

THE ROAD TO EQUILIBRIUM CHANGE

By combining elements from government policy and business entrepreneurship, social entrepreneurs are moving the world forward in creative ways.

BY SALLY OSBERG AND ROGER MARTIN



Henne Gensfleisch zur Laden, or Gutenberg, as the world knows him, was born just as change was beginning to ripple through Europe: the plague that had raged in the 14th century had subsided; population was again growing; and trade was being restored. Political power was shifting as well, with the Holy Roman Empire's grip on Europe weakening. All of this change, however, would pale in comparison to the shift Gutenberg himself would unleash.

Looking back, the printing press seems like a straightforward-enough invention; but the fact is, it represented nothing less than the democratisation of knowledge. Its effects helped to spur the Enlightenment and the Protestant reformation, setting the stage for widespread literacy—and in doing so, it represented a dramatic and sustainable shift in equilibrium for the world.

Before Gutenberg, books—which captured the world's collected knowledge—were phenomenally costly to produce. At the time, they were more like expensive pieces of art, created by priests and monks who dedicated painstaking hours of labour per page. As a result, only the church and the wealthiest private citizens could access the collected works of mankind.

For the rest of the world, stories were communicated orally: parishioners sat in churches and listened to words being read to them that they would never be able to read themselves; and perfectly smart commoners would not get the chance to learn to read, because there was no reading material to study. The cost of book production ensured an unfortunate mismatch between the inherent intellectual ability of average citizens and their ability to exercise their minds. Faced with this unhappy equilibrium, Gutenberg envisioned a better world, built a model for change, and scaled it to widespread effect.

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Social progress—by which we mean ‘transformation of the prevailing conditions under which most members of a society live and work’—is almost always the result of a successful challenge to an existing equilibrium. The path to change, however, does not always run smoothly.

In *The Structure of Scientific Revolutions*, Thomas Kuhn argued that science moves forward in two distinctly different modes; one predominant and one rare. He called the predominant mode ‘normal science’, in which there exists a widely held and deeply-ensconced theory. Scientists accept the underlying assumptions of the theory and work to make small, incremental improvements to it while generally ignoring data that serves to contradict prevailing wisdom. In fact, during these periods, scientists are antagonistic towards challenges to the extant theory.

The other mode in which science moves forward is the more infrequent ‘revolutionary science’ mode, in which the prevailing theory is overthrown by a new theory, which produces what Kuhn described as ‘a paradigm shift’. Copernicus’ theory that the sun and planets did not revolve around Earth, but rather that the planets, including Earth, revolved around the sun, represented such a scientific revolution. Prior to this insight, normal science involved documenting

the crazy orbits that the planets and sun travelled as they circled Earth. After the paradigm shift—through which new knowledge supplanted the old—normal science again maintained its hold, as scientists mapped the new orbits around the sun and discovered additional planets. We would argue that Kuhn’s diagnosis is not limited to the domain of science, but rather, describes the two modes by which the world in general moves forward.

Most of the time, the world moves forward in tiny increments, as we hone and

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refine an existing model: governments modify laws, regulations, or services offered to produce what they hope will be better results; businesses bring out the next generation of their existing products or services in order to please customers more; non-governmental organisations figure out better-still ways to fundraise or to deliver service to their target beneficiaries. Such changes are akin to those exercised in the realm of normal science—improving upon the current equilibrium, even if it is still relatively unpleasant. But every once in a while—backed by revolutionary rather than normal thinking—the world moves forward in a big leap to a fundamentally new equilibrium. The existing equilibrium is shattered, even if many powerful people and organisations were invested in it.

Over the course of history, such paradigm shifts have been driven by two entities:

Government-led Transformation

Sometimes, a governing body will mandate and enforce a dramatic change. Over the long reach of history, that governing body tended to be regal (e.g. a king or emperor), religious (e.g. the Pope), or tribal (e.g. a chief). Only recently has it usually been a democratically-elected governing body. Consistent with Kuhn's view, the trigger of the shift is mounting dissatisfaction with the status quo. Even though the existing equilibrium might have had a long history and may well be perceived as 'just the way it is', large swaths of participants are adversely affected.

Government-led transformation has often been a response to the work of social activists—a push from vocal groups advocating fundamental change. Social activists see the path to a transformed equilibrium as change that must be mandated by a governing body in order for that change to apply universally and result in a superior equilibrium for all citizens.

Business-led Transformation

A second mechanism for driving transformation to a more productive equilibrium is entrepreneurial business-led transformation. The role of business entities in driving advancement did not really flourish until the Industrial Revolution, when businesses began to grow to previously unimagined scale. A positive cycle was produced in which one creation—for example, the steam engine—could enable the creation of an entire transformational industry—the railway. While economic output is only one measure of a society's advancement, it is not an unimportant one. In real terms, the world's economic output had been increasing at the anaemic rate of 0.22% per year for the thousand years leading up to 1820, the heart of the first Industrial Revolution. In the next 180 years, growth increased tenfold and the world advanced at a 2.2% compound annual rate. That meant that in 1800 years since the time of Christ, the world's output increased only seven times, while in the last nearly 200 years, it increased 50 times. This

increase was substantially due to the addition of this second mechanism for positive transformation to the world's arsenal.

