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École affiliée à l'Université de Montréal

SPINNING OFF TO DEAL WITH TENSIONS IN HYBRID ORGANIZATIONS: THE CASE OF BANCO DA FAVELA

par
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Résumé

Alors que les défis sociétaux tels que la pauvreté, les changements climatiques et les pratiques commerciales destructrices font l’objet d’une attention accrue de la part des chercheurs, entreprises et de la société en générale, les formes organisationnelles alternatives deviennent de plus en plus considérées comme un outil capable de trouver des solutions à ces défis. Parmi ces formes, nous retrouvons les organisations hybrides. Ce type d’organisation a une mission sociale, comme l’insertion à l’emploi pour les personnes en situation précaire ou l’amélioration de leur accès aux ressources de base, qu'elles tentent d'accomplir par l'offre de produits ou services dans le cadre d'un modèle d’affaires à but lucratif conventionnel.

Or, lorsqu'une entreprise recherche simultanément le profit et l’impact social, elle peut engendrer des tensions entre les différentes parties prenantes. En effet, l'entreprise sociale suit alors deux logiques institutionnelles simultanément qui la confrontent à des défis institutionnels uniques : les logiques institutionnelles qu’elles incarnent ne sont pas toujours compatibles et il est difficile d’adhérer à leurs prescriptions sans aller trop loin ni dans l’une ou l’autre des directions. La littérature sur les organisations hybrides propose de multiples façons de gérer, reconnaître ou vivre avec les tensions inhérentes à ces organisations. Les organisations peuvent alors suivre soit des stratégies de différenciation, qui tentent d’isoler les logiques institutionnelles afin d’éviter les conflits, soit des stratégies d’intégration, qui tentent de résoudre les tensions en combinant les deux logiques.

Banco da Favela, une banque sociale créée dans une favela de Rio de Janeiro, a créé une bourse à but lucratif appelée Bolsa de Valores da Favela pour faire face à ces tensions. Cette thèse propose l’essaimage (*spin-off*) comme une stratégie de différenciation qui n’a pas été explorée dans la littérature sur les organisations hybrides. Pour parvenir à cette contribution, nous suivons une étude de cas de la dyade. Elle est basée sur un ensemble d’entretiens approfondis, d’observations, de réunions, de messages provenant de groupes WhatsApp entre les décideurs et les employés, et de données d’archives. L’analyse est divisée en trois parties : une mise en perspective temporelle de l’histoire de Banco da

Favela et de Bolsa de Valores da Favela, de la création à la faillite ; une analyse approfondie des tensions entre les parties dans chaque organisation ; et une analyse des causes des effets positifs et négatifs sur leur survie et des principaux mécanismes illustrant la gestion des tensions.

La thèse apporte trois contributions principales à la littérature : une nouvelle stratégie de différenciation dans laquelle l'organisation hybride affectée par les tensions entre deux logiques institutionnelles concurrentes crée une deuxième organisation afin de diviser les décideurs clés qui s'opposent ; une proposition de la dyade hybride différenciée, une forme organisationnelle dans laquelle deux entreprises fonctionnent comme une dyade, l'une se concentrant sur la logique et son impact social prévu, l'autre sur la génération de profits pour soutenir les deux organisations ; et enfin, une mobilisation par la dyade de cinq mécanismes afin de faire face aux tensions qui ont été identifiées dans le cas.

Mots clés : Logiques institutionnelles, organisations hybrides, tensions, dérive de mission, essaimage (*spin-off)*

Méthodes de recherche : Méthodes qualitatives, étude de cas, *bracketing* temporel

Abstract

As societal challenges such as poverty, climate change, and destructive business practices garner growing attention from researchers, businesses, and society at large, alternative organizational forms are increasingly being considered as tools capable of addressing these issues. Among these are hybrid organizations. This type of organization pursues a social mission, such generating jobs for the poor or improving their access to basic resources, while attempting to achieve them through the provision of products or services within a conventional for-profit business model.

However, when these businesses concurrently pursue profit and social impact, it can create tensions among various stakeholders. Because social enterprises need to follow two institutional logics simultaneously, they are presented with unique institutional challenges, as the institutional logics they embody are not always compatible, and adhering to their prescriptions without leaning too far in one direction or the other is difficult. The literature on hybrid organizations proposes multiple ways to manage, or at least acknowledge and coexist with, the tensions inherent to these organizations. These organizations can adopt either differentiating strategies, which seek to isolate institutional logics in order to avoid conflict, or integrating strategies, which aim to resolve tensions by combining the two logics.

Banco da Favela, a social bank created in a favela in Rio de Janeiro, spun off a for-profit stock exchange called Bolsa de Valores da Favela to deal with these tensions. This thesis proposes the spin off as a strategy of differentiation that has not yet been explored in the literature of hybrid organizations. To develop this contribution, the research follows a case study of the dyad, based on a set of in-depth interviews, meeting observations, access to WhatsApp groups between decision-makers and employees, and archival data. The analysis is split into three parts: a temporal bracketing of the story of Banco da Favela and Bolsa de Valores da Favela through four phases, from their creation to their dissolution; an in-depth analysis of the tensions between sides in each organization; and an examination of the causes of both the positive and negative effects on their survival, as well as the key mechanisms illustrating tension management.

The thesis makes three main contributions to the literature: a novel differentiation strategy in which a hybrid organization affected by tensions between the two competing institutional logics spins off a second organization, in a bid to separate key decision-makers who feud in opposing sides; the proposition of the Differentiated Hybrid Dyad, an organizational form in which two enterprises operate as a dyad, one focusing on the social logic and its intended social impact and the other focusing on generating profits to support both organizations; and finally, the identification of five mechanisms mobilized by the dyad to address tensions observed in the case study.

Keywords: Institutional logics, hybrid organizations, tensions, mission drift, spin-off

Research methods: Qualitative methods, case study, temporal bracketing

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List of abbreviations

B2B: Business to Business, a product or service offering focused on serving other businesses

B2C: Business to Consumer, a product or service offering focused on serving end consumers

BaaS: Banking as a Service, a third-party bank that provides the banking structure for the first-party app

Banco: shorten for *Banco da Favela* (“Bank of the Favela”), the original organization of the case

Bolsa: shorten for *Bolsa de Valores da Favela* (“Stock Exchange of the Favela”), the spun-off organization of the case study

CEO: Chief Executive Officer, the executive leader of the organization

CFO: Chief Financial Officer, the highest-ranking manager in finance

COO: Chief Operating Officer, the highest-ranking manager in operations management

CPO: Chief Product Officer, the highest-ranking manager in product offering/development

CVM: *Comissão de Valores Mobiliários* (the Stock Exchange Comission of Brazil)

DHO: Differentiated Hybrid Organization, an organization in which the client and the beneficiary are not the same

ESG: Environmental, Social and Governance, an investing principle that prioritizes environmental issues, social issues, and corporate governance

Fundo: shorten for *Fundo de Impacto* (“Impact Fund”), the activist investor fund that acquired a participation in Banco during the case

HR: human resources

IHO: Integrated Hybrid Organization, an organization in which the client and the beneficiary are the same

KPI: Key Performance Indicators, a management and strategy tool

OKR: Objectives and Key Results, a management and strategy tool

SPE: *Sociedade de Propósito Específico* ("Specific Purpose Society", an enterprise created to collectively share financial risk, with a fixed duration, to launch major engineering projects)

UFRJ: *Universidade Federal do Rio de Janeiro* (the Federal University of Rio de Janeiro)

Para todos os habitantes de favelas do Rio de Janeiro

(For all the people from favelas in Rio de Janeiro)

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Preface

Poverty and social inequality are, perhaps, the most enduring and the cruelest of all societal challenges. As a person who grew up in Brazil, particularly in Rio de Janeiro, I have for my whole life been exposed to the extremes of inequality. Rio is a paradoxical city: tremendously rich and awfully poor people share the same public spaces, such as the famous beaches of Copacabana, Ipanema and Arpoador, where I was born, grew up, and lived for 30 years.

However, being from a white, upper middle-class family, I only saw that mixture from a distance. The blatant inequality was something that bothered me, but that I could not properly understand, since I did not live through it. This changed when I met the man who would be my husband, all the way back in 2010. A Black gay man from a favela, Doug opened my eyes to so much of the social injustice that happened around me, in a way that I would never understand on my own. A short but potent example: while for me it took one bus and 45 minutes to get to the Fundão campus of the Federal University of Rio de Janeiro (UFRJ), for him it took around two hours to go, sometimes three to come back. When classes start at seven in the morning, that has obvious implications.

A few years later, this soon to be academic was a young financial advisor who got tired of this career path that gave so little reward for any effort in the direction of helping the less fortunate. I joined a Master's in Business program from Instituto COPPEAD, at the same UFRJ, with the goal of pivoting my career into something more, something greater. The end goal was always to become a professor. But most importantly, I had decided that my career would be devoted towards tackling poverty and social inequality, that my entire research would be in this field.

It was at COPPEAD, through the class of Social Innovation lectured by Professor Eduardo Raupp, that I was able to have my first contact with a social enterprise. It was such a remarkable experience that Raupp became my first choice for supervisor in the MSc. Together, we built my first research in social entrepreneurship, which became my MSc thesis, and this in turn opened the doors for my PhD application at HEC Montreal.

The PhD journey was far from easy. Fast tracking the MSc to join HEC a year before the original plan meant I had to learn how to be a researcher, a PhD student and a French speaker all at once. Stress, depression, and burnout during the pandemic took a heavy toll. I took a year off, focused on teaching. I guess that helped me become a good teacher, which I am confident I am. I also pondered quitting the program quite a few times, and I have to admit one of the main reasons I continued in the PhD was not knowing what would happen with my status in Canada if I decided to quit.

Now I am glad I persevered. The end of this journey is in sight. I know, this is but a humble beginning, a stepping stone in the career of an academic. “Just get it done, your thesis is your worst research”, said every single professor I have met at HEC. It is, however, my statement of intent: to work, as a researcher and as a professor, as someone who intends to explain, tackle, and alleviate poverty and inequality. In Rio, in Brazil, in Canada, everywhere.

1. Introduction

With societal challenges such as poverty, climate change, and destructive business practices receiving more attention from scholars, citizens, and decision-makers (Voltan & De Fuentes, 2016), alternative organizational forms are increasingly seen as a way of finding solutions to them (Pache & Santos, 2013). Among these organizational forms are hybrid organizations. These organizations have a social mission such as reducing poverty, generating jobs for the poor, or improving their access to basic resources, but attempt to achieve them by selling products or services through a conventional for-profit business model (Yunus et al., 2010).

One perspective that can be used to understand hybrid organizations is institutional logics. From this perspective, a logic is the meaning behind the values and actions of individual (Smets et al., 2015) and organizations (Kent & Dacin, 2013). In this sense, hybrid organizations are organizations in which contrasting, seemingly incompatible logics are embedded (Battilana et al., 2017). That is, supporters of the mission of profit generation follow the market logic, whereas those of the social mission behave in accordance with the social logic (Pache & Santos, 2013). Since the framework of institutional logics helps identify and break down the motivating factors on opposing sides of an organization by representing them through logics, it is especially useful for investigating hybrid organizations, with their two missions often seen as oppositional and even conflicting (Battilana et al., 2017).

When these businesses simultaneously pursue profit and social impact, tensions between stakeholders may emerge (Ebrahim et al., 2014): there is a trade-off between the short-termism of profit maximization and the long-term view necessary to cause impact (Bansal & DesJardine, 2014). Because social enterprises need to follow two institutional logics simultaneously, they are presented with unique institutional challenges (Battilana, 2018), as the institutional logics they embody are not always compatible (Pache & Santos, 2013) and it is challenging to adhere to prescriptions of both logics without moving too much in either direction (Mair et al., 2015). Another issue is that current norms and beliefs, not to mention monitoring systems and stakeholder expectations, are still geared towards one or the other mission but not both at the same time; as a result, tensions between supporters of each logic are constantly present (Battilana et al., 2017).

Supporters of the market mission promote the idea that profit maximization is essential, reasoning that a surplus of resources allows the organization to increase the reach of its social mission (Voltan & De Fuentes, 2016). However, attempting to maximize profits can stifle, negate or even reverse the social impact generated by the organization, by charging more from the clients than they can afford to spend (Ebrahim et al., 2014) or focusing on a more affluent set of customers and neglecting those who are the most in need (Hermes & Lensink, 2011). On the other hand, supporters of the social mission push for the maximization of social benefits to its clients and beneficiaries, but an unsustainable business model may lead to failure (Voltan & De Fuentes, 2016). In this context, the greatest challenge for these hybrid organizations is to manage the tensions likely to arise between social and financial goals (Battilana, 2018). These tensions arise both from internal and external pressure (Battilana, 2018), as the demands from one logic often require the organization to defy demands from the other (Pache & Santos, 2013). Ultimately, the tensions may push organizations so much in the direction of one logic that it supersedes or engulfs the other, leading the organization into drifting from one of its missions (Battilana & Dorado, 2010; Kent & Dacin, 2013; Mersland & Strøm, 2010).

Despite the challenges provided by mixing institutional logics, there are also unique opportunities generated by hybrid organizations, compared to organizations that primarily reflect only one logic (Battilana et al., 2017). For instance, hybrid organizations are able to access resources from a broader, or previously untapped, pool (Battilana et al., 2017; Pache & Santos, 2013), such as impact investing funds (Battilana, 2018). Another advantage of hybrid organizations in comparison to "pure" organizations aligned with a market logic is the possibility to be innovative, creating new products and services and even pioneering new ways of organizing, which helps them grow (Mair et al., 2015).

The literature on hybrid organizations proposes multiple ways to deal with, or at least acknowledge and live with, the tensions inherent to these organizations. Organizations then may follow either differentiating strategies, that attempt to isolate institutional logics in order to avoid conflict, or integrating strategies, that attempt to solve tensions by combining the two logics (Pache & Santos, 2013). An example of differentiating strategy would be symbolically endorsing the practices and values favored by one logic while actually following those of the other logic (Pache & Santos, 2013), and one example of integrating strategy would be the development of new, innovative practices that foster both logics simultaneously (Mair et al., 2015).

Yet another possibility to tackle tensions between dual missions, ensure organizational survival, and pursue growth, is by generating a spin-off. Organizations can spin off a new venture when there is a possibility to exploit existing organizational knowledge in a novel way, one that differs from the current business model (Corley & Gioia, 2004). This can help avoid the tensions that would arise if the project were pursued in a way that conformed to the current organizational structure (Clarysse et al., 2011). If it generates an enterprise whose business model reinforces that of the original organization, the spin-off process can help it grow (Lyon & Fernandez, 2012).

At a time when tackling societal challenges become increasingly prevalent (Wade, 2014), researchers are interested in studying hybrid organizations and social businesses that offer an alternative to deal with these challenges through market practices (Battilana, 2018). At the same time, the third sector is under pressure to perform, and to receive more funding it is becoming more business-like and increasing its hybridity (Karré, 2021). However, there is little research on spin-offs created by hybrid organizations, despite the movement to investigate those created by for-profits and even by non-profits (Lyon & Fernandez, 2012). Spin-offs are a way for organizations to nurture innovative ideas that are potentially incompatible with their current business model (Clarysse et al., 2011). Since hybrid organizations necessarily and constantly deal with tensions between the two logics, investigating spin-offs can be a way to explore new avenues of growth potential for hybrid organizations struggling to stay on course (Low, 2015; Lyon & Fernandez, 2012).

This thesis investigates a social bank created in a favela in Rio de Janeiro that went through the process of spinning off a stock exchange from 2019 to 2021. Despite its social origins, the new company was registered as a purely for-profit business that abides by

Environmental, Social and Governance (ESG) standards. The two organizations function as a dyad, with their business models intertwined. In terms of the culture and the market in which the dyad is embedded, Brazil is not new to having multiple stock exchanges, but it has only had one since the merge between BOVESPA (stocks and derivatives) and BM&F (commodities and future contracts) into a new organization now called B3, in 2008. Even more unexpected is the possibility of having a stock exchange emerge from a favela, where institutions are generally weak, and businesses are commonly seen as untrustworthy in the eyes of the average Brazilian.

The occurrence of spin-offs from organizations with a different set of institutional logics is not new, but historically restricted to for-profits spinning off another for-profit, a hybrid organization, or a foundation (Clarysse et al., 2011; Corley & Gioia, 2004). Scholars have discussed how spin-offs help for-profits recover institutional support, reduce externalities, or create “shared value” (Clarysse et al., 2011; Low, 2015; Michelini & Fiorentino, 2012). Researchers are also already covering non-profits that transition to a for-profit business model to reduce their dependence upon benefactors (Lyon & Fernandez, 2012). However, although growth and mission drift are an important discussion for the literature of hybridity (Ault, 2016; Battilana, 2018; Mia & Lee, 2017), and spinning off has garnered some attention (Battilana & Dorado, 2010; Low, 2015; Lyon & Fernandez, 2012), current literature does little to explain if tensions inherent to hybrid organizations are connected to these organizations spinning off, or how or why hybrid organizations would spin off a for-profit. It is important to identify ways that hybrid organizations can deal with their inherent tensions, as this can foster innovation in ways that organizations relying on a single logic cannot achieve and generate new sources of income for the original organization (Ault, 2016; Battilana, 2018). To address this gap, after the empirical observation of the phenomenon and the analysis of the corresponding literature, the following research question emerged: How does the creation of spin-offs influence the ability of hybrid organizations to manage the tensions generated by the incompatibility between the market and the social logics?

To answer this question, this thesis utilizes a case study of a social bank called Banco da Favela and its spun-off stock exchange Bolsa de Valores da Favela, which emerged in Rio de Janeiro, Brazil. The dyad formed by the two sister organizations was observed and dissected through a longitudinal data collection comprised of seventy-three data points from three different periods, comprised of thirty interviews, twenty-two observations including three longitudinal observations of management groups on WhatsApp, and twenty-one documents.

This provided an insight into the years of creation, iteration, expansion, reconstruction, spin off, and eventual failure of the organizations. The analysis of this wealth of data is divided in three parts: a narrative recounting the story of the organizations through temporal bracketing to identify its key phases and turning points; a panorama of the tensions between the defendants of the two institutional logics governing the organization and its dual mission—the market logic and the social logic; and finally, a breakdown of the main mechanisms mobilized by the actors to address these tensions.

The thesis proposes three main contributions. First, adding to the literature on strategies to deal with tensions between institutional logics in organizations, it proposes the spin-off process as a strategy of differentiation. Differentiation strategies separate the embattled logics to avoid escalating the confrontation, but when the conflict emerges to the top of the organization separating the top management team into two different organizations can be the only outcome. Second, it proposes a new organizational form, the Differentiated Hybrid Dyad. While integrated hybrid organizations have a business model and impact model coupled together, differentiated hybrid organizations have the two models separated—the income from the market-driven side funds the social mission on the other side. This thesis proposes that Banco da Favela, an integrated hybrid organization, emerged from the spin off as part of a differentiated hybrid dyad with its spun-off stock exchange. And finally, contributing to the literature of tensions between institutional logics, it exposes the mechanisms that were enacted to deal with the observed tensions, their relationship with these tensions and with each other, and how they worked or failed in the case in question.

2. Literature Review

Hybrid organizations are organizations with two concurrent missions that have no hierarchy among them (Pache & Santos, 2013)—for instance, a bakery that simultaneously makes high quality international breads and trains their employees, mostly low-income immigrant women, in managerial skills that may land them in leadership positions in the food industry (Battilana et al., 2012). Although they have existed for centuries, particularly in education and health sectors (Battilana et al., 2017), nowadays hybrid organizations are present in many other sectors, as diverse as biotech, microfinance (Battilana et al., 2017), food processing, financial intermediation, and software development (Battilana, 2018),

There are multiple theoretical lenses that scholars use to engage with hybrid organizations: Ebrahim and colleagues resort to a stakeholder perspective to investigate the specific governance challenges different models of hybrid organizations face (Ebrahim et al., 2014), Canales builds on Weberian Bureaucracy to investigate the most efficient way to balance "strict" and "soft" loan agents in microfinance organizations (Canales, 2014), Michael Porter (Porter & Kramer, 2011) and Mohammed Yunus (Yunus et al., 2010) and their colleagues debate how organizations can tackle poverty and inequality through a shared value, base of the pyramid approach. However, the one theoretical lens that has been recently the most relied on to debate the topic is institutional logics (Battilana et al., 2017).

This framework breaks down hybrid organizational missions in hybrid rationales, investigating the beliefs and values that permeate the organization, influencing their practices and behaviors that culminate in the dual missions (Battilana et al., 2017; Mair et al., 2015). By delving deep into values and beliefs, we can really understand from where stakeholders draw motivation to pursue two different, some would say paradoxical, missions (Battilana et al., 2017); we can also understand the opportunities and challenges these logics generate based on the relationship between internal and external stakeholders (Kent & Dacin, 2013; Pache & Santos, 2013).

This review will follow a thread that goes increasingly specific on how hybrid organizations are managed: it starts with a broad introduction covering institutional logics, with a focus on the two logics that are central to this project—namely, the social and the market logics; then, formally defines hybrid organizations using the institutional logics framework and narrows down to hybrids that mobilize the two aforementioned logics; it then discusses the tensions that authors argue are inherent to these companies and threaten their survival; finally, the review ends with an overview of strategies to manage these tensions, leading to the research problem and the formulation of the research question.

2.1. Institutional Logics

An institutional logic is the socially constructed, historical pattern of cultural symbols and material practices, including assumptions, values, and beliefs, that are replicated and manifested in stable patterns of social behaviors (Mair et al., 2015). Also termed the DNA behind institutions which define the rules of the game (Kent & Dacin, 2013), institutional logics provide societal rationales behind individual (Smets et al., 2015) and organizational (Thornton et al., 2012) beliefs, values, and actions by which actors produce and reproduce their material subsistence, organize time and space, and provide meaning to their daily activity (Thornton et al., 2012).

Scholars researching institutional logics organize these "social prescriptions" around a typology of logics, to help theorize patterns of behaviors. Thornton, Ocasio and Lounsbury (2012) propose "ideal types" of logics, that they consider analogous to utilizing statistical models in quantitative theories. They build upon Friedland and Alford (1991)—who coined the term institutional logics—to establish their typology comprised of six orders: family, religion, state, market, profession, and corporation. These orders differ among each other on categories such as sources of legitimacy, of authority, and of identity, and basis of norms, of attention, and of strategy. For instance, while the source of authority in the family order is the patriarch, in the market order it is the shareholder, and in the corporation, it is the top management.

Other authors enrich the definitions of these orders and even establish new ones. One example is the definition of the market logic (Pache & Santos, 2013), also called

Commercial (Mair et al., 2015), as the condensation of basic rules of free market such as profit maximization, growth, competition, and supply-demand price curve (Mair et al., 2015; Pache & Santos, 2013). And authors who went beyond the six orders established by Thornton and colleagues devised, for instance, the "social" logic (Pache & Santos, 2013), sometimes called "development" (Battilana & Dorado, 2010; Khavul et al., 2013), which encompasses the drive to cause social impact and increase community good, and can be exemplified by social missions such as Grameen Danone's desire to help eradicate malnourishment in Bangladesh (Yunus et al., 2010), BancoSol's goal of helping microbusinesses in Bolivia thrive (Battilana & Dorado, 2010), and Procter & Gamble's drive to offer a cheap water purifier in developing countries (Michelini & Fiorentino, 2012).

While the proponents of other orders of institutional logics were not as comprehensive as Thornton and colleagues in their characterization of each characteristic of each logic, they did identify them in a way that incorporates Thornton's definition for institutional logics presented in the opening of this section. For instance, Battilana, Besharov and Mitzinneck also used in their paper (2017) three other logics: the academic (or scientific) logic, which aims at advancing knowledge, educating new minds, developing cutting edge technology etc. (Battilana et al., 2017); the banking (or financial) logic, which might be considered part of the market logic by other authors, as it also aims at profit maximization, but through the offer of financial products and the exploitation of interest (Battilana et al., 2017; Battilana & Dorado, 2010); and the health (or medical) logic, which has the goal of treating patients, improving health condition, and fighting diseases (Battilana et al., 2017). All three of them are "groups of patterns of cultural symbols and material practices, including assumptions, values, and beliefs" that are used to "provide meaning to their daily activity".

Organizations and their members are influenced by culturally entrenched rationales for appropriate action, and organizational fields tend to be characterized by distinct institutional logics or sets of logics (Battilana et al., 2017). Organizations and individuals must adhere to the institutional logics relevant to the field they are embedded within, and to the practices derived from those logics, so that they maintain legitimacy face the stakeholders present in this field (Greenwood & Suddaby, 2006; Kent & Dacin, 2013). As institutional logics are applied to describe effects both to the organizational level and to the individual level, the perspective has been used to “explain macro-level propositions (e.g., institutional logics shape structures and practices) through macro-to-micro mechanisms (e.g., institutional logics shape the focus of attention), micro-to-micro mechanisms (e.g., focus of attention shapes decision making) and micro-to-macro mechanisms (e.g., decisions affect structures and practices)” (Thornton et al., 2012, p. 82).

Some scholars claim logics are fixed (Battilana et al., 2015; Glynn, 2000) and monolithic (Battilana & Dorado, 2010; Greenwood et al., 2011), with relatively stable boundaries that allow them to be identified and represented by researchers. Interactions between logics would be restricted to one dominant logic being contested by, and sometimes replaced with, an emerging logic (Greenwood & Suddaby, 2006). In this context, hybrid organizations are an arena for two monolithic logics, and the organizations’ leaders attempt to have the logics coexisting to prevent one from superseding the other (Battilana & Dorado, 2010; Pache & Santos, 2013).

Others, however, claim that logics are not monolithic—some logics might be permeable (Kent & Dacin, 2013) and flexible (Smith & Besharov, 2017). Through their work, Kent and Dacin explain that the social logic is highly permeable, allowing it to be dissolved and its legitimacy to be challenged, as it is based on vague or tacit rules, its elements are loosely coupled, and its outcomes are hard to identify and measure (Kent & Dacin, 2013). On the other hand, banking and market logics are impermeable, with low ambiguity and openness to hybridization, and highly identifiable outcomes. The consequence is that the combination of such logics more often leads to the mutation and assimilation of the permeable logic by the impermeable one, as the former loses its legitimacy (Kent & Dacin, 2013). In contrast, if the organization can keep both logics simultaneously fixed and flexible, it is able to enact both elements without assimilating one or the other (Smith & Besharov, 2017).

2.2. Hybrid Organizations

Under the lens of institutional logics, hybrid organizations are organizations that embody multiple different, often conflicting institutional logics into their core business proposition (Battilana, 2018). More specifically, they are the extreme case of the combination and equilibrium of different logics, in the sense that all organizations are exposed to multiple institutional logics, varying on the *extent* to which a logic dominates the others: pure organizations have an overbearingly dominant logic, and hybrid organizations attempt to balance at least two logics roughly at the same level (Battilana et al., 2017).

Hybrid organizations are not a new phenomenon, they have been around for centuries. Particularly, hybrids in education and health sectors such as teaching hospitals embodying the academic and health logics or for-profit universities with academic and market logics (Battilana et al., 2017). Yet nowadays hybrid organizations are present in multiple other sectors, as diverse as food processing, financial intermediation, software development (Battilana, 2018), biotech, and microfinance (Battilana et al., 2017). They are, however, a paradox for institutional theory, running counter to the core proposition of neo-institutionalism—that organizations seek legitimacy by conforming to one institutionalized template (Battilana et al., 2017).

One specific organizational form interests us for this research: hybrid organizations which embrace social and market logics. Despite forms of hybrid organizations having existed for centuries already, the discussion around hybrid organizations mixing social and market logics as a research agenda is a much more recent phenomenon, dating from the 1980s (Battilana, 2018). For the sake of clarity and concision, from this point forward the term “hybrid organizations” will always refer specifically to an organization that balances social and market logics. In the continuum between social value and financial value, hybrid organizations fall in the middle, with charities and non-profits on one side and businesses—even those that practice Corporate Social Responsibility (CSR)—on the other (Neverauskiene & Pranskeviciute, 2021). These enterprises differ from traditional businesses with their dual mission purpose: their social mission is as important as, or even more important than, their profit-making aim (Battilana, 2018; Battilana et al., 2015). They are also different from not-for-profit organizations because their main source of income is through market transactions, not donations (Battilana, 2018). The two opposing logics are reflected not only on the dual missions, but also in their core activities and practices (Battilana, 2018; Battilana & Dorado, 2010; Canales, 2014).

Hybrid organizations are "arenas of contradiction" (Pache & Santos, 2013), as balancing two different logics opens roads to different, sometimes opposing, directions (Battilana, 2018). For instance, should a social bank like BancoSol in Bolivia (Battilana & Dorado, 2010) or Grameen Bank in Bangladesh (Yunus et al., 2010) aim to maximize number of clients, to increase their social impact, or restrict the pool of clients to those most likely to pay back, thus reducing risk and increasing efficiency? On the other hand, these organizations are also likely to do well in the current increasingly pluralistic institutional environment because, due to their hybridity, they are more likely to appease a wider set of institutional referents (Pache & Santos, 2013).

With the salience of societal challenges more evident every day (Battilana, 2018; Wade, 2014), hybrid organizations are currently attracting more scholarly attention than ever. The increased interest spills into society as well, attracting politicians, funders, and the general public (Battilana, 2018). The emergence of impact investors interested in funding and fostering these enterprises, and of laws and regulations established to stimulate their creation and dispersal, aim to alleviate issues such as economic inequalities and environmental degradation (Battilana, 2018).

However, the relationship between organization survival and social impact is not always positively correlated, for there is a trade-off between seeking short-term profits and seeking long-term impact (Bansal & DesJardine, 2014; Hermes & Lensink, 2011). As hybrid organizations are just recently gaining traction and popularity (Battilana et al., 2017), and since there is constant tension between their missions (Ebrahim et al., 2014), there is not a clear path forward on how to manage these tensions and allow both logics to operate simultaneously (Chliova & Ringov, 2017). Table 1 below summarizes the first part of this review, with the main notions covered and their authors.

Table 1: Main notions in institutional logics and hybrid organizations

Main Notion	Main Authors
Institutional Logics	(Friedland & Alford, 1991; Thornton et al., 2012)
Market/Commercial logic	(Mair et al., 2015; Pache & Santos, 2013)
Social/Development logic	(Battilana & Dorado, 2010; Pache & Santos, 2013)
Hybrid organizations	(Battilana & Dorado, 2010; Pache & Santos, 2013)
Logics are fixed and monolithic; hybrid organizations as arenas for contestation	(Glynn, 2000; Greenwood et al., 2011; Pache & Santos, 2013)
Logics are permeable and flexible; hybrid organizations can enact both logics	(Kent & Dacin, 2013; Smith & Besharov, 2017)
Trade-off between short-term profit maximization and long-term impact	(Bansal & DesJardine, 2014; Hermes & Lensink, 2011)

2.3. Tensions in Hybrid Organizations

Because hybrid organizations need to follow two institutional logics simultaneously, they are presented with unique institutional challenges (Battilana, 2018), as the institutional logics they embody are not always compatible (Pache & Santos, 2013) and it is challenging to adhere to prescriptions of both logics without moving too much in either direction (Mair et al., 2015). With current norms and beliefs, not to mention monitoring systems and stakeholder expectations, still geared towards one or the other mission but not both simultaneously (Battilana, 2018), tensions between supporters of each logic are always present (Battilana et al., 2017). In addition, the success of the market mission—profit generation—is easy to identify, even in the short term, but social impact demands a long-term view and is often difficult to measure (Mikołajczak, 2020).

Although most papers about tensions in hybrid organizations take the definition of tension as granted, they are generally presented as challenges these organizations must face, derived from the balancing of dual logics (Gigliotti & Runfola, 2022). In this context, the greatest challenge for hybrid organizations is to manage the tensions likely to arise between social and financial goals (Battilana, 2018). These tensions arise both from internal and external pressure (Battilana, 2018), as the demands from one logic often require the organization to defy demands from the other (Pache & Santos, 2013). As they involve multiple, different stakeholders, each tension demands a particular solution, with a one-size-fits-all approach likely to fail (Gigliotti & Runfola, 2022).

Some practical implications of the tensions between institutional logics may be disagreements over strategic decision making (Battilana, 2018; Battilana et al., 2015) and resource allocation (Canales, 2014; Ebrahim et al., 2014), and difficulties to obtain funding (Battilana, 2018) and attract talent (Battilana & Dorado, 2010). Table 2 below illustrates the different manifestations of tensions in hybrid organizations.

Table 2: Summary of tensions in hybrid organizations identified in the literature

Tension	Stakeholders	Authors
Mission prioritization	Employees, managers	(Battilana et al., 2017; Canales, 2014; Pache & Santos, 2013)
Strategy under financial duress	Decision-makers	(Battilana, 2018; Kent & Dacin, 2013)
Challenge to legitimacy	External stakeholders	(Battilana et al., 2017; Ebrahim et al., 2014; Mirghani & El Ebrashi, 2023)
Talent attraction	Decision-makers, external stakeholders	(Battilana, 2018; Battilana & Dorado, 2010)

2.3.1. Mission prioritization

Having to pursue two missions simultaneously, as social enterprises do, is a catalyst to conflict between the opposing factions. Oftentimes, objectives fed by either logic are at odds with the other, and the supporters of each logic try to push the organization towards the mission associated to that logic. One example can be seen in the case of the work integration social enterprises by Battilana and colleagues: adepts of the social mission of reinserting long-time jobless people into the job market desire to focus the resources on job training and social counseling, while the supporters of the market mission of providing goods and services at a competitive price and quality wish to focus the resources into commercial activities instead (Battilana et al., 2015).

