
Drucker on Creating an Innovative Culture

Adapted from “Management’s New Paradigms” (*Forbes*, 1998) and *Innovation and Entrepreneurship*

Both by Peter F. Drucker

Every institution must build into its day-to-day management four entrepreneurial activities that run in parallel:

The first is the regular abandonment of products, services, processes and systems that have become obsolete or are clearly headed for obsolescence. By winding down these activities in an organized way, capacity is freed up to envision and tackle what’s next.

Second, any institution must organize for systematic, continuing improvement (what the Japanese call *kaizen*).

Third, the organization has to systematically and continuously exploit its successes—what’s already working. It has to build a different tomorrow on a proven today.

And, finally, the organization has to introduce systematic innovation—that is, to create the different tomorrow that, to a large extent, replaces even the most successful products, services and processes of today.

Identifying innovative opportunity, however, can be a challenge. People see what is presented to them; what is not presented tends to be overlooked. And what is typically presented are “problems.” At the monthly staff meeting, everyone goes to

work on the so-called problems. By the time the meeting adjourns for lunch, the whole morning has been taken up with discussion of those problems.

Of course, problems have to be paid attention to, taken seriously and tackled. But if they are the only things that are being discussed, opportunities will die of neglect. In organizations that want to innovate successfully, special care is taken that the opportunities are also attended to.

In these organizations, the operating report has *two* “first pages”: the traditional ones list the problems; the other lists all the areas in which results and impact are better than expected, budgeted or planned for. The discussion then turns to how to build on this success—a key part of innovation.

Innovative organizations must also generate an innovative spirit throughout its entire management group. One way to do this is to regularly give a platform to those who’ve done exceptionally well as innovators during the past year. Set aside time at the next staff meeting, so that they can answer: What did they do that turned out to be successful? How did they spot the opportunity? And what innovative plans do they now have in hand?”

Organizations that innovate effectively always look for the people and programs that do things better and do things differently than everyone else. They single them out, feature them and constantly ask them: “What are you doing that explains your success? What are you doing that the rest of us aren’t doing, and what are you *not* doing that the rest of us are?”

Finally, the most effective organizations recognize that spotting opportunities for innovation is everyone’s responsibility, no matter their job title or function. To help facilitate this process, a senior manager should regularly sit down with groups up and down the line in a manner that is informal but scheduled and well prepared. The manager opens the session by saying: “I’m not here to make a speech or to tell you anything. I’m here to listen. I want to hear your ideas for us to try to do new things, to develop new programs and better serve our clients. Where do you see opportunities, and where do you see threats?”

The yield of entrepreneurial ideas from all this may not be its most important product—though in many organizations the yield has been consistently high. The most valuable achievement may well be entrepreneurial vision, receptivity to innovation and “greed for new things” throughout the entire organization.