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## **Disruptive Innovation from the Base of the Pyramid**

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This paper calls for disruptive innovation to mobilize and empower the global poor at the Bottom of the Pyramid (BOP). The main argument is that poverty alleviation cannot be left to elites, government or big business. Alternative self-help methodologies are shown to counter big, slow bureaucracy through activist college students, mostly MBAs and MPAs, as well as faculty who become aligned with impoverished communities. New social inventions may be designed, radical economic development can be applied, and the world's have-nots may become empowered to lift themselves out of the wretched lives of the Third World.

We will briefly document three cases in Peru, the Philippines, and Honduras as to how universities may partner with village elders, women, and youth in suffering communities in using tools to improve the quality of life for the Third World. The particular case at hand is that of the Marriott School of Business at Brigham Young University, where we have worked for three decades now to mobilize students, alumni, and faculty in empowering the poor. We use practical business models and concepts such as finance, motivation theories, planning and decision making, economic development, cross cultural management, microfinance, conflict and negotiation, change management, leadership, and marketing to design projects and then roll them out.

We will first highlight the socio-economic context in which we work. Then we will describe several university-initiated cases in which the author, colleagues, students and business entrepreneur partners designed classroom projects to fight poverty, then implemented them in the Third World, and eventually spun them off as non-governmental organizations (NGOs). Collectively these efforts have succeeded in raising hundreds of millions of dollars and positively impacted more than 8 million people in dozens of countries. By engaging in capacity-building strategies with indigenous villagers such people now have their own sustainable solutions for a better quality of life. The paper concludes with suggestions for future collaboration between business schools, rural villages and newly established NGOs.

### **Third World Poverty**

For centuries there has been a huge chasm between rich and poor societies. It is manifest in the per capita income gap between the industrialized world and developing nations. For over a billion of the planet's population, the suffering of the poor is manifest in the fact that they try to eke out an existence on almost nothing. Approximately half live in Africa (World Bank, 2017). Some 767 million people live in extreme poverty with less than \$1.90 per person per day (Action Against Hunger, 2018). Approximately 600 million of the world's children are not in school, many of them forced to labor in the fields and factories alongside their parents. Illiteracy among adults in the Third World is a significant problem, as are such difficulties as poor health care, infant mortality, natural disasters, and diseases like HIV-AIDS.

Among many impoverished people, their problem is that of unemployment and/or under-employment. They cannot obtain jobs because of the lack of investment in the formal economy. In many instances, they lack the job skills necessary when there is a factory opening, or whatever. Thus, for many of these, the challenge becomes that of creating their own jobs through some form of income-generating projects. Those who struggle in this environment, that of the underground economy (or black market), face the enormous challenge of obtaining capital for their microenterprises. These are often hard-working and creative individuals who simply seek self-employment. But to launch or to grow their microenterprises, they require credit, a small amount of working capital to run their tiny businesses and move toward profitability. A lack of access to financial capital thus becomes their major challenge.

Most such individuals cannot obtain financing from regular banks for several reasons. Often, the miniscule amount needed is so small that banks cannot justify the overhead expense in servicing such small loans. Also, the poor usually lack financial credibility. They have no credit history and no collateral that would be equivalent to the loan size needed. For most of them their only option for financing is from a “loan shark” who may charge as much as 300 to 3,000 percent annually. It makes the possibility of success virtually nonexistent. As conservative Milton Friedman, who won the Nobel Prize in Economics, puts it, “The poor stay poor not because they are lazy, but because they have no access to capital” (2002). They are essentially trapped in a losing situation and are unable to get ahead.

