Peter Drucker's Creative Concepts for Innovation, Civic Engagement, and Entrepreneurship in the Social Sector

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The thrust of this paper is an analysis of how social innovators take concepts of Peter Drucker's management ideas and apply them in creative start-ups of NGOs to fight poverty and relieve human suffering. Three cases are highlighted which reflect Drucker's thought as they work to empower the poor and move them toward economic self-reliance. The cases derive from the cultural context of the U.S. state of Utah where a legacy of hard work and pioneering spirit have helped to foster considerable entrepreneurial success.

[Key Words: Social enterprises, Peter Drucker, Innovation, NGOs, Microcredit]

Introduction

I want to begin with the context of my work based in the State of Utah in the Rocky Mountains of the western United States. Over 150 years ago when the region was a barren, mountainous desert, early pioneers arrived in covered wagons to build a new society, seeking refuge after enduring decades of

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persecution because of religious beliefs. The Mormons, as they were known, were industrious, entrepreneurial, and sought to build a caring community. They sought a cooperative society in which they took care of each other and labored to educate everyone, create jobs for all, and lift the group. This was a radical distinction from the typical rugged individualism of most of the frontier in the 1840s-80s.

These values and cultural practices have made the state a highly successful area where down to the present a variety of features separates it from many other parts of America. While the recent global economic recession has wreaked havoc with many U.S. states and cities teetering on the brink of bankruptcy, Utah’s state and city governments are operating quite well. In fact, there is a "Rainy Day Fund" with a $413 million surplus that has not even been tapped yet, a sharp contrast to Michigan which is essentially bankrupt, California that is $41 billion off budget, and Florida which suffers from a deficit of more than over $5 billion (Editorial 2009). In fact, 41 states are facing huge financials shortfalls. A number of cities are in crisis like Vallejo, CA (population 100,000) and places like Jefferson County, Alabama that already have declared bankruptcy, and others like Flint and Detroit are close behind. Cities are shrinking services to simply survive.

In contrast, largely due to our pioneer heritage, Utah communities are solvent, and new business startups are flourishing. According to Fortune, Forbes and other magazines, the state is often rated among the top places to live in terms of having a great business climate, entrepreneurial acumen, highly educated workforce, well-managed state and local governments, and a pioneering work ethic. Utah continues to win national accolades as well. Forbes Magazine ranks Salt Lake City #1 as the Best City for Jobs, and Utah #2 as the
"Best State for Business" (Badenhausen, 2008). USA Today lists Utah as the "Best Managed State Government" in the country. The national Economic Competitive Index ranks Utah #1 in Economic Outlook, and these plus many more national comparisons are notable, including being first for "Economic Dynamism,"second for Inventor Patents, its high degree of public health, job creation, entrepreneurial acumen, and other factors (Utah 2008).

We rank highly in terms of quality of life, and have the highest per capita number of home computers of any region in America. In the past few years, some 5,000 new tech firms have been incorporated in the area in such industries as software, medical advances, and internet businesses.

What is less known is the extent of Utah social entrepreneurship that is also rapidly growing. We have created a number of other social enterprises and Microfinance Institutions (MFIs) that could also be highlighted. Most of them have been initiated in either Salt Lake or Utah Valley. Twenty years ago, for example, there were only two NGOs in the state doing international humanitarian work. By the late 1990s there were perhaps a dozen. According to a recent count, there were approximately 200, an explosive rate of growth (Woodworth 2007).

Drawing on this Utah environment for incubating social change, my paper will examine three cases of social sector innovation emerging within the context of their place in Utah culture, and explore how the teachings of Peter Drucker have given impetus to these developments.

We will focus on strategies for utilizing his advocacy of social entrepreneurship that I personally helped establish. Drucker’s vision for social innovation included the idea that common individuals and their organizations could achieve "uncommon things" (Drucker 1954). As was often the case,
Drucker coined new terms to describe organizational phenomena he observed. One that fits his own life and career also fits the role of social entrepreneur. It is that of being a "Social Ecologist," someone who is interested in the human-made environment (Drucker 1993b).