The latter increases financial results for the WISE, helping fulfill its financial mission, while the former develops social skills and address health issues for the beneficiaries, helping fulfill the organization's social mission (Battilana, 2018; Battilana et al., 2015).

However, because the activities that serve the beneficiaries are not aligned with the ones that serve their customers, social workers at either side may oppose the amount of attention given by the decision-makers to their colleagues at the other side, even to the point of organizational paralysis (Battilana et al., 2017; Battilana et al., 2015; Pache & Santos, 2013).

Another such example is the case of two money lender non-profits in Bolivia that had difficulties to obtain funding due to a lack of donations and the impossibility to take bank loans. They decided to spin off hybrid microfinance organizations with a for-profit business model with the surpluses reinvested into the operation (Battilana & Dorado, 2010; Battilana et al., 2012). However, adding a for-profit business model into the organization created tensions that needed to be managed constantly. For instance, the organization needed to decide between allocating resources in financial results that enable a growth strategy and allocating them in maximizing social impact (Alvord et al., 2004).

Employees and managers with different expectations and who value each mission with different relative importance may experience interpersonal conflict and even emotional stress (Battilana, 2018). Additionally, hybrids often see coalitions representing either logic emerge inside themselves, which intensifies the potential for conflict (Pache & Santos, 2013).

2.3.2. Strategy under financial duress

As an example of conflict when adapting strategy to face financial duress, when the Brazilian microfinance organization Avante saw the default ratio of its loan portfolio increase, its management team faced the decision of either increasing its interest rates, passing the costs to its non-defaulting clients to prevent drift from its financial objectives, or endure the cut in profitability to sustain its social mission, with the expectation that the organization could survive this decrease and recoup the financial loss at a later occasion. Once again, each institutional logic is pulling in one direction (Battilana, 2018). The first option, driven by the banking logic, could potentially sustain the organizational financial outcome while alienating customers and diluting or even erasing social impact (Kent &

Dacin, 2013), while the second insists on the focus of maximizing impact even on the brink of financial unviability (Hermes & Lensink, 2011).

2.3.3. Challenge to legitimacy

Another issue that hybrid organizations face is the challenge from external stakeholders to their legitimacy. Potential clients, investors and external observers demand from the organization a clear vision of its identity, with a focus on value creation or value capture (Mirghani & El Ebrashi, 2023). This forces hybrids to appeal to both the business and social sectors, with opposing demands, to maintain their legitimacy (Battilana et al., 2017).

This tension can also be exemplified through accountability lenses (Ebrahim et al., 2014): there is a persistent tension between the interests of powerful external stakeholders, such as donors, foundations, and governments, and the beneficiaries who are typically less powerful but correspond to the purpose of the social enterprise. The organization must maintain both upward and downward accountability—to the resource holders and to the beneficiaries, respectively—to maintain its legitimacy as an organization for social impact.

This challenge to legitimacy affects hybrid organizations' capabilities of resource generation and access to external resources. For instance, hybrid organizations face difficulties to attract funding from both commercial investors—who may be deterred by the social mission, fostering activities deemed unprofitable—and philanthropists skeptical about the social purpose of a profit-seeking organization (Battilana, 2018). Impact investors, a recent development created to address these very issues, are not numerous enough to solve the problem, besides facing tensions of their own, as they struggle to fund-raise for the same reasons as above and cannot reliably find attractive hybrid organizations to direct their funds (Battilana, 2018).

2.3.4. Talent attraction

Attracting talent is yet another source of tension, as social enterprises need employees that have dual sets of skills and that are comfortable intertwining social and financial goals in one activity. However, finding these skills and this orientation simultaneously is complicated, as, historically, they have not gone hand-in-hand (Battilana, 2018).

Hiring employees who have both the necessary skills to attain social impact and to operate a for-profit enterprise, but that do not have the desire to pursue a social and a financial mission simultaneously, can be dangerous for a hybrid organization. Even if they have the necessary skills, potential employees who value only social or only financial goals may disrupt the organization and lead to mission drift or even failure (Battilana & Dorado, 2010).

2.4. Mission drift

As the organization deals with internal power struggles due to the polarity between supporters of each institutional logic, shifts in the hold of influence and resources can result in the dominance of one of the logics (Battilana et al., 2017). As hybrid social organizations are gaining traction and popularity (Battilana et al., 2017), two different streams of research emerged to attempt to explain how social enterprises deal with these tensions.

One stream of research, which understands the tensions between institutional logics as impossible to overcome, typically consider logics as monolithic (Battilana & Dorado, 2010; Greenwood et al., 2011) and fixed (Battilana et al., 2015; Glynn, 2000), while hybrid organizations attempt to have them coexisting (Battilana & Dorado, 2010; Pache & Santos, 2013) to avoid failure or mission drift—that is, one logic superseding the other. In the case of social enterprises, mission drift happens when the pursuit of profits and organizational sustainability causes them to prioritize business objectives over development or social goals (Ault, 2016; Battilana & Dorado, 2010). This could be exemplified by serving the less-poor (Ault, 2016; Hermes & Lensink, 2011; Mersland & Strøm, 2010) or not serving the poorest of the poor (Mia & Lee, 2017), in order to increase profits and/or decrease costs.

Utilizing a stakeholder perspective, Ebrahim, Battilana and Mair (2014) explain mission drift from another angle. They distinguish between integrated and differentiated hybrids.

Integrated hybrid organizations are those in which the beneficiaries and the customers are the same. The social impact happens through the consumption of the product or service that the organization provides. Consequently, the income of the organization comes from serving these clients, thus this business model must be profitable. In this case, mission drift happens like previously described, through moving to serve the less-poor or through diminishing the social impact by increasing price (Ebrahim et al., 2014; Mia & Lee, 2017).

Differentiated hybrid organizations, on the other hand, separate beneficiaries and customers in two distinct models, one akin to a charity and the other akin to a business. The social impact side of the model, regulated by the social logic, is either free or extremely subsidized by the business side. This one, influenced by the market logic, is purely for profit, with no intention to provide social benefits to the clients. According to the authors, since organizations are inclined to comply with the demands posed by the stakeholders providing resources, over time the social enterprises using a differentiated business model risk conforming to demands of paying customers in order to increase profitability and the chances of organization survival, thus steering away from the needs of non-paying beneficiaries, a form of mission drift particular to this organizational form (Ebrahim et al., 2014).

The scholars embedded in the other stream of research, however, claim that logics are not monolithic—some might be permeable (Kent & Dacin, 2013) and flexible (Smith & Besharov, 2017). Kent and Dacin (2013) explain that the development logic is highly permeable, while the banking and market logics are mostly impermeable, with low ambiguity and openness to hybridization and highly identifiable outcomes. The consequence is that the combination of such logics more often leads to the mutation and assimilation of the penetrable development logic by the impervious banking one, as the former loses its legitimacy (Kent & Dacin, 2013). This means that, while hybrid organizations attempt to have them coexisting (Battilana & Dorado, 2010; Pache & Santos, 2013), they might still drift from their social mission through the assimilation of the development logic by the market logic (Kent & Dacin, 2013), which pushes the organization into acting like a regular for profit business.

Alternatively, if the organization can keep both logics simultaneously fixed and flexible, it is able to enact both elements without assimilating one or the other (Smith & Besharov, 2017), making the different logics cooperate and even act in complementarity. For instance, if hybrids manage to maintain legitimacy, they are able to access resources from a broader, or previously untapped, pool (Battilana et al., 2017; Pache & Santos, 2013)—such as the aforementioned impact investing funds (Battilana, 2018). Another advantage of hybrid organizations in comparison to "pure" organizations aligned with a market logic is the possibility to be innovative, creating new products and services and even pioneering new ways of organizing (Mair et al., 2015). Social innovation comes from figuring out resources, and the lack of resources for social enterprises forces them to be innovative, pushing for efficiency and the development of pioneering technologies (Karré, 2021).

Therefore, it is of relevance to understand how hybrid organizations can attempt to manage these tensions and sustain their viability to explore their competitive advantages (Battilana et al., 2017). Tension management can be done by attempting to separate institutional logics or merge them, with various strategies covering either option (Pache & Santos, 2013).

2.5. Strategies to Manage Tensions in Hybrid Organizations

Multiple papers, from theory building articles (e.g., (Pache & Santos, 2013)) to literature reviews (e.g., (Battilana et al., 2017)), split strategies to manage institutional logics in hybrid organizations by strategies that integrate or separate logics. This review follows the same logic, while also recognizing those that combine integration and differentiation strategies. The Table 3 was created to help visualize different strategies organized by type, as the papers in which they are proposed.

While there are specific strategies of integration and differentiation to address tensions between institutional logics, integration and differentiation can also be employed directly into the organization's business model: a Differentiated Hybrid Organization (DHO) separates its customers and its beneficiaries. On one side, a for-profit business model aims at providing products and services to paying customers and generate surplus. On the other side, an impact model similar to a charity uses the profits generated through sales of those products and services to tend to the social needs of the organization's beneficiaries (Ebrahim et al., 2014). In contrast, an Integrated Hybrid Organization (IHO) provides the benefit to its customers—the impact comes through the transaction, or as a consequence of it (Ebrahim et al., 2014).

2.5.1. Integration

Integration strategies refer to approaches that integrate in some way the rivaling institutional logics. These strategies aim at fulfilling both objectives—social impact and profit generation—simultaneously (Gigliotti & Runfola, 2022). Integration can be accomplished through an organization's formal structure, through its practices and activities, or through its personnel, such as training employees in both logics simultaneously or create innovative governance models that include contributions from both sides (Battilana et al., 2017; Battilana & Dorado, 2010; Mair et al., 2015). There are quite a few reasons for hybrid organizations to pursue an integrative model: these are said to have the potential to produce innovative organizational forms, products and services through the combination of seemingly incompatible practices, beliefs and values (Battilana et al., 2017; Mair et al., 2015), even to the point that the integration may conform a new institution itself—arguably, an ongoing phenomenon regarding social enterprises. It may also facilitate the development of long-term relationships with external stakeholders, reducing the risk of loss of legitimacy (Battilana et al., 2017).

However, such integrative movement is challenging, due to stakeholders' affiliations to the original logics, including powerful external stakeholders who may resist the process (Battilana et al., 2017). It may also render the exact opposite of the original intent, as these stakeholders may challenge organizational legitimacy due to the misalignment of the hybrid with either party (Battilana et al., 2017). Internally, integration approaches may induce stress and psychological strain, as individuals are challenged to follow seemingly contradictory identities from two institutional logics (Battilana et al., 2017). And, paradoxically, one of the coping mechanisms to deal with this psychological strain is to gravitate towards one of the original identities, which can induce differentiation as multiple stakeholders migrate to one or the other logic, falling back to the setbacks of differentiation such as silos and conflict (Battilana et al., 2017; Pache & Santos, 2013).

Table 3: Different strategies to manage hybrid organizations

Type	Name	Tension(s) being managed	Proponents	Theoretical lenses
Integration	Integrated business model	Challenge to legitimacy	(Ebrahim et al., 2014)	Social entrepreneurship; accountability
	Combination of Logics	Talent attraction	(Battilana & Dorado, 2010)	Institutional logics
	Selective Coupling	Mission prioritization	(Pache & Santos, 2013)	Institutional logics
	Defiance and Innovation	Interpersonal conflict and coalitions	(Mair et al., 2015)	Institutional logics
Differentiation	Differentiated business model	Challenge to legitimacy	(Ebrahim et al., 2014)	Social entrepreneurship; accountability
	Compartmentalization	Generic "tensions"	(Mirghani & El Ebrashi, 2023)	Institutional logics
	Decoupling	Mission prioritization	(Pache & Santos, 2013) reviews it	Institutional logics
	Compromising	Mission prioritization	(Pache & Santos, 2013) reviews it	Institutional logics
	Conforming	Interpersonal conflict and coalitions	(Mair et al., 2015)	Institutional logics
Combination	Discretionary Diversity	Mission prioritization	(Canales, 2014)	Bureaucracy
	Segmenting, Bridging, Demarcating	Mission prioritization	(Smets et al., 2015)	Institutional logics
Inaction	Acceptance	Generic "tensions"	(Hahn et al., 2015)	Paradoxes
	Inevitability	Mission prioritization	(Siegner et al., 2018)	Social entrepreneurship

Battilana and Dorado propose that the combination of characteristics of the two competing logics—in their example, the banking and the development logics—produce a third, emerging logic (Battilana & Dorado, 2010). This combined logic merges the goals, target populations, and management principles of the two original logics, and the result takes into account both aspects simultaneously. For example, while the goal of the banking logic is to derive income from lending money to clients, and the goal of the development logic is to alleviate poverty, the goal of the emerging commercial microfinance logic is to increase the access of the unbanked to financial services, while fulfilling fiduciary responsibilities towards depositors and investors (Battilana & Dorado, 2010).

Pache's and Santos's main contribution in their 2013 paper is our first example of an integrative strategy: *selective coupling*, defined as the means hybrid organizations use to achieve a viable combination of two distinct institutional logics. By merging or integrating two institutional logics, an organization attempts to form a third logic, as it selects a combination of practices and activities drawn from each original logic to hopefully secure endorsement from a wider range of stakeholders (Pache & Santos, 2013). The authors propose that hybrid organizations rarely completely decouple or compromise (two strategies of differentiation) between two institutional logics. Instead, they selective adhere to intact demands drawn from each logic (Pache & Santos, 2013).

For instance, one organization they investigated in their study created both for-profit and non-profit sites for their expansion, but all for-profit sites were owned by their non-profit local entities, to guarantee that each branch would pursue profit, but profits would be distributed to advance the non-profits social goals, thus pursuing both goals. Their governance structure was closely related to social logic practices as well, as control over sites was exercised by local volunteer boards of directors, and all sites were mandated to affiliate with local unions. On the other hand, the investigated organization also duly followed intact market logic demands, such as strong branding, standardization of operations across all units, and efficiency generated from a central organization in charge of development, monitoring, and control (Pache & Santos, 2013).

In a bid to achieve legitimacy with both sides of stakeholders, the organization would unintuitively predominantly enact practices and demands from the institutional logic it was the most detached from (Pache & Santos, 2013), despite organizational behavior being guided by background socialization which would suggest that individuals would enact practices close to the institutional logic they were rooted in (Pache & Santos, 2013). Basically, as legitimacy from stakeholders aligned with the social logic starts at a higher level for organizations funded with a strong social background (e.g., funded by a nongovernmental organization), these organizations would aggressively pursue practices aligned with the market logic in their selective coupling, as a bid to accrue legitimacy from the other side as well (Pache & Santos, 2013), a strategy the authors called “trojan horse”.

Adding to Pache and Santos’ work, Mair and colleagues (2015) propose two more steps into the strategy “dissenting” hybrids will employ through the integration of logics: *defiance and innovation*. Through defiance, these organizations actively reject the choice of following the prescriptions of either institutional logic. Instead, they combine both logics, selectively coupling practices of either side to form an integrated governance structure (Mair et al., 2015). Innovation, on the other hand, refers to the development of novel governing practices and organizational processes that integrate the dual mission characteristic of social enterprises. These innovative practices are a tool to mitigate tensions between the two logics, and help the organization pursue dual goals (Mair et al., 2015), while navigating the legitimacy arena of hybridity.

2.5.2. Differentiation

Differentiation strategies refer to approaches that keep the two institutional logics separate in the organization. Compartmentalization, the physical separation of opposing factions, can be accomplished through an organization’s formal structure, such as separated departments, through its practices and activities, or through its personnel, such as the reliance on specialists representing each logic (Mirghani & El Ebrashi, 2023).

Differentiation strategies may be employed to accrue internal performance benefits, while also targeting legitimacy benefits when external stakeholders identify themselves with the practices, units, or people they are associated with in the hybrid (Battilana et al., 2017; Smets et al., 2015). This seems to be especially true when the combination of logics is novel or a social taboo (Battilana et al., 2017; Zhao & Lounsbury, 2016).

On the other hand, these approaches may exacerbate the risk of internal conflict, as stakeholders from each side may delve down into silos and coalitions and, when in contact, have plenty opportunities for disagreements and friction (Battilana et al., 2017; Canales, 2014; Pache & Santos, 2013). Differentiation also enlarges the rift between supporters of each side, which can lead to escalation (Battilana et al., 2017; Pache & Santos, 2013).

To mitigate these downsides, differentiated organizations may avoid paralysis by creating spaces of negotiations, that bridge the two rifts for supporters of both sides to meet and agree on trade-offs between the demands of each logic (Battilana et al., 2017; Canales, 2014; Smets et al., 2015).

Apart from compartmentalization based on the isolation of institutional logics, there are other differentiation strategies which deal with the logics in some particular way. Before offering its addition to theory of institutional logics by the means of selective coupling, Anne-Claire Pache and Felipe Santos (2013) review extant theory and identify decoupling and compromising.

In *decoupling* strategies, the hybrid organization symbolically adhere to one institutional logic, but in practice only follows the other (Pache & Santos, 2013), separating normative beliefs and values from operational structures. This strategy is particularly adapted to situations where externally imposed institutional logics conflict with internal institutionalized practices derived from another logic, becoming a safeguard to legitimacy challenges from followers of either institutional logic (Pache & Santos, 2013).

There are two major assumptions about this strategy: first, that all internal members adhere to the same logic and are willing to protect it, and the other logic is externally imposed; second, that the organization is able to evade external scrutiny, thus hiding the decouple altogether from external stakeholders (Pache & Santos, 2013). Neither assumption is likely to survive challenges from long-term exposure to both logics, as in such conditions organizational coalitions are likely to come up (Pache & Santos, 2013).

Ebrahim and colleagues (2014) also expand on Pache and Santos (2013) and a few other authors to utilize specific forms of decoupling to integrated hybrid organizations and differentiated hybrid organizations: integrated hybrids may go through means-ends decoupling, where the organization fails to ensure that the commercial transaction actually leads to social change—e.g. microfinance organizations' loans to the impoverished population neglected by market-driven banks actually manage to achieve its social mission of reducing poverty; on the other hand, differentiated hybrids may go through policy-practice decoupling, where the organization legitimize their commercial activity as financially backing their social initiative, while drifting away from delivering the social mission—for instance by not investing the profit from its commercial side onto the social activities for its beneficiaries (Ebrahim et al., 2014).

The second strategy that maintains a separation between two competing logics, *compromising* is when the hybrid attempts to craft an acceptable balance between the elements of both logics by enacting institutional prescriptions of both logics in an altered form (Pache & Santos, 2013). The organization can employ multiple tactics, such as conforming to a minimum standard for both logics, or bargaining with stakeholders on either side to reduce their demands.

For instance, when facing stakeholders from the banking logic demanding a high interest rate to maximize profits and stakeholders from the social logic demanding a low interest rate to maximize social impact for its clients, a microfinance organization may compromise by establishing a rate in the middle, thus not completely losing legitimacy from either side, but not attempting to bridge them in any way either (Pache & Santos, 2013). Organizations that did not compromise and instead ceded completely to the banking logic had their legitimacy questioned (Pache & Santos, 2013), while organizations that failed to tend to the banking logic not only still faced problems of legitimacy, but risked bankruptcy (Kent & Dacin, 2013; Mersland & Strøm, 2010). However, even the organizations that do compromise face possible limitations, such as the parties demanding a stricter alliance to their preferred logic over time (Pache & Santos, 2013).

Mair, Mayer, and Lutz propose a third way for *conforming* hybrid organizations to keep institutional logics separate but still maintain legitimacy towards stakeholders on both sides (Mair et al., 2015). Conforming hybrids will adopt governance practices aligned with the logic they are more closely associated—that is, a market-oriented social enterprise will have a governance structure akin to for-profit businesses, and a socially oriented one will have a governance structure akin to a non-profit organization—but not completely disengage with the other logic, instead complying with the minimum standards of that logic to ensure support and legitimacy from those stakeholders (Mair et al., 2015).

2.5.3. Combination

Academics such as Smets and colleagues (2015) and Smith and Besharov (2017) began investigating the possibility of combining integration and differentiation strategies. This may be related to the fact that neither integration nor differentiation is guaranteed (maybe even likely) to produce only beneficial effects: as we have seen, both strategies have downsides and might create more problems than they solve (Battilana et al., 2017). On one hand, full differentiation may form silos create and feed tension and conflict between subunits, which some integrative measures such as the arenas for discussion might alleviate (Battilana et al., 2017; Canales, 2014; Smets et al., 2015). On the other hand, full integration may cause stress and anxiety, which differentiating practices such as decoupling might decompress (Battilana et al., 2017; Pache & Santos, 2013). Smets et al. (2015) and Smith and Besharov (2017) have consolidated frameworks which from the start assume cycles of integration and differentiation, in a bid to address the aforementioned issues.

In his study of microfinance, Canales (2014) investigates a pool of microfinance organizations and identifies that, unexpectedly, loan officers on either pole of the continuum of enforcement styles—that is, those very aligned with the banking logic of playing by the book and enforcing contractual terms, and those very aligned with the social logic of developing trust and rapport and analyzing each case on its own to help their clients—were individually on average more efficient, in terms of repayment from their clients, than those who blended techniques on both styles and were not consistently on one side.

Strict officers, the author argues, properly educate their clients on repayment, legal actions that they will pursue in case of default, and the possibility of further lending in case of timely repayment—their strongest motivation to pay back (Canales, 2014). An officer who relies on the banking logic, but inconsistently—e.g., make exceptions due to certain circumstances—will have the threat of legal action undermined and their performance, on average, will suffer accordingly (Canales, 2014). On the other hand, trust, personal knowledge, and reciprocity that provide soft enforcement mechanisms to the officers aligned with the social logic will be undermined by a threat of legal action, which will also, on average, impact their performance (Canales, 2014). Consequently, for individual officers, being on each end of the spectrum—that is, being differentiated by the means of institutional logics—is the optimal course of action.

However, that is not the case for the organization as a whole (Canales, 2014). These organizations hold credit committees to discuss complex credit decisions such as long-term default or loan restructuring. The author found out that, on an organizational level, those who employ officers on both extremes of affiliation to institutional logics will perform better, because a meeting with only strict officers will reject many viable loans as they become too risk-adverse, and a meeting with only "soft" officers will take "stupid risks" as they "approve everything to please their customers" (Canales, 2014). Committees with a mix of officers, however, are more efficient due to the productive tension that arises between officers with focus on different elements. For a social logic employee, exceptions made to help good customers are always appropriate, so they need a banking logic employee to determine whether the exception is justifiable to the organization (Canales, 2014); on the other hand, a social logic employee will remind a banking logic employee when they are being unreasonably strict with customers (Canales, 2014). Canales's model, therefore, is a combination of a differentiation strategy on individual level, regarding the organization's employees, with an integration strategy on organizational (or unit) level, regarding the organizational structure (Battilana et al., 2017)[1].

[1] It is interesting to note that I have reviewed the same paper as Battilana and colleagues (2017) but classified it differently. They added Canales's model in the "differentiation" part, while I argue that this is a "textbook" example of a combination between differentiation and integration, even when using their framework.

Building on Pache and Santos (2013), Smets and colleagues (2015) proposed a new framework that would provide a continuous process the organization would need to endure to prevent mission drift from happening: segmenting, where the organization differentiates individuals or even individual activities based on the logics they represent in order to implement both logics into the organization separately; bridging, where logics are temporarily combined and the organization dynamically adjusts the balance between them; and demarcating, where individuals self-monitor and monitor the organization in order to protect themselves from moving too far from one of the logics (Smets et al., 2015).

The segmenting part of the model is straightforward differentiation of organizational structure (Battilana et al., 2017): members of different logics are exposed to different dress codes, work in different facilities etc. (Smets et al., 2015). This segmentation protects individuals from the tensions and loss of legitimacy inherent of being exposed to the other, conflicting logic (Battilana et al., 2017; Smets et al., 2015). However, more elaborately, these employees may be required to represent both logics, just not at the same time—segmentation provides them with the tools to understand not only how to enact different logics, but also when and where (Smets et al., 2015), thus maintaining both logics coexisting and legitimate inside the organization. This is vital to avoid organizational paralysis that can originate from situations of institutional complexity and conflict between supporters of each institutional logics (Battilana et al., 2017; Battilana et al., 2015; Pache & Santos, 2013).

However, segmentation alone may lead the organization to coalitions and rifts between supporters of different logics (Battilana et al., 2017; Pache & Santos, 2013). The second part of the framework is bridging (Greenwood & Suddaby, 2006; Smets et al., 2015), when the two logics are temporarily combined, which mutually reinforces both logics and generate complementarities through innovation (Mair et al., 2015; Smith & Besharov, 2017). Actors dynamically adjust the balance between logics, not necessarily attempting to meet halfway, but selectively coupling mechanisms of each logic (Pache & Santos, 2013). Bridging generates mutually enriching interdependencies between competing logics because it allows their constituent practices to inform and positively feed off each other (Smets et al., 2015). The deliberate, systematic, and situated practices of bridging, however, mutually reinforce themselves, as practitioners use their personal judgment on when, where, and how to connect these practices from opposing logics (Smets et al., 2015). However, rather than attempting to merge them into a new hybrid logic (Battilana & Dorado, 2010; Pache & Santos, 2013), bridging integrates them but as discrete logics feeding from each other (Smets et al., 2015).

Despite the efforts to bridge logics without merging them, there is a perennial risk of drifting (Battilana et al., 2017; Pache & Santos, 2013) or blending (Battilana & Dorado, 2010; Pache & Santos, 2013). To address this issue, the last step in the cycle is triggered: demarcating. The goal of this step is to act as a rubber band (Smets et al., 2015), a guard rail (Smith & Besharov, 2017), preventing the organization from slipping off the bridge. Demarcating works as a negative feedback mechanism that prevents the amplification of deviations towards either logic and, thus, re-stabilizes their balance (Smets et al., 2015). The authors argue that actors evaluate their actions not only retrospectively, but also prospectively. Actors can recalibrate their actions by considering under which logic their outcome will be cast as a success, and whether the magnitude of that success justifies the expected loss of legitimacy with representatives of the competing logic, which is central to demarcating and its purpose of preventing logic drift (Smets et al., 2015).

The organization then goes on a loop between processes, preserving its stability and preventing one of the logics from phagocyting the other, which offers opportunities to maintain legitimacy and access to resources from both conflicting sides, while fueling creative solutions that foster innovation (Smith & Besharov, 2017). This cycle may itself come to be institutionalized, becoming a naturalized element of organizational context that managers enact in their routines, which perpetuates the cycle and potentially empower the organization to explore synergies provided by the duality of logics (Smets et al., 2015). The achievement of legitimacy towards both sides gives the organization the opportunity to access resources from multiple sources, while fueling creative solutions that foster innovation (Smith & Besharov, 2017), enabling the organization to continuously pursue growth.

2.5.4. Inaction

A fourth possibility is that the organization simply does not pursue a solution for the tensions between the two logics (Siegner et al., 2018). The rationale is that, by accepting the tensions as natural and even desirable, hybrid organizations can foster a "creative tension" environment (Hahn et al., 2015). This intentional deferral strategy enables the option of future dialogue and opportunities that will hopefully result in creative solutions (Siegner et al., 2018). Another reason to pursue this avenue is due to the perception that taking any action into solving the conflict may be seen as too arduous or too risky—focusing on solving the tension may alienate one side or the other and lead to mission drift (Siegner et al., 2018).

An example of this strategy of inaction can be found in firms that have created a designated space for cross-functional, self-organized teams of organizational members with reduced bureaucracy and formal constraints, the so-called "green teams" (Hahn et al., 2015).

Another example is proposed in Siegner and colleagues' case study of RWAG (2018). In their case, the tensions were identified but considered inevitable and irresolvable due to a lack of resources. As a result, the social mission might be addressed in a comprehensive way in one location, but is only partially addressed in another location (Siegner et al., 2018).

2.5.5. Spin-offs

Yet not every conflict between logics finds a solution, with, in many cases, the organization losing itself to mission drift (Ault, 2016) or letting go the employees and leaders who stand behind the "losing" logic (Battilana & Dorado, 2010). But there is one other alternative: spinning off a new organization, which will act in complementarity with the original one, but effectively separate the conflicting logics and keep them at arms length. The process of spinning off is when an organization spawns a new, independent organization from within; however, it is also possible to have internal spin-offs where organizations develop new internal units with completely separated business models (Michelini & Fiorentino, 2012). Papers drawing from three perspectives discussed spin-offs: institutional logics (Battilana & Dorado, 2010; Battilana et al., 2012), shared value (Lyon & Fernandez, 2012; Michelini & Fiorentino, 2012; Yunus et al., 2010) and stakeholder theory (Low, 2015).

As a phenomenon, spin-offs are understudied even among market-based businesses, when in comparison with other forms of organizational change such as mergers, acquisitions, and joint ventures (Corley & Gioia, 2004). Among social impact ventures, the same seems to be true. Throughout the literature of hybrid organizations and social impact, few papers touch on the topic, and even fewer, such as Battilana and Dorado (2010), Low (2015) and Yunus and colleagues (2010) have spin-offs as the research site.

The occurrence of spin-offs of organizations with a different set of institutional logics is not new, but it is historically confined to for-profit companies spinning off other for-profits (e.g., (Corley & Gioia, 2004; Krishnaswami & Subramaniam, 1999)), a hybrid organization, an internal spin-off project (e.g., (Michelini & Fiorentino, 2012; Yunus et al., 2010)), or a foundation (e.g., (Brown et al., 2006; Seitz & Martens, 2017)). There is in-depth discussion in the literature over how spin-offs help for-profits deal with changing market environments and diminishing institutional support (Corley & Gioia, 2004), reduce their externalities, cause positive social changes and create shared value (Michelini & Fiorentino, 2012; Yunus et al., 2010). Researchers are also already covering non-profits that transition to a for-profit business model and incorporation, to reduce their dependence upon benefactors and focus on their social impact (Battilana et al., 2012).

However, the literature is not exhausted. There is a gap in between these forms, which is when a hybrid organization spins off a for-profit enterprise to help deal with tensions between institutional logics. Moreover, it is of the utmost importance to identify ways that hybrid organizations can deal with these conflicts, as pairing different institutional logics can foster innovation through creativity (Smets et al., 2015; Smith & Besharov, 2017) in ways that organizations relying on a single logic are not able to achieve, and dyads with hybrid organizations from the same value constellation can generate new sources of income and improve the health of the original organization (Lyon & Fernandez, 2012). To address this gap, this thesis aims to answer the question “How does the creation of spin-offs influence the ability of hybrid organizations to manage the market and the social logics?". And to attempt to answer this question, a case study investigating Banco da Favela (or simply *Banco*) and its spin-off Bolsa de Valores da Favela (or simply *Bolsa*) was designed.

3. Method

This dissertation follows an abductive approach (Timmermans & Tavory, 2012). Starting from the observation of the research phenomenon, an analytical framework was elaborated to make sense of what was being observed (Weick, 1989). Following a dive into the literature for an explanation, a return to the field was necessary to obtain more data. This back-and-forth between the literature on social impact and the research site allowed a continuous development of understanding, knowledge and, in effect, theory (Timmermans & Tavory, 2012). It is appropriate to conduct this research using qualitative procedures, since a primary motivation for this study is theory elaboration (Greenwood & Suddaby, 2006).

The chosen research design is a case study of the dyad formed by Banco da Favela (*Banco*) and its spin-off Bolsa de Valores da Favela (*Bolsa*), which both operate in the social finance sector in Brazil. A case study is appropriate to investigate the dynamics present in a single setting, and to describe a phenomenon, test a theory, elaborate new theory out of them or develop current knowledge (Eisenhardt, 1989). This is a case of theory development. Banco da Favela is an interesting and appropriate research site to develop theory due to its unique circumstances: facing the very common constraints to finance its operations (Hermes & Lensink, 2011; Mersland & Strøm, 2010) either via external funding or through a profitable business model, Banco da Favela took an unexpected and unexplained turn in that it spun off a "sister organization" called Bolsa, a for-profit stock exchange. Since the literature on hybrid organizations does not explain why hybrid organizations spin off for-profit enterprises, this unique case (Yin, 1994) can be considered a valuable tool for theory development.

3.1. Data Collection

The following data collection procedures were employed: in-depth interviews both in person and by video conference, in-person observation of the daily operations, online group chat observation, online observation of videoconference meetings, and retrieval of internal and external secondary data. The multiple sources of information allow an increased validity of the theory through data triangulation (Eisenhardt, 1989). In total, there were seventy-three different data sources, ranging from interviews to in-person and online observations to internal and external documents.

The targets for in-depth interviews were the leadership of both organizations, including CEOs, CFOs, and other decision-makers, funders and shareholders, key employees, decision-makers at partners of either organization, former personnel of either organization, clients of Banco, and decision-makers at organizations that decide to attract investors through Bolsa. In total, around thirty people were interviewed or participated in observed meetings, with multiple points of contact for each person. Table 5 provides a summary of the data collection procedures, their objectives, and the personnel involved in each of them.

In total, thirty interviews were conducted with fifteen different informants, either in person or online. These interviews permitted a longitudinal and in-depth analysis of the situation of Banco, the expectations for Bolsa, and the different mindsets that each player in the dyad had. These differences emerged from their diverse backgrounds, conflicting expectations, and a higher level of sympathy towards either the social or the market logics. The interviews can be found in Table 4. They were divided in three time periods: seven (named I-VII in Table 4 below) in 2018-2019 allowed to understand the circumstances of the creation of Banco da Favela and their first business model; sixteen in 2021 (VIII-XXIII), covering the period from before the official creation of Bolsa, during the process when Fundo de Impacto (or simply *Fundo*), an activist investment fund, purchased a stake at Banco da Favela, through two business model changes at Banco da Favela, up until after Comissão de Valores Mobiliários (CVM, the Brazilian stock exchange commission) made their decision regarding the licence for Bolsa to operate; three between the end of 2021 and the beginning of 2022 (XXIV-XVI) allowed a deeper understanding of the failure of the organizations and the plans for the future; and finally, three in 2023 and one in 2024 (XXVII-XXX) to dig deeper into the collapse of both enterprises.

