

Sustainability Emergence, Development, and Performance: Cases of Hybrid Chinese Organizations

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Abstract

Purpose: Recently, the concept of hybrid organizations has re-emerged. These companies specialize in tackling social or economic issues while pursuing business goals through incorporating both targets in their mission. China currently faces many social and environmental challenges such as an aging population, regional economic imbalances, and a social change development. Hence, after discussing the concept of hybrid organizations, our research article will analyze these issues.

Methodology: Two case studies have been conducted to provide practical insights in the operating models of hybrid organizations in China.

Findings: Hybrid organizations have found their place in China's economy and have been able to benefit China economically. Through the examination of hybrid organizations in China, this research highlights the reasons behind the win-win partnership of hybrid organizations in the formal and informal sector in China.

Practical Implications: This article hopes to inform the viewers of the reasons behind the emergence of hybrid organizations and the incentives for these organizations to persist.

Originality: The study examines the sustainability emergence, development, and economic performance of hybrid organizations in China with the help of case studies. A deeper dive into the topic of hybrid organizations was examined by defining the definition, business model, types of hybrid organizations and their strengths and weaknesses.

Keywords: Hybrid organizations, Sustainability, China, Development

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1. Introduction

In the modern world, there are many different companies. The companies that want to stand out do more than just the standard, typical business practices. Today, enterprises tend to stand out by getting involved in social issues, creating action plans and trying to actively solve these issues. The companies that leverage social targets as a business model are called hybrid organizations. The importance of these companies is high because they are based on a win-win concept. While helping with social issues, the companies gather the attention of the customers and investors simultaneously resulting in higher profits for the company.

The modern way of doing business requires a modern way of thinking and acting. Because of this, the focus of research within this article on the topic of hybrid organizations will be analyzed deeper to understand its complexities. In this paper, hybrid organizations will be presented specifically in reference to China. To begin, the social issues of China will be described, such as aging problems, regional imbalances, and social change development. A deeper dive into the topic of hybrid organizations will be examined by defining the definition, business model, types of hybrid organizations and their strengths and weaknesses. The inclusion of the history of hybrid organizations in China, going through its development and their performance will also be assessed. Finally, to put the theory into practice, this article will analyze two case studies of Chinese companies that went hybrid – NIO and Pinduoduo.

2. Social Issues in China

2.1. Greatest Challenges China Faces

As China accomplished its 13th Five-Year Plan this year, the entire world is paying attention to its new five-year plan for 2021 to 2025, a period that poses new domestic and international challenges. In addition to the ongoing trade and technological confrontation between China and the United States, the COVID-19 pandemic has also dragged down the global economy. Although China is so far the only economy in the world to achieve a noticeable growth in 2020, it is still in an extremely uncertain global market. (Major Challenges China Faces in next Five Years, 2020)

2.1.1. Regional Imbalances

Unbalanced development, including regional development gaps and income inequality, is an obstacle to stimulating the domestic market and achieving urbanization. For example, official data shows that the total GDP of the three northeastern provinces affected by economic weakness and population exodus last year accounted for only about 47% of the GDP of Guangdong Province on the coast of China. The economic prosperity has driven the rapid development of China's coastal and surrounding areas.



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Because China's economic growth is largely driven by export trade, this is obvious. Now, since domestic consumption is the key factor, China will have to pay attention to the severely underdeveloped regions in the country. Residents in some inland provinces and regions are still living at a low standard of living. This can be regarded as a challenge, because it is relatively rare to maintain China's high growth rate even with such underdeveloped infrastructure. However, this can also be seen as an opportunity because the development of inland areas will help increase China's GDP in the next few years. In the latest economic planning policy, China has launched five regional development plans, including Chengdu and Chongqing in the southwest, and the Greater Bay Area covering southern Guangdong and Hong Kong and Macao Special Administrative Regions. Therefore, China's economic growth will still have enough room and potential for development. (Major Challenges China Faces in next Five Years, 2020)

2.1.2. Export Driven Economy to Consumption Driven Economy

Recently, "dual circular economy" has become a key word in China's economy, indicating that China's economic development model may change. The proposal of a dual circular economy shows that China intends to reduce its dependence on international trade while strengthening its domestic economy. As the new crown epidemic shook the world, China's current external economic environment is not optimistic. Deteriorating Sino-US relations are also an important factor in contributing to this economic strategy. Coupled with the rise of unilateralism and protectionism worldwide, these have prompted China to make long-term plans.

In this year, the contribution rate of net exports in the "troika" (investment, consumption, export) that drives economic growth has declined, and China's economic dependence on foreign countries has shown a downward trend. Domestic demand composed of investment and consumption will increase to a greater extent. This will determine the ability of future economic growth.

The United States has almost always consumed Chinese agricultural products. Of course, China also exports to other countries, but the United States accounts for one-third of them. The Federal Reserve has implemented a loose zero interest rate policy to stimulate domestic consumption for eight years. Now the interest rate rises will lead to sharp demand in the United States. The decline will lead to losses in China's exports, coupled with the economic slowdown, which may lead to temporary deflation.

Today, China is stepping up the "One Belt One Road" initiative. It has recently reached several free trade agreements such as RCEP, and the development of free trade zones and free trade ports in various provinces can strengthen its economic development resilience. (Top Five Challenges Facing the Chinese Economy, n.d.)



