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Managing Innovation



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Are you an entrepreneur? Are you an innovator? Entrepreneurs/ tip and management “are only two different, dimensions of the same task” according to Peter Drucker. To be a successful entrepreneur, learn how to manage; to be a successful manager, learn how to innovate.

WINNING BY IDEAS

In the knowledge economy, ideas win. Everybody has ideas all the time, but few exploit them to the full. The key is to build continuous innovation into your work. The greater emphasis you place on generating ideas, Drucker argues, the more they will flow. Drucker urges you to encourage entrepreneurial thinking inside your unit or organization to achieve success outside, and more important, you need to be purposefully searching the outside world for entrepreneurial opportunities. Assess your own management of opportunities using the questions and analysis below. Are you:

- Constantly looking outside the business, to the customers and the marketplace?
- Gathering all the market information you can from customers and suppliers? Creatively using the information that comes back from the outside world?
- Watching out for changes that will signal opportunities (as they always do)?
- Organizing the business to take opportunities when they occur?

ANALYSIS

If you answered “Yes” to three or more questions, you are performing well, but you must strive to improve in the weak areas you have identified. If you answered “No” to more than three questions you need to take action now - you are wasting vital opportunities.

ENCOURAGING INNOVATION

If these questions do not seem relevant to you in your current role, remember that, in time, your ability to conceive, sponsor, and execute entrepreneurial initiatives will be decisive. Start practising now. In today’s competitive world, a reputation for enterprising ideas can only benefit your career.

Peter Drucker 1: Innovating for the Present

Forget the many myths about entrepreneurship — and never rule yourself out because you do not fit the traditional image of an innovator. Innovation is not about taking risks or predicting the future – focus rather on the opportunities of the present.

IDENTIFYING THE FUTURE

No-one can predict the future, but you can unlock the secrets of the present, which will be more revealing than any crystal ball. Drucker describes the shape of things to come as “the future that has already happened”. To identify that future, ask those questions in sequence:

WHERE ARE WE NOW?

- What is the current situation of the business?
- How is the situation changing?
- How will the changes affect the business?
- How will the changes affect its competitors?
- How can the changes be turned to advantage?

Understanding the present is relevant even to product innovation. Although people cannot buy something that does not exist, remember Drucker’s advice: “Innovate for the present”. When Edwin Land invented instant photography, he was not anticipating the desires of generations still unborn. He just thought that his contemporaries, like himself, would want to see their photographs immediately. The best of an innovation is that it creates value. So ask:

- If this product or service were available now, would people want it?
- Is the idea better than, and different from, anything currently available?
- If it were on sale, would people pay for it — and pay at a profitable level?

Do not confuse innovation with novelty. Novelty, says Drucker, “only creates amusement”, and will not last into the future.

Peter Drucker 2: Exploiting opportunities

*Do not confuse innovations with new products.
Few processes and methods can be more powerful than new
inventions. Use innovative products and processes to win lasting
competitive advantage.*

DO THINGS DIFFERENTLY

Everything you do as a manager, and every operation you direct, can be improved. Improvements can always be made in small steps, and often in large strides. But equally, your competitors can also improve. To stay ahead, you must keep:

- Challenging every assumption in your own operations... ask:
"What can be done differently and better?"
- Analyzing and improving on your competitors... ask:
"What are they doing differently and better?"

The entrepreneur is always seeking changes and the opportunities that such changes offer. Find creative ways of using change by:

- Looking outside the competition... are there analogies you can draw with other industries to turn into innovative opportunities?
- Studying your own successful changes... where else can you apply these innovations?

THINKING CREATIVELY

The Japanese success in world markets was founded less on product innovation than on innovative productivity and marketing. Creative thinking led to simple, but highly powerful, improvements.

Taiichi Ohno was a production expert at Toyoda (later renamed Toyota), a company making textile machinery. To prevent costly breakdowns, he fitted sensors that were able to detect any irregularities and stop manufacture before the trouble became serious. He then drew an analogy between machines and the employees. Why not let the employees act like the sensors, allowed to stop and start the production line when faults appeared? This simple innovation became the basis of the production system with which the company and its cars led a worldwide manufacturing revolution.

