# ENTREPRENEURIAL EXPERT

# PETER F. DRUCKER:
# THE DRUCKER LEGACY ON INNOVATION AND ENTREPRENEURSHIP

**By**

**Richard J. Goossen**

*Entrepreneurship is neither science nor an art.  It is a practice.*

**Peter F. Drucker**
***Innovation and Entrepreneurship*, p. 248**

# Introduction to Peter F. Drucker

| **KEY DATA:** | |
|---|---|
| **Name** | Peter F. Drucker (1909 – 2005) |
| **Title** | Professor Emeritus |
| **Affiliation** | Claremont Graduate School, Claremont, CA (1971 – 2005) |
| **Education** | Doctorate in Public and International Law from Frankfurt University in Frankfurt, Germany; Received over a dozen honorary doctorates from universities in five countries |
| **Experience** | Advised and consulted on basic policies and long-range trends to businesses, public and private institutions, and government agencies in the US and internationally |
| **Notable Publications** | Thirty-nine books, including The End of Economic Man (1939), Innovation and Entrepreneurship (1985), Managing For Results (1964), Management: Tasks, Responsibilities and Practices (1973), and numerous articles in academic publications and the popular press. |
| **Website(s)** | www.peter-drucker.com; www.drucker.cgu.edu; www.druckerarchives.net |

# Biographical Highlights

- His seminal work, *Innovation and Entrepreneurship* (1985), is one of the most important books written on the topic.
- His unmatchable coverage and analysis, citing events from personal experience dating back to the 1930s, has significant span and scope.
- Of his thirty-nine books, fifteen deal with management, including the landmark books *The Practice of Management* and *The Effective Executive*; sixteen cover society, economics, and politics; two are novels; and one is a collection of autobiographical essays. His last book, *Managing in the Next Society*, was published in fall 2002.
- Drucker also served as a regular columnist for *The Wall Street Journal* from 1975 to 1995, and has contributed essays and articles to numerous publications, including the *Harvard Business Review*, *The Atlantic Monthly*, and *The Economist*. Throughout his sixty-five year career, he consulted with dozens of organizations, ranging from the world's largest corporations to entrepreneurial start-ups and various governments.

# A powerful mind

For a man of international renown, Dr. Peter Drucker was surprisingly gracious when I contacted him via fax in April 2005. He communicated his support for my book project and invited me to interview him in his home city—Claremont, California—during the month of June. The day before my departure, however, Dr. Drucker's wife, Doris, phoned to let me know that Dr. Drucker had fallen ill. Though Dr. Drucker indicated that he hoped to answer my questions in writing, his inability to follow through on the interview was understandable. Sadly, he passed away only a few months later, on November 11, 2005.

Jim Collins mentions in his Foreword to *The Daily Drucker* that Dr. Drucker warmly welcomed him into his home.[1] In a similar manner, I was astounded to receive a typed letter, signed by Dr. Drucker, in response to my request for an interview. This was doubly appreciated, as I had read of business journalists attempting to contact him and receiving only a standard-form letter in reply, declining their entreaties.[2] Dr. Drucker's efforts to make contact with me indicated his interest in this project, and reiterated his commitment to helping others in the study of entrepreneurial excellence—right up to the time of his death. Indeed, his legacy leaves a strong presence in the field of entrepreneurship, and must be taken into account.

Although circumstances prevented him from contributing to this chapter, I have summarized some of his central thoughts, however briefly, and received valuable feedback from Prof. Joseph Maciariello, Drucker's colleague and recent collaborator on *The Daily Drucker* and *The Effective Executive in Action*.[3] Karl H. Vesper, an long-time personal acquaintance of Drucker's (featured in Chapter 12), and a man of whom Drucker spoke highly in his book *Innovation and Entrepreneurship,*[4] also provided me with some delightful anecdotes. I offer this chapter in the spirit of a "festschrift," in honor of Dr. Drucker's contribution to the field.

