Entrepreneurship and innovation are needed in society as much as in the economy. What that pointed to, Drucker said, was an “entrepreneurial society in which innovation and entrepreneurship are normal, steady and continuous.”

Richard Straub explains why ‘getting back to normal’ is no longer an option.

Building the new entrepreneurial society
Since the financial crash of 2008 the world has been struggling to “get back to normal". But, to quote Charles Handy, “the past is not the future”. And as Albert Einstein famously put it: “the significant problems we face cannot be solved at the level at which we created them”.

It is now abundantly clear that those “significant problems” – sky-high government debt, a still-fragile financial system, increasing levels of inequality, latent currency crises, slowing growth, volatile stock and commodity markets, and geopolitical instability and extremism – have not arisen by chance. They are the fall-out from the decay of a dysfunctional system that had outrun the capability of our institutions to cope with it.

Trying to make the patterns of the 20th century serve for the 21st is futile. We need to recognise that for states, corporations and individuals alike there will be no return to “business as usual”. Throughout his life, Peter Drucker urged corporations to ask themselves: “If we were starting from scratch, would we do it this way? Would we do it at all?”

Institutions, theories, values “and all the artefacts of human minds and human hands”, he wrote in his 1985 book Innovation and Entrepreneurship, eventually outlive the purpose and assumptions they were designed for, imperceptibly changing from a solution to a pressing problem to a new obstacle to progress. For that reason, entrepreneurship and innovation are needed in society as much as in the economy. What that pointed to, he said, was an “entrepreneurial society in which innovation and entrepreneurship are normal, steady and continuous”.

Innovation and entrepreneurship are life-sustaining, self-renewing forces pervading organisations, the economy and society. They would accomplish “what Thomas Jefferson hoped to achieve through revolution in every generation, and...do so without bloodshed, civil war or concentration camps, without economic catastrophe but with purpose, with direction and with control”.

The entrepreneurial society would be nothing less than a turning point in human history.

‘We wanted flying cars, instead we got 140 characters’

Putting this in its historical context, the last 200 years have seen a long surge of economic growth fuelled by a potent combination of entrepreneurial energy and financial capital. Although, as Carlota Perez from the London School of Economics, has noted, speculative bubbles seem an inseparable part of innovation cycles, but until now they have fed into a resilient capitalist system that has generated not only bubbles but also successive “golden ages” of prosperity. As she has shown, that worked when finance capital played a supporting role to production capital and paper value was firmly based on real value. Home in on the present, however, and the picture is much less rosy.

Low or no growth

Finance capital rules, production starves. While cheap financial capital is in abundant supply, states, economies and companies seem unwilling or unable to channel it into productive investment. Economists such as Larry Summers and Robert Gordon predict a new period of secular stagnation as the last great phase of innovation-fuelled growth (as they see it) comes to an end.

For Gordon, life-changing inventions such as inside plumbing, electric light, motor and air transport, and antibiotics – all of which came about in a single lifetime – are unrepeatable one-offs. By comparison, comfort and choice, even the internet and smart-phones, are luxuries. With investors fixated on the hunt for the next tech-enabled “unicorn”, the trivial trumps the useful or more broadly ambitious.

Vital investment is consequently lacking in “meat and potatoes” companies that could fuel precious growth and employment. As Silicon Valley entrepreneur Peter Thiel puts it: “We wanted flying cars, instead we got 140 characters”.

The ailment of capitalism is a symptom of something deeper. As Michigan University’s Jerry Davis has demonstrated, the public corporation – the motor of capitalism for a century and more – is in retreat. In the US and UK, their number has halved over the last 15 years as more exit from...
As Drucker, standing on Schumpeter’s shoulders, described it, such a role is essential across the whole economic spectrum, even in non-business organisations. As stewards of society’s greatest concentration of resources, large corporations are vital constituents of all advanced economies and will likely remain so for industries with high capital needs and long product cycles. However, Clayton Christensen and others have charted the fading appetite of large companies for entrepreneurship and innovation and their preference instead for consolidation and the use of technology to extract maximum profit from existing businesses. That is, if they invest at all.

