Spotlight: Can entrepreneurs save the world?

A new alliance for global change

Working together, corporations and social entrepreneurs can reshape industries and solve the world’s toughest problems. This article was first published by Harvard Business Review in 2010

By Bill Drayton and Valeria Budinich

The time is ripe for collaboration between for-profit businesses and mission-driven individuals and organizations. By forming “hybrid value chains” the for-profit and citizen sectors can together remake global economies and create lasting social change. Businesses offer scale, expertise in operations, and financing. Social entrepreneurs offer lower costs, strong social networks, and a deeper understanding of businesses and mission-driven individuals and organizations.

It is not the case that the citizen sector—the term we use to define the millions of groups established and run by mission-minded individuals across the globe who are attempting to address critical social needs—has long been regarded as understaffed and inefficient. But that has changed. We work with some 5,000 social entrepreneurs worldwide, and over the past 50 years we’ve seen the citizen sector catch up with business as it has increased its productivity, scale, and reach. Its organizations are attracting talented and creative leaders, and their work is changing the game in critical industries and areas such as energy and health care.

For-profit organizations today have an opportunity to collaborate with citizen-sector organizations (CSOs) on large-scale problems that neither group has been able to solve on its own. The power of such partnerships lies in the complementary strengths of the participants. Businesses offer scale, expertise in manufacturing and operations, and financing. Social entrepreneurs and organizations contribute lower costs, strong social networks, and deep insights into customers and communities.

But to work together effectively, they must focus on creating real economic as well as social value. We believe they can do so by forming what we call hybrid value chains (HVCs), which capitalize on those complementary strengths to increase benefits and lower costs.

This trend has been developing for years, and we’ve participated in pilot projects that have delivered impressive results and promise extraordinary growth—HVCs can now be found in many industries all over the world. Collaboration between corporations and CSOs has reached a tipping point: It is becoming standard operating procedure. Indeed, we believe that if you’re not thinking about such collaboration, you’ll soon be guilty of strategy malpractice.

The vibrancy of the citizen sector

Before we explore the inner workings of hybrid value chains, it may be helpful to look at how we got here. In the 1700s business became entrepreneurial. Upstarts devising faster and more efficient ways to produce goods ushered in the Industrial Revolution. They introduced innovation after innovation, ultimately changing the world. After remaining flatter for a millennium, per capita income in the West rose by an average of 20% in the 1700s, 200% in the 1800s, and 741% in the past century. But while the for-profit sector enjoyed sweeping progress, the citizen sector languished. It faced little outside market pressure and relied heavily on funding from governments that, as monopolies, feared competition. CSOs felt little push to innovate; as a result, they fell far behind in productivity, performance, pay rates, confidence, and reputation.

By 1980 the imbalance between the business and social sectors of society had become intolerable. (We had great TVs but lousy education.) New opportunities emerged across the world (except where governments got in the way), and the citizen sector restructured itself to become entrepreneurial and competitive. It rapidly increased productivity and scale, lowering the cost of goods and services it provided relative to business’s offerings. Since then, the citizen sector has been creating jobs at three times as fast as have other employers in the Organisation for Economic Co-operation and Development countries. In Brazil the number of CSOs rose from about 50,000 to nearly a million over the past 20 years. In the United States their number has grown by more than 500% since 1982. Today millions of these groups attract talent—and its leaders will reach large new markets. They will also gain competitive advantage from new business models and first-mover benefits.

The time is ripe for collaboration because the two sectors are now equally innovative. Together they can promote changes as powerful and widespread as those produced by the Industrial Revolution.

Hybrid value chains

Hybrid value chains represent a systematic shift in the way businesses and CSOs interact. They are collaborations that redefine value in game-changing ways, with each side clearly understanding (and willing to accept) the risks and rewards.

Consider the housing industry. Currently, one-sixth of the world’s population lives in slums and squatter cities. That’s a billion people willing to accept what small farmers in Mexico represented a significant market opportunity. They partnered with the company to organize farmers into loan groups, promote drip irrigation, and financing. social entrepreneurs offer lower costs, strong social networks, and a deeper understanding of businesses and mission-driven individuals and organizations.

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Or consider Rodrigo Baggio, who created a chain of computer schools serving hundreds of schools across Latin America and Asia. He persuaded one organization after another to donate, warehouse, and transport their used computers, and thousands of slum dwellers to set up and run the schools. These schools now boast some 700,000 graduates. We could go on and on. But our point is that many social entrepreneurs are already out there changing the world—and businesses have largely been overlooking them. It was previously safe to ignore the citizen sector, because this segment of the economy was relatively small in scale and low in productivity. That’s no longer true. The companies that work with and learn from the sector and its leaders will reach large new markets. They will also gain competitive advantage from new business models and first-mover benefits.

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Imagine what we call hybrid value chains (HVCs), which capitalize on those complementary strengths to increase benefits and lower costs. The companies that work with and learn from the sector and its leaders will reach large new markets. They will also gain competitive advantage from new business models and first-mover benefits. The time is ripe for collaboration because the two sectors are now equally innovative. Together they can promote changes as powerful and widespread as those produced by the Industrial Revolution.