Entrepreneurship experts frequently cite Drucker's *Innovation and Entrepreneurship* as a leading work in the field. It offers a fresh and unique perspective, and rings true even twenty years after its original publication date. Thus, I would argue that Drucker is not only "the father of modern management," as many say, but also the father of systematic innovation and entrepreneurship.

With profound respect, Vesper reflects: "The power of [Drucker's] mind was almost unimaginable to me, and I have met some very smart people, such as the father of the H-Bomb and the inventor of the transistor."[5] Drucker's intellect was matched by a strong sense of wit. Vesper asked Drucker in Spring 2005 for words of advice that Vesper could pass along to young faculty interested in entrepreneurship at the 2005 Academy of Management meeting in Honolulu. Drucker responded wryly, "If I ever had anything to say on this subject, I have already said it… IF."[6]

Vesper also recalls Drucker's speech at the Academy of Management meetings in San Diego in 2000. Drucker was ninety at the time. He was up on stage using a PowerPoint presentation and addressing a large auditorium filled with management professors. When he finished his presentation, he took questions from the audience, submitted on small index cards.

Vesper recounts, "Then there was a final question: 'Professor Drucker, US business schools this year will graduate 65,000 MBAs. Would you please comment?' Drucker leaned forward, squinted out at the enormous auditorium filled with management professors, and asked, 'Is it possible to buy stock in this organization?' The audience enthusiastically clapped as he leaned back. When the room was quiet, he leaned forward again and said, 'Well at least they are not going to be lawyers!' This time the audience stood up and cheered."[7]

Odd as it may seem, Drucker was underrated—at least, with respect to his contributions to entrepreneurship. His enormous influence in the field of management gave him wisdom about the nature of innovation and entrepreneurship. Perhaps that is why his book *Innovation and Entrepreneurship* is one of the few truly seminal works in the field. It analyzes the nature of the entrepreneurial process, and provides a philosophical understanding; comparatively, most other books are survey types, providing an overview of the mechanics of the process.

I read *Innovation and Entrepreneurship* shortly after it was published in 1985. Then I reread it in preparation for writing this chapter. The prescient nature of many of his comments is striking. To this day, I cannot think of another book that presents such valuable descriptions of the role of innovation in the process of entrepreneurship.

## 2.1 The practice of innovation

> Innovation is the specific instrument of entrepreneurship, the act that endows resources with a new capacity to create wealth. There are seven key sources of innovative opportunity: four within the business, and three due to changes outside the business.

Drucker's definition of entrepreneurship has a specific focus: innovation. Thus, he distinguishes between entrepreneurial businesses, which involve innovation, and other small businesses, which do not. For example, a person who develops and markets a new product is an entrepreneur, whereas the typical corner grocer is not. Likewise, a restaurant franchisee may not be an entrepreneur, while an independent restaurant owner may be.

In other words, entrepreneurs focus on innovation, and innovation is rooted in creating change and endowing existing resources with new wealth. Entrepreneurs view change as the source of opportunity in the marketplace—they embrace change, rather than avoid it. In addition, such thinking is the norm for entrepreneurs; for others, it is an aberration. Drucker writes that an entrepreneur continually "searches for change, responds to it, and exploits it as an opportunity."[8] This means doing something different, which is the realm of innovation, rather than simply excelling at something that is already being done. The latter may be profitable, but falls into the realm of increased productivity through operational improvements.

Furthermore, according to Drucker, entrepreneurs learn to practice systematic innovation through identifying and pursuing opportunities; this is the process of entrepreneurship. Change creates an opportunity for the entrepreneur to generate personal wealth and, indirectly, provide value to the overall economy. Drucker remarks, "Innovation is the specific instrument of entrepreneurship. It is the act that endows resources with a new capacity to create wealth.

Innovation, indeed, creates a resource."[9] The created resource—as this is not a zero-sum game—provides value in the marketplace by deploying unproductive resources for more productive purposes.

