BOOK SUMMARY:

INNOVATION AND ENTREPRENEURSHIP

PETER F. DRUCKER

VOL 11

"ANTHONY ROBBINS' POWER TALK"

Strategies for Lifelong Success

YOUR POWERTALK! ASSIGNMENT FOR THIS MONTH

1. In your journal, write down all the metaphors you use to represent your answer to the question, "What is life?" Next to each metaphor, write down what it means to you, and its positive or negative consequences.
2. Repeat Step 1 in response to the questions, "What is a relationship?" and "What is marriage?"
3. Repeat Step 1 for another important area of your life (e.g., your business, your family, your ability to learn, etc.).
4. For each of the above areas, write down some new metaphors you haven't thought of before, and decide to *live* them for the next 30 days.

INNOVATION AND ENTREPRENEURSHIP

PRACTICE AND PRINCIPLES

by Peter F. Drucker

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PREFACE

This book presents innovation and entrepreneurship as a practice and a discipline. It does not talk of the psychology and the character traits of entrepreneurs; it talks of their actions and behavior. This is a practical book, but it is not a "how-to" book. Instead, it deals with the what, when and why; with such tangibles as policies and decisions; opportunities and risks; structures and strategies; staffing, compensation, and rewards.

Innovation and entrepreneurship are discussed under three main headings: The Practice of Innovation; The Practice of Entrepreneurship; and Entrepreneurial Strategies. Each of these is an "aspect" of innovation and entrepreneurship rather than a stage.

Only in the last few years have writers on management begun to pay much attention to innovation and entrepreneurship. I have been discussing aspects of both in all my management books for decades. Yet this is the first work that attempts to present the subject in its entirety and in systematic form. This is surely a first book on a major topic rather than the last word—but I do hope it will be accepted as a seminal work.

INTRODUCTION: THE ENTREPRENEURIAL ECONOMY

Since the mid-seventies, such slogans as "the no-growth economy," the "deindustrialization of America," and a long-term "Kondratieff stagnation of the economy" have become popular and are invoked as if axioms. Yet the facts and figures belie every one of these slogans. What is happening in the United States is something quite different: a profound shift from a "managerial" to an "entrepreneurial" economy.

According to *The Economist*, 600,000 new businesses are being started in the United States every year now—about seven times as many as were started in each of the boom years of the fifties and sixties.

Something, surely, has happened to young Americans—and to fairly large numbers of them—to their attitudes, their values, their ambitions, in the last 20 to 25 years. Only it is clearly not what anyone looking at the young Americans of the late 1960s could possibly have predicted. How do

we explain, for instance, that all of a sudden there are such large numbers of people willing both to work like demons for long years and to choose grave risks rather than big organization security? Where are the hedonists, the status seekers, the "me-too-ers," the conformists?

Surely the emergence of the entrepreneurial economy is as much a cultural and psychological as it is an economic or technological event. Yet whatever the causes, the effects are above all economic ones.

And the vehicle of this profound change in attitudes, values, and above all in behavior is a "technology." It is called management. What has made possible the emergence of the entrepreneurial economy in America is new applications of management:

—to new enterprises, whether businesses or not, whereas most people until now have considered management applicable to existing enterprises only;
—to small enterprises, whereas most people were absolutely sure only a few years ago that management was for the "big boys" only;
—to nonbusinesses (health care, education, and so on), whereas most people still hear "business" when they encounter the word "management";
—to activities that were simply not considered to be "enterprises" at all, such as local restaurants;
—and above all, to systematic innovation: to the search for and the exploitation of new opportunities for satisfying human wants and human needs.

All told we are learning that management may well both be more needed and have greater impact on the small entrepreneurial organization than it has in the big "managed" one. Above all, management, we are learning now, has as much to contribute to the new, the entrepreneurial enterprise, as to the existing, ongoing, "managerial" one.

Management is the new technology (rather than any specific new science or invention) that is making the American economy into an entrepreneurial economy. It is also about to make America into an entrepreneurial *society.* This means the time has now come to do for entrepreneurship and innovation what we first did for management in general some 30 years ago: to develop the principles, the practice, and the discipline.

I. THE PRACTICE OF INNOVATION

SYSTEMATIC ENTREPRENEURSHIP

Every practice rests on theory, even if the practitioners themselves are unaware of it. Entrepreneurship rests on a theory of economy and society. The theory sees change as normal and indeed as healthy. And it sees the major task in society—and especially in the economy—as doing something different rather than doing better what is already being done. This is basically what [French Economist J. B.] Say, two hundred years ago, meant when he coined the term *entrepreneur.* It was intended as a manifesto and as a declaration of dissent: the entrepreneur upsets and disorganizes. As Joseph Schumpeter formulated it, his task is "creative destruction."

Entrepreneurs see change as the norm and as healthy. Usually, they do not bring about the change themselves. But—and this defines entrepreneur and entrepreneurship—*the entrepreneur always searches for change, responds to it, and exploits it as an opportunity.*

Entrepreneurship, it is commonly believed, is enormously risky. And indeed, in such highly visible areas of innovation as high tech—microcomputers, for instance, or biogenetics—the casualty rate is high and the chances of success or even of survival seem to be quite low.

