**Abstract:**

The sharing economy is a hotbed of hybridity and sustainability owing to the reduction in transactions costs that create information, trust, and trade. However, the hybridization also challenges the sustainability of sharing business models, a tension often criticized but rarely addressed. This paper identifies and solves three challenges of hybridization. First, we show that there is no deterministic link between organizational missions and sustainability outcomes. This means that not-for-profits or social businesses are not necessarily more sustainable than for-profits. Second, all business models set different default goal priorities, but face the same governance challenge of achieving sustainability. Third, to meet this challenge, all business models can use the same governance strategies of creating value—rule reforms that implement credible commitments to overcome social dilemmas. Understanding and managing these three hybridity challenges are an essential task for the strategic management of sustainable business models in the sharing economy.
Do hybrids impede sustainability?
How semantic reorientations and governance reforms can produce and preserve sustainability in sharing business models

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1. Introduction

Recent years have witnessed landmark innovations in organizing economic activity. The “sharing economy” is part of this change, a system of social and economic transactions in which individuals use third-party technology platforms that match providers and users to exchange goods, services, and ideas, without transferring their ownership (Eckhardt et al., 2019). These digital platforms rest on innovative business models whose governance structures offer new avenues for value creation by reducing transaction costs (Andreassen et al., 2018). Facilitating the creation and flow of information, trust, and trade, reduced transactions costs make the sharing economy a hotbed of hybridity and sustainability.

First, hybridity—understood as the crossing of two entities conventionally seen as clearly distinguished (Roberts, 1919)—emerges in the sharing economy in various ways. Many platforms serve to satisfy material and immaterial needs, activities traditionally seen as belonging to different spheres, the gift and the market economy (Gerwe & Silva, 2018; Sundararajan, 2016). Hybridity also exists in ownership when peer-to-peer platforms and business-to-peer platforms are beginning to combine features of markets and hierarchies (Williamson, 2010) in novel ways (Acquier et al., 2017; Frenken & Schor, 2017; Gerwe & Silva, 2018; Ritter & Schanz, 2019). Most importantly, hybridity emerges from the diversity of business models that arise in the sharing economy. The spectrum ranges from clear-cut for-profits and not-for-profits (Laurell & Sandström, 2017; Kornberger et al., 2018; Schor & Fitzmaurice, 2015; Schor et al., 2016; Wruk et al., 2019) to truly hybrid business models that incorporate for-profit and not-for-profit elements in one legal entity such as social businesses (Acquier et al., 2017; Berkowitz & Souchaud, 2019; Ritter & Schanz, 2019).
Second, the transaction-costs reducing nature of the sharing economy also promises progress in sustainability owing to its activation of hitherto underused resources, both social and environmental (Botsman & Rogers, 2010; Munger, 2018; Sundararajan, 2016). Social benefits arise, for example, when platforms such as Airbnb, Couchsurfing, and others use governance structures to extend the altruistic, prosocial sharing mechanisms typical of extended family-and-friends networks to, in principle, a global community of people (Frenken & Schor 2017; Kathan et al., 2016; Parigi et al., 2013). Financial benefits can accrue to workers when micro-entrepreneurs earn a higher income in the sharing economy than in traditional labor markets, such as Uber and Lyft drivers (Hall & Krueger, 2018; Dreyer et al., 2017). Sharing platforms also create value for consumers if sharing platforms provide them with more choice, lower prices, better quality and more safety (Dreyer et al., 2017; Kathan et al., 2016; Koopman et al., 2016; Milanova & Maas, 2017; Uzunca et al., 2018). Finally, there are benefits to the environment when the sharing economy helps to reduce the quantity of goods produced and consumed while, at the same time, their quality is increased. Then, sharing holds the promise for reducing overproduction, overconsumption and the burden of waste on the planet (Botsman & Rogers, 2010; Davidson et al., 2018; Heinrichs, 2013; Kathan et al., 2016).

However, the hybridization in the sharing economy also challenges the sustainability of business models, a tension often discussed and criticized but rarely systematically addressed in the literature (e.g., Berkowitz & Souchaud, 2019; Hahn et al., 2019; Martin, 2016; Murillo et al., 2017). In this paper, we identify and solve three hybridity challenges of sharing economy business models.

First, many commentators and scholars set their hopes for sustainability benefits on not-for-profit missions, while for-profits are often shunned. However, since for-profit and not-for-profits missions can both fail and succeed in achieving sustainability, the first challenge is the non-deterministic link between business model missions and consequences.
Second, the organizational purposes are becoming increasingly mixed, sometimes even confounded, with the instruments to achieve them. Here, the challenge lies in addressing the complexity of organizational means-end-relationships.

Third, sharing markets that aim to satisfy material and immaterial needs require business models to invent and adopt unconventional incentive structures to create value.

Understanding and managing these three hybridity challenges are an essential task for the strategic management of business models in the sharing economy. We argue that the ordonomic approach (Beckmann et al., 2014) can support performing this task by differentiating design options for a diverse set of business models, including a reorientation of missions and governance structures.

We proceed as follows. Section 2 explains the three sustainability challenges of hybridization in the sharing economy. Section 3 offers a conceptual clarification of each of these challenges and helps to understand their interdependence. Section 4 underlines the main lessons with case illustrations. Section 5 summarizes and concludes with implications for further research.

2. Three sustainability challenges of hybridization in the sharing economy

The transaction-costs reducing dynamics of the sharing economy fuel the development of new hybrid business models for value creation and novel ways to achieve sustainability. An important task of strategic management is to use scarce resources in ways to create value for the organization and its stakeholders and, as far as sustainability is concerned, also for the societal desiderata of achieving environmental and social goals (Beckmann et al., 2014). Therefore, the hybridization of sharing economy business models challenges the strategic management of sustainability in three different ways.

First, hybridization is constitutive of the sharing economy’s initial claim to offer an alternative to capitalism within contemporary capitalism. Early sharing initiatives were
explicitly collective in nature and intended to contrast the alleged individualistic logic of capitalist firms (Kornberger et al., 2018, p. 32). Foodsharing initiatives, for example, formed collectively around a shared concern and searched for means to address it, often in neighborhood associations, cooperatives or clubs. Other sharing pioneers were looking for a third way, a hybrid in a sense, because they viewed capitalist organizations as antithetical to their endeavor to achieve sustainability (Sundararajan, 2016). For-profit companies were seen as promoting egoistic and consumeristic motives of individuals, sharing in turn as being motivated by altruism and concern for others (Belk, 2014).