CHANGING THE RULES

Seek ways of doing things so differently that you change the rules of competition to your advantage. Toyota made its cars more quickly and cheaply. Gillette's first safety razors may not have shaved better than its rivals, but selling cheap razors with expensive blades gave the customer a much lower cost per shave. Learn from those examples: establish economic advantage by being radically different.

Look outside to the customer. Analyze what you are supplying or proposing to supply and break it down feature by feature. Judge each attribute by its value in the customer's eyes. Then rank your major competitors in the same way. Compare the results by asking:

- Where do your competitors excel, and where do you excel, on the attributes most valued by customers?
- What can you do to enhance your strengths and exploit your Competitors' weaknesses?

SELECTING OPPORTUNITIES

Such a systematic approach will yield in more opportunities than you can easily handle. Bear in mind Drucker's general principles of innovation to sort out the great ideas from the not so good.

ANALYZE OPPORTUNITIES

- Is the idea simple and focused?
- Is it readily understandable?
- Has it been fully analyzed?
- Can I start with a small, specific project?
- If I go ahead, will the total list of projects still be a manageable size?

MINIMIZING RISK

Drucker does not include taking excessive risks in his warnings, because he associates risk not with unpredictability but with ignorance. The more you know about what you are doing, the less risk you run. You can define risks and seek to limit them, but you are really interested in opportunities. The biggest risk is missing them. Look back on any missed opportunities in your own career. Why did you miss them? Use your past mistakes to learn how to recognize opportunities and embrace change in the future.

EXPLOITING THE UNEXPECTED

At any time things can happen that were neither predicted nor expected. Drucker maintains that unexpected, challenging developments are major sources of opportunities. They provide chances to break the mould. Most people either ignore unexpected successes, failures, or events, or they ignore their significance.

Managers are often expected to do the impossible - make accurate predictions, for example. Every budget and business plan is an exercise in futurology. Drucker insists instead on focusing on what is known and turning that knowledge into future opportunities. Look, for instance, at the sales of one product and ask:

- Why did this unexpected success or failure occur?
- What do those reasons teach me?
- How can I exploit what I have learnt?

ASSESSING OPPORTUNITIES

Selecting the right opportunity is crucial. Drucker recommends four different strategies that can turn opportunities into profitable action. Decide which of these strategies can be applied to your opportunity:

CHOOSE YOUR STRATEGY

- Be the first and strongest with an innovation that, if successful, will guarantee market dominance
- Outflank the entrenched opposition with a novel, powerful platform
- Enter a market area or niche that you can make all your own
- Change the rules by the way you market your product or service

Unless you pursue one of these strategies, or have another, clearly defined and effective strategy of your own, you should not proceed. Your ultimate test is not the amount of entrepreneurial and innovatory zeal you can display, but how successful you are in creating new enterprises and effective advances. As a Japanese sage once taught: "Never let an opportunity pass by, but always think twice before acting".

Peter Drucker 3: Starting New Ventures

A new product or service may be launched either from within an established management system or from a brand-new operation. Either way, see autonomy as a precondition of success.

ACTING INDEPENDENTLY

While independent companies may have no greater entrepreneurial ability, at least they do not have to argue with superiors or put up with interference. They can more readily fulfil their potential.

THE ADVANTAGES OF INDEPENDENCE

- Analyzing all the available opportunities
- Selecting the best opportunity
- Exploiting the chance to create a new, profitable business

In contrast, the in-company venture enjoys the benefits of the company's greater resources and reputation. But, Drucker warns, established business is also "the main obstacle to entrepreneurship".

DEVELOPING NEW VENTURES

Drucker argues that there are five fundamental requirements for the successful management of a new venture:

THE FIVE CRITICAL SUCCESS FACTORS FOR NEW VENTURES

- 1 Focusing on the market
- 2 Planning and re-planning cashflow and capital needs
- 3 Building stronger management systems than you need now
- 4 Deciding clearly on your own personal role
- 5 In an established business, insulating the new venture

Giving autonomy to a new in-company venture may help it operate more like an independent. Whatever the circumstances, take a professional, managed approach to bring about successful innovation.