Entrepreneurship is "risky" mainly because so few of the so-called entrepreneurs know what they are doing. They lack the methodology. They violate elementary and well-known rules. This is particularly true of high-tech entrepreneurs. But even high-tech entrepreneurship need not be "high-risk." . . . It does need, however, to be systematic. It needs to be managed. Above all, it needs to be based on *purposeful innovation.*

PURPOSEFUL INNOVATION AND THE SEVEN SOURCES FOR INNOVATIVE OPPORTUNITY

Successful entrepreneurs, whatever their individual motivation—be it money, power, curiosity, or the desire for fame and recognition—try to create value and to make a contribution. Still, successful entrepreneurs aim high. They are not content simply to improve on what already exists, or to modify it. They try to create new and different values and new and different satisfactions, to convert a "material" into a "resource," or to combine existing resources in a new and more productive configuration.

And it is change that always provides the opportunity for the new and different. *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 or social innovation.*

As a rule, these are changes that have already occurred or are under way. The overwhelming majority of successful innovations *exploit* change.

Specifically, systematic innovation means monitoring *seven sources* for innovative opportunity. The first four sources lie within the enterprise, whether business or public-service institution, or within an industry or service sector. They are therefore visible primarily to people within that industry or service sector. They are basically symptoms. But they are highly reliable indicators of changes that have already happened or can be made to happen with little effort. These four source areas are:

- *The unexpected*—the unexpected success, the unexpected failure, the unexpected outside event;
- *The incongruity*—between reality as it actually is and reality as it is assumed to be or as it "ought to be";
- *Innovation based on process need;*
- *Changes in industry structure or market structure* that catch everyone unawares.

The second set of sources for innovative opportunity, a set of three, involves changes outside the enterprise or industry:

- *Demographics* (population changes);
- *Changes in perception, mood, and meaning;*
- *New knowledge,* both scientific and nonscientific.

The lines between these seven source areas of innovative opportunities are blurred, and there is considerable overlap between them. They can be likened to seven windows, each on a different side of the same building. Each window shows some features that can also be seen from the window on either side of it. But the view from the center of each is distinct and different.

The seven sources require separate analysis, for each has its own distinct

characteristic. No area is, however, inherently more important or more productive than the other.

They are listed in descending order of reliability and predictability. For, contrary to almost universal belief, new knowledge—and especially new scientific knowledge—is not the most reliable or most predictable source of successful innovations. For all the visibility, glamour, and importance of science-based innovation, it is actually the least reliable and least predictable one. Conversely, the mundane and unglamourous analysis of such symptoms of underlying changes as the unexpected success or the unexpected failure carry fairly low risk and uncertainty. And the innovations arising therefrom have, typically, the shortest lead time between the start of a venture and its measurable results, whether success or failure.

THE BRIGHT IDEA

Innovations based on a bright idea probably outnumber all other categories taken together. Seven or eight out of every ten patents belong here, for example. A very large proportion of the new businesses that are described in the books on entrepreneurs and entrepreneurship are built around "bright ideas": the zipper, the ballpoint pen, the aerosol spray can, the tab to open soft drink or beer cans, and many more. And what is called research in many businesses aims at finding and exploiting bright ideas, whether for a new flavor in breakfast cereals or soft drinks, for a better running shoe, or for yet one more nonscorching clothes iron. Yet bright ideas are the riskiest and least successful source of innovative opportunities. The casualty rate is enormous. The entrepreneur is therefore well-advised to forego innovations based on bright ideas, however enticing the success stories.

In the theory and practice of innovation and entrepreneurship, the bright-idea innovation belongs in the appendix. But it should be appreciated and rewarded. It represents qualities that society needs: initiative, ambition, and ingenuity. There is little society can do, perhaps, to promote such innovations. One cannot promote what one does not understand. But at least society should not discourage, penalize, or make difficult such innovations.

PRINCIPLES OF INNOVATION

There are innovations that do not proceed from the sources [previously described], innovations that are not developed in any organized, purposeful, systematic manner. There are innovators who are "kissed by the Muses," and whose innovations are the result of a "flash of genius" rather than of hard, organized, purposeful work. But such innovations cannot be replicated. They cannot be taught and they cannot be learned.

The purposeful innovation resulting from analysis, system, and hard work is all that can be discussed and presented as the practice of innovation. But this is all that need be presented since it surely covers at least 90 percent of all effective innovations. And the extraordinary performer in innovation, as in every other area, will be effective only if grounded in the discipline and mastery of it.

What, then, are the principles of innovation, representing the hard core of the discipline? There ar a number of "do's"—things that have to be done. There are also a few "don't's"—things that had better not be done. And then there are what I would call "conditions."

