Doctoral Dissertation Proposal

Beneficial Intelligence (BI) as a predictor for Creative Destructive Leadership: A multilevel study on nascent Social Entrepreneurs

Abstract

One trigger for Entrepreneurial Opportunities are changes in policy. The cold war fueled a socialistic version of capitalism that in 1989 resulted in the defeat of communism, allowing capitalism to return to its cold nature of maximizing profits. Despite warnings already in 1972 about the limited carrying capacity to growth of our fragile planet, no effective action has been implemented to ensure a more sustainable governance of our limited resources. The world is filled with nascent Social Entrepreneurs who seek to maximize their impact towards a more sustainable future, characterized by the use of renewable energy and reduced inequality. This dissertation seeks to conduct a comparative multilevel study on nascent Social Entrepreneurs and current Social Entrepreneurs in search for how their Beneficial Intelligence (BI) can predict their ability to what is known as Schumpeter's Creative Destruction. The dissertation will form the basis for a new theory called Beneficial Intelligence, which in its essence require a high degree of self-efficacy.

Keywords:
Leadership, Self-efficacy, Creative Destruction, Social Entrepreneurship, Impact Investing, Social Impact Bonds, IQ, EQ, Intelligence, Environmental Economics, Impact Assessment

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Introduction

15 years into higher education, having been collecting and analyzing data using scientific methods, I noticed that there is a gap in existing theory. It is now 20 years since I jumped on the dotcom wave as a pioneer web developer when Netscape 1.0 was still around, which marked the beginning of an adventure into the studies of Social Entrepreneurship. Money was never a goal in itself, but rather a tool to achieve more intangible results. It has been obvious in scientific communities for more than 40 years that there are limits to growth for our planet, in terms of population, emissions and sustainable use of limited resources (Meadows et al. 1972). A topic which now has attained political discussions, but much more action is required going forward if we are to successfully make the transition from consumerism to sustainable use of scarce resources.

This Creative Destruction require transformative leaders which are able to managed the complexity of growth without becoming a profit maximizing entity in the process. Publicly listed companies has a fiduciary duty to minimize costs and maximize revenue, a destiny Social Ventures needs to avoid into order to remain differentiated and achieve full potential for maximizing impact. A challenge which requires elegant navigations through a great number of pitfall for leaders with a high degree of Beneficial Intelligence (BI).

Creative Destruction is a theory introduced by Schumpeter (1912), which is being used to describe when there is a radical shift in the economy. Historically, Schumpeter has been referred to in the areas of innovation, entrepreneurship and macroeconomics. Sandal applied Schumpeter's theory on the microeconomic level in his dissertation (2003), which focus on the individual and the leadership necessary to realize the entrepreneurial profit. I'm currently reading his book as part of "International Study Course in Innovation Management", which allow for intimate discussions every week with the author throughout the course. According to Schumpeter, the entrepreneurial motivation can be observed in 3 ways: The dream of establishing a “private kingdom”, the desire to realize oneself and the joy of creation to channel ones own ingenuity and creative energies (Schumpeter 1978). A brief overview of history shows that innovations of recent times are more sustainable than what one “could get away with” in the past. The heightened societal consciousness has a positive domino effect, in the sense that societal trends becomes a driving factor what types of products, services and business models which gain market traction. Schumpeter describe 3 characteristics that an entrepreneur needs to possess in order to succeed: An entrepreneur must make of their intuition and have developed the ability to see results of ones own efforts before embarking on the challenge, free up energy, space and time as well as mental freedom from daily demands and have the strength necessary to overcome any resistance of juridical, political and ordinary origin (ibid.).

