



Facultat de Ciències Jurídiques  
i Econòmiques · FCJE

# **INNOVATIVE BUSINESS MODELS: THE CASE OF HYBRID ORGANISATIONS**

**Author: Ángela Grifo Monsó**

**Supervisor: María Luisa Flor Peris**

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## **1. INTRODUCTION**

The world is constantly changing and, in order to survive, companies must continually reinvent themselves if they do not want to disappear. Today, the great competition between companies has made innovation a necessity, not an option (Magarzo, 2015). One way to do this is to innovate in the business model, as this allows companies to gain a competitive advantage over the rest. It is more difficult to copy a system of novel activities than a single product or process (Zott and Amit, 2012).

There are different ways to innovate in the business model (Foss and Saebi, 2017). An example of an innovative business model are hybrid organisations. They are characterised by developing an innovative business model oriented towards sustainability (Haigh and Hoffman, 2011). Specifically, their business model is considered to be innovative due to the fact that they integrate a social and environmental purpose with an economic objective (Kramer and Porter, 2011; Alberti and Garrido, 2017). Their increasing relevance is a consequence of people's awareness of social and environmental issues and also, in certain countries, to the passage of supportive legislation, as, for example, through Benefit Corporations in a number of states of United States (Santos, Pache and Birkholz, 2015; Alberti and Garrido, 2017). Indeed, these organisations are the proof that it is possible to obtain economic profitability and at the same time contribute to mitigating the social and environmental problems existing in the world.

Therefore, given their potential contribution to a better world and the growing interest they arise, a deeper examination of how these types of organizations articulate their business model can provide more information to managers interested in adopting this approach in their companies.

The objectives of this paper are to examine the features that characterize innovation in the business model, to deepen the study of hybrid organisations, which are characterized by having an innovative business model, and to examine the extent to which B Corp companies adopt business models as those developed by hybrid organisations. As previously stated, with it, we intend to encourage the creation of hybrid companies with an innovative business model and thus contribute to improving the world.

Our paper is structured in the following way: in the first part, we will describe the characteristics of a business model. Next, we will explain what is innovation in the business model and the types of innovation in the business models we can find. We will then explain what a hybrid company is, its types and the specific characteristics of its business model. In the second part of this research, we will present a case study where we will examine how the theory mentioned above applies in a company. In this case, the chosen company is ECOALF, a company with a B Corp certification, characterised by a strong commitment towards the society and the environment.

## **2. INNOVATION IN THE BUSINESS MODEL**

### **2.1 What is a business model?**

Although its first appearance was in an academic article published in 1957 by Bellman, Clark, Malcolm, Craft and Ricciardi, the concept of "business model" is relatively young (Osterwalder, Pigneur and Tucci, 2005). When it comes to defining a business model, we find multiple definitions, each one putting more importance on different aspects depending on the authors (see table 1).

**Table 1: Authors and business model definitions**

<b>AUTHOR</b>	<b>DATE</b>	<b>DEFINITION</b>
Magretta	2002	"Stories that explain how the company works".
Osterwalder, Pigneur and Tucci	2005	"A business model is a conceptual tool that contains a set of objects, concepts and their relationships with the aim of expressing the business logic of a specific company. Therefore, we must consider that such concepts and relationships allow a simplified description and representation of what value is provided to customers, how it is done and with what financial consequences".
Zott and Amit	2009	"A business model is the way in which a company carries out its activity and the way in which it relates to its stakeholders, such as partners, customers and suppliers".
Teece	2010	"Design or architecture of the value creation, delivery and capture mechanisms of a company".
Oslo Manual	2018	"A business model includes all core business processes, such as production agreements, logistics, marketing and cooperation in use, as well as the main products that a company sells, now or in the future, to achieve its strategic goals and objectives".

*Source: Own elaboration*

In general, these definitions can be grouped into two blocks. On the one hand, we find authors who describe the business model as the way an organisation creates, delivers and captures value (e.g., Osterwalder, Pigneur and Tucci, 2005; Teece, 2010; Santos, Pache and Birkholz, 2015). On the other hand, other authors define the business model as the way in which an organisation carries out its activity and how it relates to its stakeholders (for example, Magretta, 2002; Zott and Amit, 2009). A third approach, featuring traits of the other two, is the definition provided by the OECD/Eurostat (2018), in which the business model is identified with the central processes of the organisation and with the products it sells in order to achieve its goals.

Among the above definitions, the proposal made by Osterwalder and Pigneur (2011) has been widely widespread, and got great popularity, especially among practitioners. For these authors, the best way to explain what a business model is, is to fragment it into nine parts. These parts are essentially basic for the company to achieve its income:

- Market segments: refers to the different groups of people or entities to which an organisation is directed.
- Value propositions: products or services that generate value for a given segment. It is of vital importance because it makes a customer decide to buy products or services from one company or another.
- Channels: how a company reaches customers. This is achieved through communication, distribution and sales channels.
- Customer relations: customers are the centre of a business model and depending on the objective of the company, it relates to them in one way or another. The relationship can be personal or automated, depending on the objective.
- Sources of revenue: revenue generated by each segment for the company. There are different ways to obtain these revenues: sale of assets, licensing, loans, etc..
- Key resources: resources that enable a company to create and offer a value proposition, reach markets, relate to market segments and generate revenue. In short,



they are the vital assets for a business model to work.

- Key activities: actions that a company must carry out to make its business model work. Like resources, the key activities will be different depending on the business model being carried out.
- Key partnerships are the relationships you have with partners and suppliers. These alliances are carried out to optimise the business models, acquire new resources and reduce risks. Examples of partnerships are: joint ventures or cooperation.
- Cost structure: costs caused by the implementation and execution of a business model.

These nine modules together can help a company or organisation develop a new business model or change the existing one. One way to represent it graphically is through the canvas of the business model, which is useful to visualize the business model that the company has (Figure 1).

