

CRITERION INSTITUTE

Introduction: Perspectives on Shaping Markets

Draft: September 1, 2012

This document is intended to begin a conversation and engage this community of practice in creating a shared platform for knowledge creation.

We live in a society defined by markets systems, systems that facilitate the exchange of goods and services across distance and many boundaries through constructions of legitimacy and trust. They allow a kid in Iowa pay \$5.45 for plastic toy from a local vendor, who bought it from a global brand, who purchased the product from a manufacturer in Indonesia, who bought raw materials farmed in Iowa.

In one story, we protect ourselves from markets. The forces of markets generate economic activity which creates economic growth GNP and jobs but this story tells that the logic of markets cannot be trusted for it will, almost by definition, corrupt community interest or common good. Therefore, we turn to governments to regulate; we buy and sell in local communities or we inure ourselves from the vicissitudes of the markets through community-based organizations or even religion. We imagine these systems to be separate from markets and market forces.

In another story, social investing, corporate responsibility and social entrepreneurship has demonstrated how markets can be used to create social and environmental benefit. We see the potential to scale social and environmental solutions through markets, we can shift consumption behavior through introduction of new products, and we can incent practices that support the common good through finance vehicles that rebalance impact, risk and return. We have created new markets that provide access to goods and services for the people who live on less than a dollar a day.

In either of these narratives, markets and market forces are remarkably passive, inert, and outside of human control. They take on naturalistic characteristics, as if we inherited them from the earth. In reality, we made up all of these systems. We have created currency exchange, pathways for the supply of goods, patterns of finance and capital, and all the laws that define corporate forms. Once we understand that markets and market systems are social and cultural constructions, they can be modified and changed. Markets are too often seen as abstractions, the invisible hand, they are described as forces, suggesting they are outside of our control. And yet, market “behaviors” are remarkably human. They imitate us, since we created them.

It’s taken us decades, and in some cases, centuries, to develop market systems that enable us to manage the exchange of goods and services at a distance; it is in those market systems where we have the potential for intervention and innovation. If we look closely, we’ll be able to see that markets are all managed by systems. Finance redistributes capital, supply chains move

goods and products, assurance provide metrics that standardize. Sustainable change will only come when all these adjust to new realities and support or require positive market behaviors. We make up the rules of markets; we can change them.

This framing document begins the exploration of how we can do just that. How does one go about changing the structures, dynamics, and rules of market systems? What are the strategies that over time create sustainable change? What leadership styles, organizational models and skills development support the long term engagement in systems change? How do we engage with and through power dynamics that keep the existing rules in place? How do we measure impact, both in terms of intermediate shifts in systems and long term affect on social and environmental conditions?

Shifting market systems is, in part, a practice of systems design and optimization. First, we identify where the system is not optimized; then we find the leverage in the system and exert influence to shift the dynamics. We have seen this play out in the realm of social finance. If the better companies are not getting financing, or they are not getting the financing that can optimize their social benefit, then the solution is to redesign the financing mechanism. In aggregate, these interventions create an alternative system of finance that is pushing against the dominant paradigm. Systems level design for social outcomes can have impact and it will have unintended consequences.

Market systems exist within systems of structural inequities of race, class and gender that are reinforced by and reinforce the practices of the market. Who has access to capital? Who constructs the memes and beliefs about who is trusted? Who defines, and are defined by “power”? Who has that power and what kind of power do they have? Therefore, to change the rules we need to fundamentally address questions of power. The dominant paradigms about market forces either ascribe the market, or capitalism as a system exhibiting too much power, or in the other extreme, they portray markets simply as mechanisms that can be used.

To shift the dominant rules we need to believe that change is possible, and that the power to change lies within our reach. The Occupy movement has highlighted our alienation from these systems and our sense of powerlessness in the face of complex systems of capital and global corporations. We too readily relegate markets to the domain of corporate lawyers, MBA’s and financiers, thinking they are far from our reach or from the influence of our communities. They represent forms of expertise outside of our expertise, so these myths allow insiders to execute transactions with global repercussions with little to no transparency, all under the veil of “complexity.” The truth is, it’s not inherently complex. It just requires some digging.

Since market systems are driven by constructions of trust it makes sense that, historically, constructions of expertise, the emergence of disciplines, and professions simply mirror the organization of markets. We have created layers and layers of advisors and intermediaries to be able to manage the “complexity of market systems.” *They* are ones making sense of the system for all the rest of us who cannot see the whole. The intermediary, the financier, the broker, the trader makes claims of expertise to be able to manage market systems toward specific

outcomes. Over time, this role, combined with increasing complexity and opacity in markets has led market players to claim a certain mystique. They are invulnerable because of their expert knowledge. As the systems are perceived to be increasingly complex and perilous, we give them more and more power. Through the performance of these expertise, rules are given the authority of natural law, as the way market work. But, remember. We made up these rules; therefore, we can make up other rules. But to do that we need to always address questions of structural inequity, to challenge the frames we are given to work with, and to believe that change is within our reach.

