

# The Demand and Supply of Sensibility



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A new order is emerging and **John Elkington** believes that this won't come from conducting business as usual.

**M**arkets—national or global—have many strengths, particularly if they are well managed and governed. But as we have learned to our cost in recent years, they also have many weaknesses. The capacity of market institutions to consume and digest vast and growing quantities of information from around the world is a modern miracle, but these capacities are sometimes overtaken by the sheer pace of electronic trading, the laser-like focus on financial performance (rather than wider societal and environmental performance metrics), and the periodic post-boom

market bubbles that warp the perspectives of growing numbers of market players.

Like drunks recovering from their latest hangover, banks and other financial actors promise, in the wake of a crash, to behave better, to practise moderation, and to watch carefully for signs of the next crisis. But, often, their problem is that their mindsets, incentives and processes too rarely embrace the long term. This cycle of indulgence and contrition is one we have learned to live with—and we even acknowledge the existence of super-cycles, waves of creative destruction that tear apart old industries and

economies and, sometimes, put them back in new formats that are more suitable for changing market circumstances.

Many of us go through life looking for facts and trends that reinforce our world view, which makes us comfortable. For better or worse, I have made a career out of looking for facts and trends that do not fit with prevailing world views, for situations that should make us distinctly uncomfortable. One part of the process is to look for the outliers, the mutants, the very far from business-as-usual examples of success. Sometimes, I learned early, today's abnormal holds useful clues to tomorrow's normal. Singapore is very far from normal—something that Lee Kuan Yew, the city-state's Prime Minister from 1959 to 1990, underscored in his fascinating book, *Hard Truths*.

Surrounded by countries that do not wish it well, and in competition with rising neighbours in Asia, Singapore's future is far from guaranteed. One reason why the city-state is so keen on water recycling and desalination, for example, is that the Malaysians have periodically threatened to cut off the critical water they supply. As a result, I learned from government officials, Singapore plans to be self-sufficient in water by 2061.

#### Thinking Long

This propensity to think long is shot through Lee's book—and through much of what happens in Singapore. In one memorable section—and there are many—he recalls a visit to Boston in 1968, where he had an eco-epiphany. Like Sherlock Holmes and the dog that didn't bark, he noticed that the trees and other vegetation in the city centre were a rich, verdant green. He asked why they weren't as

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dusty and diseased as in Singapore? The answer: Vehicle emissions were tightly controlled—something Lee promptly put into force back home.

Long dismissed as “Disneyland with the death penalty,” as “an antiseptic island peopled by a passive citizenry and governed by paranoia,” Singapore demonstrates the power of triple bottom line strategy at the country level: Economic competitiveness, social inclusion (up to a point) and a cleaner environment for all. Although Lee is pessimistic about the likelihood of nation-states getting a grip on the climate disaster he sees threatening the region, he is determined that Singapore adapts to climate change—and develops new industrial clusters in areas like clean technology.

When I visited Singapore early in 2011, it was—among other things—to meet social innovators and entrepreneurs, and those who support them—like the Economic Development Board (EDB) and the Lien Centre, and to talk to students (at INSEAD, for example) who want to get into social innovation and enterprise. All of which reminded me of the question I was asked by McKinsey early last year: “Can social entrepreneurs create the necessary large-scale change?”

A simple question—and the essay I did for their “What Matters” innovation website gave a simple answer: No. That may strike you as unexpected, misguided, unfair, or even schizoid given that I have spent so much of the past decade working with—and celebrating—social entrepreneurs and their intrapreneurial cousins within mainstream companies. So don't get me wrong; I still believe that, in the right circumstances, many of these extraordinary innovators, entrepreneurs and investors will drive potentially transformative solutions to scale.

But the uncomfortable fact is that our current trajectory simply won't take us to where we need to be by 2050. Once they have gained traction, there is no question that social entrepreneurs like Muhammad Yunus of the Grameen Bank, Fazle Hasan Abed of BRAC, Dr. G. Venkataswamy of Aravind Eye Care System, Wangari Maathai of the Greenbelt Movement, or Tim Smit of the Eden Project can move mountains. But generally, the benefits they provide are far from ubiquitous even in their own countries, let alone globally.

### From Eureka Moment to Transformed Economy

The uncomfortable truth is that the nature and scale of the economic, social, environmental and governance challenges we face are unparalleled. Humanity is headed towards 9 billion people by mid-century, with more than half of our species already concentrated in seething urban areas—and billions more destined to follow. Add to that the growing risks associated with abrupt climate change, pandemics, and energy, water, and food security. Expecting social entrepreneurs to solve these problems is both unrealistic and a misreading of the real value they bring to bear.