One of the most innovative strategies for addressing this global problem has been the recent emergence of microcredit as a tool for lifting the poor out of poverty (Yunus, 2007). To clarify the meaning of this concept and its associated terms, the following definitions are necessary:

- Microcredit: tiny loans of \$50 to \$200 each to poor individuals
- Microentrepreneur: recipient of a microloan with which to start or expand one’s small business
- Microenterprise: a very small, income-generating activity or family business
- Micro-bank: village or communal bank group
- Microfinance: a more inclusive term for all the above, plus, perhaps such programs as client savings accounts, health insurance for the poor, education loans, self-help groups (SHAGS), etc.
- MFI: Micro-Finance Institution which may provide multiple financial services
- NGO: Non-Governmental Organization that offer a range of humanitarian and development services such as literacy, health care, education, schools, aid in response to a crisis such as natural disaster, village development programs, agriculture, women’s empowerment, as well as microcredit

### **Colleges as Social Disruptors**

My university, the Marriott School at Brigham Young University (BYU) has emerged as one of the first pro-poor business schools in the United States. The university has a number of competitive advantages because of its institutional connection to its sponsoring church. Some 72 percent of students speak a second language, most of them learning to do so by living abroad for two years as Mormon missionaries. They become fluent in the language, understand and appreciate other cultures, and love the people. BYU teaches over 60 different languages on campus, more than twice those of the second most diverse language offerings being the 25

languages taught at Yale University. The school also has the largest study abroad program of any American university. Finally, students attend BYU from over 130 countries. Drawing on these student strengths in the early 1990s, we began to organize a group of faculty to center our research on microcredit to begin with. We committed to using our academic work to better the world by empowering students as global change agents. We designed new courses and action research methods to send students out in the field to study the impacts of microcredit, our initial area of emphasis. The scope became broader as we also began to train individuals in non-profit management and humanitarian skills. We sought to build partnerships with business leaders, entrepreneurs, and socially responsible corporations.

Over the past 28 years we have trained over 6,000 students in microfinance and social entrepreneurship and sent some 4,500 off around the globe to combat poverty and create greater economic justice among marginalized communities. For 29 years we have developed new courses or classroom modules in public entrepreneurship, social innovation, microcredit systems, Third World development and NGO management. For over a decade we sponsored an annual conference on social change, launched the new *Journal of Microfinance*, and later the *Economic Self-Reliance Review*, the first of their kinds in this emerging field, and did a PBS documentary on the programs of our partners.

We have formed a number of NGOs, which started as classroom student projects and eventually were formally incorporated as 501(C)3 non-profit social enterprises. Three of them are described below as illustrations of what may be accomplished when social scientists, students and others combine their skills to change the world.

### ***Eagle Condor Case***

An MFI example we created is that of Eagle Condor Humanitarian (ECH), which was established in 2004 and is based out of Salt Lake City. It was launched by a number of BYU alumni, as well as local entrepreneurs, students, and donors from the business community, who set out with a mission to enrich and strengthen family life in Peru. It drew its inspiration from the ancient Inca mythology of the eagle from the North and the condor from the South of the Americas coming together in the “last days” to work for the betterment of society. Some 50 BYU students have spent summers in the rural Sacred Valley of the Inca, near Cusco and Machu Picchu, or in the northern urban cities of Chiclayo and Piura. The organization seeks to establish employment opportunities and raise the standard of living among the poor. It is a humanitarian organization that focuses on making a difference. Its ultimate goal is to empower people by building family self-reliance.

Eagle Condor is a small NGO that consists of a board of 16 members, along with two paid employees in the U.S. It is incorporated in Peru as an Andean non-profit enterprise with its own Peruvian board of six individuals, four paid employees, and several volunteers. In contrast to the hyper-inflation of Peru in the 1990s, Eagle Condor operated in a situation of approximately four percent annual inflation. The country of Peru suffered from an official poverty rate of 54 percent, and the minimum daily wage was a mere \$4.33. The microfinance movement has grown significantly in Peru, some 43 percent in recent years. Eleven of the top 30 MFIs in Latin America are Peruvian. They make up a large portion of the nation’s informal economy, which today stands at about 59.9 percent of the total.