**Figure 1: Template for the business model canvas**



*Source: Osterwalder and Pigneur (2011)*

In the image, we see how the right side reflects the market, the environment and the external aspects of the organisation. These are: market segment, relationship with

customers, channels, value proposition and revenue sources. On the other hand, the left side of the image refers to the internal aspects of the organisation such as key activities and resources, cost structure and key partnerships.

## **2.2 Innovation in business models (or innovative business models)**

Companies are usually interested in innovating, as this can give them a competitive advantage over their competitors and provide them with an increase in profits (Zott and Amit, 2010). One drawback is that such innovations sometimes require significant investment, for example, in R&D, new assets, specialized resources or entire new business units. As a result, product and process innovation is often costly and time-consuming (Zott and Amit, 2009). For this reason, according to Amit and Zott (2012), more and more companies are deciding to innovate the business model as an alternative to product or process innovation. Innovation in the business model can provide a new source of value creation, which can be very useful in times when resources are scarce. This is based on the creative and novel combination of existing resources that form part of a company (Zott and Amit, 2009).

In this way, innovation in the business model is important for companies for three reasons. First, it represents an opportunity to increase revenues and profits at a reduced cost (Amit and Zott, 2010). Secondly, an innovation in the business model is more difficult for competitors to imitate than an innovation in a product or process, as it is more difficult to copy a system of novel activities than a single product or process. And third, this type of innovation provides a very powerful competitive tool as they differentiate themselves from their competitors (Amit and Zott, 2012).

To properly explain innovation in the business model, it is convenient to define "innovate" and "business model" beforehand. The dictionary of the Spanish language Real Academia Española (RAE) defines the word "innovate" as "to change or alter something, introducing novelties". In the previous section, we have seen that, according to Amit and Zott (2009), a business model is the way in which a company carries out its activity and the way in which it relates to its stakeholders, i.e. partners, customers and suppliers. Therefore, innovation in the business model could be defined

as the introduction of novelties in the way a company carries out its activity and in the relationships it maintains with its stakeholders.

Other definitions accentuate the novelty in the way of providing value. Thus, for example, according to Lindgardt, Reeves, Stalk and Deimler (2009) an innovation in the business model occurs when two or more components of a business model are reinvented to provide value in a new way.

A third definition, provided by the OECD/Eurostat (2018), accentuates the change or novelty in the company's main processes and products, as it states "Business model innovation relates to changes in a company's core business processes, as well as in the main products it sells, now or in the future."

There is no widely accepted classification of business model innovation types, although proposals from authors such as Foss and Saebi (2017) and the OECD/Eurostat (2018) are outstanding contributions which are helpful in identifying how business model innovation occurs.

Foss and Saebi (2017) identify different types of innovation in the business model by relying on two variables: (1) the scope of the innovation, that is, whether the changes have taken place in the architecture of the business or in a modular way, and (2) the novelty of the innovation, related to whether it involves the introduction of novelties in the company or in the industry. Based on this, they distinguish four types of innovative business models: evolutionary, adaptive, focused and complex. Table 2 shows the different types of innovative business models according to whether the innovations are produced in components of the business model or in their totality and according to whether the innovations are produced in the company or in the industry.

**Table 2: Typology of innovative business models**

		SCOPE	
		Modular	Architectural
NOVELTY	New to firm	Evolutionary	Adaptive
	New to industry	Focused	Complex

*Source: Foss and Saebi (2017)*

With evolutionary and adaptive innovative business models, novelties are produced in the company. In the evolutionary innovative business model, evolutionary and emerging changes occur in the individual components of the business model, usually because of the course of time. The adaptive innovative business model implies new changes in the business model in general; these must be new for the company, but not necessarily for the industry. These are the cases in which the organisation adapts the architecture of its business model to cope with changes in the external environment.

On the other hand, innovative focused and complex business models can be defined as the processes by which management carries out modular or architectural changes in the business model to change market conditions, i.e., they are new models for the industry. In the focused innovative business model, the company innovates within an area of the business model, for example by entering a new market segment that has been ignored by its competition. Thus, it creates a new market but keeps the rest of the parts of the business model the same, i.e., it is a modular change in the organisational business model. On the contrary, the complex innovative business model affects the business model as a whole.

For its part, the OECD/Eurostat (2018) in the latest edition of the Oslo Manual distinguishes two types of innovations in the business model: partial innovations, that affect only the products or functions of an organisation, and integral innovations that affect both. The latter stress the importance of integral innovations within the business model. These can have a big impact, as they can transform markets and create new

ones, through changes in the supply chain and in the economic production. According to the OECD/Eurostat (2018), there are 3 types of innovation in the business model:

Type 1: a company with its current business activity decides to expand its activities, its portfolio with new products and enter new markets.

Type 2: a company decides to change its business radically, closing the current one and opening a new one, with new products and markets.

Type 3: the company changes the existing business model of its products.

Thus, it is observed that, although there are different conceptions of types of innovation in the business model, both agree that the changes that occur can be either partial or integral. Partial changes are if the innovations in the business model only affect parts of the company (its functions or products) or integral if they affect the whole company.

### **3. HYBRID ORGANISATIONS AS AN EXAMPLE OF INNOVATIVE BUSINESS MODELS**

According to Haigh, Walher, Bacq and Kickul (2015) hybrid organisations are those that pursue with their activity and their business model to mitigate a social or environmental problem. For this purpose, they carry out both profit and non-profit practices.

Accordingly, the hybrid business model focuses on creating social and environmental improvement and not just on reducing the negative social and environmental impacts caused by business activity. These models seek mutually beneficial connections between communities, businesses and the natural environment around them (Haigh and Hoffman, 2011).

We can consider that hybrid organisations have adopted an innovative business model, as they implement a change in the value proposition and how they create it. While there is no unanimous characterization of the fundamental characteristics of hybrid business models, we can establish them from the proposals of Haigh and Hoffman (2011) and Boyd et al. (2009).