The do's

1. Purposeful, systematic innovation begins with the analysis of the opportunities. It begins with thinking through what I have called the sources of innovative opportunities.
2. Innovation is both conceptual and perceptual. The second imperative of innovation is therefore to go out to look, to ask, to listen. This cannot be stressed too often. Successful innovators use both the right side and left side of their brains. They look at figures, and they look at people. They work out analytically what the innovation has to be to satisfy an opportunity. And then they go out and look at the customers, the users, to see what their expectations, their values, their needs are.
3. An innovation, to be effective, has to be simple and it has to be focused. It should do only one thing, otherwise, it confuses. If it is not simple, it won't work. All effective innovations are breathtakingly simple. Indeed, the greatest praise an innovation can receive is for people to say: "This is obvious. Why didn't I think of it?"
4. Effective innovations start small. They are not grandiose. They try to do one specific thing. It may be to enable a moving vehicle to draw electric power while it runs along rails—the innovation that made possible the electric streetcar. Grandiose ideas, plans that aim at "revolutionizing an industry," are unlikely to work.
5. All entrepreneurial strategies, that is, all strategies aimed at exploiting an innovation, must achieve leadership within a given environment. Otherwise they will simply create an opportunity for the competition.

The don't's

1. The first is simply not to try to be clever. Innovations have to be handled by ordinary human beings. Anything too clever, whether in design or execution, is almost bound to fail.
2. Don't diversify, don't splinter, don't try to do too many things at once. This is, of course, the corollary to the "do": be focused! Innovations that stray from a core are likely to become diffuse.
3. Finally, don't try to innovate for the future. Innovate for the present! An innovation may have long-range impact; it may not reach its full maturity until 20 years later. The computer, as we have seen, did not really begin to have any sizable impact on the way business was being done until the early 1970s, 25 years after the first working models were introduced.

Three conditions

Finally, there are three conditions. All three are obvious but often go disregarded.

1. *Innovation is work.* It requires knowledge. It often requires great ingenuity. There are clearly people who are more talented innovators than the rest of us. Also, innovators rarely work in more than one area. For all his tremendous capacity, Edison worked only in the electrical field.
2. *To succeed, innovators must build on their strengths.* Successful innovators look at opportunities over a wide range. But then they ask, "Which of these opportunities fits *me*, fits *this company*, puts to work what we (or I) are good at and have shown capacity for in performance?"

3. And finally, *innovation is an effect in economy and society,* a change in the behavior of customers, of teachers, of farmers, of eye surgeons—of people in general. Or it is a change in a process—that is, how people work and produce something. Innovation therefore always has to be close to the market, focused on the market, indeed market-driven.

The conservative innovator

The popular picture of innovators—half pop-psychology, half Hollywood—makes them look like a cross between Superman and the Knights of the Round Table. Alas, most of them in real life are unromantic figures, and much more likely to spend hours on a cash-flow projection than to dash off looking for "risks." The innovators I know are successful to the extent to which they define risks and confine them. They are successful to the extent to which they systematically analyze the sources of innovative opportunity, then pinpoint the opportunity and exploit it. Whether opportunities of small and clearly definable risk, such as exploiting the unexpected or a process need, or opportunities of much greater but still definable risk, as in knowledge-based innovation.

Successful innovators are conservative. They have to be. They are not "risk-focused"; they are "opportunity-focused."

II. THE PRACTICE OF ENTREPRENEURSHIP

ENTREPRENEURIAL MANAGEMENT

For each of these three: the existing business, the public-service institution, and the new venture, a specific guide to the practice of entrepreneurship must be developed. What does each have to do? What does each have to watch for? And what had each better avoid doing?

Today's businesses, especially the large ones, simply will not survive in this period of rapid change and innovation unless they acquire entrepreneurial competence.

It is the existing business—and the fair-sized rather than the small one—that has the best capability for entrepreneurial leadership. It has the necessary resources, especially the human resources. It has already acquired managerial competence and built a management team. It has both the opportunity and the responsibility for effective entrepreneurial management.

The same holds true for the public-service institutions, and especially for those discharging nonpolitical functions, whether owned by government and financed by tax money or not; for hospitals, schools, and universities; for the public services of local governments; for community agencies and volunteer organizations such as the Red Cross, the Boy Scouts, and the Girl Scouts; for churches and church-related organizations; but also for professional and trade associations, and many more.

Finally, there is the new venture. This will continue to be a main vehicle for innovation, as it has been in all major entrepreneurial periods and is again today in the new entrepreneurial economy of the United States. There is indeed no lack of would-be entrepreneurs in the United States, no shortage of new ventures. But most of them, especially the high-tech ones, have a great deal to learn about entrepreneurial management and will have to learn it if they are to survive.

The gap between the performance of the average practitioner and that of the leaders in entrepreneurship and innovation is enormous in all three categories. Fortunately, there are enough examples around of the successful practice of entrepreneurship to make possible a systematic presentation of entrepreneurial management that is both practice and theory, both description and prescription.

THE ENTREPRENEURIAL BUSINESS

Entrepreneurial businesses treat entrepreneurship as a duty. They are disciplined about it . . . they work at it . . . they practice it.