2.1.3. Aging Problem

According to the results of the seventh national census this year, the number of people aged 60 and over in China is 260 million, accounting for 18.70%, an increase of 5.44 percentage points compared with 2010. The aging process has accelerated significantly. Along with economic and social development, in addition to “getting old”, there are also “fewer births”. Census data shows that in 2020, the total fertility rate for women of childbearing age in my country is 1.3, which has reached the critical value of ultra-low fertility rate. China has become one of the countries with the lowest fertility rate in the world which also accelerates the aging process. Hence, this will become a real problem China has to face. The aging of the population will reduce the supply of labor, increase the burden of family pension, and the pressure on the supply of basic public services. In the latest 14th Five-Year Plan, a long-term population development strategy has also been formulated to address these issues, open the three-child policy, reduce the cost of childbirth, and improve the social security system to achieve the goal of further optimizing the population structure. (Chinanews, 2021)

2.2. Social Change Development in China

2.2.1. Economic Development

China’s national economy has continued to grow rapidly for decades. Calculated at constant prices, the GDP in 2018 increased by 175 times compared with 1952, with an average annual growth rate of 8.1%. In 2018, China’s per capita gross national income reached US\$9,732, which is higher than the average level of middle-income countries. In addition, fiscal strength has changed from weak to strong, and foreign exchange reserves have increased substantially. From 1951 to 2018, the national fiscal revenue increased by an average annual rate of 12.5%, of which the average annual growth rate from 1979 to 2018 was 13.6%. This provided a strong financial guarantee for promoting economic development and improving people’s lives. At the end of 2018, the balance of foreign exchange reserves was \$30,727 billion, ranking first in the world for 13 consecutive years. It provides a solid guarantee for infrastructure construction and cultural construction. (National Bureau of Statistics, 2019)

2.2.2. Urban Development

In the early days of the founding of the People’s Republic of China, basic transportation was very backward. By the end of 2018, the railway business history reached 131,000 kilometers, which was five times more than in 1949. Among them, high-speed railways accounted for more than 60% of the world’s total high-speed railways. The high-speed rail network is basically formed. Highways and air flights have also made a huge leap from starting from zero. At the end of 2018, the urbanization rate of China’s permanent population was 59.6%, an increase of 41.7 percentage points from



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the end of 1978. At the end of 2018, the urbanization rate of the registered population reached 43.4%, an increase of 8 percentage points from the end of 2012. From 1949 to 2018, the number of cities increased from 132 to 672. In the early days of the founding of the People's Republic of China, there were great regional differences and a weak industrial base, mainly concentrated in coastal cities. In 2018, the central and western regions accounted for 21.1% and 20.1% of the country's GDP, respectively, an increase of 1.9% and 2.7% from 2000. A series of major regional development strategies such as the coordinated development of Beijing-Tianjin-Hebei, the Yangtze River Economic Belt, the Guangdong-Hong Kong-Macao Greater Bay Area, and the integration of the Yangtze River Delta have been solidly advanced, and new economic growth poles have accelerated. (National Bureau of Statistics, 2019)

2.2.3. Technology and cultural development

China's scientific and technological development level has also developed rapidly in recent decades. Since 2013, it has become the world's second largest R&D investment country. The total number of R&D personnel and the number of invention patent applications have ranked first in the world for 6 consecutive years and 8 consecutive years. Significant achievements have been made in many fields such as manned spaceflight, lunar exploration engineering, quantum science, deep-sea prediction and supercomputing, and satellite navigation. Another important event of social development is that in early 2021, the national government held a high-level celebration meeting on the day before the Chinese Lantern Festival. The top leader Xi Jinping announced: "The battle against poverty has been fully won," creating a "human miracle". Based on the global absolute poverty line set by the United Nations Development Program, China has eliminated absolute poverty. From organized large-scale poverty alleviation in rural areas, to key poverty alleviation targeted at impoverished counties and villages, to targeted poverty alleviation for each impoverished household by establishing a document, one household and one policy. Develop characteristic industries according to local conditions. However, relative poverty still exists for a long time, and future poverty alleviation plans must shift from solving absolute poverty to alleviating relative poverty. Low-income people in cities and towns, especially migrants who do not have long-term permanent jobs in cities and towns; people who have been lifted out of poverty in the early stage may also return to poverty due to the lack of various development conditions, and some marginal and poor residents, their original living conditions There is not much difference with poor households, but because they are stuck outside the poverty line due to the establishment of files, the preferential policies and resource allocation of targeted poverty alleviation have not benefited them. In short, poverty alleviation is a long process, and getting rid of poverty is a long-term task. In the future, new stories will happen, and new miracles will be born. (Xinhuanet, 2021)



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2.3. Corporate Social Responsibility

