that cannot be compared with each other, for example environment, education and healthcare (Ebrahim et al., 2014). The problem that occurs is that of comparability between enterprises and comparability over time. For that reason, there are initiatives that quantify social performance. These performance measures consists of cost-benefit analysis, social return on investment and the economic rate of return (Ebrahim et al., 2014).

A difficulty for hybrid organizations is thus the problem of social performance measure. This implies that directors of hybrids know how one part of the organization is performing but have to guess the overall performance of the organization. Maybe this also increases the chances of mission drift, because it might be easier to focus on goals that can be measured and of which the results are more clear. This is something that might be convenient for future research to assess to better understand hybrids.

# What is unique about the East African context concerning hybrid organizations?

This section will discuss the unique characteristics of East Africa regarding hybrid organizations. The external environment will be discussed and the situation regarding legal forms, financing methods and composing the workforce in East Africa will be discussed.

## External environment

The external environment consists of a number of factors. The factors mentioned in the research of Kiggundu (2002) are local and national politics, the quality of public administration, personal and national security, militarism, family, society, culture, the market, technology, the physical environment, the regional and global economy and society and the industrial relations system. Factors like policy, attitudes, the public administration and services or the absence of these factors have been often blamed for causing entrepreneurial problems in African countries (Kiggundu, 2002). This results in the fact that the Sub-Sahara African business climate is less favourable than others (Ng & Yeats, 2000).

The taxation policy, the security of property rights and the regulation of trade are more restrictive in the African continent than in other regions, which is not encouraging to start a (hybrid) business in an African country (Kiggundu, 2002).

East Africa suffers from infrastructural challenges, the physical infrastructure is poor and causes high transportation costs. Especially the rural areas suffer from this problem which causes a gap between rural and urban areas. However, the non-physical infrastructure, is quickly expanding. Mobile money is becoming important and starts to replace traditional banking (Navarrete Moreno & Agapitova, 2017).

All the factors forming the external environment can contribute to the formation of hybrids, but can also hinder the formation of hybrids. For example, policy can have great influence on hybrids; it can facilitate the duality of hybrids, but it can also obstruct it. To illustrate this, when policy makers decide to cut subsidies it can be a stimulus to transit into a hybrid, because organizations have to come up with other ways of financing and might choose to try to generate profit in ways like corporate firms.

## Legal frameworks

None of the East African countries have specific legal frameworks for hybrid organizations. In most countries firms choose to register either as NGOs or private company or they choose both and create a hybrid legal form in that way (Navarrete Moreno & Agapitova, 2017). However, there has been an initiative in Kenya to implement a more hybrid legal structure. This legal framework is called the Public Benefit Organizations Act 2013. The act is already passed by the parliament and has approval of the president, but the implementation has not been started (Pirzer, Tewes-Gradl & Ballan, 2017). The fact that the act is already approved is positive for hybrids and may encourage the birth of hybrid organizations in Kenya. In Uganda, Rwanda, Tanzania, Burundi and South Sudan the most common option is to register as NGO and as private company and thus create two legal entities. Other options are to register as a company with limited guarantee or as a company with limited shares (Navarrete Moreno & Agapitova, 2017).

So even if there are no formal legal frameworks in East Africa, hybrids often find their own way of implementing the hybridity in their organizations.

## Financing methods

Hybrid organizations in East Africa often operate in low-income markets, in which it is difficult to seek funds. Operating on the intersection of the non-profit and for-profit sector is another challenge and hybrids often use a combination of grants, commercial financing and consumer financing (Navarrete Moreno & Agapitova, 2017).

An issue that applies to all East African countries regarding financing is that commercial banks often only provide loans for strict collateral and high interest rates (Navarrete Moreno & Agapitova, 2017). This is especially difficult for small firms and firms in the start-up phase as they often have only little collateral to offer. These loans are also mostly offered to companies with a high return on investment, which can be a challenge for hybrids in the start-up phase. In Uganda, there are some initiatives that offer other possibilities to get a loan besides commercial banks. For example, the Uganda Development Bank and the Micro Finance Support Centre. Those institutes are so popular that demand is very high and it is still difficult to obtain a loan (Navarrete Moreno & Agapitova, 2017).

Another issue with funding could be, especially for local hybrids, that grants that are offered often go to international organizations and not to local organizations (Navarrete Moreno & Agapitova, 2017). This can make it difficult for local firms to compete with international organizations.