The early skepticism of practitioners is still reflected in the academic literature. The search for alternatives often leads scholars to set their hopes on not-for-profit missions for sustainable outcomes (Andreassen et al., 2018; Fehrer et al., 2018; Hazée et al., 2017; Laurell & Sandström, 2017; Martin, 2016; Parguel et al., 2017), with sustainability defined as meeting economic, social, and environmental standards, the triple bottom line (Elkington, 1997). At the same time, for-profits were often shunned on account of their missions and associated with unsustainable outcomes that fail to meet the triple bottom line (Belk, 2014; Calo & Rosenblat, 2017; Gore, 2014; Martin, 2016; Mi & Coffman, 2019; Murillo et al., 2017; Ravenelle, 2017). Unsustainable social outcomes include the feared crowding-out of altruistic motives on for-profit sharing platforms, such as when Airbnb hosts require their family to pay for overnight stays, thus treating them like strangers as anecdotal cases indicate (Ravenelle, 2019). For-profit sharing is also associated with the reproduction of social inequality (Schor, 2017; Schor et al., 2016), exploitation (Ravenelle, 2017; Murillo et al., 2017; Chai & Scully, 2019; Hazée et al., 2017) or decreasing consumer and labour standards (Calo & Rosenblat, 2017; Katz, 2005). Environmental challenges include potential rebound effects (Demailly & Novel, 2014; Parguel et al., 2017). To address these challenges, scholars call for government intervention to strictly regulate for-profits (Calo & Rosenblat, 2017; Katz, 2005; Vith et al., 2019).
However, since unsustainable outcomes are found both for not-for-profits and for-profits (Ritter & Schanz, 2019), the strategic management of sustainability in the sharing economy (and its regulation) requires a profound understanding of how different organizational missions can yield positive sustainability outcomes in various dimensions.

Second, hybridization is linked with the complexity of business models. A business model describes how organizations transform resources and capabilities (input) into economic and societal value (output), using a value proposition and a value network (Bocken et al., 2014; Chester et al., 2019; Magretta, 2002; Osterwalder et al., 2005; Richardson, 2008; Teece, 2010; Tewes-Gradl, 2014). Organizations in the sharing economy take the form of for-profits, not-for-profits or social businesses (Acquier et al., 2017; Berkowitz & Souchaud, 2019; Ritter & Schanz, 2019). These business models are often seen as differing in their organizational goals. Many authors suppose that for-profits aim to maximize economic gain, whereas not-for-profits focus on social and environmental value (Mair et al., 2015; Weerawardenaa et al., 2019), while social businesses balance all these objectives (Angulo-Ruiz et al., 2019; Battilana & Lee, 2014; Chester et al., 2019; Mair et al., 2015). However, they also use different means to achieve these goals, so the means and ends in business models are becoming increasingly mixed, sometimes even confounded. Targeting sustainability adds further complexity. Managing this complexity requires a clear understanding of the nested means-end-relationships in business models of the sharing economy.

Third, hybridization can be seen as a consequence of the search for governance innovations. It results from attempts to adapt business models in a novel environment where organizations aim to satisfy material and immaterial needs (Matzler et al., 2015; Sundararajan, 2016). The hospitality platforms Airbnb and Couchsurfing are cases in point. Both platforms enable members to turn their private homes into a sharable social living space with strangers. Airbnb’s default for hosts is to take a monetary fee from guests, a fraction of which is used to fund the
platform. In Couchsurfing, the “payment” of guests is typically non-monetary. Guests are expected to contribute to a co-created cross-cultural experience. Airbnb and Couchsurfing differ in this respect. But they are similar to the extent that both are offering a more diverse set of opportunities to satisfy cultural and psychological needs than a hotel, the next alternative in the hospitality market. Designing and managing business models in this hybrid environment of material and immaterial services requires specific management competencies to marshal and communicate appropriate incentive regimes (Pies et al., 2010), both monetary and non-monetary, to create value from hybridization.

3. A conceptual clarification of hybridization in the sharing economy

Hybridity has its origins in biology and describes a crossing of two separate species (Darwin, 2009; Roberts, 1919). In a general sense, hybridization means a process of two or more conventionally distinct entities becoming mixed or intermingled. For economic organization, Williamson’s (1996) transaction cost economics framework is a useful starting point. Williamson proposed hybrids as an intermediate form between markets and hierarchies. An important consequence of hybridization are the difficulties to capture, classify or distinguish the newly emerging form within the established thought categories. Hybridity can, therefore, be interpreted as a systematic irritation: an innovative practice challenges the conventional way of thinking. Accommodating this change requires theory building to understand and guide the new practice.

This challenge is obvious in the sharing economy. By virtue of reducing transaction costs, the sharing economy spurs an accelerated process of hybridization (Sundararajan, 2016). The emerging business models connect supply with demand in innovative ways, promising new options for value creation and sustainability. However, business model hybridity also challenges the strategic management of value creation and sustainability. Addressing these
To do so, we offer a conceptual clarification of hybridization in the sharing economy.

First, we demonstrate that hybridity links business model missions and consequences in non-deterministic ways (hybridity I).

Second, hybridity connects means and ends of business models in complex ways, depending on the business model (hybridity II).

Third, hybridity is a governance challenge that requires switching between different levels: between optimizing the moves within the game and reforming the rules of the game (hybridity III).

Our conceptual clarification shows that, although hybridization is not a new phenomenon, its accelerated dynamism in the sharing economy requires enhanced theory-building efforts.

3.1 Hybridity I: From business missions to sustainable outcomes

We begin with distinguishing between organizational missions—the intentions that prompt actors to form an organization and motivate its purpose vis-à-vis its stakeholders—and the consequences these actions yield under the systemic conditions of the markets in which these organizations operate (Mair & Reischauer, 2017, p. 13-4). Using the triple bottom line concept of sustainability (Elkington, 1997), one can say that business model missions can either prioritize private interests in financial gain (F), public interests in environmental or social outcomes (E,S), or aim at balancing private and public interests (F,E,S). The first describes for-profit business models, the second not-for-profits, and the last social businesses (cf., also, Schaltegger et al., 2016).