Specifically, entrepreneurial management requires *policies and practices* in four major areas. First, the organization must be made receptive to innovation and willing to perceive change as an opportunity rather than a threat. It must be organized to do the hard work of the entrepreneur. Policies and practices are needed to create the entrepreneurial climate. Second, systematic measurement or at least appraisal of a company's performance as entrepreneur and innovator is mandatory, as well as built-in learning to improve performance. Third, entrepreneurial management requires specific practices pertaining to organizational structure, to staffing and managing, and to compensation, incentives, and rewards. Fourth, there are some don't's: things *not to do* in entrepreneurial management.

Entrepreneurial policies

"How can we make the organization receptive to innovation, want innovation, reach for it, work for it?" When innovation is perceived by the organization as something that goes against the grain, as swimming against the current, if not as a heroic achievement, there will be no innovation. Innovation must be part and parcel of the ordinary, the norm, if not routine.

This requires specific policies. First, innovation, rather than holding on to what already exists, must be made attractive and beneficial to managers. There must be clear understanding throughout the organization that innovation is the best means to preserve and perpetuate that organization, and that it is the foundation for the individual manager's job security and success. Second, the importance of the need for innovation and the dimensions of its time frame must be both defined and spelled out. And finally, there needs to be an innovation plan, with specific objectives laid out.

Entrepreneurial practices

1. First among these, and the simplest, is focusing managerial vision on opportunity. People see what is presented to them; what is not presented tends to be overlooked.
2. Entrepreneurial companies always look for the people and units that do better and do differently. 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?"
3. A third practice, and one that is particularly important in the large company, is a session—informal but scheduled and well prepared—in which a member of the top management group sits down with the junior people

from research, engineering, manufacturing, marketing, accounting and so on. The senior 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 from you what your aspirations are, but above all, where you see opportunities for this company and where you see threats. And what are your ideas for us to try to do new things, develop new products, design new ways of reaching the market? What questions do you have about the company, its policies, its direction . . . its position in the industry, in technology, in the marketplace?

Measuring innovative performance

In the normal assessments of a business, innovative performance is conspicuous by its absence. Yet it is not particularly difficult to build measurement, or at least judgment, of entrepreneurial and innovative performance into the controls of the business.

1. The first step builds into each innovative project feedback from results to expectations. This indicates the quality and reliability of both our innovative plans and our innovative efforts.
2. The next step is to develop a systematic review of innovative efforts all together. Every few years an entrepreneurial management looks at all the innovative efforts of the business. Which ones should receive more support at this stage and should be pushed? Which ones have opened up new opportunities? Which ones, on the other hand, are not doing what we expected them to do, and what action should we take? Has the time come to abandon them, or, on the contrary, has the time come to redouble our efforts—but with what expectations and what deadline?
3. Finally, entrepreneurial management entails judging the company's total innovative performance against the company's innovative objectives, against its performance and standing in the market, and against its performance as a business all together.

Every five years, perhaps, top management sits down with its associates in each major area and asks: "What have you contributed to this company in the past five years that really made a difference? And what do you plan to contribute in the next five years?"

Structures

For the existing business to be capable of innovation, it has to create a structure that allows people to be entrepreneurial. It has to devise relationships that center on entrepreneurship. It has to make sure that its rewards and incentives, its compensation, personnel decisions, and policies, all reward the right entrepreneurial behavior and do not penalize it.

1. This means, first, that the entrepreneurial, the new, has to be organized separately from the old and existing. Whenever we have tried to make an existing unit the carrier of the entrepreneurial project, we have failed. This is particularly true, of course, in the large business, but it is true in medium-sized businesses as well, and even in small businesses.
2. This means also that there has to be a special locus for the new venture within the organization, and it has to be pretty high up. Even though the new project, by virtue of its current size, revenues, and markets, does not rank with existing products, somebody in top management must have the specific assignment to work on tomorrow as an entrepreneur and innovator.
3. There is another reason why a new, innovative effort is best set up separately: to keep away from it the burdens it cannot yet carry. Both the investment in a new product line and its returns should, for instance, not be included in the traditional return-on-investment analysis until the product line has been on the market for a number of years.
4. The returns on innovation will be quite different from those of the existing business and will have to be measured differently. An innovation starts small but it should end big. It should result in a new major business rather than in just another "specialty" or a "respectable" addition to the product line.

   Only by analyzing a company's own innovative experience, the feedback from its performance on its expectations, can the company determine what the appropriate expectations are for innovations in its industry and its markets.
5. The final structural requirement for entrepreneurship in the existing business is that a person or a component group should be held clearly accountable.

Staffing

To enable the entrepreneurial project to be run successfully, as something new, the structure and organization have to be right; relationships have to be appropriate; and compensation and rewards have to fit. But when all this has been done, the question of who is to run the unit, and what should be done with them when they have succeeded in building up the new project, must be decided on an individual basis for this person or that person, rather than according to this or that psychological theory for none of which there is much empirical evidence.