In contrast to most other Peruvian MFIs, Eagle Condor places a heavy emphasis on quality of clients and programs, not quantity. It spends a lot of time and resources in helping poor clients develop business plans, receive training in entrepreneurship, and each benefits from the services of a consultant to help translate one's ideas into reality. Another unique feature of ECH is that about half its loans are offered to males, not just women. Also, the beginning loan size is somewhat large--\$500 to \$1,000. If the clients' efforts yield good fruit, their future loans may grow up to a \$4,000 maximum.

### ***Mentors International Case***

The first NGO spin-off was Mentors International which we established in 1989-90 in the Philippines. It began with a readings course I, the author, established on the economic challenges of the poor in the Philippines, and led to a field study on the needs of impoverished families, as well as existing humanitarian organizations in Manila that were servicing these communities. A feasibility study was prepared which led to Mentors being launched in 1990. Over time, it gradually spread beyond Manila to the central and southern Philippines as we established other new indigenous partner organizations. With its corporate offices based in Utah, a board of interested donors has guided the organization through the years. The board members' hands-on assistance in using their management skills and corporate experience has been a great strength to Mentor's success. During the years, our efforts have incrementally spread from the Philippines to include Mexico, Guatemala, El Salvador, Peru and now to Ghana in Africa.

In 2017 Mentors and its partners helped 29,334 families journey towards self-reliance, a growing increase over 2015-16. A total of 15,185 microloans were distributed last year, and some 90 percent of them were to poor women. The total amounted to in excess of \$5 million disbursed. Average loan size last year was \$283 and the default rate was a mere 2.3 percent. Some 73,000 microentrepreneurs received training and/or consulting that year, and microloans were provided to many of them, resulting in the creation of 15,723 new jobs, as well as larger capitalization of ten thousand more. From the beginning as a co-founder, and ongoing after leaving the board but continuing as occasional advisor, we estimate that over four million people have been positively impacted since the outreach was launched officially in 1990.

Early on Mentors made the strategic decision to not seek or accept government funding in order to preserve its independence and avoid having to carry out bureaucratic reporting requirements. Over the years, and as of December 2018, we have raised, through private donations, some \$103 million as loan capital for our microentrepreneur clients during the decades.

### ***HELP International Case***

A third instance of Marriott School initiatives in microfinance is that of HELP International (H.E.L.P., meaning *Help ELiminate Poverty*). It is an innovative example of utilizing student volunteers, local entrepreneurs, alumni, and faculty in mobilizing our collective efforts to serve the poor in Latin America. It began in response to the terrible destruction of Hurricane Mitch in Central America at the end of 1998. The nation of Honduras was under flood waters for a week and the destruction that followed was so bad the United Nations declared the country was set

back 50 years. Facing the question of whether or not a business school might have anything of relevance in times of natural disaster, we established a new, not-for-credit course in January 1999 called “How to Change the World.” Eventually some 70-plus students signed up for the experience and formed self-organizing teams to plan how we might assist the victims of the hurricane. In spite of cynics at the university, who claimed students could not address such major catastrophes, we prepared 46 volunteers, who each spent two months or more in Honduras that summer. About \$116,000 was raised for establishing 47 small communal banks, as well as recapitalizing an additional 50 bank groups of FINCA International, our MFI partner, whose client resources had been destroyed by the flooding.

MBA students served as on-the-ground team leaders over specific projects in-country. In addition to microfinance and economic development, approximately 20,000 hours of community service was rendered by HELP volunteers: Our labors included shoveling mud out of schools, rebuilding houses, mentoring street children, teaching computer skills, and delivering babies in rural health clinics. Over 800 jobs were created by these new microenterprise start-ups, which benefited some 4,000 family members.

That first experience of helping Honduras led to increased motivation for doing similar work elsewhere in subsequent years. As students, donors, and faculty began to feel empowered in their ability to make a difference, new crises inspired new strategies. Thus, in winter semester 2000, some 88 volunteers were organized and trained to serve during the following summer. We raised over \$250,000 and sent teams to continue our efforts in Honduras, as well as to expand to Venezuela, Peru, and El Salvador. We began to partner with more NGOs in these countries, starting more village banks in Honduras and El Salvador, as well as providing microenterprise training programs in Peru and Venezuela.

