The Drucker Institute
1021 N. Dartmouth Avenue / Claremont, CA 91711
(909) 607-7367 / www.drucker.institute/nonprofits

The Innovative Organization

Adapted from *People and Performance* and *Managing the Nonprofit Organization*
By Peter F. Drucker

THE MEANING OF INNOVATION

Innovative organizations first know what "innovation" means. They know that innovation is not science or technology, but value. They know that it is not something that takes place within an organization but a change outside. The measure of innovation is the impact on the people the organization serves. Innovation in an organization must therefore always be market-focused. Innovation that is product-focused is likely to produce "miracles of technology" but disappointing rewards.

INNOVATION STRATEGY

Usually, there is no lack of ideas in nonprofit organizations. What's more often lacking is the willingness and the ability to convert those ideas into effective results. What is needed is an innovative strategy. The successful nonprofit organization is organized for the new—organized to perceive opportunities. Innovative organizations systematically look both outside and inside for clues to innovative opportunities. One strategy is practically infallible: Refocus and change the organization when you are successful. When everything is going beautifully. When everybody says, "Don't rock the boat. If it ain't broke, don't fix it." At that point, let's hope, you have some character in the organization who is willing to be unpopular by saying, "Let's improve it." If you don't improve it, you go downhill pretty fast.

The ruling assumption of an innovative strategy is that whatever exists is aging. The assumption must be that existing products, services and programs, existing markets and distribution channels, existing technologies and processes will sooner or later —and usually sooner—go down rather than up.

The governing device of a strategy for the ongoing operations might therefore be said to be: "Better and More." For the innovative strategy the device has to be: "New and Different."

The foundation of innovative strategy is planned and systematic sloughing off of the old, the dying, the obsolete. Innovating organizations spend neither time nor resources on defending yesterday. Systematic abandonment of yesterday alone can free the resources, and especially the scarcest resource of them all, capable people, for work on the new. Unwillingness to do this may be the greatest obstacle to innovation in the existing large organization.

The new and especially the as-yet unborn, that is, the future innovation, always looks insignificant compared to the large volume, primary product, service or program, and the manifold problems of the organization. It is all the more important, therefore, for an organization to commit itself to the systematic abandonment of yesterday if it wants to be able to create tomorrow.

When you are successful is the very time to ask, "Can't we do better?" The best rule for improvement strategies is to put your efforts into your successes. Improve the areas of success, and change them.

Second in a strategy of innovation is the clear recognition that innovation efforts must aim high. It is just as difficult, as a rule, to make a minor modification to an existing program as it is to innovate a new one.

Innovative strategy therefore aims at creating new performance capacity rather than minor improvement. It aims at creating new concepts of what is value rather than satisfying existing value expectations a little better. The aim of innovating efforts is to make a significant difference. What is significantly different is not a technical decision. It is not the quality of science that makes the difference. It is not how expensive an undertaking it is or how hard it is to bring it about. The significant difference lies in the impact on the people the organization serves.

MEASUREMENTS AND BUDGETS

Innovation strategy requires different measurements and different use of budgets and budgetary controls from those appropriate to an ongoing program.

To impose on innovating efforts the measurements, and especially the accounting conventions, that fit ongoing operations, is misdirection. It cripples the innovative effort the way carrying a one-hundred-pound pack would cripple a six-year-old going on a hike.

Budgets for ongoing programs and budgets for innovative efforts should not only be kept separate, they should be treated differently. In the ongoing operations, the question is always “Is this effort necessary? Or can we do without it?” And if the answer is “We need it,” one asks, “What is the minimum level of support that is needed?”

In the innovative effort the first and most serious question is “Is it the right opportunity?” And if the answer is yes, one asks, “What is the maximum of good people and key resources which can productively be put to work *at this stage*?” And, “Who in our organization should really work on this?” Most new things need to be incubated. They need to be piloted by somebody who really wants that innovation, who wants it to grow, who believes in it. Everything new also gets into trouble so look for somebody who really wants to commit and has enough standing in the organization.

A separate measurement system for innovative effort makes it possible to appraise the three factors that determine innovative strategy: the ultimate opportunity, the risk of failure, and the effort and expenditure needed. Otherwise, efforts will be continued or will even be stepped up where the opportunity is quite limited while the risk of non-success is great.