Corporate social responsibility (CSR) in China that over the last 20 years has changed nearly as dramatically as its economy. Chinese companies have been seen to a large extent as a result of high-level driving or Western influence, from followers to leaders. It is a change that started more than 10 years ago, but as indicated by the number of CSR rankings. The concept of CSR was introduced to China 20 years ago as Chinese companies expanded abroad. It was not until 2006 that it was incorporated into the company law. For many Chinese companies, it became a necessary report. In May 2008, a major earthquake erupted in Sichuan, China, which awakened the civic awareness of the Chinese people. They began to expect domestic companies to contribute to social welfare and disaster relief. Ten days after the earthquake, the donations of Chinese companies reached 1.6 billion yuan. Those who have not donated (or donated not enough) have become the subject of online activities. After ten years of exploration, Chinese companies generally accept the concept of corporate social responsibility and regard it as an important investment in social assets that compete with their global counterparts. Over the years, corporate social responsibility has also been redefined, from simple charitable donations, traditional voluntary service projects to long-term plans consistent with the company's core values and national strategic development, which ultimately produces greater social impact. For example, Ant Group, a subsidiary of Alibaba, famous for their main product Alipay, through their "Ant Forest" program, which launched in August 2016 and promotes greener lifestyles by inspiring users to reduce carbon emissions in their daily lives. Every time they do, Ant Forest rewards them with 'green energy' points, which can be used to plan a real tree. Described as China's largest private sector tree-planting initiative, Ant Forest covers over 500 million people, and already it has led to the planting of around 100 million trees in China's frontier region, covering an area equivalent to 130,000 football pitches. This initiative also won the United Nations' highest environmental honor-the 2019 "Guardian of the Earth Award". (Collective, 2020)

3. Hybrid Organizations

1.1 Definition and Differentiation to Other Business Models

"Make the mission Profitable Rather than Making Profit Your Only Mission"
(Hockerts, 2015)

Nowadays, companies more and more realize that meeting economic, social, or environmental goals does not need to be a trade-off. In fact, social targets can even be leveraged as a business model (Alberti & Varon Garrido, 2017). Companies that aim to do so are known as hybrid organizations. To further explore this idea, the following chapter will present and discuss the concept of hybrid organizations, their characteristics, and the opportunities and challenges they face.



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Hybrid organizations, in literature also referred to as social hybrid ventures, benefit corporations or hybrid firms. These are organizations that pursue both social and economic goals. (Raisiene & Urmanavičienė, 2017; Haigh et al., 2015; Battilana, 2018). These companies try to initiate a positive change in a specific social or environmental area while being profitable. Their structures, activities, and purpose are oriented on both targets (Battilana, 2018). Hence, the main difference to traditional for-profit companies is the inclusion of a social or environmental mission in the business purpose. In contrast to for-profit organizations that incorporate Corporate Social Responsibility (CSR) in their business, the social aspect for hybrid organization is deeply rooted in the company's DNA and thus part of the business model (Alberti & Varon Garrido, 2017). The difference between non-profit organizations is that hybrid companies actively try to generate revenue through commercial activities (Battilana, 2018). This is achieved by leveraging the possibilities of the free-market and hence combines elements of non-profit and for-profit organizations (Alberti & Varon Garrido, 2017). Hybrid organizations can often be found in markets with a high growth potential, which results from an underserving of traditional for-profit or government organizations (Haigh et al., 2015). As this phenomenon exists in many different industries, hybrid organizations vary highly in their operations (Alberti & Varon Garrido, 2017).

Moreover, hybrid organizations can have different funding models ranging from non-profit to regular for-profit or a combination of both. In the case of combination, they are often non-profit with a profit entity (Haigh et al., 2015).

Haigh and Hoffman identified three characteristics which distinguish hybrid from for-profit organizations. The first and most important one is the relationship between social or environmental issues to organizational objectives. As previously described, traditional companies only incorporate social issues to a certain degree in their operations and do not base their business model on them like hybrid organizations do. Hence, hybrid organizations are more long-term oriented. The second distinguishing characteristic is the relationship with suppliers, employees, and customers. In traditional organizations, these are highly cost oriented and mostly functional. Hybrid organizations, on the contrary, maintain relationships that are mutually beneficial. Here, the social and environmental factors are deciding, cost having a minor influence. The third factor described is the interaction with market, competitors, and industry institutions. Traditional companies behave self-serving e.g., through, sometimes artificially, creating markets for their goods or services, maintaining their competitive advantage and/or adjusting industry standards to their advantage. Hybrid organizations focus more on the greater good e.g., by altering the industry standards to not only serve their business goals but also combat social or environmental injustices. (Haigh & Hoffman, 2012)



Hybrid organizations were first founded in the 1960s and 70s in the United States of America when a general consciousness about social and environmental concerns rose in society. People were not content with the way the government addressed social and ecological issues. Thus, more non-profit organizations emerged. Back then, those organizations formed profit entities to cover the costs of their operations and hence turned into hybrid firms (Haigh, et al., 2015). Nowadays, hybrid organizations are a reemerging trend as issues such as social injustice and climate change impact a greater audience. Additionally, more legislative adjustments facilitate the founding of such organizations (Alberti & Varon Garrido, 2017).

1.2 Types of Hybrid Organizations

When taking a closer look at hybrid organizations, three different kinds can be identified.

Work integration social hybrids focus on including individuals with an incompatible skill set in the employment market. This reduces the unemployment rate, offers financial independency for those employed and gives them purpose. Work integration social hybrids operate mostly in developed economies, supporting where the government fails to do so. (Hockerts, 2015)

Base-of-the-Pyramid hybrid companies target financially disadvantaged people by providing essential products and services with a good quality for an affordable price (Hockert, 2015; Mohr et al., 2012). Base-of-the-Pyramid Hybrids can be found in developed, developing, and undeveloped countries.

The goal of fair-trade hybrid organizations is to create more equal value chains by adjusting them so accordingly. As this market is traditionally also served by non-profit organizations, hybrid companies directly compete with them. However, more and more profit organizations try to enter the market as well which creates a very diverse competition field. (Hockert, 2015)

However, the here presented types of hybrid organizations represent just broader categories. As one of the strengths of hybrid companies is their invention power, their business opportunities are not limited to the described archetypes.