Besides interviews, data was collected through extensive observation techniques, as both Banco and Bolsa allowed the author's participation in all meetings and communications.

In 2018, Banco da Favela opened their doors for in-person observations of their daily operations. Two of their branches were observed, helping construct the understanding of the operationalization of the social bank in their initial stages. In 2021, during their rebirth and the creation of Bolsa, access was granted by both organizations to multiple video meetings and WhatsApp groups, at a time when the only method for communication was via these services. Since this part of data collection happened during the COVID-19 pandemic, in-person meetings were prohibited in Brazil, and offices operated completely online. There were meetings between leaders and employees of Banco da Favela, between leaders of both organizations, between either organization and Fundo, and between Bolsa and the support group, comprised of lawyers and economists, which was helping their bid with the Brazilian stock exchange commission, CVM. Finally, there was one meeting between Bolsa and the CEO of an organization which intended to launch stocks with them. During the period of the study, due to COVID-19 restrictions and the physical distance between many of the participants, no in-person meetings were held. The observation of these meetings provided rich information and drew the context of the case. It was possible to witness events such as the creation of a new business model for Banco da Favela, the consolidation of the legal constitution of Bolsa, and the clashes between different personalities and expectations regarding profit margins and social benefits of each of them. These can be found in Table 6.

The WhatsApp groups to which the author was added were the "meat and bones" of daily operation at the time of the research. Due to the pandemic, in-person working was prohibited, and the groups were where daily management happened. Three groups were observed: the "Banco + Fundo" group, which included every member of the organization and the main interveners of Fundo; the "Bolsa + Fundo" group, where negotiations for the fund to acquire participation at Bolsa happened—this group went inactive when Fundo decided not to buy into the company; and the "Leaders Bolsa" group, where every person of interest for the stock exchange met to decide how to create the organization. Every single major decision and debate between the top managers of Bolsa de Valores da Favela and of Banco da Favela during that time were made in these WhatsApp groups.

The organizations gave written permission to download and use the history of these chats. Table 7 provides a brief explanation of each WhatsApp group that access was provided, with the most important points of conversation that were observed in the groups. In total, ninety-two pages of text were extracted from these groups, covering six months of conversations, from May 2021 to the collapse of the dyad in October 2021. The author's role in the groups was of a passive observer. However, in some situations, clarification questions were asked. In other, the participants asked for his personal input, which highlights their ease with him being present in these groups. For instance, in the "Leaders Bolsa" group, the participants asked the author's input on which should be the company's logo between two options, and in the "Banco + Fundo" group, the author was asked for feedback on the new website of the institution.

Through these chats, the author also had access to documents shared with the participants, such as marketing and strategy materials, technical documents explaining the rules for the application within CVM's sandbox, related news, and the back-and-forth negotiations between CVM and Bolsa. The author was also invited to the observed meetings through these groups. Moreover, access to internal and even confidential documents was provided in real time, while they were being worked on by many hands. These documents ranged from financial and accounting results to ongoing strategy and pitch development, to confidential documentation that was sent to CVM explaining their business model and practices. Supporting these documents is a collection of external documentation ranging from the institutional and social media pages of each organization to news coverage of the dyad. These can be found in Table 8. A more detailed explanation of each document and their connections to the findings and contributions can be found in Table 20 in the Annexes.

Table 4: Persons of interest for the research

Alias	Org.	Role	Interview	Meetings	Observations
Andre	Both	Founder, board member	I|VII|IX|XXIII|XXV|XXX	4|6|14|17	Founder of both organizations
Bruna	Banco	Partner, board member			First investor, hands off
Carolina	Banco	CEO	XI|XXI|XXVI|XXIX	5|6|8|10|12|14	Hired when Andre left daily ops
Diogo	Banco	Manager	XIII	3|4|5|8|12	Only employee who predates CEO
Elaine	Banco	Marketing assistant	XVI	2|3|5	Hired by Carolina and Diogo
Fred	Banco	Assistant manager		2|3|5	Hired by Carolina and Diogo
Gustavo	Banco	Finance assistant		2|5	Hired by Carolina and Diogo
Helena	Banco	Legal assistant		2|3|5	Hired by Carolina and Diogo
Igor	Banco	Advisor B2C		4|6|8|12	Joined Banco da Favela in 2020
Janine	Banco	Latest board member			Joined Banco da Favela in 2021
Karla	Banco	Former Manager	II|VII|XX|XXIV		Left Banco da Favela in 2020
Lucas	Bolsa	CEO	XV|XXVII	7|9|10|11|13|16|17	Left Bolsa in September 2021
Maria	Bolsa	COO	VIII|X|XXII|XXVIII	7|9|10|11|13|15|16|17	Left Bolsa in August 2021
Nero	Both	CFO (Banco), CPO (Bolsa)	III|XII	7|9|10|11|13|15|16|17	CFO at Banco, then CPO at Bolsa
Olivia	Bolsa	Advisor CVM	XIX	9|13|17	Joined Bolsa in May 2021
Priscilla	Bolsa	App developer		17	Responsible for blockchain
Queiroz	Bolsa	Angel investor		17	Joined just before folding
Rafael	Law firm	Lawyer	XIV	7|9|13|16|17	Young lawyer
Susana	Bolsa, LF	Partner (Bolsa, Law Firm)		9|13|17	Became a partner of Bolsa in 2021
Thais	Fundo	Culture	XVII	1|4|8|14|17	Head of the holding behind Fundo
Umberto	Fundo	Commercial		1|4|6|8|12	Specialist in marketing
Viviane	Fundo	Growth	XVIII	1|4|6|8|12	Specialist in growth of SMEs
Wesley	Fundo	Business Development		6	Specialist in business models
Xavier	Fundo	Contacts			Connections with major businesses
Yvonne	Banco	External observer			Rep. from credit card investor
Zach	Banco	BaaS representative		10	Rep. from BaaS partner of Banco
Antonio	Client	Client of Banco	IV		Interviewed in 2018 as a client
Barbara	Client	Client of Banco	V		Interviewed in 2018 as a client
Carlos	Client	Client of Banco	VI		Interviewed in 2018 as a client
Daniela	Client	Prospect of Bolsa		15	First prospective client of Bolsa

Table 5: Summary of data collection procedures

Data sources	Main topics and issues	Period of investigation and informants/sources
Interviews	• Deeper understanding of business model • Identification of key stakeholders • Flagging of affiliation to institutional logics • Follow-up on conflicts and fallout • Confrontation between different points of view • Triangulation of data	<u>Phases 1 and 2 (2018-2020):</u> • 3 in-person and 1 online interviews with key personnel of Banco • 3 in-person interviews with customers of Banco <u>Phases 3 and 4 (2021):</u> • 3 in-person and 16 online interviews with key personnel of Banco, Bolsa and Fundo <u>Aftermath (2022-2024):</u> • 4 online interviews with key personnel of Banco and Bolsa *Total: 30 in-depth interviews with 15 different informants, from 2018 to 2024*
Observations	• Observation of operationalization of each organization • Identification of the behavior of key stakeholders • Flagging of affiliation to institutional logics • Triangulation of data	<u>Phases 1 and 2 (2018-2020):</u> • 2 in-person observations of the daily operations of Banco <u>Phases 3 and 4 (2021):</u> • 3 WhatsApp group observations spanning six months of operations of Banco and Bolsa • 17 online observations of meetings between personnel from Banco, from Bolsa and from Fundo *Total: 3 longitudinal observations spanning up to 6 months and 19 short observations lasting from 30 minutes to 8 hours each*
Secondary data	• Deeper understanding of business model • Analysis of interaction between organizations and external stakeholders • Triangulation of data	<u>Phases 3 and 4 (2021):</u> • 9 internal documents provided by key personnel from Banco or Bolsa or obtained in the observations • 12 external documents obtained in the observations or found through personal search

Table 6: Observed virtual meetings (between April and July 2021)

#	Company	Participants	Purpose
1	Bolsa + Fundo	Thais, Viviane, Umberto	To discuss the relationship between Fundo de Impacto and Bolsa
2	Banco	Elaine, Gustavo, Fred, Helena	Weekly meeting to evaluate team's performance regarding goals set on Monday meetings
3	Banco	Diogo, Elaine, Fred, Helena	Weekly meeting to set goals and tasks for the whole team
4	Banco + Fundo	Diogo, Andre, Igor; Thais, Umberto, Viviane	Weekly meeting to report to Fundo how Banco is performing
5	Banco	Diogo, Carolina, Gustavo, Elaine, Fred, Helena	Weekly Friday meeting; putting CEO up to speed regarding the previous weeks
6	Banco + Fundo	Carolina, Andre, Igor; Wesley, Umberto, Viviane	Weekly meeting to report to Fundo how Banco is performing
7	Bolsa	Lucas, Maria, Nero; Rafael	Weekly meeting to discuss the launch of Bolsa and CVM requirements
8	Banco + Fundo	Carolina, Diogo, Igor; Thais, Umberto, Viviane	Weekly meeting to report to Fundo how Banco is performing
9	Bolsa	Lucas, Maria, Nero, Olivia; Rafael, Susana	Weekly meeting to discuss how Bolsa can implement direct listing
10	Banco + Bolsa	Carolina; Lucas, Maria, Nero; Zach (rep. BaaS)	Alignment between Banco, Bolsa, and the third-party bank providing financial services
11	Bolsa	Lucas, Maria, Nero	Weekly meeting to discuss the launch of Bolsa and CVM requirements
12	Banco + Fundo	Carolina, Diogo, Igor; Umberto, Viviane	Weekly meeting to report to Fundo how Banco is performing
13	Bolsa	Lucas, Maria, Nero, Olivia; Rafael, Susana	Weekly meeting to discuss how Bolsa can implement direct listing
14	Banco + Fundo	Carolina, Andre; Thais; new contact	Introducing the reps of Banco to this contact from Alemão
15	Bolsa	Maria, Nero; Daniela (prospect)	Investigating the fit between Bolsa and a prospect company
16	Bolsa	Lucas, Maria, Nero; Rafael	Weekly meeting to discuss the launch of Bolsa and CVM requirements
17	Bolsa	Andre, Lucas, Maria, Nero, Olivia, Queiroz; Rafael, Susana; Thais	Debate over the decision by CVM to not allow Bolsa into the sandbox

Table 7: Observed WhatsApp groups

Group	Banco + Fundo	Leaders Bolsa	Bolsa + Fundo
Members	Andre, Carolina, Diogo, Elaine, Fred, Gustavo, Helena, Igor; Thais, Umberto, Viviane, Wesley, Xavier	Lucas, Maria, Nero, Andre, Olivia, Priscilla, Queiroz; Yvonne, Zach; Rafael, Susana	Lucas, Maria, Nero, Andre, Igor, Olivia, Priscilla, Queiroz; Thais, Umberto, Viviane, Wesley, Xavier; Rafael, Susana; Yvonne, Zach
Purpose	To discuss the relationship between Banco and Fundo, the relaunch of Banco, and daily operation	To discuss things relative to the creation of Bolsa and the application to CVM's sandbox	To discuss the relationship between Bolsa and Fundo
Pages	34	55	3
Main events	Group created in September 2020	Group created in March 2021	Group created in September 2020
04.2021	• Added author to the group • Weekly meetings (from April to August)		• Added author • Meeting between Bolsa and Fundo
05.2021	• Links to external documents • Debate (including the author) about Brota, a *greentech* company • Definition of OKRs and strategies to reach them	• Added author to the group • Debate about the logo, led by Lucas • Debate about possible competitors of Bolsa, based on news from financial journals • Debate about Brazilian bills regarding entrepreneurship	• Links to external documents and relevant news • Major changes to group once Fundo decided not to invest
06.2021	• Communication about new T-shirts for Banco da Favela • Closing down on OKRs, assigning responsibilities, starting operations	• Collective effort to write the final document for the application into CVM's Sandbox • Possibility of an interview by Exame, one of the most important Brazilian magazines,	• Group abandoned since it became redundant with the "Leaders Bolsa" group

		with Andre, Olivia, and Priscilla • Major debate about operational details and blockchain tech • Olivia questions if Bolsa needs to operate 24/7 as planned • CVM announces that 27 of the 33 applications were rejected; each company to be contacted individually	
07.2021	• Banco involved in a campaign to vaccinate people from favelas against Covid • Banco's new app launched in the Google and Apple app stores	• CVM says no to Bolsa • How to ask CVM to reconsider, debate led by Lucas and Olivia • Multiple meetings organized to try and make sense of the decision and next steps • CVM dismisses Bolsa's appeal, Nero leads conversation to understand why	
08.2021	• End of the weekly meetings, to assess how they operate with only "squad" meetings • Failed attempt to offer microcredit to Natura sales associates • Launch of the new website, asked the author for feedback • Interview at a major broadcast, with a famous local influencer	• Second appeal to CVM • Pivot to crowdfunding format • Maria announces she is leaving Bolsa • Nero also announces he is leaving Bolsa	
09.2021	• Debate about XP, the largest Brazilian broker, launching an institute to teach financial literacy to the poorest Brazilians	• Final attempt to move forward as a crowdfunding platform, while other companies in the Sandbox get	

	• Split between Banco and a group for entrepreneurs from the outskirts	permission to do what Bolsa intended to do • Lucas announces he is leaving Bolsa	
10.2021	• Events involving this group of entrepreneurs to generate stable income and attract new clients to Banco		
Aftermath	• 11.2021: Carolina left the bank, cementing its death; afterwards, no one was hired to replace her as CEO, and no new messages occurred	• 02.2022: New CEO and the arrival of an external investor are announced; this is the last communication, and Andre becomes incommunicable until 2024	

Table 8: Shared documents

Document	Type	Source
Balance sheet 2018-2020	Internal, accounting	Banco | Andre
OKR Banco	Internal, strategy	Banco + Fundo
Company Statement	Internal, strategy	Banco | Carolina
Investor relations Banco	Internal, investor relations	Banco | Carolina
LinkedIn Banco	External, business page	Banco + Fundo
Instagram Banco	External, business page	Personal search
Twitter Banco	External, business page	Personal search
Technology Pitch Bolsa	Internal, investor relations	Bolsa | Maria
Pitch to Prospects Bolsa	Internal, strategy	Bolsa | Observed meeting
Marca Bolsa	Internal, branding	Leaders Bolsa
Miro Bolsa	Internal, commercial	Bolsa | Observed meeting
LinkedIn Bolsa	External, business page	Personal search
Valor Investe Bolsa	External, news	Bolsa + Fundo
Bolsa-CVM | clarification	Internal, with CVM	Leaders Bolsa
Instagram Fundo	External, business page	Bolsa + Fundo
Homepage Fundo	External, business page	Bolsa + Fundo
Social Fintech Banco	External, news	Personal search
Lexology Banco	External, case	Personal search
Valor Investe Banco	External, news	Personal search
InfoMoney Banco	External, news	Personal search
Law 182, June 1st 2021	External, new law	Leaders Bolsa
Conjur law 182	External, news	Leaders Bolsa
Doubanx Bolsa	External, news	Leaders Bolsa

3.2. Data Analysis

This thesis is based on two sets of data collection and data analysis procedures, which then were used to confront previous findings. Theory building has many similarities with grounded theory, as data collection is central to theory development and the drive to develop theory comes from observing an unexplained phenomenon (Eisenhardt, 1989), but with a major departure: this research is the continuation of an ongoing investigation that dates back to 2018 and has had multiple iterations of dialog between data collection and theoretic research, with heavy reliance on the current literature of social entrepreneurship, hybrid organizations, institutional logics, and microfinance. This means that, aligned with the definition of abduction by Timmermans and Tavory (2012), this research started with a theoretic framework derived from a precursor investigation, which serves as a north to anchor the research, the data collection procedures, and the analysis. This analysis can be separated in tree parts: the first to build the narrative that exposes the story of Banco da Favela and Bolsa de Valores da Favela, the second to conduct an in-depth analysis of the tensions between factions in the organizations before and after the spin-off, and finally a third part, after a new round of data collection and data analysis, to produce an explanation of the main mechanisms mobilized to allow the spin-off to happen (understanding positive and negative impacts).

3.2.1. Part 1—Temporal Bracketing

The recorded interviews were transcribed using AI-powered transcription services that do not store uploaded data, then the transcription was manually fixed, line by line, for each interview. Following transcription, the data analysis software Dedoose 9.0 was used for coding. A first round of coding was carried for each transcription. Afterwards, the first transcriptions were revisited to re-evaluate the coding process in light of the different codes added through the latter interviews. This set of codes was close to the data, and a second scan showed evidence of a lot of redundancies, which were then fixed. During this part, Table 4 with all the stakeholders that appeared in the interviews and observations was created; every person was assigned a random name of a random gender.

The codes were aggregated in categories referring to whether they were related to the organizations themselves, to personal reflections of the interviewees, or to more abstract themes such as “economy” or “social impact”. Some of the codes were further aggregated in families, such as “Bolsa’s influence on Banco” and “Banco’s influence on Bolsa” both being part of “relationship between organizations”, which then was part of the codes regarding the dyad. Then a second round of coding was used to reach a higher level of abstraction, detaching codes from the organizations, and bridging them towards the concepts and constructs produced in the literature review such as “institutional logics”, “decoupling”, or “integrated hybrids”. This process continued, until the codes were as abstract as possible.

After coding came the first part of data analysis. Following the “strategies for theorizing” by Langley (1999), the analysis for this proposal leans into a temporal bracketing strategy, where time plays an important role with a grounded theory strategy “supporting” the main theme. The reasons for this method of analysis are plenty. First, as mentioned, this case study is heavily influenced by time, and dealing with tensions on hybrid organizations is an ongoing process (Smets et al., 2015). This makes this research appropriate for process theory-making (Langley, 1999), which opens the door for a multitude of sensemaking strategies. The temporal bracketing strategy is appropriate for unique single case studies and provides a theory with high accuracy, but moderate simplicity and generality (Langley, 1999). This level of accuracy is attached to an appropriate use of temporal brackets—that is, breakpoints in the narrative that clearly separate it into distinct phases. Finally, since this research is the culmination of multiple other instances, with a previous literature already engaged, the goal is not to create theory from scratch, which could result in an uninteresting theory from an interesting story with very low generality, but to develop extant theory by explaining how this unique case produces particularities that fit in those “core categories” but cannot be explained by current knowledge.

During this first part, it was possible to construct the story from the ideation of Banco da Favela in 2016 to the beginning of the spin-off process in 2019, to the hurdles of launching Bolsa and simultaneously relaunching Banco da Favela in the first semester of 2021. There were clear temporal brackets in the story, such as the first expansion out of Rio de

Janeiro, to the shocking realization that a business model change would be necessary (which led to the ideation of Bolsa), to the shutdown and near bankruptcy caused by the COVID-19 pandemic. It was also possible to identify evidence of the different forms of impact each organization seeks, and of the distinct levels that each enforce the social and market logics. This story was constructed based on two types of data sources: the interviews with stakeholders, and internal and external secondary data. External data—blogs, news articles, social media accounts and posts, and cases—was used primarily for validation of the narrative built through interviews.

3.2.2. Part 2—Tensions faced by Banco da Favela before and after Bolsa

Narrowing down on the different forms of impact each organization seeks and their enforcement of the social and market logics, the second part of analysis provides a panorama of the tensions between the defendants of each logic. In this part, the interviews and observations provided rich context to explain the motivation, values, and beliefs of each stakeholder of each organization, as well as the goals they aspired that their organizations achieved. These objectives were influenced by the diverging institutional logics that governed the companies: the social and the market logics.

The coding process, therefore, was motivated by the need to explain who was driven by which logic, and how they clashed with each other. This part explains what the tensions between stakeholders on each side during the creation and expansion of Banco da Favela were, and how they led to the process of spinning off Bolsa. It then explains how the tensions changed throughout this process, which leads to the proposition of spinning off as a method to deal with tensions in hybrid organizations. More specifically, spinning off as a differentiation strategy that breaks the organization in two. As mentioned, this part was built based on two types of data sources: the interviews and the observations. Internal secondary data, such as the companies' statements of Mission, Vision, Objectives and Key Results (OKR), and Key Performance Indicators (KPI), was used to validate findings.

3.2.3. Part 3—Mechanisms Mobilized by the Spin-Off Process

The final goal of this thesis is to explain the main mechanisms mobilized by the spinning off process. These mechanisms are the necessary outcomes of sensemaking of a narrative analyzed by the temporal bracketing strategy. These mechanisms allow us to understand what the positive and negative impacts of the spinning off process were, including a deeper understanding of the factors that led to the ultimate failure of the dyad.

In order to help conduct this third part of analysis, a supplementary set of interviews was collected, with some of the same actors of the previous sets. Four new interviews, with the main actors of Banco da Favela and Bolsa, were conducted in 2023 and 2024. This new set of interviews follows a new interview protocol, created to poke deeper into the reasons for the clash between sides, for the failure of Bolsa, and for the bankruptcy of Banco da Favela.

The interview protocol follows the findings from parts 1 and 2, starting from the points of the tensions identified throughout the narrative. The three interviews in 2023 involve the former CEOs of Banco and Bolsa and the former COO of Bolsa. Most interviewees reduced their availability since the failure of the project, which prevented other important stakeholders from being heard. In fact, the founder of both organizations refused contact altogether for more than two years, until a new and final interview was set up in 2024.

This led to the Part 3 of the analysis, based on the new data collected and a revised literature. The objective is to identify, for each tension identified in Part 2, what were the mechanisms mobilized by the decision-makers of the dyad in the attempt to manage the tension between the institutional logics. Moving deeper, the analysis highlights each positive and negative impact derived from each mechanism used to deal with each tension, and how these mechanisms affected the survival of the organizations. This improves the generalizability of the project, by proposing mechanisms that can be identified in similar cases of hybrid organizations dealing with their inherent tensions. It also amends academic knowledge on hybrid organizations by enlightening, through a failed case, which mechanisms were related to the failure, so that similar cases can avoid the same mistakes in the hope of avoiding the same fate. This new knowledge will also help scholars and practitioners understand what needs to be done and what needs to be avoided in future cases dealing with spin-offs of hybrids, leading to a higher chance of success for the migration from an integrated hybrid to a differentiated hybrid dyad. The interpretation of these mechanisms is a process model that can be found in the part 3 of the analysis. The Table 9 below summarizes the research method.

Table 9: Summary of Research Method

Analysis	Part 1	Part 2	Part 3
Output	Narrative through Phases	Main tensions between logics	Mechanisms, process model
Type of Data	Interviews, in-person observation, internal and external data	Interviews, online observation, internal data	Interviews

4. Analysis

4.1. Narrative, through Temporal Bracketing

The first part of the analysis of this case study is the creation of a narrative to explain the story of Banco da Favela and Bolsa, using the temporal bracketing strategy (Langley, 1999). It is a recollection of the key facts that form the history of Banco da Favela, from its inception in 2016 to its spin-off in 2020 to the failure of both organizations in the final months of 2021.

The narrative also covers each major decision that Andre, the founder of the organization, had to make, with the support or opposition of other decision-makers. Finally, it also includes the exposition of the clashes between these decision-makers, focusing on the tensions between the institutional logics that were more prominently supported by one side or the other: the social logic and the market logic. In the following parts of this analysis, these tensions will be dissected with a magnifying glass, in order to explain how the process of spinning off another business from a hybrid organization can be used as a strategy to deal with the inherent tensions between these institutional logics. The Table 10 below summarizes the case, with a description of each phase and the turning point that indicates the break between phases.

Table 10: Summary of temporal brackets and phases of the narrative

#	Phase Summary	Turning Point	Period
1	Starting Banco da Favela, expanding outside of Rio de Janeiro and acquiring tens of thousands of clients	The realization that Banco could not survive without external funding, which sparked tension between decision-makers	Q2 2017-Q2 2019
2	Tensions amount in Banco, culminating in the design of Bolsa and a split of the decision-makers	The COVID-19 pandemic tied to safety issues that jeopardized Banco's credibility	Q2 2019-Q1 2020
3	Banco is shut down, Bolsa is born, and both organizations try to take off	The arrival of Fundo, an investment fund with a whole new set of demands and decision-makers	Q1 2020-Q4 2020
4	New funding, new plans for growth, and a change of culture, all due to the arrival of Fundo	The decision by CVM to not allow Bolsa to operate, leading to the bankruptcy of Bolsa and then of Banco	Q4 2020-Q4 2021

4.1.1. Phase 1—Starting Banco da Favela

By 2017, most people in Brazil already had access to smartphones. However, it was still impossible for many people from favelas to pay a bill online: they were deemed unreliable clients for the major Brazilian banks and thus ineligible for bank accounts. The unbanked in Brazil pay their bills through a system called *boleto*, a bar code that any bank can read and that provides all the necessary information, including the cost and the recipient's name and banking credentials. This allows any person to pay any boleto in any branch of any bank, and the money is sent to the correct recipient. If one does have a bank account, they can pay these boletos online, but even those without a bank account can pay in person, in cash, at any bank branch. However, these limitations make this a tiresome, and often dangerous, activity for people from favelas. It could sometimes mean more than forty minutes walking each way. Since it can take so much effort to find a bank branch, it is quite common for inhabitants of favelas in Brazil to accumulate multiple boletos to pay them all at once, even if some of them would already be expired. This attitude adds costs to their bills, since expired boletos carry heavy interest rates and late fees.

When made aware of this situation by community leaders of a favela in Rio de Janeiro, the social entrepreneur Andre had the idea of opening a lottery branch in that favela. Lotteries in Brazil are state-owned, affiliated to *Caixa Econômica Federal* (one of the two major Brazilian state-owned banks), and offer the possibility to pay boletos besides buying lottery tickets. However, Andre was discouraged by the locals due to the perception that such an endeavour would be dangerous for him personally. He also realized that this idea was insufficient to tend to their needs, and not a good display of his knowledge and expertise. So, he created Banco da Favela instead.

Tailored to meet the specific needs of inhabitants of Brazilian favelas, Banco da Favela (Banco) is an unusual social bank. Instead of relying on microlending the way that most microfinance organizations do (Matin et al., 2002), Banco da Favela at first offered only access to basic banking services such as boleto payments, checking accounts, and money transfers between its clients and those of select for-profit banks. When the operations officially started, in the middle of 2017, it had two official "branches". In these locations, employees—young clients from the favela, who got hooked by the project and ended up getting hired—would help clients download the app of Banco da Favela to their smartphones, create an account, and pay their bills. Andre designed the app with large icons and minimal texts, to ensure illiterate people would still be able to use it, and he made it available for any smartphone with Android operational systems. This allowed clients to deposit money in their Banco da Favela accounts and then use that money to pay their boletos at any given time.

The infrastructure of Banco da Favela was built in blockchain, operating a stablecoin that would always have a conversion ration of 1:1 with the Brazilian official currency, the Real. When a client opened an account with the bank, any money deposited would be converted to that stablecoin, and the blockchain infrastructure allowed them to exchange money with any other client of Banco da Favela on the fly.

When Banco da Favela started, all its services were free for its clients, and the organization's revenues came from small fees charged to the receiving bank. Each boleto paid at Banco da Favela meant the social enterprise received around R$ 0.15 (equivalent to around $ 0.04 Cad). Therefore, for this to provide meaningful revenues, Banco needed volume. The organization's social mission was to offer access to banking services for the tens of millions of disenfranchised people living in these underserved communities in Brazil. The social enterprise intended to eventually expand its proposition to the billions of people living in similar conditions in other countries in Latin America, Africa, and South Asia. Andre also wanted to prove that initiatives launched in favelas can have real social impact, despite the weak institutional environment.

The business model of Banco da Favela was then quite simple. Ideally, clients would only go in person to their store to open accounts and deposit money, and one employee would help them learn their bearings with the smartphone app. From there, the client would be able to pay bills and transfer money online. With each bill payment, Banco da Favela would earn some money. If there were widespread adoption of the app in the community, and most clients operated by themselves, Banco would be able to turn a profit. The cash surplus would be reinvested in the bank, fueling its growth, and removing the need to continuously acquire capital from external investors.

The social enterprise started gaining traction in the last trimester of 2017. After burning through the initial cash injection, Andre was able to attract a new partner, Bruna. This angel investor was mentioned a few times during interviews, but never joined any of the observed meetings and did not make herself available to be interviewed. However, she bought one quarter of the organization for 150,000 Brazilian Reais, which put Banco da Favela's valuation at 600,000 Reais after just a few months. This is a major turning point to Banco da Favela: until this point, the organization had been growing organically, relying on word of mouth to acquire new clients, but now it would finally be able to invest in marketing and build its presence on social media. Not only that, but the money was also used to secure the blockchain infrastructure of Banco da Favela and to improve the user experience of the app. This also kickstarted a period of major external investment that led to the plans of expansion taking place in the following year.

By the end of the first trimester of 2018, Andre had attracted a major investor for Banco da Favela: a credit card company. The company became a partner through a stake bought for an undisclosed sum and had Yvonne, who was introduced as a "director" at her organization, tracking Andre's efforts to get Banco going. Shortly after, halfway through 2018, Nero became Banco da Favela's first CFO, acquiring a ten-percent share of the business in the process. After building his career in the oil and gas industry, Nero decided to work with Banco due to his belief that their business model would be profitable, seeing the enterprise as an investment opportunity and the social impact provided as their competitive advantage in the sector. He saw the field as "a blue ocean", since Banco did not have any serious competitor in the space of providing basic digital banking access to people without an account in a mainstream bank. Nero was also interested in the applications that the stablecoin could provide.

The bank's first board was then formed: Andre and Nero, who actively pushed their vision for the organization, Bruna, who was often absent from these discussions and just requested frequent updates from Andre, and Yvonne, who mostly acted merely as an observer on behalf of the investor.

Andre also became somewhat of a celebrity in the field of social innovation in Brazil. Due to the media coverage and repercussions of his initiative with Banco da Favela among players in the field, Andre was invited to participate in multiple events and conferences about social entrepreneurship and social change. His appearance in these events helped cement his status as a social entrepreneur and accelerate the expansion of his bank in the following months. The bank itself was also presenting some interesting numbers, such as a reduction of 65% in the default rate and overdue payments of their clients.

The first expansion of Banco da Favela outside of Rio de Janeiro came in the second semester of 2018, to Sao Paulo, the largest metropolis of South America, situated a few hundreds of kilometers away from Rio de Janeiro. Leveraging connections that he made through participations in these social entrepreneurship conferences and events, Andre opened an office there, hired a new team and started operating in favelas around the city. A major difference between Rio de Janeiro and Sao Paulo is that, while most favelas in Rio are situated in hills just above the richer neighbourhoods, the favelas of Sao Paulo are generally situated in the edges of the city.

Despite their efforts, Banco da Favela struggled to gain traction in Sao Paulo. After one year, the bank was able to attract more than 10,000 clients, but around 95% of them were from Rio. Not only that, but the organization’s growth was much slower than expected: the goal established by Banco da Favela for the beginning of 2018 was to reach 100,000 clients, but six months later they were still one degree of magnitude short of that. Banco da Favela had expanded its service offering, allowing clients to recharge their prepaid phones and public transportation cards, to consult credit protection organizations for their credit score, and to acquire prepaid “credit” cards. However, the slower than expected adoption rate meant financial targets were not being met, even with these new services, which carried a higher profit margin than the boletos. These struggles strained the relationship between Andre, who diligently focused on the social mission, and the other investors. They demanded to see their investments bearing positive financial results and kept pushing for changes in the business model to increase profitability. To try to speed things up, Andre arranged for the boldest move so far: Banco da Favela signed a partnership with state-owned Banco do Nordeste, a key player in the social banking environment in Brazil.

Banco do Nordeste has more than a thousand branches spread across the northeast region of Brazil. This regional development bank offers credit and investments for individuals and microbusinesses, defined by the federal government as organizations with fewer than ten employees and annual income under a certain threshold. Under the partnership, Banco do Nordeste allowed Banco da Favela to hold a kiosk of its brand in each branch, to serve their clients with their suite of services. Their offerings were deemed complementary since Banco da Favela does not offer credit nor investments. At first, Banco da Favela would operate in just a few branches of Banco do Nordeste, to assess how its business proposition worked within this new community.

This new expansion accelerated the rate of adoption of Banco da Favela, the startup seeing the number of clients grow rapidly during the second semester of 2018 and the first of 2019. The organization focused on serving the three communities where it was present, while improving the business model and optimizing product offerings to their clients. The new services offered at Banco da Favela, mainly the opportunity to recharge phone credits with all four main cellphone carriers from Brazil, carried a slightly larger profit margin while still tending to the specific needs of marginalized people. The company was still not profitable, but everyone on board was confident that it would be if the client base kept increasing. However, unprofitability was a constant hurdle for Banco da Favela, as Andre "could not focus on working because half of [his] time was spent talking to people and trying to find new money".

Turning point 1—The realization that Banco da Favela would not become profitable

Around halfway through 2019, it had become clear that Banco da Favela was still unable to ensure its organizational survival without recurrent external funding. Although it now had an impressive client base of 70,000 clients and was planning further expansions, Banco da Favela was struggling to stay afloat and in constant need of financial support from investors. However, it was also becoming more complicated to acquire funding, and the larger Banco da Favela got, the larger the amount it needed to keep operating. The understanding that Banco da Favela's business model and size were not enough to ensure organizational survival, and the conflicts that started to emerge from the debates on how to tackle this issue, were the first turning point for the organization.