We know market systems need to change, but there are powerful interests in maintaining status quo. What are the strategies for shaping market systems?

1) Reframe (the issue, the problem, the boundaries of the system)

Systems language talks about making the problem bigger. To be able to innovate, to find opportunities, start by reframing our understanding of the issue, the problem, the boundaries of the system. A few years ago, Criterion worked on an initiative to understand the causes and, hopefully, solutions to medical debt. We reframed the problem first as uncovered costs of health care, and then eventually to see that as in the broader context of a cash market in health care. Because the U.S. healthcare economy is driven by the paradigm of insurance, thinking about systems for increasing the value of a dollar in a cash market opened up new opportunities for solutions and ways to change the rules of the game.

Market failures are often a failure of imagination. It takes a fundamental reframe of the situation to be able to find new solutions. This process of discovering and naming often requires crossing boundaries between systems, to find solutions in unexpected areas, with unexpected allies.

2) Build structures and leadership for sustained systems level disruption

Systems level change requires an ability to maintain a focus on the ecosystem, rather than a particular enterprise.

Many of the market based change efforts have focused on building financially sustainable, scalable enterprises that can capture the power of the market. Every grand tale of a social entrepreneur requires that rules and systems change. Too often, though, we are working at the level of the enterprise rather than the system. We are selling a product or service through market systems. But because our focus is on the enterprise, we don't pay attention to the systems in which we participate and are complicit. Without a focus on the level of the market systems, we will continue to create the same externalities.

What are the structures that allow for a sustained focus on the ecosystem? Who can break past silos? How do we avoid getting stuck in the current rules? But at the same time recognizing that these rules have the power to have influence everything in this powerful game.

3) Identify leverage in the system

Market systems have a logic. They are designed to create intended outcomes. To change those outcomes, we need to find points of leverage that can disrupt the dynamics of the system.

One of the key levers in many market systems is to simply improve functionality. This means taking a close look at the pricing and the efficacy of supply chains. If the basic systems of finance structures are in place, then there is the possibility of participation. Another lever is to cement the structural changes being made so that returning to its previous state is harder. Think of a sourcing binder for a corporation. Once sustainability practices are built into the standard operating procedures in the printed manuals, it takes concerted effort to remove them.

There is a good bit of analysis of how market systems could improve. We can find the right levers that will shift the system. Actually, this work seems to be the fun stuff that gets attention. It's the engineering, analysis, ingenuity that creates a silver bullet, the trim tab or the heroic intervention. The real trick is figuring out how to have the power, the staying power, and the feedback loops to sustain the change strategy or the impact.

4) Exert power or control within the ecosystem

Social innovations often emerge from the margins. To take a stand boundary lands allows for leadership that is not vested in the status quo. And yet, to engage market systems requires that the ability to exert power. What are the strategies to borrow or leverage power from the margins to be able to affect the mainstream?

Systems of finance and capital are places of significant influence within any market system. The rules set by these actors can shape or define actions in many other systems. There are many efforts to change the rules of finance, but with the same players that created these rules. We need to invite a new set of players to sit at the table. In this sense the approach to change doesn't address questions of structural inequities nor does it provide a feedback loop around impact.

5) Sustain feedback loops around impact

In the end, system level change requires sustained surveillance of impact. How do we insure durable impact? Given the complexity of the issues, and the interdependency, how do we know that the changes in market systems are creating a more just and sustainable world?

To ensure the strategies of shaping markets systems lead to action and concrete change, thought leaders and practitioners must come together in a more formal, field-building discussion. But they will be able to effect change, only if they have in mind the end goal of developing a body of practice for shaping markets that can be applied to a variety of sectors and players and used to accelerate the process of shaping markets.

As part of Criterion Institute's core work, we facilitate these conversations that lead a collaborative process of developing the practice of shaping markets. This work serves as a resource for diverse groups that are striving to make lasting and scalable impacts and will inform the ongoing and evolving work and methodology of Criterion Institute as we establish ourselves as leaders in building a bridge between the theory and practice of shaping markets.

In order to arrive at some of the commonly held practices, forms of leadership, and approaches to shift market systems, we have decided to engage a set of practitioners who have had some level of success in this work and create a sustained dialogue through conversation and a series of collaborative projects.

There is no more important time to believe that we can change our economic systems.