For decades we have been living in this state of denial, just assuming that the invisible hand (Smith 1759) somehow will eventually put us on the right track again. Innovations like the Tesla car does indicate that power of creation is still very much among us, which is on track of coming under the definition of creative destruction in Norway where Tesla in March 2014 had 12% market share of new cars sold. Yet, “crossing the chasm” is hard and it takes time to build up the momentum (Moore 2002). Politicians around the world have been offering incentives to make the adoption of for instance electrical cars more attractive, and investors pay close attention to both margins and public sentiment knowing that certain green innovations one day will be ripe for rapid market expansion. Investors also pay close attention to press releases which might unveil news about the unlikely scenario of an entrant like Tesla being able to take market share from the established players, which require some sort of "unfair" competitive advantage. First of all, Tesla do not need to cannibalize its own offering and can instead nurture the development of a brand that has all its resources focused on the way of the future. It was the announcement of Tesla's unique ability to replace the entire battery at gas stations in 90 second, less the time it takes to refill your gasoline car, which really made the share price jump from $30 to above $100. With that revolutionary announcement, investors knew that properly building an electric car is so much more than just replacing a gasoline engine with an electrical engine. Having designed and built the electrical car from ground up, Elon Musk had built an entire infrastructure which with its patented technology would give strong protection against competitors.

The path to developing Beneficial Intelligence (BI) can start with a well developed EQ and be complimented with an improved IQ, and vice versa. The most common path is to spend youth developing IQ, knowledge, patience, etc. complimented with social and leadership skills in higher education, with some trade-off considerations along the way. Those more successful on this path take personal integrity seriously, and take responsibility of personal actions. This builds character which enhances personality traits appreciated by friends, family, fellow students, co-workers, acquaintances, partners, employees, managers, investors, etc. Qualities which are particularly important for aspiring (nascent) social entrepreneurs. A social entrepreneur has a competitive disadvantage in the necessity of taking into account double or triple bottom lines, which require a substantial differentiation for the equation to balance. Social Entrepreneurship is a blend of the more traditional for-profits and non-profits, with the aim of maximizing impact through reinvestment of profits to further the mission of benefitting the planet and people. Rational entrepreneurs will eventually arrive at the conclusion of building a Social Venture to be the most optimal both with regards to a solid work-life balance of being a "Lifestyle Entrepreneur" which are also likely to generate the highest marginal value in terms of securing a comfortable retirement at some point in the future. Emotional entrepreneurs will also conclude that building a Social Venture is the more optimal option, given the inefficiencies of raising growth financing in the form of donations once a proof of concept has been established. Organic growth is essential for both approaches towards building a Social Venture.

The world is changing at an exponential rate, while at the same time increased competition is reducing global growth as the immediate and obvious opportunities of deregulation and globalization are coming to an end. It appears to be a "Winner Takes All" game out there with. Amazon for instance is focused on revenue growth, reinvesting any profit potential in continued growth making it harder for local shops to survive. Google has primarily one source of income, Google Adwords, and reinvests that cash flow in expanding their platform to strengthen their existing lock-in. Facebook is beyond a billion users, driving national networks out of business. There has been a trend of users and user growth being more valued in the form of acquisitions by publicly listed companies like Facebook, with the more famous examples being Instagram at $1b and WhatsApp at $19b when these companies had close to zero revenue.

In the past, companies would offer their IPO while still experiencing exponential growth making these investments relatively safe. Now that scandals like Enron have resulted in stronger regulation by the SEC, it has made it less attractive with public listing combined with the requirements for public disclosure. Companies are able to secure astronomical amounts without going public, where building an IT company gets less capital intensive with a dramatic shift from fixed costs to variable costs. The SEC also allows for more shareholders before going public so the primary reason for being acquired by a publicly traded company or going IPO is because it is thought to maximize returns. That is indeed the fiduciary duty of taking on institutional capital where existing companies like Facebook and Google are doing such a good job, so that the only way for future companies to threaten their position and capture market share is to adopt another business model characterized by collaboration and volunteering. This poses another threat to our existing economy as the whole capitalistic bubble might collapse as companies are rendered incapable of generating profits and governments default on their outstanding debt, which would reinforce the shift towards Social Ventures and accelerate the Creative Destruction.