Staffing decisions in the entrepreneurial business are made like any other decision about people and jobs. Of course, they are risk-taking decisions: decisions about people always are. They have to be made carefully and conscientiously. And they have to be made the correct way. First, the assignment must be thought through; then one considers a number of people; then one checks carefully their performance records; and finally one checks out each of the candidates with a few poeple for whom he or she has worked. But all this applies to every decision that puts a person into a job. And in the entrepreneurial company, the batting average in people-decisions is the same for entrepreneurs as it is for other managerial and professional people.

The don't's

1. The most important caveat is not to mix managerial units and entrepreneurial ones. Do not ever put the entrepreneurial into the existing managerial component. Do not make innovation an objective for people charged with running, exploiting, optimizing what already exists. But it is also inadvisable—in fact, almost a guarantee of failure—for a business to try to become entrepreneurial without changing its basic policies and practices. To be an entrepreneur on the side rarely works.
2. Innovative efforts that take the existing business out of its own field are rarely successful. Innovation had better not be "diversification." Whatever the benefits of diversification, it does not mix with entrepreneurship and innovation. The new is always sufficiently difficult not to attempt it in an area one does not understand. An existing business innovates where it

has expertise, whether knowledge of market or knowledge of technology. Anything new will predictably get into trouble, and then one has to know the business.

3. Finally, it is almost always futile to avoid making one's own business entrepreneurial by "buying in," that is, by acquiring small entrepreneurial ventures. Acquisitions rarely work unless the company that does the acquiring is willing and able within a fairly short time to furnish management to the acquisition. The managers that have come with the acquired company rarely stay around very long.

A business that wants to be able to innovate, wants to have a chance to succeed and prosper in a time of rapid change, has to build entrepreneurial management into its own system. It has to adopt policies that create throughout the entire organization the desire to innovate and the habits of entrepreneurship and innovation. To be a successful entrepreneur, the existing business, large or small, has to be managed as an entrepreneurial business.

THE NEW VENTURE

For the existing enterprise, whether business or public-service institution, the controlling word in the term "entrepreneurial management" is "entrepreneurial." For the new venture, it is "management." In the existing business, it is the existing that is the main obstacle to entrepreneurship. In the new venture, it is its absence.

Entrepreneurial management in the new venture has four requirements:

It requires, first, a focus on the market. It requires, second, financial foresight, and especially planning for cash flow and capital needs ahead. It requires, third, building a top management team long before the new venture actually needs one and long before it can actually afford one. And finally, it requires of the founding entrepreneur a decision in respect to his or her own role, area of work, and relationships.

The need for market focus

When a new venture does succeed, more often than not it is in a market other than the one it was originally intended to serve, with products or services not quite those with which it had set out, bought in large part by customers it did not even think of when it started, and used for a host of purposes besides the ones for which the products were first designed. If a new venture does not anticipate this, organizing itself to take advantage of the unexpected and unseen markets; if it is not totally market-focused, if not market-driven, then it will succeed only in creating an opportunity for a competitor.

Financial foresight

Lack of market focus is typically a disease of the "neo-natal," the infant new venture. It is the most serious affliction of the new venture in its early stages—and one that can permanently stunt even those that survive.

The lack of adequate financial focus and of the right financial policies is, by contrast, the greatest threat to the new venture in the next stage of its growth. It is, above all, a threat to the rapidly growing new venture. The more successful a new venture is, the more dangerous the lack of financial foresight.

The new venture needs cash flow analysis, cash flow forecasts, and cash management. The fact that America's new ventures of the last few years

(with the significant exception of high-tech companies) have been doing so much better than new ventures used to do is largely because the new entrepreneurs in the United States have learned that entrepreneurship demands financial management.

A growing new venture should know 12 months ahead of time how much cash it will need, when, and for what purposes. With a year's lead time, it is almost always possible to finance cash needs. But even if a new venture is doing well, raising cash in a hurry and in a "crisis" is never easy and always prohibitively expensive.

Finally, the new venture needs to plan the financial system it requires to manage growth. Again and again, a growing new venture starts off with an excellent product, excellent standing in its market, and excellent growth prospects. Then suddenly everything goes out of control: receivables, inventory, manufacturing costs, administrative costs, service, distribution, everything.

Once control has been lost, it is hard to recapture. Yet the loss of control can be prevented quite easily. What is needed is first to think through the critical areas in a given enterprise. In one, it may be product quality; in another, service; in a third, receivables and inventory; in a fourth, manufacturing costs. Rarely are there more than four or five critical areas in any given enterprise.

To live up to its growth expectations, a new venture must establish today the controls in these critical areas it will need three years hence. Elaborate controls are not necessary nor does it matter that the figures are only approximate. What matters is that the management of the new venture is aware of these critical areas, is being reminded of them, and can thus act fast if the need arises. Disarray normally does not appear if there is adequate attention to the key areas. Then the new venture will have the controls it needs when it needs them.

Financial foresight does not require a great deal of time. It does require a good deal of thought, however. The technical tools to do the job are easily available; they are spelled out in most texts on managerial accounting. But the work will have to be done by the enterprise itself.