4.1.2. Phase 2—The surprise of Bolsa

The board of Banco da Favela, at this point, was still composed by Andre, Bruna, Nero, and Yvonne. According to Andre and other interviewees, Bruna put her foot on the ground and clearly stated she would not invest more money in the organization. But as to how the business would be operated, she continued to keep her distance, just wishing to have a final say after decisions had been made. Yvonne had no real power, so the debates were between Andre and Nero, and included one other stakeholder that was given a voice: Karla, the manager of the operation in Rio de Janeiro, who was close to Andre and who was slowly being trained to take a role in upper management whenever the organization achieved such verticality. Karla was one of the first employees of Banco da Favela, and at that point was employed there for around two years.

These stakeholders met to decide how to proceed with Banco da Favela. One option thrown for debate was to boost cash flow through its network by reaching out to more affluent clients, who would use their checking accounts more consistently. However, this meant changing the service offer, for wealthier clients needed financial services such as loans and investments instead of basic banking access. This option was defended by Nero but opposed by Andre and Karla. Nero argued that there was a fundamental flaw in the business model of Banco da Favela: it depended on clients who would never acquire profitable services, and there simply was not enough money on the table for the organization to survive like this. Therefore, the only solution was to go after more affluent clients, even if they still lived in favelas.

After discussions over how to attract this type of clientele and increase the influx of funds, Andre decided that they would not change the organization's business model. He suggested another option, one that preserved the basic business model of Banco da Favela but could still provide new revenue streams. To increase money flow without drifting from its mission to offer banking solutions to the disenfranchised, the entrepreneur envisioned a spin-off stock exchange that would trade stocks of organizations with a social interest. The new company was named *Bolsa de Valores da Favela* (the "Stock Exchange of the Favela").

Both sides in the transaction would need to operate within Banco da Favela, which meant each initial public offering (IPO) on the exchange would increase assets managed by Banco da Favela, the Brazilian Reais stashed away within the bank and the transactions between traders occurring in the stablecoin controlled by Banco da Favela. Although these assets in Reais would not be property of Banco da Favela, they would be a stable resource stored within the bank. With cash flowing through the bank, it would be able to access investing opportunities, such as governmental bonds, which would increase its income without jeopardizing the main operation. It was a win-win scenario: the new business would increase the profitability of Banco da Favela without changing anything in the business model of the bank itself. And the stock exchange would be profitable on its own, charging a fee over each IPO and another over each transaction between traders.

This surprising idea could, according to Andre, answer the need for stable income for Banco da Favela. He proposed three ways in which Bolsa would increase the profitability of Banco da Favela: every new IPO would increase the passive income of the bank; not only that, but eventually Banco da Favela itself could go through an IPO, which would be a much simpler way to attract sizeable funding than the multiple rounds of external funding acquisition that the business went through; finally, the bank would also be able to offer its own services to new clients interested in trading at the exchange.

The top management team enthusiastically accepted the idea, and the plan was put in motion. In August 2019, the groundwork for Bolsa was put in place. Nero would oversee the project, leveraging on his connections to design the organization and slowly build the team when the necessary processes were put in place. The operationalization of the stablecoin would also be transferred to Nero and put under the umbrella of Bolsa, with an incipient idea of spinning it off and establishing a third organization in the future. On the other side, Andre would continue spearheading Banco da Favela, with the help of the manager, Karla. She kept taking more responsibilities, including prospecting, hiring, and training new employees to cover the expansion of the organization. The rest of 2019 was spent developing the business plan of Bolsa and organically growing Banco da Favela.

Turning point 2—The pandemic

When things were looking rosy, 2020 arrived, and with it came the COVID-19 pandemic. That was a turning point not only for Banco da Favela, but for society as we knew, and the Brazilian economy was hit particularly hard. On top of that, Banco da Favela was severely affected by a fraudulent operation that cost the bank more than fifty thousand Brazilian Reais. This exposed unknown safety issues that marred its smartphone app, which was taken down in the repercussion. Most clients were afraid their money was not secured, so they withdrew everything, and many lost the confidence to even keep paying bills in person through the Banco da Favela branches. Around July that year, physical stores were also shut down, due to Covid restrictions and to a general lack of interest from the public, which meant Banco da Favela stopped operating completely.

Banco da Favela almost went bankrupt. Not only their business model was insufficient to guarantee organic growth, but it also proved insufficient to ensure the very survival of the organization. Moreover, with business activities mired in red tape and bureaucracy in Brazil, Bolsa was still nothing more than an idea in the founder's mind, and Banco da Favela just could not wait any longer for it to become operational.

4.1.3. Phase 3—The restructuring of the operations

By August 2020, its services had been all frozen, its partnership with Banco do Nordeste had been cut off, and the reach of its operations had receded back to just Rio de Janeiro. Banco da Favela would have to start anew. In September, Andre realized that he was not able to guarantee that the security of the operations of Banco da Favela were up to standard. The top management team decided that Banco da Favela would outsource its banking activities to a Banking as a Service (BaaS) firm, no longer relying on Andre's knowledge of blockchain. At this point, it became impossible to offer its services for free, as it was necessary to pay the BaaS. Therefore, all operations in the new phase would carry a small fee to be paid by their clients. This included the payment of boletos, which was still the most important service offered by the bank.

This was also the time that the creation of Bolsa, which had been shelved so that Banco da Favela could focus on its own survival, was finally back on the drawing board. Now that Banco da Favela was but a skeleton of what it used to be, Bolsa would be more necessary than ever: the reboot of the social bank meant it would take a long time for it to reach profitability without the support of the stock exchange.

In the last trimester of 2020, the top management team of Bolsa was hired: Lucas, the CEO, had experience as an entrepreneur, but had never worked with social impact; Maria, the COO, had a long career in stock exchanges and the knowhow on how to create one from scratch; and Nero was chosen as the CPO, cutting his ties to Banco da Favela and moving on to work exclusively at Bolsa. Andre, despite being the founder of the stock exchange and having experience with the technological building blocks that would be used to set Bolsa up, would have no active role in the new company. He would be the main shareholder and function as the chairperson, with the top management team reporting to him.

Turning point 3—A new investment fund arrives

In October 2020, the bank started negotiations with Fundo, the impact investing fund that would eventually buy a stake in its operations and obtain a seat on its board. The talks were led by Andre, the founder of Banco da Favela, and Thais, Fundo’s head of culture. As specified in Fundo’s unique business proposition, it started intervening in Banco da Favela right away, instead of waiting to finalize the discussions. These interventions included finding a new BaaS partner, suggesting changes to the pricing and the offering of services, and reshaping the employee structure of Banco da Favela. Instead of multiple employees with the same role under a manager, the fund encouraged the organization to have specialized employees on each role. Between the stoppage of activities and this intervention by the new partner, Karla quit her position as manager, and Diogo, a former employee from the early days of the bank, was rehired to take her place.

Finally, in December, Fundo persuaded Banco da Favela to hire a CEO and to withdraw Andre from daily operations. It was made abundantly clear by both sides that the new CEO would need to put the social aspect of Banco da Favela as the biggest priority, but also to design a profitable business model. A board of directors was formed to supervise the CEO, with three members—Andre, Bruna, and Yvonne—coming from Banco da Favela and Thais representing Fundo. The person chosen for the position of CEO was Carolina, who had built her experience up to that point at a Brazilian broker and as the founder of a social finance organization that had many similarities with Banco da Favela in their social mission. She started working at Banco da Favela in January 2021.

4.1.4. Phase 4—A change of culture

Around the time data collection began, in April 2021, Banco da Favela closed the deal and sold 25% of its shares to the investors. At that point, the fund had four representatives working with Banco da Favela. Thais was the Head of Culture, responsible for implementing the fund's culture and values into the organizations they invested on. She was also the head of the holding behind Fundo. Every organization the fund purchased would become a part of this holding, but that did not happen with Banco da Favela as they only acquired a minority stake at the bank. Umberto was known as the Head of Commercial, and his role was leveraging his connections with major businesses in Brazil to help the organizations in the holding establish partnerships. Viviane was the Head of Growth, with an expertise in growth of small businesses. And finally, Wesley was the Head of Business Development, and would be responsible for the new business model that Banco da Favela would operate.

Together with the CEO, they structured a new short-term business model for the organization, with another substantial business model change expected for the following year. At first, the bank would relaunch the operation of the services that were its strengths before the shutdown, the ones that it had been offering from the beginning, but now supplied by the partner BaaS. These services would not be free but would carry a lower price tag than those charged by the mainstream banks for similar services. Then shortly thereafter, Banco da Favela would start offering savings, investments, and microcredit services. Carolina estimated that the basic operations would be in full swing around

September 2021, with the expansion to microfinancing arriving by the end of the year. For 2022, they decided that Banco da Favela would no longer function only as a bank, but instead would become a "super app" for all the needs of the inhabitants of favelas. It would lose the "Banco" moniker and be known as App da Favela, and it would connect those in need of services with those offering said services, such as carpentry, plumbing, catering, or babysitting.

The new arrivals from Fundo did not function as merely leaders (as the Head of… designations would imply) but were engaging with the operationalization itself. For instance, Umberto was Head of Commercial, but during one of the author's observations he did not delegate the activity of designing posters to announce the location of the new Banco kiosks to Elaine, the bank's marketing assistant. He took the responsibility for himself, and she helped hang the posters.

Both short- and long-term business models would focus on serving those in need. The social impact aspect of the project was always put in first place. The first movement would be financed by the money invested by the new partners, but the second expansion would need a new revenue stream. The business models of Bolsa and Banco da Favela could be made completely independent, but there was hope that this new revenue stream would come from synergies between the two.

Over the fence at Bolsa, the decision-makers decided they would not sell participation to the investment fund. One of the reasons for this decision, with was deemed mutual, was that Fundo could not justify how Bolsa could fit within their investment model. According to Thais, the fund only invested in organizations that were "explicitly green or explicitly social", and while she was able to convince their shareholders that Banco da Favela was a social organization, the same could not be argued in favor of Bolsa. The stock exchange would instead be incorporated as an entirely for-profit business. Bolsa, despite not receiving the cash injection that a partial sale to the investment fund would offer, started taking shape in the following weeks. The organization added a few people to the headcount, and they started participating in the meetings that organized the company's launch. Olivia, who had worked at the Comissão de Valores Mobiliários (CVM), the

Brazilian stock exchange commission, brought her experience to the team in order to make sure that the company would be certified by CVM.

In Brazil, there were twenty-seven regional stock exchanges during the twentieth century, but since the year of 2000 there is only one in the market: Bovespa, the stock exchange of Sao Paulo. That year was the one when Bovespa absorbed the stock exchanges of Rio de Janeiro, Santos, and other regional, smaller entities. In 2008, Bovespa merged with BM&F, the commodities and future contracts exchange, and in 2017 it merged with Cetip, the organization responsible for the registry of private bonds, taking its current name, B3. Therefore, what was once a market crowded with competition became a monopoly.

According to Lucas, the CEO of Bolsa, launching stocks at B3 became an expensive endeavor as well, with the bureaucracy and certifications ensuring that any initial public offering with valuation below five hundred million Brazilian Reais would be unfeasible. On the other extreme, the deregulated market of crowdfunding—with multiple competing platforms—had a legal limit of five million Reais that could be funded. Any organization aiming at raising amounts higher than five million but lower than five hundred million would have to do it on their own, finding private investors individually. There was an opportunity for a new, leaner stock exchange to fill in this void, one that Lucas wanted to make sure Bolsa would fill.

Bolsa saw that gap, and CVM saw it too. The stock exchange commission launched in 2020 a pilot project that would certify up to eight startups to operate under a regime called operational sandbox. This special regime would alleviate some of the rules that B3 needs to follow, with the objective of reducing the costs of launching an IPO and operating stocks. It was a bid to improve the competitiveness of Brazilian companies and foster entrepreneurship and growth of small and medium organizations.

The leaders at Bolsa were sure that they could answer the call from CVM and operate in the sandbox. Their team was incredibly capacitated for the task: Lucas was a capable CEO that had launched multiple organizations before, Maria had vast experience building stock exchanges, Olivia was hired as a consultant to advise on regulatory issues that she overviewed during her spell at CVM, and the company hired Rafael and Susana, two lawyers from a law firm with extensive history in regulations, to elaborate the legal framework of Bolsa. Susana was a partner at her law firm and was mulling becoming a partner at Bolsa as well. She would eventually get the formal role of Chief Legal Officer of Bolsa. Rafael, on the other hand, was an up-and-coming young lawyer at the same organization.

There are multiple reasons for the cost of operating with B3: many roles are filled by partner organizations, such as banks and technology companies. These companies are responsible for multiple proceedings, such as consolidating the sides of a transaction, ensuring the buyer has the money to pay for the transfer and the seller has the stocks being sold, and executing the transaction. The proposal sent by Bolsa to CVM offered assurance that these proceedings did not need these partnerships nor the three working days of wait that are a custom in the Brazilian market: they could all be done instantly and for a fraction of the cost, without jeopardizing safety, through blockchain mechanisms.

It was already a surprise for the Brazilian market when the regulatory body allowed BM&F Bovespa, the stock exchange, to acquire Cetip, the registry controller. But Bolsa wanted to centralize even more roles: the goal was for the company, more specifically Banco da Favela, to be the custodian of assets and broker. These roles are taken by major banks and asset brokers in the regulated Brazilian market, without the control or the participation of B3. The rationale is that by simplifying the structure and removing bureaucracy, costs would go down and smaller companies would find it feasible to launch IPOs. On the other hand, with Banco da Favela as the custodian of assets, it could invest the money held inside its coffers to generate the new revenue stream it sought so badly, as it was planned a year before when Bolsa was first devised.

After the cash injection provided by Fundo arrived, leaders and employees of Banco da Favela started meeting a couple times a week to organize and to get the ball rolling. Every Friday, Carolina would host a meeting with Diogo, the manager, and Elaine, Fred, Gustavo and Helena, the new employees. Diogo was one of the first clients of Banco da Favela, and started working there around the same time Karla did. He left the organization before things turned sour but was rehired by Andre ahead of the choice of Carolina for

CEO. At that point, he was the most experienced person in the organization apart from Andre. All other employees were recent hires, chosen through interviewing by Carolina and Diogo.

In the “old” Banco da Favela, all employees had the same role, dividing tasks between them ad hoc. With the relaunch and under Carolina’s leadership, however, that was no longer true. Each employee had a clear role, in marketing, finance, legal, or management. They all, including Diogo, had three similarities: they were from favelas, they were former clients of Banco da Favela, and they cared deeply for the social mission they had in hands, for they knew how important it was for the inhabitants of the favela.

In these Friday meetings, they established goals for the following week and reviewed the performance of the past seven days. Tasks were such as getting familiarized with the new in-development app and developing marketing campaigns and social media inserts. These meetings were, as explained by Carolina, “very hands on”. Every week, this was followed by another meeting, at a higher level, between Carolina and Diogo from Banco da Favela, the members from Fundo, and Andre. In these meetings, the leadership from Banco da Favela would explain what advancements were made in the establishment of the business, and together the group would develop marketing strategies and draw timelines. These first steps were quite humble: in May 2021, the talk was about capturing one new client a day, engaging a hundred people on social media lives, and finishing “80% of the app” by July.

In parallel, other initiatives focusing on the social aspect were fostered by Banco da Favela: their social media channels, apart from broadcasting their own services and attempting to motivate interest for their brand, also invited and highlighted social change leaders from the favela. The new business model of Banco da Favela was ready and divided into pillars. The main pillar was basic banking access, provided by the new BaaS. Other supporting pillars were microcredit (expected for December 2021), Bolsa (expected for October 2021), and partnerships with local commerce to introduce the stablecoin created by Banco da Favela as a payment alternative (expected for early 2022). The stock exchange was treated as another partnership that Banco da Favela built in order to offer a larger selection of services to their clients: Carolina envisioned a future where young inhabitants of favelas would start building their savings and investments through stocks from “organizations with a purpose”, part of the portfolio of companies operating in Bolsa.

Meanwhile, the work group building up Bolsa kept building both the team and the foundation of the organization. The bid to join the sandbox had more than thirty competitors, but no one had the same market experience. By June, Queiroz, a new angel investor, joined the team. This gave the organization enough of a buffer to pull through this last phase before the decision by the stock exchange commission. Everyone had confidence their chances were at least high, maybe even the best bid of them all.

Turning point 4—The decision by CVM and the aftermath

However, in early July 2021 came the decision by CVM: they did not make it. Out of the thirty-three applicants for the sandbox, only six were picked, even though there were eight spots. The leadership of Bolsa appealed, but their appeal was thrown away hastily. The stock exchange commission simply did not accept a number of permissions that Bolsa asked for, arguing that they could not prove the security of the transactions relying only on blockchain.

Without the permission to operate as a stock exchange, Andre and Lucas mulled over designing Bolsa to be a crowdfunding platform, with a new bid to operate in their desired market to be offered in the next sandbox round. However, the fire quickly fizzled under the members involved. By August 2021, most founding members and executives-to-be had already moved on, having received job offers that could not be refused under these circumstances. By September, the CEO quit as well, which all but indicated the death of the organization. There was simply no money, no drive, and no confidence to try again.

Banco da Favela was struggling too. Their business model demanded the cashflow from Bolsa to function. Adoption, and even feature development, was moving a lot slower than expected, due to a shortage of cash to power through the rebuild stages. In October 2021, Fundo announced they would not inject funds again on the bank, having lost their confidence that the organization would be viable without Bolsa. By December 2021, Carolina quit as CEO and suggested the organization should declare bankruptcy, pay off the employees, and fold. Although Andre tried a last-minute gamble to move Banco da Favela to another city in Brazil, it did not pan out, and Banco da Favela ceased to operate as well.

4.2. Main Tensions

Throughout the story of Banco da Favela and its sister organization Bolsa, there were multiple circumstances where differences in opinions, intentions, expectations, and actions led to tensions between stakeholders. These tensions can be described as conflicts between opposing institutional logics. On one side, there is the social logic, driving the desire to positively impact the marginalized inhabitants of favelas that became clients and employees of Banco da Favela, and to alleviate the issues that they face and neither regular businesses nor the government have demonstrated intent to solve. On the other side, it is the market logic, governing the ambition to run this organization without external support, relying only on the profits of its operations to fund the maintenance and expansion of Banco da Favela. To dissect these tensions, the second part of the analysis delves deeper into the story, bringing to the fore these instances and the way stakeholders employed to deal with them. Table 11 provides a summary of the tensions identified in the case, the phase in which they were first identified, and the phase in which they were dealt with.

Table 11: Main Tensions and the phases in which they were active

Tension	Phase 1	Phase 2	Phase 3	Phase 4	Unsolved
Mission prioritization					
Talent attraction					
Strategy under financial duress					
Challenge to legitimacy					

4.2.1. Mission prioritization

Right from the start, there was a clash in the prevailing institutional logics driving the decision-makers of Banco da Favela. During the first years of operation, Andre the founder and Karla the manager were driven by the social mission of Banco da Favela, but Nero the CFO was driven by the potential profitability of Banco da Favela and saw the social mission as a competitive advantage of Banco da Favela. This led to multiple instances where practices aligned with one logic or the other can be identified, and to the conflict that arose from these differences.

> *When I left the oil & gas industry, I was asked to be a judge in a startup competition. Of all the startups that were presented, I liked three, and only one had no competition. It was Banco da Favela. When I told Andre I was going to move back to Rio, he invited me to become the CFO—Nero, interview III.*

Of course, the dual mission of Banco da Favela illustrates the influence of the two logics. Banco da Favela had a social mission declared on its statement: to offer basic banking services to impoverished clients from favelas in Rio de Janeiro and, more broadly, from other poor communities in Brazil and Latin America. To achieve this goal, the organization carried a market mission: to turn a profit from its business model, and to operate on its own, without the need for external investments after a period of maturity.

> *My greatest problem right now is that I cannot work on helping solve inequality because half my time is spent trying to find investors. Banco da Favela needs a business model that supports itself on its own, so that we can stop shopping around for funding—Andre, interview I.*

However, this shows a misalignment between the expectations of the CEO and founder of Banco da Favela and those of the CFO. While Andre was talking about using Banco da Favela to solve inequality, Nero was talking about the participation of the bank in favelas as a competitive advantage against other startup banks of the time, such as Banco Modal and Nubank.

With the spin-off, Banco da Favela still had the same problem. After the roller coaster of events from 2020 and 2021, the bank found itself once again needing to create a self-sustaining business model.

> *Our banking model stands on its feet but will not generate enough profits. It is very hard to create an organization for social impact without charging anything [from the clients]—Carolina, interview XI.*

> *The goal is to reboot Banco as a self-sufficient organization, without charging absurd fees from those who cannot pay. In the future, Banco will become a movement, offering virtual medical care, scholarships, financial literacy, everything that the favela needs—Diogo, during observation of meeting 3.*

However, that was because Bolsa was not operational yet. Once Bolsa lifted off, it was in everyone's minds that the stock exchange would be a huge help for Banco da Favela's financial woes, essentially allowing the bank to reduce their stress about the business model not being profitable fast enough.

> *I can see three ways Bolsa can help Banco da Favela: there is a lot more circulation for Banco da Favela's blockchain currency; there is an influx of customers to Banco da Favela who are using Bolsa but who could potentially use Banco da Favela's services; and Banco da Favela itself can launch its stocks to be traded in Bolsa in the future—Maria, interview VIII.*

The new influx of customers from Bolsa to Banco da Favela had little potential of being significant, at least in the short to medium term. The customer bases are very distinct. The increased circulation of the stablecoin due to the expansion of Bolsa, however, had the potential of being a game changer for Banco da Favela: for each coin emitted with the entrance of new investors looking to buy stocks, one Real would be custodied by Banco da Favela, as the exchange rate is fixed. This stable amount of Reais would allow Banco da Favela to generate passive capital earnings. This way, while Bolsa focused on the financial mission and solved funding for both organizations, Banco da Favela could focus on increasing its social impact.

4.2.2. Talent attraction

One such example of alignment to the social logic was the method of hiring employed at Banco da Favela. All employees of the bank were inhabitants of favelas, and most of them were also clients before being hired. The intention behind this was two-fold: according to both Andre and Karla, Banco da Favela saw the opportunity of employment for these people as a chance of growth, learning, and improvement of conditions. Employees of the bank were not only encouraged to pursue post-secondary education, but also able to study at a reduced cost, as Banco da Favela funded the tuition of select employees—Karla herself being one of the beneficiaries. On the other hand, as the employees were familiarized with the conditions of the inhabitants of these impoverished communities, they were highly motivated by the social mission as they understood the impact this organization could have in their lives.

> *It was always central to me that we would hire from favelas. They have the heart, and they need the opportunity. We can't say we are at these places to cause impact, but bring people from other places—Andre, interview IX.*

> *One thing that I always liked about Andre was his support for us to get education. I went to marketing school because Andre pushed me to do it. When I worked there, Banco da Favela paid part of my college fees too—Karla, interview II.*

The downside to this initiative was a lack of specialization among the employees. Nero, despite being hired as the CFO of Banco da Favela, arrived to create the processes and organize the basic operation of the company. However, he struggled to do that, because his background with consultants of much higher training and many more years of education was not as helpful with people without formal education. Nonetheless, it was important for Banco da Favela to have employees that answered the needs of both missions—hence why the bank spent resources on employees' college tuitions since the beginning.

> *I knew how to make a business stand on its own. So I went to organize the business, in the most rudimentary way possible, because the people we are talking about [the employees of Banco da Favela] are people without the same level of instruction that you and I have—Nero, interview XII.*

> *It is much easier and more rewarding to teach finance and marketing to people from favelas than to teach college graduates of finance and marketing how to care for places like Favela da Maré [in Rio de Janeiro]—Andre, interview I.*

In a bid to balance the lack of formal education among the employees of Banco, Andre and Karla tried to hire employees with bachelor's degrees from major universities in the city. However, due to the place and type of work, they could only attract university students, to work as interns. And this backfired because the employees were detached from their reality and struggled with the social aspect of the bank.

> *I think we made a mistake in at least 70% of our hires. We hire people from major universities, like PUC, UFRJ, and they are more in a vibe of "cool, let's see what this is". They did not understand they are joining a startup, in a favela. [...] The problem is when we hire someone from the outside, and to get into this culture it is kind of a shock, a reality check, you know?—Andre, interview VII.*

After the split between Bolsa and Banco da Favela, the two organizations sported highly specialized hiring strategies. Everyone who joined Banco da Favela in the new phase was squarely focused on social impact, from Carolina the new CEO, to the new board members from the investment fund, all the way down to the last employee Banco da Favela hired. Carolina was chosen because she had experience as the founder of another hybrid organization. Every new employee of Banco da Favela was, once again, from favelas of Rio de Janeiro. This time around, instead of hiring "blank canvases" to be trained to operate in any and every role at Banco da Favela, each employee would be highly specialized in a single role—such as marketing, finance, or legal—to facilitate learning.

> *We hire and invest on people from favelas, this is a core part of who we are; our marketing employee is studying communication and is building with me the vision and communication efforts from Banco da Favela. Three of the current employees are doing a bachelor's degree after we hired them—Carolina, interview XI.*

> *I was the first employee at Banco da Favela. I left for a while, then I came back. I slowly got more and more responsibility, and now I'm the general manager—Diogo, interview XIII.*

> *Having the collaborators at Banco da Favela being inhabitants of favelas is important, due to the legitimacy the organization can accrue. When they move to other communities[2] around the country, I hope it is with the same model implemented here, not as a franchiser—Thais, interview XVII.*

On the other hand, the hires for Bolsa were much more strongly associated with the market logic, as the CEO and the COO hired to form the triad of decision-makers with Nero were all from the market. Not one of the three had experience with social organizations, apart from Nero's experience at Banco da Favela. Further additions were focused on solving a specific need of Bolsa, such as Olivia's involvement with CVM and Susana's knowledge of public tenders.

> *When Andre invited me to work at Bolsa, I said "I don't want to educate people. I want to work with people that are ready already". He said*

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[2] It is quite common in Brazil to refer to favelas as *comunidades* ("communities") due to the perceived negative connotation of the term "favela", which is how slums are called in Portuguese. There is a discussion about embracing the term and depriving it from its negative connotation, but that is way beyond the scope of this thesis.

Bolsa would not be like Banco da Favela. That is what attracted me to work at Bolsa—Nero, interview XII.

Despite all interviewees explicitly stating that they have social interests, Bolsa is the first organization with connection to social impact that any of them is working for. Their experience ranges from stock markets to oil and gas industry.

I worked for 20 years in the business. Modestly, I believe my personal experience is fundamental for the success of Bolsa, and I accepted this position because I wanted to work with social innovation—Maria, interview X.

4.2.3. Strategy under financial duress

Of course, the dual mission of Banco da Favela illustrates the influence of the two logics quite well. However, when it became clear that Banco da Favela struggled to achieve profitability, there was a push from Nero to reduce the focus on social impact so that the bank could focus on earning money. Nero always saw the social mission of Banco da Favela as a competitive advantage against rival startups and consolidated banks. By focusing on a part of the population that these organizations were not engaging, Banco da Favela would be able to grow fast and unfettered by the competition. But as time passed and the organization failed to achieve profitability even with partnerships and tens of thousands of clients, Nero demanded a review of the business model. His idea was that Banco da Favela should focus on a set of more affluent prospects, who still lived in favelas but could consume more expensive services. In his view, the competitive advantage of Banco da Favela would be preserved. In Andre’s view, however, that was a betrayal to the social mission of the organization.

I just couldn’t. I just couldn't change the business model, it would go against the very thing we stand for. People kept telling me that it was the only way. I said, then we need to create a new way. I was reading about green stock exchanges at the time, so I thought, why can’t we create a stock exchange in a favela?—Andre, interview I.

The spin off came as a solution for the financial woes of Banco da Favela, but also as an opportunity to split Nero from the bank. With Bolsa, he could freely target profit maximization that would still help Banco da Favela, but without challenging its social impact. Therefore, there is a clear separation between the prevailing institutional logics that drive each decision-maker. The mission statement of Bolsa—just one, as the stock exchange did not sport dual missions—is “to be a market and technology leader in the offering of financing opportunities and second-market liquidity for small and medium enterprises in Brazil”.

Bolsa would act in the void between the legal maximum amount that could be raised through crowdfunding and the operational minimum amount necessary to successfully launch stocks at B3. The other competitive advantage that the stock exchange wanted to offer—their trump card for their approval with CVM, according to the COO Maria—was the focus on social and green organizations. However, it was made abundantly clear that the company itself was not a hybrid organization: it was purely for profit, looking to explore market niches and opportunities.

> *We still have to hammer out our pricing structure, for now we are comparing ourselves with equity crowdfunding platforms as this is the certification we have right now. The goal is to be competitive, but not to go below market pricing—Nero, during observation of meeting 16.*

> *Our trump card is our certification system, where we will only accept organizations that can get certified. No one is doing that in Brazil—Maria, during observation of meeting 16.*

However, this tension was not completely solved by the spin-off. After all, Banco da Favela was still under financial duress even with the spin-off and with the arrival of another external investor, Fundo. This fund made it perfectly clear that they only invested on hybrid organizations, as their mission statement needed to explicit a goal of social impact.

> *Specifically, Fundo wants to ‘reduce inequality, save the environment, rewild, fix the damage’. And we believe businesses can do that, why*

> *not? Banco da Favela is perfectly aligned with that ideal—Thais, interview XVII.*

But they still demanded that Banco da Favela pursued a business model that could be profitable on its own. They did not want to wait and see if Bolsa would be viable in the short term, they needed Banco da Favela operational as soon as possible. During the meetings with the investors, Carolina and Andre were testing the waters with a "side operation" that would bring some much-needed profit in the short term, but that operation had nothing to do with social impact.

> *I am discussing an operation with a healthcare company in another city that will hire us to process 30,000* boletos *per month—Andre, during observation of meeting 8.*

> *Our banking model stands on its feet but will not generate enough profits. We need to focus on contracts with organizations that will be more lucrative. The contract of the* boletos *will pay us enough to offset the costs of the whole organization—Carolina, during observation of meeting 12.*

4.2.4. Challenge to legitimacy

During the first few years of Banco da Favela, there was a misalignment between the expectations of two of the most important external stakeholders. On one side, it was always complicated to attract external investors. Angel investors and incubators, who focus on buying and supporting nascent businesses, refrain from investing in social enterprises like Banco da Favela due to their fear that the organization will not recoup their investment due to the pursuit of a social mission. And the investors who did buy into Banco wanted to recoup their investment, so they needed the bank to be profitable.

> *The financial market sees me as a nice guy, who focuses on social impact. They [investors] want to take pictures with me, say that they support me, but cannot become partners because I am not profitable, I will never make that much money due to the social aspect of the*

business model. I had a meeting with some guys from Faria Lima [the hotspot for investors in Sao Paulo], but I arranged for a white guy from the financial market to talk to them, because they would never listen to me—Andre, interview XXX.

On the other side, the clients, who were also beneficiaries of the proposed social impact and were obviously more interested in the success of the social mission. With the two stakeholders pulling Banco da Favela in different directions, both were challenging its legitimacy. If Banco da Favela did not push into profitability, the investors would question its capacity to return their investments; but if it failed to tend to the clients' needs, they would question its very own reason of existence.

When I got here, there was nothing[3]. I was at the community center and the leader asked what was the most pressing need that we had there. I said "well, there are no banks in here, we cannot pay our bills". Then Andre decided to create a bank focused on processing payments. He really cared about the needs of the people who lived in the favela—Diogo, interview XIII.

Back in 2017, we were solving problems that had nothing to do with us, like issues with the app from Light [the electricity distributor in the state of Rio de Janeiro] that the customer had—Diogo, interview XIII.

If the spin-off were successful, Banco da Favela would not need new external investors. This was one of the main reasons for the spin-off to happen in the first place. However, with the delay in the start of operations for the stock exchange, the bank added a new investor in the image of the venture capital fund that bought 25% of the operation.

This new stakeholder, though, was much better aligned with the customers: they were of the "buy and hold" kind, only acquired stakes at companies they believed in the

[3] Rough translation of the expression "quando eu cheguei, era tudo mato", which would literally translate to "when I got here, it was all bush/jungle/wild plants", meaning there was no development in the area

“purpose”, and bought Banco da Favela for the social impact, not the margin of profitability.

> *Our customer is from this favela in Rio, the services we offer are aimed at them. We want to improve their lives. When we expand, we will focus on other communities in Rio, then other communities in other cities, then hopefully international. We can dream of expanding to Colombia, to Mexico—Carolina, interview XI.*
>
> *Banco da Favela can change the lives of these people, and we are proud to be on board—Viviane, during observation of meeting 4.*

4.3. Main Mechanisms

The mechanisms that the dyad employed to address the tensions between institutional logics followed a pathway from the emergence of the tensions to the conclusion of the case. With the conflict between Andre and Nero—and their respective supporters among stakeholders of Banco da Favela—reaching a boiling point during phase 2, the only way to deal with the dilemma was a complete split between the warring factions. The conflict in mission prioritization led to the splitting of these two main adversaries. This split enabled the creation of Bolsa, the stock exchange that Andre envisioned, and that Nero had the necessary skills and the adequate values to lead.

Table 12 below provides a summary of the mobilized mechanisms, the tensions they meant to address, and the organizations affected by them.

Table 12: Summary of mechanisms

#	Mechanisms	Related tensions	Affected organization(s)
1	Splitting main opposition	Mission prioritization	Banco
2	Changing the business model	Strategy under financial duress	Banco
3	Embracing the market logic	Strategy under financial duress	Bolsa
4	Attracting aligned external investors	Challenge to legitimacy	Banco
5	Adapting the hiring processes	Talent attraction	Banco and Bolsa

This first mechanism then allowed the emergence of a second and third mechanisms, split between the two organizations of the dyad: on one side, Banco da Favela changed its business model to accommodate the interesting synergies between itself and the stock exchange; on the other side, Bolsa de Valores da Favela embraced the market logic with its own business model, that focused entirely on profitability.