The rationale for discussing these three NGO models is because, as it is often suggested, the best truths, the most real truths, come from one's own experience. This certainly seems to be the case when one talks of trying to change the world. Thus, I will speak from my own life, my personal practice, rather than abstract theories and/or the observations of others. But I do so with humility and the awareness that we must all continue to learn, to question, and to critique our life's work.

The present discussion centers on the social enterprises which business colleagues, students and I have started in the Marriott School or other settings. From dozens we have launched, three will be reported here. Like many others, they were conceived as class projects that later became incorporated as non-profits or social enterprises. Using the university as a springboard, we collaborated with business firms, drew upon effective corporate models, and developed best practices so the global poor could move toward self-reliance. Hopefully readers about our work will gain insights about how to launch their own social ventures, learn ways to draw on new sources of human and financial capital, develop social innovations, accelerate their growth, and thereby improve life for others on the planet.

As we proceed, I will draw upon a few classic "Druckerisms" that have inspired my work. Their application will be illustrated by several NGO cases highlighted as action research projects which mobilized executives and their firms, along with management students, faculty, alumni, consultants, and
entrepreneurs in addressing human suffering. The need for better solutions for addressing unemployment around the world is obvious. The following are a sample of nations suffering from 15-20 percent or higher unemployment as reported by the United Nations: Albania, Azerbaijan, Bosnia-Herzegovina, Botswana, Cape Verde, Dominican Republic, French Guiana, Gabon, Grenada, Lesotho, Marshall Islands, Martinique, Mauritius, Namibia, Occupied Palestinian Territories, Serbia, South Africa, and Zambia (ILO 2009).

Clearly, without jobs individuals suffer such difficulties as food security, decent housing, the ability to send their children to school, access to healthcare services, and so on. What is necessary are creative new solutions to diminish such suffering. New job-creation tools can address unemployment, support such services, and alleviate poverty, especially as today’s global economic crisis wrecks havoc with marginalized people.

I hope these brief cases will suggest mechanisms for taking leading-edge managerial principles and concepts from business school environments and applying them to current societal ills. They need to be integrated with new visions, radical interventions and best practices from the corporate sector so as to generate innovative methodologies for fighting poverty and building sustainable communities.

Through this process, pro-poor applications of social entrepreneurship may transform companies into more ethical and socially-responsible firms as they serve society’s have-nots. At the same time, NGOs can benefit by more rapidly achieving scale, collaborating with other organizations to accelerate their efforts, and developing enterprise cultures of "uncommon" problem-solving. The resulting synergies from such innovations and partnerships will produce transformative processes for organizational design and strategic implementation.
of social enterprises.

U.S. Microenterprise for Latino Immigrants

One of Drucker’s inspired ideas is that business leaders ought to work toward having social impacts and address social problems. One of his chapters was entitled *Primum non Nocere* or "The Ethics of Responsibility" (Drucker 1974). He suggested that management functions within society and culture. And he later argued that "it is a demand that the quality of life become the business of business" (Drucker 1977: 292).

Drucker had the idea that we can build a better society by taking actions to alter the future, but that it is up to us to do so. His notions about improving society gave impetus to my students and I and later to bank managers and others to address a social challenge in our own community—that of addressing new immigrants from Latin America relocating to our valley.

It grew out of a major debate in the United States during the past decade over what to do about the considerable growth of poor Hispanic immigrants from Latin America. In my home state, Utah, which is quite close to Mexico, the migration of such people is huge. Many Anglos in the U.S. are frustrated by their presence. They are especially upset about the drain on government resources such as the providing of healthcare, education for their children, unemployment rates, and criticisms that they do not have regular jobs or pay taxes.

Valid or not, public opinion is divided. Thus, my management students and I decided to experiment with creating microcredit resources that could help such immigrants survive by creating their own jobs, learning how to become
entrepreneurs, how to register their microenterprises, and pay taxes. The goal was to assist them in moving out of the informal economy into the regular, formal system so they would become more self-reliant. The mechanism for doing this locally was through the creation of a student-based microcredit and training enterprise we called MicroBusiness Mentors.