Building a top management team

Whenever the objective economic indicators of a new venture—market surveys, for instance, or demographic analysis—indicate that the business may double within three or five years, then it is the duty of the founder or founders to build the management team the new venture will very soon require. This is preventive medicine, so to speak.

First of all, the founders, together with other key people in the firm, will have to think through the key activities of their business. What are the specific areas upon which the survival and success of this particular business depend? Every activity which any member of the group thinks belongs there should go down on the list.

The next step is, then, for each member of the group, beginning with the founder, to ask: "What are the activities that *I* am doing well? And what are the activities that each of my key associates in this business is actually doing well?" There is going to be agreement on most of the people and on most of their strengths. But, again, any disagreement should be taken seriously.

Next, one asks: "Which of the key activities should each of us, therefore, take on as his or her first and major responsibility because they fit the individual's strengths? Which individual fits which key activity?"

Then the work on building a team can begin. The founder starts to discipline himself (or herself) not to handle people and their problems, if this is not the key activity that fits him best. Perhaps this individual's key activity is operations, manufacturing, physical distribution, service. But all key activities need to be covered by someone who has proven ability in performance.

Finally, goals and objectives for each area need to be set. Everyone who takes on the primary responsiblity for a key activity, whether product development or people, or money, must be asked: "What can this enterprise expect of *you*? What should we hold *you* accountable for? What are *you* trying to accomplish and by what time?" But this is elementary management, of course.

"Where can I contribute?"

Building a top management team may be the single most important step toward entrepreneurial management in the new venture. It is only the first step, however, for the founders themselves, who then have to think through what their own future is to be.

The right question to start with is: "What will the venture need *objectively* by way of management from here on out?" And in a growing new venture, the founder has to ask this question whenever the business (or the public-service institution) grows significantly or changes direction or character, that is, changes its products, services, markets, or the kind of people it needs.

The next question the founder must ask is: "What am I good at? What, of all these needs of the venture, could I supply, and supply with distinction?" Only after having thought through these two questions should a founder then ask: "What am I willing to spend years on, if not the rest of my life? Is this something the venture really needs? Is it a major, essential, indispensable contribution?"

The question, "Where do *I* belong?" needs to be faced up to and thought through by the founder-entrepreneur as soon as the venture shows the first signs of success. But the question can be faced up to much earlier. Indeed, it might be best thought through before the new venture is even started.

The need for outside advice

The growing new venture may not need a formal board of directors. Moreover, the typical board of directors very often does not provide the advice and counsel the founder needs. But the founder does need people with whom he can discuss basic decisions and to whom he listens. Such people are rarely to be found within the enterprise. Somebody has to challenge the founder's appraisal of the needs of the venture, and of his own personal strengths. Someone who is not a part of the problem has to ask questions, to review decisions and, above all, to push constantly to have the long-term survival needs of the new venture satisfied by building in the market focus, supplying financial foresight, and creating a functioning top management team. This is the final requirement of entrepreneurial management in the new venture.

III. ENTREPRENEURIAL STRATEGIES

"FUSTEST WITH THE MOSTEST"

Being "Fustest with the Mostest" was how a Confederate cavalry general in America's Civil War explained consistently winning his battles. In this strategy the entrepreneur aims at leadership, if not at dominance of a new market or a new industry. Being "Fustest with the Mostest" does not necessarily aim at creating a big business right away, though often this is indeed the aim. But it aims from the start at a permanent leadership position.

The strategy of being "Fustest with the Mostest" has to hit right on target or it misses altogether. Or, to vary the metaphor, being "Fustest with the Mostest" is very much like a moon shot: a deviation of a fraction of a minute of the arc and the missile disappears into outer space. And once launched, the "Fustest with the Mostest" strategy is difficult to adjust or to correct.

Only with . . . a base in careful analysis can the strategy . . . possibly succeed. Even then, it requires extreme concentration of effort.

Then, after the innovation has become a successful business, the work really begins. The strategy of "Fustest with the Mostest" demands substantial and continuing efforts to retain a leadership position; otherwise, all one has done is create a merket for a competitor. The innovator has to run even harder now that he has leadership than he ran before and to continue his innovative efforts on a very large scale.

Finally, the entrepreneur who has attained leadership by being "Fustest with the Mostest" has to be the one who systematically cuts the price of his own product or process. To keep prices high simply holds an umbrella over potential competitors and encourages them.

While the strategy is indeed highly rewarding when successful, it is much too risky and much too difficult to be used for anything but major innovations. . . . In most cases alternative strategies are available and preferable—not primarily because they carry less risk, but because for most innovations the opportunity is not great enough to justify the effort, and the investment of resources required for the "Fustest with the Mostest" strategy.

"HIT THEM WHERE THEY AIN'T"

Two completely different entrepreneurial strategies were summed up by another battle-winning Confederate general in America's Civil War, who said: "Hit Them Where They Ain't." They might be called creative imitation and entrepreneurial judo, respectively.

Creative imitation

Creative imitation is clearly a contradiction in terms. What is creative must surely be original. And if there is one thing imitation is not, it is "original." Yet the term fits. It describes a strategy that is "imitation" in its substance. What the entrepreneur does is something somebody else has already done. But it is "creative" because the entrepreneur applying the strategy of "creative imitation" understands what the innovation represents better than the people who made it and who innovated.