Business model consequences can either be sustainable or unsustainable, depending on the assessment of sustainability results in F, E, and S. In contrast to sustainable outcomes (+F/+ES),
unsustainable results emerge in three forms. First, environmental and social success can be associated with financial losses (-F/+ES). Second, financial gains can go hand in hand with negative results in the social and environmental sustainability dimensions (+F/-ES). Third, business models can fail in all three sustainability dimensions (-F/-ES). All four results can be the outcome of for-profits, not-for-profits, and social businesses. Since social businesses can operate on both not-for-profit and for-profit markets (Haigh & Hoffman, 2012), we treat them as a hybrid sub-form of either not-for-profits or for-profits.

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Figure 1 about here

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Figure 1 illustrates the possibility space that depicts all logical combinations of business model missions and consequences. From a sustainability perspective, cases A, B, and C are unsuccessful outcomes and thus better avoided. Both cases D-1 and D-2, in contrast, are successful. These are the combinations to be pursued. However, not all logical combinations bear practical relevance. For example, when business models fail in all three dimensions F, E, and S (Cases A-1 and A-2), all organizations—for-profits, not-for-profits, and social businesses—are usually forced to leave the market or cease to exist entirely.

Beyond these obvious failures, for-profit business models can shipwreck in two different ways. First, for-profit companies can fail to deliver on one or more sustainability criteria (+F, -ES). In this case (B-1), business models labeled ‘unsustainable’ produce a negative environmental externality, such the severe consequences of the “Exxon Valdez” oil spill on the sea life and the natural shorelines in Alaska (Brooke Hamilton III & Berken, 2005), or an adverse social externality such as when companies engage in rent-seeking (Liu et al., 2018), hijack the scientific process of knowledge production to hide the negative effects of their products or otherwise misinform the public, as witnessed in the pharmaceutical industry (Elm
& Egger, 2004) or the tobacco industry (Branston & Gilmore, 2014). Second, for-profits can fail to convince customers to pay a price high enough to cover average production costs for a product or service deemed sustainable (Kumar et al., 2018), resulting in overall losses (-F, +ES). This case (C-1) is unsustainable because value is destroyed—the pure opposite of value creation (Mises, 2008). The resources used in production yield a higher value than the customers’ willingness to pay for the final product. Myriads of failed businesses rank in this category as well as many government subsidies that failed to pick the right winners (Rizzo, 2017).

Similarly, not-for-profit business models can fail to deliver on sustainability in two ways. First, not-for-profits can fail to translate their ES sustainability proposition into a financially viable business model (-F, +ES). A sharing economy example includes “Newscounter,” a UK-based online alternative to the Press Complaints Commission, which went out of business in 2009 (Luft, 2006). In this case (C-2), as in many other not-for-profits, the charity principle threatens to override the requirements of financial sustainability (Jay, 2012). Second, not-for-profits can be financially solid but fail to deliver on their sustainability mission (+F, -ES). This case (B-2) includes rather unexpected unsustainable business models such as biofuels (Collier, 2010, p. 207-229) or some organic foodstuffs (Lomborg, 2016). To paraphrase a well-known aphorism, these examples are eloquent testimonies to the possibility that ‘the road to unsustainability is paved with good intentions.’

From a sustainability perspective, it is desirable to turn all cases A, B, and C into cases D, irrespective of whether they have their primary focus on private or public interest. For-profits qualify as sustainable when their successful pursuit of private financial interests (+F) also translates into improving environmental and social outcomes (+E, +S). In this case (D-1), which requires a well-institutionalized market framework, for-profits economize on scarce ecological resources while facing competitive pressure on output and input markets to make consumers and workers better off, providing the former with new varieties of both low-cost and high-
quality products (Baumol, 2010), while providing the latter with well-paid and attractive, satisfying jobs (Phelps, 2013). Not-for-profits, on the other hand, qualify as sustainable when their successful pursuit of public interests (+E, +S) also translates into financial success (+F) that allows for scaling-up their activities. This case (D-2) includes examples such as Oxfam, which raises a billion euro annually to finance its fight against poverty,\(^1\) or amnesty international, which raised 295 million Euro for its human rights work in 2017.\(^2\)

These considerations yield our first insight: Hybridity means that business model missions and sustainability consequences are linked in non-deterministic ways. It is not the case that not-for-profit business models are necessarily more sustainable than for-profits, or vice versa. A non-deterministic understanding of business model sustainability underlines their relative strengths: For-profits, by virtue of focusing on organizational gain, find it easier to detect financially viable business models. In contrast, not-for-profits are stronger at discovering unmet social and environmental needs. But for-profit and not-for-profit business models face exactly the same challenge: to turn (partially) unsuccessful business models into sustainable business models that are successful along \textit{all} three dimensions (+F, +E, +S).

3.2 Hybridity II: Business model means-and-end relationships

For-profits and not-for-profits face different societal expectations. For-profits are expected to find a financially viable business model that also contributes to social and environmental sustainability. Not-for-profits are expected to promote public interests without being financially unsuccessful, so they can use more resources for scaling-up their activities. Therefore, what sets these business models apart is not the sustainability objective as seen from society’s viewpoint, but the distinct \textit{means-end-relationship within the business model} to achieve this goal.

It is crucial to see why it is helpful to differentiate the distinct means-end-relationships that characterize all three business models (Fig. 2).
First, for-profit business models prioritize the private interest in financial success (F) as an explicit organizational end \( \text{end}_{\text{org}} = F \) (Palgan et al., 2017). The reason why corporate governance statutes keep boards small and restrain CEO influence is to ensure shareholder leverage in corporate decision-making. This is not because shareholders should be privileged. They are the only stakeholder group with a vested interest in pursuing profits (Jensen, 2001). Other sustainability aspects (ES) are used as a means to help the business model flourish, including social sustainability in providing stakeholders value (employees, suppliers, customers) and environmental sustainability in cost and innovation efficiency (Porter and Kramer, 2011). Arrow 1 in Fig. 2 illustrates this logic. Ideally, for-profits achieve the societal goal \( \text{end}_{\text{soc}} \) of sustainability (win-win-win: F & E & S) by employing E, and/or S as a means to achieve their financial goal F.