Our work began as a university laboratory for service learning in 2003. Transparency requires that I inform readers I have played a key role as founder and board chair ever since. During my career, I have always sought to develop action-based learning components in my teaching, the result of which has been the design and implementation of numerous strategies to combat global poverty. MicroBusiness Mentors was established as a class project in my social entrepreneurship course in which a team of graduate students worked with others across the Brigham Young University (BYU) campus to conduct a needs assessment of the growing inner city Latino community adjacent to campus, the town of Provo, Utah.

What we found were a number of problems facing Latino residents in the area, in contrast to other neighborhoods: Median family incomes under $20,000, higher violent crime rates, lower high school GPAs, more public-assisted housing subsidies, official poverty rates ranging from 52-84 percent, English as a Second Language (ESOL) needs of 28-51 percent in the city’s elementary schools, and student mobility that ranged between 50-64 percent annually as Hispanic families were forced to move because they could not afford rental costs (MBM Report 2003).

In our surveys of Provo inner city Latino families, we learned that 48 percent reported having no savings and 71 percent had annual incomes of under $30,000. When we inquired about their potential interest in becoming
self-employed, 81 percent answered in the affirmative. Likewise, 78 percent reported they would be interested in receiving business training. Yet surprisingly to us, only 55 percent expressed interest in obtaining a loan (MBM Report 2003).

Thus, we began to feel that the delivery of business skills might best be our first priority. Based on these data, MicroBusiness Mentors (MBM) was created to begin marketing our services for empowering the poor near the university campus.

**MBM Programs:** We designed a four-pillar system for operating our program: Spanish language training, group support, mentors, and loans. Briefly put, training seemed to be of interest to 78 percent of Latino adults in our survey. So we designed eight modules, one to be taught each week for 8 weeks. During these weeks, the participants learn about each other, work on training cases as a team, share ideas and experiences, all culminating in the creation of one’s microenterprise business plan. This system of mutual support builds solidarity and trust, which becomes very important due the following reality.

Our clients immigrate from a large mix of South and Central American nations, each with different Spanish language pronunciations, slang, customs, norms and values, and occasional antipathies toward some of those from other countries. In certain cases, their backgrounds may have included middle-class comforts which they no longer enjoy. In a few instances, their countries may have gone to war over territory disputes, military conflicts, or most likely, soccer disputes. Thus, social capital which grows during their solidarity group experience becomes vital to their microenterprise accomplishments in MBM, and more importantly, to their success in U.S. society. As I have observed, this type of mutual support becomes a critical ingredient.
If group members go on to complete the eight sessions of training and qualify for $500 loans, an MBM graduation ceremony is held, and certificates of completion are given, as well as the loans. Each member of the group signs a commitment to repay each others’ loans, in addition to one’s own, the group thereby acting as social collateral. This technique is sometimes referred to as "peer-lending" or "solidarity group loans." Group commitment and peer pressure serve to minimize borrower default rates. Also, members teach responsibility and the importance of repayment on time and in full for the amount due. After graduating and obtaining their first loans, MBM microentrepreneurs next turn to launching their tiny businesses, and each is assigned a volunteer mentor who agrees to coach them in Spanish at least monthly over the next year. Upon repaying the first loan, clients may qualify for a second loan at double the amount of the first. This continues until the individual qualifies for a larger loan at $5,000. At this point, we take them to a regular bank to help them secure more capital to expand their business.

**MBM Results:** As of now, MBM seems to be yielding quite promising results for facilitating self-employment. Hundreds of Utah Latinos have received orientation and/or training. Those who completed the training have received loans, started microenterprises, and, so far, at least until now, nearly 100 percent of them have paid back their microcredit debts. Currently, MBM is partnering with Centro Hispano in Provo, a 501(c) 3 which is affiliated with the Community Action Agency. This way, donors may claim a tax deduction for offering their financial support.