In the subsequent years, HELP has enlarged the scope of its efforts by laboring in five countries of Latin America, seven in Africa, six in Asia, as well as working with refugees in Greece and Jordan. Today it offers various social entrepreneurial services to the poor: Microcredit, square foot gardening, literacy, women’s empowerment, home construction, agricultural and other appropriate technologies, as well as training in computer skills and English as a Second Language (ESL), serving in rural health clinics, teaching in schools, and volunteering in orphanages. Not only have we drawn on students from BYU over these years, but also from other schools like Stanford, UNC, Colorado State, Virginia Tech, and Washington University.

### **Implications for Other Campuses**

The track record so far shows that universities are able to deliver innovative courses and action research opportunities that are increasingly demanded by MBAs and other students from across campus disciplines. Students enjoyed powerful and “real world” experience in relieving human suffering. They also learned how to apply business models to global non-profit efforts. The performance of the MFIs and NGOs we work with has been enhanced by the energy of young college students. To accomplish this kind of high impact education that yields significant impacts around the globe, our experience suggests the following best practices:

- Students, faculty and administrators can learn much from each other. The goal becomes that of knowledge-sharing. Each party must discover what it has to offer.
- The size and scope of a project in terms of demands for time, energy, and funding ought to be negotiated up front. Generally they should create room for later add-ons as necessary during multiple rounds of discussion.

- The parties need to define what “success” means, so that they come to an agreement.
- There should be a climate of experimentation, a willingness to try things out and reject or retain learning as needed.
- The parties ought to anticipate points of dissention ahead of time and determine how problems and conflicts will be dealt with.
- Finally, college class projects and as NGO outreach needs to develop exit plans as to when, why, and what will happen over time.

For other business schools, the BYU experience suggests several lessons. They include the fact that professors can actually do this kind of work with their students. It may be combined with research and field studies, as well as the teaching of courses, and it can develop long-lasting effects, not only for business students, but also in the lives of poor villagers of the Third World. Faculty need to think big and take risks. Their relationship with students needs to be participative, not like the formal control that often occurs in the traditional classroom. In dealing with campus administrators, it is better to ask forgiveness from them, rather than seek permission in advance for doing this kind of work.

Both business schools and socially responsible corporations can learn how to fight poverty effectively by understanding development theories, designing action research projects, generating internal motivation, and becoming champions of change. The NGOs that will be established can serve as mechanisms for growth and sustainability among the world’s poor.

## **Conclusions**

The cases described in this paper are only a small portion of some 40 projects we have designed and implemented at BYU. Others that have been instituted, or at least strengthened by BYU student and faculty participation, include such NGOs as the Ouelessebougou-Utah Alliance that has been working in Mali, West Africa, for two decades, empowering 35,000 people in 72 villages. Another entity is *Mentores para la Microempresa* (MicroBusiness Mentors), which we started in 2003, to provide entrepreneurial training and \$500 loans to members of the impoverished Latino immigrant community adjacent to BYU. One of the largest programs launched by BYU alumni, students, and faculty is Unitus, an MFI that quickly rose to be one of the most successful microfinance deliverers in the world, with collaborative agreements in 18 countries, having raised over a billion dollars since 2001.

These cases are evidence that important social and economic impacts can grow from a university’s base to the far corners of the world. The future of our efforts appears very bright at BYU, in collaboration with our corporate and NGO partners. We eventually established the Ballard Center for Economic Self Reliance that is now a force for good in collaborating with other top tier programs at Wharton, Yale, MIT, Oxford, Berkeley, Harvard, NYU, Stanford, and more. Our feeling is that with the courage to disrupt tradition, and with vision, passion and radical innovations, this kind of success can be replicated among many more universities across the world.

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