To get a better sense of the benefits and challenges of social entrepreneurship, Volans released a report at the 2009 Skoll World Forum, largely funded by the Skoll Foundation. We offered the following simple five-stage model to map and explain the pathways social and environmental innovators, entrepreneurs and intrapreneurs must take to replicate and scale their solutions:

- **Stage 1** spotlights the Eureka! moment, whether it be Archimedes in his bath, Edison in his lab, or Craig Venter advancing synthetic biology.
- **Stage 2** sees intensive Experimentation, as when the Wright Brothers tested heavier-than-air flying machines on the sand dunes at Kitty Hawk.
- **Stage 3** involves the formation of new Enterprises to carry forward the new technologies or solutions—many of which fail, but a small proportion of which seed the future.

- **Stage 4** sees a more urgent focus on economic Ecosystems, with growing efforts being devoted to creating clusters of activity in such areas as renewable energy, clean tech, or sustainable urbanism. The focus shifts from competition to collaboration, or at least co-opetition.<sup>1</sup>
- **Stage 5** is reached by achieving truly systemic change across the entire Economy.

The green shading identifies the space where many leading companies are currently operating—with growing interest among the more informed business leaders in moving beyond traditional business-to-business, government and NGO relations to deepening engagement with social innovators and entrepreneurs. For those looking for partners, it is now reasonably easy to identify innovators and entrepreneurs who have fought their way through those first four stages—but it's tough to think of anyone from the latest crop of entrepreneurs who has yet made it to Stage 5. For that to happen, we must now raise our collective sights from technologies and business models—important though they are—to psychological, social, and even civilisational change.

Social entrepreneurs perform a crucial role in stage 1 and stage 2—and a fair few go on to develop significant enterprises with ecosystems that, in a small but growing number of cases, include major corporations. This stage can be double edged, however. The strength of social entrepreneurs is that they connect with the community and its culture. When they form strategic partnerships with corporations, the risk is that they, too, become more corporate—and come to see those they help as customers or clients, with all that goes with that, including a growing focus on shorter term targets that can be measured with conventional metrics.

STAGE 1	STAGE 2	STAGE 3	STAGE 4	STAGE 5
<b>Eureka!</b>	<b>Experiment!</b>	<b>Enterprise</b>	<b>Ecosystem</b>	<b>Economy</b>
Opportunity is revealed via the growing dysfunction of the existing order	Innovators and entrepreneurs begin to experiment, a period of trial and error	Investors and managers build new business models creating new forms of value	Critical mass and partnership create new markets and institutional arrangements	The economic system flips to a more sustainable state, supported by cultural change

*Source: Volans: Pathways to Scale methodology*

**Cultural Revolution in Four Steps**

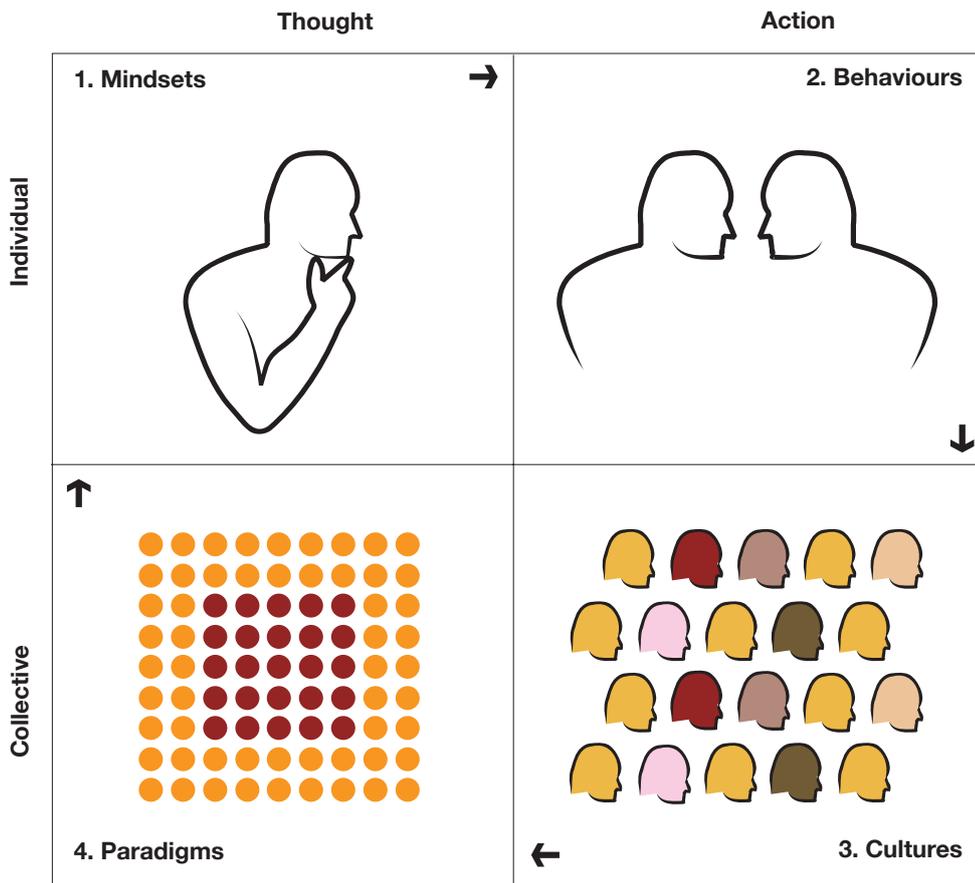
I have been absorbing (if not always reading cover-to-cover) a trailer full of books<sup>2</sup> that tackle the deeply taxing question of how to drive transformative social change. And their very existence is a lead indicator of where this whole area is now headed.