Another difficulty for hybrids is that grants that are provided by foundations often only go to fully charitable companies. These foundations often choose to only support fully non-profit organizations and thus do not consider hybrids as they are also involved in commercial activities. However, there are some initiatives that combine grants and commercial funding. An example is GroFin which operates among others in Kenya, Rwanda, Uganda and Tanzania. GroFin offers loans that come with business support (Navarrete Moreno & Agapitova, 2017).

So obtaining funds can be seen as a challenge for hybrid organizations in East Africa, however there are some initiatives that could be interesting for hybrids. For example, organizations like the Uganda Development Bank and GroFin. Moreover, getting enough financing is a challenge for East African firms in general. Being a hybrid firm could also be an advantage in obtaining enough funds as they do not have to stick to certain financing methods for either the non-profit sector or the for-profit sector. They are more free in choosing their way of financing and could choose to combine multiple methods and use the most convenient ones for their business.

## Workforce composition

Navarrete Moreno and Agapitova (2017) mention the complexity of the human resources profiles of hybrid organizations, where business and social work skills are both required. They mention three factors that define the availability of skilled staff for hybrids: the general level of skills in the country, the competitiveness and attractiveness of social enterprises and hybrids as employers and the existence of education programs for entrepreneurship.

The attractiveness and competitiveness of hybrid organizations is low in East Africa. This is due to the fact that the salaries are lower and less stable than in commercial enterprises. Working in hybrids also does not provide authority and power in contrast to being an employee in a commercial enterprise. A possible solution for this attitude towards the social enterprise sector is education. This is happening in Uganda, where universities focus more on the growing social enterprise sector and degrees in social entrepreneurship are offered (Navarrete Moreno & Agapitova, 2017).

The availability of a skilled workforce differs across the East African countries. In Tanzania, the workforce productivity is low and the education system is not performing well which causes a lack of skilled staff. Rwanda suffers from the same problem, especially for the management positions, and these jobs are often offered to Ugandan or Kenyan people as they often have the right skills (Navarrete Moreno & Agapitova, 2017).

Concluding, hybrids face some difficulties that are unique for the East African context.

Choosing the appropriate legal framework is a challenge, as a formal legal structure often does not exist and hybrids are thus forced to choose a legal structure that is not really suitable to their business.

Another difficulty is obtaining capital as commercial banks are more risk averse in East Africa and the lending conditions are poor with high interest rates and strict collateral policies. This is especially a problem for hybrids in the start-up phase or for small hybrids.

Another obstacle is attracting employees. Not in all countries there is enough human capital available and East African employees find it less attractive to work in hybrid organizations because it provides less authority and the salaries are often lower.

There are also some positive developments for hybrids in East Africa. For example, the initiative of the Public Benefit Organizations act in Kenya and the rise of organizations like the Uganda Development Bank. Such developments might promote the existence of hybrid organizations in East Africa.

# Which factors determine the success of a hybrid organization in East Africa?

## Sectors

The number of successful firms tends to vary across different sectors. In general, enterprises that are in the retail and wholesale sector are less likely to survive than firms in the service and manufacturing sector (Rogerson, 2001). This is confirmed by the research of Mead and Liedholm (1998). Mead and Liedholm did a research about enterprises in different developing countries of which five African countries: Botswana, Kenya, South Africa, Malawi and Zimbabwe. The findings were that firms operating in the retail industry face the greatest risks, these firms were 30% more likely to close than their counterparts. Other sectors that face the risk of not surviving are trading, transport and chemical firms. Further, the sectors that are the least risky are real estate, wood processing and non-metallic metal firms. They also found that these successful and unsuccessful sectors do vary across countries (Mead & Liedholm, 1998). The research of Kiggundu (2002) did also confirm this. This research also stated that firms in the manufacturing sector are more likely to be successful and that businesses in the trade and service sector face the greatest risk of failing. In Africa, this is caused by the fact that firms in the trade and service sector are often very small and ran by one person, the entry barriers are low and there is little innovation and therefore those firms are not profitable.

## Expanding the number of employees

Many of the enterprises founded in Africa do not survive, only a very small fraction of the small enterprises are proven to be stable and those survive. The analysis of different successful African enterprises shows that the enterprises that expanded their workforce were more likely to survive. Through expanding the numbers of employees, it is likely that this will increase the efficiency (Rogerson, 2001). Mead and Liedholm (1998) already found this in their research. They found that firms that had added employees were more likely to succeed. In their research they also found that the initial size of a firm influences the chances of survival. Firms that were the smallest at the start were more likely to survive that firms that were larger at the start (Mead & Liedholm, 1998). However, what should be noted is that the most medium and small sized enterprises only add very few employees and when these firms expand their workforce it makes a large contribution to their growth (Mead & Liedholm, 1998).