This second mechanism then enabled two more mechanisms in the later phases of the case: the attraction of new investors aligned with the social logic by Banco, and the adaptation of the hiring process by each organization to their new realities.

4.3.1. Splitting main opposition

Affected tension: mission prioritization

The conflict between the two missions and between their staunch supporters emerged late in Phase 1 with Nero's push for the market mission to be prioritized. The emergence of this tension is the actual motivator of the entirety of Phase 2. Two important internal stakeholders—the founder and the CFO—had opposing views on mission priorities. Andre was driven by the social mission, but Nero merely viewed it as a competitive advantage, a way to differentiate Banco da Favela from competitors with similar business models. It was clear that Andre viewed Banco da Favela as a social business that aimed at being just profitable enough to ensure organizational survival, but Nero viewed it as a for-profit business with social responsibility. Moreover, Nero lost the belief that Banco would become profitable and pay him the salary that he expected and felt he deserved.

> *The problem with social businesses like Banco is that there is no money. They don't pay market value. When my child was born, I needed capital, and Banco was not going to be that for me. I started doing consulting on the side, but it was like you [Brazilians] say, "8 or 80". Sometimes I had a lot to do, sometimes I had nothing—Nero, interview XII.*

At the same time Nero kept pushing for a change in the business model, but Andre resisted. The only way to address the difference was splitting Andre and Nero: the creation of Bolsa opened an opportunity for Nero to move into a more profit-driven organization, where he spearheaded the construction of its business model. On the other side, Banco da Favela was allowed to focus on the social mission and had profit generation as a peripherical preoccupation.

> *When Andre spoke to me about Bolsa, and he said it was going to be a stock exchange in a favela, I said "I won't go work in favelas again. I don't want to educate people anymore". I don't want to keep giving my energy, I want to receive energy too, you know? And he said it would not be like this. So I went to Sao Paulo to meet Lucas, spent a week getting to know Lucas and what he wanted to do with Bolsa. I liked what I saw, so I decided to join Bolsa [and sever ties with Banco]. They gave me a role of CPO, but my job is to attract businesses [to offer stocks on Bolsa] and to develop the technology—Nero, Interview XII.*

This split between the two decision-makers is the first mechanism employed in the case to deal with a tension between two institutional logics. This mechanism appears in the turning point between phases 2 and 3, kicking off the creation of Bolsa. It is also integral to the other aspects of the case, because it led to the spinning of Bolsa de Valores da Favela off of Banco da Favela. All other mechanisms to deal with tensions were mobilized after the spin-off, and could not have been mobilized without the separation of the logics—and of the organizations—in two.

4.3.2. Changing the business model

Affected tension: strategy under financial duress (at Banco)

The tension related to diverging strategies under financial duress emerged in Phase 2 and stayed until the end; the mechanisms utilized did not solve the tension. Nevertheless, these mechanisms are crucial to the development of the case.

At first, when Banco da Favela could not turn a profit even with tens of thousands of clients in three regions of the country, Nero asked to review the model and focus on more affluent clients. Andre was against it and suggested creating Bolsa instead. Therefore, the spin-off kickstarted the second mechanism to deal with tensions between logics. By moving Nero to Bolsa, Andre removed the main character in the push to solve the financial trouble of Banco through changing the strategy and drifting from the social mission.

> *Banco da Favela won prizes, like best organization to fight money laundering, I didn't even know I was fighting money laundering. Three million Reais went through the bank every month. [Author: and why didn't it become profitable with so much money flowing through it?] Payment methods just don't pay well. We needed a much bigger operation—Andre, interview XXX.*

> *Andre has a philosophy of life, and he is the most resilient person I know. Banco da Favela has had a thousand opportunities to go to the abyss, but he is still here. And he has this long-term, social impact mindset. I have a much more market driven mindset. What I want is for Bolsa to be successful no matter what sector we are in [for impact or purely for profit]—Nero, interview XII.*

This allowed a major shift in the business model of the bank. Before the spin-off, Banco da Favela needed to ensure that the bank generated enough funds to ensure organizational survival on its own. With the creation of Bolsa de Valores da Favela, the pressure eased off. The two organizations would function as a dyad, with the profits from Bolsa supporting the financial needs of Banco and its social mission.

> *It is the same idea as before [the spin-off]. We are working with the model of kiosks, you know, in these communities there are no places to deposit, to withdraw [cash], there should be. Very complicated to do, though. We are making partnerships with businesses for them to function as kiosks. And the deposit and withdrawal fees will be much, much lower than the competition. It will still carry a fee, to incentivize the business owner to work as a kiosk for us—Carolina, interview XI.*

> *In the beginning, Bolsa will be seeded with funding from Banco. But then it will be more profitable, and it will create synergies with the bank, and it will generate money for the bank—Andre, interview IX.*

4.3.3. Embracing the market mission

Affected tension: strategy under financial duress (at Bolsa, complementary to the previous one)

On the other hand, the newly created Bolsa would aggressively embrace the market mission and the market logic, which were previously somewhat neglected. This is the first time that the market mission was prioritized in the case. The new business model had multiple synergies with Banco, and Bolsa was able to use the structure of the bank to reach the market much faster than a stock exchange that would be created from scratch without the support of another organization behind it. For instance, Bolsa intended to use the blockchain structure put in place by Banco, including its stablecoin, in their own operations. Not only that, but the actual banking interface, provided by the BaaS partner for Banco, would be used to access the stock exchange as well. Bolsa would show up as a feature in the smartphone app of Banco. But by going full for-profit, the stock exchange should be able to provide for two—itself and the bank. It was a clear win-win scenario.

> *We are going to be competitive, but with a pricing strategy that makes sense in the market. We cannot be too cheap—Nero, during observation of meeting 13.*

> *If it were up to me, we would be certifying ESG companies, not only companies that are "for impact"—Maria, during observation of meeting 16.*

> *From what I see, I know I need to adapt to the business, but from what I see, if a nuclear energy company wants to do an IPO with us, it should be allowed to do it—Nero, interview XII.*

However, the two mechanisms were not enough to deal with the tension, because the spin-off did not immediately solve the financial woes of Banco, nor did it provide a solution to its dilemma. In Phase 3, Bolsa focused squarely on profits, ignoring the social aspect—

which should be the sole focus of Banco da Favela in the model of differentiated hybrid dyad—but Banco da Favela could not focus on the social mission and had to continue targeting opportunities to score a profit. Since Bolsa was also a startup, it would take time to take off, not to mention the risks inherent in the creation of new businesses. Therefore, Banco da Favela still needed funds to operate and was seeking opportunities to turn on quick revenues that were not aligned with their social mission. One such example was an agreement with a major healthcare provider to process their boletos, an operation that would generate tens of thousands of Reais in income but that had no social benefit to the inhabitants of favelas.

> *We need to fund ourselves, and this happens through fees, right? Unfortunately. So for example we will make deals with businesses to create and process their boletos. These boletos have a fee. So it's business accounts, that have a bit more of a margin to pay these fees. It's very complicated to create a social impact business that can sustain itself without a viable business model, and we are not giving up on that—Carolina, interview XI.*

4.3.4. Attracting aligned external investors

Affected tension: challenge to legitimacy

The tension emerged in phase 1. The investors who bought into Banco da Favela—first Bruna, then a credit card company—wanted a return on the investment, but the clients wanted the bank to focus on social impact. The pressure of external stakeholders kept going through phases 2 and 3, even post-spin-off.

The spin-off was intended to cure the need to keep relying on external funding. However, as mentioned in the previous section, it would need time to work, and Banco da Favela did not have time. Therefore, they looked to attract a third external investor. But in order to solve the tension, Banco da Favela attracted a new set of investors who were 100% aligned with pursuing the social and market missions simultaneously while making the social mission the main priority, tending to the same interests as the clients.

> *We were able to convince the investors [of Fundo de Impacto] that Banco was a social enterprise and did not break the rules of the fund. For Bolsa, we couldn't. It involves major investors, larger companies, the stock exchange commission… it is definitely for profit—Thais, interview XVII.*

The arrival of Fundo de Impacto was the third mechanism mobilized by the main actors of the dyad to alleviate the tensions. Fundo came with a set of capabilities that empowered the rebuilding of Banco da Favela, not to mention a pile of cash to keep the lights on through the build up stage. Cash brought by Fundo also allowed time for Bolsa to establish and start generating income to support the dyad, and it functioned as a second attempt to solve the tension of strategy under financial duress by temporarily removing the financial duress itself.

> *Fundo is a holding, in the letter of the law. We buy companies, regenerative businesses, with money or labor. We noticed, through our journey, that those companies we acquire are those with activist entrepreneurs, and they just need some structuring. They are great activists, we come with funding and structure. […] The basis of our fund is that we only invest in businesses that cause impact—Thais, interview XVII.*

However, Fundo could not keep supporting Banco da Favela beyond the first round of investment—impact investors have limited source of financial resources due to the hardships of finding investors to pool into the fund—and when Bolsa went under, they pulled the plug on the bank as well.

> *We simply did not have enough money to get going. When I saw that there was no more money, I used what was left to fire all the employees and pay them their severance pay, and I quit. Then I suggested to Fundo that they should shut down the company, there was nothing else to do—Carolina, interview XXVIII.*

4.3.5. Adapting hiring processes

Affected tension: talent attraction

During phase 1, Banco da Favela prioritizes social mission over market mission, by hiring and developing people from favelas who did not have formal training. They would then be employed at Banco with a generalist view: every employee would need to learn all functions inside the bank, allowing for full flexibility and replaceability in case someone was absent or quit. The hiring strategy was defined by Andre and employed by Nero. The tension in talent attraction happens because it is hard to attract employees with the necessary capabilities to address the needs of the market logic while having the sensibilities needed to care for the social logic.

In phase 2, with the conflicts between these two decision-makers escalating, Nero decided he did not want to work with untrained employees anymore. However, the hiring process was not changed. During phase 4, with the split between Banco da Favela and Bolsa and the arrival of Fundo and of Carolina at Banco, the newly appointed CEO adapted the hiring process to allow Banco da Favela to focus 100% on the social mission. The bank would keep hiring people from favelas like before, but would now develop them in a specific role instead of a generalist approach.

> *As the general manager, I was the one responsible to build the team. Everyone working here is from a favela. I am from a favela myself and was one of the first employees of Banco da Favela all the way back, in 2016—Diogo, interview XIII.*

This aimed at simplifying the adaptation of newly hired employees to the bank: instead of needing to learn how to do a bit of everything, they would be specialized in a role aligned with their interests. Training would be faster, and while the organization kept hiring people from the favelas, Carolina could choose candidates that already had some experience in the specific roles they would be performing.

> *In a startup, everyone does a bit of everything. I don't even like to use much that word, CEO, because I do a bit of everything. I call myself an*

entrepreneur, the entrepreneur of Banco. Since we are in a restructuring phase, […] there were more senior people working here, but in 2020 Andre had to fire them, and now we are restructuring… everyone working here is from favelas. They are wonderful people, but not very senior, so I know what I can demand from them. Now the guys from Fundo are arriving to assume some responsibilities. And the employees are focused each on a role—Carolina, interview XI.

Fundo allocates not only money, but also workers. They added someone to do the marketing, strategy of social media. Then I put one of my people to help them, bringing the culture of favelas, to make sure we talk their language. There is also a person from there that is helping with the finances. We're doing these exchanges to aggregate knowledge for them [employees from favelas] and bring their reality to Banco too—Carolina, interview XI.

On the other side of the dyad, Bolsa was allowed to focus entirely on the market mission, with Lucas and Nero hiring specialists without history of social involvement. Free from the constraints of the social logic, they were able to attract storied personnel, including people with vast experience in building stock exchanges and in dealing with CVM, the Brazilian Stock Exchange Commission. Every single person involved in Bolsa was older and more experienced than anyone working at Banco, including Carolina, who was hired as the CEO in her twenties, with a single experience as a startup entrepreneur in her curriculum. The supporting organizations were also much more established in the case of Bolsa than of their counterpart. For instance, while the bank had a law undergraduate student from a favela as their legal support, the stock exchange had an established law firm, represented by its owner herself, who became a partner of Bolsa afterwards, and by a younger lawyer heralded as "their most brilliant up-and-coming lawyer", at their disposal.

Yes, we want employees from favelas, of course. But the roles in a stock exchange are much more specialized than in a bank like Banco da

Favela. Maybe after the company is operational, we can have the customer service there—Lucas, interview XV.

We have specialists from diverse areas: blockchain, legal, digital currency, stock exchange… even if someone else is trying to do what we are doing, we are ahead, and we have a peerless team—Maria, during observation of meeting 9.

5. Discussion

This thesis seeks a better understanding of the management of hybrid organizations, particularly of the tensions between opposing logics in these organizations. Hybrid organizations embody multiple different, conflicting institutional logics in their very core (Battilana, 2018). Due to their intrinsic characteristic of balancing opposing institutional logics, which constantly pull the organization in different directions (Battilana, 2018), hybrid organizations constantly need to manage tensions (Battilana et al., 2017).

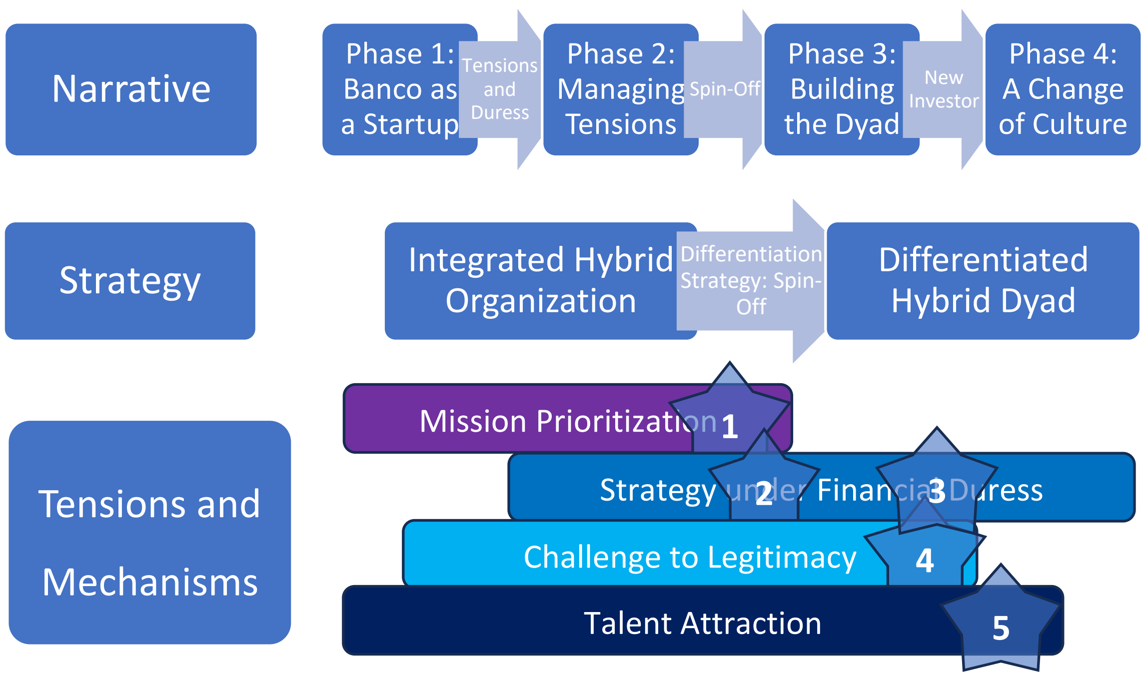
The case of Banco da Favela presents the opportunity to investigate a novel way in which these enterprises deal with these tensions. There are three main contributions of this thesis to the extant literature of hybrid organizations: first, the proposal of spinning of a second business as a differentiation strategy to deal with the inherent tensions of hybrid organizations; second, the proposal of the dyadic hybrid, that Banco da Favela achieved by moving from an Integrated Hybrid Organization (Ebrahim et al., 2014) to a dyad that essentially functions as a Differentiated Hybrid Organization (Ebrahim et al., 2014); and third, the main mechanisms that were mobilized in the case, and how they affect the success of a hybrid organization.

Figure 1: A process view of the stages of Banco and Bolsa presents a process view of the stages of Banco da Favela and Bolsa de Valores da Favela throughout the four phases identified in the temporal bracketing. The narrative section summarizes the identified and constructed narrative based on the temporal brackets and turning points. The strategy exposes the change in strategy and organizational form of Banco into the dyad of Banco and Bolsa. And the tensions and mechanisms part visually identifies from which phase to which phase the tensions were active, and when did the mechanisms get mobilized. The numbers of the mechanisms refer to the numbering system of Table 12.

5.1. A novel differentiation strategy—Spinning off a second organization

The threat of mission drift was constantly looming over Banco da Favela. With the push from external investors to find profitability, Nero attempted to change the bank's business model in Phase 2. This change, moving towards more affluent customers from favelas in Rio de Janeiro, would cause the organization to drift from their mission of offering basic banking services to the unbanked poor (Ault, 2016). Even if the new set of clients were also from favelas, they already had bank accounts and did not need a place to pay bills; instead, they could need investment opportunities or, more likely, microcredit to support their endeavors. Therefore, the service offering would need to be different since they were not the unbanked poorest of the poor anymore, another example of mission drift (Mia & Lee, 2017). The business model change would mean they would not offer these services—with a minimal profit margin and that only served the needs of the poorest of the poor—and would instead focus on offerings that provided a larger return.

Figure 1: A process view of the stages of Banco and Bolsa



This move was curtailed by the ideation of Bolsa. The goal was to prevent mission drift by adding Bolsa as the money-maker of the relationship, which would free Banco da Favela to pursue its social goal. This would reduce the stress of Banco da Favela to produce financial results. A spun-off organization can improve the health of the original business if it generates new sources of income and adds value to the business (Lyon & Fernandez, 2012). The potential synergies between Banco's and Bolsa's business models meant that Banco would receive passive income from the operations at Bolsa, increasing its access to internal funding without having to change its business model.

Banco da Favela spun off a new organization, Bolsa, in order to deal with the tensions between the market and social logics, a new form of differentiation strategy that is not currently proposed in the literature. As differentiation strategies exacerbate the risk of internal conflict, by forming even stronger silos and coalitions that create friction upon contact, they can cause organizational paralysis (Battilana et al., 2017). However, by thoroughly moving the staunch defendant of the market logic into a separate organization that would be indirectly responsible for improving the profitability of Banco da Favela, the bank attempted to solve in a single move both the tension between logics and the need for profitability. Furthermore, with the main opposition to the social mission of Banco moving on to a separate business, they would not have any influence in the decision-making processes of Banco, avoiding the escalation of the conflict and preventing the possibility of organizational paralysis.

The intended social impact of Bolsa de Valores da Favela was purely indirect, through fostering green and social organizations and through empowering Banco da Favela to focus on its social mission. The two organizations would function in a symbiotic manner, with the bank also helping the stock exchange through lower operational costs: Bolsa would use the infrastructure of Banco, such as the app and the blockchain stablecoin.

Extant literature affirms that a spin-off that reinforces the original organization's business model and creates new revenue streams can improve the health of the original organization (Lyon & Fernandez, 2012). However, that is not the only possible contribution of a spin-off. When feuds between defendants of two institutional logics seem unsurmountable, splitting the factions into separated departments or even offices becomes a way to address the tension without forcing anyone to quit (Battilana et al., 2017). However, in the investigated case, the tension crept into the leadership of the organization. Therefore, a more extreme measure would be necessary, and thus the emergence of a separate organization, as an extreme version of compartmentalization (Mirghani & El Ebrashi, 2023).

The leadership and talent to generate financial results from Nero were deeply appreciated by the group of decision-makers of Banco da Favela. Despite their understanding that the relationship inside the board of Banco da Favela got too sour to keep the status quo, letting Nero go would jeopardize the ability of Banco to generate the revenues needed for its survival. Instead, they produced a solution that reduces the potential of conflict but does not reduce the potential of positive financial results. Quite on the contrary, Nero and other supporters of the market logic would receive green light to explore maximizing profitability, with no negative effects to the business model of Banco but with positive effects to its access to the resources necessary to fund its social impact mission.

The separation of the supporters of the market logic into Bolsa, associated to the hiring of experts with no background in social entrepreneurship to work at the spin-off, can only be beneficial for Banco if it reinforces its business model through synergies (Lyon & Fernandez, 2012). This is the case here: although the main stakeholders of the two organizations interviewed for this research could not agree on how exactly Bolsa would support Banco, many different opportunities were offered. Banco could function as the custodian of the assets at Bolsa, allowing the bank to capitalize on the float, or it could receive a finder's fee for organizations that it connected to Bolsa to launch their stocks.

Differentiation strategies are not new to the literature. They are employed to improve organizational performance by alleviating conflicts through the separation of the practices associated to each logic, or even of the supporters themselves (Pache & Santos, 2013). Compartmentalization, the physical separation of supporters of opposing logics, can be achieved by separating departments, physical or temporal differentiation—working from different places or at different times—to reduce the possibility of conflict between feuding members (Mirghani & El Ebrashi, 2023). However, this would not work in the case of Banco da Favela: the tension emerged in the top management team, mainly as a conflict between the CEO and the CFO, who were the two most important decision-makers of the company and respectively its first and third largest shareholders. It is unreasonable to expect that the conflict can be solved by having them work at different hours when they are the ones who need to steer the organization, together.

The case of Banco da Favela offers an insightful solution to this tension: a spin-off. The creation of a separate organization to redirect the belligerent leadership is an extreme example of compartmentalization (Mirghani & El Ebrashi, 2023) for when the tension is not contained in the lower levels of the organization but made its way into the top management team. By moving the opposition to a different company entirely, conflict is avoided; but since they are still working in the same conglomerate, as the organizations function as a dyad, their skills and expertise are not lost.

In summary, there are three conditions that must be present for the spin-off strategy to be applicable: first, the tension between the two institutional logics must affect the organization from the bottom all the way to the top; second, there needs to be a recognition that the feuding members are too invaluable for the organization to be let go; and third, the new organization must have a business model that reinforces the one of the original organization, creating new revenue streams that would be impossible otherwise.

5.2. A novel strategy to deal with tensions in hybrid organizations—from Integrated Hybrid Organization to Differentiated Hybrid Dyad

In the period before the spin-off, Banco da Favela (2017-2020) was an Integrated Hybrid Organization (Ebrahim et al., 2014): the organization had three different business models through these years, but all of them had the same principle of trying to achieve profitability through selling services to the impoverished inhabitants of favelas in Rio de Janeiro and other poverty-stricken communities in Brazil. These clients would also be the beneficiaries of the social impact the bank promoted, by offering them financial inclusion and reducing the burdens of not having access to checking accounts.

Integrated hybrids may go through means-ends decoupling (Ebrahim et al., 2014), where the organization fails to ensure that the commercial transaction leads to social change. This form of mission drift (Ault, 2016; Mia & Lee, 2017) was the biggest fear Andre had, had Banco moved into the direction that Nero demanded. By tending to people who needed more advanced services than just a checking account and means to pay their boletos, the bank would not be alleviating the pain of the unbanked poor inhabitants of the favelas of Rio de Janeiro anymore. To avoid the loss of legitimacy (Kent & Dacin, 2013) of Banco before this community, his solution was to transform the organizational structure of the enterprise altogether.

The spin-off that Banco da Favela underwent in 2021 created a dyad that operated as a Differentiated Hybrid Organization (Ebrahim et al., 2014): Banco gave up on trying to be profitable through its business model in the short term, but not on the business model itself. Instead, the creation of Bolsa de Valores da Favela allowed them to identify a new, synergistic revenue stream (Lyon & Fernandez, 2012) that would be unrelated to the core business but would in fact be the largest source of income, while the bank focused on causing social impact with its main activity. If on one hand the stock exchange would create new revenue streams for the bank and fund its operations, on the other hand Banco would lend its legitimacy as a social enterprise to Bolsa. This symbiotic nature of the separated institutional logics is one of the advantages proposed by an integrated hybrid organization (Ebrahim et al., 2014), one that can be explored at a higher level in the case of a dyad. Although differentiated hybrid organizations are not new, the movement from integrated hybrid to differentiated hybrid is not explored in the literature. This movement happening through a spin-off is little documented in previous literature.

However, although it evaded means-end decoupling (Ebrahim et al., 2014)—the organization failing to serve the poorest of the poor, for example—this movement pushed the dyad into another form of mission drift: policy-practice decoupling (Ebrahim et al., 2014), a form of mission drift exclusive to differentiated hybrids. While the dyad legitimized Bolsa as a way to finance the social mission of Banco da Favela, it became clear through time that the stock exchange was receiving most of the attention of the key stakeholders. Bolsa had a lot more resources, both human and financial, to start operating. The leadership of Bolsa was comprised of half a dozen people carrying huge previous experience; on the other side, Banco da Favela had Carolina, a young manager taking the first big swing of her career, as the captain of a team of unexperienced employees from favelas—that generally did not have a degree in the area they were hired to work on—with the part-time support of a few investors from Fundo.

This difference in access to resources resulted in different expectations as well: Banco da Favela aimed at acquiring one hundred clients from one specific favela in Rio de Janeiro in their rebirth; Bolsa targeted serving businesses worth millions of Brazilian Reais, pulverizing their stocks among thousands of small investors. The last part of this form of mission drift would materialize if the money generating side of the dyad not funding the social mission (Ebrahim et al., 2014). However, the business model proposed to the dyad would in theory prevent this from happening, as it would not be a direct transfer of funds, but indirect assistance in generating resources through the integration of business practices.

Finally, while in a vacuum the failure of the organizations investigated in this case could imply that there is a flaw with the theoretical contribution of this case study, it in fact reinforces the arguments being made: the bankruptcy of Banco da Favela after the refusal by CVM to allow Bolsa to enter the operational sandbox—thus denying its formation—is another evidence that the movement of spinning off the stock exchange was fundamental. The business model developed for both organizations was novel but logical, and the strong synergies between the two organizations would be important for their success. However, without Bolsa, Banco da Favela was left relying on a social impact model that was not self-sustaining and still needed external support, which was denied. Without Bolsa, the investors simply did not see a possibility that Banco da Favela would survive on its own, so they decided to pull the plug and shut down the social bank as well.

5.3. Mechanisms to manage tensions in hybrid organizations

The literature of hybrid organizations establishes that tensions are challenges that these enterprises face due to their hybridity itself, to the need to balance two or more institutional logics (Gigliotti & Runfola, 2022). As they involve multiple different stakeholders, each tension demands a particular solution, with a one-size-fits-all approach prone to failure (Gigliotti & Runfola, 2022).

Multiple strategies to deal with these tensions have been defined in literature. Integration strategies such as combination (Battilana & Dorado, 2010) or selective coupling (Pache & Santos, 2013), differentiation strategies such as conforming (Mair et al., 2015) and compartmentalization (Mirghani & El Ebrashi, 2023), a combination of integration and differentiation, such as discretionary diversity (Canales, 2014) and segmenting, bridging and demarcating cycles (Smets et al., 2015), and even inaction strategies of acceptance (Hahn et al., 2015) and inevitability (Siegner et al., 2018). As mentioned in the previous sections, this thesis proposes a new strategy of differentiation, the spin-off. However, to further define how the spin-off strategy works, this work analyzes the specific mechanisms that came into play throughout the transition from an integrated hybrid organization into a differentiated hybrid dyad, and beyond, as the dyad attempted to establish itself. Five mechanisms were identified, as specific answers to four tensions. The understanding of these mechanisms allows us to expand the knowledge of how the tensions between institutional logics can be alleviated. Figure 2 summarizes the hierarchy and chronology of the identified mechanisms. The numbers refer to the numbering system used in both Table 12 and Figure 1: A process view of the stages of Banco and Bolsa.

5.3.1. Splitting main opposition

This research shows that when two opposing factions in a hybrid organization attempt to prioritize their favoured mission, it may lead to the emergence of a tension related to the incompatibility between the two objectives, which complements the findings by Battilana (2018). Also, corroborating with the contributions of Mirghani and El Ebrashi (2023), it shows that efforts of compartmentalization, such as the physical separation of opposing factions, can be an attempt to deal with this tension when the feuds generated by the opposing factions are restricted to the lower and middle levels of the organization; however, if the tension reaches the top management of the enterprise, the separation of the factions leads to a split of the organization in two. This is the first step into the creation of a spin-off, and a necessary condition for the other mechanisms to be engaged.

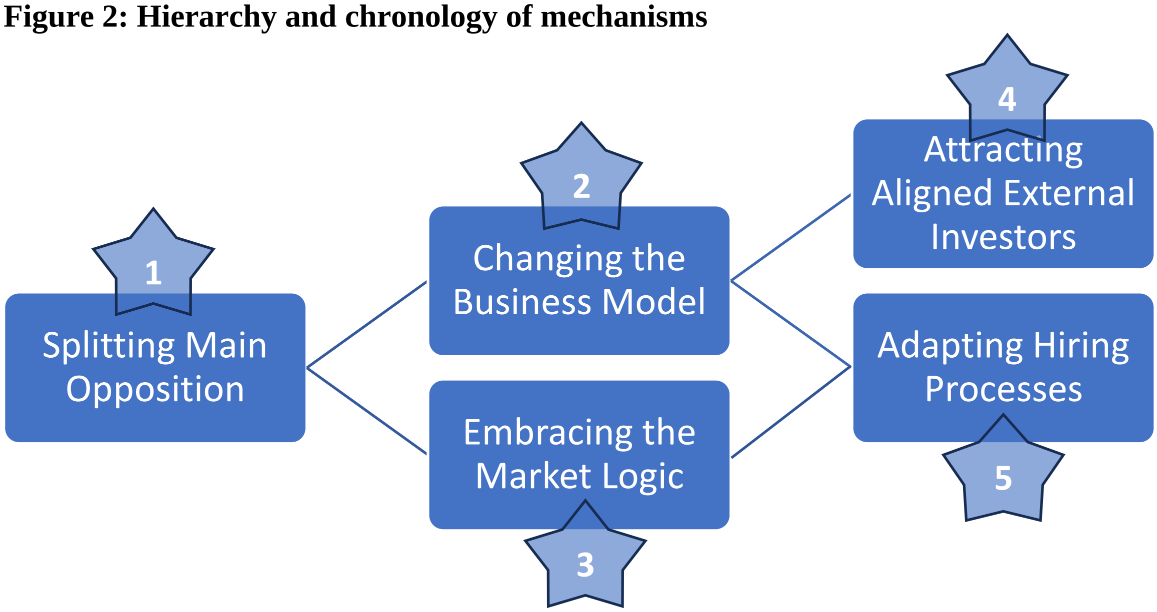
5.3.2. Changing the business model

This study has identified that the original organization, after the compartmentalization of the institutional logics, will have a preponderance towards one of the two missions. In the case of Banco, the split allowed the social logic to dominate, as the market logic got pushed outwards. The business model of the organization, which previously embraced both missions, now have to deal with only one. Therefore, the original organization can focus on the social mission and can change its business model accordingly. At the same time, the dyad as a whole must identify opportunities for synergies and operate in the same value constellation, in order to improve the health of both organizations simultaneously, as proposed by Lyon and Fernandez (2012).

5.3.3. Embracing the market mission

With the market logic being pushed outwards and the social logic dominating the original organization, the two organizations will not be able to function as a differentiated hybrid dyad unless the newborn enterprise has a value proposition that generates enough profits to not only sustain itself and its growth, but also maintain the social mission of the original organization, as per the definition of differentiated hybrid organizations (Ebrahim et al., 2014). Therefore, this thesis proposes that the new organization must embrace the market mission, seeking a surplus of profits from its business model.

Figure 2: Hierarchy and chronology of mechanisms



The nascent organization borrows legitimacy from the social aspect of its parent organization to be allowed to operate as a part of a social enterprise, analogous to the relationship of the respective sides of a differentiated hybrid organization (Ebrahim et al., 2014); and, in return, it provides its parent the increase in profits and the optimization of costs facilitated by the synergistic characteristic of their business models, following the expected outcome of spinning off an organization in the same value constellation (Lyon & Fernandez, 2012).

5.3.4. Attracting aligned external investors

With time, investors in the original organization will demand profitability and challenge the legitimacy of the enterprise (Mirghani & El Ebrashi, 2023). At the same time, clients will demand the maintenance of the social impact of the organization and challenge its legitimacy if it swerves towards profit generation (Battilana et al., 2017). The hybridity of a social enterprise creates challenges to attract investors. Commercial investors are put off by the social mission, and philanthropists are turned away by the market mission (Battilana, 2018).

However, this research finds that with the split between an organization driven by social impact and one driven by profit maximization, this tension is somewhat alleviated. External funding for social enterprises will always be hard to come by (Battilana, 2018), but the organization focusing on the social mission can now funnel its efforts for external funding on investors aligned with the social logic. The constitution of Fundo prevented the investment fund from acquiring companies unaligned with their definition of "regenerative businesses", which included Bolsa. However, with the social impact model of Banco outweighing, in their view, the inherently non-regenerative status of the financial sector, they saw the social bank as an organization worth investing. At the same time, although it did not appear on the case analyzed by this thesis, it can be inferred that the spun-off enterprise may become eligible for external funding by commercial investors who would be deterred by the social mission it does not have.