Drucker affirms that, since entrepreneurship is not a mere personality trait, individuals can learn the innovation process. Obviously, increasing one's ability to innovate does not guarantee financial success, but it will provide more opportunities for consideration. Drucker posits, "Systematic innovation therefore consists in the purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer for economic and social innovation."[10] Rather than presenting a broad definition that defies meaningful analysis, Drucker's explanation demystifies the process of entrepreneurship. As well, his specific focus provides a clear starting point for developing one's own entrepreneurship practice.

Drucker identifies seven sources of innovative opportunity. Four sources lie within a business, and the other three are due to changes outside the enterprise or industry. The first source is the "unexpected" occurrence: the unexpected success, the unexpected failure, or the unexpected outside event. Drucker recounts the well-known tale of Ray Kroc—not the founder of McDonald's Restaurants, but the person who built the company into the colossus that it is today, with its globally-recognizable Golden Arches and its famous cast of cartoon characters. Ray Kroc was selling milkshake machines to small-scale restaurants when he noticed that one of his customers, the McDonald Brothers Restaurant, bought an unusually large number of the appliances. This unexpected event led him to discover that the restaurant had an overwhelming amount of customers due to its streamlined menu, low prices, and fast service. In response, he eventually bought out the brothers and built his burger empire.

According to Drucker, a second source of innovative opportunity may be an "incongruity" between reality as it *actually is* and reality as it is *assumed to be,* or *should be*.[11] In the mid-1980s, when Drucker wrote *Innovation and Entrepreneurship*, O.M. Scott & Co. was the leader among US producers of lawn-care products (grass seed, fertilizer and pesticides). It then became a subsidiary of a larger corporation called ITT.[12] Basically, the company became a leader in the industry because of a simple mechanical gadget called a "spreader," a small, lightweight wheelbarrow with holes that allowed the proper quantities of Scott's products to pass through in an even flow. Prior to the Scott Spreader, no supplier of lawn-care products gave the customer a tool to control the process.[13] Yet without such a tool, there was a total incongruity in the logic of the process; there was no way to control the amount of fertilizer dispensed.[14]

A third source of innovation within the enterprise is innovation based on a process need, a restatement of the cliché that 'necessity is the mother of invention.' As an example, Drucker cites the development of photography. In the 1870s, photographic processes required heavy and fragile glass plates, which had to be lugged around and treated with great care. The plates themselves required an equally heavy camera, and a long preparation time before one could take a picture.[15] In the 1880s, George Eastman, the founder of Kodak, replaced the heavy glass plates with cellulose film of negligible weight, and designed a lightweight camera around the film. Within 10 years, Kodak was the world leader in photography.[16] Interestingly, at the turn of this century, the postlude of continuing technological developments in photography—namely, the invention and popularity of digital photography—has created serious challenges for film companies such as Kodak. No less than in the late 1800s, the companies that recognized change, and thus capitalized on opportunity, now claim leadership in the field today.

Drucker's fourth, and final, source of innovative opportunity within the enterprise is changes in industry structure or market structure that catch most people unaware.[17] Drucker mentions differentiation within the car industry, where brand names for vehicles strategically carve out niches in the market. A vehicle has long ceased to be merely a means of transportation; now it is a status symbol, and a reflection of one's personality. The phrase 'You are what you drive,' despite its facileness, is the mantra for many consumers. For example, a Rolls Royce automobile, the world's most expensive car, is fit for royalty—and others who can afford to spend royally. A BMW sports car is attractive to the up-and-coming executives, and the Mercedes-Benz sedan is respectable and reliable luxury on wheels.

As the market changes, due to fluctuating preferences and buying power, new niches arise. One can look back to the mass arrival of Japanese cars in America in the 1980s, when consumers turned their back on poorly-built, fuel-inefficient American cars, and emptied their wallets for reliable, well-built Japanese models. This shift in the market caught most of Detroit unaware, as did the more recent shift to hybrid vehicles (which happened first in the United States when Toyota introduced the Prius).