1.3 Strengths and Weaknesses of Hybrid Organizations

Hybrid companies are often a source of innovation (Alberti & Varon Garrido, 2017). They question traditional business models with their assumptions, operations, and leadership style (Haigh & Hoffmann, 2012). Positive change and healthy growth that does not have to be endless often creates resilient companies. Alberti & Varon Garrido additionally state that hybrid organizations “realign the meaning of sustainability with sustainable development” (Alberti & Varon Garrido, 2017). Hockerts analyzed



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that hybrid companies often identify antagonistic assets which they combine to competitive advantage for example finding work in niche sectors for people with skills that are usually perceived as incompatible. This capability is called *deliberate resource misfit* (Hockerts, 2015). Hence, hybrid companies enter markets with products or services that have a unique twist which sets them aside from their competitors. This particular trait even creates loyalty as hybrid organizations turn a, at the first sight, negative characteristic into a positive one (Hockerts, 2015).

Moreover, consumers increasingly require companies to not only provide an economic but also a social or environmental benefit (Battilana, 2018). Thus, being a hybrid organization can be seen as a competitive advantage.

However, a continuous focus on the social or environmental mission of the organization can impose a great challenge. Leadership changes or acquisitions might adjust the emphasis of the company to a more monetary one (Haigh, et al., 2015). Many of the challenges hybrid organizations face derive from the usual business environment they operate in. Most policies and laws differentiate between non-profit and profit organizations and leave almost no room for hybrid companies. Also, the learned culture sometimes toughens aligning financial and social goals which can create internal and external pressure (Battilana, 2018). Santos specifies these tensions. According to him, hybrid organizations must mediate between *value creation* (social targets) and *value capturing* (Santos, 2012). In hybrid organizations the leadership often determines how the existing tension is managed and towards which goal the company is moving. A shift in the direction of a higher financial focus is known as *mission drift* (Cornforth, 2014) Often, competition pressures hybrid organizations into a more efficient operation mode which can result in the described mission drift (Alberti & Varon Garrido, 2017). This development can be countered through actively choosing a fitting strategy like a high stakeholder engagement (Rasmus & Vaccaro, 2014). Additionally, the growth of a hybrid firm is usually limited due to restrictions imposed by a larger production/outcome as growth often results in less sustainable production practices. Moreover, by adjusting the existing markets to more sustainable ones, hybrid organizations create higher expectations which might negatively impact them in a long run. However, as this is one of the goals of hybrid organizations, it can be described as an intended challenge. (Alberti & Varon Garrido, 2017)

A possibility to avoid the challenge is to incorporate the social goals as social value creation in the USP of the company. Hence, the company would lose its positive momentum when abolishing its social targets.

Even though the concept of hybrid organizations can be traced back to the 60s, research mostly focused on traditional companies. Therefore, the area of hybrid organizations has still a great potential for further research (Battilana, 2018).



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4. Hybrid Organizations in China

China's continuous, rapid economic growth has led to the implementation of innovative driven forces. These forces strive toward a growth in quality over quantity. The areas in which these ideas are attached encompass several different domains including business models, specifically hybrid organizations (Lei, 2016). This idea is not new but is rather a continuation of years of new infrastructures being set in place along with new laws and policies, following in the natural state of a developing economy. In this chapter, there will be an explicated series of events analyzed from the beginning of the formation of hybrid organizations to the end, exploring the most current state of this Chinese business model.

4.1. Emergence: Historic Development

The initial emergence of hybrid organizations can be dated back to the inception of hybrid enterprises. In order to have a stronger hold in the market, in recent years a lot of state-owned enterprises (SOE's) have formed joint ventures with multinational enterprises (MNE's). These joint ventures led to the formation of what is commonly known as the hybrid enterprise. This tactic provides a clever entry into the Chinese market, which typically doesn't allow wholly foreign-owned investments in some industries (Chen, 2009).

Through the joint ventures, the Chinese government still holds a major influential role in the commercial activities of any business derived under this model regardless of the many reforms that have occurred over the last 30 years (Chen, 2009). Not only is the progression of hybrid enterprises creating beneficial outputs economically for China, but it also is creating a wave of pressures for even more improvements in the economy. Major areas where a lot of these ventures exist, such as Beijing are subject to many of the reforms set in place as a reaction to the inclusion of the new hybrid enterprises.

In 2016 at the Chinese consulate in Chicago a speech was given by General Hong Lei at a seminar titled "Capitalizing on the Transition of Economy". General Lei made many educated implications and detailed observations of the current state of the Chinese economy and where it was likely headed. Upon reading his excerpt it is quickly seen that many of his fact driven, intuitive thoughts have come into fruition based on China's current state. He emphasized the movement into a more liberalized economic market and made this point clear through the inclusion of speaking about the change in business models and control shifts. He stated, "China will continue to support the multilateral trade system, promote trade and investment liberalization and facilitation, promote the process of economic globalization, promote rational division of labor and its efficiency, expand market size so to give consumers a variety of choices, and enhance people's well-being." (Lei, 2016). This statement is a key evidence of what the



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hybrid enterprises created in today's world which brought China to be the top leader in so many pertinent areas (Chen, 2009).