Second, not-for-profit business models prioritize the social and/or the environmental dimension of sustainability as their organizational goal \( \text{end}_{\text{org}} = \text{ES} \) (Palgan et al., 2017). Pursuing financial gain (F) is understood to be a means to achieve this goal. This is why not-for-profit statutes regulate that any surplus is prohibited to be redistributed to donors or managers but has to be re-invested into the purpose for which the not-for-profit was originally created, thereby amplifying its sustainability impact. This “non-distribution constraint” (Hansmann, 1980) ensures that capturing a surplus F can perform a subordinate serving function as a means for bolstering the organizational mission of sustainability in E and S. From a society’s viewpoint, not-for-profits are a complementary business model for situations in which for-profit markets fail to deliver on the societal goals of overall sustainability. Arrow 2 illustrates how not-for-profits ideally manage to do so.

Finally, social business models balance the financial, social and environmental dimensions of sustainability in their missions—F and E, S are two equitable organizational ends (Ney et al., 2014). This balancing act is, for example, codified in the legal status of the Benefit
Corporation (Hiller, 2013). Social businesses as legal forms, therefore, allow pursuing a broader spectrum of organizational objectives, an unquestionable strength. But they do so at the cost of forfeiting the regulatory pre-defined mechanisms for organizational decision-making. This is a challenge for the capacity of social businesses to resolve conflicts and upscale operations (Mair et al., 2015). Arrow 3 symbolizes the intermediate position of social businesses and how they ideally achieve societal sustainability.

Figure 2 about here

When viewed in concert, it is striking how all three business models feature some elements of hybridity. For-profits and not-for-profits are “hybrids” in the sense that all sustainability aspects F, E, and S are present within the business model. Their regulatory defaults, however, determine how to distinguish F, E, and S as separate organizational means and ends, resulting in a distinct means-end relationship for each business model. In social businesses, hybridity enters on one same level. F, E, and S are codified as equitable organizational goals as, for example, in the US “benefit corporation.” But it remains to be determined which means shall achieve these goals. This indeterminacy of means and ends prompts many scholars to reserve the term hybridity for these business models (e.g., Boyd et al., 2009), although hybridity in a broader sense is the very nature of every business model in the sustainability universe.

This is our second insight. All business models are united in their abstract hybridity, because all sustainability aspects are present in all (successful) business models, including for-profits, not-for-profits, and social businesses. What sets them apart is their means-end-hybridity. In for-profits and not-for-profits, the means-end-hybridity is low, because means and ends are clearly delineated. This simplifies how these business models search for ways to achieve sustainability in all three dimensions, financial, social and environmental. In contrast,
the means-end-hybridity for social businesses is high. This creates freedom for each social business to tailor means and ends to their needs, but the lack of organizational blueprints also complicates value creation.

3.3 Hybridity III: business model governance creates value

If we are correct that hybridity, first, drives the complexity of all business models and, second, that the regulatory framework helps for-profits and not-for-profits to translate hybridity into workable organizational solutions—but less so social businesses—, then there is another dimensions of hybridity that unites all three business models: the role of governance in achieving overall societal sustainability (F & E & S), in particular for social businesses.

Oliver Williamson’s understanding of governance helps to see why. Governance, Williamson (2010, 674, emphasis in original) argues, “is the means by which to infuse order, thereby to mitigate conflict and realize mutual gain.” Using this perspective, we can reformulate the challenge of turning an unsuccessful business model into a sustainable one: Unsuccessful business models are trapped in a conflict where value creation fails. All possible conflicts are illustrated in Fig. 1. In case A, the pursuit of F or E, S leads to a situation where all goals are missed—a conflict of value destruction with a lose-lose character. In cases B and C, the pursuit of F or E, S goes at the expense of the other goal—a redistributive conflict with a win-lose character that also fails to create value in a sustainable manner. Overcoming—or mitigating—such conflicts requires “infusing order.” Infusing order means to reform and improve the incentive structures that guide the behavior of all actors united in a network of value creation. “Credible commitments” (Williamson, 2010, p. 684) can do so by binding these actors to keeping their promises. Governance, in this sense, is able to build trustworthiness and trust. Trust protects productive investments against opportunistic expropriation and is thus the source of “mutual gain”—in other words: value creation.
A basic, yet insightful way of analyzing and managing the governance challenge of value creation is to follow the ordonomic approach, which systematically analyses the interdependence of social structure and semantics (Pies, 2016; Pies et al., 2009; 2010; 2014). The term “social structure” refers to the governance rules that forge the incentives of actors—i.e. the “humanly devised constraints that shape human interaction” (North, 1990, p. 3). The term “semantics” relates to the thought categories embedded in ideas, worldviews and “shared mental modes” that influence how people interpret their environment, in particular the rules that shape human interactions (Denzau & North, 1994). Ordonomics suggests, first, to use the tools of game theory—in particular the analysis of social dilemmas—to reconstruct the incentives that lead to conflicts as situations with yet unrealized win-win-potentials. Second, it proposes governance reforms—i.e. binding commitments—that help to realize the win-win potential inherent in social dilemmas and, thereby, create value (Pies et al., 2009). Such a transformation becomes possible if the semantics is (re-)oriented so as to identify and convince others of the win-win potentials that can be realized by a governance reform if binding commitments (re-)arrange behavioral incentives. This strategy has proven useful in analysing conflicts not only in corporate sustainability but also in corporate social responsibility (cf. Beckmann et al., 2014; Pies et al., 2009; 2014).

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Figure 3 about here

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Figure 3 shortly summarizes the key aspects of the ordonomic strategy (cf. Pies et al., 2009, 385) using 2-player utility diagrams. First, conflicts are interpreted as a social dilemma, as an equilibrium outcome of rational inefficiency. Here, dysfunctional incentives prevent the involved actors to realize a potential benefit of value creation. Social dilemmas come in two different forms, and both require different types of commitments to reform the game. A many-
sided social dilemma (2-PD) is an inefficiency caused by the exploitation of all actors, and it requires a collective commitment by all actors (cC). A one-sided social dilemma (1-PD) is an inefficiency caused by one actor, and it requires an individual commitment by this actor (iC).