Perhaps more importantly, we have attracted the interest and financial support of a number of community banks and credit unions who want to help fund this effort. These are the type of managers who see what Drucker
suggested about business improving "the quality of life" of people (Drucker 1977: 292). They seem to realize that for-profit businesses may not only do good, but enjoy financial benefits in the future as microentrepreneurs "graduate" from the informal sector to needing greater financial services that larger, traditional banks can provide. In this process, MBM will be able to expand its services and loan capital to greater numbers of poor families. The power of this strategy for creating social capital through MBM's group process appears to have important consequences among such desperate immigrants from Latin America. Consistent with Drucker's vision, MBM's work serves to build human capacity. As this innovation unfolds further, we may more fully understand what Drucker meant.

Global Microfinance Acceleration

A key question about human existence is inquiring as to how one lives and what one's legacy will be. In Drucker's classic volume, Managing the Non-Profit Organization, he raised the following question: "What do you want to be remembered for?" (Drucker 1990: 158). He suggested that everyone needs a significant person with great personal influence to those younger who will continue to reflect on such a matter as they grow through life's phases. He proposed that such a question ought to drive our lives and lead throughout our existence to greater meaningfulness.

For some executive friends of mine, this question began to force a number of inner debates as they moved from their middle years around age 40 toward their later years. They were rich and successful. They had wonderful spouses, good
kids, and successful careers. One was senior vice president of one of America’s largest tech corporations. Another was CEO of a manufacturing company. Still another was managing partner of a major venture capital firm on the East Coast. Yet they wondered what more life ought to be about. Each had read a book of mine and began calling or flying out to Utah to discuss it and consider how they could make a difference in society. For a long time it was mostly dialogue, but over time the group began to consider how they would like to be remembered. They realized they wanted something more than mansions, fancy cars, and corporate power. Ultimately after a year of debate, strategy-formation and planning, we incorporated as an NGO or microfinance institution (MFI) called Unitus, meaning "unite us."

We decided that rather than just being another NGO, we would do something unique—help small microfinance organizations grow solidly and rapidly. The work of Unitus as an MFI accelerator has had a huge impact. As the first chairman of the board, I proposed we begin in Mexico, so we set up a new organization in Tula called ProMujer. Since then we have established over 1,100 Mexican communal banks and dispersed well over $12 million in that country alone to more than 16,000 women (Pro Mujer 2009). From there we went to India and found a wonderful little NGO called SKS whose potential for growth looked promising. We provided capital, training, expertise and new technologies to the NGO and it has now grown to be a huge success(SKS 2009).

Other new, small MFIs in India were being established, each responding to the rising demand for financial services to the unbanked poor. At Unitus, we gradually developed a model to accelerate the growth rate of the most promising, many of which had become stuck because they lacked sufficient
capital to expand. Therefore, instead of their reaching a plateau of a few thousand microentrepreneurs, and not being able to grow further, we raised significant sums of new money to heighten and deepen their impacts. Later we expanded to East Africa where we now have more than 200,000 borrowers, Argentina where we have 20,000 or so, Indonesia, and other parts of the globe.

In a few short years, Unitus has now become a major global microfinance institution. The perceptions in the media from *Fortune* magazine to *Forbes, Business Week, The Wall Street Journal,* and the *Financial Times of London,* about this group of friends has been significant. We were able to show how managers, academics, and entrepreneurs can collaborate in the design and launch of radically innovative strategies from the business world to address human suffering. Accumulating capital and making major loans to small NGOs so they grow rapidly has become a powerful story.

In the past decade, Unitus has received awards from *Fast Company* magazine, recognition that is called an annual social capital award. It has also been honored by President Bill Clinton’s Global Initiative. Unitus’MFI partners have also enjoyed awards for their management excellence. Some of the staff and board members have been honored in their own right, and significant new funding has been received by such prominent individuals as the founder of e-Bay, Pierre Omidyar, Microsoft’s Bill Gates, and former U.S. President Jimmy Carter.