We position these two modes as poles at either ends of a spectrum. When government innovates through policy, the resulting legislation is mandatory and ubiquitously applied across the citizens of the jurisdiction for the benefit of all; when business entrepreneurs create, the results are offered to customers who choose to avail themselves of the product or service, depending entirely on whether they find the offering to be of value. Thus, it is incumbent upon the commercial entrepreneur to design a profit model that meets both his objectives and his customer's requirements.

While activity at each of the two poles has been responsible for advancing the world to successively higher and more productive equilibria, there have always been actors who have operated in the territory in between. Charitable public service organisations, for instance, have had significant positive impact on the world. In most cases, their efforts are aimed at ameliorating the effects of an unhappy equilibrium—disease, poverty, injustice—rather than on changing the equilibrium itself. Of course, amelioration of human suffering is a universally laud-

able goal. In many respects, it is not unlike the beneficial process of normal science—improving the functioning and power of the existing theory/model. But fundamental equilibrium change requires an innovation in the model or system as it currently works.

Government-led and business-led transformation proceeded apace throughout the 20th century. Philanthropy grew, and many important organisations, like Mother Teresa's Missionaries of Charity, grew to substantial size by ameliorating human suffering on a global scale. But it took another century for a new driver of social change to emerge from between the poles.

Many individuals have sought to bridge between business and government for the good of the world, but in recent times, Muhammad Yunus serves as an exemplar. As an iconic actor in this space, he has come to define modern social entrepreneurship—a third way forward. While not entirely new, social entrepreneurship represents an increasingly vital means of spurring the equilibrium change that achieves dramatically better social conditions.

The decade of the 1970s was a particularly tough one for poor villagers in Bangladesh. Monsoon floods in 1973 and 1976 devastat-



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The Missionaries of Charity, like many other philanthropic organisations of the 20th century, could effect considerable social impact.



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ed the already-fragile economy. Yunus, an economics professor from Pakistan, watched the struggles with dismay. A number of villagers—all women—were working extremely hard to eke out a subsistence by making bamboo furniture. Yet no bank or money-lender would consider providing a cent of capital to them, to invest in machinery to make their labour more efficient. Born into poverty, they worked and raised their families in poverty, and they died in poverty. That was the way it was: a stable but miserable equilibrium.

Yunus decided that nothing would change if he did not take action. So, in 1976, he began by simply asking a group of 42 poor Bangladeshi women what sum of money each would need to increase their productivity. Their answers added up to a grand total of \$27. This shocked him: how could so small an amount stand between these women and a better future?

Yunus and his colleagues decided to run an experiment, reaching into their own pockets to lend the money, not really expecting repayment. But, as we all know, they were repaid—every last taka. And with that, Yunus was prompted to think more deeply about the system that was preventing such clearly diligent and trustworthy women from securing loans.

Hiding in plain sight was the innovation that would ultimately spawn an entirely new industry. Whereas some low-income Bangladeshis might be able to put up small plots of land or livestock in order to get lenders to pay attention, the very poor had no assets whatsoever that would serve as collateral. The solution? Yunus realised he could capitalise on the poor themselves, by organising them into ‘guarantee solidarity groups’, in which members would back each other up by sharing the risk of individual default. As Yunus is fond of saying, “Everything a poor person needs to overcome poverty comes neatly packaged in the poor person herself.” His insight was to see this new form of collateral as the basis for an entirely new model of banking, one designed to lend tiny sums of money to the very poor.

Grameen Bank was born, and the ‘microfinance’ lender would spawn a giant industry, with over a thousand similar organisations worldwide. It would also earn him the Nobel Peace Prize. Yunus clearly aimed at producing an equilibrium change in which poverty was not simply ameliorated, it was transformed—and he created the innovative product that made it possible: microcredit.

Neither pure government policy nor pure entrepreneurship, Grameen Bank was a new kind of organisation, a new mechanism for change. The product was offered voluntarily. There was no mandate. The product was for customers, not all citizens. And importantly, the goal was social benefit rather than profit—though in due course, when the new equilibrium was established, both social-benefit and for-profit players entered the space.

In closing

Equilibrium change takes time. Existing equilibriums are stable for a reason: the forces at work keep the elements in balance. Social entrepreneurship is a form of positive equilibrium transformation whose ability to draw from the principles and tools of both government policy innovation and business entrepreneurial creation creates potential for endless powerful combinations. ■

This article is drawn from their forthcoming book *Getting Beyond Better: How Social Entrepreneurship Works*, Harvard Business Review Press.