5.3.5. Adapting hiring processes

The last mechanism identified in the case study was the adaptation of hiring processes, which both organizations faced, and which was enabled by their respective business model mechanisms. Attracting talent is yet another source of tension for hybrid organizations, due to their need for employees versed in both social impact and financial goals (Battilana & Dorado, 2010). However, this research shows that now that the original organization is focusing on the social mission and the spun-off is focusing on the market mission, they can adapt their hiring processes to attract employees more aligned with these missions and with the appropriate skillset.

With this mechanism, the two organizations are able to challenge the findings by Battilana and Dorado (2010) regarding the tension in talent attraction. In the case in question, the social bank focused on attracting employees from favelas and developing their skills in a single function each. Conversely, the stock exchange focused on building a team composed of employees with vast experience in the development of similar businesses throughout their careers, even if they did not have any experience with social entrepreneurship. Identifying and hiring personnel that had skills, capabilities, and interests aligned with only the market or the social logics was possible due to the two organizations in the dyad operating independently and focusing on one institutional logic each.

6. Conclusion

We are experiencing a socio-environmental urgency that places increasing responsibility on organizations. Responsibility and power—agency power to make the world we live a better place. This responsibility and power are accompanied by a complexity that crosses the path of organizational strategies and imposes new ways of seeing and enacting the world. Hybrid organizations, which balance a social mission with the goal of profitability inherent of conventional business practices, are one of these ways.

However, hybrid organizations, due to the balancing of different sets of values, beliefs, and practices—different institutional logics—, are constantly exposed to tensions caused by these conflicting views. The literature on hybrid organizations proposes multiple ways to deal with these tensions, but it is not exhausted. This thesis sought to present a new form of organizational action that provides prospective paths for companies to deal with the social needs that the world demands: a spin-off. The aim was to explain how the creation of spin-offs influences the ability of hybrid organizations to manage the market and social institutional logics.

The empirical study of Banco and its spin-off Bolsa brought to light a hybrid organization that went from the Integrated Hybrid Organization model to the Differentiated Hybrid Organization model, facing the complexity imposed by the tensions related to mission prioritization, talent attraction, strategy under financial toughness, and challenges to legitimacy, and by the threat of mission drift—almost always arising from the different views of its stakeholders. This was done through ostensive data collection, including thirty in-depth, semi-structured interviews, three longitudinal online observations spanning six months of operations, and nineteen short observations of daily operations and meetings, supported by twenty-one internal and external documents provided by the stakeholders or identified by the researcher through personal search.

The analysis of this data was divided in three stages: a narrative of the main story split into four main phases, using the technique of temporal bracketing; an analysis of the main tensions identified in the organizations and how they affected the operations; and the identification of the five main mechanisms enacted to deal with these tensions, such as: the separation of main opposition inside the organization through the creation of the spin-off itself, the change of the business model of the original organization to focus on the social logic, the embracing of the market logic by the new organization, the capture of investors more aligned with the social cause, and the adaptation of the processes of talent attraction.

From this case, it was possible to glimpse three important contributions to the existing literature in the field. First, we add a new block to the literature of differentiation of hybrid organizations with the proposal of spinning of a second business as a differentiation strategy to deal with the inherent tensions of hybrid organizations. Second, we add to the discussion of strategies to deal with tensions in hybrid organizations through the proposal of the Differentiated Hybrid Dyad by moving from an Integrated Hybrid Organization to a dyad that essentially functions as a Differentiated Hybrid Organization. And third, we contribute to the discussion of how mechanisms enacted to deal with the tensions can affect the success of a hybrid organization.

Future studies could explore the spin-off model in other combinations of hybrid organizations. An interesting path could be the study of the spin-off model for ambidextrous organizations, which also face tensions when seeking a balance between exploration and exploitation movements. Another path for future research would be the investigation of cases involving hybrid organizations that embrace more than two institutional logics, or a distinct set of logics than the one mobilized by the dyad of Banco and Bolsa. Finally, a second case in which a spin-off phenomenon follows exactly the same model of Banco and Bolsa, but without the heavy regulatory constraints to operation to which a stock exchange is submitted, can be important to validate the findings and confirm that the main issue that led the dyad to bankruptcy was external and unrelated to the contributions provided by this thesis.

Future research can also deepen the contributions provided in this thesis, such as the mechanisms that push an organization trying to avoid mission drift by means-end decoupling into falling for policy-practice decoupling, another form of mission drift.

Literature in mission drift often proposes a prescriptive method to avoid mission drift altogether, and the finding that by following this prescription Banco was pushed into another form of mission drift is in itself interesting.

It is important to conclude by highlighting that understanding the failure of Banco da Favela's entrepreneurial effort as a learning opportunity for academics, practitioners and social entrepreneurs is fundamental. Longitudinal qualitative studies are constantly exposed to this kind of risk. The analysis carried out in this study addressed part of the complexity of the case, but there is much more to be explored by those who want to advance in social innovation and know that failure is just one step in the learning process for innovation. Nevertheless, the weight of the findings and contributions in this research more than outweigh the loss of validation derived from the failure of the organizations examined in the case study.

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Appendix

Appendix Group A: Interview Protocols

Appendix A1. Interviews I, II and III, Andre, Karla, and Nero, 2018[4]

My research will be about the impact of banking access to the classes D and E[5]. I want to talk about financial literacy and its impact in banking access to the poor. This will be an open ended semi-structured interview, so I have a few guiding questions but will react to your answers and let this flow as a conversation.

- How did Banco emerge? How did it start?
- Why a bank? Why in the favela?
- What are the services that you are offering? What services do you intend to offer in the future?
- How does Banco impact the lives of the poor in the favela?
- In which favelas are you active?
- What are your plans for growth? Do you intend to expand? Do you have international plans?
- How do you see Banco in the future? In two years, in five years, in ten years?
- How does Banco make money? What is Banco's business model?
- [Specific for Karla] Do you think it is relevant that Banco hires people from the favelas? How did Banco impact you?
- [Specific for Nero] What is your expertise/background? When and why did you join Banco?

[4] For these interviews in 2018, there was no intention of anonymity, and most probing questions were related to specific circumstances of Banco, its creation, and the place in which it operated. Therefore, most of the interview protocol needs to be redacted to preserve the anonymity of the actors involved in the case. Interview 1 snowballed into interviews II and III, which used mostly the same protocol but added specific questions to Karla and Nero

[5] The Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatísticas*, IBGE) classifies social classes through income brackets. Roughly, classes D and E refer to the poor and the extremely poor

Appendix A2. Interview IV, V and VI, clients of Banco, 2018[6]

- How did you find out about Banco?
- Why have you become client of Banco?
- How does Banco affect your life in the favela?
- Would you recommend Banco to your friends? Why or why not?

[6] The three clients of Banco interviewed here were chosen during the observation conducted *in loco* at one of the bank branches, in 2018. These interviews were quite simple and structured to find out how did the clients of Banco view the social bank. They were even more unstructured and open-ended than the previous interviews

Appendix A3. Interview VII, Andre and Karla, 2019

- I have already asked this question before, but please recap your story and the story of Banco.
- Since we last spoke, what changed in the structure and size of Banco?
- Do you consider Banco an enterprise with social interests?
- Did your previous businesses have social interests?
- What is Bolsa? How did the idea of Bolsa emerge? How is it progressing?
- How is the hiring process at Banco? Will it be different at Bolsa?
- Who do you see as competitors of Banco?
- What was the growth strategy of Banco so far? How will it be from now on?
- Did you ever feel you would need to find richer, or less poor, clients to keep Banco growing? How do you feel this affects the social benefit of Banco?
- Do you feel the business environment where Banco is situated changed from its creation to today?
- Did Banco's business model change from its creation to today?
- Have you ever had to change anything from Banco's business model due to an investor's request?
- Where do you see Banco in the future? In two years, in five years, in ten years?
- Tell me more about Bolsa. What kind of companies will be listed?
- You once told me, "for Banco to work, it needs large clients". Has this changed?
- Karla, what do you think about everything that Andre has said? Are there any major disagreements?
- Do you intend to attract any kind of investors to Bolsa, or just social investors?
- Do you see Bolsa as a social enterprise? Why or why not?

Appendix A4. Interviews VIII, IX, X, XII, and XV, key Bolsa decision-makers, May 2021[7]

- Let us start by introducing yourself, explaining your role at Bolsa.
- I stumbled upon Bolsa when I was interviewing Andre to understand what was going on with Banco, and he unexpectedly told me that he was creating Bolsa to solve Banco's cashflow problems. This spin-off is academically interesting, there is not much literature about spinning off social enterprises. So this interview about Bolsa is highly exploratory still, I need to understand what Bolsa is, what is its role in the system with Banco. So, now that I know who you are, tell me, what is Bolsa?
- How do you see Bolsa's role in this system with Banco, as I described before?
- What is the process of starting Bolsa? What do you need to start operating?
- When will you know the results of the sandbox process? What are your expectations about it? Why?
- How does crowdfunding work? What is the difference between being a crowdfunding platform and a stock exchange? Why does Bolsa want to be a stock exchange?
- What are the other companies applying to the sandbox doing? How does Bolsa differentiate itself from them? And from B3?
- What is the cost structure of Bolsa? What about the revenues? Is Bolsa a social enterprise?
- How does Bolsa influence Banco? How does Banco influence Bolsa?
- What is Fundo? What is the relationship between Fundo and Bolsa?
- Who should I interview next?

[7] The first interview with Maria (Interview VIII) was the first contact of the author with anyone actively working at Bolsa. It had a much more unstructured aspect, really conversational. However, it roughly followed the same interview protocol. The following contact (Interview X) used the same interview protocol, but followed a more structured interview approach and went deeper in the probing

Appendix A5. Interviews IX, XI, XIII, and XVI, key Banco staff and decision-makers, May 2021[8]

- Let us start by introducing yourself, explaining your role at Banco.
- How is the structure of Banco now? Who is doing what?
- What are the plans to relaunch Banco? How long will it take? Do you have a timeline?
- What is the business model of Banco? How does Banco make money?
- What forms of social impact does Banco intend to cause?
- Are the services free for the community? How does this decision impact the social impact that Banco aims to provide?
- The term "super app" keeps appearing in interviews. What is a super app, and what does it mean in relation to Banco?
- [To Andre and Carolina] What is the social score? What does it mean?
- [To Carolina] Why does Banco focus on hiring people from favelas?
- [To Diogo and Elaine] Does Banco impact your life in any way, besides giving you a job? Why did you decide to work here? Is there any impact on the people in the favelas?
- Will Banco expand out of Rio de Janeiro again?
- What is "BaaS"? Why is Banco operating with a BaaS?
- I recently found out that Fundo is acquiring a participation at Banco. What is Fundo? Why are they buying in? How do they help?
- [To Carolina] What is the relationship between Banco and Bolsa? Is Bolsa essential for the survival of Banco? What about Stablecoin, is it necessary? Why?
- Is Banco an organization for social impact? Why?
- [To Andre and Carolina] Is Bolsa an organization for social impact? Why?
- Who should I interview next?

[8] Andre was interviewed as both a Banco and a Bolsa decision-maker, so the protocols of both annex A4 and annex A5 were used for interview IX

Appendix A6. Interviews XIV and XIX, Rafael and Olivia, May/June 2021

Follows the same interview protocol of Bolsa's key decision-makers, but with specific questions tailored to their roles as the lawyer and the advisor for CVM interaction, respectively. Both also spent a good chunk of the interview clarifying my questions about regulations and the whole process that Bolsa is going through with the sandbox and CVM.

- What is your relationship with Bolsa? Why have you joined the project?
- How long have you participated in the project?
- What are the challenges that Bolsa is facing? How have you influenced the company so far?
- What are the main challenges regarding the application to the sandbox? How would you rate the chances of Bolsa getting approved by CVM?
- What is Bolsa requesting as exceptions to CVM? What is likely and is there anything you think is unlikely that CVM approves?

Appendix A7. Interviews XVII and XVIII, key Fundo decision-makers, May 2021

- I had never heard of Fundo until I dropped in an observation of a meeting between Bolsa decision-makers, and you were there. So let us start by defining what is Fundo, and what is Fundo's relationship with Banco and with Bolsa.
- How many companies does Fundo invest in?
- How did the relationship with Banco and Bolsa begin?
- When did you start your engagement with them?
- In your outsider view, what went wrong with Banco between 2018 and 2020?
- What is your role at Fundo? What are the roles at Fundo and who is responsible for each of them?
- Is Banco an organization for impact? Is Bolsa an organization for impact?
- Why is Fundo not buying a stake at Bolsa?
- By looking at Banco and Bolsa, we can see that Banco has almost all employees from favelas, and Bolsa has none. Why do you think that happens? Do you think it is relevant? Do you think Bolsa not having this connection is a problem?
- What is the main challenge you see at Banco? And Bolsa? And Fundo?

Appendix A8. Interview XX, Karla, July 2021

Karla asked to keep the contents of this interview confidential. It is still listed as one of the interviews, but the content discussed was not used for this thesis. The interview was not recorded.

Appendix A9. Interviews XXI and XXII, key Banco decision-makers, September 2021

- What happened with Banco in the last two months?
- What features is Banco developing to provide now?
- What are the partnerships that Banco is setting up?
- How does the timeline for Banco look now?
- What are the resource generation services of Banco?
- Among the new activities, is there one that will definitely never be profitable and that you are doing just because Banco needs to generate this impact?
- With the issues at Bolsa, do you think this can affect Banco in any way? Is crowdfunding through Banco still planned?
- How is the relationship with Fundo?
- Has anything changed in the employees? Did anyone leave, did you hire anyone? If yes, what happened?
- Why did you stop the weekly meetings with Fundo? What meetings are still happening?
- [To Carolina] I have noticed that the engagement in social media for Banco is negligible. Why is that, and is that something that bothers you at the moment?

Appendix A10. Interviews XXII and XXIII, key Bolsa decision-makers, September 2021

- Why did CVM refuse Bolsa?
- What happened with Bolsa in the last two months?
- What happens now with Bolsa? How does that affect Banco?
- Is there a future for the company with the rejection of CVM and the exit of the main actors?
- What were the main factors that led to this point, where everyone quit?
- [To Maria] Why do you think all leaders left Bolsa? Why did you leave Bolsa?

[Probe possibilities of conflicts between institutional logics]

Appendix A11. Interviews XXIV, XXV, and XXVI, former key Banco employees, January 2022

These interviews were conducted in person, in very informal settings. They were not recorded, only notes were taken. Since these interviews were at restaurants, at night, under low light, the respective notes were taken roughly one hour after each of them. Interview protocols were simple, focusing on probing the factors that led to the demise of Bolsa and, most importantly, of Banco.

Appendix A12. Interviews XXVII, XXVIII, XXIX, and XXX, former key decision-makers, 2023/2024

These interviews aimed at ironing the wrinkles in the research. The protocols were short and to the point. The second part of each interview was open-ended, based on the answers provided for the questions in the protocol.

- Who were all the shareholders of Banco throughout its history? Who joined, when, and with what percentage of the shares?
- Who were the decision-makers of Banco? Who held the most power? How was the relationship between them?
- Who were all the shareholders of Bolsa throughout its history? Who joined, when, and with what percentage of the shares?
- Who were the decision-makers of Bolsa? Who held the most power? How was the relationship between them?
- What did you do after the collapse? Where did you go? How is your relationship with the other stakeholders now, if any?
- Do you think Bolsa's collapse was avoidable? Why did it not proceed as a crowdfunding platform?
- Do you think Banco's collapse was avoidable? Did it have anything to do with Bolsa's collapse?
- What happened to Fundo?
- Does either Bolsa or Banco still exist today, in any form? Are you involved, in any form?

[Probe possibilities of conflicts between institutional logics]

Appendix Group B: Other Interview Excerpts

Tables 13, 14 and 15 in the following pages bring quotes from interviews that enrich the knowledge on different tensions, mechanisms, and other aspects of the theory derived from this research. They are formatted as: quote, then source of the quote, then alignment with theory (which institution it refers to and which aspect of the analysis and contributions it adds to), and finally a short paragraph explaining the reasoning for this quote to be added to the table.

The excerpts were organized using the same format of the analysis: quotes that support the construction of the narrative, separated by the phases 1 to 4 as in the Part 1 of the analysis; then quotes that support the evidences of the tensions identified both in the literature and the case, in the same order that they are presented in the Part 2 of the analysis; and finally quotes that support the mechanisms mobilized by the dyad to deal with these tensions, in the same order that they are presented in the Part 3 of the analysis. When relevant, they were organized by organization as well: first Banco, then Banco and Bolsa, then Bolsa.

Appendix B1: Interview excerpts connected to the Narrative

Table 13: Interview excerpts connected to the Narrative

Quote	Interview	Alignment	Reason
When we opened a branch inside this community center in a favela in Rio, it didn't even have a roof. We installed the roof, we leveled the floor, we cleaned it up, we set up some tables, all of that was for their community to use	XII – Nero	Banco, Phase 1, starting Banco da Favela	Every expansion of Banco came embedded with their intended social impact; in this case, they fixed up the community center and that gave them legitimacy to stay in the favela
[In 2017] I was working, and then Andre shows up with a friend and asks me, "what do you struggle with here, what are your needs?". I was like, he's asking me? A favelado[9]?	XIII – Diogo	Banco, Phase 1, starting Banco da Favela	Since its inception, the goal of Banco was to support the disenfranchised people from favelas, to help them tackle the obstacles of poverty
Speaking for myself, I have an account at Itaú, I like my account there, I pay for it because I have the means. If someone doesn't have the means that I have, I can see how the monthly fee would affect them. It makes a difference to have an account that charges nothing	XIII – Diogo	Banco, Phase 1, starting Banco da Favela	Banco attacked at two fronts: first, it aimed to attract people without bank accounts, the unbanked, who just cannot pay their bills without going in person to a bank; second, it wanted to convince inhabitants of favelas who paid for bank accounts that a free option was available just for them
I was 18, completely lost, didn't know if I was going to go to college, if I was going to work… I needed to pay a bill (…) and [at Banco] they taught me	XVI – Elaine	Banco, Phase 1, starting Banco da Favela	From the angle of a client-turned-employee, the creation of Banco to suit the needs of the favela

[9] Favelado(a): person who lives in a favela. It is considered pejorative and sometimes used to offend poor people. Diogo is using it in a context of self-deprecation

how to use the app. I never had a bank account, didn't know how it worked			
Working at Banco I realized that I could see other areas, that I got to like things I didn't even know existed. I started rising in the bank, from clerk I went to operations. Then I decided to go to college, and Banco was essential for me to do the ENEM and enroll at UFRJ	XVI – Elaine	Banco, Phase 1 starting Banco da Favela	The first series of employees at Banco were people from favelas, highly inexperienced and unspecialized, who "did a bit of everything". Banco supported their career progression and pushed them to get higher education
When he says Banco is a business for impact, he means, of course, profit, because it's a business, but not only profit, thinking about everyone, the people who work here, the clients. The fact that this is a tech company and works from a favela, this is already impact. And when we have a client, we understand their needs. Many times, a client would come and ask us for his electricity bill, because they couldn't manage to get it online. I know this is not our job, but we would never say no, we'd always help. We gained a lot of trust because of that	XVI – Elaine	Banco, Phase 1, starting Banco da Favela	Elaine was the fifth person to tell me the anecdote of helping people with their electricity bills. Helping the employees and clients was always at the core of Banco. However, both Elaine and Diogo emphasized how important it is that Banco is a profitable business, not a charity, showcasing the penetration of the business model among the employees from low-income origins
I had a meeting with a director of Itaú and he told me "Andre, you will win prizes with Banco, but money you will not". I asked why, and he said "because the poor don't have money, they don't generate profits. Itaú is the	VII – Andre	Banco and Bolsa, Phase 2, the surprise of Bolsa	Being challenged to turn Banco a profitable social enterprise, Andre slowly realized he could not achieve that. Instead of changing the business model to attract richer clients, he decided to launch a stock exchange

largest bank because we work for those with money". Then I realized the only way for Banco to grow in the future is by having large customers. Plan A was to develop a B2B channel, but it wouldn't work. Then I said "We can't get external funding; we can't attract large companies to Banco? I will develop a stock exchange to support impact businesses' effort to get funding, via launching stocks with us			instead, which would be responsible for the money-making side of the dyad. Simultaneously, the new operation would reduce the constraints for Banco and other social enterprises to attract capital to fund their social impact model
Every account at Bolsa will be at Banco. To operate at Bolsa, you need a Banco account. This will exponentially grow the bank. Also, the bank is the custodian of the blockchain currency, this generates a new revenue line too	IX – Andre	Banco and Bolsa, Phase 3, the restructuring of the operations	Banco's core business model does not generate profits, because it is a low margin business. But Bolsa operates through Banco, so the bank inherits new revenue streams passively, just through the existence of the stock exchange
Then we have Banco, we have the spin-off Bolsa, and they have independent paths. But they have a super important relationship that is mutually reinforcing each other	XI – Carolina	Banco and Bolsa, Phase 3, the restructuring of the operations	As explained by Lyon and Fernández (2012), for the spin-off to work their business models must generate resources for each other, something the leaders of Banco and Bolsa clearly had in mind
What I can't wait for is the integration between Banco and Bolsa, I'd love to invest!	XIII – Diogo	Banco and Bolsa, Phase 3, the restructuring of the operations	Diogo truly believes there is space for the poor to invest in companies that make sense for them, a link few make at Bolsa
There are three people working full-time, plus Rafael who's almost fully with us. Then there is a board, with Susana, Paula	XV – Lucas	Bolsa, Phase 3, the restructuring of operations	All three main personnel (Lucas, Maria and Nero) mentioned in different moments their goal to enlarge the scope; Rafael

and Andre, who sometimes engage with us too			only talked about startups; Andre was the one pushing the most for social impact, but he was absent from the daily operations, focused on Banco
It is a picture I draw from the conversations I had. There was a misalignment between Andre's view and the one from the top management team who were, in fact, building the company. And startups don't have stepparents, you know? The project has the DNA of who is in charge. Banco has my DNA now; Bolsa had the DNA of Lucas, Maria and Nero. Banco is a totally different thing from what Andre envisioned back then	XXI – Carolina	Banco and Bolsa, Phase 3, the restructuring of operations	From this interview on, this point was hammered in multiple times, by everyone interviewed. The vision Andre had for the dyad would never work because he put other people in charge of the two businesses. Bolsa was a fully for-profit business, and the leaders wanted to drop even the impact requirement. Banco abandoned integration efforts to become an independent super app. In the end, both failed
Every business line we are developing will eventually turn green. But my plan is that some lines, particularly B2B, are much thicker than others, and can subsidize these others somehow	XXI – Carolina	Banco, Phase 4, a change of culture	Even without the support of Bolsa, the plan at Banco is to become a DHO: the B2B line, which at some point was a one-off thing to pay the bills, takes a new responsibility of carrying the profitability of the organization
My idea with Bolsa was that it would always be completely separate, Andre kept talking about it, about integrating the two businesses, but I was always completely against because I don't think they have anything in common regarding clients (…) but	XXI – Carolina	Banco and Bolsa, Phase 4, a change of culture	With the failure of Bolsa, conflicts between key decision-makers became more evident: in this case, Carolina firmly positioned herself against an integration between the companies, even pointing out that she did not want

this is something that was already in place when I arrived			Bolsa to be present inside the Banco app
I think it could happen in the long term, I don’t see, and I talked to Andre multiple times about it, I don’t see [launching stocks at Bolsa] as viable for this year. It can’t be the only option, because we need funding now	XXI – Carolina	Banco and Bolsa, Phase 4, a change of culture	With Bolsa struggling, it was clear that Andre still wanted the project to continue and to centralize funding efforts; however, Carolina wanted a new external investor as soon as possible or the bank would topple—as it did
Startups now understand they cannot do everything by themselves, they need partners. With the changes at Banco, I still see a chance for collaboration, but I don’t think the two businesses will be as integrated as we thought	XXII – Maria	Banco and Bolsa, Phase 4, a change of culture	Maria corroborates with Carolina’s reflections, that the changes the latter imposed at Banco shorten the space for collaboration between the two organizations, if ever Bolsa carries on with another group
Bolsa can operate in cash, no problem, it does not have to use the stablecoin. But then it loses the float, a service as custodian of the investors’ money, which was an income line for Banco	XXII – Maria	Banco and Bolsa, Phase 4, a change of culture	If Bolsa operated only using Banco’s stablecoin, that would generate profits for Banco, as the custodian of the reais converted to stablecoins. But to facilitate its acceptance in the market, it could give this model up and operate with brokers and cash. The float would then stay with the brokers, like it is at B3, and Banco misses this opportunity
If we don’t get into the sandbox, Lucas, Maria and I… we can look for a new job. There’s no need for the three of us to create yet another crowdfunding platform, it doesn’t make sense	XII – Nero	Bolsa, Phase 4, a change of culture	This was indeed what happened: after Bolsa was denied from the sandbox, the momentum fizzled and all three swiftly quit the startup, even though there was the

			crowdfunding platform plan B
The whole thing with CVM not approving us is important, because my expertise is with stock exchanges. And it’s not something I put as a necessary condition, but not being a stock exchange, which is my expertise, and becoming a crowdfunding platform, of which there are 15 on the market, it just was not as attractive	XXII – Maria	Bolsa, Phase 4, a change of culture	This interview with Maria was almost an exit interview. She had just quit Bolsa. We talked about why she left, why the bid failed, among other things
The main issue we faced was the regulatory authorization, it’s not important, it’s mandatory. This is a heavily regulated market. Without permission from CVM, we can’t operate	XXII – Maria	Bolsa, Phase 4, a change of culture	The relationship between Bolsa and Banco was not the culprit of the bankruptcy: it was an external challenge they did not surpass, and then the project went out of steam
One thing I learned from this is that the owner must control the business until it takes off	XXII – Maria	Banco and Bolsa, Phase 4, a change of culture	Maria hammering in the same point that Carolina made, that Andre should be the CEO
I really think it was a major achievement to have operated in this segment, serving the poor, from 2016 to 2021	XXIX – Carolina	Banco, Phase 4, a change of culture	A concluding comment about the (limited) success story of Banco

Appendix B2: Interview excerpts connected to the Tensions

Table 14: Interview excerpts connected to the Tensions

Quote	Interview	Alignment	Reason
The thing is, Andre is too soft, and I am too hard sometimes. The guidance I received from one of the partners [Nero], who came from the oil industry, every day I talked to him, and I learned a lot from him. He said, "Karla, you need to focus on the execution, you know? On generating the results we need"	II – Karla	Banco, mission prioritization	Karla, brought up from within the bank by Andre, had a strong partnership with him. However, according to Nero, Andre focused too much on the social side, and he started pushing Karla to focus on generating (financial) results
When I was invited by an incubator to analyze the startups they were offered, off all of them I liked three, and of the three only one had a completely open market, without any competition: Banco	XII – Nero	Banco, mission prioritization	Even from the outside, before he joined Banco, what Nero found interesting about the bank was not that it had a social mission, but that it would be able to enjoy an easy market, with no competition
I have a mind that maybe is more industrial. I have the vices of my career. I worked in heavy industries my entire life, in oil and gas, in energy… these companies are not discussing impact very often. We have to be pragmatic. It's not that I don't want to do good, you know? Everyone wants to do good. I love dogs just like the next person. But I wouldn't limit the company just to this	XII – Nero	Banco and Bolsa, mission prioritization	Nero justifies his alignment to the market mission that sparked tensions with other stakeholders at Banco and later at Fundo
Up until I left at least, the talk was that one of the business ideas was the seal, which would be offered	XXII – Maria	Bolsa, mission prioritization (again)	Discussing business opportunities, Maria said the seal of impact was still on the table at Bolsa, but

even to companies who did not want to operate at Bolsa. But then they will need to pick partners, because it all depends upon which form of impact they will choose to enforce. (…) I proposed that it could be two seals, one for impact businesses, another for "top tier ESG" businesses			there was pressure from within to chance their definition of impact. Some, like Andre and Thais, wanted strict definitions, while others, like Lucas, Nero, and herself, wanted to be more open. This was a new version of the tension of mission prioritization that afflicted Banco in the beginning of the case
We spent too much time fighting over if it was going to be ESG, impact, just green, carbon… Then it became impact, because Fundo was going to come on board, and they are impact investors, even more, regenerative investors, an extremely specific niche format of impact. (…) At the board, they had a much stronger feeling for impact, even due to the symbiotic relationship with Banco, I guess	XXVIII – Maria	Bolsa, mission prioritization (again)	Another tension from Banco that reemerged at Bolsa was mission prioritization, and for the same reasons. On one side, Andre (and later, Thais) pushed for social impact; on the other, Nero, now backed by Lucas and Maria, pushed for less focus on impact to avoid being too niche. Andre promised to not intervene, but still steered the organization however he intended
We are proud to say we have 10 people from the favela working for us, and from these 10, 7 we have put in college. So we couldn't find qualified workers, we qualified our own workers	I – Andre	Banco, talent attraction	Finding qualified workers that identified with both logics was complicated—Banco focused on developing them in-house, hiring people from the favelas and sponsoring their studies
So what can we do today? We are proposing an operation that can sustain itself, and that means fees, right? So we are, for example, signing contracts with businesses who pay us to manage their boletos.	XI – Carolina	Banco, strategy under financial duress, DHO	Despite the idea of becoming focused on the social mission, Banco cannot afford to wait for Bolsa to become profitable. Therefore, they still resort to fixed-duration contracts with purely for-profit

And then we will charge very small fees from end consumers for things like withdrawals, much lower than the only competitor charges			organizations to emit boletos to temporarily alleviate financial duress; this also shows that even without considering the dyad, Banco still acts as a Differentiated Hybrid, avoiding charging expensive fees from their main clients, who cannot afford them
It was not the plan to charge for our services, but we need to make money to offer them. So we will focus on B2B partnerships to be self-sustaining, and we may need to charge small amounts from B2C clients too	XIII – Diogo	Banco, strategy under financial duress	Despite rebooting, getting invested on, and spinning off Bolsa, Banco still needs to diverge from the social mission with B2B deals to offset its costs; these were supposed to become unnecessary after Bolsa generates enough profit
The main service is still the bank account, and it is 100% free of monthly charges and fees. We are trying to set up these mentorships too, but we cannot pay the mentors. To generate profit, we have the B2B lines and want to set up a marketplace in the favelas. (…) The marketplace would have a fee just to pay itself off	XXI – Carolina	Banco, strategy under financial duress	Carolina was determined to maintain the main social impact of the bank, free banking access. But since the organization was still struggling, the B2B "side jobs" were still important. The new business lines they developed, from mentorships to marketplaces, would at best generate enough returns to cover the costs
I had the same perception you had, that the financial part of Banco could never stand on its own. But I wanted to find other paths to profitability without depending on Bolsa	XXIX – Carolina	Banco, strategy under financial duress	This final interview was the first time that Carolina said the business model of Banco would never be profitable. However, when she looked back, she did not seem to believe Bolsa could have changed that
It's hard to be a startup and never have funding. It's impossible to scale up. Every month we get new	VII – Andre	Banco, challenge to legitimacy	Attracting external funding is an eternal struggle to social enterprises. The only organizations interested in

grey hairs… but we were able to attract major microfinance banks to support us			setting up partnerships were, themselves, social enterprises (microcredit banks, for instance)
We have had investors who only want to get visibility. They come to exploit the brand Banco for their own benefit. One used the bank to get a contract paying them R$ 35,000 a month. It's for vanity, but they don't care for the success of the company	VII – Andre	Banco, challenge to legitimacy	Not only does a social enterprise struggle to find investors willing to tie up money for social impact, but often when they do, these investors join for gains to their own personal image, not because they care for the actual achievement of social impact
I think we kind of lost the focus in the way, you know? We had a lot to do, and we made some mistakes, some things were poorly registered, it became a huge problem. Issues with security, technology. So we had to step back. Now we are doing it slowly, cautiously. It's better to do it like this than to make mistakes again. (…) But people trusted us a lot, and when you don't have the app there anymore**,** they get upset. Then they become cautious [and take more time to return]	XVI – Elaine	Banco, challenge to legitimacy	Elaine was one of the few people to give a concrete reason as to why the bank struggled so much to come back. After months of the rebooted operation, Banco had a handful of clients and added one new account a day. For a bank that had tens of thousands of clients just months prior, it was lackluster. The community perceived that Banco betrayed their loyalty, and challenged its legitimacy to continue causing its intended social impact
The tension I could see was, the investors, for taking time to decide, because they wanted to discuss further the impact matter and withheld the money, impacted our tech development, which could've been a reason for us to not have a demo in time to convince the CVM	XXII – Maria	Bolsa, challenge to legitimacy (inverted)	In trying to have the same investors of Banco, Bolsa may have shot itself in the foot. While the tension usually refers to investors wanting profit and clients wanting impact, in this case it became investors wanting impact while the company wanted to focus on profit