Second, in case of a 2-PD, the ex-ante inefficiency is shown as an exploded diamond (upper left utility diagram in Fig. 3). Both players are trapped in a collective self-damage (equilibrium III) because their mutual ability to defect (II and IV) prevents them from realizing a mutually-preferred strategy combination (I). A collective commitment changes the incentives and hence the equilibrium of the game (upper right utility diagram). After the reform, the defection strategies become unattractive (arrows cC), so that the two players can now realize the mutual gains of cooperation by realizing the pareto-superior strategy combination (I).

Third, in case of a 1-PD, the ex-ante situation is akin to a skewed triangle (lower left utility diagram). Both players realize a collective self-damage (equilibrium III) because player 2 can achieve supernormal benefits by exploiting player 1 (II) who, in anticipation, refrains from cooperation. An individual commitment of player 2 changes her incentives, makes defection unattractive (arrow iC) and cooperation viable for player 1, so ex-post (lower right utility diagram) both can realize mutual benefits (I).

So, based on this ordonomic perspective, what is the challenge of value creation in each of the three business models? How does governance help to address it?

First, the legal and regulatory framework provides governance support that reduces the means-end-hybirdity for not-for-profits and for-profits. These organizations are constituted with regulatory statutes that predetermine a single organizational goal. A benefit of the legally-induced capacity to rally around a single goal is to be a predictable and thus reliable partner in value creation. This facilitates individual commitments to build trust. It also induces stakeholders to contribute voluntarily to joint value-creation—employees, suppliers, and
consumers in the case of for-profits; members, personnel, donors, and coalition partners in the case of not-for-profits.

Second, the legal and regulatory governance support for-profits and not-for-profits includes predetermined binding commitments to adjudicate internal conflicts, if necessary with the courts and the police. In case of for-profits, the shareholder primacy rule incentivizes top managers to be trustworthy stewards of shareholder interests, which makes a commitment of CEOs toward shareholders more credible—a support for individual commitment. It also helps managers to adjudicate conflicts for the sake of value creation, binding business units to the bottom line—a support for collective commitments. In case of not-for-profits, a reverse pattern applies. The non-distribution constraint facilitates an individual commitment of NGO managers to honour the not-for-profit mission instead of their own private interests, and a collective commitment of all managers to adjudicate conflicts. In cases of doubt, the social or environmental goal prevails in decision-making.

These considerations lead to a third insight. Hybridity is a governance challenge that requires mastering the art of switching between levels of optimizing the *moves within the game* and changing the *rules of the game*. The social dilemma perspective shows why promoting business model sustainability is not a task for optimization, but for governance. A social dilemma cannot be overcome by playing a given game in a better way. It can only be overcome by playing a better game. But playing a better game requires a rule reform, which means for managers to introduce credible commitments that encourage trustful cooperation, thus tapping a previously unrealized win-win potential.

From this governance perspective on hybridity, the key sustainability challenge of for-profit business models is to strengthen their commitments to the public-interest dimensions of social and environmental sustainability. We coin this challenge ‘*sustainability reorientation*.’ The key sustainability challenge for not-for-profit business models is the reverse case. They need to
strengthen their commitments to the private-interest dimensions of financial sustainability. We refer to this challenge as ‘profit reorientation.’ The double challenge of social business hybrids lies in simultaneously strengthening their commitments to both dimensions of sustainability, public and private. Social businesses are thus continuously in need of sustainability and profit reorientations. The higher goal-setting freedom comes at the cost of lower support for pre-determined binding commitments. True hybrids face this challenge with less legal support than their for-profit and not-for-profit counterparts. Therefore, they face a particular need for governance competencies of managers (Pies et al., 2010). We add here that the need for governance is more pronounced for social businesses and, therefore—being a hotbed of hybridity—for the sharing economy.

4. Commitment strategies to address hybridization in the sharing economy

The governance challenge of hybridization is a challenge to design, manage and communicate rule reforms to create value. This challenge is pronounced when business models need transformation. In this section, we illustrate three cases to turn unsuccessful business models into successful ones in all sustainability dimensions (F & E & S).

4.1 Transforming an unsuccessful for-profit business model

Our first example is Airbnb, the well-known giant sharing platform that brings together travelers and private hosts. Right from the start, Airbnb yielded a high market value, and early surveys indicated a social value created. A study in Los Angeles reported 62% of hosts believed Airbnb had positively impacted their local communities (+S) (Airbnb, 2014).

In recent years, however, Airbnb has been criticized for supporting unsustainable business practices on its platform. In hotspots such as San Francisco, New York, Amsterdam, and Berlin, critics lamented that local residents rented out their apartments to tourists (via Airbnb) instead of providing living space for locals, thereby limiting supply and increasing local housing and rental prices (Kathan et al., 2016; Ranchordás, 2015). This problem was seen to be aggravated
by multi-unit Airbnb hosts that offered quasi-professional rental services (with multiple apartments). In the eyes of critics, these and similar practices turned Airbnb into an unsustainable for-profit business model in touristic hotspots (case B-1 in Fig. 1).

Although tempted to ignore this challenge, Airbnb quickly realized they needed a rule reform to address the competitive pressure in the hotspot markets for short-term stays. From a governance perspective, their business model needed a sustainability reorientation to meet the social needs their critics articulated (arrow 1 in Fig. 4a). Interpreted from a social-dilemma perspective, Airbnb identified the underlying problem as a 2-PD. A profit-driven hospitality sharing business would sustain a competitive disadvantage if it unilaterally banned multi-unit hosts from its platform. Users and hosts could simply swap platform operators. To overcome this many-sided social dilemma, Airbnb understood that they needed a collective commitment among all competitors in hotspot markets (arrow 2 in Fig. 4a).

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Figure 4 about here

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In principle, Airbnb could have chosen two alternative strategies. First, all platform operators could have established an industry-wide standard, for example, based on a ‘one host, one home’-rule. This strategy would have required collective action to achieve self-regulation. Second, hospitality sharing platforms could have lobbied for third-party enforced regulation, for example by local governments. In practice, the local authorities in Berlin, Germany, were quick in offering such a service for collective commitment by passing local laws against multi-unit hosts. In 2016, Berlin’s authorities began restricting private property rentals through Airbnb, threatening hefty fines in an attempt to keep housing affordable for local people. Andreas Geisel, Berlin’s head of urban development, believed the law was “a necessary and sensible instrument against the housing shortage in Berlin” (The Guardian, 2016). Local
authorities in New York passed a similar law against multi-unit hosts in 2016 (Marzen et al., 2017).