In addition to these four sources of innovative opportunity within a business, Drucker makes note of three changes outside the enterprise that create sources of innovative opportunity. The first is shifting demographic trends—including changes in population size, composition, employment, educational status, and income. Popular age-defining terms are 'Baby Boomers,' 'Baby Busters,' and 'Generation X,' designations that connote various opportunities as these groups move through their life cycles. Drucker explains that the success of Club Med in the travel and resort business stems from their capitalization on "demographic changes," specifically the growing number of wealthy and well-educated young people with working-class family backgrounds.[18] Club Med tapped into this opportunity, recognizing that the individuals in their demographic focus are "ready-made customers for a new and 'exotic' version of the old teenage hangout."[19] Club Med continues to exploit demographic trends, having recently diversified locations for singles, couples, and families.

Another source of innovation opportunity is a change in perception, mood, and meaning. Drucker recounts how people previously ate based on income and class; thus, ordinary people "ate" and the rich "dined."[20] Today's trend has been towards "feeding," however, which is simply a matter of getting edible food in the fastest and simplest manner possible. Customer satisfaction depends on speed of delivery rather than quality of product. How many people will patiently wait in a McDonald's line-up for more than a minute? Very few, indeed. Successful food service companies have been those who understood and exploited this attitude.

The third source of innovation opportunity outside the enterprise is the "superstar" of entrepreneurship: new knowledge, both scientific and non-scientific.[21] Drucker describes the features of this source: first, it has the longest lead time of all innovations. Specifically, scientific discoveries, such as those in biotechnology and pharmaceuticals, require regulatory approvals that involve a tedious completion process. Secondly, new knowledge is usually based on several pieces of prior knowledge converging, not all of which are technological or scientific. As well, not all of the knowledge necessary for innovation is available. Therefore, one must conduct a careful analysis of all the factors required to perfect the product. Following that process, a company must develop this new knowledge for commercialization, and that company must identify its strategic position in relation to its competitors. Finally, in order to successfully execute the commercialization, the company must aim for dominance—because the innovation based on new knowledge will probably have plenty of competition. The innovator must get it right the first time.

To summarize, Drucker highlights seven sources of innovative opportunity: four within the enterprise, and the remaining three outside the enterprise. His discussion of these opportunities reflects a systematic and purposeful approach to identifying, understanding, and applying the heart of entrepreneurship, which is innovation.

## 2.2 The principles of innovation

Five “do’s” and three “don’ts” act as principles for the successful pursuit of innovation.

The sub-heading of *Innovation and Entrepreneurship* is “Practice and Principles.” We have reviewed the practices, and now we will examine the principles—namely, we will determine how to follow through with being an innovative enterprise. Drucker reviews the “dos,” the “don’ts,” and three conditions.

Drucker identifies five “do’s.” First, he tells people to analyze the seven sources of innovative opportunities discussed in the prior section.[22] Second, he points out that innovation involves both concepts and perceptions.[23] In other words, look at numbers and talk to people. Get consumer feedback; test out an idea in practice. Third, he believes successful innovations are “simple” and “focused.”[24] A wedge into a marketplace cannot be too complex.

Fourth, one must start small. Drucker remarks that innovation “may be as elementary as putting the same number of matches into a matchbox”—which, for the Swedish innovators who did so, opened the door to filling matchboxes automatically. Thus, this simple idea gave its Swedish inventors dominance in the match-making industry for almost fifty years.[25] Lastly, a successful innovator aims for leadership, in order to establish a niche in the marketplace. Put together, these five “do’s” provide one dimension of the principles of innovation.

The other dimension of the principles of innovation is the “don’ts.” Drucker lists three. First, don’t try to be clever. In other words, the innovation should not test the extent of a person’s unbridled ingenuity, but should rather tailor something to the needs of the market.

Drucker's succinct comment: "Innovations have to be handled by ordinary human beings"; moreover, Drucker asserts that, if the innovations become popular, they will be handled "by morons and near-morons."[26] (One need only think of many technological gadgets, from cell-phones to "handy-cam" video recorders: ironically, most consumers fail to use up to ninety percent of these devices' functions.)