Another impressive aspect of these Unitus founders is that almost each individual has also created one’s own personal or family foundation. Besides being a major funder of Unitus, one person also gives to other NGOs operating in the islands of the South Pacific. Another funds local United Way programs for children in his local community. One individual also established what is now among the largest MFIs in Kenya, while another works to support
microentrepreneurs in Ghana.

While at times their firms assisted in the early phase of start-up, nearly all the $11 million generated during the first years of Unitus came from the founders’ own pockets, not their businesses, and never from government grants. These founders not only developed an innovative new strategy to combat human suffering. They also became "movers and shakers" far beyond their corporate walls, applying successful business models in fighting inequality around the globe as they learned to harness the power of many. Perhaps more significant, they have each built off Drucker’s penetrating question and developed their own unique lifelong mission "to be remembered" for something more than their personal wealth or a corporate bottom line (Unitus 2009).

Using Business School Skills in Central America

The best kind of management, according to Drucker, must deal with not just economics and productivity, but the heart, the soul of the leader, and ethical issues. The third case examined here, that of HELP International, suggests how "common people" can accomplish uncommon things, as noted at the beginning of this paper.

Citing Drucker’s words of inspiration again: (Management) "deals with people, their values, their growth and development, social structure, the community and even with spiritual concerns…." (2005). It was these insights and mission-driven ideas that empowered me to mobilize my students in the Marriott School to address a devastating catastrophe in Latin America a decade
This project emerged after Hurricane Mitch decimated Central America at the end of 1998. There were 11,000 dead, tens of thousands more missing, and 3 million people homeless. In Honduras, 90 percent of the country’s crops were lost; 70 percent of its infrastructure was damaged. Huge bridges and roads like the Pan American Highway were devastated or destroyed. The experts declared that the country of Honduras was set back 50 years (NOAA 2009).

The question that occurred to me as I saw that devastation on the television day after day was this: Can business schools address a socio-economic disaster like this? Do we have anything to offer? Are we even relevant to the problems of global suffering?

I started to think about my challenge as a professor to find answers, to determine whether or not we could design some innovative strategies that would transform the Marriott School into a pro-poor institution.

I began to recruit a few students, and we launched an elective course on social entrepreneurship. We decided to prepare a game plan to go to Honduras at the end of the semester because it was the hardest hit country. I call this type of education we developed "action-based learning." It requires students and faculty to collaborate as colleagues in designing new social innovations, which we carry out during and following that semester.

We called the project HELP for Help Eliminate Poverty. The results of our venture were fairly incredible. We ended up with 46 volunteers in Honduras that summer. They came from BYU, the University of Utah, as well as students from Stanford. We were able to raise $116,000. With those monies we started 47 communal banks, mostly consisting of groups of women. We gathered them together and trained them in how to become self-reliant, how to be social
entrepreneurs, and how to be microentrepreneurs.

Many of them had lost husbands and jobs. Roughly speaking we helped to create about 800 new microenterprises. Those hundreds of jobs benefited an average of 5 people per family. This means that about 4,000 family members were empowered through the loans we were able to provide as we started these communal banks.

In addition to microcredit, our volunteers throughout the summer of 1999 provided about 20,000 hours of on-the-ground community service. They delivered babies out in rural medical facilities. They shoveled mud out of schools and rebuilt the schools, plastered the walls, disinfected the damaged structures, sanded and painted the walls. Others rebuilt houses or mentored street children. Still others started small gardens and trained families on how to become square foot garden experts so they could grow enough produce to feed themselves nutritious vegetables throughout the year.

Some BYU volunteers taught in schools, after we got them reopened. Others provided computer training skills. We took down supplies from six different U.S. states, donated by families who gave materials for newborn kits for babies and their mothers, hygiene kits for refugee families that had lost everything, school kit supplies and basic materials for children’s education. We also bought extra supplies with cash we took to the country, which also benefited the Honduran economy.