As I have tried to think through what is needed for Stage 5 Transformation, a 2x2 matrix began to form in my mind.

This distinguishes on one axis between change that happens at the individual and collective levels, and, on the other, between change that affects thought and action. The cycle I identified runs from Mindsets through Behaviours and Cultures to the most fundamental level of social change, Paradigms.

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**Cultural revolution in four steps**

Change starts with individual beliefs and behaviour, then spreads to the wider community

True paradigm shifts take decades, generations to work their way through—partly because **those infected by old paradigms have to retire and die, clearing the way for the new order.**



So what's the recipe for transformative change? Let's work our way around the matrix, cell to cell. In the first, **Mindsets**, the emphasis is on changing our mental operating systems at the individual level. The last century taught us that brainwashing doesn't work very well, so how do we rewire our brains? Well, happily, there is some evidence that leading social entrepreneurs are helping CEOs and other C-suite leaders—and a growing spectrum of intrapreneurs—to spot new market risks and opportunities, prototype innovative business models and test out novel leadership approaches.

But even the best-intentioned leaders can hit the wall when attempting the transition from cell 1 to 2. They make the announcements, but their **Behaviour** remains unchanged; critically, they fail as models of the new behaviour. Among recent examples: BP polluted the Mexican Gulf, despite all its pledges and promises; and Shell, which had also conspicuously embraced sustainability, is also embracing climate-unfriendly tar-sands. Still, if you get this bit right, the process can go viral. On the positive side, however, we have seen major behavioural transitions in some countries in areas like safety belt and public smoking.

Those who do make it into cell 2 must then make the even tougher transition to cell 3. Here, the focus is on integrating new values into corporate, urban, national or global **Cultures**. Culture is the new frontier—and we're going to have to get dramatically better at cultural engineering, or perhaps catalysis would be a better word.

As we probe the margins of cell 4, the spotlight shifts to **Paradigms**. The emerging paradigm we're groping our way towards draws on the work of people like James Lovelock, whose thinking around what he calls geophysiology—which treats the earth as if it is a living organism—feels like a critical building block for the coming decades.

True paradigm shifts take decades, generations to work their way through—partly because those infected by old paradigms have to retire and die, clearing the way for the new order. Without wanting to sound Millennial about this, my sense is that we are at least 50 years into a shift toward a One Planet paradigm.<sup>3</sup> And we are accelerating towards

some sort of systemic transformation in key world regions by the late 2030s. Social and environmental entrepreneurs will be crucial facilitators in this process.

Picture social innovators and entrepreneurs as scout bees returning to the economic hive to perform the waggle dance in Davos, at Clinton Global Initiative or TED events, signaling where the new opportunities are emerging. But they can't do the heavy lifting solo; they typically achieve solutions that are local, and remain vulnerable to economic and political cycles.

Going back to the stages I outlined earlier, what we need next are Stage 4 ecosystems and clusters designed to build towards Stage 5 transformations. Among other things, this means catalysing the shift towards a One Planet paradigm built around transparency, compassion, reciprocity, intergenerational equity, accountability, evolution, resilience, and sustainability. And it means brokering fair and high-performance partnerships between innovators and those able to bring their solutions to scale.