Expanding the number of employees can be a challenge for hybrids as it was stated in the previous section that the workforce sees working in the social sector as less attractive and the availability of skilled staff is limited.

## Access to markets and location

The research of Rogerson (2001) found that the location where a firm is situated has impact on the survival rate. Enterprises that have a home-based location are more likely to close than firms located in commercial districts (Rogerson, 2001). Mead and Liedholm (1998) confirmed this in their research. They also found that enterprises in rural areas were less likely to grow than enterprises located in urban areas. They further mention that even roads can be seen as commercial districts as they found that firms located by the side of the road are still performing better than those located at home.

This implies that being close to (growing) markets increases the chances to survival and success. Above that, it is important that this connection to the market is stable (Rogerson, 2001). When there is a good connection and a low distance to markets, buyers for products and suppliers of inputs are found more easily. When firms are close to their markets they can identify the market opportunities better and take advantage of these market opportunities (Rogerson, 2001).

As mentioned in previous sections, East Africa suffers from infrastructural challenges. The physical infrastructure is poor, but the non-physical infrastructure is quickly expanding. However, a good infrastructure can make location less important and can ease the access to markets.

### Access to capital

The lack of access to financial capital and the constraints of financial systems is often mentioned as a key constraint to business success and innovation in developing countries (Indarti & Langenberg, 2004). For firms it is important to have access to financial capital from outside the firm (Rogerson, 2001). Indarti and Langenberg (2004) did a research about factors that affect business success of small and medium sized enterprises in Indonesia. They performed empirical research based on surveys and interviews. They mention that when entrepreneurs have access to family investment, they are more likely to succeed than when they use other sources of capital.

What is important for business success regarding access to capital is that when external finance is used as source of capital, growth is more likely to occur and a higher profitability is observed (McMahon, 2001). This is confirmed by the research of Kristiansen, Furuholt and Wahid (2003). However, Kiggundu (2002) mentions that a reason that firms who get bank loans are more successful could be that banks perform a screening which filters out the weak companies. In the previous section it was mentioned that hybrid organizations in East Africa have difficulties in obtaining a loan from commercial banks, so this might be a constraint to the success of hybrids.

Kristiansen et al. (2003) also found that financial flexibility has a positive influence on business success as does family financed capital.

Kiggundu (2002) states that the amount of starting capital has a positive impact on the potential of business success. A higher starting capital increases the likelihood of success.

### Characteristics and (educational) background of entrepreneurs

Rogerson (2001) suggests that entrepreneurs of firms must have the ability and capacity to take risks and be innovative. Kiggundu (2002) mentions the following personal traits that promote success in Africa: personal initiative, innovativeness, entrepreneurial orientation and autonomy.

Prior experience is also mentioned in several researches as an factor that promotes success and survival of firms. Rogerson (2001) mentions that entrepreneurs with prior industry experience are often found in larger enterprises. Tuck and Bellamy (2004) found that most companies rely on the experience and prior knowledge of entrepreneurs and founders. Kiggundu (2002) mentions that previous work experience is one of the success factors for firms in Tanzania next to university education and experience abroad. However, Mead (1999) found that experience was not significantly related to growth.

The next success factor related to the background of entrepreneurs is education. Rogerson (2001) found that a certain level of human capital developed by a certain level of education and (technical) knowledge has a positive impact on growth. This is confirmed by Sinha (1996), who found that successful entrepreneurs have a certain level of technical background. 72% of these successful entrepreneurs have some sort of technical qualification and 67% of the unsuccessful entrepreneurs do not have any technical background. Kiggundu (2002) mentions that university education is perceived to relate to success in Tanzania. In Kenya, primary education is mentioned as success factor as those with primary education are better in dealing with economic fluctuations. However, Indarti and Langenberg (2004) found that firms of entrepreneurs with university education have a lower success rate than those of entrepreneurs with elementary and senior high school education. This can be due to the fact that entrepreneurs without university education are generally longer in business. Another reason could be that university education does not provide applicable skills for running a business as the process of self-learning was perceived as the main source of skills. Among the entrepreneurs with university education, 73% saw themselves as self-learners and only 16% felt that their education provided skills for running a business (Indarti & Langenberg, 2004). Entrepreneurship education provides skills to become a self-sufficient entrepreneur. Entrepreneurship education can also be interesting for employees of existing firms as it is likely that that will increase the sales growth rates (Charney & Libecap, 2000). The previous section did also mention that education can contribute to the attractiveness and willingness to work in the social sector. Education about the social sector and education in general will also close the gap between available and skilled people to work in hybrid organizations.