Appendix B3: Interview excerpts connected to the Mechanisms

Table 15: Interview excerpts connected to the Mechanisms

Quote	Interview	Alignment	Reason
Nowadays, I don't know what is going on at Banco	XII – Nero	Banco, splitting main opposition	Despite having worked at Banco for three years before moving next door to Bolsa, Nero was completely alienated from the bank in the following months
This [creating Bolsa in a favela, as a neighbor of Banco] is Andre's idea. We have different views, not necessarily conflicting, but different. He wants Bolsa to solve the lack of funding for Banco and similar organizations. Impact investing is a thing in Europe, in the USA, but not as much in Brazil. My view is different. In Brazil, there are only two organized financial markets: B3 for companies who want more than 400 million Reais in funding, and crowdfunding that is limited at 5 million. There is a Blue Ocean in the middle, and I want to explore that space.	XII – Nero	Banco and Bolsa, splitting main opposition	This part of the interview was dedicated by Nero to explain his differences with Andre. He left Banco because he did not believe in the focus on the social mission that Andre envisioned for the bank; when Andre created Bolsa, he had the same mindset, he was thinking Bolsa would be a great support for Brazilian social enterprises. However, Nero had a different focus, driven by his background "in the industry" (as he called it): he again saw the opportunity of an untapped market that had the potential of turning huge profits
I joke with Nero, he says "you are all tree huggers!", and I answer**,** "you hug money, they hug trees, okay?" Everyone does what they think is the best, doesn't	XV – Lucas	Banco, splitting main opposition	Despite having left Banco, Nero still has to deal with Andre occasionally at Bolsa. Andre is, after all, the main shareholder of Bolsa too. This anecdote, however, shows the

mean tree hugging is wrong			importance of splitting them as decision-makers
The two people who interviewed me, one liked me and the other didn't. I found that out later. It was Nero and Andre. Nero is now at Bolsa, Andre is still supervising things here at Banco	XVI – Elaine	Banco, splitting main opposition	This bit supports the "Andre vs Nero" dynamic at Banco before the split. Nero did not want to hire Elaine due to her lack of experience and naiveness, but Andre vouched for her. At Bolsa, Nero emphasized his desire to work with more knowledgeable and experienced people
Banco has always been a meeting point for people to solve their problems, be them financial, personal, we understand their pain because we have a dialog. During the pandemic we had this idea of distributing 100 prepaid cards, and 9500 people enrolled. If they all knocked on my door I am screwed. So I found an app that rates their credit based on their phone apps, and I developed a similar solution to analyze and score their vulnerability	IX – Andre	Banco, changing the business model	Just past the turning point from Phase 2 to Phase 3, when Banco (and the world) was hit by the pandemic, the restructuring of the operations began. In this passage we can observe that the focal point for Andre when rebuilding Banco was "how can I maximize impact with the limited resources I have?". This was the start of the shift towards fully embracing the social logic
Our main service will be financial services, that banks already provide, but we know better what people from favelas need because we are inserted there**,** and we have access to them	XIII – Diogo	Banco, changing the business model	Banco's new business model proposes minimal costs for the poor, and creates a service offering tailored to their specific needs, showing its focus on the social mission
And also, giving voice to the favela, another of our services. Exposing in our socials what happens in	XIII – Diogo	Banco, changing the business model	Besides banking, Banco is also focused on tending to the other needs of the

favelas and, sometimes, we are not allowed to say			disenfranchised—including voice
Andre created Banco because he realized those people needed it, even though he's not from the segment. Then he realized their needs go beyond banking access. This is an asset of activist entrepreneurs: when they pivot, it is always for a cause they believe in	XVII – Thais	Banco, changing the business model	Thais made it clear that every change in Banco's business model and service offerings is based on the real needs of impoverished people, not on increasing profitability
We created a new project that is basically an accelerator for entrepreneurs in two favelas, and we began with female entrepreneurs in the beauty industry, specifically	XXI – Carolina	Banco, changing the business model	In their effort to maximize the social impact of Banco, the decision-makers of the company started other projects that go beyond banking
Our goal is to move beyond financial services and become a super app. The next step is understanding how to automate this support	XXI – Carolina	Banco, changing the business model	The goal at Banco, by the time of this interview, was to find ways to scale their impact model through standardization and automation
Things are ongoing at Banco. I honestly don't do much, because I want Carolina to be comfortable to do what she thinks she needs to do. (…) She has full agency in decision-making, but she consults me in the most important decisions	XXIII – Andre	Banco, changing the business model	The reason Andre stepped out of the position of CEO at Banco was to put in charge someone with the necessary capabilities to change the business model into something more aligned with the social logic. However, this backfired as the company continuously diverged from the dyad that he envisioned with Bolsa

Banco is still an amazing idea. Until today, no one solved the cash-in issue. For the people in favelas to put money in their accounts. We can do a PIX, a bank transfer, but the guy without a bank account cannot. When you put the point-of-sale machines in the stores around the favela, and you allow them to put the money in your account, it's an amazing solution. Not even digital banks like Nubank do that.	XXVII – Lucas	Banco, changing the business model	In 2023, Lucas was still supportive of Banco's business model. It provided real, tangible social impact for the unbanked, which still exist. Even if you have a digital bank account, if you receive payments in cash, accessibility is a hurdle because brick-and-mortar banks are not in favelas, and digital banks are fully digital
The purpose of Banco is to cause impact from beginning to end. We hire and train people from the favela, (…) we are adding services that don't carry a good margin because it is what people need, (…) and all the other benefits that the social score will provide. (…) Bolsa is a different thing, it has an impact, but because it is helping social businesses that don't have much visibility, that struggle to acquire funding	XI – Carolina	Banco, changing the business model; Bolsa, embracing the market mission	Carolina constantly emphasized how big the social mission is for Banco, even noting that some of the services they intend to provide are not exactly lucrative but serve their purpose. Bolsa, on the other hand, provides indirect impact by helping businesses that provide direct impact fund their operations
Well, impact was a hot subject here in the past six months. We received an investment offer from Fundo, who went on to invest in Banco, but not in Bolsa because they decided we are not aligned with them. When Fundo arrived, we were	XII – Nero	Banco, attracting aligned investors; Bolsa, embracing the market mission	From this section, it was possible to understand that Fundo approached Bolsa, not Banco; however, their due diligence process ended with them identifying that Bolsa was not aligned with their notion of "regenerative businesses" because it was

thinking a lot less about impact. We tried to prove to them that Bolsa was also a social enterprise, but what is impact? How do you define impact? Then in the end they said we were too much for profit for them			inherently focused on the market mission of optimizing profitability
A startup needs like R$ 10 million, it's a lot of money but it's 1% of the size of an IPO at B3. So the idea was to create a structure to put these startups on the spotlight, at a smaller scale. The impact thing was a consequence, due to the history of Banco. And then there was the surprise I mentioned, that everyone talks about ESG, it became this huge thing in Brazil now	VIII – Maria	Bolsa, embracing the market mission	Maria explained how the business model of Bolsa emerged: it was through the need of Banco and equivalent companies, who have funding needs at a much smaller scale than the main stock exchange in Brazil operates. Their preference for social enterprises came due to their bond to Banco and to a perceived possibility of exploiting a market niche, but Bolsa itself would remain purely for-profit
As soon as Bolsa is approved for the sandbox, it will be the first Brazilian company other than B3 to offer second market, so its market value will… explode, right? Everyone will want to offer at Bolsa, it will become self-sustaining quite fast, we may even get offers to buy Bolsa within the first or second year of operation	IX – Andre	Bolsa, embracing the market mission	Bolsa is fully for-profit, and if it gets greenlit by CVM, it becomes profitable quite quickly. It will not face the many struggles that Banco faced to achieve profitability
Continuing on the impact: there is an amazing opportunity here, for Bolsa, to	XII – Nero	Bolsa, embracing the market mission	Nero was not the only interviewee from the top three at Bolsa that mentioned their

explore this space [between 5 and 400 million]. Then why limit to [businesses for impact]? It is a great niche, a great entry point, no one is there. There is no competition. But that’s an entry point, and then we open up to other segments in the future, you know? But this is my opinion, not Bolsa’s. But there are more people who think like me, and I will put in back on the table in the future.			willingness to abandon the social impact restriction for companies to launch stocks at the exchange: both Maria and Lucas, at different points in their interviews, mentioned this too. The idea was to establish Bolsa in this niche but eventually accept organizations with good ESG standing.
Today you need to be a qualified investor to invest in these companies through crowdfunding We want to democratize impact investing. We want to bring small investors to this. I personally think it is utopic to believe that we will have people from favelas, from classes D and E, investing at Bolsa. They sometimes don’t even pay their bills, and you think they’d risk money in the stock market?	XII – Nero	Bolsa, embracing the market mission	After showing that he does not believe Bolsa should be aiming for impact on the business side, Nero also explained it would not on the client side either. Bolsa would not focus on empowering the poor as investors—he does not believe that would even be feasible or useful for them—but instead it would open the world of impact investing for “retail” clients from Brazilian and international upper classes
For every Stablecoin in the client’s purse there would be a Real in Banco’s coffers. This would be good for Banco. Also, the mere diffusion of Stablecoin is good for Banco. There is a reputational gain there	XII – Nero	Bolsa, embracing the market mission	Nero explains how Bolsa would support Banco. All business through Banco is done using Stablecoin, and for every Stablecoin minted there would be one Real at Banco. However, Bolsa would generate much larger capital flows than Banco, thus

			exponentially increasing the benefits from these transactions
Another possibility, which is not off the table, is just a major bank buying a stake at Bolsa and demanding a monopoly of the operations in Stablecoin. Both institutions would still accrue a huge capital that they can then invest	XII – Nero	Bolsa, embracing the market mission	One other possibility Nero envisioned of Banco benefitting from Bolsa's alignment with the social logic
The first big issue with Bolsa was that they wanted to immediately launch as a global stock exchange. The issue is that you would need permission from the SEC of each country in which a company wanted to launch stocks within our platform	XIV – Rafael	Bolsa, embracing the market mission	Bolsa was uninterested in Banco's social mission. In fact, it was so profit maximizing that it intended to cover the entire globe as a stock exchange for socially-oriented companies; adding to the point, all three of the main staff at Bolsa believed they should accept all companies
Startups don't have the money to pay for all the bureaucracy needed to launch stocks under the current regulations	XIV – Rafael	Bolsa, embracing the market mission	Rafael made entirely clear during the interview that Bolsa was aiming at startups, not at social enterprises, when designing its business model; social enterprises would be a niche to focus on at first, not the *raison d'être* of the company
Bolsa will connect impact businesses with investors with a purpose. (…) Only impact businesses, but then I have an answer for you: every business causes some sort of impact. (…) But we don't want companies that only do	XV – Lucas	Bolsa, embracing the market mission	The relationship between Bolsa and "impact" was complex and fraught throughout the entire research. This quote summarizes it well: Lucas, like Maria and Nero, constantly danced around the definition of impact because they wanted to be

ESG, we are looking for companies with real impact			open to a larger niche than social enterprises
When we created the model of seal of approval, the idea was to list companies that cause a small impact and convince them, incentivize them, to increase the impact they cause	XV – Lucas	Bolsa, embracing the market mission	With the seals having different ranks, on one hand they might incentivize companies to increase their impact, but on another, they are able to add companies that do not check all the boxes that certify them as “for impact”
The seal is an analysis by a committee of five: one to analyze the business model, one for accounting, one for governance, one for social or environmental impact (or both), and one from Bolsa itself. (…) No, it’s majority (votes). We don’t want someone to have the power to withhold any company. (…) The company might not have the desired impact, but then it can get in and get time to introduce its impact	XV – Lucas	Bolsa, embracing the market mission	Even though the idea was to prioritize impact companies, they designed the seal in a way that allows the other members of the committee to bypass the disapproval from the representatives of the organizations assessing impact
Bolsa is also [an impact business] but for other reasons. It acts in that space of lack of funding. When Bolsa establishes that only regenerative business will join, it creates a possibility for those companies to acquire funding. (…) No startup stock exchange gets traction. Why? Because whoever buys those stocks only wants	XVII – Thais	Bolsa, embracing the market mission (?)	Thais offers an opposing point of view for Bolsa: it is actually not embracing the market mission but still motivated by the social mission. Yes, it is fully for profit, but the mere act of offering funding possibilities to social enterprises makes it a social enterprise too. However, this thought did not echo on either side: Fundo and Bolsa mutually

profit. So why would they limit themselves to only startups? But a SE only for impact business is their only choice, there is no other place to invest in these businesses. (…) It looks like it is just an intermediary, but it’s one that allows these businesses to prosper, and that’s impact			agreed to not partner up, and multiple decision-makers at Bolsa even called the negotiation between the two organizations “a complete waste of time”, arguing that Bolsa should not position itself as a business for impact
We could start with the niche of impact business, but it would not allow Bolsa to sustain itself over time, because we would not attract enough businesses to satisfy the needs of the company	XXII – Maria	Bolsa, embracing the market mission	Over time, it became clearer that even the initial positioning of Bolsa as more connected to the market mission was still too close to the social mission of Banco, and would be unsustainable
Banco would be responsible for the conversion between money and the stablecoin token we would use. The client would have to have an account at Banco to operate at Bolsa	XXVII – Lucas	Bolsa, embracing the market mission	Confirmation of the business model in which Banco would profit from the relationship with Bolsa, by having new clients and by guarding the money converted to Stablecoin
Our most important partner is Fundo. It is the first time we received investment from a Brazilian fund. They are a strategic partner that has the impact vision and that is crucial. They know and they value what we are doing. Of course we received investment from a credit card company, but they invest because it’s nice, you know? I’m happy	IX – Andre	Banco, attracting aligned external investors	When Banco changed its business model, it needed to attract external investors who valued the social mission as much as they did. Fundo made the largest investment in the history of Banco, exactly when Banco needed the most, at Phase 3 with the rebooting of the operations. This only happened due to their mutual understanding of the importance of the

we attracted someone who believes in what we are doing, who's not investing just to look good			alignment with the social logic
My goal is, one day, after launching Banco's stocks at Bolsa, to create a foundation for the inhabitants of favelas, and give them ownership of 10% of the bank, a seat at the table	IX – Andre	Banco, attracting aligned external investors	One idea to solve the tension of challenge to legitimacy is to transform clients into owners
When Fundo arrived, like people with so much money they didn't even need to know Banco existed, it means they actually care and want to be with us, lead the way and say, "let's go!"	XIII – Diogo	Banco, attracting aligned external investors	Fundo was more than just an investment fund: they believed so much in their social cause that they began working at the companies they wanted to turn around, to ensure the impact is maximized from day one
Fundo buys participation in other companies, regenerative businesses, and this participation can be bought with both money and labor. We realized in our path that the companies we fell in love the most, those with activist entrepreneurs in charge, were not that structured business-wise	XVII – Thais	Banco, attracting aligned external investors	Fundo was created under the premise that it would only invest in companies they called "regenerative", that would not only alleviate the negative impact of business, but backtrack this impact and regenerate the world
We're more focused on governance and partners, finding ways for a new funding round that will have to happen still this year	XXI – Carolina	Banco, attracting aligned external investors	With Bolsa already in trouble (this interview was after the three decision-makers there quit), Banco is struggling with the new reality that it will have to become profitable on its own again, and will have the need for external funding too

Fundo has a proposition that is a bit different from other investment funds; they added not only money but also people. They are in charge of marketing and social media, and they also sent someone to help with finance. Then I add one of my guys to learn from them and to input the language and the trends of favelas	XI – Carolina	Banco, attracting aligned external investors, adapting hiring processes	Banco leverages the input from Fundo, with the more experienced professionals teaching employees of the bank, which in return educate them in the favela culture
We realized it wasn't worth it to structure every business, so we structured Fundo to take care of each business. We offer a plethora of services, from management to communication, branding, logistics, technology… we built a super hands-on team at our side and we deep dive into these companies and take over some activities	XVII – Thais	Banco, attracting aligned external investors, adapting hiring processes	Fundo is structured in a way that allows the personnel of the fund to take part-time functions at the companies they acquire, which lower the burden on these companies and allowed Banco to hire cheaper, inexperienced employees from Favelas and train them from scratch
Fundo understood that Bolsa is inherently speculative, betting against the market. Whoever invests in stocks at Bolsa wants to make money, not to help people, to donate money. (…) They said it will attract speculators. I said, "look, the day we have speculators at Bolsa I will be ecstatic! That would mean we have a	XV – Lucas	Bolsa, attracting aligned external investors (misalignment)	Fundo spent six months directing and changing Bolsa, including shoehorning an impact mission, to then back off because it would not align with their views on impact anyway. Bolsa would embrace speculators because they would add liquidity to the stock exchange, a necessary condition for them to function

healthy secondary market”			
[After being denied by CVM] we decided to become a crowdfunding platform, and then we did cost assessment to develop the platform, we had the developers ready, and we started looking for new investors	XXVII – Lucas	Bolsa, attracting aligned external investors	Despite being denied by CVM, Bolsa wanted to move forward as a crowdfunding platform. With the funding issue with Fundo, they needed to find new external investors that were more aligned with their own mission
The idea alone is nothing, right? You need to make it work. And to make it work, I think we needed more money	XXVIII – Maria	Bolsa, attracting aligned external investors	A recurring theme by the end of data collection was that Bolsa needed to attract external investors and failed to do so in a timely basis
I don’t like the name CEO. I feel like I am an entrepreneur, I play in all positions. In the past, the bank had more senior employees, but since the restructuring it’s only the juniors from the favelas. They’re great people, but they have a lower degree of education, I get a larger share	XI – Carolina	Banco, adapting hiring processes	Banco changed their hiring process to focus on people from favelas, attuned to the social mission but inexperienced in running a business
Recently they invited me to come back, and now I am here as an intern. I work four hours a day, but I am back**,** and it makes me so happy	XVI – Elaine	Banco, adapting hiring processes	Despite her previous full-time experience at Banco, Elaine was rehired as a marketing intern under the new specialized structure at Banco
The team today at Banco is much different [from 2017], you know? We are a young team. It is usually 18, 19-year-old people here. When they go to college, start	XVI – Elaine	Banco, adapting hiring processes	When I shared an anecdote about religion and my experience as a gay person at Banco in 2017, I received in return this reflection about the changes in the hiring structure. In 2017, most

leaving more the favela, they mature			personnel were older and worked in multiple areas. In 2021, with the exception of Diogo and Elaine (both rehired), the rest of the team was much younger “blank slates” to be tailored into specific positions
We are planning to hire someone more senior to take care of customer support and growth	XXI – Carolina	Banco, adapting hiring processes	After structuring the bank with a low-cost payload, Carolina started looking outside for someone capable of focusing on growth
At Banco, we have Carolina, the new CEO, then Diogo as the manager, and everyone else at the same level. Carolina and I are not from favelas, and the other five are from favelas. (…) At Bolsa, everyone came from the “traditional” market. We have Maria, with 25 years of experience in stock exchanges, we have the law firm of Susana, we have one of the greatest blockchain developers in Brazil…	IX – Andre	Banco and Bolsa, adapting hiring processes	The structure of Banco was simple, with one (fairly inexperienced) CEO, a manager risen from within, and a handful of entry-level employees; they all had extreme affinity with the social cause but no market experience; the structure at Bolsa is quite the opposite: the entire team is highly experienced and qualified, but no one had a history of social entrepreneurship
[Banco hiring people from favelas] is super important, gives them legitimacy. You live at the place; you know the conditions. (…) Bolsa is starting from nothing, and it needs specific characteristics, like people with experience with CVM… startups don’t have HR	XVII – Thais	Banco and Bolsa, adapting hiring processes	Banco was able to adapt its hiring processes to employ people from favelas because its operations were simpler, and Fundo added experienced hands. Bolsa needed people with specific capabilities and focused on experienced people with no

departments, you go with whom you know; maybe they didn’t find these people in favelas			background in social impact
This responsibility comes as a consequence of my experience in the industry, I have 25 years working with stock exchanges. (…) I wanted to work with innovation, my career was entirely in consolidated businesses	X – Maria	Bolsa, adapting hiring processes	Bolsa built its entire hiring process around experience and expertise, not around impact
We cannot have only tree huggers, too extreme on the impact side. In the end I need investors to come to Bolsa. For you to bring investors, you need results. If all companies we bring in go bankrupt, because they are for impact but don’t have a good product, we go bankrupt too. The idea is to bring more and more people aligned with the market, who say “this is cool but won’t work”. We need people from the market to keep our feet on the ground	XV – Lucas	Bolsa, mission prioritization (positive angle?), adapting hiring processes	Lucas talks about the positive side of tensions—that they keep everyone grounded. In particular, he believes it is necessary to bring people aligned with the market logic to ground “tree huggers” like Andre and Thais (who at that point was considering joining Bolsa either with or without the backing of Fundo) and ensure the profitability of Bolsa
So this is the second element, bringing people who have the knowledge, but with a hint of innovation. (…) In the case of a stock exchange, having people with no knowledge of stock exchanges is a major problem	XXII – Maria	Bolsa, adapting hiring processes	Maria claims that Bolsa needed people even more specialized than they had, with more specific expertise in stock exchanges

Appendix Group C: WhatsApp Content

Appendix C1: Banco + Fundo

This group provided 33 pages of material after its contents were downloaded and converted to Word format. It was created by Igor back in late 2020, when Fundo first started discussing acquiring a quarter of Banco. Andre added me to the group on April 26, 2021, but the group was silent for a whole week until the following meeting on the following Monday. Up until late May, however, there were almost no messages besides invitations to meetings—I was allowed to participate in all of them, and they were registered as Meetings 2-6, 8, and 12.

Table 16: WhatsApp Content, Group "Banco + Fundo"

Date	Event	Alignment	Reason
2021-04-26	Andre adds me to the group		
2021-05-21	News about Brota receiving one million Reais in their first funding round; Fundo said they were offered the deal, but it was another fund that incubated it	Changing the Business Model	In comparison to the financial market news shared at Bolsa groups, all news shared at Banco groups were related to social impact
2021-05-30	Debate about the first set of OKRs for the relaunch of Banco	Changing the Business Model	The OKR measured the net impact of new activities aligned with something called "social score", a scorecard of social needs of each client that would be implemented in the next OKR
2021-06-01	Discussion over meeting 14, with this entrepreneur from a favela in Rio that people at Fundo were enthusiastic about	Attracting Aligned External Investors	The entrepreneur was another client of Fundo, and the idea was to find synergies between his operations and Banco's
2021-06-04	From early June, the hot topic was the t-shirt with Banco's new logo	Attracting Aligned External Investors	This built a sense of family between Banco and Fundo; all employees of Fundo bought one
2021-06-10	Banco changed its incorporation address from the office of the	Changing the Business Model,	By formally changing the address, Banco fully embraced its business model

	incubator in which it was created to their new headquarters in a favela of Rio, a major change for brand recognition and for legitimacy	Adapting Hiring Processes	as a for-impact business, while also facilitating the hiring process of people from the favela
2021-06-11	News saying a competitor emerged with the same plan of moving beyond financial services and into a hub-like company; Carolina mentions they talked and now the company is copying Banco's business model	Changing the Business Model	The new business model was going to evolve through multiple iterations still; a company they talked to in the past copied their movement into a service hub
2021-06-28	Andre is interviewed on a live in Banco's social media	Attracting Aligned External Investors	The goal of these interviews is to attract new clients and, most importantly, new investors
2021-07-02	The failure of Bolsa to join the sandbox is not mentioned in the group, Bolsa is not mentioned at all throughout the multiple months the group was analyzed	Splitting Main Opposition	Despite the theoretical importance of Bolsa for the funding of Banco, in the WhatsApp groups of Banco there was never any mention of Bolsa, due to the fallout between leaders and the separation of business models
2021-07-07	Carolina asks for volunteer accountants to help solve issues with incubated companies in favelas	Changing the Business Model	Banco and its leadership usually go above and beyond to ensure social impact in the favelas
2021-07-23	Diogo and Elaine participate in a vaccination marathon against Covid at the favela they live in	Changing the Business Model	Banco and its leadership usually go above and beyond to ensure social impact in the favelas
2021-08-09	The new Banco app is released at Apple Store and Google Play	Changing the Business Model	A huge milestone for Banco's re-release with a new business model
2021-08-12	Banco starts a new "movement" with entrepreneurs from favelas	Changing the Business Model	Despite the change in business model that led to the attraction of Fundo, Banco still endures other changes in a bid to increase social impact in favelas

2021-08-17	New organization chart was added to the group	Adapting Hiring Processes	Banco changed its organization chart and hiring processes to make the company more vertical and attract inexperienced people from favelas
2021-08-20	Natura refused to work with Banco because they had their own similar service run internally	Changing the Business Model	As an attempt to extend its business model to B2B partnerships, Banco approached Natura, but the negotiation failed
2021-08-25	Banco launched the new homepage; Carolina was interviewed by a major news channel to talk about the relaunch	Changing the Business Model	A huge milestone for Banco's re-release with a new business model
2021-09-15	People at Banco celebrates the news that XP Investimentos, the largest broker in Brazil, launches Instituto XP, with the goal of eradicating financial illiteracy	Changing the Business Model	In comparison to the financial market news shared at Bolsa groups, all news shared at Banco groups were related to social impact
2021-09-24	Carolina announces that Banco is rebranding their project with local entrepreneurs as a separate entity from the bank. Andre says she cannot spin off a company from Banco without discussing with the other stakeholders. She explains it is not a spin-off; it is just an internal project with different branding from Banco	Changing the Business Model	Despite the change in business model that led to the attraction of Fundo, Banco still endures other changes in a bid to increase social impact in favelas
2021-09-28	Disagreements between Xavier and Umberto regarding the pricing structure of this new project; Umberto thinks it is too expensive, but Carolina says it is	Changing the Business Model	Despite the change in business model that led to the attraction of Fundo, Banco still endures other changes in a bid to increase social impact in favelas

	benchmarked against other educational platforms and content communities		
2021-10-11	The only thing being discussed in the group is the new project, with the bank itself receiving no attention whatsoever	Changing the Business Model	With the imminent failure of Banco—since the failure of Bolsa—the discussions focused on what could survive post-Banco
2021-10-25	By the end of October, Carolina scheduled a meeting to debate fundraising for Banco. However, the meeting turned sour and a few weeks later Carolina resigned as Banco's CEO	Attracting Aligned External Investors	I was not invited to this meeting, but from the interviews I gathered that, with the failure of Bolsa, it was necessary to attract more external investors aligned with Banco; however, no new money was found, and Banco was quietly shut down by the end of that month

Table 17: New organization chart at Banco

Squad	Product	Commercial	Marketing	Customer Service	Finance	Fundraising
Focus	Launching new app	Monetizing Banco	Acquiring clients	Solving client issues	Organizing financial history	Solving issues for next fundraising rounds
Members	Carolina, Diogo, Fred, Igor	Carolina, Thais, Umberto, Wesley	Elaine, Viviane	Diogo, Helena	Gustavo, Viviane	Andre, Thais, Wesley
Meetings	Fridays	Wednesdays	Mondays	TBA	Mondays	Thursdays

After the weekly meetings with the whole group were cancelled, a new monthly meeting was instated. However, in the very first opportunity, only Carolina and Viviane showed up, so the CEO cancelled these meetings too

> *If you feel you need more information about Banco, please take a look at our Asana (management tool) or book a meeting with the specific squad you need*

Umberto, Igor, Thais and Xavier argued that the meeting was not scheduled in their calendars, to which Carolina replied that was impossible because she personally invited everyone and also informed the group multiple times

This is Carolina’s farewell message:

> *Guys, today I am closing my cycle here at Banco and I would like to thank you all so much for the opportunity, trust, and partnership so far. Despite things not working the way we imagined, I have learned a lot in this experience and I certainly leave a better professional and a more sensible human being. Thank you from the bottom of my heart for all the exchanges. I wish only success for all of you, and you can count on me for anything you need. Farewell!!*

Umberto, Xavier, Thais and Igor, in this order, said their farewells, and Carolina left the group. There were no new messages in the group after this, and Banco was quietly shut down.

Appendix C2: Leaders Bolsa

This group generated 54 pages of content when downloaded and formatted in Word. It was a source of many news reports and internal documents, generated multiple (around 15) invitations to meetings—some that were observed for the scope of this thesis and some that were skipped due to the theme having no adherence to this project—and showed how the leaders of Bolsa interacted, from friendly banter to cold farewells.

Table 18: WhatsApp Content, Group "Leaders Bolsa"

Date	Event	Alignment	Reason
2021-05-28	Nero adds me to the group	Embracing the Market Mission	The reason I was added to the group was the failure of Bolsa + Fundo due to Bolsa being misaligned with the social logic
2021-05-28	Email from CVM asking for clarifications	Embracing the Market Mission	The entirety of the communication with CVM involved only the market mission and no social goal
2021-05-28	Invitation to meeting 13, the first of around 15 I would receive in this group		
2021-05-29	Invitation to webinar about regulatory framework of the financial markets in blockchain	Embracing the Market Mission	Most of the topics in the group involve financial, technological, or legal content, never social
2021-05-31	Debate about the colors of the Bolsa logo; I was "forced" to vote	Embracing the Market Mission	The logo made references to the one of B3, establishing who Bolsa wanted to compete against
2021-06-01	Last edits to the file of clarifications to the CVM discussed in the group	Embracing the Market Mission	The entirety of the communication with CVM involved only the market mission and no social goal
2021-06-02	Long debate about a new law, setting the legal standard for startups, and how that affects Bolsa	Embracing the Market Mission	Most of the topics in the group involve financial, technological, or legal content, never social
2021-06-02	Final version of the sandbox request shared within the group	Embracing the Market Mission	The entirety of the communication with CVM involved only the market mission and no social goal

2021-06-02	News and debate about XP Investimentos launching its own stock exchange to rival B3	Embracing the Market Mission	These debates establish Bolsa’s competition against purely for-profit businesses
2021-06-03	Post about Captable, an established crowdfunding platform, calling itself “the New Stock Exchange”	Embracing the Market Mission	These debates establish Bolsa’s competition against purely for-profit businesses
2021-06-09	Debate about whether Mark 2 Market allowed by CVM to act as a central depository is good news or bad news	Embracing the Market Mission	These debates establish Bolsa’s competition against purely for-profit businesses
2021-06-14	Lucas shares news about B3 being criticized for its high prices, to which Maria answers “I love it, Lucas! Price discovery and real value of a magnificent product!”	Embracing the Market Mission	These debates establish Bolsa’s competition against purely for-profit businesses
2021-06-14	Andre says he will talk to Revista Exame about the arrival of Olivia and Queiroz at Bolsa. Olivia replied “I’m ok with mentioning me, but I’m here as a consultant”	Adapting Hiring Processes	Olivia was one of the few people hired by Bolsa after I started watching them; she represents the mechanism perfectly: no social experience or interest, she was hired for her experience as a former employee of CVM
2021-06-24	Susana asks Nero for an organization chart with all employees and their positions, which she mentions will help her see the predicted organizational growth; Andre asks to be sent it too	Embracing the Market Mission, Adapting Hiring Processes	The organization chat, together with a company statement, establish Bolsa as a purely for-profit enterprise
2021-06-29	Just one or two days before the decision by CVM, Olivia and Susana are generating multiple discussions about things that should have been decided much earlier		

The decision by CVM and the aftermath:

Bolsa's bid gets refused by CVM, generating an immediate meeting to understand the decision and start planning the appeal; all six proposals accepted by CVM to join the sandbox were unable to prove their technological viability. Bolsa could not even achieve that, their bid was refused with a score of 18 out of 43.

Their request to review the application was shot down almost immediately. CVM first denied a meeting and said an email would suffice. Then a day later, they got the reply, and it was a blunt no. A week later, the team met for the final meeting debating how to reply to CVM, but eventually acquiesced they would not join the sandbox.

Two weeks later, the team pivoted to operating as a crowdfunding platform. They lost the established partnerships with investors who would fund their launch as a stock exchange. However, partnerships with major companies like B3 and a private bank to launch products were intact. After a month with minimal interaction in the group, however, Maria, then Nero and then Lucas all said they were quitting their positions. Nero's farewell was particularly pointy:

> *Bolsa was a really interesting experience for me, and I hope everything works out in the future. However, I believe that there is no longer any common interest for me to remain in this group and I would like to take this opportunity to say goodbye to everyone.*

Maria, however, kept friendly interactions with the group, and up until a month after she quit, she was still helping those who remained with emails and requests. Lucas never quit the group and occasionally sent news reports and other interesting information. The group, however, was largely abandoned until February 2022, when in a surprise announcement Lucas added a new admin. Despite this movement, there was no new message afterwards, evidence that, if Bolsa were to continue moving forward, it would not be managed through this WhatsApp group.

Appendix C3: Bolsa + Fundo

This group would be the point of interaction between the leaders of Bolsa and the leaders of Fundo. However, since a few weeks after the author was added to the group it was decided that Bolsa and Fundo would not work together, this group was quickly abandoned. Only three pages of content emerged from this group before it was disbanded.

Table 19: WhatsApp Content, Group "Bolsa + Fundo"

Date	Event	Alignment	Reason
2021-04-26	Lucas adds me to the group		
2021-04-26	Meeting scheduled with Fundo, but only the members of Fundo show up	Attracting Aligned External Investors (misaligned)	At some point in the ideation of Bolsa, there was an expectation that Fundo would invest in Bolsa; however, this was a misalignment of institutional logics, as Bolsa was never focusing on the social logic that Fundo preferred
2021-05-09	Some news and important links added to the chat	Embracing the Market Logic	The news shared in the group were always about financial markets, never about social entrepreneurship
2021-06-09	Members from Fundo removed from the group when the acquisition of Bolsa by Fundo fell through	Embracing the Market Logic	The initial plan was for Fundo to buy participation from both Banco and Bolsa. However, by late May or early June 2021, Fundo and Bolsa mutually decided to not become partners due to a misalignment in their missions: Fundo could only invest in "organizations with social interests" and Bolsa was purely for profit
2021-08-16	Group deactivated due to being redundant with Leaders Bolsa		

Appendix Group D: Observation Notes

Model: listing participants, leader (person responsible for the meeting and the presentation—in case it is not explicit, all participants have equal relevance), and notes taken in each meeting, emphasizing especially what was learned from each company. In the end of each Appendix, a paragraph explaining how each meeting is connected to the theory, findings, and contributions this research proposes.

Appendix D1. Bolsa + Fundo, April 26, 2021, afternoon, approximately 20 minutes

Participants: Thais, Viviane, Umberto (Fundo)

Agenda and notes: none of the Bolsa members showed up. Used my time to get to know the three members, as well as Fundo. Fundo is a “regenerative impact holding”, an impact investment fund.