Naturally, stemming from these hybrid enterprises, came hybrid organizations. These models are believed to be the best business models in countries like China, which is also hybrid in its nature (Chen, 2009). This new direction of the Chinese economy leans toward a more liberalized market economy functioning within and autocratic political and legal system (Chen, 2009). These are the factors that determine China's duality in business making the mix of markets a very interesting moment in China's current state.

4.2. Development and Performance of Hybrid Organizations

The emergence of the new "hybrid organization" may be innovative in itself, but the fresh initiatives that push the models into success are the real determining factors that aid in creating the evolving changes of the new norm of business in China. Many new initiatives set in place render a new thriving economy never seen in China until now.

One of the main drivers of the hybrid organizations is the green or sustainability factors set in place. This factor directly correlates to the corporate social responsibility previously mentioned in chapter three. Given that China's rapid growth had a great deal to do with pollution due to coal, the reversal effects of the damage done proved to be a great task (Holzmann, 2021). Notably, the Paris Agreement Act of 2015 kick-started a green initiative that was not only necessary but provoked a revolutionary moment that has made China a major force internationally in this sector (Center for Climate and Energy Solutions, 2020). This agreement implemented more than 100 policies related to lowering its greenhouse emissions promising to achieve carbon neutrality by 2060. China also pledged to peak its emissions by 2030 (Center for Climate and Energy Solutions, 2020).

The factor of corporate social responsibility again comes into play blending with the foundation of the hybrid organizations. China has been progressing at such a rapid rate that they are currently on track to exceed the expectations of the Paris Agreement by ten years (Harrisson, 2021). This is not only a trend, but an active influencing mold facilitating the current state of many of China's most successful businesses.

The overall performance of the hybrid organizations is determined by the current state of the government and the acceptance of the entity as a whole. Although there may be official approval of these mixed forms of business, the hybrid organizations walk a very fine line in China. The positive stimulation tends to outweigh any negatives associated with the hybrid business. The positive and not so positive results of the overall performance of hybrid compaquasis will be discussed in further detail.



The new revamped economy of China is now refocusing on new segments in business, especially within the hybrid organization sector. The effects of the pandemic proved the hybrid business was not only necessary but helped maintain and stabilize the economy while natural decline occurred in certain areas. The main three new pillar industries of focus include: strategic emerging industries, services, and modern manufacturing (Nie & Fang, 2021). With the true green stamp of approval being the main driving factor of modern China, it is no surprise that the modern manufacturing in vehicles determines a great portion of the expansion of the new economy. Similarly blending like the hybrid organizations, themselves, these three pillars are merging in a natural way. An example of this lies in the company Tesla, which is an ultimate testament toward a hybrid organization. The rise of new energy vehicles is beginning to surpass the traditional automobile (Nie & Fang, 2021). Tesla's Shanghai plant is currently the largest foreign funded manufacturing project in Shanghai, proving the hybrid companies' performance to be feasible and attainable.

Manufacturing, including the research and development of infrastructures that combine internet plus collaborative features continue to create specialized platforms (New Chinese Ambitions for "Strategic Emerging Industries," Translated, 2020). Many new productions of intelligent equipment and collaborative manufacturing demonstrations are creating a new high standard in the industry. The overall merge of different strategies created from hybrid organizations is continually bringing the change that is needed to move standards in a heightened direction of positive trends.

Although there are many strong positives within the business of hybrid organizations, it would be a disservice to not mention some of the downfalls that have occurred along the way. Given the nature of how these organizations were formed and the strict laws of the Chinese government, things are not always as pretty as they may seem. The aforementioned duality of mixing two forms of business to create one has led to the creation of a new term: quasi government (Quasi-Legal In China: Not the Place You Want to Be, 2021). The Quasi-government term was coined because the nature of the hybrid organization is the product of the blend of two different types of enterprises. The duality that naturally exist in this form creates an organization with government and private sector legal characteristics. China inheritably does not like these blurred lines.

There is a lot of controversy involved in the schematics of this. Supporters of the trend tend to have a greater reliance towards the hybrid organizations and believe that the main objective of the government's role in managing is solely to help maximize performance and results. (The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, 2011) On the other side critics believe that the hybrid organizations are weakening the government and not allowing it to do its rightful duty and govern accordingly. The mix of business doesn't define



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a clear, concise line of clarity and promotes the inclusion of foreign business (The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics, 2011). There is a sense of extreme risk with the hybrid organizations in the eyes of some. These attitudes and opinions are more common than not in China. The government rule supersedes over everyone and it is a traditional norm that cannot be erased away simply with a quarter of good figures on an income statement. The threat of hybrid organizations is something that may not be talked about often, but it is necessary to include a full perspective.

The overall gist of hybrid organizations entails a new, thriving business that also has its downfalls like any other business. Through the failures something is learned and improved as a result. This type of company is a bold move for a country like China, but it continues to beat the odds that may be against the nature in which it is formed and exists as. Change tends to be the scariest thing in life and with time, determination and hard work hybrid organizations will continue to thrive with the progression of China as a whole.