Alberti and Garrido (2009) rely on the characterization proposed by Haigh and Hoffman (2011) to define the characteristics of a hybrid business model. According to them, the hybrid business model is articulated around three main aspects: (1) Promote positive social/environmental change as an organisational objective; (2) Relations with suppliers, employees and customers; (3) Interaction with the market, competition and industry. The next paragraphs describe further these points.

#### 1. Promote positive social/environmental change as an organisational objective.

- Hybrids, like traditional companies, provide differentiated and good quality products. But, unlike these, hybrid companies have as a priority to achieve the social and environmental objectives integrated into their mission. It is very important that the mission reflects the social and environmental objectives of the company, and that this in turn is reflected into its operations, goods and services. An illustrative example would be the firm "Sun Oven". This company manufactures solar cooking equipment, which in addition to meeting the goal of

making food, reduces the consumption of firewood and charcoal in developing countries that have abundant sunlight. In addition to reducing health hazards and deforestation, they also contribute to improving the quality of life for people living in these areas (Haigh and Hoffman, 2011).

- Longer time horizons for slower and more autonomous business development. In order to maintain their mission, hybrid organisations normally grow more slowly and steadily. For example, a company that collects citrus fruits could pick them up faster and cheaper with a machine than by hiring local people for several days. But, this way, the company employs the local population and avoids pollution from machines and fossil fuels.
- Positive and committed leadership. Good leadership is fundamental for any business, but if we talk about hybrid organisations, it is even more important. Their leaders must represent the social and environmental values of the company and reflect these in their activities. An example would be Yvon Chouinard, founder of Patagonia, which is an outdoor clothing company. Chouinard donates a percentage of its profits to environmental groups and trains its employees on social responsibility issues. Together with Craig Mathews, he has created "one percent of planet," a non-profit organisation that aims to help fund environmental organisations to increase their joint power and solve the world's problems. (Balch, 2019; 1% of the planet, 2019).<sup>7</sup>

## 2. Relations with suppliers, employees and customers.

The hybrids seek to create a close relationship with their surrounding communities by offering them employment, giving them a voice in decision-making and paying them wages above the market minimum; this contributes to increasing their quality of life. These relationships are based on trust and respect. Employees also value working in a hybrid organisation because it breathes a family atmosphere, they participate in the decision-making process, they are given autonomy, the company supports diversity, and they benefit from high quality medical services. As far as consumers are concerned, there has been a growing interest in sustainably purchased and created products. This gives them confidence in these companies and loyalty, as they see that they contribute to improving the world.

### 3. Interaction with market, competition and industry

Hybrid organisations try to set an example in the markets and industries in which they operate. In this way, they try to disseminate their business model and thus gain acceptance in the markets in which they operate. Their aim is to make their products stand out from those traditional companies offer. With this, they want other companies to follow their path and change their business model to a hybrid business model.

Table 3 summarizes the three activities that characterize a hybrid business model, as well as the main differences with the business model of traditional companies.

**Table 3: Main differences between the hybrid and the traditional business model**

	<b>Relationship of social/environmental issues to the organisation's objectives</b>	<b>Relations with suppliers, employees and customers</b>	<b>Interaction with market, competition and industry</b>
<b>Hybrid organisations</b>	The first thing is to achieve the social and environmental objectives, the rest is secondary.	Relationships with suppliers, employees and customers are mutually beneficial. The cost is totally secondary	Seek to shift traditional industry standards towards those that pursue social and environmental objectives
<b>Traditional organisations</b>	Problems are only solved if the organisation is strong and can cope with them.	Relationships with suppliers, employees and customers are essentially transactional. Cost is most important	Self-interest is sought above all else

*Source: Haigh and Hoffman, 2011*



Boyd, Henning, Reyna, Wang, Welch and Hoffman (2009), in their study "Hybrid Organisations: New Business Models for Environmental Leadership", indicated that the characteristics that define hybrid companies are:

1. Hybrids believe they do something completely different from their competitors. Hybrids have to implement new strategies and redefine markets to succeed. They follow two business strategies: do something new in a new market or do something new in an existing market.
2. They are organisations that focus on innovative products, environmental features and high quality products that give them competitive advantages.
3. They have positive and negative profit margins. They usually experience profitability problems in achieving their environmental mission. It is also important to note that like all companies hybrids are vulnerable to failure during the first few years. However, if they manage to survive in the initial stage, they are very profitable.
4. Much of their funding comes from patient capital; investors with a high tolerance for risk and a long-term perspective.
5. Financing hybrids can be both an advantage and inconvenient.
6. Hybrids have to be guided by transformational and participative leaders to succeed.
7. Hybrids must integrate environmental sustainability into all departments and functions of the organisation.
8. Some hybrids follow environmental metrics. They calculate cost, intensity and recovery for energy, emissions, water and waste. They use internal tools or other standards or certifications.
9. Hybrids carry out important innovations related to a product or service.

If we compare Haigh and Hoffman (2011) and Boyd et al. (2009), it can be seen that both proposals coincide in three aspects: (1) Presence of participative and committed leaders at the head of these organisations. (2) They offer differentiated and good quality products, but always prioritizing social and environmental objectives. (3) Social and environmental objectives must be integrated into the mission of the organisation as well as into its assets, functions and departments.

It can be seen that developing a business model of these characteristics constitutes an innovation since it involves the introduction of novelties in the different parts of the organisation, such as, for example, in the different processes that make up the supply chain. In addition, companies that adopt this type of business model seek to achieve a business model oriented towards sustainability, focused on meeting social and environmental objectives.

Nevertheless, it is not possible to specify what type of innovative business model it resembles, as this will depend on whether the hybrid company in question innovates only in part or in all parts of its business model and whether the innovations are new in the company or in the industry. All this, in order to obtain benefits and help mitigate existing social and environmental problems in the world.

In contrast, if we focus on the category of hybrid business model, we can identify different types of business models. Specifically, Santos et al. (2015) drew on two variables: (1) the beneficiary of the activity and (2) whether or not the value is perceived automatically and identified four types of business models: market hybrids, fusion hybrids, bridge hybrids and coupling hybrids. Market and fusion types have customers as beneficiaries, while bridge and coupling hybrid business models do not have customers as beneficiaries.