"Business as usual" certainly isn't doing our environment any good (Klein 2014). Norwegians are increasingly getting organized on all fronts to just not listen to more and more depressing news about continued global warming, year after year, and take no action. Daniel M. Kammen is a distinguished professor of energy in the Energy and Resources Group and in the Goldman School of Public Policy, at University of California, Berkeley. In December 2013 he made this statement in an article at The Daily Californian about how UC's investments in fossil fuels are hurting the planet:

> *In the case of fossil fuel investments, divesting is not only the moral thing to do but is also financially prudent. As fossil fuel companies continue expanding their search for more hydrocarbons, the world's carbon budget is shrinking. From Canadian tar sands to shale oil, the "bottom of the barrel" is proving to be increasingly dirty. When government regulation aligns with this reality — and it must — the vast majority of reserves will have to stay in the ground unburned, rendering them stranded assets. Remaining invested in fossil fuels is a bad bet all around.*

College students around the world are getting organized to put pressure on their university endowments to divest from coal and fossil fuels, further enhancing the public awareness of current economic practices not being sustainable. The Norwegian Sovereign Fund, Government Pension Fund Global, have 10% of assets invested in fossil fuel (2014), a substantial portion considering that future allocations to our fund depend on the oil price. A substantial portion of the public has come to acknowledge the necessity for dramatic reductions of CO2 and greenhouse gases to ensure a stable environment for future generations to come. Politicians primarily act according to what they assume their supporters wish for, with the primary concern of being reelected. The European Climate Foundation (ECF) released a condensed summary based on IPCC's Fifth Assessment Report (AR5) explaining in an easy-to-read brochure for investment bankers the financial liability of climate change going forward (Sullivan 2014). The Government Pension Fund Global has entered a collaboration with other major pension funds in Europe to assess the potential impact of climate change. Probably they have arrived at the same conclusion as the IPCC report of a substantial yearly cost as a result of damages caused by global warming.

Unemployment has been on the rise, especially amongst European youth, causing an increased risk for riots and the additional burden on governments of having the next generation as a liability instead of an asset (Piketty & Goldhammer 2014). In the US, student debt has surpassed credit card debt and is now above $1 trillion. Tuition fees are on the rise to the point where many professions such as airline pilots don't pay enough to feasibly pay back the student loan.

Ever since deregulation started in the 70s we have unleashed a questionable form of capitalism where a lack of governmental control and regulation results in corruption and exploitation of people and planet beyond sustainable levels while attempting the unattainable goal of perpetual growth. To understand how all this came to be it's important to put it all in the historical context of the US being a relatively young nation, built by entrepreneurs that enjoy freedom and responsibilities. It is a country that rarely has experienced an absence of growth with the exception of The Great Depression in the 1930s, which in recent years has been avoided at all costs. An approach that is in stark contrasts to Germany, where the memory of hyperinflation still lingers.