There can be no doubt that this government initiative speeded up the sustainability reorientation within Airbnb (arrow 1). It also facilitated Airbnb’s readiness to implement similar commitments in other hotspot markets (arrow 2): Anticipating legal pressure, Airbnb, as the dominating player in New York’s market, started a campaign named “One Host, One Home” to change their sustainability mission in 2016, re-positioning Airbnb as a place for “cultural exchange rather than finding a cheap place to stay” (Airbnb, 2018). Airbnb allowed only one listing per user and removed 2,570 multi-unit listings in New York. Also, Airbnb deleted 4,000 listings that threatened affordable housing between April 2016 and February 2017 (Airbnb, 2018).

Airbnb’s governance efforts to transform from an unsustainable into a sustainable for-profit business model show how a win-win strategy can address hybridity and, thereby, achieve sustainability in the sharing economy. A differentiated governance strategy might require (i) public criticism to raise the company’s awareness and (ii) a combination of industry self-regulation and third-party enforcement (or the threat thereof) to overcome 2-PDs. This could help to realize the option we identified earlier: to activate the self-interest of companies in the sharing economy to achieve sustainability goals.

4.2 Transforming an unsuccessful not-for-profit business model I

Our second example, the not-for-profit organization “Ecomodo,” illustrates the challenges of transforming a business model C-2 (Fig. 1). Its transformation is depicted in Fig. 4b. Ecomodo’s initial idea was to create an online marketplace that members could use to share their items, skills and time (Piscicelli et al., 2015). Ecomodo’s mission was to build a “genuinely sustainable business with social and environmental goals sitting firmly alongside the financial ones” (Ecomodo, 2015). Early on, Ecomodo reported success in having created 160 operating
lending circles in the UK (+E, +S) (Ecomodo, 2012). In 2015, however, it went out of business because, as the founders acknowledged, “despite some amazing opportunities and publicity” the “widespread enthusiasm simply didn’t translate to enough lending to make the business sustainable” (Ecomodo, 2015). Ecomodo’s focus on the social and environmental dimensions seems to have failed in delivering on financial sustainability.

Ecomodo’s case emphasizes two aspects. First, it illustrates that not-for-profit social entrepreneurs are often driven by “enthusiasm.” This means they strongly focus on the E and S dimensions of sustainability. Second, not-for-profit founders often believe that enthusiasm alone makes a “business sustainable.” This underlines our insight that a successful sustainability management of business models requires a change of levels: from the level of choosing better moves within a given game to the level of governance commitments for playing a better game. This is not possible with passion alone. It requires a strategy perspective. One way of restating the founders’ explanation of Ecomodo’s failure is this: The charity principle of not-for-profits seems to blind many founders to the necessity of a profit (re)orientation—that it requires credible binding commitments to turn a not-for-profit mission (C-2) into a financially sustainable business model (D-2). We conclude that the crucial governance competence for not-for-profit management is to reinforce commitments to the private-interest dimension (arrow 1) as a means to sustain its public-interest dimension of sustainability (arrow 2).

4.3 Transforming an unsuccessful not-for-profit business model II

Our third example, Couchsurfing, is another sharing platform that brings together travelers and private hosts. Couchsurfing’s idea attracted funding of member donations and developed into a platform of cultural exchange, creating global opportunities for social bonding and community (+S) (Kunz & Seshadri, 2015). Under U.S. law, Couchsurfing provisionally certified as an article 501c(3) charity. By virtue of the provisionally granted tax reduction, Couchsurfing
became and remained a successful sustainable not-for-profit business model until 2011 (case D-2 in Fig. 1).

In 2011, when the U.S. Department of the Treasury (2011, p. 13) declined a renewed filing for a 501 c(3) charity certification, Couchsurfing lost its tax privileges, and turned into an unsuccessful not-for-profit (Lapowsky, 2012). Threatened by bankruptcy (-F), Couchsurfing faced a pressing dilemma. Couchsurfing was running out of cash because users were reluctant to pay fees for sharing services, while their members became unwilling to grant further donations. To secure Couchsurfing’s survival, the founders transferred the not-for-profit into a for-profit business model (Fenton, 2011). This transformation proceeded in two steps (Fig. 4c).

First, turning Couchsurfing into a for-profit changed the prioritized organizational end from E, S to F. Simultaneously, Couchsurfing made a self-commitment to overcome a 1-PD between potential investors and the organization, credibly promising to use investors’ funds for value maximization. After changing its legal structure, i.e. moving from case C-2 to case C-1, Couchsurfing became attractive for private financial investors by giving them a say in management, and introduced some for-pay services for members which improved its financial position (Lapowsky, 2012). This profit reorientation enabled Couchsurfing to pay taxes, cover all administrative costs, gain competitiveness and become financially sustainable (Lapowsky, 2012).

Second, in 2011, Couchsurfing certified as a B corporation, a private self-regulatory certification initiative for organizations to uphold rigorous standards of social and environmental performance, accountability, and transparency. However, since a B corporation is not a formal benefit corporation by law where F and E, S are equitable organizational goals, a B corporation membership serves as an informal individual self-commitment not to neglect its S mission. Couchsurfing employed this credible commitment to send a signal to its purpose-driven members to forestall against “mission creep” and, thus, to stay true to its social and
cultural mission. This promise proved crucial to maintain Couchsurfing’s credible committing to the sustainability agenda.

Both elements allow us to reconstruct how Couchsurfing used governance to address the hybridity challenge in the sharing economy (Fig. 4c). The starting point is when Couchsurfing’s charity certification was revoked and its business model had become unsustainable (case C-2: -F, +ES). The crisis was so radical that it became impossible to achieve a profit reorientation within the not-for-profit business model (dashed arrow 1). Couchsurfing then changed its business model and switched from case C-2 to case C-1 (vertical arrow 1). Once completed, Couchsurfing could proceed with step two and devised two types of commitments—directed at investors as well as clients—, regained profitability, and thus moved from C-1 to D-1 (horizontal arrow 2).