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managed a female sales force. That model generated income for previously unemployed women and pushed the product into the hands of potential customers, rather than waiting for a storefront to pull them in. It reduced Colcerámica’s distribution costs by a third, so the company could afford to pay a percentage of its profits to the women sales promoters and community partners. Other local CSOs performed administrative functions in return for a percentage of revenues, which they reinvested in community projects.

The program, now called Visto Tu Casa (Dress Your House), launched in January 2006. In 2009 its sales reached nearly $12 million as it expanded to five of the six largest cities in Colombia, in partnership with five CSOs. It has helped more than 26,000 families improve their living conditions, and 179 saleswomen are each earning $220 a month. In India, Ashoka is working with mortgage companies, developers, and local citizen sector groups to create a thriving housing market—delivering affordable new apartments for the “informal” members of the local workforce. These consumers often have a steady source of income but lack proof of stability and therefore are ineligible for mortgage loans. India’s housing deficit has been conservatively estimated at about 24.7 million homes—perhaps the largest potential housing market in the world. And that doesn’t include what will be needed as more than 700 million Indians move from villages to cities. Within this new-construction HVAC, CSOs can serve as demand aggregators, bringing citizen consumers to for-profit developers, or as full design and investment partners. More than 2,500 homes are being built, with the promise of another 7,500 within the next 18 months—representing more than $100 million in work.

Knowledge.

Companies that pioneer HVGs will run up the learning curve, leading competitors behind. And as they gain experience, they can carry their new knowledge into different environments. In “How GE Is Disrupting Itself” (HBR October 2009), Jeffrey R. Immelt, Vijoy Gopalan, and Chris Trimble write: “Success in developing countries is a prerequisite for continued vitality in developed ones. GE is pushing to ‘reverse innovate’ products in emerging markets because you can ‘create brand-new markets in the developed world—by establishing dramatically lower price points or pioneering new applications.’ When designed correctly, HVGs, too, can be a source of such disruptive offerings.

Talent.

HVGs require entrepreneurs who can spot opportunities, devise creative solutions, and collaborate with a diverse group of partners. They give entrepreneurs a chance to identify and recruit talented leaders. They also attract progressive thinkers and increase commitment to employers, because working on this new frontier of business is exciting, socially relevant, and challenging. CSOs will gain at least as much, beginning with access to cheaper capital. McKinsey estimates that philanthro-

→ What would it mean for your business if you could unlock the potential of a trillion-dollar housing market?

A Win-Win-Win proposition

Businesses that enter into HVGs can expect three kinds of return on their investments:

Profits.

HVGs unleash many opportunities for growth. For example, on the basis of their joint research, Ashoka and the consulting firm Hysteria estimate that a $55 billion market exists for safe, clean, and affordable energy for low-income consumers. Moreover, if a business can construct an HVAC to profitably serve lower-income consumers, it can often provide those services to higher-income consumers as well.

When market values are changing dramatically.

In markets such as energy and the environment, customers are often asked to make big compromises because existing business models are inflexible. HVGs can help organizations figure out ways to lessen those compromises. For instance, in many parts of India people use stoves fueled by kerosene or wood to cook and to heat their homes, at great cost to both their personal health and the environment. On the advice of the late C.K. Prahalad, BP partnered with local manufacturers and two Indian Ashoka fellows within the biomass sector groups persuaded Amancoa, a maker of waterconveyance products, otherwise. Viewing these farmers as a significant market opportunity, it is reengineering its business model to increase the value of small individual transac-

→ It’s time the finance industry developed smart ways to invest in the world and those who want to change it.

When charitable funding and “free services” can be replaced with genuine markets.

Innovative pricing and new approaches can lead to goods and services that deliver both traditional and new value. Microcredit comes to mind: Thanks to the work of Grameen Bank and similar organizations worldwide, micro-borrowers have been able to create their own businesses—spurring economic growth in their communities—while generating a multibillion-dollar finance industry.

→ Ask hard questions about how the business is currently done.
Models like this can be exported to many countries, including developed ones, turning scarcity into abundance. Healthpoint already has pilots planned in Southeast Asia and Latin America. For its target market, the scarcity was access to services. Most patients in rural areas lacked transportation and needed to work long hours. By putting clinics nearby and using technology to bring doctors to patients, Healthpoint unlocked latent demand, showing that even low-income consumers are willing to pay for quality services.

Look for pricing and financing innovations.