Hybrid market business models are characterized by having clients as beneficiaries and by adopting a social mission. Thanks to their commercial activity, the beneficiaries, who are the customers who pay for a product or service, automatically benefit from its value (its positive effects). An example are companies that provide products and services such as water, sanitation, health, energy, communications and insurance. The cost of these products and services is low and their side effects are very strong, as they directly affect people's health and daily needs. In these models, products or services are created in such a way that they generate automatic indirect value effects for the health and economic development of clients. These types of companies can focus their attention on commercial activities since these directly generate income and social impact.

When it comes to fusion or blending hybrids, like market hybrids, customers who pay for the product or service are also the beneficiaries of their social mission. In fusion

hybrids, however, the effects are not automatic and additional interventions are needed to achieve the social impact; therefore, these effects are not a direct result of the company's commercial activity. For example, a microfinance institution offers, in addition to loan services, mentoring programs that provide beneficiaries with entrepreneurial skills so that they learn to better manage the funds they receive. These interventions have a cost, which makes it more difficult for these types of organisations to achieve financial sustainability.

Bridge hybrids serve both clients and beneficiaries, who in this case are different people. For this reason, the needs and resources of both must be taken into account. In this type of hybrid, customers also benefit from the product/service automatically. One example is Dialogue in the Dark, a social enterprise that has its origin in Germany and today has more than 25 years of experience and is present in more than 130 cities. Dialogue in the Dark organizes exhibitions in a complete darkness environment where visitors are guided by blind people. This change of roles helps to change the perception of customers' disability and creates a job for blind people (Santos et al, 2015).

In coupling hybrids, customers and beneficiaries are also different. In this case, the value effects do not happen automatically, social interventions are needed along with commercial operations. An example of these hybrids are the WISE<sup>1</sup> (Work Integration Social Enterprise). They serve both the beneficiaries (they provide employment to long-term unemployed people; these previously need additional interventions such as training and counselling courses) and their clients (who demand a product or service with competitive levels of quality and price).

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<sup>1</sup> Social work insertion enterprises (WISE) are enterprises created with the aim of providing disadvantaged groups with employment and training in enterprises (Ho and Chan, 2010).

#### **4. B CORP COMPANIES AS AN EXAMPLE OF HYBRID ORGANISATIONS**

The B Corps are a growing group of companies that follow a business model that seeks to achieve profits and social impact with its activity, always prioritizing social and environmental results (Stubbs, 2017). Their characteristics allow us to consider them as a type of hybrid organisation since, in addition to maintaining a balance between benefit and purpose, these organisations are legally required to take into account the impact of their decisions on their stakeholders (workers, customers, suppliers), on the community and on the environment.

B Corp companies are members of a non-profit organisation called B Lab. It was founded in 2006 in the USA with the purpose of using business as a force for good, that is, to solve social and environmental problems. In its first year, 19 companies were certified. Today, more than 2700 companies are certified in 67 countries (B Lab, 2019). Certified B Corps corporations are required to meet the highest standards of social and environmental performance, public transparency and legal accountability. What this new corporation aims to achieve is a change in global culture as well as building a more sustainable and inclusive economy. B Corp companies want to change the world, have a positive impact on employees, communities and the environment. For this reason, they work to reduce inequality, poverty, foster stronger communities and create decent jobs.

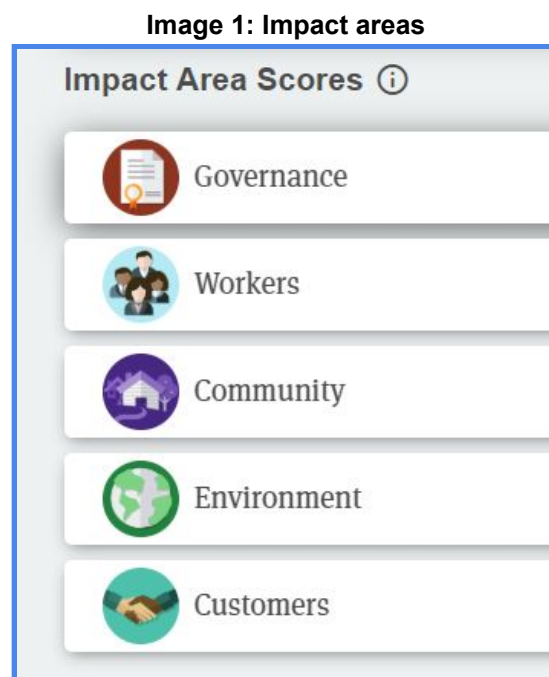
Companies that achieve the B Corp Certification will obtain the following benefits according to B Lab Spain: "Differentiation and leadership through social and environmental commitment, excellence for continuous improvement of business management performance, being part of a community of business leaders in sustainability, attracting talent, attracting investors and capital, benchmarking with related companies based on reliable information, visibility and dissemination in the media and discounts on services and products of B Corp companies" (B Lab Spain, 2019).

In order to become part of the B Corp family, companies must obtain the B Corp certification. It evaluates a company's social and environmental performance in addition to measuring how its activity (through its operations and business models) affects its stakeholders, community and environment. This is obtained by following 3 steps: the first step is to do the B Impact Assessment and achieve a minimum score of 80 points out of a total of 200. The second step is to comply with legal requirements. To do this,

the company must modify its statutes to include all its stakeholders. Finally, step 3, is to sign the B lab term sheet and the declaration of interdependence. The certification must be renewed every 2 years, which requires companies to continually improve (B Corp Spain, 2018).

To evaluate companies, five impact areas are taken into account: governance, environment, workers, community and customers. Within each area, different points are evaluated, which vary depending on the company. For example, in the governance section, aspects such as mission and commitment, corporate responsibility, ethics and transparency are evaluated. In the area of workers, consideration is given to compensation and salaries; training and education; labour flexibility/corporate culture; employee benefits, management and communication; employee ownership. The community category takes into account aspects such as diversity, equity and inclusion, economic impact, supply chain management, civic engagement and donations. The environment area examines aspects related to environmental management, air and climate, water, land and life. Finally, the customer area takes into account factors such as ethical customer management (B Lab, 2019).