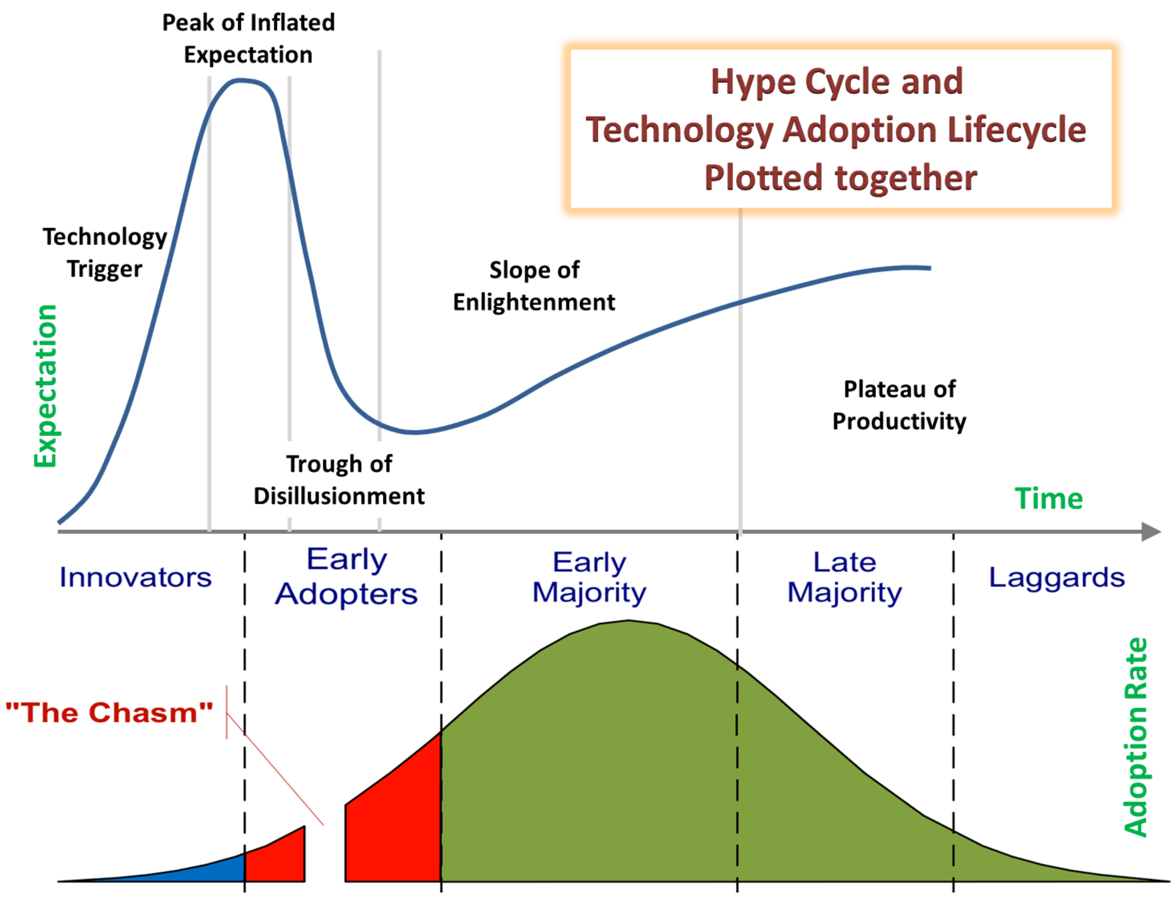
Trust is a critical success factor in any economy, one that is put into question when companies and countries cause significant negative externalities through lack of regulation and control. The Occupy Movement and focus on the 1% has created more public awareness on the growing gap in buying power. In the aftermath of the financial meltdown of 2008 we read disturbing descriptions of what hedge funds are doing to make their fortune in the book, "How to Make a Million Dollars an Hour: Why Hedge Funds Get Away with Siphoning Off America's Wealth" (Leopold 2012).

Just like municipals in Norway lost their savings, we find examples of school districts endowments being wiped clean within months of investing in a "safe" real estate portfolio. These hedge funds have grown to astronomical sizes and engage in continuously more creative approaches in order to generate their returns, even taking on entire countries (Leopold 2012:130). These destructive forces has no respect for next generation, the eternal value of pension funds and insurance funds, and they are years ahead of the government so traditional legal rounds only has a negligible effect.

Norway is in a unique position globally with a sizeable natural disaster fund providing insurance companies in Norway a relatively strong position for the expected increase in insurance claims due to climate change. Insurance companies around the world will be forced to increase premiums to stay in business further widening the gap between rich and poor. Equality is important to ensure societal stability or else we might find our own version of Arab Spring here in Europe.

In finance a theory called "Adaptive Market Hypothesis" has been gaining popularity, which aligns with the teachings of innovation and entrepreneurship in that there exist opportunities in time of change. This means that new technology, policy changes, etc. can open up opportunities which can generate a generous profit for those who have a talent for timing (se figure 1). For instance, only irrational conservatives were incapable of understanding how internet was about to change everything, causing a wave of investing which extended all the way to the general public where even taxi drivers would give investment advice. It got out of control and the bubble burst in 2000, causing a sharp decline in valuation as shown in the hype cycle illustration.

