



Stanford eCorner

Collaborative Entrepreneurship Overcomes Market Failures

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Ashoka Founder Bill Drayton believes anyone working on strategy should seek to overcome broken and walled-off systems through the power of collaborative entrepreneurship. According to Drayton, bringing together hybrid teams to collaborate will lead to high-potential wealth service opportunities that can overcome traditional market failures.



Transcript

Our goal for this part of the work is in fact five, year six years from now that anyone doing strategy whether it's business school or engineering school or McKenzie, my old firm - I was just talking to the managing partner about this two weeks ago - or someone running a religious house, we want anyone who thinks about strategy to know that if they look around them and they see a wall - business, social, whatever it is - they very, very probably have a huge productivity breakthrough opportunity, wealth service opportunity, if they know how to put people together that were not working together before in new hybrid production productivity systems. That becomes - in a world of fluid open teams, of teams that are constantly changing - that becomes completely essential skill. So we think of sort of three different phrases. 'Walls no more': that sort of - when you see a wall you know you have that opportunity. Then 'hybrid values systems'. That's the critical leadership skill you got to have in this new world. It's one of the central ones and you end up - the end result is a fluid open team of teams. So this is another perfect example of a framework change. Now we have actually demonstrated this because we figured people wouldn't listen to us unless we did in several different environments. And, because of time, I know you are looking at me.

No, I'm just looking at you. I will be very brief about this. So in India, there are 24.8 missing housing units for informal sector workers in the cities. Informal sector worker means you buy vegetables, for example, in the morning, you sell all day, you make a profit, you support your family. Right? So why are there always missing housing units? Well there is a complete market failure from the point of view of business. The vegetable seller doesn't get a payer stub; there is no paper work. Well how the hell do you deal with that? And they want - they need and can afford a 200 to 280 square foot home. Well that's a little bit different from what we make now. And who are they, what - they belong to what group and they live where? So complete market failure. On the other side, you have a large citizen sector that has come up, it is actually very competent and has a much lower cost structure, that lives in these neighborhoods, has trust, but they're a lousy real estate development and they don't have access to mortgage capital.

So market failure. Now here we are, you see a big wall that is separating these people. It's obvious what the answer is once you get this new framework in your head; you all know right now. So you ask the citizen groups to do the things that have to deal with the neighborhoods, the marketing, the judgments about lending, the technical assistance all the way through to collection and you pay them for that. This is a major new source of income for the citizen sector that will only grow. The builders build, the finance people finance. Right, so what has happened in Ahmadabad which is the first city where we've got this underway, about seven months ago - I'm a little bit late on statistics - there were 4,700 units that were either built and occupied or almost and another 25,000 that were at the stage at least of land option. Ten other cities have taken this up. Eight new finance firms have come into a market that didn't exist two years ago. And we've have two major global financial institutions who are looking at this as a really big opportunity.

If you translate for those few cases to the 24.8 million, this is a \$340 billion market failure that is now being fixed. And that's before you think of the 700 billion other Indians that are likely to move into the cities and it's before you think about the 300 square foot house and it's before you think about China or et cetera, et cetera. This was - all it required is starting to think this way. Look for a wall and if you can figure you just can't ask people to keep doing what they were doing before and put them in a room, you've got to figure out a new system. And that requires being a good entrepreneur. So there is - for example right now in that case, we don't want to keep putting these things together. Oh. So how are we going to solve that? Well, so we think we need the equivalent of the real estate agent doing co-opping or condominium-izing buildings here. So for 1% of the deal there is a new class of people that are in the process coming up in three cities so far, housing for all entrepreneurs. Well the business people like this because this is less expensive than they had to pay; they used to pay 2% or 3%.

For the point of view of these people if you do 500 units, that's \$100,000. Well, even taking off your costs, this begins to look very attractive in the Indian context.