In the following image, we see the 5 areas of impact to evaluate in a company.



*Source: B Lab, 2019*

The B Corp movement has not stopped growing since its birth. B Corp Spain was born later, in 2014, since then the number of companies forming this movement has grown rapidly (figure 2). Currently in Spain, there are 57 companies committed to their work to improve the world day by day. Some Spanish B Corp companies are: Holaluz, WOI, Pensium, Ecrowd, Visualfy, etc. (B Corp Spain, 2017).

**Figure 2: Evolution of the number of B Corp companies in Spain**



*Source: B Corp Spain 2017 and 2018*

## **5. CASE STUDY: ECOALF**

### **5.1 Methodology**

The methodology we have used in this paper is the case study. The case study consists on the analysis of a specific situation in order to get to know it in depth and thus come to understand and interpret the uniqueness of the case studied. This consists of empirical research that investigates a contemporary phenomenon in its real context, where the boundaries between the phenomenon and the context are not shown accurately, and in which various sources of evidence are used. The case may range from a person or company to a programme, an event, etc. (Fondevila and Olmo, 2013). In this type of analysis, quantitative and qualitative methodologies are usually combined, in addition to documentary review. Normally it is necessary to review documentation such as statistical studies, archive documentation, etc. (González, Leon and Peñalba, 2014).

In this case, we have used the company ECOALF as an object of study. Our aim is to examine the application of the theoretical concepts mentioned above in this specific context. We will describe its business model; explain why we believe it has an innovative business model; explain how it has managed to become a B Corp company and will analyse if the characteristics of hybrid organisations can be identified in this company.

Different secondary sources have been used to compile the information. These secondary data were obtained, on the one hand, from academic journals, web pages, books and reports. On the other hand, we looked up SABI<sup>2</sup> (Iberian Balance Sheet Analysis Systems) database to gather economic and general data of the firm.

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<sup>2</sup> SABI is a database that gives us access to financial data of companies located in Spain and Portugal.

## **5.2 Description of the company**

ECOALF is a company dedicated to the design, manufacture and sale of 100% recycled clothing, founded in 2009 by Javier Goyeneche. The 3 main bases on which ECOALF is promoted are: sustainability, innovation and sustainable design, which is why its objective from the beginning has been to manufacture the first generation of recycled products with the same quality and design as the best non-recycled ones. Goyeneche, J: "There is no point in creating products that do not integrate sustainability" (Gantes, 2019; Ecoalf, 2019). In this way, ECOALF manages to minimally reduce the indiscriminate consumption of natural resources, giving them time to regenerate, and, at the same time, reuses an unsustainable amount of waste. Its involvement with the environment is so important, that all of the above is reflected in its mission, vision and business values (table 4).



**Table 4: ECOALF Mission, Vision and Values**

MISSION	"Create the first generation of recycled products with the same quality and design as the best non-recycled products."
VISION	"Stop consuming the planet's natural resources indiscriminately."
VALUES	<p style="text-align: center;"><b>COMMITMENT</b></p> <p>"With the planet, with the environment and with people. With ourselves, our colleagues and all the people we work with, suppliers, collaborators..."</p> <p style="text-align: center;"><b>COHERENCE</b></p> <p>"Between what we do and what we say. In how we do it and how we count it We always have a single, unilateral message that conveys our commitment and our values."</p> <p style="text-align: center;"><b>TRANSPARENCY</b></p> <p>"Transparency guarantees this coherence and gives us credibility as a brand vis-à-vis third parties and mainly our clients. Transparency implies being able to tell everything we do and how we do it, but in order to be able to tell it, we first have to do an internal analysis to know our processes and the impact we generate."</p>

*Source: Ecoalf, 2019*

The start of ECOALF was complicated because there was little supply of recycled products on the market and what was available was of low quality. Currently, thanks to a series of strategic alliances around the world and a large investment in R&D, ECOALF develops fabrics, linings, tapes, soles, labels or cords with recycled materials (Calero, 2017).

ECOALF had 55 employees in 2017. In addition, with respect to operating income, ECOALF income in 2017 a total of 4,142,655 million euros (last update of the database). Currently, a large part of its turnover is obtained from the international

market, as ECOALF exports 90% of what it manufactures. Its main customers are Japan, the USA and the EU (ECOALF, 2019).

In spite of its 9 years of life, ECOALF has a few physical points of sale, starting in 2012 in Madrid and following Barcelona. In 2017, ECOALF was acquired by the Manor Group, which makes its international growth possible, opening its first store in Berlin (Gestal, 2018). All this makes ECOALF attracts the attention of different brands and make collaborations with well-known organisations such as Ekocycle, Starbucks, RCDeportivo, and so on.

ECOALF's commitment to the environment accentuates in 2015. Through its Foundation and with the collaboration of the HAP Foundation, it decides to carry out an ambitious project, Upcycling the Oceans. A global project that aims to remove marine debris from the bottom of the sea thanks to the help of fishermen. These wastes are then transformed into top-quality yarn for fashion garments. This project also aims to raise awareness about the serious global problem of marine garbage; as J. Goyeneche says: "We cannot continue destroying this planet as if we had another" (Ecoalf, 2019; Gantes, 2019). This project, today, is present in 37 ports of Spain and 2 years ago was implemented in Thailand (Ghent, 2019). In 2017, as the last step of this project, ECOALF created a joint venture with Textil Santanderina and Antex, with which, through their Seaqual 4U project<sup>3</sup>, they manufacture and trade thread derived from sea plastics (Riera, 2017).

In 2018 ECOALF obtained the B Corp. ECOALF is the first and only fashion brand to obtain B Corp certification in Spain. ECOALF had an overall score of 81.8 points out of 200 (Image 2). If we analyse the five scoring areas, we see that it has 14.8 points in governance, 17.2 points in workers, 17.7 in community, 32.1 in environment and 0 in customers.

