EXTRACT

20 April 2023

THE DEEP TRANSITIONS LAB

What is an experiment?

Johan Schot, Roberta Benedetti del Rio, Susanne Keesman

DEEP TRANSITIONS

Utrecht University

CENTRE FOR GLOBAL CHALLENGES

UNIVERSITY OF SUSSEX | BUSINESS SCHOOL | SCIENCE POLICY RESEARCH UNIT

Experimentation programme

Experimentation is the central activity of the Deep Transitions Lab. The portfolio of experiments is research-driven and aims to co-develop skills, knowledge and experience in implementing the principles of transformative investment. The experiments of the Deep Transitions Lab will be conducted jointly by researchers and investors in parallel to considering the usual factors of return, risk, and ESG or impact.

The learnings of the experiments will feed the development of metrics, assessment frameworks and associated tools that will aid investors in applying transformative investment in practice. The experiments will also aim to uncover (and even create) new investment opportunities in overlooked areas with high transformative potential. Moreover, the experiments will aim to stretch the transformative potential of investments and build investment portfolios that avoid lock-in, focus on the long term, and are resilient and capable of dealing with radical uncertainty.

Shared characteristics of experiments

The experiments involve close collaboration between investors and researchers. We refer to them as experiments rather than projects as they are focused on testing, prototyping and evaluating efforts to implement the transformative investment principles in a systematic, documented and academically rooted way. Furthermore, the experiments will include a reflexive evaluation process whereby the results of each experiment feed into the participants' learning process, as well as into the Lab's research and learning programmes. The results will inform the further development of the set of tools and metrics, as well as their continued calibration. The experiments are thus key in our overall aims of changing mindsets, building a shared understanding of transition processes in the investment sector, and preparing the Deep Transitions framework for integration in the regular investment process, complementing the more traditional assessment models of investment risk and return.

The exact nature of each experiment – in terms of scope, objectives and activities – will be defined in mutual agreement with the participating partners and in line with the research objectives of the Lab. We envision four types of experiment to take place. These are detailed below.

Experiment type 1: Analysing the transformative potential of new investments

These experiments target the decision-making process prior to making an investment decision. They can focus on specific investments or solution areas of interest (e.g., a research roadmap). As part of the experiment, the research team and investors team, with the appropriate broader stakeholder engagement, will co-construct a Transformative Theory of Change (TToC) that assesses (1) its influence on specific Deep Transition processes and (2) the impact potential for transformation and systems change.

Example

Analyse the transformative potential of a regenerative agriculture investment in Madhya Pradesh, India

Runtime: 3 to 6 months

Experiment type 2: Monitoring the transformative impact of existing investments

These experiments are designed to monitor an existing investment or investment portfolio during and after its runtime. To this end, the research team and investors will jointly use a TToC and select the Deep Transitions metrics to monitor and evaluate the transformative impact of the investment. These types of experiment can (1) feed into the reporting process and generate information useful in the engagement process between investors and clients and (2) help identify new opportunities for capital allocation that will strengthen the systems-change potential of existing investments.

Example

Develop metrics and a monitoring framework for a circular-economy fund

Runtime: several years

Experiment type 3: Assessing the transformative potential of portfolios

These experiments aim to assess the transformative potential of a specific investment portfolio (or a portion of it). Experiments can 1) assess synergies and trade-offs in terms of portfolio-wide systems change, 2) stress test the effect of future shocks and megatrends on the portfolio and 3) assess whether the portfolio contributes to desirable future worlds. This will result in a specific impact profile that can eventually lead to refinement of the overall investment strategy and identification of missing investments and complementary developments needed to fully unlock the transformative potential of the portfolio.

Example

Stress-testing the investment portfolio of an institutional investor focused on sustainability

Runtime: 3 to 6 months

Experiment type 4: Constructing a transformative investment bundle

This type of experiment is focused on identifying all transformative changes, public and private investments and complementary actions necessary to achieve a desired system change over a specific period of time, within a specific geography, or focused on a specific metarule. Type 4 experiments are ambitious and complex, but they are also the most explicitly intentional and direct in creating systems change. They can lead to (1) establishment of new partnerships and networks, (2) identification of new investment opportunities and (3) development of new funds. We expect that experimental capital is needed for the construction of bundles.

Example

development of a green hydrogen economy in the Gauteng region in South Africa

Runtime: 12 to 18 months

© 2022 Deep Transitions project

DEEP TRANS ITIONS