The foremost practitioner of this strategy and the most brilliant one is IBM. But is also very largely the strategy that Procter & Gamble has been

using to obtain and maintain leadership in the soap, detergent, and toiletries markets.

IBM practiced creative imitation . . . with the personal computer. The idea was Apple's. Everybody at IBM "knew" that a small, freestanding computer was a mistake—uneconomical, far from optimal, and expensive. And yet it succeeded. IBM immediately went to work to design a machine that would become the standard in the personal computer field and dominate or at least lead the entire field. The result was the PC. Within two years it had taken over from Apple leadership in the personal computer field, becoming the fastest-selling brand and the standard in the field.

Like being "Fustest with the Mostest," creative imitation is a strategy aimed at market or industry leadership, if not a market or industry dominance. But it is much less risky. By the time the creative imitator moves, the market has been established and the new venture has been accepted.

The creative innovator exploits the success of others. Creative imitation is not "innovation" in the sense in which the term is most commonly understood. The creative imitator does not invent a product or service; he perfects and positions it. In the form in which it has been introduced, it lacks something. It may be additional product features. It may be segmentation of product or services so that slightly different versions fit slightly different markets. It might be proper positioning of the product in the market. Or creative imitation supplies something that is still lacking. The creative imitator looks at products or services from the viewpoint of the customer.

All told, creative imitation starts out with markets rather than with products, and with customers rather than with producers. It is both market-focused and market-driven.

The strategy has its own risks, and they are considerable. Creative imitators are easily tempted to splinter their efforts in the attempt to hedge their bets. Another danger is to misread the trend and imitate creatively what then turns out not to be the winning development in the marketplace.

Creative imitation is likely to work most effectively in high-tech areas for one simple reason: high-tech innovators are least likely to be market-focused, and most likely to be technology- and product-focused.

Because creative imitation aims at market dominance, it is best suited to a major product, process, or service. But the strategy requires less of a market than being "Fustest with the Mostest." It carries less risk. What it lacks in risk, however, creative imitation makes up for in its requirements for alertness, for flexibility, for willingness to accept the verdict of the market, and above all, for hard work and massive efforts.

Entrepreneurial judo

In 1947, Bell Laboratories invented the transistor. It was at once realized that the transistor was going to replace the vacuum tube, especially in consumer electronics such as the radio and the brand-new television set. Everybody knew this; but nobody did anything about it. The leading manufacturers—at that time they were all Americans—began to study the transistor and to make plans for conversion to the transistor "sometime around 1970." Till then, they proclaimed, the transistor "would not be ready." Sony was practically unknown outside of Japan and was not even in consumer electronics at the time. But Akio Morita, Sony's president, read about the transistor in the

newspapers. As a result, he went to the United States and bought a license for the new transistor from Bell Labs for a ridiculous sum, all of $25,000. Two years later, Sony brought out the first portable transistor radio, which weighed less than one-fifth of the comparable vacuum tube radios on the market, and cost less than one-third. Three years later, Sony had the market for cheap radios in the United States; and five years later, the Japanese had captured the radio market all over the world.

But Sony's success is not the real story. How do we explain that the Japanese repeated this same strategy again and again, and always with success, always surprising the Americans? They repeated it with television sets and digital watches and hand-held calculators. They repeated it with copiers when they moved in and took away a large share of the market from the original inventor, the Xerox Company. The Japanese, in other words, have been successful again and again in practicing "entrepreneurial judo" against the Americans.

Entrepreneurial judo aims first at securing a beachhead, and one which the established leaders either do not defend at all or defend only halfheartedly. Once that beachhead has been secured, that is, once the newcomers have an adequate market and an adequate revenue stream, they then move on to the rest of the "beach" and finally to the whole "island." In each case, they repeat the strategy. They design a product or service which is specific to a given market segment and optimal for it. And the established leaders hardly ever beat them to this game. Hardly ever do the established leaders manage to change their own behavior before the newcomers have taken over the leadership and acquired dominance.

Entrepreneurial judo is always market-focused and market-driven. The starting point may be technology, as it was when Akio Morita traveled to the United States from a Japan that had barely emerged from the destruction of World War II to acquire a transistor license. Morita looked at the market segment which the existing technology satisfied the least, simply because of the weight and fragility of vacuum tubes: the market for portables. He then designed the right radio for that market, a market of young people with little money but also fairly simple demands with respect to range of the instrument and to quality of sound, a market, in other words, that the old technology simply could not adequately serve.

Like being "Fustest with the Mostest" and creative imitation, entrepreneurial judo aims at obtaining leadership position and eventually dominance. But it does not do so by competing with the leaders—or at least not where the leaders are aware of competitive challenge or worried about it. Entrepreneurial judo "Hits Them Where They Ain't."