5. NIO Inc.

The first company that will be examined based on its social and economic performance is NIO Inc. NIO is an ambitious Chinese electric vehicle company that strives to become a major player in not just the Chinese, but in the global electric vehicle market. They manufacture premium electric vehicles, innovative technologies in connectivity and charging solutions, and offer various other products intended to improve the user experience (NIO Company Profile, 2021). NIO is a fairly new company founded in November 2014. They introduced their first model, the E9 supercar in 2016. The enterprise now has four models that have been released, four more that are upcoming, and two that are in the concept phase. In addition to NIO's numerous business goals, the company challenges social issues as well, the predominant one being climate change. NIO is committed to a cleaner future through reducing automobile emissions in China and abroad. Through pursuing forward looking technologies such as electric cars and autonomous driving NIO also hopes to create a strong tie and positive culture between the company and its customers by encouraging brand loyalty and improving the car ownership experience (NIO Company Profile, 2021). NIO's Chinese name is Weilai, which translates to Blue Sky Coming (NIO Company Profile, 2021). This underlines the importance of social goals for NIO since its inception.

Firstly, to examine how effective NIO is as an organization pursuing hybrid social and business goals, one must look at NIO's past and future goals. The company has had a number of challenges since its founding in 2014, which resulted in over \$6 billion in



debt by 2020, but due to astronomical support by investors during 2020, NIO became the 4th most valuable automaker in the world (Evers, 2021). Despite the challenges imposed by the COVID-19 pandemic, investors continued to trust in the future capabilities of NIO, and the company itself continued to grow reaching \$628 million in sales in Q3 of 2020, and delivering over 12,000 vehicles (Evers, 2021). Another impressive recent accomplishment of NIO is that in April 2021, NIO celebrated the production of its 100,000th electric car at the JAC-NIO Hefai Advanced Manufacturing Centre in China (Kane, 2021). This major milestone for NIO took less than three years, to be more specific exactly 1,046 days since NIO produced its first NIO ES8, its smart electric flagship SUV (Kane, 2021; Linecker, 2021). Another large, short term goal for NIO are its plans for expansion into Europe and opening its first NIO House outside of China. Norway was chosen as NIO's first location to expand abroad with the first service and delivery center set to open in September 2021 in Oslo. Four additional locations will be opening in 2022 in Bergen, Stavanger, Trondheim, and Kristiansand (Linecker, 2021). The aforementioned ES8 will be the first model released. NIO also intends to bring its battery swap stations to Norway, and later establish a charging map for Europe, starting with battery swap stations connecting the five previously mentioned cities in Norway (Linecker, 2021).

To better understand this goal, the battery swap system that NIO employs must be explained as the company has chosen a much different route to competing in the electric car market compared to its competition. As opposed to Plug-in Hybrid Electric Vehicles (PHEVs), NIO chose to open power stations where an owner can drop off a car with a low or dead battery, and have it swapped out with a fully charged battery. These swaps take only 3 minutes. Moreover, the vehicles battery and electric systems are checked for performance during each swap in order to keep it in the best shape possible (NIO Power, 2021). In addition to the quicker turnover times as opposed to charging a vehicle between uses, the method could cause vehicles to retain their value much longer as the batteries are swapped over time instead of depreciating over time. Inserting regular checkups on other car issues on a regular basis add to it. This could allow for problems to be caught early on and resolved before significant damages can come to a vehicle. Both models are of course limited by the infrastructure around them. Moreover, as NIO is currently the only company that currently employs the battery swap method, it could prove to be an obstacle for the company's goals of international adoption.

Between NIO's goals for dominance in China and expansion into Europe, the company faces significant challenges as a young start up in a consolidated and competitive industry, especially as it is positioned as a premium brand. However, its unique business model and the increased demand for zero-emission passenger vehicles in China and abroad provide a lane for NIO based on performance throughout the Covid-19



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pandemic, as well as more recent performance data. This is shown in their shipment numbers which more than doubled from 3,740 units in 2020 to 8,083 units in 2021 between the ES6, EC6, and the ES8 (Seeking Alpha, 2021). The increase was from 10,331 units in Q2 of 2020 to 21,896 total units in Q2 of 2021. NIO's annual production capacity of 150,000 vehicles is not being fully realized due to a semiconductor shortage. However, this problem is being alleviated, since it is expected to slowly return to normalcy throughout the rest of the year, one could see this tremendous growth continue in NIO's deliveries as well as production (Seeking Alpha, 2021). NIO's economic and business goals, which are irrevocably tied to its social environmental goals, seem to be attainable should the company stay true to its path and continue to impress investors around the world.

The main social challenge that NIO aims to tackle are emissions, climate change, and overall sustainability. This is an important factor for NIO as a company on all levels, and not just as an end result of producing electric vehicles. The company also collaborates with sustainable partners and suppliers. For example, NIO's aluminum supplier, Novelis is the world's largest aluminum recycler (Luvioni, 2020). The collaboration can make replacement parts for NIO more sustainable. The company's battery supplier is also notoriously sustainable, and the battery swap method NIO employs results in a more cost effective and sustainable recycling process (Luvioni, 2020). One area in which NIO faces a sustainability challenge is their use of premium leather for vehicles when faux leather could be more sustainable. But the moral questions of killing animals to maintain real leather, as well as the question of which method is truly more sustainable is why the point remains an open for discussion.