5. **Summary and implications**

How can managers meet the governance challenge of hybridization and create sustainable business models in the sharing economy? Table 1 helps to answer this question. It also illustrates the key insights of our analysis.

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Table I about here
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Table 1 collates the three business models discussed in this paper – for-profit, not-for-profit, and social business – and shows how proceeding from different challenges two generic strategies are required to transform unsustainable business models. First, managers need to envision and orchestrate a transformation of semantics, i.e. of the mental models and frames used by members to make sense of organizational development (Will & Pies, 2018). When unsuccessful, semantic business model orientations have often become entangled in assumed
tradeoffs between private interest (F) and public interest (E, S) which need to be reoriented towards a win-win-perspective. Second, to support and bolster these semantic reorientations, managers need to set in motion a set of governance reforms to overcome social dilemmas and thus achieve sustainable value creation. As we have shown in this paper, each business model challenge requires a different combination of semantic reorientations and governance reforms.

The ubiquitous sustainable challenge of for-profits usually is that they fail to meet one of the public interest dimensions (-E or -S; case B-1). In this case B-1, a sustainability reorientation is needed to generate awareness of the pivotal importance of the public interest dimensions for value creation (E, S). The graphical illustration in Table 1 visualizes this reorientation (arrow 1) in a space spanning the private interest (the F-dimension of sustainability, ordinate) and the public interest (the E- and S-dimension of sustainability, abscissa). It shows that A-1 leads to market exit, while both B-1 and C-1 are unsustainable business models although being located in different positions along the tradeoff line. Pointing in the upper-right direction, a sustainability reorientation also underlines that appropriate commitments are needed to realize sustainable outcomes D-1 (also, Fig. 3). The type of rule reforms depends on the underlying social dilemma at hand, individual commitments in case of one-sided dilemmas and collective commitments in case of many-sided dilemmas.

Not-for-profits often face the sustainability challenge that they fail financially (-F; case C-2). A “profit” reorientation is then needed to focus meeting the financial dimension (F), which often comes as a shock to and meets with the resistance of many mission-driven volunteers, supporters and staff of not-for-profits, and is thus a major challenge for managers. Graphically, the profit reorientation is shown by arrow 2 in the diagram in Table 1, and it requires managers to nurture a win-win perspective among members and staff to allow the financial dimension to play a larger and supportive role in the not-for-profit business models missions. To be
promising, appropriate individual and collective commitments to the F dimension — overcoming either one-sided or many-sided social dilemmas — need to underpin this “profit” reorientation.

Social businesses, owing to their freedom to set goals at ease, face the double sustainability challenge that they neither meet the public interest dimensions (-E, -S; case B-1, B-2) nor private interests (-F; case C-1, C-2). Thus, sustainability and profit reorientations are both needed, depending on the case at hand, to transform business models in all three sustainability dimensions (F, E, S). The graphical visualisation in Table 1 illustrates that social businesses combine the challenges of for-profits and not-for-profits with arrows 3 and 4. While the cases A-1 and A-2 are less interesting (leading to market exit), B-1 and B-2 as well as C-1 and C-2 are unsuccessful due their underlying tradeoff orientation, which requires both a sustainability and a profit reorientation. Here, the challenge for managers of social businesses lies in the simultaneous orchestration of diverse semantic reorientations, and the appropriate use (or even invention of) governance reforms to overcome social dilemmas that realize win-win situations of sustainable value creation.

Taken together, Table 5 thus visualizes our three main insights for business models in the sharing economy:

- First, not-for-profits and social businesses in the sharing economy are not necessarily more sustainable than for-profits since there is no deterministic link between organizational missions and sustainability outcomes.

- Second, although the three business models in the sharing economy — for-profits, social businesses, and not-for-profits — have different organizational ends, they face the same challenge of achieving sustainability in the three dimensions (+F, +E, +S).

- Third, all unsustainable organizations in the sharing economy — independent of their business model — require semantic reorientations and governance reforms to become
sustainable. Here, the management challenge is to identify, communicate and implement credible commitments for overcoming dilemma situations.

Based on these insights, we finally highlight four major implications for the literature and further research on the sharing economy.

First, there are many informative attempts to classify the rich variety of sharing economy business models (e.g., Acquier et al., 2017; Frenken & Schor, 2017; Gerwe & Silva, 2018; Kornberger et al., 2018; Laurell & Sandström, 2017; Martin, 2016; Schor & Fitzmaurice, 2015; Ritter & Schanz, 2019; Wruk et al., 2019;) and their impact in different political and geographical contexts (e.g., Uzunca et al., 2018; Dreyer et al., 2017). The categories used to classify organizational forms often follow an ontological view of sustainable business models. The distinction between not-for-profits and for-profits (cf. Kornberger et al., 2018; Laurell & Sandström, 2017; Schor & Fitzmaurice, 2015; Schor et al., 2016; Wruk et al., 2019) is frequently seen as a marker for sustainability (e.g., Belk, 2014; Laurell & Sandström, 2017; Martin, 2016; Murillo et al., 2017; Ravenelle, 2017; Calo & Rosenblat, 2017). Belk (2014), for example, views for-profits sharing platforms as “pseudo-sharing” while he reserves the term “real sharing” for not-for-profits, with the assumption being that only the latter promise sustainable outcomes.

Our paper, however, shows that this ontology fails to capture the rich variety of business model sustainability. We argue that all business models can fail or succeed. What distinguishes business models is the specific governance challenge they face. So, for example, if access-based and collaborative consumption platforms (Aquier et al., 2017) are organized as for-profits, their governance challenges lie primarily in commitments to the E and S dimensions of sustainability, and not so much in the F dimension. Then, individual and collective commitments are needed to strengthen these competencies, as the cases of Airbnb and Couchsurfing illustrate. If, in turn, sharing platforms are set up as not-for-profits, they are in
much greater need to strengthen commitments to the F dimension of sustainability. This is a non-trivial and often even vital governance challenge, as the Ecomodo case illustrates. Our paper suggests taking these diverse governance options of specific commitment strategies into account when designing and proposing rule reforms and regulation for the sharing economy. Currently, many recommendations fail on this account (cf. Calo & Rosenblat, 2017; Katz, 2005; Vith et al., 2019).