- Thais: “chief of culture, negotiations, connections”. Relevant comments and notes about her: “being sustainable is not enough, we need to be regenerative”. Activist entrepreneur: when in a clutch, thinks about impact, not money. The role of Bolsa is to replicate the financial system. Fundo will be the first company to launch stocks at Bolsa.
- Viviane: “chief of growth”. Relevant comments and notes about her: content marketing; interacts with the marketing teams of Bolsa and Banco. Uses fast methodologies KANBAN and SLACK
- Umberto: “chief of commercial”. Relevant comments and notes about him: background in shopping centers, now works with digital influencers. Responsible for the implementation of Kiosks, the name Banco is giving to its ATMs and branches inside partner stores. Conduces the weekly meetings with Banco and Bolsa.

Connection to theory: attracting aligned external investors. This meeting was my first point of contact with Fundo, who were working with Banco but not with Bolsa. The participants explained what Fundo was, how they operated, and why they decided to invest in Banco. They also explained their personal role in this partnership.

Appendix D2. Banco, April 30 afternoon, approximately 15 minutes

Participants: Gustavo, Fred, Helena, Elaine (Diogo was absent, Carolina is in the end of her parental leave)

Leader: Elaine

Agenda and notes: in these weekly Friday meetings, the team at Banco debates the past week and the goals that were/were not achieved; I used the meeting to learn about the current staff of Banco, with an emphasis on the leadership roles.

- Carolina: CEO Banco
- Diogo: general manager
- Elaine: marketing and communication
- Gustavo: finance
- Fred: general assistant
- Helena: law assistant (currently in law school)
- [Person A][10]: attendant
- [Person B]: outsourced designer responsible for rebranding

Connection to theory: adapting hiring processes. This meeting gave me the opportunity to get to know each of the new employees of Banco. They were all inhabitants of the same favela, and each one had a specific role within Banco—a sharp change from the previous hiring and management method, where everyone had generalist roles and took responsibilities ad hoc.

[10] Person A and Person B did not show in any meetings, interviews or conversations in general, so they did not get an anonymized name; therefore, they just had their names redacted in this annex

Appendix D3. Banco, May 3rd morning, approximately 15 + 10 minutes

Participants: Diogo, Elaine, Fred, Helena

Leader: Diogo

Agenda and notes: in these weekly Monday meetings, the team elaborates the activities for the week, setting goals and targets to be checked at the following Friday meeting. The main theme of this meeting was the website's financial model

I used this meeting to get to know Diogo, who was absent from the previous meeting. Afterwards, I chatted informally with him and took notes on his main comments:

- He is a middle manager, acting as an intermediary between Carolina and the other employees; he aggregates demands and delegates tasks
- The objective is to relaunch Banco [Phase 3 in temporal bracketing] with the ability to be self-sustaining "without charging too much from those with no money"
- Fundo: an investment fund that joined a partnership with Banco
- Banco "will become a movement: telemedicine, scholarships, healthcare, education, finance, deliveries, every need from the favelas in a single place"
- Timeline: relaunch in July, generate engagement, making Banco self-sustaining by the end of 2021

Connection to theory: changing the business model. The Monday meetings allowed me to observe the definition of the new business model, which would focus on social impact. Despite the goal to make Banco self-sustaining through this new business model, the feasibility of this target depended on the success of Bolsa as a major revenue provider for Banco. Without the support from Bolsa, it was extremely unlikely that Banco would be able to grow.

Appendix D4. Banco + Fundo, May 3rd afternoon, approximately 20 minutes

Participants: Andre, Umberto, Viviane, Diogo, Thais, Igor, Xavier

Leader: Diogo

Agenda and notes: OKR 90 days—Objectives and Key Results, end on July 1st

- Manufacturing posters to announce the Kiosks
- Planning an event for 1000 people to relaunch the bank
- Adjusting social media
- Switching Banking as a Service provider—from Company A to Company B (Zach is the representative of Company B)
- Interesting to note that the leaders at Fundo engage with the activities, not only as supervisors but also as "handymen"—e.g., the posters fell into Umberto's responsibility

Connection to theory: changing the business model, attracting aligned external investors. This was the first time I watched Banco and Fundo operating together. The meeting was set up to analyze the progress of the relaunch of Banco in regard to established OKR for the second trimester of 2021.

Appendix D5. Banco, May 7 afternoon, approximately 20 minutes

Participants: Gustavo, Fred, Helena, Elaine, Diogo, Carolina

Leader: Diogo

Agenda and notes: evolution of the weekly demands; updating Carolina on her return from her leave. This was not a very productive meeting for me, because the content was too operational—afterwards, I stopped joining in the weekly Banco meetings and focused on meetings between Banco leaders and Fundo, or other companies, besides interviews.

Connection to theory: did not add anything new, which prompted me to skip Friday meetings from that moment on.

Appendix D6. Banco + Fundo, May 10 afternoon, approximately 20 minutes

Participants: Andre, Umberto, Viviane, Diogo, Wesley, Igor, Carolina

Leader: Carolina

Agenda and notes: Ritual: talk about the feelings on the day and pass the torch to someone else. I was picked to speak some two people before the end. Next: adjustments in the OKR 90.

- Advertising of the launch of the Kiosks, through posters and the community radio
- Downsizing of the launch party from 1000 to 100 people: the app is not ready, and they will use it just to launch the new brand identity
- Postponement of the debate about implementing the Social Scorecard, an assessment they intend to add to the app to measure the degree of need of each member, due to excess of ongoing demands and the delays of the app—subject will return only post-OKR
- 80% of the app to be completed by the end of the OKR
- BaaS defined; Zach will be the connecting point with Banco
- Adjustment of the “accounting inconsistencies” from the previous phase of the bank

Connection to theory: a continuation and realignment of Meeting 4, with the realization that the OKR were not being met.

Appendix D7. Bolsa, May 14 morning, approximately 2 hours

Participants: Lucas, Maria, Nero, Rafael

Agenda and notes:

- Bolsa today is registered as a crowdfunding platform, but is asking CVM to become a stock exchange under their operational sandbox
    - They would accept becoming a crowdfunding platform that builds secondary market, but CVM would never support this because crowdfunding platforms cannot build secondary market by regulation
    - Instruction 588 of CVM regulates crowdfunding platforms, instruction 400 regulates stock exchanges
- B3, the Brazilian monopolist stock exchange, also wants to create a separate structure for startups, which are too small to launch stocks through the current B3 system
- It would be important for Bolsa to get the same exceptions that B3 is requesting in the sandbox
- Bolsa's niche: impact investing, B3 does not care for impact investing
- Maria's contact works at this company that wants to join the sandbox to function as registrar for small bonds → risk dilution
- Bolsa is applying to not have a registrar, blockchain "replaces" this
- Andre's reputation with social impact → possibility to expand in the future to Colombia and Chile, among other South American countries
    - Worth going there because these countries have huge poverty, possibility to cause similar impact to the intended here (in Brazil)
    - Possibility A: the same stock exchange to countries all over the world → we open capital of companies from all countries?
    - Possibility B: multiple "Bolsas" using the same structure → *separate* companies
- Bolsa wants to launch a podcast
    - Restricted by instruction 588

    - Can we broadcast Fundo in the podcast? Would that be a problem? No, the problem would be if anyone from Fundo in the podcast said something like "we will launch our stocks at Bolsa in the future"
    - Will Fundo launch stocks at Bolsa? Likely yes
    - Can the podcast operate inside the Bolsa platform?
- Marketing strategy: we cannot advertise companies [who intend to or procced to launch stocks at Bolsa], we cannot advertise ourselves as a stock exchange, but we intend to start communicating to show up as "meeting place for social enterprises and investors"
    - CVM instruction 588 → more restrictive than 400 → take care with advertisement
    - Rafael: I would avoid saying "we will list companies" to avoid stress with CVM, but you can say you are observing and applying for the sandbox
    - Can we broadcast company reports? Company reports are not broadcast by B3, they are broadcast by CVM; we cannot make a value judgment [of the listed company] nor help them advertise their IPO → Bolsa's partners build the report and CVM broadcasts it, Bolsa cannot participate in it due to the conflict of interests
- How is the plan of launching Bolsa at least as a crowdfunding platform? Can you ask CVM for this permission? We are scared of "contaminating" the process by talking to them too early, before the sandbox decision
- 33 processes applied for the sandbox; 27 are crypto related; maximum of 7 will get greenlit → dangerous, low odds

Connection to theory: embracing the market logic. Bolsa is a much more complex operation than Banco, and I have a lot of details to learn from these meetings. But it is completely evident that the target of its market strategy is to maximize profits and to find an operating niche using Andre's image as a social entrepreneur to penetrate international markets.

This was also the first time I understood how complicated it would be to join the sandbox —a feat that Bolsa failed to achieve and that was fundamental to the failure of the dyad.

Appendix D8. Banco + Fundo, May 17 afternoon, approximately 30 minutes

Participants: Thais, Andre, Umberto, Viviane, Carolina, Diogo, Igor

Leader: Carolina

Agenda and notes: everyone is excited with the latest advancements and the start of operations

- One new client a day, even before the start of marketing campaigns
- Launch event bumped to 150 guests
- Biggest aim: to launch the new website until June 2; foreground: social media; back burner: social score, profile analysis, access to previous user base
- Main OKR: app, through the BaaS
- New operation in the Amazon: 30000 boletos with a healthcare provider
- Three new city halls want to hire Banco to process their boletos, potential to earn R$ 60,000 (around $ 15,000 Cad); one of the contract offers was dropped after Banco heard the question "how are you paying the mayor's share?" from one of their employees

Connection to theory: strategy under financial duress. This meeting exposed how the tension of strategy under financial duress was not solved through the spin-off and the change of business models. Banco was still looking for ways to generate revenue through operations that had absolutely zero social impact because acquiring external funding was still complicated and Bolsa would not provide for them any time soon. These contracts with healthcare providers and city halls deviated from the social mission, but they were necessary to keep the lights on.

Appendix D9. Bolsa, May 25 morning, approximately 2 hours

Participants: Maria, Lucas, Nero, Rafael, Susana, Olivia

Leader: Maria

Agenda and notes: Direct Listing and "other subjects"

Maria: Coin Based → Nasdaq defined their share price for the IPO

Olivia:

- In the case of Spotify, an external evaluator (a bank?) defined the price
- If it was Nasdaq who defined it, it was a reference price
- Cyrella spun off CCP to explore warehouses; at the moment of the spin-off, B3 defined the reference price [of CCP] based on valuation and on the participation of each company in the society
- An auction defines the actual price based on market expectations
- It does not seem the case for a startup, which has less legitimacy

Lucas: can we make it so that Bolsa defines list prices?

Susana: it would be yet another responsibility, which could complicate our bid

Nero: we could offer that as an additional service, from one of our partners. The issue is generating critical mass, if we can add 800 clients [investors buying shares of companies] in our first year would already be huge (one of the biggest players in the crowdfunding market), so it is a risk to launch all shares in one bid

Susana: this kind of operation needs to be for large companies, we cannot think about it for startups

Nero: not only that, but only for major companies with regular shareholders, like Spotify

Susana: and why would a company launch stocks at Bolsa? Liquidity in the competition is much higher (including in the USA), so we need an excellent certification process and a giant company who wants to "risk it" with us, to stimulate the local market

Maria: we have some advantages, right? Our model of intermediation is much simpler, without a broker, with extremely low costs, on a prepaid system [investors buy Stablecoin upfront], without giving up suitability with the BaaS of Banco

Susana: if we can do that, B3 will copy us immediately, but it is a low margin market, which may push competitors back for a while. It could also be an already listed company that wants to do double listing to get our certification

Olivia: my dream is to attract O Boticário, which is a rival of Natura, has all certifications, is innovative, famous, would attract the market

Lucas: we have a few friends in common with Boticário, we could also see Cacau Show

Maria: since we are dropping names, my dream is this chocolate company that makes delicious organic chocolate and helps cocoa farmers in Bahia

Nero: offshore wind farms are huge projects, but easier to attract than these you mentioned, and with much simpler pricing. If we call them, what can we offer?

Susana: an exit strategy. We could talk to various businesses with large user bases: Descomplica, Vetex…

Olivia: Investmind CFA calls itself the "Uber of valuation", who could offer this service to our partners. In the beginning of Bovespa+ they offered this service with two analysis houses, but later they suspended it. But it could help attract investors too.

Lucas: we should build a document with internal regulations? Or at least perfect the one we have

Maria: yes, listing regulations

Nero: what do we have now? An oral presentation and a support document, we need more

Rafael: this we are talking about is post-sandbox?

Susana: no, it’s direct listing, instruction 400, class A company. Difference: junior companies have some waivers, class A companies are B3 level, really. The difference is their valuation

[debate about notes, companies to pull for operating]

Susana: we need to think about the waivers we are asking CVM

Olivia: instruction 400 demands intermediaries. Anbima [Brazilian bank association] is comfortable because the associates can get the certification. Bovespa+ can take like 7 years to get to the 25% free float. CVM wants to remove this possibility, today the companies can list without going through an IPO, this is not a restriction we need to face

[They created an account on Miro and started toying around with it to understand the platform; they gave me access to it]

Connection to theory: embracing the market logic. Despite the goal of attracting businesses with good ESG practices, such as O Boticário, it becomes evident from the observation that Bolsa is not aiming to become a social enterprise in any way. Their target is to become a competitor to B3, while offering to investors interested in ESG a respected connection to likeminded businesses.

Appendix D10. Banco + Bolsa + BaaS, May 25 afternoon, approximately 30 minutes

Participants: Carolina, Maria, Nero, Lucas, Zach

Leader: N/A

Agenda and notes: to discuss the introduction of Zach as Banco's BaaS and the consequences for Bolsa

Lucas: Bolsa is a stock exchange that will not have its own platform, it needs to integrate with Banco so that the customer can access the screens, the interface, and their account

Zach: I believe there is access from Banco's standard app, if you already have something ready there, it will be faster and cheaper to develop the project

Lucas: yes, we need the API telling who the user is and how much money they have, to match the stock exchange operations

Carolina: initial scope for launching operations with Zach is 90 days, this (integration with Bolsa) would be launching afterwards

Lucas and Nero look shocked – they clearly expected the integration for the time when Bolsa began operations, around mid-July

Zach: depending on how ready your information is, and the budget, we can speed up some steps

Nero shows ready-made screens: the process seems well advanced, in my nonexpert view

Lucas: you do the financial transaction, and we do the stock transaction, right?

Zach: yes, it seems correct to me, we need to check

Lucas, to Nero: let's schedule a meeting with Rafael to analyze the contracts

Connection to theory: this was an interesting meeting to observe possible synergies between the operations of Banco and Bolsa, and to firmly establish that they would function as a dyad. Bolsa would use the Banco app to connect with its clients, and the Banco app would use Zach's company's service as its banking service. This meant Bolsa had a vested interest in Banco's relationship with the BaaS. With the Banco app being their only system, they needed it to work as soon as possible.

This also establishes the financial connection between Banco and Bolsa. Since Bolsa is depending on Banco to operate, it makes sense that the stock exchange would pay a fee to the bank. In fact, since the profitability of Bolsa would be much higher, that fee could be hefty enough to offset all costs at Banco and still provide a surplus.

Appendix D11. Bolsa, May 28 morning, approximately 1 hour

Participants: Maria, Lucas, Nero

Leader: N/A

Agenda and notes:

Debate: logo colors: green, green-yellow, yellow-purple, red, red-purple

Five days to answer CVM's questions:

- Central depository, custodian, registrar
- Wants to be a stock exchange, does not want to stay tiny (operate like equity crowdfunding)
- "The guys asked for exemption from everything, 451, 452, 453, 480" (Maria explaining how she would view Bolsa's requests to the CVM)
- If they have to choose one exemption to drop, let it be the custodian—brokerages—but that closes the doors to digital wallets

Maria: yesterday's meeting with Stablecoin showed that they are very undefined [as in, they are not ready to start operating]

- This is the first time they mention Stablecoin [the stablecoin Banco operates as its currency] as if it is a third, separate company → check with Andre, Igor, Yvonne to make sense if that is something that matters to this project [in the end, it did not]

Nero: has an ace up his sleeve: Banco do Brasil, Itaú, Bradesco and Santander [major banks in the Brazilian banking system] all operate blockchain, we do not actually need Stablecoin; we have a meeting next week with this company to raise funds [I asked to be invited to this meeting]

Me: when you talked to Zach, I noticed that you were shocked to find out that it would take 90 days. How did you deal with that?

Lucas: you are very observant. We do not have an exact solution for this. We are talking about finding another partner, accelerating Zach with more resources, and even just starting in their time, I do not know if we will have our structure ready before that, to be honest.

Me: and what about Fundo? There was a meeting with them some days back, but then there was none anymore, what happened?

Nero: Fundo is complicated, they make everything take longer. But they are no longer with us.

Nero: Susana's law firm took over the legal management of Banco, very cool, they are huge and are "wasting time" with us and now with them too. Susana is an overachiever, she wants to do good, so she takes on these kinds of projects.

Connection to theory: this meeting addressed multiple points: it confirmed my assumptions about the dyad from Meeting 10, while also exposing another connection between Bolsa and Banco (Susana's participation at Banco, after she invested in Bolsa) and informing me of the breakdown of the relationship between Bolsa and Fundo. It was also the first time that anyone mentioned to me that Stablecoin would become a third business, moving the system into a tripod. However, that second spin-off from Banco never materialized due to the collapse of the entire operation.

Appendix D12. Banco + Fundo, May 31 afternoon, approximately 30 minutes

Participants: Umberto, Diogo, Carolina, Viviane, Igor

Igor: Stablecoin is taking shape and the interaction with Banco is becoming clearer

Carolina: the posters advertising the Kiosks are ready, they look great, we have already spread them around the favela; on the 14th we will hold the relaunch event, and next week we launch the internet banking; we are interviewing companies with the potential to become clients.

Our banking model is not profitable; it stands on its own, but it does not generate cash; the solution is to focus on businesses to process their boletos; we are closing a deal with a healthcare provider, 25,000 boletos per month at R$ 2.80 per boleto, in a simple contract with no clause requiring the use of other Banco services.

Umberto: on the other front, city halls, we have to be careful with the insecurity of receiving payments and with the requests for bribes that we will inevitably receive; we need to make it clear that we do not tolerate this type of requirement

Carolina: I prefer to focus on large companies for these boleto operations and on clusters of "*pejotinhas*" [small businesses] to attract partner clients → we need brand ambassadors → they can earn commission for referrals

Umberto: I keep thinking about adding malls, which I have openings for, and there are like 300-500 stores in the same location, we have to see how to replace their current bank

Connection to theory: strategy under financial duress, changing the business model, attracting aligned external investors. Despite Banco changing its business model to embrace social impact, and despite Fundo's objection to invest in organizations whose operations did not qualify as "regenerative", they were moving forward with the decision of providing services to major organizations to support their operation. This contract with the healthcare provider would mean an income of R$ 70,000 per month, which would go a long way into supporting Banco without the help of Bolsa. This reinforces the tension of strategy under financial duress, which was not dealt with until the end of the case.

Appendix D13. Bolsa, June 1st morning, approximately 2 hours

Participants: Nero, Maria, Rafael, Susana, Olivia, Lucas

This was the second meeting I attended to understand the direct listing process that Bolsa wants to bring to Brazil – in which the company launches its shares on the stock exchange without going through an IPO, bookbuilding, auction, without having to hire a large bank to organize the offering, etc. However, these meetings perhaps add very little to my project, so I took very few notes in the 2-hour conversation:

Olivia: Coinbased did a direct listing with an 850-page prospectus, including several passages explaining the difference between this and an IPO.

Contacts: Sinqia, Stratus to discuss direct listing structuring with these companies

IPO via CVM instruction 476: what is the difference from launching via instruction 400?

XP apparently wants to set up an equity crowdfunding platform and a startup exchange under instruction 588, on crowdfunding → direct competitor of Bolsa

Susana: they will not build a company from scratch: when we enter the sandbox, they will invest in us. We are way ahead, we have expertise that no one else has at the moment, a super competent group.

Lucas: we have to be the first, because as soon as they know what we are doing, everyone will want to copy it.

Connection to theory: embracing the market logic. This meeting had little to add to the research, but it did reinforce that Bolsa was not looking to become an organization for social impact. Their business model, and their benchmarking, was fully for-profit.

Appendix D14. Banco + Fundo, June 1st afternoon, approximately 1 hour

Participants: Carolina, Andre, Thais, Entrepreneur from a favela in Rio

Agenda and Notes: “This guy is one of those enlightened people” (Thais, about the entrepreneur)

The entrepreneur, about Thais: we can break down the barriers between asphalt and favela

Carolina, explaining the Bank:

- In 2016, we created the app for the digital inclusion of the unbanked
- We invented the Kiosks to provide access to those who have difficulty using the internet
- The Covid crisis showed that we could add other services, to include microentrepreneurs in Banco’s ecosystem, offer basic food baskets, etc.
- A bank will take over the management of our financial operations, and we will have time to talk to these entrepreneurs and establish partnerships to go further

The entrepreneur, explaining his point of view from the favela he lives in:

- We tried to create initiatives like this in our favela, to offer credit services, but it didn't inspire much confidence, and we moved on to cooperatives
- We want to solve problems that affect everyone, but people are embarrassed to admit, like depression and drugs
- Young people today have no health, education is at a standstill, it [the government, the system] is a program that makes teens obsolete in Brazil
- Young people walk around without respect for their elders, in large groups, playing loud music, fighting among themselves, riding motorcycles in the favela

Carolina: our focus is on helping entrepreneurs, and you can help us understand how we can build this bridge to get them out of informality; Secondly, we need to give you a voice, because you have incredible oratory skills and a huge message to convey.

Thais: We can create a podcast to discuss this type of thing with society, bring his voice to the forefront.

Connection to theory: changing the business model, attracting aligned external investors, adapting hiring processes. The entrepreneur was another client of Fundo, and the idea was to find synergies between his operations and Banco's. The meeting allowed them to highlight what would become the new business model of Banco, which could enlighten the possibility of partnerships between Banco and this entrepreneur. It also showed that their focus would not be on managing the banking side of the operations, because they were hiring a BaaS to do that. Instead, they wanted to focus on expanding their services to the tailored needs of the favelas.

Appendix D15. Bolsa, June 3rd afternoon, approximately 2 hours

Participants: Nero, Maria, Umberto, Daniela from Prospect, the company they wanted to attract to Bolsa

Leader: Nero

Agenda and notes: Introducing Bolsa to Prospect

Daniela: architect and urbanist, focused on sustainability; 2015: development of new neighbourhoods and agrobusiness; wants to create a new alternative inside Brazilian agrobusiness; expertise catalyzer; has a partner, with 25 years of experience in forestry management and recovery of degraded lands; and a second partner, an engineer with MBA in finance with executive experience in major companies in Brazil and abroad.

Nero: Four phases: screening, disclosure, emission, monitoring

Screening: primary market: fees of up to 15% of the amount raised; value raised depends on CVM rules, the limit could be 5 million or 10 million Reais; screening with 4 partners, in Environment, Governance, Social, and Finance (Bolsa does the Market side); this screening and accreditation process takes 8 to 10 weeks; every partner is independent, but Bolsa creates the methodology

Type of investors: impact investors who want to find companies they believe in, but the market is crowded with greenwashing; our accreditation gives credibility; but also, it could be something like "this company does not have a focus on impact now, but in six months they could have, with our support".

Disclosure: materials: Bolsa's platform → post CVM endorsement of Bolsa; company website; website of the leader investor → not mandatory, but if there is one, they can disclose the IPO; cost is high but helps the fundraising.

Emission: up to five million Brazilian Reais. If at least two thirds of the intended valuation is fundraised, then it goes through. If not, the money goes back to the investors. Secondary market: 5 years with no added costs, needs approval from CVM. The company must become an S.A. ["Sociedade Anônima", the Brazilian equivalent to joint-stock companies] and follow CVM's rites

Monitoring: every six months, monitoring partners disclose reports and seals to guarantee organizational impact and increase valuation in the secondary market

Daniela: our company is starting from scratch: buying the area, planting the forest (high costs), generating positive cashflow only past the fourth year. Certification helps assure the investor that everything is ok. 6 to 7 million Reais for 50 hectares [123.5 acres]. We will plant lemon, avocado, and mahogany. Brazil has 140 million hectares of degraded land that cannot be used for farming or even pasture. Our bottleneck is funding.

My question after watching their whole pitch: if they want to build various projects with long duration and generating no income for years, why are they looking to emit shares, instead of bonds?

Connection to theory: embracing the market logic. During the whole pitch to Prospect, Bolsa never mentioned any intended social impact. They would not even measure the impact of their clients: they would offer that as a service from a partner organization.

Appendix D16. Bolsa, June 4 morning, approximately 1 hour

Participants: Maria, Nero, Lucas, Rafael, partners from Company A, which assesses social impact, and Company B, which assesses finances, of prospects for Bolsa

When I joined the meeting, they were discussing contracts with their partners that assess the social impact and finances of companies willing to get listed on Bolsa. The debate was about whether the contract would define service exclusivity of Companies A and B by Bolsa, something that Rafael understands does not make sense, especially because if a company that launches shares has an external audit, it will not need Company B’s services.

Maria intends to start a marketing and social media strategy in a week.

Lucas: How are we starting? On the 28th [date of CVM's response about the sandbox] everything could change, it is complicated to make announcements about anything about Bolsa now.

Maria: we start by talking about the others, about *impact* (her emphasis), and financial education

At this point, Nero asks for my opinion on the previous day's meeting. I share my two notes: about the prospect's obvious discomfort with the amounts to be charged by Bolsa for launching a company's operations, disclosed the day before [10 to 15% of the amount raised], and about the prospect's financing model, as, based on my experience as a financial advisor, I understand they should seek fixed income and not shares.

Maria: we need to review the costs, 10 to 15% may even be higher than the B3 charge.

Nero: we can only compare ourselves with equity crowdfunding platforms at this time, because that is what we are sure the CVM will allow us to operate with. Later, with the result of the 28th, we can review the costs again.

Rafael, about fundraising via the stock exchange vs. fixed income: they intend to form Special Purpose Societies (*Sociedades de Propósito Específico*, SPE in the acronym in

Portuguese) for each project, and then issue shares; the problem is that if there are governance difficulties in the company now, passing this difficulty on to the SPE will not change anything. Maria: But for a 5-year period without generating revenues, it seems to make more sense to issue debentures or bonds, not shares, I agree with you.

Nero: I think they are taking information from all sides to see which structure makes sense for them, it doesn't mean they will operate shares.

At that moment, Nero and Lucas leave the meeting, which continues only with Maria and Rafael. While I take the notes above, they discuss the key partners.

Company A: There is no exclusivity in the contract. The problem is the level of the report to be produced for each company, the entire credibility of the Seal [Bolsa intends to emit a seal to certify the social impact of each organization operating through Bolsa] depends on this

Key partners: There is a governance issue unrelated to the reports to be produced

Company B: We have to see how the contract will be drawn up, because they will want exclusivity, but we can't even demand that from the companies, because what if one of them already has an external audit, what happens?

Maria: If it were up to me, we would create a category of seals for ESG companies in the future, giving up exclusivity for impact companies.

Maria: What is the limit for disclosure? What can we do as marketing before CVM gives an answer about the sandbox?

Rafael: I do not think it affects you in the sense of being punished by CVM, because you are not offering shares now, but it looks bad. What we can do is talk about the niches in which Bolsa operates.

Connection to theory: embracing the market logic. The social/environmental impact of Bolsa was since the beginning restricted to analyzing what would be the social/environmental impact of the companies which launched stocks at Bolsa. In this meeting it became evident that the third of the three leaders of the organization (Maria, the CFO) would also be open for Bolsa to operate not only with “for impact” organizations, but more openly with organizations abiding to ESG rules—Lucas and Nero had both already manifested this intent in previous meetings or interviews.

Appendix D17. Bolsa, June 30 afternoon, approximately 2 hours (including part 2)

Participants: Andre, Lucas, Maria, Nero, Olivia, Paula, Queiroz, Rafael, Susana, Thais

Leader: Lucas

Agenda and notes:

- The CVM denied Bolsa’s application to the sandbox; one point in particular does not make sense and Bolsa will ask for a review
- Review rule 588 and ask for an exception (Nero: we have nothing to lose)
- Paula (app developer): I have access to three of the six companies accepted in the sandbox, and none has an MVP [minimum viable product]
    - At least one of them is a stock exchange
    - There is something coming up [from B3] to take down many guys from the sandbox
- Queiroz (angel investor): ok, what is plan B? Susana: we will get a permission to operate as a crowdfunding platform; if we cannot reverse the decision [to operate as a stock exchange], we either apply [for the next sandbox] with a softer, more palatable format, or try again with the same format but more detailed
- We got denied with a score of 18 out of 42, but we understand they say we asked for an exception that we did not ask, which is worth 7 points and we scored 0, so if we remove these 7 points we get 18 out of 35 [which is enough to pass]
    - We intend to do stock listings exactly as per the current regulation, there is no reason to imply that we made a request for this exception
- Thais: we have the technological innovation, but also the social innovation. We can move on with the certification process first, and having that in place will even help us get into the next sandbox in one year

- Lucas: exactly, we build our Seal [of social innovation] inside the structure of a crowdfunding platform with no secondary market[11] and build our reputation, then afterwards we try again to apply to become a stock exchange
- Maria: yes, the core of our business is the [restriction to operate only companies with strong] social impact, I want to assure you all
- Queiroz: in the future we come back with plan B
- Maria: everyone [in the financial market] knows we were applying to the sandbox, we need to unify the discourse before we talk to prospects: “still clarifying and in contact with the CVM”
- Andre: I think the best thing do to is to stay silent
- Susana: I think this is a debate to be had after we talk to the CVM analysts

Part 2, post-clarifications

Participants: Lucas, Maria, Olivia, Susana, Rafael

Core point: we did not ask to be allowed to do crowdfunding for companies above R$ 5 million [the top limit under the law for the valuation of the company to be allowed to be crowdfunded]. If we were able to attract larger companies than the limit, they would join under whatever rule is in place, without asking for any exceptions

Connection to theory: the dyadic operation of Bolsa and Banco. This meeting was the first stage of failure of the whole operation. When Bolsa did not receive their rights to join the sandbox, it quickly derailed and eventually every leader left the organization. With the failure of Bolsa, the leadership at Banco also lost their hopes that the bank would ever be viable without constant external support, so its relaunch also imploded a couple of months later.

[11] The biggest difference between a crowdfunding platform for organizations and a stock exchange is that the stock exchange creates a secondary market for shareholders to freely sell their shares, while the crowdfunding platform only helps the organization find their first group of shareholders, who will then have more difficulty to sell the shares if they ever intend to.

Appendix Group E: Secondary Data

Table 20: Secondary data used for the project

Document	Type	Source	Alignment	Reason
Balance sheet 2018-2020	Internal, accounting	Banco | Andre	Splitting Main Opposition	The balance sheet is not directly related to the mechanism, but issues with mission prioritization (Andre and Nero focusing on the social and the market missions, respectively) led to poor performance and then to the split between decision-makers
OKR Banco	Internal, strategy	Banco + Fundo	Changing the Business Model, Attracting Aligned External Investors	The OKR measured the net impact of new activities aligned with something called “social score”, a scorecard of social needs of each client that would be implemented in the next OKR; it was created with the support of Fundo
Company Statement	Internal, strategy	Banco | Carolina	Changing the Business Model	The new statement of mission, vision and values explicitly establish Banco as a social enterprise
Investor relations Banco	Internal, investor relations	Banco | Carolina	Attracting Aligned External Investors	The purpose of this document is to align Banco and Fundo, and establish the groundwork to attract new funds from similar sources
LinkedIn Banco	External, business page	Banco + Fundo	Changing the Business Model, Attracting Aligned External Investors, Adapting Hiring Processes	All of Banco’s social media presence is focused on signaling the new business model and attracting aligned investors and personnel
Instagram Banco	External, business page	Personal search		
Twitter Banco	External, business page	Personal search		

Technology Pitch Bolsa	Internal, investor relations	Bolsa | Maria	Embracing the Market Logic	The pitch is for a stock exchange whose biggest advantages are lower costs, less bureaucracy than the competition, and a reliable connection to ESG-focused shareholders
Pitch to Prospects Bolsa	Internal, strategy	Bolsa | Observed meeting		
Marca Bolsa	Internal, branding	Leaders Bolsa		
Miro Bolsa	Internal, commercial	Bolsa | Observed meeting	Embracing the Market Logic, Adapting Hiring Processes	Bolsa's social media presence is focused on expanding its brand recognition, attracting potential clients to both ends (investors and businesses looking for funding)
LinkedIn Bolsa	External, business page	Personal search		
Valor Investe Bolsa	External, news	Bolsa + Fundo		
Bolsa-CVM | clarification	Internal, engagement with CVM	Leaders Bolsa	Embracing the Market Logic	The communication with CVM explicitly establishes Bolsa as for-profit, and does not mention social impact anywhere
Instagram Fundo	External, business page	Bolsa + Fundo	Attracting Aligned External Investors	The social media communication of Fundo explains why Fundo became a partner of Banco but not of Bolsa—due to their explicit bias towards the social logic
Homepage Fundo	External, business page	Bolsa + Fundo		
Social Fintech Banco	External, news	Personal search		
Lexology Banco	External, case	Personal search		
Valor Investe Banco	External, news	Personal search		
InfoMoney Banco	External, news	Personal search		
Complementary Law 182, June 1st 2021	External, new law	Leaders Bolsa		
Conjur law 182	External, news	Leaders Bolsa		
Doubanx Bolsa	External, news	Leaders Bolsa		