The previously mentioned NIO House showcases another of NIO's social goals, creating a strong company culture, a brand community for owners of a NIO vehicle, and enhancing and improving the customer experience. The NIO House feels like a second home for owners of NIO vehicles. Additionally, there are many services offered inside such as a showroom for products, a club with workspaces, a library, a kitchen, a lounge, a cafeteria, and a "Joy Camp" for children (Delacharlerie & Delacharlerie, 2020). The application for the NIO House is virtually endless from a place to study, work, lounge with friends, etc. and the NIO House even has its own signature drink. The gallery is the only part available to the general public for shopping. NIO also hopes that through creating a loyal community NIO owner will be more likely to live sustainable lifestyles. NIO Houses will support their customers to interact with each other and thus create a sustainability hot spot. A slow-fashion clothing line is also available at the NIO House. By offering a sustainable lifestyle, creating a home-like experience, and educating about sustainability and why it matters for the youth, NIO demonstrates a success story on how a business can tackle both business goals and social goals without tradeoff (Luvioni, 2020).



While NIO still has a long way to go in order to reach its goals, the company has shown what a socially conscious, future oriented company is capable to achieve in China inside of a decade. Despite the challenges NIO tackled so far, the hurdles the company will certainly face in the future, especially as its sights expand beyond China's borders, the attitude and business decisions of the company leadership seem to be on the right track. As the company's sustainability mission and business success mission are intertwined, one will see NIO thrive, or underperform in both areas together. As conclusions cannot be drawn on NIO's future ambitions, only time will tell their story, but if trends continue NIO and its missions will not be going away anytime soon.

6. Pinduoduo Inc.

The second company of which this paper examines the social and economic performance of is Pinduoduo Inc. Pinduoduo is the biggest technological platform focusing on agricultural products in China. It is a publicly traded company listed on the Nasdaq (PDD, n.d.). The motto of this Chinese company is: "Together More Savings More Fun". Through the life of the company Pinduoduo has worked with more than 12 million growers and their communities (Pinduoduo Inc., n.d.-a). With their innovative and interactive e-commerce platform, Pinduoduo connects the farmers directly with the customers. It is a highly unique company and offers the first app of its kind in China. Pinduoduo is mostly focused on the agricultural sector because it is one of the least digitalized sectors in China (Pinduoduo Inc., n.d.-a). The company is committed to improve the quality and the quantity of food produced. One of the main goals of Pinduoduo is to make the process of the food production and sales more sustainable while also increasing efficiency.

Pinduoduo was founded relatively recently in 2015 and thus is considered an emerging internet company (Pinduoduo Inc., n.d.-a). The three biggest milestones in the life of the company are as follows: In 2016 the number of the active buyers exceeded 100 million people, second in 2017 the numbers of the active buyers exceeded 200 million people, and the most recent important milestone was achieved in 2018 when the number of active buyers exceeded 300 million people (Pinduoduo Inc., n.d.-a). These milestones reflect how rapidly Pinduoduo has expanded since its inception.

While the company's portfolio is not diverse and contains only the Pinduoduo app, it has successfully focused solely on its strengths. The Pinduoduo app offers an interactive mobile shopping experience which is one of its major marketing advantages, helping it stand out from the competition. The company aims to offer a digital shopping experience that is as interactive as in-person shopping. To market effectively, Pinduoduo offers a personalized feed to display products relevant to each of its users. The products are listed in the clear categories and are clearly described. In the



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app users can also create a purchasing group team to follow bargains together, and when users buy together through these purchasing groups, they may be eligible for additional discounts. Like social media platforms, Pinduoduo users can add friends and share content with them to improve the online shopping experience. Pinduoduo launched an effective e-waybill system that improves the quality of app navigation. It also enhanced the app's security by tracking and detecting fraud. Pinduoduo's app processes over 60 million orders daily, making their e-waybill pay system the second largest in China (Pinduoduo Inc., n.d.-b). The main purpose of the app is to connect the manufacturer and consumer. To achieve this, they aim to provide products of the highest quality available while constantly listening to the feedback of merchants and consumers. Pinduoduo also shares their knowledge on reducing production costs with producers so they can achieve better prices and build effective supply chains. As a company focused on embracing change and always seeking ways to improve, Pinduoduo looks to work with price leaders in the agriculture sector with the best quality. These leaders can attend the Duo Duo university and expand their own knowledge about e-commerce. Pinduoduo also assists with direct sales between small-scale farmers and consumers. By removing intermediaries, both the farmer and consumer benefit. One of Pinduoduo's social missions has been to assist impoverished villages. The company has done this through an initiative that offers underprivileged farmers additional marketing resources to promote their products on the Pinduoduo app. The enterprise also received rewards from Duo Duo Orchard (Pinduoduo Inc., n.d.-b).

Pinduoduo is committed to connections and trust. The core value of the company is "本分" (Ben Fen), that stands for:

- “Be honest and trustworthy;
- Discharge our own duties and responsibilities regardless of others' conduct;
- Insulate our minds from outside pressures so that we can focus on the very simple basics of what we should be doing;
- Never take advantage of others even when we are in a position to do so;
- Self-reflect and take responsibilities when problems arise instead of blaming others.” (Pinduoduo Inc., n.d.-c).

These commitments they follow show their intention to benefit all people. The company's app has been especially beneficial for small farmers and consumers. Pinduoduo's logistics system also aids the environment by organizing deliveries together, lowering transportation costs as well as emissions. This is achievable due to new e-commerce solutions that create an individually tailored interactive online shopping experience possible. Pinduoduo's “More Open” mission is about providing



consumers with a choice and disrupting monopolies. This is not because the company wishes to create its own, but because it wants to provide both small farmers, and the everyday consumer with a choice without coercion. Staying true to their mission, Pinduoduo hopes to offer long term survival to small farms and consumers (Pinduoduo Inc., n.d.-c).