Innovative strategy, therefore, requires a high degree of discipline on the part of the innovators. They have to operate without the crutch of the conventional budget and accounting measures which feed back fairly fast and reasonably reliable information from current results to efforts and investments. The temptation is to keep on pouring people and money into innovative efforts without any results. It is therefore important in managing innovation to think through what one expects, and when. Inevitably, these expectations are changed by events. But unless there are intermediate results, specific progress, "fallouts" to actual operation along the way, the innovation is not being managed.

THE RISK OF FAILURE

A strategy for innovation has to be based on clear acceptance of the risk of failure—and of the perhaps more dangerous risk of "near-success."

It is as important to decide when to abandon an innovative effort as it is to know which one to start. In fact, it may be more important. Successful laboratory directors know when to abandon a line of research which does not yield the expected results. The less successful ones keep hoping against hope, are dazzled by the "scientific challenge" of a project, or are fooled by the scientists' repeated promise of a "breakthrough next year." And the unsuccessful ones cannot abandon a project and cannot admit that what seemed like a good idea has turned into a waste of people, time, and money.

But a fair number of innovative efforts end up in near-success rather than in success or failure. And near-success can be more dangerous than failure. There is, again and again, the product, service, program or process that was innovated with the expectation that it would "revolutionize" the field only to become a fairly minor addition, neither enough of a failure to be abandoned nor enough of a success to make a difference.

It is therefore particularly important in managing innovation to think through and to write out one's expectations. And then compare expectations to reality. If reality is significantly below expectations, one does not pour in more people or more money. One rather asks, "Should we not go out of this, and how?"

THE INNOVATION ATTITUDE

The first requirement for successful innovation is to look at a change as a potential opportunity instead of a threat. Resistance to change, by executives and staff alike, has for many years been considered a central problem of management.

In the innovative organization, the first and most important job of management is the opposite: it is to convert impractical, half-baked, and wild ideas into concrete reality. In the innovative organization, top management sees it as its job to listen to ideas and to take them seriously. Top management, in the innovative organization, knows that new ideas are always "impractical." It also knows that it takes a great many silly ideas to spawn one viable one, and that in the early stages there is no way of telling the silly idea from the stroke of genius. Both look equally impossible or equally brilliant.

Top management in the innovative organization, therefore, not only "encourages" ideas, as all managements are told to do. It asks continuously, "What would this idea have to be like to be practical, realistic, effective?" It organizes itself to think through rapidly even the wildest and apparently silliest idea for something new to the point where its feasibility can be appraised.

In innovative organizations senior executives typically make it part of their job to meet with the younger people throughout the organization in scheduled (though not necessarily regular) sessions in which there is no "agenda" for top management.

Rather, the seniors sit down with the younger group and ask, "*What opportunities do you see*?"

The innovative organization requires a learning atmosphere throughout. It creates and maintains continuous learning. No one is allowed to consider himself or herself "finished" at any time. Learning is a continuing process for all members of the organization.

Resistance to change is grounded in ignorance and in fear of the unknown. Change has to be seen as opportunity by people—and then there will be no fear.

COMMON MISTAKES

There are a few common mistakes in doing anything new. One is to go from idea into full-scale operation. Don't omit testing the idea. Don't omit the pilot stage. If you do, and skip from concept to the full scale, even tiny and easily correctible flaws will destroy the innovation.

But also don't go by what "everybody knows" instead of looking out the window. What everybody knows is usually twenty years out of date. In political campaigns, the ones who look so promising at the beginning and then fizzle out are usually the ones who go by what they believe everybody knows. They haven't tested it, and it turns out that "This was twenty years ago."

The next most common mistake is righteous arrogance. Innovators are so proud of their innovation that they are not willing to adapt it to reality. It's an old rule that everything that's new has a different market from the one the innovator actually expected.

Also, don't assume that there is just the one right strategy for innovations. Every one requires thinking through anew. Don't say, "We have been successful six times in introducing the new this way, so that must be the *right* way. That's our formula now." Say instead, "Maybe this needs to be done differently." Before you go into an innovative strategy, don't say, "This is how we do it." Say, "Let's find out what this needs. Where is the right place in the market? Who are the customers, the beneficiaries? What is the right way to deliver it? What is the right way to introduce it? Let's not start out with what we know. Let's start out with *what we need to learn*."