Next, don't diffuse efforts by trying to do too many things at once. One successful innovation is a good start; don't burden yourself at the outset. Lastly, don't innovate for the future. Innovate for the here-and-now, what people need at this moment. Drucker offers Edison's story as a great historical example. While other entrepreneurs were working on "the light bulb of the future," Edison set his attention on making a "light bulb of the present." He understood where and how the technology was available, and he practically exploited resources to meet the demands of the time.[27]

In addition to the five "do's" and the three "don'ts," Drucker highlights some conditions for the principles of innovation. To begin with, he acknowledges that innovation is laborious, and that retrospective explanations of an individual's successful innovation will often minimize the degree of effort involved. Indeed, there is still no known substitute for hard work. Also, innovators need to build on their strengths—otherwise a successful breakthrough will be difficult. There is very little innovation among dilettantes. And finally, since innovation creates a change in the way people think, act, and accomplish tasks, challenges will surface along the way. Others may prefer to be spectators rather than participants, but entrepreneurs must embrace change easily.

## 2.3 Entrepreneurial management

Entrepreneurial management is not natural, creative or spontaneous, but instead is based on a systematic, thoughtful approach of supportive policies and practices.

Drucker believes there has been a shift from a "managerial" to an "entrepreneurial" economy in the US, evidenced by job creation among small businesses and by the increasing popularity of self-employment. (From the time of Drucker's writing to the present date, the number of jobs created by small businesses in the US has continued to expand.) What these small enterprises have in common is transferable entrepreneurial skills.

Drucker refers to entrepreneurial management as a "new technology."[28] Moreover, he believes this technology of management fosters a significant social shift in "attitudes, values, and above all, behavior"—and thus creates the "entrepreneurial economy" environment in North America.[29] In essence, Drucker seeks to provide a systematic approach to entrepreneurship, rooted in practice. As a result, the starting point for successfully launching a new venture is the development of the principles, practice, and discipline of entrepreneurial skills.

Drucker proposes a set of principles that apply in a variety of circumstances. He also writes that a specific guide to the practice of entrepreneurship should be developed for different types of organizations: namely the existing business, the public-service organization, and the new venture. Drucker again stresses the potential for a systematic, thoughtful approach in the context of this discussion—despite the fact that entrepreneurship is typically viewed as spontaneous, fluid and even chaotic. He states, "Where the conventional wisdom goes wrong is in its assumption that entrepreneurship and innovation are natural, creative, or spontaneous."[30]

Of course, Drucker begs to differ with this "conventional wisdom": in his view, entrepreneurship is not merely "natural" or "creative." Rather, he believes it is "work."[31] He likely offers this perspective as an antidote to the perception that people who concoct bright, innovative ideas are gifted with unusual creative genius—a popular idea that is simply not the case.

Effective entrepreneurial management requires strategic development in four major areas. First, an organization must strive to create an entrepreneurial climate. The organization must become receptive to innovation, willing to perceive change as an opportunity and not a threat. Such openness does not happen by itself; rather, the entrepreneurial manager must implement policies and practices to foster this climate. Present examples are 3M of Minnesota and Proctor & Gamble of Ohio, two companies famous for their innovative policies and for procedures that spawned an unprecedented stream of new products.

Second, an entrepreneur must systematically measure, or at least appraise, a company's performance. Unless he or she uses some form of evaluation based on measurable criteria, success is indeterminate, and strategic planning is undermined. Third, he or she must carry out specific practices pertaining to organizational structure, staffing and managing, and compensation and rewards. The entrepreneurial climate must flourish in tangible ways throughout the organization. Lastly, entrepreneurial management involves certain "don'ts," as we will discuss later.

An entrepreneurial culture will be promoted through policies rooted in the pursuit of opportunity. As an entrepreneur, one must make innovation attractive to managers, whether through financial or other incentives. Without the committed effort of managers, an entrepreneur's drive for innovation will not get past the planning session.

To get management on board, Drucker believes businesses must instill an attitude that they are "greedy for new things."[32] In other words, change must be a desirable norm; a company must embrace "the pursuit of new things" as its operating mantra. As well, the company must suggest criteria for innovative endeavors: how much innovation? In what areas? Within what time frame?