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<sup>3</sup> Subsequently, in 2019, ECOALF decides to sell its stake to Textil Santanderina and Antex and abandon the project (Riera, 2019)

**Image 2: ECOALF impact areas score**



*Source: B lab, 2019*

### **5.3 Analysis and results**

To examine Ecoalf's business model, we have applied the Osterwalder, Visionarios and Pigneur (2011) proposal, which allows us to fragment a business model into nine modules. ECOALF's Canvas business model can be described as follows:

- With regard to the market segment, ECOALF is aimed at all those who not only want to wear clothes of good quality and design, but also want to contribute to changing the world. Buying ECOALF garments helps the company to continue its activity. In short, ECOALF is aimed at an increasingly environmentally conscious public (Ecoalf, 2019).
- ECOALF offers a totally different value proposition from other fashion companies. This proposal consists of offering garments made with sustainable materials, i.e., recyclable, with low environmental impact and respectful of animals. It uses materials such as plastic bottles, fishing nets, coffee grounds or tyres. In this way, ECOALF provides the customer with a product with a social and environmental value that other brands do not offer (Ecoalf, 2019).
- In ECOALF the relationship with the customer takes place in their stores in a very personal way, as well as through their website. All its stores have a multidisciplinary space where one can discover, explore and interact with nature. In addition, ECOALF has enabled areas for talks, events, documentaries, conferences and thus raise awareness of the importance of caring for and maintaining the environment (Ecoalf, 2019). Another example of its commitment to the environment and its interest in raising awareness among potential customers is its new initiative #recyclingblackfriday. Thanks to this initiative, ECOALF offers its customers a repair service for their garments in its stores in Madrid and Berlin. In addition, to prevent clothes from becoming part of the throwaway culture, ECOALF gives advice on how to extend the life cycle of garments, since these clothes end up in landfill, when 95% could be recycled (Velasco, 2018).
- With regard to ECOALF's sources of funding, until recently its capital came from the companies Belegar Inversiones (it controlled 30.09% of the company) and Bejo Ventures (it controlled 20.51%). Since 2017, the company has been owned by the Manor Group investment fund, an investment group specialising in sustainable agriculture and renewable energy companies, which has

acquired 70% of the company's capital (Riera, 2019). With respect to their income, they come from their national and international sales. But mainly from its exports to European Union countries, the United States and Japan. (exports 90% of what it manufactures).

- With respect to the key resources that enable ECOALF to carry out its activity, ECOALF needs the following materials to make its garments: plastic bottles, fishing nets, coffee grounds or tyres. It obtains all these resources on land and at sea, thanks to his Upcycling the Oceans project.
- Sixthly, the three main activities that ECOALF must carry out in order for its business model to work are collecting waste, transforming it into fabrics and selling it to the final consumer. ECOALF develops its own fabrics and is constantly researching to use new materials (e.g. invasive algae). This would not be possible without the large amount of capital devoted to R&D. In addition, ECOALF has made shopping for its products a real experience. You can enjoy nature as well as attend sustainability talks.
- With regard to Key associations, in 2015, the ECOALF Foundation together with the support of the HAB Foundation and Ecoembes decided to create the project Upcycling the oceans to clean the seabed of waste. This project has had the free collaboration of more than 3000 fishermen spread over a total of 40 ports. This project is in full expansion; it is planned to be adopted by 16 Mediterranean countries. The commitment of the fishermen is very strong because they benefit from taking this waste out of the sea (if you catch rubbish and throw it away again, tomorrow you will catch it again and so on). That is why this initiative has been very well received by fishermen. The collaboration of Ecoembes (a non-profit environmental organisation that through recycling helps to maintain and care for the environment) has been essential because once the fishing boats take the garbage to land this organisation is responsible for recycling (Hita, 2019).

Later, in 2017, ECOALF created a joint venture with Textil Santanderina and Antex for the production of thread derived from sea plastics.

In addition, ECOALF, since its inception, has collaborated with numerous brands, entrepreneurs and designers:

- In 2013, ECOALF designs for Apple an exclusive collection of sustainable laptop cases.

- That same year, ECOALF designed a limited and exclusive edition of briefcases for Barneys NY. In 2014, ECOALF, together with Signus, launched the first flip-flops manufactured 100% in Spain with recycled tyres and without adhesives thanks to which they won the Ecoembes R Prize for Innovation.
- In 2015, it is carrying out three more collaborations. The first with Coolhunting to design a jacket made of lightweight nylon and water-resistant. The second with designer Helena Rohner to create a jewellery collection made from 100% recycled materials and finally, the collaboration with the Creative Director of Ekocycle, to create a collection of 8 fabrics for Harrods.
- In 2016, ECOALF collaborates with Starbucks and Swatch (designs its new uniforms 100% with recycled fabrics made from plastic bottles).
- In 2017, it collaborates with the designer Sybilla and with RCDeportivo (the first football team with luggage made from sustainable fabrics).
- In 2018, ECOALF collaborates with FELDER FELDER to create a 100% vegan collection.
- With regard to the cost structure, implementing and maintaining ECOALF's business model requires high costs. Collecting waste such as PET containers, transporting it to warehouses, converting it into fabric, making garments and getting all the players in this great process to agree is much more expensive than going to a wholesaler and buying a few metres of cotton. As J. Goyeneche stated: "The ecological has historically been expensive: it is the electric car and also organic food. This is one of our great challenges" (Tomorrow, 2014).

If we examine ECOALF with regard to the types of innovative business model (Foss and Saebi, 2017), it would have an innovative business model halfway between the centred and the complex since innovations do not occur in one part of the business model or in all of them, but in several parts. Thus, some innovations in its business model are the following:

(1) ECOALF innovates in the market segment, since its products are aimed at a segment abandoned until now. It is aimed at customers who, in addition to wanting to purchase fashion garments, seek to contribute to changing and improving the world.