US companies are sitting on a cash pile estimated at $1.9 trillion, much of it held abroad. Moreover, in 2015 they spent close to $1 trillion on stock repurchases and dividends. Buy-backs over the past five years have been running at more than 100% of capital spending.

“These uses of corporate cash are a direct transfer of corporate profits away from creating jobs and capital investment, increasing income inequality,” wrote “Shared Value” expert Mark Kramer in the Harvard Business Review.

Yet it is not only corporations that will determine our future. Too few companies manage the shift from small to medium-sized business. Generating more fast-growing “gazelles” is therefore another major entrepreneurial challenge that even a high-tech start-up nation such as Israel has yet to master in order to finally become a “scale-up nation”. Germany’s Mittelstand companies encompass numbers of world leaders or “hidden champions”, often in highly specialised fields, as described by Hermann Simon in his book of the same name.

Much of the Mittelstand consists of family-owned businesses that exemplify stewardship in its truest sense of demonstrating long-term commitment to a business and to the employees who are its heart and brain. However, even these exemplars of entrepreneurial dynamism and global growth will yet have to demonstrate whether they can successfully master the next innovation cycle driven by digital transformation.

Wanted: a truly entrepreneurial society

It is quite obvious that democratic capitalism requires an injection of new energy and rejuvenation. It needs a transformation of its key institutions and organisations and a new vision of the world it can help to create.

Joseph Schumpeter, whose thinking on capitalism and innovation was instrumental for Peter Drucker, reminded his fellow-economists that it is not economic theories, formulae or policies that drive economic progress but rather the entrepreneur and innovator – provided the obstacles put in their way do not become insurmountable.

The impotence of governments

Faced with these challenges, governments seem to have little in their locker except further regulation. Although well intentioned, the remedy is frequently worse than the problem it is trying to cure, stymieing genuine entrepreneurship in the vain attempt to prevent a crisis that has already occurred.

The burden of Sarbanes-Oxley, a US reaction to a number of major corporate scandals such as Enron and Worldcom and a paradise for compliance lawyers and advisers, is cited as one factor that may have contributed to the recent drying-up of IPOs.

It is similarly open to question whether many thousands of pages of regulations have enhanced banks’ ability to perform their core mission of funding the real economy of goods and services. We have created a regulation industry, sums up economist John Kay, “which is at once extensive and intrusive, and yet largely ineffective in achieving its objectives”.

Meanwhile, governments’ approach to their own business is resolutely backward-looking rather than forward-looking. Welfare, as standardised packages of industrial care or service mass-produced on “Fordist” lines, is as woefully inadequate to today’s conditions as the Model-T. It serves the needs of neither citizens nor states. All too often it saps resilience instead of strengthening it, breeding cynicism and apathy at best and at worst active disengagement from the state.

Public markets than enter. Their replacements, crucially, are both capital and employment-lite – as the cost of co-ordination heads for zero, workers in the burgeoning platform economy are typically not employed at all.

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Moving at warp speed into uncharted territory

Organisations of all stripes face unprecedented challenges to every aspect of their business. Digital transformation and platforms cause a rethink of organisation, production methods, supply chains, value propositions and business models. Thus platforms with global reach eliminate the middleman and up-end established players in short order, creating uncertainty and angst for incumbents, their ecosystems and regulators. In an “uberised” world, companies as employers are replaced by platforms matching tasks to individual micro-entrepreneurs.

On the other hand, technology could equally be the foundation for the kind of distributed, community-based operations that were displaced a century or more ago by the large corporation. Block-chain technology could provide yet another element for breaking the grip of centralised organisation models and the power monopolies and oligopolies that go with them.

One thing is clear, writes Michigan’s Davis: “We are in the midst of a massive expansion of new forms of organising the creation of goods and services”. The decline of the corporation potentially opens the way to more local, democratic and sustainable alternatives that do not hand control of our future to global platforms surfing on network effects.