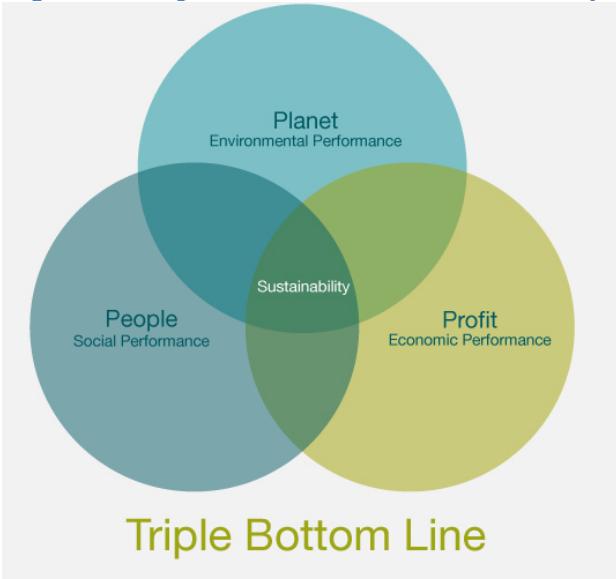
Figure 1. **Hype Cycle and Technology Adoption Lifecycle**



We now find ourselves in the second wave which comes without any crash. Just like companies involved with production of the first generation of personal computers, we're faced with the same dilemma. We find that taking on the expected loss of the first generation is offset by the profits to be made in the second generation when the broader public starts seeing the utility in buying a PC. The consequence of avoiding the first generation due to expected losses is that it will be too late to join in the second generation. The complexity of doing business has increased exponentially the last few decades. But just like "business as usual" doesn't work for our climate, it doesn't work for insurance companies or pension funds either. Time has come to make the shift from reactive to proactive, which is precisely what nascent social entrepreneurs are doing.

Self-efficacy is a measure for the individual confidence in mastering a given challenge. Throughout life we face a great number of challenges. Those we overcome will boost our self-efficacy, while failure will dampen it. Observing others mastering challenges will also boost self-efficacy, as well as being encouraged by others. Psychological strength also matters, where two people experiencing the same can interpret the experience as either positive or negative (Føleide 2013). Higher education is a wonderful environment for collecting valuable experiences which are directly applicable to social entrepreneurial activities later in life, effectively improving individual self-efficacy so that ambition level can be increased and eventually arrive at a state of sustainability with a triple bottom line (see figure 2).

***Figure 2.* Triple Bottom Line: Sustainability**



Research Question

Social Entrepreneurship has experienced tremendous growth in popularity the last few decades as it tries to merge what previously has been divided. In the past profit organizations would grow, employ people and adapt to a changing environment. Wealthy people, companies and foundations would donate to non-profits, which would take care of people and the planet. A system that worked well when profit organizations made lots of profits, confident about continued future growth. Non-profits were happy too, as a positive cash flow made it easy for them to focus on their goals. Now executives at non-profits find themselves spending most of their time chasing money and for-profits have a harder time making money. Social Enterprises blend these two extremes by seeking to develop a triple bottom line in a world where governments struggle to meet their current and especially future obligations. The world is also faced with growing environmental challenges as global warming might spin out of control once the temperature rises above a certain level. The people, who all existing systems seek to serve, do indeed care about the triple bottom line. They care about their children and grandchildren having a stable environment without a rising ocean and more extreme weather. They care about having a job, and that the work conditions are good. People care about stability. All this makes a shift towards greener workplaces, greener companies and greener investments inevitable. A petition is being promoted by environmental organizations these days, collecting signatures for the political action of establishing 100,000 green jobs. If this movement continues, the Norwegian Sovereign Fund can safely divest from fossil fuel and shift funds to green and renewable opportunities. Rainforest Foundation Norway wrote an article in March 2014 claiming that greening the Norwegian Sovereign Fund is a win-win solution, referring to a study done by WWF which shows that 28 coal companies lost 28% of their market value in 2013. While Norway's Green Party calculated that the "green investments" provided a 41% return, 3 times higher than the average return of the fund. Sandal claims in his study of Schumpeters theories about Creative Destruction that an entrepreneur will find possibilities for innovation in markets regardless of policy makers creating the proper incentives (Sandal 2003). Which pose the hypothesis that the sheer persistence of "green entrepreneurs" can explain their above-average returns. This dissertation seeks to test for Beneficial Intelligence (BI) as a predictor for Creative Destructive Leadership, and therefore define the following research question:

Can Beneficial Intelligence (BI) function as a predictor for Creative Destructive Leadership?

The research seeks to establish this causality through a multilevel study on nascent Social Entrepreneurs, The research results will be published in the form of articles, for instance in "Journal of Leadership and Organizational Studies".

My background includes a Bachelor in Computer Science, followed by a second Bachelor in Marketing. After living a year in Spain and Germany I moved in 2006 to Oslo for doing a master in Innovation and Entrepreneurship at University of Oslo. In 2008, I moved to Bergen for doing an MBA at Norwegian School of Economics, and returned back to Oslo in 2010 for doing a PhD in Innovation and Entrepreneurship at BI Business School. This brought me to Berkeley, California for collecting data, where I narrowed my research towards Social Entrepreneurship, returning back to Norway after 3.5 years and currently exploring opportunities for joining a research community in Oslo.

The dissertation will be structured as follows. First, there will be a literature review of the results that others have arrived at in this field, before reviewing past research on intelligence and leadership with focus on Social Entrepreneurship. The methodology will also be described, which in its essence focus on a multilevel study of nascent social entrepreneurs. The final dissertation will thereafter present the results, which will explore various scenarios with a brief analysis. Then a discussion will follow with a critical review of the assumptions made in the study, before finally offering a framework for measuring Beneficial Intelligence (BI).

Literature Review

Until the financial crash of 2008, real estate was thought to be one of the safest assets you could invest in. That was before investment bankers and hedge funds found a way to structure subprime in trenches, attaining a triple A rating and attracting capital from all over the world. Thus creating a bubble causing many Americans to go under water, meaning that your house has a bigger loan than the underlying market value. In Detroit you can buy houses for $1, restating the importance of our entire ecosystem.

The systemic banking crises in Norway, Finland and Sweden in 1991 – 1993 were extremely surprising events, occurring after more than 75 years of financial stability in well-organized Nordic countries (Steigum & Thøgersen 2015). We might find the next crisis catching us by the same magnitude of surprise, as decline in economic growth has many reinforcing effects which accelerates structural changes. Money is cold, and the effects of not delivering according to expectations are brutal. In the past, the economy was characterized with stronger cycles, so that one had to move quickly once there was a positive spiral. The repeated recessions was a reminder to save during good times and always have a plan B. Often the bad and the rotten was eliminated, while the good barely survived. Recently have fiscal policies, bailouts, quantitative easing, and rock bottom interest rates has virtually eliminated this naturally occurring cleansing process. The days of saving money until you had enough to make the purchase you desired is long gone. There was a period around 2005 when banks would allow for 100% financing to first time home-buyers, resulting in a period of significant growth in the housing market. This growth wasn't a function of salary growth, but rather the availability of cheap capital – so that those willing to assume risk and take on a lot of debt would benefit as long as interest rates stayed low. All this wouldn't be possible 100 years ago, when we had debt prisons, since the uncertainty and the downside of not managing interest payments was too big.