(2) It innovates in its value proposition, offering products 100% made with recycled materials. ECOALF provides its customers with products with social and environmental value.

(3) It innovates in key resources, using waste to carry out its activity.

Another characteristic of both types of business model (focused and complex) is that they involve the introduction of novelties / innovations in the textile industry. Clearly, ECOALF's business model has provoked a revolution in the textile industry, since it carries out its activity in a different way than other industries: the way in which it obtains the materials (thanks to the collaboration of the fishermen "Upcycling the Oceans" and Ecoembes among others), the types of materials it needs (waste) and its final products (fashion garments made 100% with recyclable materials), etc.

We could say that the innovations present in ECOALF's business model are integral (OECD/Eurostat, 2018), as it has innovated both in its products and in its functions. ECOALF has managed to introduce changes that aim at transforming the textile market, introducing a series of products that did not exist before. In addition, it has created a new market niche; addressing environmentally conscious people, who, through ECOALF see a possible change in the world. Having said all this, although we consider that integral innovations have been produced, we do not believe that ECOALF fits into any of the types said by the OECD, as since its inception it is created with an innovative business model, it does not change later.

If we examine the characteristics of ECOALF's business model from the perspective of hybrid organisations according to Haigh and Hoffman (2011) and Boyd et al. (2009), it can be observed that its main traits are:

- Promotion of social and environmental change as an organisational objective. This point is made up of 3 parts: (1) social and environmental objectives must be integrated into the mission of the organisation, (2) the time horizons to achieve business development in hybrids are longer and slower, and (3) the need for a positive and committed leader. ECOALF has very integrated environmental objectives in its mission. In addition, as can be seen in table 4, its mission is "to create the first generation of recycled products with the same quality and design as the best non-recycled products" (Ecoalf, 2019), which

makes evident its environmental commitment. This, in turn, is reflected in how it carries out its activity. If we examine its B Corp score in the category related to mission and commitment section, it can be observed that it is high, as it achieves 10.2 out of a total of 14.8 points.

ECOALF controls the entire production process, requires its suppliers to hold certain social and environmental certificates, manufactures garments thanks to the waste it collects from land and sea, etc. ECOALF has longer and slower time horizons to achieve its business development than a conventional textile industry. The fabrics that ECOALF have managed to create to date not only take a long time to develop but also to manufacture. They start working on the fabrics 1 year before taking out the collection, when a normal designer buys them half a year before (Tomorrow, 2014).

Regarding the positive and committed leadership, Javier Goyeneche, had an idea "to create the first generation of recycled products of high quality and design" and did not stop until he achieved it. He travelled for 3 years around the world to create recyclable fabrics and has convinced thousands of fishermen to collaborate with his Upcycling the Oceans project, as well as giving talks on sustainability all over the world. According to Goyeneche, J: "Perseverance is the key to success" (Tomorrow, 2014; Ballesteros, 2018). Therefore, we can see that the leadership he has shown has been essential to the company's success.

- With regard to relations with suppliers and employees, ECOALF requires from all its suppliers at least one of the Bluesign® system certifications, the OEKO-TEX® STANDARD 100 certification, in addition to one of the following social certifications: BSCI or SA8000. ECOALF takes the selection of its suppliers very seriously and ensures that they comply with the maximum possible requirements in order to control that their activity generates the minimum negative impact on society or the environment. This can be seen in the community area, where ECOALF has a score of 17.7/81.8 and more specifically in the environment area, where escoalf has 32.1 points out of a total of 81.8 scored. Regarding employees, we have not found any specific information about this aspect, but if we base ourselves on the B Corp score, we see that this area has 17.2 points out of a maximum of 200. The fact that a



company belongs to the B Corp family is a guarantee that its employees receive proper treatment and have good working conditions.

- Interaction with the market, competition and industry. ECOALF knows that its work is much more than selling clothes. That is why ECOALF puts so much importance to communication and awareness, and they continually attend talks, conferences and forums. This is done for two reasons: to prevent the continued consumption of natural resources and the uncontrolled dumping of waste and to disseminate its business model; so that other companies can adopt it (Santa María, 2019). ECOALF with all its work has managed to change the traditional textile industry and has become a world reference in the binomial sustainability and fashion (Gestal, 2018).

On the other hand, we have examined the characteristics of ECOALF based on the proposal of Boyd et al. (2009). Of the nine ECOALF characteristics, all except number 3 and 5 are met.

Point 1: Hybrid companies must implement new strategies and redefine markets to succeed. In this case, ECOALF follows the strategy of doing something totally new in an existing market. Thanks to its business model, ECOALF manufactures garments using recyclable materials.

Point 2: Hybrid companies focus on innovative products, environmental characteristics and high quality products. ECOALF manufactures high quality, designer garments from recycled materials. Thanks to their dedication, tons of marine garbage have been collected and recycled, thus helping to care for and maintain the environment. ECOALF through its products changes the world (Ecoalf, 2019).

Point 4: Much of its funding comes from patient capital. Investors with a high tolerance for risk and a long-term perspective. ECOALF is financed by the Manor Group, a high-risk investment fund dedicated to financing sustainable businesses (Gestal, Riaño and Riera, 2017; Riaño, 2019).

Point 6: Hybrids must be guided by transformational and participative leaders to succeed. In the case of ECOALF, this is true. Javier Goyeneche was clear that he had to do something to change the world. That is why at the beginning of the adventure

Upcycling the oceans dedicated his time to go port by port, convincing fishermen to collaborate in his ambitious project; taking marine garbage from the bottom of the ocean. At first, some were reluctant but after listening to him and evaluating the benefits for all, they accepted. Today, more than 40 ports all over Spain participate in this project and Goyeneche is called upon by countries all over the world to give conferences on sustainability. Goyeneche has a 300% commitment to its goal of changing the world; proof of this is that it is part of NESI, the Global Forum on New Economy and Social Innovation (Borroso, 2018).