New roles for the state

As this suggests, the state will necessarily be heavily implicated in the move to an entrepreneurial society – starting with the “druckerian” prescription of a thorough-going reassessment of what should and should not fall in its remit.

On the positive side, Mariana Mazzucato, a professor at the University of Sussex in the UK, has shown that states have historically played an important indirect role in fostering innovation through investment in basic research that pays off, sometimes many years later, as discoveries are turned into wealth-creating opportunities by enterprising individuals and companies.
It hardly needs saying that management itself has to evolve to underpin these changes. Since it affects the way so many other institutions govern themselves, over recent decades management has become part of the institutional logjam. Corporate management has been locked in place by an ideological belief in shareholder primacy that drives a top-down command-and-control and compliance-based agenda and allows change only at the margin.

In a recent essay, Gary Hamel and Michele Zanini estimate that large US corporations are carrying an overhead of $3 trillion in excess bureaucratic costs that could be freed up for value-creating ends. All this, of course, is the opposite of the creative, flexible mindsets needed to animate an entrepreneurial society. But that is beginning to change.

Thus, big firms are getting serious about becoming “ambidextrous” — that is, combining robust exploitation capabilities for existing businesses with new exploration-driven business engines inside and outside the organisation. They are also experimenting with the principles of design thinking, as described by Roger Martin and Tim Brown, and lean start-up, elaborated over the past years by Silicon Valley entrepreneurs and educator Steve Blank in concert with Eric Ries, Alex Osterwalder and others, as a means of bringing flexible and adaptive processes of innovation into start-ups, medium-sized and large organisations.

Social entrepreneurs aim to permanently and systematically transform a miserable or unfair societal condition. Equally, Drucker long ago observed that every social problem is a business opportunity in disguise.

The internet emerged from defence research. Google, Apple and others have incorporated the results of publicly funded research in their products to their great commercial benefit.

But the notion of the “entrepreneurial state” encompasses more than seed-funding and research. Equally important is the need to switch welfare emphasis from employment protection to support for self-help and independent, entrepreneurial forms of work. The net aim must be to build a supportive environment for entrepreneurs along with better-developed capabilities for fostering market-based solutions, when and where they make sense, and new public-private or community-based hybrids where they do not. This is particularly true in the social sector where we have not yet even scratched the surface of the innovation potential of social entrepreneurship.

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It is not hard to conceive of ways in which, perhaps in innovative public-private partnerships, the same technology could enable “community platforms” for acts of citizenship of reciprocal support and exchange – a “caring” as well as a “sharing” economy.

Management for new times

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The vision for the future

To be sure, settling a new economic landscape whose contours are only partially visible will be exhilarating for some but a painful and frightening experience for others. But it can be shaped and smoothed by society’s responsible groups, among which, as Drucker always reminded us, management is a leader.

Our vision: a new age of innovation and entrepreneurship that brings to bear the energy, creativity and “wisdom of crowds” in a fresh way to articulate the reality of the new times.

These are not the faceless crowds that we see all too often in history and even in more recent times as being susceptible to manipulation by charismatic leaders, mass media and mass movements but a new type of individualised crowd based on the connected practical wisdom of engaged, motivated and enlightened human beings; open and critical minds that can connect the real and virtual worlds to understand and solve human problems in novel ways; communities of practice that share learning from starting businesses including the painful yet potentially invaluable experience of failing or mastering the transition from small to medium-sized companies.

Entrepreneurship, which is self-determination and thus a keystone of democracy, leads us back to the essence of being human – our ability to conceive ideas and entities never before seen or even dreamed of. No algorithm can achieve this. Human judgement, ownership and responsibility in risk taking are essential.

With digital technology having reduced the barriers to entry by providing readymade infrastructures and support services globally on demand there may not be a better moment in history to democratise entrepreneurship and make it the driving force for democratic capitalism. Thus entrepreneurs, entrepreneurial managers and a new ethos of entrepreneurship may represent our best opportunity to make the difference between secular stagnation and secular prosperity – as such, a true defining moment for the 21st century.

ABOUT THE AUTHOR

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