Businesses could also incorporate a policy of systematic abandonment: if something isn't working, encourage your company to allocate resources elsewhere. Keep in mind that unless you clarify the goals of innovation, the company will likely not achieve them. Merely hoping for a spontaneous bout of creative change is futile and fanciful. Instead, the company needs to have a clear plan, with objectives and timelines, to facilitate effective planning.

Entrepreneurial practices complement the above policies. Managerial vision must be focused on opportunity; the managers must spend sufficient time strategizing about company prospects. Furthermore, the same entrepreneurial spirit must exist throughout the ranks of the company. One may achieve this by organizing company planning sessions, during which members throughout the organization communicate innovative ideas. Another policy is for top management in an organization to meet with junior management in different departments and solicit ideas for improvement. Still another is to provide incentives by offering large rewards to successful innovators.

Drucker also lists some "don'ts" with respect to entrepreneurial practices. Namely, don't mix managerial units with entrepreneurial ones.[33] This would be a culture clash between those who are gathering resources to pursue new and untested ideas and those who are charged with managing existing resources. As well, don't try to be innovative by taking an existing business out of its own field.[34] Uprooting a business dilutes expertise and business know-how, and makes the business likely to falter. Finally, don't try to make your business entrepreneurial by buying a small entrepreneurial venture.[35] Mergers and acquisitions often don't work well, due mostly to the resulting conflicts between company subcultures. Moreover, the larger, organizational culture would simply subsume the acquired entrepreneurial venture. In addition, the leaders of the entrepreneurial venture would be prone to leave the stifling environment of a large, stagnant company.

## 2.4 Entrepreneurial strategies

There are four key entrepreneurial strategies. Three intend to introduce an innovation—"fustest with the mostest," "hit them where they ain't," and "ecological niches"—and the fourth is innovation itself.

In *Innovation and Entrepreneurship* Drucker highlights four entrepreneurial strategies. For the first strategy, he cites a Confederate cavalry general during the American Civil War who explained that he was able to consistently win his battles by taking initiative with concentrated force and energy—being "fustest with the mostest." Drucker then mentions a similar strategy for entrepreneurs, who must seek "leadership, if not dominance, of a new market."[36] This high risk and high return strategy usually fails, because a firm allocates so many resources to the undertaking.

Drucker explains that the weakness of this strategy is its demand on time, energy, and resources. Other strategies are often better to employ, because in a majority of cases, "the opportunity is not great enough to justify the cost, the effort, and the investment of resources required for the 'Fustest with the Mostest' strategy."[37]

As a successful example of the strategy, however, Drucker describes the origins of the Mayo Clinic. Two Mayo brothers, surgeons in Rochester, MN, decided to establish a medical center based on totally new concepts of medical practice, especially on building teams of outstanding specialists who would work together under the guidance of a co-coordinating team leader. Because they were innovators in the field of medicine, focused on building a leading clinic, they were able to assemble outstanding practitioners in every branch of medicine. They were also able to attract patients who could pay significant fees.[38] In their case, “fustest with the mostest” was a worthwhile approach.

Drucker calls the second entrepreneurial strategy “hit them where they ain’t,” a phrase also derived from the advice of a Confederate general. This expression embodies two different lines of attack: creative imitation and entrepreneurial Judo. Drucker describes creative imitation as a process of refining someone else’s new innovation. While one company may have invented a product or technology, that company may not be using the invention to its full potential.[39] For example, Drucker cites the early battle between Apple and IBM in the field of personal computers. The idea for a personal computer belonged to Apple; IBM believed that a small, freestanding computer was a mistake—uneconomical and expensive. When Apple succeeded, however, IBM began designing a similar (and slightly improved) machine. The result was the PC—a model that took leadership from Apple and became the fastest-selling brand within two years.[40] This strategy carries less risk than ‘Fustest with the Mostest,’ because someone else has already identified the market and established the demand. But, with less risk comes potentially fewer benefits, as the current leader may be difficult to dislodge.