One sentence by J. Goyeneche that should be mentioned is: "We always talk about the planet we are going to leave to our children and the important thing is that children we are going to leave to the planet" it is necessary to raise awareness among the youngest, otherwise taking care of and maintaining the planet will be impossible (Borroso, 2018).

Point 7: Hybrid companies must integrate environmental sustainability into all departments and functions of the organisation. I do not have enough information to say that they integrate sustainability into 100% of the organisation, but I would venture to say that to a large extent they do.

ECOALF controls the entire supply chain. In addition to collecting rubbish on land, ECOALF, thanks to the help of fishermen, (Upcycling the oceans project) collects rubbish from the bottom of the sea and this is later deposited in containers that ECOALF has placed in the ports. These are then collected and checked if they are useful to manufacture the fabrics; the rest is sent to a recycling centre. In other words, ECOALF controls not only the raw material but also the entire transformation process (that is, from the moment the water bottle is collected until it is transformed into top quality fabric) (Santa María, 2019).

Every part of ECOALF's value chain process has a negative environmental impact on the world. For this reason, ECOALF ensures that its suppliers hold at least one of the following Bluesign® system certifications, STANDARD 100 by OEKO-TEX® (Ecoalf, 2019).

Another example of integrating sustainability into the production process is that they consume 25% less water and 27% less energy than a conventional textile company to

produce their recycled yarn. In addition, in all its facilities the energy used is certified as EKOenergia, through the Spanish marketer of renewable energy ecowatts (López, 2018).

Point 8: hybrids follow environmental metrics. In ECOALF, they use materials with low environmental impact. ECOALF uses six parameters to estimate the sustainability of a material: water use, land use, chemical use, relationship with biodiversity, energy use/CO2 emissions and solid waste production (Ecoalf, 2019).

Point 9: Hybrids must carry out important innovations related to a product or service. All ECOALF products are innovative because they are made from waste.

Its components are: recycled nylon, recycled cotton, recycled wool and recycled tires. This has been possible thanks to a huge investment in R&D that has made it possible to manufacture garments from waste. An example of its latest innovative product is its new collection of Ocean Waste slippers; these are made up of recycled fabric and algae for the sole (Ecoalf, 2019).

Finally, with respect to the type of hybrid business model (Santos et al, 2015) ECOALF is a market hybrid. Customers who pay for the product or service are also those who benefit from its social mission, since ECOALF needs waste to carry out its activity. ECOALF provides an outlet for the enormous amount of waste that human beings accumulate and throw away. For this reason, when a customer buys an ECOALF product, they get the benefit of helping to clean up the planet where they live. ECOALF with its activity directly generates an impact on society and the world.

## **6. CONCLUSION**

Nowadays, we live in a changing and continuously evolving society. If a company does not change and innovates, it runs the risk of disappearing. Innovation has become one of the driving forces of the company (Magarzo, 2015). One way to achieve innovation is by innovating in the business model with the introduction of novelties in the way in which a company carries out its activity and in the relations it maintains with its stakeholders. This type of innovation gives companies the opportunity to differentiate themselves from the competition and increase their profits.

In this paper, we have focused on hybrid organisations and their innovative business model. To this end, we have examined the characteristics of the hybrid business model, proposed by Haigh and Hoffman (2011) and Boyd et al. (2009). The hybrid business model focuses on creating social and environmental improvement and not just on reducing the negative social and environmental impacts of business activity. This innovative business model involves thinking not only in terms of benefit but also in terms of mutual benefit between customers, suppliers, employees and the social and natural environment. This is one of the reasons why it is also said that hybrid organisations have business models that aim to achieve sustainability (Stubbs, 2017).

In this research, we focused on ECOALF, a B Corp company to deepen into hybrid organisations business models, as B Corps are companies that are committed to changing and improving the world with their activity. ECOALF is dedicated to the design, manufacture and sale of garments made 100% with recycled materials. With its activity, it aims to obtain benefits while at the same time providing an outlet for waste in the world. In addition to having an innovative business model based on its value proposition, ECOALF fulfils the characteristics of the hybrid business model mentioned by Haigh and Hoffman (2011) as it promotes positive social and environmental change as an organisational objective, maintains relations with suppliers, employees and customers, and interacts with the market, competition and industry. Specifically, the way in which it promotes positive social/environmental change as an organisational objective is seen in its mission where environmental objectives are integrated, in the control of its production process, which although longer and slower is more sustainable and in the committed and participative leadership of its leader Javier Goyeneche. In addition, with respect to the relationship with its suppliers, ECOALF makes sure to

choose only those who possess certain environmental and social certificates. With respect to the interaction that ECOALF has with the market, competition and industry, it should be mentioned that the organization wants its business model to serve at all times as an example that benefits can be obtained and at the same time contribute positively to society and the environment. For this reason, ECOALF continuously gives talks and conferences to other companies.

From our analysis, we can infer some managerial implications and recommendations for the company. The company could invest more in marketing campaigns to encourage people to recycle. One way of doing this would be, for example, once a month to set up a point of sale for people to bring used plastic bottles. For each kilo that a person brings, they are given a wallet made of recyclable materials (for example). Another recommendation would be that ECOALF organize trips to its facilities for children, in addition to talks. Children are the future, if we get a change in the way they act, we will get a change in the world.

In sum, despite the fact that there are still some way to go ahead, ECOALF can be considered as an example of the success of having an innovative business model. Like it, companies should be thinking about adopting a hybrid business model because, as Lorna Davis (2017) says: "In ten years, the idea that a company only cares about profits will be conceived as old-fashioned and irresponsible."

Finally, we would like to point out that the work carried out allows for future extensions related to the methodology. Data collection could be improved through interviews with company managers and staff that increase the quantity and quality of information collected. In the same way, the information gathered in this paper could be used as a basis for future research studies, such as the study of sustainable business models

Overall, we hope that our work will contribute to three things. On the one hand, to make known what hybrid organisations are and their innovative business model. On the other hand, it can serve as a model for companies which wish to develop and integrate a purpose mission with their economic objectives and encourage future entrepreneurs and companies from all over the world to adopt this type of business model.

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