### A New Order Is Emerging

Squint and you can already see bits of the new order forming, like a new solar system out of a dust cloud. It's encouraging, for example, that Yunus and Grameen are partnering with Danone to produce fortified dairy products for poor children in Bangladesh.<sup>4</sup>

But I'm even more interested in General Electric's global Ecomagination and Healthymagination initiatives.<sup>5</sup> Or in GlaxoSmithKline CEO Andrew Witty's announcement of radical cuts in the pricing of critical pharmaceuticals for poorer countries—and the company's impending move into branded generics.<sup>6</sup> Or in Nestlé's offer to open out its new Creating Shared Value approach to other companies<sup>7</sup> and Nike's similar offer with its GreenXchange.<sup>8</sup>

Such initiatives have the potential to deliver change on much greater scales than even the most energetic social enterprises. What is needed to switch my earlier “no” to an unqualified “yes” is not increasingly vigorous assertions of how insanely great social entrepreneurs are. Instead, we urgently need, not just a revamp of corporate-citizenship strategies or stock-market algorithms, but way smarter mindsets, behaviours, and cultures—all drawing on (and helping shape) that new economic paradigm. This requires a mental transition to the stretch-target version of the sustainability agenda which, while difficult, is eminently possible, as illustrated by the 50 identified pioneers in the business of social innovation we recently identified.<sup>9</sup>

Singapore has emerged as one of the leading incubators of new clusters of industry—and the hope is that much of the rest of Asia will exert every sinew in the coming decades to equal and even overtake what the city-state has achieved. If this happens without the sort of mindset, behavioural and cultural and paradigm shifts discussed above, it may be that some well-prepared countries will weather the storms, but—as Lee Kuan Yew argued—Singapore is unlikely to be among them unless it can help spread sustainable forms of development to other parts of the region.

Storms we are guaranteed as the world's population heads to that seemingly inevitable 9 billion milestone, but storms are made up of individual clouds. And clouds can have silver linings. The opportunities to push into the emerging One Planet marketplace faster than competitors must be one of the great opportunities of the coming decades—a point made with many more statistics by Vision 2050, the recent

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report from the World Business Council on Sustainable Development.

As that council concluded, “Business-as-usual is sending us on a trajectory to consume 2.3 planet's worth of ecological resources in 2050. The pathway outlined will enable us to live within the limits of our one planet, limiting the destruction of key ecosystem services—including climate, forest, fisheries and farmlands—and easing human hardship.” Social solutions of the nature and scale we will need must adopt and adapt the most effective pathways to scale and, in the process, help drive the necessary culture change and, ultimately, the shift to a One Planet paradigm.<sup>3</sup>

And the market opportunity? “Investment in infrastructure, technology and human services driven by sustainability and resource efficiency could reach US\$ 3-10 trillion per annum in 2050 creating new opportunities for business to thrive and grow.” That silver lining could actually turn out to be gold for those with the imagination to see where the world is going.



1. Amalgamation of co-operation and competition.
2. They include the fashionably monosyllabic *Nudge* by Richard Thaler and Cass Sunstein (required reading in the early days of the Obama administration). Other books: Nicholas Christakis and James Fowler, *Connected The Surprising Power of Our Social Networks and How They Shape Our Lives -- How Your Friends' Friends' Friends Affect Everything You Feel, Think, and Do* (Little, Brown and Company, 2009) and Chip and Dan Heath, *Switch: How to Change Things When Change is Hard* (Broadway Books, 2010).
3. One Planet Living is a global initiative based on 10 principles of sustainability developed by the Bioregional and World Wildlife Federation, <http://www.oneplanetliving.org/index.html>.
4. "Grameen Danone Foods," <http://www.danone.com/en/what-s-new/focus-4.html>.
5. "Ecomagination," <http://www.ecomagination.com/>: "Healthymagination," <http://www.healthymagination.com/>.
6. Sarah Bosley, "Drug Giant Glaxosmithkline Pledges Cheap Medicine for World's Poor," *The Guardian*, 13 February 2009; Natasha Singer, "Drug Firms Apply Brand to Generics," *New York Times*, 15 February 2010.
7. Disclosure: I am on the relevant Nestlé advisory board.
8. Nestlé's Shared Value Approach can be found at <http://www.nestle.com/CSV/Pages/CSV.aspx>; Nike's Green Xchange, <http://www.nikebiz.com/crreport/content/environment/4-4-0-case-study-greenxchange.php>.
9. John Elkington, Alejandro Litovsky and Charmian Love, *The Phoenix Economy: 50 pioneers in the business of social innovation* (London: Volans Ventures, 2009).