This is a critical point. Just like businesses, HVCs need different types of capital at different stages of their life cycles. They may need up-front seed money, but sooner rather than later, customers will have to pay for the product or service they’re receiving. And designers of HVCs will have to come up with appropriate financing solutions. They may work with nontraditional partners—so-called utility companies, for instance, provide “retail” financing at relatively low risk because they are close to their customers—or they may need to work with the usual suspects in unusual ways. The Indian company Jeebel brought its $360 solar home-lighting system within reach of customers by working with banks and microfinance institutions to help the lenders understand how solar products increase productivity. Other organizations turn to leasing models. Commercial microcredit funds are an early (if small) example of how the finance industry profitably provides direct investments in citizen sectors. The industry can do so because there are 120 to 150 large, well-established microcredit lenders in whose sector these funds can safely invest large sums without incurring significant expense. Financial institutions will have many attractive opportunities to invest in markets created by hybrid value chains. Indeed, HVCs present a huge opportunity for the finance industry. Here is why. First, because HVCs are frugal, they are both stable and easily understood by businesspeople. Second, HVCs with successful financing structures can generate what finance firms love—millions of loans that have low transaction costs and low to moderate risk. (Such financing structures themselves are commonly HVCs’ CSOs that make the loans and sell them to bankers.)

Organize to innovate.

Two distinct innovation challenges arise when building HVCs—finding good ideas and developing business models to deliver them at scale. Ideas are everywhere, of course, but they intensify come from emerging markets. Mukesh Ambani, the chairman and managing director of Reliance Industries, says, “Twenty years from now we will not talk about garages in Silicon Valley. We will talk about projects in rural areas of India, which are then scaled all over the world.” The Ashoka-Lemelson Fellows program has identified 100 inventor-entrepreneurs, largely from developing countries, who have launched social enterprises in clean energy, mobile technology, water and sanitation, and many other areas. We’ve already mentioned that GE and others have learned to reverse-innovate products designed for emerging markets. Keeping a close eye on these markets is a good first step. Because HVCs are still evolving, there’s no single formula for success. But experience has taught us some lessons about the second challenge—developing business models. We know, for instance, that companies wrestle with roles to house their hybrid ventures. We recommend not categorizing such efforts as corporate social responsibility because the CSR arm of most companies focuses on doing good and demonstrating impact but are rarely asked to generate healthy returns.

A huge market, and not just at the bottom

What’s the value of the untapped markets that might be reached by hybrid value chains? We consider only low-income consumers, it was more than $6 trillion (in international dollars) in 2005, according to a pioneering study by the World Resources Institute and the International Finance Corporation. Market opportunities in emerging economies have increased sharply since then, because of rising populations and incomes in India, China, Brazil, and elsewhere. A conservative estimate is that these markets have grown 5% annually since 2005. The bulk of the total value comes from:

- $202 billion market for health care
- $424 billion market for low-cost housing
- $553 billion market for energy
- $3.6 trillion market for agricultural products and food

These markets are all much larger than the oft-touted and exploitable one for mobile telephone among low-income populations—and the potential market for HVCs overall certainly exceeds their total value, because HVCs can spread across the economic spectrum. Consider the need for improved education and health care among the urban middle classes in developing countries, or the demand for lower-cost health care, more nutritional food, and affordable housing in wealthy countries like the United States.

The four criteria for an HVC

1. The business has the potential to be large in scale and impact. The best HVCs will have enormous impact, not only on a company’s bottom line but on millions of lives.
2. For profits and social entrepreneurs work together to create multiple kinds of value. Companies and citizen sector organizations capitalize on their particular areas of expertise to deliver a valuable product or service that neither partner could provide on its own.
3. Customers—broadly defined—pay for the product or service. This is not charity work or a CSR project. Sustainability and scalability rest on profitability.
4. A system-changing idea provides the basis for new competition. Muhammad Yunus’s microcredit idea of 30 years ago has been expanded to include health care and insurance products as well as financial services.

Give the team time and permission to fail.

Organizations can afford to tolerate mistakes and failures when the goal is to exploit an immense opportunity. Learning what doesn’t work will move them one step closer to discovering what does. Of course, results are important—success or failure. But the business model needs to show that it can be profitable and scalable. It’s critical to strike a balance between being patient and being demanding. Remember Tracy Kidder’s marvelous book The Soul of a New Machine, about a project team and its race to develop a new computer? Forming a hybrid value chain is a similar story. It involves a relentless team of players who are ready to welcome risks and challenges because they believe strongly that what they are doing is not only about profits but also about human progress.

Many people today have the sense that as change accelerates, the world’s problems are multiplying faster than solutions. Shums are growing daily, affordable and sustainable energy is elusive, and it’s failing to provide adequate health care for many citizens. Whatever the issue may be, we believe that the most powerful and profitable answer is often a new form of partnership between business and the citizen sector, which is now composed of millions of competent and competitive organizations, often led by entrepreneurs. The more we see on society’s problems—and opportunities—the better our chances of coming up with viable solutions.

Appoint a leader.

HVCs, which start as constellations of potential players, are not self-organizing. Someone must take the lead and decide who is in and who is out. Because HVCs are a pathway to explosive growth, both partners—corporations and CSOs—will need to assign talented executives to the opportunity. Those people must be patient, persistent, and able to earn the trust of all the actors—that is, they must be imaginative, good at team building, and willing to work directly across sectors and with unfamiliar suppliers and customers. A corporate entrepreneur or the head of a CSO might lead the team—whatever it is, he or she will have to manage lots of complex moving pieces as the HVC forms.

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