Corporate responsibility is key to Pinduoduo. Their main goal is to promote digital inclusion and bring high value products to consumers for affordable prices while providing a fun experience. To meet these standards, they created guidelines in which they would operate. Firstly, the company took a firm stance on environmental protection. Pinduoduo is dedicated to reducing waste and promoting efficiency, which is why they focus on the direct relationships between manufacturers and farmers with consumers. Their second social mission is embracing social inclusion. Pinduoduo aims to bring more people into the digital economy. They designed their platform intending for it to be simple and easy to use for entrepreneurs of all sizes and all ages. Their third social mission is investing in the future. Pinduoduo focuses its resources on investing in scientific research and technological innovations, that could improve the humankind's future (Our Approach to Corporate Responsibility | About Us, n.d.).

Pinduoduo also aims to be a charitable company. This nature derives directly from Pinduoduo's leadership which understands that meeting business goals alone is not enough, and that charity is valued. The founder and the ex-chairman of the company – Colin Huang (Huang Zheng) is the 3rd richest-man in China with a fortune of almost \$50 billion (Teng, 2021). Huang in 2021 was named the most generous person in China, due to his donations of almost \$2 billion (Founder of Pinduoduo Becomes the Most Generous Person in China amid a Wave of Regulatory Tightening of the Internet, n.d.). For Pinduoduo, philanthropy is a corporate strategy. Even during the COVID-19 pandemic, Pinduoduo has been very active in their social missions. In January 2020, together with Zhejiang University, they established a foundation for the prevention and control of infectious diseases with funds of 100 million Yuan. At the same time Pinduoduo donated 1,000,000 medical masks, 20,000 pieces of protective clothing, 200,000 medical gloves and 30 tons of medical supplies to the Hubei province (Charity by China's Emerging Internet Giants: Just for Show, or a Long-Term Plan? – China Development Brief, n.d.). But Pinduoduo is not only committed to the charity connected with fighting COVID-19 pandemic. In 2020, Huang Zheng, former CEO of the company, established the “Starry Night Foundation” and donated 2,37% of Pinduoduo's company shares to the foundation (Bloomberg - Are You a Robot?, n.d.). The foundation's purpose is to promote social responsibility and scientific research. While impressive, these are just a few of many donations made by Pinduoduo.

Is charity beneficial for Pinduoduo? In their case, it is a resounding yes. Pinduoduo's



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charitable reputation has given it fantastic publicity, which is exactly what a young company needs. An example is when Zheng appeared on television on July 13th, 2020, mentioning some of Pinduoduo's charitable efforts. This same day Pinduoduo's stock price rose 1.12% to a market capitalization of \$105.726 billion (Charity by China's Emerging Internet Giants: Just for Show, or a Long-Term Plan? – China Development Brief, n.d.). This raises the question of whether corporations pursue charity for altruistic reasons, or because they see profitable opportunities. While it is most likely the case that charity is financially beneficial, it should still be promoted due to the positive impact it leaves on society.

To summarize, Pinduoduo is a young and ambitious company that has utilized modern technology to create an e-commerce platform to connect consumers directly to producers. Since its inception, due to its unique business model and excellent leadership Pinduoduo has rapidly expanded. Even with the pressures of being a new player in a large industry, Pinduoduo remains committed to its social responsibilities, and its charitable track record speaks for itself. While the company donates to several different causes, the COVID-19 pandemic showed how leadership within Pinduoduo is responsive, ready to tackle new problems and embrace change as it comes. As was the case with NIO, Pinduoduo has found its niche in the Chinese market and understands that social and environmental missions do not need to be a tradeoff with business goals. On the contrary, it seems that these very aspects could be what drives consumers to these young brands.

7. Conclusion

As China continues to face both social and environmental challenges, the role for hybrid organizations will only continue to grow. Climate change, the aging crisis, income inequality, and deteriorating relationships with the United States remain some of the biggest challenges for China today. An increasing aging population, a shrinking workforce, and a conflict with their largest trading partner creates a difficult dilemma for China who strives to be less dependent on foreign trade. While the government most likely plays a role in alleviating some of these problems, hybrid organizations can, and in some ways are expected to, address those issues as well. Since the emergence of the hybrid organizations, so many positive economic shifts have been seen. The increase of standards in different business segments has been attributed to the combined efforts of many hybrid organizations. Through the developments of many reforms and government changes these organizations continue to stand strong through performance exceeding the everyday expectations through continuous innovation. As seen with both NIO and Ant, tackling environmental issues is not only good for public relations and reputation, but can be quite profitable as well. In NIO's case, the company has even been able to turn its environmentally conscious brand into both a club and a lifestyle. When an organization can profit from fulfilling its Corporate



Social Responsibility, there is no reason not to pursue other missions beyond business goals. This is reflected in Pinduoduo's corporate strategy as well. As a company that embraces charity and environmental goals, Pinduoduo shows that attaining a positive social image does wonders for small, ambitious corporations.

Since the emergence of hybrid organizations half a century ago, their role has only expanded. Even with the Chinese government's powerful influence on commercial activities and businesses, hybrid organizations have found their place in China's economy and have been able to benefit China economically. As China's economy continues to liberalize and become more of a market economy, hybrid organizations will continue to thrive.

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