Second, some essential insights notwithstanding, most classifications also ignore the shortcomings of win-lose concepts. This is a central aspect of the ordonomic approach. Our case studies, in particular, highlight that a win-win orientation is necessary to reconstruct sustainability challenges in a way that allows envisaging commitment strategies. This means that a successful business model requires not only commitment strategies that provide adequate incentives—i.e., a reform of “social structure”—but also a suitable “semantics” (Pies et al., 2009)—i.e., an orienting vision or mission—that motivates, and convinces, and binds partners to invest in value creation. In other words: Business models require the management to engage in “sensegiving” and actively guide the “sensemaking” endeavors of relevant stakeholders (Will & Pies, 2018). Sustainable business model transformations, therefore, need to be supported by a communication strategy that explains why the hybrid incentive structure is conducive to reach common goals. Besides marshalling incentives structures, what Williamson (2010, p. 679) calls “private ordering,” being able to convincingly explain them qualifies as an important management competence (Pies et al., 2010). In the cases discussed above, private ordering involves actively taking and promoting a win-win perspective to re-direct individual behavior. Then, even counter-intuitive solutions can enter the realm of the possible, opening avenues to realize public interests in sustainability.

Third, our ordonomic approach sheds light on the important—but often overlooked—fact that for-profit and not-for-profit business as well as social businesses models face identical
tradeoff problems when confronted with unsustainable results. Furthermore, the strategies that are available to them are identical, too. The only substantial difference lies in the kind of semantic reorientation required before an organization can improve its performance. Typically, not-for-profits and social businesses need a reorientation towards financial gain, while for-profits require a reorientation towards the environmental and/or social dimensions of sustainability. The former might be more difficult, especially if the relevant actors share the perception of unbridgeable tradeoffs between private and public interest, a common tendency among not-for-profit practitioners and researchers (Hielscher et al., 2019). Indeed, it might be easier to understand that serving stakeholders’ needs is instrumental for earning a profit than to realize (and to implement governance mechanisms that make sure) that more attention to the economic dimension does not necessarily compromise social and environmental sustainability, but can in fact strengthen it. Semantic confusion seems to be an important challenge that deserves further attention in future research. This challenge is fully in line with our first and second implications: Due to the hybridity of incentive regimes, strategic sustainability management in the sharing economy places high demands on both (re-)arranging and explaining incentives.

Fourth, as a hotbed of hybridization, the sharing economy highlights an important feature of capitalism—it’s impressive capacity to consistently take up public concerns and incorporate it into viable business opportunities. The sharing economy is just a new twist in this logic. However, critics of the market naturally take a different view, or see this feature as a bug. For example, skeptics reason whether the social and environmental benefits of the sharing economy are false promises (e.g., Chai & Scully, 2019; Ravenelle, 2017). Many a criticism roots in equal worries that some of these benefits are just another skillful spin in the pursuit of private interest by for-profits, which, they fear, might go at the expense of broader interests in society. This win-lose thinking is present, although implicit, among scholars who fear that the sharing economy “reinforces the current unsustainable economic paradigm” (Martin, 2016, p. 159;
Kornberger et al., 2018; Murillo et al., 2017; Ravenelle, 2017). In line with this tradeoff logic, some authors then set their hopes for sustainability in the sharing economy (exclusively) on not-for-profit business models (Gore, 2014).

Our paper takes a different view. Seen from an ordonomic perspective, this kind of tradeoff thinking does not realize the full potential of sharing economy business models. If realizing sustainability is thought of as requiring a sacrifice, for-profit businesses are deterred from pursuing sustainability, and investors shun sustainable projects of hybrids with a sustainability mission. Such a win-lose concept has a blind spot that diverts from options for overcoming the tradeoff via innovative governance (Pies et al., 2019). This kind of tradeoff thinking is part of the problem, not of a viable solution. Solutions to sustainability challenges in the sharing economy as identified by Andreassen et al. (2018), Fehr et al. (2018), Hazée et al. (2017), and Parguel et al. (2017) are (only) to be found in a perspective that identifies governance options for win-win outcomes.

6. Conclusion

The hybridization in the sharing economy challenges the sustainability of business models, a tension often discussed and criticized but rarely addressed in the literature. In this paper, we have identified and solved three hybridity challenges of sharing economy business models. A key insight here is that it will take managerial competences in governance (re-arranging social structure) and communication (re-orienting semantics) to produce and preserve sustainability of sharing business models and thus to make the sharing economy yet another successful innovation in capitalism.

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**Endnotes**

5. [https://www.bcorporation.net/what-are-b-corps/why-b-corps-matter](https://www.bcorporation.net/what-are-b-corps/why-b-corps-matter)
Figures:

Fig. 1. A Heuristic to distinguish missions and consequences of business models

<table>
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<tr>
<th>Missions</th>
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Fig. 2. Means-ends-relationships of business models

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Sustainability = \( F \) & \( E \) & \( S \)
Fig. 3. Commitment strategies via governance: the social-dilemma perspective of ordonomics

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<td>• A two-sided dilemma (2-PD) requires collective commitments (cC), a one-sided dilemma (1-PD) individual commitments (iC)</td>
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<td>• Rule reforms change incentives and payoffs</td>
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<td>• Rule reforms achieve new equilibrium strategy combination (I rather than III)</td>
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<td>• Rule reforms activate win-win potential and, thus, creates value</td>
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Utility of Player\(_1\)

Utility of Player\(_2\)

**Problem**

**Solution**

Utility of Player\(_1\)

Utility of Player\(_2\)

Utility of Player\(_1\)

Utility of Player\(_2\)

Utility of Player\(_1\)

Utility of Player\(_2\)

Utility of Player\(_1\)

Utility of Player\(_2\)

ex ante

ex post

2-PD

1-PD
Fig. 4. Business models transformation: three cases

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(4c) Misions | Consequences
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*Tab. 1. Semantic reorientations and governance reforms to transform unsustainable business models*

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<th>Semantic reorientation</th>
<th>Governance reform</th>
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<td><strong>Challenges</strong></td>
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Author Biography

**Ingo Pies:** Since October 2002, Ingo Pies has been a tenured professor as the Chair for Economic Ethics at Martin Luther University Halle-Wittenberg. His research program combines economic, psychological, sociological, and ethical strands of thought in order to analyze the moral appropriateness of societal institutions, as well as the societal functionality of traditional morality.

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