Owners could influence the work environment positively and create a collaborative culture where employees are involved in the decision making process. Creating a unique culture through the initiated values of the owner could also increase the likelihood for success (Simpson, Tuck & Bellamy, 2004).

### Clusters

A cluster consists of connected businesses in a specific sector and are often located in the same region. Clusters can increase efficiency and productivity and are largely depending on trust between the firms. Clusters can be of great value in developing countries, because it can make the process of specialization and differentiation easier. Clusters can play an important role and provide a pathway for innovation, long-term enterprise sustainability and technological upgrading (Rogerson, 2001).

However, in Africa clusters are difficult to establish and maintain due to the facts that firms are often too small, there is a lack of trust, the organizational forms are poor and the physical infrastructure is inadequate. Despite that, there are some successful clusters that exist in Africa (Kiggundu, 2002).

The government can play a role in supporting clusters through supportive policies and increasing the infrastructure (Rogerson, 2001). In some African areas, business linkage programmes are started between firms. Key in these linkage programmes is buyer-mentoring, in which buyers provide support to suppliers to ensure that the supplier has the capacity to meet the demand (Rogerson, 2001). In this way, there is better cluster coordination and there is more matching between firms within a cluster. These linkage programs can help firms in specialization, diversification, efficiency and sharing benefits.

# Discussion

This paper started with forming a definition of hybrid organizations. The definition that was formed is *"hybrid organizations have a dual mission based on the intersection of non-profit and for-profit sectors, where the strongest attributes of both models are combined to pursue a social goal."*

The first part of the research aimed to identify characteristics of hybrid organizations. The characteristics that were identified are that they operate on the intersection of the non-profit and for-profit sector and combine attributes of both sectors within one organization. Further, they pursue multiple goals and consist of multiple logics. Those goals and logistics are often conflicting which causes difficulties regarding legal forms, financing methods, the workforce composition and performance measure.

The second part tried to answer the second sub-question about the East African context. Hybrids in East Africa often choose to form two legal entities to tackle the problem of the legal framework. Further, they often use a mix of different financing methods to generate capital. One of the problems of the workforce composition is that East African employees find it less attractive to work in hybrid or social organizations, because it gives less authority and power and often offers lower salaries.

The success factors that were identified in the last part were operating in certain sectors, expanding the number of employees, the access to markets and location, access to capital and certain characteristics and the educational background of entrepreneurs. Operating in the manufacturing sector, operating in a commercial district instead of home-based, generating outside and flexible capital and operating in clusters increase the chances of success. When entrepreneurs have prior industry or work experience and have a certain level of technical knowledge, they tend to have more successful firms.

Concluding, there are some difficulties that might hinder the existence of hybrid organizations in East Africa. However, there are also some developments that are positive for hybrids. For example, the rise in the impact investing market and the Public Benefit Organizations Act encourage the existence or hybrids in East Africa. For that reason, the conclusion of this paper is that the concept of hybrid organization is applicable to the East African context.

There are some things that might encourage the start and existence of hybrid organizations even more. The first thing is increasing the infrastructure, especially the physical infrastructure. With better infrastructure, location is less important and the connections to the market are better.

What also might encourage the existence of hybrid organizations is setting up better education programs. Education will increase the level of available human capital. Above that, when people are educated about hybridity and social organizations they might find it more attractive to work in hybrids. This might be convenient to address in future research as this can be beneficial to policymakers concerning education and owners of hybrid organizations.

Other developments regarding creating new legal structures for hybrid organizations in East Africa and promoting financing methods that are suitable for hybrids will encourage the existence of hybrids in East Africa.

# Conclusion

The aim of this paper was to analyse the applicability of the concept of hybrid organizations to context of East Africa. The results of the literature study show that it is likely that the concept of hybrid organizations is applicable on the context of East Africa.

There still exist some difficulties regarding infrastructure, legal forms, financing, and human capital. However, there are also some developments that are positive for the existence of hybrid organization. The biggest issue is the availability of skilled staff. The level of available human capital is not sufficient and the attractiveness of working in a hybrid organization is less than working in the for-profit sector. This could be reduced by educating people and offer more training and courses about social entrepreneurship.

Recommendations that might improve the ease of doing business in East Africa are improving the infrastructure, stimulating education and promote education about social enterprises.

The success factors that were identified are operating in certain sectors, expanding the number of employees, access to markets, operating in commercial districts, access to outside and flexible capital, certain characteristics of entrepreneurs and the level of education of entrepreneurs and operating in clusters.

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