CHANGING VALUES AND CHARACTERISTICS

Every economics book points out that customers do not buy a "product," but what the product does for them. And then, every economics book promptly drops consideration of everything except the "price" for the product, a "price" defined as what the customer pays to take possession or ownership of a thing or a service. What the product does for the customer is never mentioned again. Unfortunately, suppliers, whether of products or of services, tend to follow the economists.

To start out with the customer's utility, with what the customer buys,

with what the realities of the customer are and what the customer's values are—this is what marketing is all about. But why, after 40 years of preaching Marketing, teaching Marketing, professing Marketing, so few suppliers are willing to follow, I cannot explain. The fact remains that so far, anyone who is willing to use marketing as the basis for strategy is likely to acquire leadership in an industry or a market fast and almost without risk.

Above all, we know that an entrepreneurial strategy has more chance of success the more it starts out with the users—their utilities, their values, their realities. An innovation is a change in market or society. It produces a greater yield for the user, greater wealth-producing capacity for society, higher value or greater satisfaction. The test of an innovation is always what it does for the user. Hence, entrepreneurship always needs to be market-focused, indeed, market-driven.

Still, entrepreneurial strategy remains the decision-making area of entrepreneurship and therefore the risk-taking one. It is by no means hunch or gamble. But it also is not precisely science. Rather, it is judgment.

CONCLUSION: THE ENTREPRENEURIAL SOCIETY

What we need is an entrepreneurial society in which innovation and entrepreneurship are normal, steady, and continuous. Just as management has become the specific organ of all contemporary institutions, and the integrating organ of our society of organizations, so innovation and entrepreneurship have to become an integral life-sustaining activity in our organizations, our economy, our society.

This requires of executives in all institutions that they make innovation and entrepreneurship a normal, ongoing, everyday activity, a practice in their own work and in that of their organization. To provide concepts and tools for this task is the purpose of this book.

What will not work

"Planning" as the term is commonly understood is actually incompatible with an entrepreneurial society and economy. Innovation does indeed need to be purposeful and entrepreneurship has to be managed. But innovation, almost by definition, has to be decentralized, *ad hoc*, autonomous, specific, and micro-economic. It had better start small, tentative, flexible. Indeed, the opportunities for innovation are found, on the whole, only way down and close to events. [They] do not come with the tempest but with the rustling of the breeze.

The social innovations needed

1. The first policy is to take care of redundant workers. The numbers are not large. But blue-collar workers in "smokestack industries" are concentrated in a very few places; three quarters of all American automobile workers live in 20 counties, for instance. They are therefore highly visible, and they are highly organized. More important, they are ill-equipped to place themselves, to redirect themselves, to move. They have neither education nor skill nor social competence—and above all not much self-confidence.

   The problem is soluble if an economy becomes entrepreneurial. For then the new businesses of the entrepreneurial economy create new jobs, as has been happening in the United States during the last 10 years. There is need for organized efforts to train and place the redundant former "smokestack" workers—they cannot do it by themselves. Otherwise redundant "smokestack" labor will increasingly oppose anything new, including even the means of their own salvation.
2. The other social innovation needed is both more radical and more difficult and unprecedented: to organize the systematic abandonment of outworn social policies and obsolete public-service institutions.

The new tasks

These two social policies needed are, however, only examples. Underlying them is the need for a massive reorientation in policies and attitudes, and above all, in priorities. We need to encourage habits of flexibility, of continuous learning, and of acceptance of change as normal and as opportunity—for institutions as well as for individuals.

What is needed in an entrepreneurial society is a tax system that encourages moving capital from yesterday into tomorrow rather than one that, like our present one, prevents and penalizes it. All together, an entrepreneurial society and economy require tax policies that encourage the formation of capital.

Just as important . . . is protection of the new venture against the growing burden of governmental regulations, restrictions, reports, and paperwork. We need to learn to ask in respect to any proposed new governmental policy or measure: Does it further society's ability to innovate? Does it promote social and economic flexibility? Or does it impede and penalize innovation and entrepreneurship? To be sure, impact on society's ability to innovate cannot and should not be the determining, let alone the sole criterion. But it needs to be taken into consideration before a new policy or a new measure is enacted—and today it is not taken into account in any country (except perhaps in Japan) or by any policy maker.

The individual in entrepreneurial society

In an entrepreneurial society individuals face a tremendous challenge, a challenge they need to exploit as an opportunity: the need for continuous learning and relearning. The assumption from now on has to be that individuals on their own will have to find, determine, and develop a number of "careers" during their working lives.

The emergence of the entrepreneurial society may be a major turning point in history. A hundred years ago, the worldwide panic of 1873 terminated the Century of Laissez-Faire that had begun with the publication of Adam Smith's *The Wealth of Nations* in 1776. In the Panic of 1873 the modern welfare state was born. A hundred years later it had run its course, almost everyone now knows. It may survive despite the demographic challenges of an aging population and a shrinking birthrate. But it will survive only if the entrepreneurial economy succeeds in greatly raising productivities. We may even still make a few minor additions to the welfare edifice, put on a room here or a new benefit there. But the welfare state is past rather than future—as even the old liberals now know.

Will its successor be the Entrepreneurial Society?