The other tactic involved in “hit them where they ain’t” is “entrepreneurial Judo.” Judo, as with most Asian martial arts, focuses on turning an opponent’s energy and momentum against him or her. Drucker uses the reference to Judo in particular because it is Japanese in origin, and the Japanese, from the 1940s on, have achieved success by attacking the strengths of their American competitors. Japanese companies, such as Sony, have been able to dominate the electronics market in the US with products such as transistor radios, television sets, and digital watches. Also, Japanese auto manufacturers Toyota and Honda challenged the monopoly of the “Big Three” auto manufacturers (GM, Ford and Chrysler) in 2005 and following: for the first time in history, the Big Three claimed less than fifty percent of the domestic market share for new vehicles sold in the US. Toyota, for example, exercised entrepreneurial Judo by excelling at an area the Big Three had not yet considered—the production of hybrid cars. Entrepreneurial Judo, as Toyota's example demonstrates, is a relatively low-risk strategy with a high success rate.

Overconfident companies have five bad habits that allow competitor firms to use entrepreneurial Judo. One bad habit is the "not invented here" arrogance,[41] most common among companies within a country. Large high-tech firms are sometimes skeptical of innovations arising from small companies, believing that, with their vastly superior resources, a minor competitor's invention cannot pose a serious threat. The large company may assume, 'If it were that good, we would have thought of it.'

A second bad habit is the tendency to cream a market and stick with a high-profit segment. Other areas of the market are probably still profitable, but the company turns a blind eye to them. For example, a large brewery may focus on developing a nation-wide market for its beer as a ubiquitous part of every sporting event. This may be a profitable business, but in the meantime, micro-breweries have sprung up, offering a local, customized beer for a niche market. International breweries have now recognized the niche by setting up their own micro-breweries to 'tap' this market.

Third, a company may mistakenly focus on quality—based on the effort and expense of creating the product—rather than considering the consumer's perception of a product's value, which often emphasizes special "features."[42] Another bad habit for a company is the "premium price" delusion, an open door for competitors to offer better prices for the same product. And yet another bad habit is when companies attempt to maximize rather than optimize: as the market grows, they try to satisfy every segment instead of focusing on their most profitable niches.[43] In short, these weaknesses are a perfect invitation for entrepreneurial Judo; what companies see as their strengths actually become their weaknesses, simply because they are playing into the hand of their opponents.

The third entrepreneurial strategy is a search for “ecological niches,” aiming at obtaining a practical monopoly in a small area.[44] According to Drucker, there are three distinct “niche” tactics: the toll gate strategy, the specialty skill strategy, and the specialty market strategy. With respect to the toll gate strategy, Drucker provides the example of the Alcon Company, which developed an enzyme to eliminate an illogical feature of the standard surgical operation for senile cataracts.[45] Once the company had developed and patented this enzyme, they had a toll gate on the process. All surgeons, of course, would now need to use a teaspoonful of the enzyme for each cataract operation. As well, the enzyme’s cost was insignificant in relation to the cost of the total operation. Furthermore, because the total worldwide market for the product was a projected fifty million dollars, it was not large enough to attraction attention from competitors. Alcon successfully found an untapped place in the market. While the technology has changed since Drucker’s discussion of Alcon, the example shows the potential of securing a practical monopoly.

A second ecological niche is the specialty skill strategy. A common example is the automobile industry, where brand names such as Ford, Mercedes, BMW, etc, are well known, but parts suppliers are not. Drucker refers to the company A.O. Smith, of Milwaukee, which for decades has been making every single frame used in an American passenger car. Another firm, Bendix, used to make every single set of automotive brakes for the American car industry.

The third ecological niche is the specialty market strategy. While the specialty skill strategy is built around a specific product or service, the latter is focused around the specialized knowledge of a market. For example, Drucker lists two medium-sized European companies that supply the great majority of automated baking ovens for cookies and crackers. The strength of these two companies is their knowledge of a very specialized market: they know every single baker, and every single baker knows them.