During my 3.5 years in Silicon Valley, I only met two companies which has mastered the art of organic growth. The most recent company, GuideBook, started in 2011 with a highly profitable niche so that their bottle-neck is access to growth money, but rather finding appropriate work-talent in the market. A study by called Startup Genome (Marmer et al. 2011) revealed that the biggest reason for startups failing is premature scaling, which leads to the conclusion that money is a red herring and not a success formula. Guy Kawasaki (2004) has stated that even taking one dollar from an outside investor give you a fiduciary duty of maximizing profits, putting you at a competitive disadvantage of not being able to adopt a triple bottom line. One can argue that companies like Google and Facebook has been able to strike a balance between accepting outside funding, and retaining control applied to the original mission of the company, but in the long run founders die like we have seen with Apple, which diminish the company's ability to take risk and engage in radical innovation – also known as Creative Destruction.

Clicktime is the second company which has mastered organic growth, founded in 1999 by Alex Mann and his brother. They own 50% each, of both Clicktime and Mann Consulting. Unlike GuideBook which was able to grow organically through payments from clients, Clicktime financed its growth the first few years with profits from their consulting branch. Business was going well when a Venture Capital backed competitor was introduced. Alex thought that it would mean the end for Clicktime, as the competitor secured millions of dollars in a series A funding round, building impressive multiplatform technology with a great number of employees. But revenue growth didn't meet expectations, and they failed to secure their series B funding round, resulting in bankruptcy. In the end there was nothing worth rescuing. Alex Mann didn't even make an offer to buy the customer base. Now, after 15 years in business, Alex Mann is getting calls from Venture Capitalists on a weekly basis. He is free to do what he wants, if that means combining trips to various office locations with vacations, he can do that without having anyone to answer to but his brother. The cash flow is solid with loyal customers, and a strong brand, so should Alex desire to retire from his role as a Lifestyle Entrepreneur then he will always have the option of selling it to a private equity firm. Both Alex Mann and the founders of GuideBook are assumed to score high on Beneficial Intelligence (BI) with their intuitive understanding of what is the foundation for long-term success.

As established by Føllesdal & Hagtvet (2013), it has proven to be challenging to find that Emotional Intelligence (EI) predicts transformational leadership. By building upon the more elaborate framework of Beneficial Intelligence (BI), it remains to be established if it can predict Creative Destruction Leadership.

Preliminary Biases, Suppositions and Hypotheses

Research is affected by much data already collected through the researcher's experience of growing up primarily in socialistic Norway (based on Marx's teachings) combined with 4 years spent in the US, a capitalistic system – and also a trip to Cuba, a communistic system. All three systems have their pros and cons, so qualitative assessments of when each system had its primetime and predictions of which system will benefit its people in the long run has had an effect in the formulation of my research question. Careful consideration will therefore be taken to remain open to unexpected information. One observation is that a strong state has eliminated the growth of a thriving non-profit sector in Norway, which has been made possible in the U.S. by decades of abundance. Neither system is sustainable with the decline of economic growth in the US, and the pressure to reduce corporate taxes in Europe. The hypothesis is that emphasis on positive externalities will provide greater long-term risk-adjusted performance for Social Ventures where there is much room for improvement by making this innovation accessible to ordinary citizens. Additionally, opportunities arise when traditional profit maximizing corporations faces pressure from concerned citizens and politicians, making it easier to recruit volunteers and employees for leaders of heightened Beneficial Intelligence (BI).

My background includes a Master in Innovation and Entrepreneurship as well as having started my Master in Business and Administration in 2008 which will include more than 217 student credits (ECTS), in addition to having begun a PhD in Innovation and Entrepreneurship in 2010 (64 ECTS). My theoretical background gives a great insight into the world of both investors and social entrepreneurs. For this reason, I will be less biased when analyzing both impact investors and social entrepreneurs, and my existing personal relations with both groups will serve as a valuable basis for understanding where they come from and how they think.

Methodology

Approach and Data Collection

Qualitative multilevel study of nascent Social Entrepreneurs and Social Entrepreneurs combined with controlled experiments of for instance students at BI Norwegian Business School and University of Oslo.

Data Analysis

The data will be analyzed through established methods employed at the Department of Leadership and Organization, with attempts of combining qualitative and quantitative methods whenever appropriate for more reliable results.

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