

# Peter Drucker and Innovation\*

File C5-10

Innovation involves finding a new and better way of doing something. Much of our modern society is based on innovations that have occurred in the past that provide us with the standard of living we enjoy today.

Entrepreneurship and innovation are companion terms. Entrepreneurship involves looking for a new innovation and taking advantage of it.

Peter Drucker was a leading authority on entrepreneurship and innovation. Below Drucker outlines seven sources or places to look for innovative opportunities, along with an outline of five steps to follow to take advantage of an innovative opportunity.

## Drucker's Seven Sources for Innovative Opportunities

Drucker outlines seven sources for innovative opportunities that should be monitored by those interested in starting an entrepreneurial venture. The first four are sources of innovation that lie within the industry. The last three arise in the societal environment.

1. **The unexpected** - An unexpected success, an unexpected failure, or an unexpected outside event can be a symptom of a unique opportunity.
2. **The incongruity** - A discrepancy between reality and what everyone assumes it to be, or between what is and what ought to be, can create an innovative opportunity.
3. **Innovation based on process need** - When a weak link is evident in a particular process, but people work around it instead of doing something about it, an opportunity is available to the person or company willing to supply the "missing link".
4. **Changes in industry or market structure** - The opportunity for an innovative product, service or business approach occurs when the underlying foundation of the industry or market shifts.
5. **Demographics** - Changes in the population's size, age structure, composition, employment, level of education, and income can create innovative opportunities.

6. **Changes in perception, mood, and meaning** - Innovative opportunities can develop when a society's general assumptions, attitudes, and beliefs change.
7. **New knowledge** - Advances in scientific and nonscientific knowledge can create new products and new markets.

If you are looking for a new business opportunity, monitoring these seven sources may provide you with an innovation opportunity.

## Drucker's Five Principles of Innovation

Below are five principles that can help to take advantage of a new innovation when it is discovered.

1. **Begin** with an analysis of the opportunity.
2. **Analyze** the opportunity to see if people will be interested in using the innovation.
3. **To be effective**, the innovation must be simple and clearly focused on a specific need.
4. **Effective innovations start small**. By appealing to a small, limited market, a product or service requires little money and few people to produce and sell it. As the market grows, the company has time to fine-tune its processes and stay ahead of the emerging competition.
5. **Aim at market leadership**. If an innovation does not aim at leadership in the beginning, it is unlikely to be innovative enough to successfully establish itself. Leadership here can mean dominating a small market niche.

\*Reference: Drucker, Peter F. *Innovative and Entrepreneurship, Practice and Principles*. Harper & Row, Publishers, Inc. 1985.

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