While the first three entrepreneurial strategies introduce an innovation, the fourth strategy is innovation itself. Innovation can transform a long-established product or service into something new. There are four dimensions to this approach. The primary dimension, customer utility, is reflected in the origins of the postal service. People generally credit Rowland Hill of England with having invented the postal service in 1836. He didn't; after all, the Romans had a postal service centuries earlier. However, Hill did create "mail" by devising the system whereby postal carriers could transport letters and packages for a fixed, prepaid fee (indicated by a stamp). His innovation allowed an impractical and disorganized service to vastly expand and improve its modes of operation.

Second, there is innovation with respect to pricing. King Gillette did not invent the razor, but because of his shrewd pricing strategy, he dominated the market by the late 1800s. Gillette practically gave away the razor, selling it at one-fifth of its manufacturing cost; but, his design could only be used with its patented blades, which he sold at five times their manufacturing cost.

A third strategy is adaptation to the customer's social and economic reality. General Electric established world leadership in the sale of large steam turbines: when GE discovered that its clients, electrical companies, did not have the skill to install and maintain the turbines, GE set up a massive consulting organization. The company also generated profits by selling high-priced replacement blades to customers. By carefully analyzing the customers' needs, GE was able to amplify the scope of its services.

The last innovative strategy is to deliver value to the customer. Herman Miller, for example, moved from manufacturing furniture to designing whole offices, and then he went on to establish a Facilities Management Institute, which advises companies on layout and design ideas that increase worker productivity. Herman Miller's pursuit of innovation was determined by his customers' needs.

## Drucker’s key points

2.1 – Innovation is the specific instrument of entrepreneurship, the act that endows resources with a new capacity to create wealth. There are seven key sources of innovative opportunity: four within the business, and three due to changes outside the business.

2.2 – Five “do’s” and three “don’ts” act as principles for the successful pursuit of innovation.

2.3 – Entrepreneurial management is not natural, creative or spontaneous, but instead is based on a systematic, thoughtful approach of supportive policies and practices.

2.4 – There are four key entrepreneurial strategies. Three intend to introduce an innovation—“fustest with the mostest,” “hit them where they ain’t,” and “ecological niches”—and the fourth is innovation itself.

# Endnotes

[1] Maciariello.
[2] Crainer, 50.
[3] Numerous telephone conversations and email communications with Joseph Maciariello from May to September, 2005, and a review of this chapter in June 2007. At the same time, I take full responsibility for the shortcomings and limitations of this brief summary of Prof. Drucker's insights on innovation and entrepreneurship.
[4] Karl H. Vesper, Interview #1.
[5] Ibid.
[6] Ibid.
[7] Ibid.
[8] Drucker, *Innovation and entrepreneurship*, 277-8.
[9] Ibid., 280.
[10] Ibid., 285.
[11] Ibid.
[12] Ibid., 317.
[13] Ibid.
[14] Ibid., 318.
[15] Ibid., 321.
[16] Ibid., 322.
[17] Ibid., 285.
[18] Ibid., 345.
[19] Ibid.
[20] Ibid., 350.
[21] Ibid., 357.
[22] Ibid., 384.
[23] Ibid.
[24] Ibid.
[25] Ibid., 386.
[26] Ibid.
[27] Ibid., 387. See Stross, Randall E. The Wizard of Menlo Park: How Thomas Alva Edison Invented the Modern World (2007) for a recent and comprehensive biography of Edison.
[28] Ibid., 261.
[29] Ibid., 264.
[30] Ibid., 400.
[31] Ibid.
[32] Ibid., 402.
[33] Ibid., 424.
[34] Ibid., 425.
[35] Ibid.
[36] Ibid., 460.
[37] Ibid., 469.
[38] Ibid., 462.
[39] Ibid., 471.

[40] Ibid.
[41] Ibid., 477.
[42] Ibid., 478.
[43] Ibid., 479.
[44] Ibid., 483.
[45] Ibid.