As time has progressed, this little organization that we started out as HELP Honduras, has become HELP International. Later, after the devastating destruction of two huge earthquakes in El Salvador in 2001, HELP began to work there with Habit at for Humanity. It has gradually expanded between 1999 to 2009, from Honduras to Guatemala, Peru, Bolivia, El Salvador, Brazil,
Uganda, and now Fiji. We have had over 1,300 students from BYU and other universities engaged in the work of HELP, serving the poor, training microentrepreneurs, aiding farmers, volunteering in orphanages, doing health care in rural and medical clinics, teaching square foot gardening, building homes, and so forth. These outreach efforts have become a major strategy for doing good and for lifting the have-nots (Woodworth 2008).

A number of socially responsible companies have facilitated HELP’s success: U.S. Synthetic, Decision Wise, Marriott Corporation, RBL Consulting, Wal-Mart, Jet Blue, and so forth. As Drucker used to write, HELP has been able "to convert donors into contributors," not offering just money alone, but their skills as well. A number of these executives have been advisors, served on task forces, provided pro bono consulting, and assisted with tax, legal services, and financial programs, as well as offered cash donations. Over time, HELP and the private sector have learned core lessons of how to collaborate effectively by creating win-win partnerships.

Public perceptions of the university and Utah businesses have been strengthened by the work of HELP International. In Honduras, the UN, Red Cross, and U.S. Government officials were all amazed by the initiative of these young students who simply sought to improve the world. Among the 8 countries HELP has labored in, there have been dozens of news articles in the press, as well as at home in the U.S. Currently, we are already beginning to plan for launching our work in Rwanda in 2010 at the request of government officials in the country which suffered genocidal conflict a few years ago.

HELP’s mission is to provide for its volunteers "a life-changing experience through service to the poor" (HELP 2009). As Drucker stated in his classic book, *Post-Capitalist Society*: "What the U. S. non-profits do for their volunteers
may well be just as important as what they do for the recipients of their services" (1993a: 176). In other words, HELP's college students who dedicate a summer to the Third World poor, are blessed for their dedication, perhaps as much as those they seek to assist.

What we are now beginning to see emerging from this NGO, HELP International, is that after students finish their service and graduate from college, these young adults establish their own small projects which, over time, formally become new programs to address social problems that neither the private sector nor government are fully able to fix.

Into the Future

The future bodes well for the social entrepreneurs discussed in this paper and their exponential rise as Drucker(1999) anticipated in his *Harvard Business Review* classic, "Managing Oneself."

It was in that seminal piece that he predicted that as more people became knowledge workers, they would have enough corporate experience and sufficient incomes to retire in their 40s or 50s from their traditional jobs and begin whole new lives. They will then enter the social sector to begin a second career stage. They will enjoy healthier, much longer lives than past generations, and have sufficient resources to make many choices about their lifestyles and their money.

This unprecedented change will encourage self-reflection, according to Drucker(1999: 7), and the capacity to assess our strengths and abilities to perform. It will require answers to questions such as "Where do I belong? What
should I contribute?" This will lead many individuals to seek second careers as volunteers or employed staffers in non-profit organizations where they can use their education and maturity to improve society.

In the end, Drucker suggests these factors will all combine in a movement to build the "second half of your life." His advice in doing so? He argues we need to start developing the skills and mind-set to do this before age 40 or so. If one does not so plan and prepare, failure will result.

So I conclude this paper by issuing a call to action. Whatever your current work is today, begin planning for a new career of social innovation in the future. Develop new interests, even passions. Assess your capabilities and begin to tinker outside your job with creative experiments in learning more about the world, as well as about yourself. Start a little community project with friends and/or family to improve your own residential area. Learn as you go. You will gradually discover that, indeed, you can change the world.

As you experience the growing sense of new awareness within your soul, consider how to allow these feelings to flourish even more. Find your inner voice. Expand your sense of community and social values. Step by step you will develop a greater purpose-driven life, one of more meaning and real joy. This has been my experience, and it is the promise of Peter Drucker as well.

References


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